

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 13, 2017
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 20170147-WS
Company Name: FIMC Hideaway, Inc.
Company Code: WS652
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No: 2017-215-1-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

FIMC Hideaway, Inc.
Staff-Assisted Rate Case

Twelve Months Ended June 30, 2017

Docket No. 20170147-WS
Audit Control No. 2017-215-1-1
September 29, 2017

A handwritten signature in black ink, appearing to read "Debra Dobiac", written over a horizontal line.

Debra Dobiac
Audit Manager

A handwritten signature in black ink, appearing to read "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

1: Utility Plant in Service - Water..... 6

2: Utility Plant in Service - Wastewater..... 9

3: Accumulated Depreciation and Depreciation Expense..... 11

4: Contributions in Aid of Construction and Accumulated Amortization of CIAC, and Amortization Expense..... 14

5: Capital Structure 16

6: Operating Revenue..... 17

7: Bad Debt Expense..... 20

8: Operations and Maintenance Expense and Working Capital 21

9: FIMC Hideaway Clubhouse 26

10: Taxes Other than Income 27

Exhibits

1: Rate Base – Hideaway Water 29

2: Rate Base – Hideaway Wastewater 30

3: Rate Base – Springside Water..... 31

4: Rate Base – Springside Wastewater 32

5: Capital Structure 33

6: Net Operating Income – Hideaway Water..... 34

7: Net Operating Income – Hideaway Wastewater..... 35

8: Net Operating Income – Springside Water 36

9: Net Operating Income – Springside Wastewater..... 37

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated July 31, 2017. We have applied these procedures to the attached schedules prepared by the audit staff in support of FIMC Hideaway, Inc.'s request for a Staff Assisted Rate Case in Docket No. 20170147-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

FIMC/Utility refers to the combined Hideaway and Springside systems under the same name.

Test Year refers to the twelve months ended June 30, 2017.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Background

The Utility is a Class C utility serving approximately 203 water and 185 wastewater customers in the Hideaway and Springside developments located in Levy County.

FIMC Hideaway, Inc. came into existence in 1984, and was subsequently granted original water and wastewater certificates to serve the Hideaway development. There was a transfer of majority organizational control to the current owners in 2005. Rate Base was last established as of December 31, 2003 for the Hideaway systems in Docket No. 20040152-WS by Order No. PSC-2005-0298-PAA-WS, issued on March 18, 2005.

The Springside systems were granted original certificates in 1985 under the name of Springside, Inc. A transfer of these certificates to Springside at Manatee, Ltd. was approved by the Florida Public Service Commission in 1991. Subsequently, the Springside systems were abandoned in 1999, and a receiver was appointed by the Circuit Court in 2000. The Circuit Court transferred the Springside systems to Par Utilities, Inc. in 2002, terminating the receivership. The Commission recognized that transfer and established Rate Base as of December 31, 2003 in Docket No. 20030407-WS by Order No. 2004-0610-PAA-WS, issued June 21, 2004. In 2009, the Commission approved the transfer of the Springside water and wastewater systems from Par Utilities, Inc. to FIMC in Docket No. 20080268-WS by Order No. PSC-2009-0279-PAA-WS, issued April 29, 2009. This order established net book value as of April 7, 2009, the effective date of the transfer. However, the order contained no transactional detail by primary account.

The Utility files an 1120S Federal Tax Return, and is a Subchapter S Corporation.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and compared them to the NARUC USOA. We noted that the Utility's

accounting system was relatively in compliance. The Utility uses the annual report as a sub-ledger to the general ledger.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put into service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for the Hideaway and Springside UPIS, as of December 31, 2003 from Order Nos. PSC-2005-0298-PAA-WS and PSC-2004-0610-PAA-WS to the general ledger. We scheduled UPIS activity from December 31, 2003 through June 30, 2017. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year-end and simple average balances as of June 30, 2017. Findings 1 and 2 discuss our recommended adjustments to UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for land, as of December 31, 2003 from Order Nos. PSC-2005-0298-PAA-WS and PSC-2004-0610-PAA-WS to the general ledger. We scheduled land activity from December 31, 2003 through June 30, 2017. We verified that the land is owned by the Utility and determined that there have been no changes to the Utility's cost of land since rate base was last established. We determined the year-end and simple average balances as of June 30, 2017. No exceptions were noted.

Contributions in Aid of Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for CIAC, as of December 31, 2003 from Order Nos. PSC-2005-0298-PAA-WS and PSC-2004-0610-PAA-WS to the general ledger. We noted that the additions to CIAC since the last rate proceeding were not supported. We determined the year-end and simple average balances as of June 30, 2017. Finding 4 discusses our recommended adjustments to CIAC.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for accumulated depreciation, as of December 31, 2003 from Order Nos. PSC-2005-0298-PAA-WS and PSC-2004-0610-PAA-WS to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from December 31, 2003 through June 30, 2017. We determined the year-end and simple average balances as of June 30, 2017. Finding 3 discusses our recommended adjustments to accumulated depreciation.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for amortization of CIAC, as of December 31, 2003 from Order Nos. PSC-2005-0298-PAA-WS and PSC-2004-0610-PAA-WS to the general ledger. We calculated annual accruals to accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C., from December 31, 2003 through June 30, 2017. We determined the year-end and simple average balances as of June 30, 2017. Finding 4 discusses our recommended adjustment to accumulated amortization of CIAC.

Working Capital

Objectives: The objective was to determine whether the Utility’s working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the Utility’s working capital balance as of June 30, 2017 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 8 discusses our recommended adjustment to working capital.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility’s capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We determined that the Utility’s capital structure consists of common equity and long-term debt. We determined the year-end and simple average Capital Structure balance and its weighted average cost as of June 30, 2017. The Utility does not have a Commission approved tariff for customer deposits. Finding 5 discusses the capital structure.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We determined individual customer consumption for the test year ended June 30, 2017, using the Utility's monthly customer billings. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the general ledger. We determined whether the Utility is charging its authorized tariff rates. We also determined the number of miscellaneous service charges by type. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the number we determined and traced the amounts to the general ledger. Finding 6 discusses our recommended adjustment to operating revenues.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance expenses (O&M) are: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed the invoices and cancelled checks provided in support of the Utility's O&M expense for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Findings 7 and 8 discuss our recommended adjustments to O&M expense.

Depreciation and Amortization

Objectives: The objectives were to determine whether the Utility's depreciation and CIAC amortization expense is properly calculated using the Commission authorized rates.

Procedures: We compiled a schedule from audited UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. We also recalculated amortization of CIAC using Commission approved rates for the test year. Findings 3 and 4 discuss our recommended adjustments to net depreciation expense.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with NARUC USOA.

Procedures: We scheduled TOTI based on documentation provided by the Utility. We included property taxes and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. We recalculated RAFs using the approved RAF rate and the audited revenue balances. Findings 9 and 10 discuss our recommended adjustments to TOTI.

