

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-**

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**DATE:** March 30, 2022

**TO:** Office of Commission Clerk

**FROM:** Rhonda L. Hicks, Chief of Auditing, Office of Auditing and Performance Analysis RLH

**RE:** Docket No.: 20210098-WU  
Company Name: A Utility Inc.  
Company Code: WU980  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2021-183-1-1

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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.

RLH/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

A Utility, Inc.

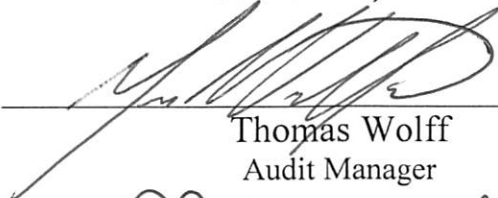
Staff-Assisted Rate Case

**Twelve Months Ended December 31, 2020**

Docket No. 20210098-WU

Audit Control No. 2021-183-1-1

**March 11, 2022**



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Thomas Wolff  
Audit Manager



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Marisa Glover  
Reviewer

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## 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 1, 2021. We have applied these procedures to the attached schedules prepared by the audit staff in support of A Utility, Inc.'s request for a Staff-Assisted Rate Case in Docket No. 20210098-WU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

AUI/Utility refers to A Utility, Inc.

The test year for this instant proceeding is the historical twelve months ended December 31, 2020.

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, Florida Administrative Code (F.A.C.)

#### Background

A Utility, Inc. (AUI) is a Class C utility serving approximately 119 water customers in Pasco County. AUI is owned by Troy Fonder. According to AUI's 2020 Annual Report, total gross revenues were \$20,667 and total operating expenses were \$18,717, resulting in NOI of \$1,950.

Certificate No. 165-W was originally granted in 1974 and was subsequently transferred four times before being transferred to the current certificate holder. The Utility filed an application on May 16, 2017, to transfer from Allen LaFortune and Otis Fonder (ALOF) to AUI. An Order was issued May 20, 2021, transferring ALOF to A Utility, Inc.

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

#### Utility Books and Records

**Objectives:** The objective was to determine whether the Utility maintains its books and records in conformity with the 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. Finding 7 discusses utility books and records.

### **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 is put into service, and 4) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We reconciled the beginning balances for UPIS, as of January 1, 2017, from Order No. PSC-2021-0183-PAA-WU to the general ledger. We scheduled UPIS activity from January 1, 2017, to December 31, 2020. We traced asset additions to supporting documentation. We

ensured that retirements were made when an asset was removed or replaced. We determined the simple average and year-end balances as of December 31, 2020. The utility did not make the Commission-ordered adjustments to the plant accounts recorded in their books. Finding 1 discusses our recommended adjustments to Utility Plant in Service.

### 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 January 1, 2017, to the general ledger. Commission Order No. PSC-2021-0183-PAA-WU, established the value of the land for the Utility. There were no additions to land from January 1, 2017, to December 31, 2020. We determined the year-end balances as of December 31, 2020. The utility did not make the Commission-ordered adjustments to the value of their land in their books. Finding 1 discusses our recommended adjustment to land.

### Accumulated Depreciation

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

**Procedures:** We reconciled the beginning balances for accumulated depreciation, as of January 1, 2017, from Order No. PSC-2021-0183-PAA-WU 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 January 1, 2017, to December 31, 2020. We determined the simple average and year-end balances as of December 31, 2020. The utility did not make the Commission-ordered adjustments to the balances on their accumulated depreciation accounts and used incorrect rates for calculating depreciation. Finding 1 discusses our recommended adjustments to accumulated depreciation.

### 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 is replaced, and 4) Adjustments in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We determined our beginning balance of (\$26,625) from Order No. PSC-2021-0183-PAA-WU, issued May 20, 2021. We noted the Commission Order reflects that CIAC has a fully amortized balance for the water plant. We also note that the Utility does not have a tariff for Service Availability. The utility does not have CIAC recorded in their books. Finding 2 discusses our recommended adjustments to CIAC.