Audit Findings

Finding 1: Utility Plant in Service - Water

Audit Analysis: According to the Utility's general ledger, the UPIS balance was \$148,429 as of June 30, 2017 for Hideaway – Water. According to the Utility's general ledger, the UPIS balance was \$119,238 as of June 30, 2017 for Springside - Water. Audit staff determined the water UPIS year-end balance to be \$122,947 and \$137,218 for Hideaway and Springside, respectively. We noted the following.

1. Initially, the adjustments noted in Order No. PSC-2005-0298-PAA-WS for the Hideaway systems were recorded as of December 31, 2006. However, plant had not been previously recorded in the general ledger. As of December 31, 2007, the Utility recorded the ordered year-end balances without recognizing the previously recorded adjustments as beginning balances.
2. The Commission ordered adjustments for the Springside systems from Order No. PSC-2004-0610-PAA-WS had been recorded in the books of Par Utilities, Inc. according to the 2004 annual report. When the Utility purchased these systems in 2007, the ordered balances plus the additions from 2004 through 2006 were recorded on December 31, 2007. However, the 2006 additions and retirements had been recorded in the general ledger on December 31, 2006.
3. The Utility had not recorded all of the plant additions and retirements in the proper NARUC accounts.
4. Audit staff was not provided sufficient support for all of the plant additions and retirements noted in the Utility's annual reports.
5. No additions or retirements were made in the test year.

The Utility overstated the Hideaway water plant by \$25,482 as shown in Table 1-1.

Table 1-1

Hideaway - Water	Utility Balance	Audit	Audit Balance	Simple
Account - Description	6/30/2017	Adjustments	6/30/2017	Average
301-Organization Costs	\$ 4,031	\$ (686)	\$ 3,345	\$ 3,345
303-Land and Land Rights	3,858	-	3,858	3,858
304-Structures and Improvements	6,867	(1,902)	4,965	4,965
307-Wells and Springs	17,444	2,650	20,094	20,094
310-Power Generations Equipment	-	-	-	-
311-Pumping Equipment	11,331	(1,589)	9,742	9,742
320-Water Treatment Equipment	2,352	(1,479)	873	873
330-Distribution Reservoirs	56,482	(28,040)	28,442	28,442
331-Transmission and Distribution Lines	30,713	1,875	32,588	32,588
333-Services	9,082	(75)	9,007	9,007
334-Meters & Meter Installations	5,362	3,764	9,126	9,126
336-Backflow Revention Devices	-	-	-	-
339-Other Plant and Misc Equipment	-	-	-	-
340-Office Furniture & Equipment	907	-	907	907
Total:	\$ 148,429	\$ (25,482)	\$ 122,947	\$ 122,947

The Utility understated the Springside water plant by \$17,980 as shown in Table 1-2.

Table 1-2

Springside - Water	Utility Balance	Audit	Audit Balance	Simple
Account - Description	6/30/2017	Adjustments	6/30/2017	Average
301-Organization Costs	\$ -	\$ -	\$ -	\$ -
303-Land and Land Rights	12,000	-	12,000	12,000
304-Structures and Improvements	35,221	(1,150)	34,071	34,071
307-Wells and Springs	1,630	495	2,125	2,125
309-Supply Mains	445	(445)	-	-
310-Power Generations Equipment	-	-	-	-
311-Pumping Equipment	6,183	(400)	5,783	5,783
320-Water Treatment Equipment	2,803	(228)	2,575	2,575
330-Distribution Reservoirs	2,441	25,635	28,076	28,076
331-Transmission and Distribution Lines	42,228	-	42,228	42,228
333-Services	2,933	(1,163)	1,770	1,770
334-Meters & Meter Installations	12,154	(4,675)	7,479	7,479
336-Backflow Revention Devices	293	(89)	204	204
339-Other Plant and Misc Equipment	-	-	-	-
340-Office Furniture & Equipment	907	-	907	907
Total:	\$ 119,238	\$ 17,980	\$ 137,218	\$ 137,218

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the year-end and simple average balances of the Hideaway water UPIS to be \$122,947 as of June 30, 2017. We determined the year-end and simple average balances of the Springside water UPIS to be \$137,218 as of June 30, 2017.

Finding 2: Utility Plant in Service - Wastewater

Audit Analysis: According to the Utility's general ledger, the UPIS balance was \$116,151 as of June 30, 2017 for Hideaway - Wastewater. According to the Utility's general ledger, the UPIS balance was \$216,261 as of June 30, 2017 for Springside - Wastewater. Audit staff determined the UPIS balance to be \$120,757 and \$214,416 for Hideaway and Springside, respectively. We noted the following.

1. Initially, the adjustments noted in Order No. PSC-2005-0298-PAA-WS for the Hideaway systems were recorded as of December 31, 2006. However, plant had not been previously recorded in the general ledger. As of December 31, 2007, the Utility recorded the ordered year-end balances without recognizing the previously recorded adjustments as beginning balances.
2. The Commission ordered adjustments for the Springside systems from Order No. PSC-2004-0610-PAA-WS had been recorded in the books of Par Utilities, Inc. according to the 2004 annual report. When the Utility purchased these systems in 2007, the ordered balances plus the additions from 2004 through 2006 were recorded on December 31, 2007. However, the 2006 additions and retirements had been recorded in the general ledger on December 31, 2006.
3. The Utility had not recorded all of the plant additions and retirements in the proper NARUC accounts.
4. Audit staff was not provided sufficient support for all of the plant additions and retirements noted in the Utility's annual reports.
5. No additions or retirements were made in the test year for the Hideaway wastewater plant.

The Utility understated the Hideaway wastewater plant by \$4,606 as shown in Table 2-1.

Table 2-1

Hideaway - Wastewater Account - Description	Utility Balance 6/30/2017	Audit Adjustments	Audit Balance 6/30/2017	Simple Average
351-Organization Costs	\$ 1,721	\$ 619	\$ 2,340	\$ 2,340
353-Land and Land Rights	4,961	-	4,961	4,961
354-Structures and Improvements	-	-	-	-
360-Collection Sewers - Force	-	-	-	-
361-Collection Sewers - Gravity	68,497	(1,875)	66,622	66,622
363-Services to Customers	11,785	-	11,785	11,785
364-Flow Measuring Devices	(3,051)	3,051	-	-
365-Flow Measuring Installations	(2,295)	2,295	-	-
370-Receiving Wells	9,754	(610)	9,144	9,144
371-Pumping Equipment	(23,089)	23,089	-	-
380-Treatment and Disposal Equipment	47,868	(22,870)	24,998	24,998
389-Other Plant and Misc Equipment	-	-	-	-
390-Office Furniture & Equipment	-	907	907	907
Total:	\$ 116,151	\$ 4,606	\$ 120,757	\$ 120,757

The Utility overstated the Springside wastewater plant by \$1,845 as shown in Table 2-2.

Table 2-2

Springside - Wastewater	Utility Balance	Audit	Audit Balance	Simple
Account - Description	6/30/2017	Adjustments	6/30/2017	Average
351-Organization Costs	\$ -	\$ -	\$ -	\$ -
353-Land and Land Rights	5,422	-	5,422	5,422
354-Structures and Improvements	7,052	(3,615)	3,437	3,437
360-Collection Sewers - Force	4,775	-	4,775	4,775
361-Collection Sewers - Gravity	114,054	5,650	119,704	119,292
363-Services to Customers	8,425	(2,430)	5,995	5,995
370-Receiving Wells	2,493	901	3,394	3,394
371-Pumping Equipment	3,532	(3,532)	-	-
380-Treatment and Disposal Equipment	69,601	925	70,526	70,526
389-Other Plant and Misc Equipment	-	256	256	256
390-Office Furniture & Equipment	907	-	907	907
Total:	\$ 216,261	\$ (1,845)	\$ 214,416	\$214,004

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the year-end and simple average balances of the Hideaway wastewater UPIS to be \$120,757 as of June 30, 2017. We determined the year-end Springside wastewater UPIS to be \$214,416, and the simple average Springside wastewater UPIS to be \$214,004 as of June 30, 2017.

Finding 3: Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, the accumulated depreciation balance for Hideaway water and wastewater was \$85,182 and \$102,890, respectively, as of June 30, 2017. Test year depreciation expense was not recorded in the general ledger, but reflected in the 2016 annual report. Audit staff recalculated accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. as shown in Tables 3-1 and 3-2.

Table 3-1

Hideaway - Water		Audit Balance	Simple	Audit Balance
Account - Description		Accum Dep	Average	Depreciation
		6/30/2017		6/30/2017
108/403	301-Organization Costs	\$ 3,105	\$ 3,063	\$ 84
108/403	304-Structures and Improvements	4,965	4,965	-
108/403	307-Wells and Springs	20,094	19,945	299
108/403	310-Power Generations Equipment	-	-	-
108/403	311-Pumping Equipment	9,742	9,742	-
108/403	320-Water Treatment Equipment	873	864	18
108/403	330-Distribution Reservoirs	28,442	28,442	-
108/403	331-Transmission and Distribution Lines	32,588	32,469	237
108/403	333-Services	9,007	9,007	-
108/403	334-Meters & Meter Installations	9,126	9,126	-
108/403	336-Backflow Revention Devices	-	-	-
108/403	339-Other Plant and Misc Equipment	-	-	-
108/403	340-Office Furniture & Equipment	907	907	-
Total:		\$ 118,849	\$118,529	\$ 638
Utility balance - 6/30/2017:		85,182		-
Audit Adjustment:		\$ 33,667		\$ 638

Table 3-2

Hideaway - Wastewater		Audit Balance	Simple	Audit Balance
Account - Description		Accum Dep	Average	Depreciation
		6/30/2017		6/30/2017
108/403	351-Organization Costs	\$ 2,340	\$ 2,340	\$ -
108/403	354-Structures and Improvements	-	-	-
108/403	360-Collection Sewers - Force	-	-	-
108/403	361-Collection Sewers - Gravity	66,609	65,776	1,666
108/403	363-Services to Customers	11,785	11,785	-
108/403	370-Receiving Wells	9,144	9,144	-
108/403	380-Treatment and Disposal Equipment	24,998	24,998	-
108/403	389-Other Plant and Misc Equipment	-	-	-
108/403	390-Office Furniture & Equipment	907	907	-
Total:		\$ 115,783	\$114,951	\$ 1,666
Utility balance - 6/30/2017:		102,890		-
Audit Adjustment:		\$ 12,893		\$ 1,666

According to the Utility's general ledger, the accumulated depreciation balance for Springside water and wastewater was \$61,591 and \$144,660, respectively, as of June 30, 2017. Test year depreciation expense was not recorded in the general ledger, but reflected in the 2016 annual report. Audit staff recalculated accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. as shown in Tables 3-3 and 3-4.

Table 3-3

Springside - Water		Audit Balance		Audit Balance
Account - Description		Accum Dep	Simple	Depreciation
		6/30/2017	Average	6/30/2017
108/403	301-Organization Costs	\$ -	\$ -	\$ -
108/403	304-Structures and Improvements	34,071	34,071	-
108/403	307-Wells and Springs	838	799	79
108/403	310-Power Generations Equipment	-	-	-
108/403	311-Pumping Equipment	5,783	5,752	64
108/403	320-Water Treatment Equipment	2,397	2,322	151
108/403	330-Distribution Reservoirs	2,552	2,127	851
108/403	331-Transmission and Distribution Lines	33,746	33,190	1,111
108/403	333-Services	1,284	1,258	51
108/403	334-Meters & Meter Installations	6,860	6,640	440
108/403	336-Backflow Revention Devices	204	204	-
108/403	339-Other Plant and Misc Equipment	-	-	-
108/403	340-Office Furniture & Equipment	907	907	-
Total:		\$ 88,642	\$ 87,270	\$ 2,747
Utility balance - 6/30/2017:		61,591		-
Audit Adjustment:		\$ 27,051		\$ 2,747

Table 3-4

Springside - Wastewater		Audit Balance		Audit Balance
Account - Description		Accum Dep	Simple	Depreciation
		6/30/2017	Average	6/30/2017
108/403	351-Organization Costs	\$ -	\$ -	\$ -
108/403	354-Structures and Improvements	1,900	1,837	127
108/403	360-Collection Sewers - Force	4,775	4,775	-
108/403	361-Collection Sewers - Gravity	98,300	96,809	2,982
108/403	363-Services to Customers	5,091	5,005	171
108/403	370-Receiving Wells	(1,827)	(1,895)	136
108/403	380-Treatment and Disposal Equipment	70,526	70,526	-
108/403	389-Other Plant and Misc Equipment	244	236	17
108/403	390-Office Furniture & Equipment	907	907	-
Total:		\$ 179,916	\$ 178,199	\$ 3,434
Utility balance - 6/30/2017:		144,660		-
Audit Adjustment:		\$ 35,256		\$ 3,434

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the Hideaway water accumulated depreciation and depreciation expense to be \$118,849 and \$638, respectively, for the test year ended June 30, 2017. We also determined the simple average for Hideaway water accumulated depreciation to be \$118,529.

We determined the Hideaway wastewater accumulated depreciation and depreciation expense to be \$115,783 and \$1,666, respectively, for the test year ended June 30, 2017. We also determined the simple average for Hideaway wastewater accumulated depreciation to be \$114,951.

Audit staff determined the Springside water accumulated depreciation and depreciation expense to be \$88,642 and \$2,747, respectively, for the test year ended June 30, 2017. We also determined the simple average for Springside water accumulated depreciation to be \$87,270.

We determined the Springside wastewater accumulated depreciation and depreciation expense to be \$179,916 and \$3,434, respectively, for the test year ended June 30, 2017. We also determined the simple average for Springside wastewater accumulated depreciation to be \$178,199.

Note the following:

- Hideaway water plant will be fully depreciated by December 31, 2017, except for Account 301 – Organization Costs. This account has a remaining life of three years due to the low depreciation rate, which amounts to annual depreciation expense of \$84. The analyst should consider this when determining the disposition of this proceeding.
- Hideaway wastewater plant will be fully depreciated by December 31, 2017. The analyst should consider this when determining the disposition of this proceeding.
- Springside water plant is 71 percent depreciated due to the new water storage tank that went into service in 2014. The analyst should consider this when determining the disposition of this proceeding.
- Springside wastewater plant is 86 percent depreciated due to the interconnection with the Hideaway wastewater plant in 2013. The analyst should consider this when determining the disposition of this proceeding.