## 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, F.A.C., 2) Retirements are recorded when a contributed asset is replaced, and 3) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We determined our beginning balance of \$26,625 for accumulated amortization of CIAC from Order No. PSC-2021-0183-PAA-WU, issued May 20, 2021. We noted the Utility's CIAC was fully amortized, per the Commission Order, and there was not any CIAC activity from January 1, 2017, to December 31, 2020. The utility does not have accumulated amortization of CIAC recorded in its books. Finding 2 discusses our recommended adjustments to accumulated amortization of CIAC.

## Working Capital

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

**Procedures:** We calculated the Utility's working capital balance as of December 31, 2020, using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 4 discusses our recommended 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 noted the utility does not have a tariff for customer deposits. We determined the year-end Capital Structure balance and its weighted average cost as of December 31, 2020. Finding 6 discusses our recommended adjustments to capital structure and long-term debt.

## **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 the NARUC USOA.

**Procedures:** We determined individual customer consumption for the test year ended December 31, 2020, using the Utility's monthly customer billings. We calculated test year revenues based on the number of customers and the approved flat rate tariff and compared our calculated revenue amount to the revenues reflected on the Profit & Loss Statement provided by the utility. We determined the Utility is charging its authorized tariff rates. We also classified miscellaneous service charges by type. We determined the utility did not charge any miscellaneous service

charges during the test year, the twelve months ended December 31, 2020. Finding 3 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 provided in support of the Utility's O&M expenses for the test year ended December 31, 2020. 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. Finding 4 discusses our recommended adjustments to O&M expense.

#### Depreciation Expense

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

**Procedures:** We calculated depreciation expense for the test year using the rates established by Rule 25-30.140, F.A.C. Finding 1 discusses our recommended adjustments to 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, regulatory assessment fees (RAF), and licensing fees for the test year and confirmed their utility classification. We recalculated RAFs using the approved RAF rate and the audited revenue balances. Finding 5 discusses our recommended adjustments to TOTI.



## Audit Findings

### **Finding 1: Utility Plant In Service, Accumulated Depreciation, Land and Depreciation Expense**

**Audit Analysis:** According to the Utility’s Profit & Loss Statement, the UPIS balance was \$97,700, excluding land, as of December 31, 2020. The Utility did not enter the Commission-ordered adjustments, totaling \$43,107, as stated in Order PSC-2021-0183-PAA-WU, issued May 20, 2021. Audit staff scheduled plant additions and retirements from January 1, 2017, through December 31, 2020. We used the beginning UPIS balances that were approved by the Commission in Order PSC-2021-0183-PAA-WU. The utility did not perform any additions and retirements from January 1, 2017, through December 31, 2020. Audit staff determined the UPIS year-end balance to be \$54,593 and the simple average is \$54,593, both excluding land, as shown in Table 1-1.

**Table 1-1**

Account - Description	Utility Balance		Audit Balance	
	UPIS 12/31/2020	Audit Adjustments	UPIS 12/31/2020	Simple Average
301 Organization	\$ -	\$ -	\$ -	\$ -
302 Franchises	-	-	-	-
303 Land	19,300	(18,300)	1,000	1,000
304 Structures & Improvements	11,040	(9,840)	1,200	1,200
307 Wells & Springs	35,291	(33,617)	1,674	1,674
309 Supply Mains	19,144	837	19,981	19,981
311 Pumping Equip.	8,901	6,097	14,998	14,998
320 Water Treatment Equip.	6,265	(3,473)	2,792	2,792
330 Distribution Reservoirs	16,289	(16,136)	153	153
333 Services	-	4,640	4,640	4,640
334 Meters and Meter Install.	770	(770)	-	-
339 Other Plant And Misc.	-	365	365	365
343 Tools, Shop and Garage Equip.	-	51	51	51
348 Other Tangible Plant	-	8,739	8,739	8,739
<b>Total:</b>	<b>\$ 117,000</b>	<b>\$ (61,407)</b>	<b>\$ 55,593</b>	<b>\$ 55,593</b>
<b>Total w/o Land:</b>	<b>\$ 97,700</b>	<b>\$ (43,107)</b>	<b>\$ 54,593</b>	<b>\$ 54,593</b>