Finding 4: Contributions in Aid of Construction and Accumulated Amortization of CIAC, and Amortization Expense

Audit Analysis: The Utility has not recorded contributions in aid of construction (CIAC), accumulated amortization of CIAC, and amortization expense in their general ledger. Audit staff calculated CIAC using the beginning balances noted in Order Nos. PSC-2005-PAA-WS and PSC-2004-0610-PAA-WS, and subsequent additions from the annual reports as compared to customer growth.

Audit staff recalculated accumulated amortization of CIAC and amortization expense using the audited CIAC balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. as shown in Table 4-1.

Table 4-1

Description	Audit Balance		Audit Balance		Audit Balance
	CIAC	Simple	Accum Amort	Simple	Amort Exp
	6/30/2017	Average	6/30/2017	Average	6/30/2017
Hideaway - Water	4,935	4,935	1,523	1,484	80
Total:	\$ 4,935	\$ 4,935	\$ 1,523	\$ 1,484	\$ 80
Utility balance - 6/30/2017:	-		-		-
Audit Adjustment:	\$ 4,935		\$ 1,523		\$ 80
Hideaway - Wastewater	4,522	4,522	1,416	1,385	63
Total:	\$ 4,522	\$ 4,522	\$ 1,416	\$ 1,385	\$ 63
Utility balance - 6/30/2017:	-		-		-
Audit Adjustment:	\$ 4,522		\$ 1,416		\$ 63
Springside - Water	34,165	34,165	20,111	19,734	753
Total:	\$ 34,165	\$ 34,165	\$ 20,111	\$ 19,734	\$ 753
Utility balance - 6/30/2017:	-		-		-
Audit Adjustment:	\$ 34,165		\$ 20,111		\$ 753
Springside - Wastewater	71,250	71,250	37,800	37,231	1,139
Total:	\$ 71,250	\$ 71,250	\$ 37,800	\$ 37,231	\$ 1,139
Utility balance - 6/30/2017:	-		-		-
Audit Adjustment:	\$ 71,250		\$ 37,800		\$ 1,139

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the Hideaway water CIAC, accumulated amortization of CIAC, and amortization expense to be \$4,935, \$1,523, and \$80 respectively, for the test year ended June 30, 2017. We also determined the simple average for Hideaway water CIAC and accumulated amortization of CIAC to be \$4,935 and \$1,484, respectively.

We determined the Hideaway wastewater CIAC, accumulated amortization of CIAC, and amortization expense to be \$4,522, \$1,416, and \$63, respectively, for the test year ended June 30, 2017. We also determined the simple average for Hideaway wastewater CIAC and accumulated amortization of CIAC to be \$4,522 and \$1,385, respectively.

Audit staff determined the Springside water CIAC, accumulated amortization of CIAC, and amortization expense to be \$34,165, \$20,111, and \$753, respectively, for the test year ended June 30, 2017. We also determined the simple average for Springside water CIAC and accumulated amortization of CIAC to be \$34,165 and \$19,734, respectively.

We determined the Springside wastewater CIAC, accumulated amortization of CIAC, and amortization expense to be \$71,250, \$37,800, and \$1,139, respectively, for the test year ended June 30, 2017. We also determined the simple average for Springside wastewater CIAC and accumulated amortization of CIAC to be \$71,250 and \$37,231, respectively.

Finding 5: Capital Structure

Audit Analysis: Based on the year-end balances from the general ledger, audit staff calculated the simple average long-term debt balance to be a credit of \$9,715 and the simple average equity balance to be a credit of \$386,112. Audit staff was not provided any documents which supported these balances.

The McBrides took sole ownership of the FIMC Hideaway, Inc. through a Stock Agreement in which they paid cash for the purchase of 700 shares of utility stock with a value of \$37,000 as noted in Order No. PSC-2005-0298-PAA-WS. FIMC Hideaway, Inc. purchased the Springside systems for \$80,000, which was paid for by the Buyer with \$50,000 in cash and a \$30,000 mortgage as noted in Order No. PSC-09-0279-PAA-WS. The mortgage has since been paid off. However, audit staff could not determine if these transactions had been recorded in the general ledger.

We did receive support for two debt instruments. The first document was a personal credit card statement for Robert McBride, which was used to finance the 37,000 gallon storage tank in 2014 for the Springside water plant. The second document was a copy of a note, which stated that the Utility owes the McBrides \$50,000 on demand as of December 2009. No interest rate is indicated and no payments are scheduled. In instances where there are no payments scheduled, Commission practice requires that the assignment of the cost of debt be based on the current leverage graph.

These documents support the debt and equity components shown in the Utility's annual reports and we used these balances to determine the Capital Structure as shown in Exhibit 5.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: We have reflected the above amounts with the appropriate rates in our capital structure exhibit. The technical analyst should determine the effect of these amounts in this rate proceeding.

Finding 6: Operating Revenue

Audit Analysis: The Utility's operating revenue amount for Hideaway water and wastewater was \$27,317 and \$27,914, respectively, for the twelve months ended June 30, 2017. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register as well as the number of miscellaneous service charges times the Commission approved tariff rates. Audit Staff determined operating revenue for Hideaway water and wastewater to be \$27,288 and \$25,818, respectively, as shown in Table 6-1.

Table 6-1

Hideaway Water		Utility Balance	Audit	Audit Balance
NARUC	Description	6/30/2017	Adjustments	6/30/2017
461.1	Residential Revenues	\$ 26,685	(247)	\$ 26,438
461.2	Commercial Revenues	\$ -	-	-
		<u>\$ 26,685</u>	<u>\$ (247)</u>	<u>\$ 26,438</u>
474.1	Late Fees - 147	\$ 632	103	\$ 735
474.3	Reconnection Fees - 1 RF, 1 PV	\$ -	25	\$ 25
474.4	Connection Fees - 6	\$ -	90	\$ 90
474.5	Credit Card Fees	\$ -	-	\$ -
		<u>\$ 632</u>	<u>\$ 218</u>	<u>\$ 850</u>
Grand Total		<u>\$ 27,317</u>	<u>\$ (29)</u>	<u>\$ 27,288</u>

Note: Acct 474.3 - Reconnection Fees include premise visits

Hideaway Wastewater		Utility Balance	Audit	Audit Balance
NARUC	Description	6/30/2017	Adjustments	6/30/2017
521.1	Residential Flat Rate Revenues	\$ 26,936	(22,785)	\$ 4,151
522.1	Residential Revenues	\$ -	21,552	21,552
		<u>\$ 26,936</u>	<u>\$ (1,233)</u>	<u>\$ 25,703</u>
536.1	Late Fees - 23	\$ 978	(863)	\$ 115
536.2	Reconnection Fees	\$ -	-	\$ -
536.3	Connection Fees	\$ -	-	\$ -
536.4	Credit Card Fees	\$ -	-	\$ -
		<u>\$ 978</u>	<u>\$ (863)</u>	<u>\$ 115</u>
Grand Total		<u>\$ 27,914</u>	<u>\$ (2,096)</u>	<u>\$ 25,818</u>

Note: Acct 536.1 - These are the late fees related to wastewater customers only.

The Utility's operating revenue amount for Springside water and wastewater was \$16,496 and \$27,555, respectively, for the twelve months ended June 30, 2017. Audit Staff determined operating revenue for Springside water and wastewater to be \$14,913 and \$25,818, respectively, as shown in Table 6-2.

Table 6-2

Springside Water		Utility Balance	Audit	Audit Balance
NARUC	Description	6/30/2017	Adjustments	6/30/2017
461.1	Residential Revenues	\$ 13,300	1,048	\$ 14,348
461.2	Commercial Revenues	\$ -	-	-
		\$ 13,300	\$ 1,048	\$ 14,348
474.1	Late Fees - 98	\$ 3,196	(2,706)	\$ 490
474.3	Reconnection Fees - 1	\$ -	15	\$ 15
474.4	Connection Fees - 4	\$ -	60	\$ 60
474.5	Credit Card Fees	\$ -	-	\$ -
		\$ 3,196	\$ (2,631)	\$ 565
	Grand Total	\$ 16,496	\$ (1,583)	\$ 14,913
Note: Acct 474.3 - Reconnection Fees include premise visits				
Springside Wastewater		Utility Balance	Audit	Audit Balance
NARUC	Description	6/30/2017	Adjustments	6/30/2017
521.1	Residential Flat Rate Revenues	\$ -	-	\$ -
522.1	Residential Revenues	\$ 25,655	163	\$ 25,818
		\$ 25,655	\$ 163	\$ 25,818
536.1	Late Fees	\$ 1,900	(1,900)	\$ -
536.2	Reconnection Fees	\$ -	-	\$ -
536.3	Connection Fees	\$ -	-	\$ -
536.4	Credit Card Fees	\$ -	-	\$ -
		\$ 1,900	\$ (1,900)	\$ -
	Grand Total	\$ 27,555	\$ (1,737)	\$ 25,818

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the Hideaway water operating revenues to be \$27,288 for the test year ended June 30, 2017. We determined the Hideaway wastewater operating revenues to be \$25,818 for the test year ended June 30, 2017.

Audit staff determined the Springside water operating revenues to be \$14,913 for the test year ended June 30, 2017. We determined the Springside wastewater operating revenues to be \$25,818 for the test year ended June 30, 2017.

Finding 7: Bad Debt Expense

Audit Analysis: Audit staff noted that no bad debt expense was recorded in the general ledger for the test year. However, we noted that bad debt expense was reported in the 2016 annual report based on a schedule generated from the billing system, which provided the following amounts at December 31, 2016.

- Hideaway Water = \$2,108
- Hideaway Wastewater = \$2,299
- Springside Water = \$588
- Springside Wastewater = \$696

During our review of the billing register, we noted that nine Hideaway accounts were significantly past due for a total outstanding balance of \$17,257 and that three Springside accounts were significantly past due for a total outstanding balance of \$5,242. An accounts receivable aging report was not provided. Audit staff was unable to determine if the above bad debt expense balances were reasonable.

These delinquent accounts were billed for the base facility charges (BFC) throughout the test year, which audit staff included in the billing analysis. However, the water had been turned off and liens were filed against the customer. Since we included the number of bills at zero consumption, revenue could be overstated if the BFCs should not have been included for the delinquent customers.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: We defer this issue to the analyst.

Finding 8: Operations and Maintenance Expense and Working Capital

Audit Analysis: Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were utility related. Our recommended adjustments are shown in Table 8-1 following this finding.

We discussed these items with the owners and included the following for consideration by the technical analyst.

- **Accounts 603/703 – Salaries & Wages – Officers.** At this time, the owners, Robert and Janet McBride, do not earn any wages. They have requested a salary of \$187.50 per month per the four water and wastewater systems for both Robert and Janet, which is an annual expense of \$4,500 per system.

Robert performs the following duties.

- Visits the utility two to three times per month.
- Performs all tasks related to customer billing. He enters the monthly meter readings and prints the bills. Maintains software program.
- Schedules work with the operators and other maintenance workers, and determine the equipment needed and when to buy.
- Buys and delivers new meters. Removes old used meters and pump blowers for scrap.
- Trims trees at the wastewater plant entrance and ponds.
- Communicates with the Department of Environmental Protection.

Janet performs the following duties.

- Stamps and mails the customer bills monthly.
 - Checks the post office box for customer payments.
 - Enters deposits into the general ledger and records customer checks into the billing register.
 - Enters the revenue input journal entry and the RAF accrual into the general ledger.
 - Enters vendor invoices into the general ledger and pays vendors when due.
- **Accounts 640/740 – Rent.** Currently, the McBrides are charging rent of \$500 per month for both the Hideaway and Springside water systems. The utility office is in the home of Robert and Janet McBride. The home consists of 1,648 square feet and the office is 170 square feet, which is 10 percent of the home. The monthly cost of the home is \$1,229 and the \$1,000 (\$500 x 2) monthly rent expense is 81 percent of the cost, which appears excessive. The office furniture and equipment were capitalized and are now fully depreciated.
 - **Account 650/750 – Transportation Expense.** The Utility does not incur any transportation expense. As noted above, Robert McBride makes two to three trips to the Utility per month and maintains a mileage log. It is 40 miles from the home

office in Gainesville to the Utility in Chiefland. According to the mileage log, Robert travelled 2,720 miles during the test year and the IRS mileage rate for 2017 is \$0.535 per mile. We determined total transportation cost to be \$1,456 or \$364 per system.

- Account 655/755 – Insurance Expense. The Utility does not incur any liability insurance expense. However, the Utility’s Regulatory Accountant determined an insurance expense of \$300 per year per system, which is Self-Insurance and appears on the annual reports.

The Utility’s Hideaway water O&M expense amount was \$15,821 and audit staff determined Hideaway water O&M expense to be \$10,818 and working capital to be \$1,352 for the twelve months ended June 30, 2017. Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

- Account 620 – Materials and Supplies. We reclassified \$243 to Account 636 – Contractual Services-Other.
- Account 631 – Contractual Services-Professional. We increased this account by \$255 for the Utility’s Regulatory Accountant and by \$750 for a retainer fee from a CPA, which was reclassified from Account 636 – Contractual Services-Other, for a total of \$1,005 (\$255 + \$750).
- Account 635 – Contractual Services-Testing. We removed \$75, which relates to nitrite testing of the Springside water plant.
- Account 636 – Contractual Services-Other. We increased this account by \$243, which we reclassified from Account 620 – Materials and Supplies due to repairs performed by the contracted operator. We also increased this account by \$5,309, which we reclassified from Account 675 – Miscellaneous Expenses for the monthly duties performed by the contracted operator. We reclassified \$750 to Account 631 – Contractual Services-Professional. We increased this account for a total of \$4,802 (\$243 + \$5,309 - \$750).
- Account 640 – Rent. We removed the current rent expense of \$5,050. See the discussion noted on page 21 of this report.
- Account 675 – Miscellaneous Expenses. We removed \$50 for a disallowed expense and \$84 for insufficient support. We decreased the account by \$5,309, which we reclassified to Account 636 – Contractual Services-Other. We decreased this account for a total of \$5,443 (\$50 + \$84 + \$5,309).