According to the Utility’s Profit & Loss Statement, the accumulated depreciation balance was \$15,268 as of December 31, 2020. In the previous audit, the Utility’s net book value calculation did not reflect accumulated depreciation. The accumulated depreciation was calculated in Order PSC-2021-0183-PAA-WU, issued May 20, 2021, and determined to be \$46,226 as of January 1, 2017. The utility did not enter these Commission-ordered adjustments. The utility also started calculating the depreciation on their plant accounts from \$0 as of January 1, 2017. According to the Order, utility plant was practically fully depreciated as of January 1, 2017, and only two plant accounts were still depreciating as of December 31, 2020; Account 309 – Supply Mains and Account 330 - Distribution Reservoirs. We scheduled accumulated depreciation from January 1, 2017, to December 31, 2020. Audit staff recalculated accumulated depreciation using the audited UPIS plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. We determined that the accumulated depreciation year-end balance is \$48,959 and the simple average is \$48,645 as shown in Table 1-2.

**Table 1-2**

Account - Description	Utility Balance		Audit Balance	
	Accum Dep	Audit	Accum Dep	Simple
	12/31/2020	Adjustments	12/31/2020	Average
301 Organization	\$ -	\$ -	\$ -	\$ -
302 Franchises	-	-	-	-
303 Land	-	-	-	-
304 Structures & Improvements	(1,402)	202	(1,200)	(1,200)
307 Wells & Springs	(5,647)	3,973	(1,674)	(1,674)
309 Supply Mains	(3,063)	(11,286)	(14,349)	(14,036)
311 Pumping Equip.	(1,424)	(13,574)	(14,998)	(14,998)
320 Water Treatment Equip.	(1,002)	(1,790)	(2,792)	(2,792)
330 Distribution Reservoirs	(2,606)	2,455	(152)	(149)
333 Services	-	(4,640)	(4,640)	(4,640)
334 Meters and Meter Install.	(123)	123	-	-
339 Other Plant And Misc.	-	(365)	(365)	(365)
343 Tools, Shop and Garage Equip.	-	(51)	(51)	(51)
348 Other Tangible Plant	-	(8,739)	(8,739)	(8,739)
<b>Total:</b>	<b>\$ (15,268)</b>	<b>\$ (33,692)</b>	<b>\$ (48,959)</b>	<b>\$ (48,645)</b>

According to the Utility's Profit & Loss Statement, the depreciation expense was \$3,818 for the twelve months ended December 31, 2020. Audit staff determined that the depreciation expense should be \$433. This amount reflects the depreciation expense for the two remaining plant accounts that had not yet fully depreciated as of December 31, 2020, which is shown in Table 1-3.

**Table 1-3**

Account - Description	Utility Balance		Audit Balance	
	Depreciation Expense	Audit	Depreciation Expense	
	12/31/2020	Adjustments	12/31/2020	
304 Structures & Improvements	\$ 350	\$ (350)	\$ -	-
307 Wells & Springs	1,412	(1,412)	-	-
309 Supply Mains	766	(337)	-	429
311 Pumping Equip.	356	(356)	-	-
320 Water Treatment Equip.	251	(251)	-	-
330 Distribution Reservoirs	652	(648)	-	4
333 Services	-	-	-	-
334 Meters and Meter Install.	31	(31)	-	-
339 Other Plant And Misc.	-	-	-	-
343 Tools, Shop and Garage Equip.	-	-	-	-
348 Other Tangible Plant	-	-	-	-
<b>Total:</b>	<b>\$ 3,818</b>	<b>\$ (3,385)</b>	<b>\$ 433</b>	

According to the Utility’s Profit & Loss Statement, the land value as of December 31, 2020, was \$19,300. In Order PSC-2021-0183-PAA-WU, issued May 20, 2021, the original cost of land was \$1,000, and there have been no additions to land since the prior rate case. The Utility did not enter the Commission-ordered adjustment to reduce land in the amount of \$18,300, as stated in the Order. Audit staff determined that the land balance should be \$1,000 as of December 31, 2020, which is shown in Table 1-4.