The Utility’s Hideaway wastewater O&M expense amount was \$9,476 and we determined Hideaway wastewater O&M expense to be \$8,245 and working capital to be \$1,031 for the twelve months ended June 30, 2017. Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

- Account 715 – Purchased Power. We removed an \$11 late fee.

- Account 731 – Contractual Services-Professional. We increased this account by \$255 for the Utility’s Regulatory Accountant and decreased it by \$1,300, which are engineering fees related to the Springside permit renewal, for a total decrease of \$1,045 (\$255 - \$1,300).
- Account 735 – Contractual Services-Testing. We increased this account by \$960 for the monthly testing performed by the contracted operator, which we reclassified from Account 775 – Miscellaneous Expenses.
- Account 736 – Contractual Services-Other. We increased this account by \$6,380, which we reclassified from Account 775 – Miscellaneous Expenses for the monthly duties performed by the contracted operator.
- Account 775 – Miscellaneous Expenses. We removed \$145 for disallowed expenses and \$30 for insufficient support. We decreased the account by \$960, which we reclassified to Account 735 – Contractual Services-Testing. We decreased the account by \$6,380, which we reclassified to Account 736 – Contractual Services-Other. We decreased this account for a total of \$7,515 (\$145 + \$30 + \$960 + \$6,380).

The Utility’s Springside water O&M expense amount was \$16,265 and audit staff determined the Springside water O&M expense to be \$10,418 and working capital to be \$1,302 for the twelve months ended June 30, 2017. Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

- Account 615 – Purchased Power. We removed a \$10 late fee.
- Account 620 – Materials and Supplies. We reclassified \$135 to Account 636 – Contractual Services-Other. We also removed \$248 for insufficient support. We decreased this account for a total of \$383 (\$135 + \$248).
- Account 631 – Contractual Services-Professional. We increased this account by \$255 for the Utility’s Regulatory Accountant and by \$750 for a retainer fee from a CPA, which was reclassified from Account 636 – Contractual Services-Other, for a total of \$1,005 (\$255 + \$750).
- Account 636 – Contractual Services-Other. We increased this account by \$135, which we reclassified from Account 620 – Materials and Supplies due to repairs performed by the contracted operator. We also increased this account by \$1,575, which we reclassified from Account 675 – Miscellaneous Expenses for the monthly duties performed by the contracted operator. We also increased this account by \$191 for water repairs performed by the contracted operator, which we reclassified from Account 775 – Miscellaneous Expenses. We reclassified \$750 to Account 631 – Contractual Services-Professional. We increased this account for a total of \$1,150 (\$135 + \$1,575 + \$190 - \$750).
- Account 640 – Rent. We removed the current rent expense of \$5,950. See the discussion noted on page 21 of this report.
- Account 675 – Miscellaneous Expenses. We removed \$84 for insufficient support. We decreased the account by \$1,575, which we reclassified to Account 636 –

Contractual Services-Other. We decreased this account for a total of \$1,659 (\$84 + \$1,575).

The Utility's Springside wastewater O&M expense amount was \$18,082 and we determined the Springside wastewater O&M expense to be \$19,321 and working capital to be \$2,415 for the twelve months ended June 30, 2017. Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

- **Account 715 – Purchased Power.** We removed a \$26 late fee.
- **Account 731 – Contractual Services-Professional.** We increased this account by \$255 for the Utility's Regulatory Accountant and increased it by \$1,300, which are engineering fees related to the Springside permit renewal, for a total increase of \$1,555 (\$255 + \$1,300).
- **Account 735 – Contractual Services-Testing.** We decreased this account by \$45, which we reclassified to Account 736 – Contractual Services-Other.
- **Account 736 – Contractual Services-Other.** We increased this account by \$45, which we reclassified from Account 735 – Contractual Services-Testing for the testing of a backflow meter. We also increased this account by \$11,253, which we reclassified from Account 775 – Miscellaneous Expenses for the monthly duties performed by the contracted operator. We increased this account for a total of \$11,298 (\$45 + \$11,253).
- **Account 775 – Miscellaneous Expenses.** We removed \$100 for insufficient support. We decreased the account by \$11,253, which we reclassified to Account 736 – Contractual Services-Other. We also decreased the account by \$190, which we reclassified to Account 676 – Contractual Services-Other. We decreased this account for a total of \$11,543 (\$100 + \$11,253 + \$190).

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined that Hideaway water O&M expense to be \$10,818 and working capital to be \$1,352 for the test year ended June 30, 2017.

We determined that Hideaway wastewater O&M expense to be \$8,245 and working capital to be \$1,031 for the test year ended June 30, 2017.

Audit staff determined that Springside water O&M expense to be \$10,418 and working capital to be \$1,302 for the test year ended June 30, 2017.

We determined that Springside wastewater O&M expense to be \$19,321 and working capital to be \$2,415 for the test year ended June 30, 2017.

We defer the issues of salaries, rent, transportation, and insurance expense to the analyst.

Table 8-1

Acct. Nos.	Acct. Description	Hideaway Water			Springside Water		
		Per Utility 6/30/2017	Audit Adjustment	Per Audit 6/30/2017	Per Utility 6/30/2017	Audit Adjustment	Per Audit 6/30/2017
601	Salaries & Wages - Employees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
603	Salaries & Wages - Officers	-	-	-	-	-	-
604	Employee Pension & Benefits	-	-	-	-	-	-
615	Purchased Power	-	-	-	2,121	(10)	2,111
620	Materials & Supplies	891	(243)	648	1,562	(383)	1,179
631	Contractual Services - Professional	-	1,005	1,005	-	1,005	1,005
635	Contractual Services - Testing	75	(75)	-	1,090	-	1,090
636	Contractual Services - Other	2,208	4,802	7,009	1,075	1,150	2,225
640	Rent	5,050	(5,050)	-	5,950	(5,950)	-
650	Transportation Expense	-	-	-	-	-	-
655	Insurance Expense	-	-	-	-	-	-
675	Miscellaneous Expense	7,598	(5,443)	2,155	4,467	(1,659)	2,808
	Total	\$ 15,821	\$ (5,003)	\$ 10,818	\$ 16,265	\$ (5,847)	\$ 10,418
	Working Capital Adjustment			\$ 1,352			\$ 1,302
Acct. Nos.	Acct. Description	Hideaway Wastewater			Springside Wastewater		
		Per Utility 6/30/2017	Audit Adjustment	Per Audit 6/30/2017	Per Utility 6/30/2017	Audit Adjustment	Per Audit 6/30/2017
701	Salaries & Wages - Employees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
703	Salaries & Wages - Officers	-	-	-	-	-	-
704	Employee Pension & Benefits	-	-	-	-	-	-
711	Sludge Removal Expense	-	-	-	1,260	-	1,260
715	Purchased Power	458	(11)	447	4,019	(26)	3,993
720	Materials & Supplies	32	-	32	-	-	-
731	Contractual Services - Professional	1,300	(1,045)	255	-	1,555	1,555
735	Contractual Services - Testing	-	960	960	45	(45)	-
736	Contractual Services - Other	-	6,380	6,380	50	11,298	11,348
740	Rent	-	-	-	-	-	-
750	Transportation Expense	-	-	-	-	-	-
755	Insurance Expense	-	-	-	-	-	-
775	Miscellaneous Expense	7,686	(7,515)	171	12,708	(11,543)	1,165
	Total	\$ 9,476	\$ (1,231)	\$ 8,245	\$ 18,082	\$ 1,239	\$ 19,321
	Working Capital Adjustment			\$ 1,031			\$ 2,415

Finding 9: FIMC Hideaway Clubhouse

Audit Analysis: The FIMC Hideaway Clubhouse was a Home Owners Association item that had nothing to do with either the water or wastewater operation. At one time, the Utility charged each resident a \$6 facilities charge, which reimbursed the Utility for the utilities. However, the McBrides stopped paying for the utilities when the residents refused to reimburse the Utility.

As noted in Order No. PSC-2005-0298-PAA-WS, the clubhouse was not metered and was not billed the approved rates for water and wastewater service. It was ordered for the Utility to begin billing the clubhouse like any other customer using the approved rates. We noted from the billing register that the clubhouse was listed as a customer with minimum usage in order for the Utility to maintain the property. However, the Clubhouse is no longer in use.

The Utility owns the lots that contain the Clubhouse. Audit staff was unable to determine if the land and the structures were included with any of the plant assets. We were also unable to determine any expenses related to the Clubhouse except the Utility is paying for the real estate taxes as noted in Finding 10.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: We defer this issue to the analyst.

Finding 10: Taxes Other than Income

Audit Analysis: According to the Utility's general ledger, the Hideaway water and wastewater TOTI balances were \$2,366 and \$1,417, respectively, as of June 30, 2017. Audit staff determined that the TOTI balances were \$2,310 and \$1,809 as shown in Table 10-1.

Table 10-1

Hideaway - Water		Per Utility		Per Audit
Acct. Nos.	Acct. Description	6/30/2017	Adjustment	6/30/2017
408	Property Tax	\$ 283	\$ 799	\$ 1,082
408	Regulatory Assessment Fee	980	248	1,228
408	Other	1,103	(1,103)	-
Total		\$ 2,366	\$ (56)	\$ 2,310
Hideaway - Wastewater		Per Utility		Per Audit
Acct. Nos.	Acct. Description	6/30/2017	Adjustment	6/30/2017
408	Property Tax	\$ 375	\$ 272	\$ 648
408	Regulatory Assessment Fee	1,042	120	1,162
408	Other	-	-	-
Total		\$ 1,417	\$ 393	\$ 1,809

Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

- **Account 408 – Water Property Taxes.** As discussed in Finding 10, the FIMC Hideaway Clubhouse property taxes were included with the Hideaway Water - Other account, and we reclassified them to the appropriate water property tax account as noted above. We also removed the property taxes related to the wastewater lift station.
- **Account 408 – Water Regulatory Assessment Fees.** Audit staff adjusted RAF based on the audited operating revenue balance.
- **Account 408 – Wastewater Property Taxes.** We increased this account to record the property taxes for the lift station, which had originally been recorded in the water property account.
- **Account 408 – Wastewater Regulatory Assessment Fees.** Audit staff adjusted RAF based on the audited operating revenue balance.

According to the Utility's general ledger, the Springside water and wastewater TOTI balances were \$1,127 and \$1,317, respectively, as of June 30, 2017. Audit staff determined that the TOTI balances were \$942 and \$1,481 as shown in Table 10-2.

Table 10-2

Springside - Water		Per Utility		Per Audit
Acct. Nos.	Acct. Description	6/30/2017	Adjustment	6/30/2017
408	Property Tax	\$ 274	\$ (3)	\$ 271
408	Regulatory Assessment Fee	853	(182)	671
408	Other	-	-	-
	Total	\$ 1,127	\$ (184)	\$ 942
Springside- Wastewater		Per Utility		Per Audit
Acct. Nos.	Acct. Description	6/30/2017	Adjustment	6/30/2017
408	Property Tax	\$ 324	\$ (5)	\$ 319
408	Regulatory Assessment Fee	993	169	1,162
408	Other	-	-	-
	Total	\$ 1,317	\$ 164	\$ 1,481

Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

- Account 408 – Water Property Taxes. There was an immaterial variance between the actual property tax bill and the amount recorded in the general ledger.
- Account 408 – Water Regulatory Assessment Fees. Audit staff adjusted RAF based on the audited operating revenue balance.
- Account 408 – Wastewater Property Taxes. There was an immaterial variance between the actual property tax bill and the amount recorded in the general ledger.
- Account 408 – Wastewater Regulatory Assessment Fees. Audit staff adjusted RAF based on the audited operating revenue balance.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined the Hideaway water and wastewater TOTI to be \$2,310 and \$1,809, respectively, for the test year ended June 30, 2017.

Audit staff determined the Springside water and wastewater TOTI to be \$942 and \$1,481, respectively, for the test year ended June 30, 2017.

Exhibits

Exhibit 1: Rate Base – Hideaway Water

FMC HIDEAWAY, INC.					
STAFF-ASSISTED RATE CASE					
DOCKET NO. 20170147-WS; ACN 2017-215-1-1					
SCHEDULE OF WATER RATE BASE-HIDEAWAY					
AS OF JUNE 30, 2017					
Description	Balance Per Utility as of June 30, 2017	Audit Adjustment	Audit Finding	Balance Per Audit as of June 30, 2017	Test Year Average
Utility Plant in Service	\$ 144,571	\$ (25,482)	1	\$ 119,089	\$ 119,089
Land & Land Rights	\$ 3,858	\$ -		\$ 3,858	\$ 3,858
Accumulated Depreciation	\$ (85,182)	\$ (33,667)	3	\$ (118,849)	\$ (118,529)
Contributions in Aid of Construction	\$ -	\$ (4,935)	4	\$ (4,935)	\$ (4,935)
Accumulated Amortization of CIAC	\$ -	\$ 1,523	4	\$ 1,523	\$ 1,484
Working Capital Allowance		\$ 1,352	8	\$ 1,352	\$ 1,352
Total Rate Base	\$ 63,247	\$ (61,209)		\$ 2,038	\$ 2,319

Exhibit 2: Rate Base – Hideaway Wastewater

FIMC HIDEAWAY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF WASTEWATER RATE BASE-HIDEAWAY AS OF JUNE 30, 2017					
Description	Balance Per Utility as of June 30, 2017	Audit Adjustment	Audit Finding	Balance Per Audit as of June 30, 2017	Test Year Average
Utility Plant in Service	\$ 111,190	\$ 4,606	2	\$ 115,796	\$ 115,796
Land & Land Rights	\$ 4,961	\$ -		\$ 4,961	\$ 4,961
Accumulated Depreciation	\$ (102,890)	\$ (12,893)	3	\$ (115,783)	\$ (114,951)
Contributions in Aid of Construction	\$ -	\$ (4,522)	4	\$ (4,522)	\$ (4,522)
Accumulated Amortization of CIAC	\$ -	\$ 1,416	4	\$ 1,416	\$ 1,385
Working Capital Allowance		\$ 1,031	8	\$ 1,031	\$ 1,031
Total Rate Base	\$ 13,261	\$ (10,362)		\$ 2,899	\$ 3,700

Exhibit 3: Rate Base – Springside Water

FIMC HIDEAWAY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF WATER RATE BASE-SPRINGSIDE AS OF JUNE 30, 2017					
Description	Balance Per Utility as of June 30, 2017	Audit Adjustment	Audit Finding	Balance Per Audit as of June 30, 2017	Test Year Average
Utility Plant in Service	\$ 107,238	\$ 17,980	1	\$ 125,218	\$ 125,218
Land & Land Rights	\$ 12,000	\$ -		\$ 12,000	\$ 12,000
Accumulated Depreciation	\$ (61,591)	\$ (27,051)	3	\$ (88,642)	\$ (87,270)
Contributions in Aid of Construction	\$ -	\$ (34,165)	4	\$ (34,165)	\$ (34,165)
Accumulated Amortization of CIAC	\$ -	\$ 20,111	4	\$ 20,111	\$ 19,734
Working Capital Allowance		\$ 1,302	8	\$ 1,302	\$ 1,302
Total Rate Base	\$ 57,647	\$ (21,823)		\$ 35,824	\$ 36,819

Exhibit 4: Rate Base – Springside Wastewater

FMC HIDEAWAY, INC.					
STAFF-ASSISTED RATE CASE					
DOCKET NO. 20170147-WS; ACN 2017-215-1-1					
SCHEDULE OF WASTEWATER RATE BASE-SPRINGSIDE					
AS OF JUNE 30, 2017					
Description	Balance Per Utility as of June 30, 2017	Audit Adjustment	Audit Finding	Balance Per Audit as of June 30, 2017	Test Year Average
Utility Plant in Service	\$ 210,839	\$ (1,845)	2	\$ 208,994	\$ 208,582
Land & Land Rights	\$ 5,422	\$ -		\$ 5,422	\$ 5,422
Accumulated Depreciation	\$ (144,660)	\$ (35,256)	3	\$ (179,916)	\$ (178,199)
Contributions in Aid of Construction	\$ -	\$ (71,250)	4	\$ (71,250)	\$ (71,250)
Accumulated Amortization of CIAC	\$ -	\$ 37,800	4	\$ 37,800	\$ 37,231
Working Capital Allowance		\$ 2,415	8	\$ 2,415	\$ 2,415
Total Rate Base	\$ 71,601	\$ (68,136)		\$ 3,465	\$ 4,201

Exhibit 5: Capital Structure

FMC HIDEAWAY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF CAPITAL STRUCTURE AS OF JUNE 30, 2017									
Capital Components	Test Year Avg.	Audit Adjs.	Audit Finding	Audit Adj. Balance	% of Components	Rate Base	% of Rate Base	Rate	Composite Rate
Long Term Debt	\$ 10,371	\$ -	\$	\$ 10,371	14.42%	\$ 6,783	14.42%	22.00%	3.17%
Equity	\$ 61,545	\$ -		\$ 61,545	85.58%	\$ 40,256	85.58%	9.01%	7.71%
Total Equity and Debt	\$ 71,915	\$ -		\$ 71,915	100.00%	\$ 47,039			
Customer Deposits	\$ -	\$ -		\$ -		\$ -	0.00%	2%	0.00%
Total	\$ 71,915	\$ -		\$ 71,915		\$ 47,039	100.00%		10.88%
		Rate Base							
Hideaway	Water	\$ 2,319							
	Wastewater	\$ 3,700							
Springside	Water	\$ 36,819							
	Wastewater	\$ 4,201							
		\$ 47,039							

Exhibit 6: Net Operating Income – Hideaway Water

FIMC HIDEAWY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF WATER NET OPERATING INCOME-HIDEAWAY FOR TEST YEAR ENDED JUNE 30, 2017				
Description	Balance per Utility 6/30/2017	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2017
Operating Revenues	\$ 27,317	\$ (29)	6	\$27,288
O&M Expenses	15,821	(5,003)	7, 8	10,818
Depreciation Expense	-	638	3	638
Amortization Expense	-	(80)	4	(80)
Taxes Other than Income	2,366	(56)	9, 10	2,310
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 18,187	\$ (4,501)		\$ 13,686
Net Operating Income (Loss)	\$ 9,130	\$ 4,472		\$ 13,602

Exhibit 7: Net Operating Income – Hideaway Wastewater

FIMC HIDEAWY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF WASTEWATER NET OPERATING INCOME-HIDEAWAY FOR TEST YEAR ENDED JUNE 30, 2017				
Description	Balance per Utility 6/30/2017	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2017
Operating Revenues	\$ 27,914	\$ (2,096)	6	\$25,818
O&M Expenses	9,476	(1,231)	7, 8	8,245
Depreciation Expense	-	1,666	3	1,666
Amoritzation Expense	-	(63)	4	(63)
Taxes Other than Income	1,417	392	9, 10	1,809
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 10,893	\$ 764		\$ 11,657
Net Operating Income (Loss)	\$ 17,021	\$ (2,860)		\$ 14,161

Exhibit 8: Net Operating Income – Springside Water

FIMC HIDEAWY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF WATER NET OPERATING INCOME-SPRINGSIDE FOR TEST YEAR ENDED JUNE 30, 2017				
	Balance			Balance
	per Utility	Audit	Audit	per Audit
Description	6/30/2017	Adjustments	Finding	6/30/2017
Operating Revenues	\$ 16,496	\$ (1,583)	6	\$14,913
O&M Expenses	16,265	(5,847)	7, 8	10,418
Depreciation Expense	-	2,747	3	2,747
Amortization Expense	-	(753)	4	(753)
Taxes Other than Income	1,127	(185)	9, 10	942
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 17,392	\$ (4,038)		\$ 13,354
Net Operating Income (Loss)	\$ (896)	\$ 2,455		\$ 1,559

Exhibit 9: Net Operating Income – Springside Wastewater

FIMC HIDEAWY, INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20170147-WS; ACN 2017-215-1-1 SCHEDULE OF WASTEWATER NET OPERATING INCOME-SPRINGSIDE FOR TEST YEAR ENDED JUNE 30, 2017				
Description	Balance per Utility 6/30/2017	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2017
Operating Revenues	\$ 27,555	\$ (1,737)	6	\$25,818
O&M Expenses	18,082	1,239	7, 8	19,321
Depreciation Expense	-	3,434	3	3,434
Amortization Expense	-	(1,139)	4	(1,139)
Taxes Other than Income	1,317	164	9, 10	1,481
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 19,399	\$ 3,698		\$ 23,097
Net Operating Income (Loss)	\$ 8,156	\$ (5,435)		\$ 2,721