**Table 1-4**

Account - Description	Utility Balance		Audit Balance	
	Land 12/31/2020	Audit Adjustments	Land 12/31/2020	Simple Average
303 Land	\$ 19,300	\$ (18,300)	\$ 1,000	\$ 1,000
<b>Total:</b>	<b>\$ 19,300</b>	<b>\$ (18,300)</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>

**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 balances for UPIS should be decreased by \$43,107, to capture the Commission-ordered adjustments, as of December 31, 2020, and the simple average is \$54,593. Audit staff also determined that accumulated depreciation should be increased by \$33,692, to reflect the accurate depreciation amount, as of December 31, 2020, and the simple average is \$48,645. We determined the depreciation expense should be decreased by \$3,385, to reflect depreciation expense for only those accounts that are not fully depreciated, for the test year ended December 31, 2020. Audit staff also determined that the land balance should be decreased by \$18,300, to capture the Commission-ordered adjustments, as of December 31, 2020.

## Finding 2: Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization of CIAC

**Audit Analysis:** The Utility did not record CIAC or accumulated amortization of CIAC on its Profit & Loss Statement or its Balance Sheet as of December 31, 2020, to reflect the amounts, (\$26,625) and \$26,625, established in Order PSC-2021-0183-PAA-WU, issued May 20, 2021. These amounts reflect a fully amortized CIAC balance for the water plant. There have been no additions to CIAC since the last rate proceeding. Audit staff determined the CIAC year-end balance to be (\$26,625) and the simple average is (\$26,625), as shown in Table 2-1.

**Table 2-1**

Description	Per Utility 12/31/2020	Audit Adjustments	Per Audit 12/31/2020
CIAC Balance as of 12/31/2020	\$ -	\$ (26,625)	\$ (26,625)
Total CIAC Additions 2017-2020	\$ -	\$ -	\$ -
<b>Total:</b>	<b>\$ -</b>	<b>\$ (26,625)</b>	<b>\$ (26,625)</b>

In Order PSC-2021-0183-PAA-WU, issued May 20, 2021, the accumulated amortization of CIAC balance was found to be \$26,625. The Utility did not record the Commission-ordered adjustment, totaling \$26,625, in its books. Audit staff determined that the accumulated amortization of CIAC balance should be \$26,625 as of December 31, 2020, which is shown in Table 2-2.

**Table 2-2**

Description	Per Utility 12/31/2020	Audit Adjustments	Per Audit 12/31/2020
AA CIAC Balance as of 12/31/2020	\$ -	\$ 26,625	\$ 26,625
Total AA CIAC Additions 2017-2020	\$ -	\$ -	\$ -
<b>Total:</b>	<b>\$ -</b>	<b>\$ 26,625</b>	<b>\$ 26,625</b>

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

**Effect on the Filing:** Audit staff brought the Commission-ordered balances of (\$26,625) for CIAC and \$26,625 for accumulated amortization of CIAC forward and determined that the simple averages are (\$26,625) and \$26,625, respectively.

### Finding 3: Operating Revenue

**Audit Analysis:** A Utility, Inc. used the approved tariff rates to charge its residential customers, of which all are billed at a flat rate per month. The tariff rate for the first seven months of the test year was \$14.61, and the tariff rate for the last five months of the test year was \$14.73. The Utility’s operating revenue amount was \$20,722 for the twelve months ended December 31, 2020. Audit staff recalculated revenue by determining the number of bills, from the Profit and Loss Statement, and multiplying the number of bills by the Commission-approved tariff. We annualized revenue for the test year using the current tariff flat rate of \$14.73. We determined operating revenue to be \$20,858 as shown in Table 3-1. There are Commission-approved miscellaneous service fees; however the utility did not charge any during the test year ended December 31, 2020.

**Table 3-1**

NARUC	Description	Utility Balance 12/31/2020	Audit Adjustments	Audit Balance 12/31/2020
460	Residential Revenues	\$ 20,722	136	\$ 20,858
		<b>\$ 20,722</b>	<b>\$ 136</b>	<b>\$ 20,858</b>
471	Misc. Service Revenues	\$ -	-	\$ -
		\$ -	\$ -	\$ -
	<b>Grand Total</b>	<b>\$ 20,722</b>	<b>\$ 136</b>	<b>\$ 20,858</b>

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

**Effect on the Filing:** Operating revenue should be increased by \$136 for the test year ended December 31, 2020, to reflect the audit staff’s annualized revenues using the utility’s current tariff rate. Due to the increase in operating revenue, TOTI (RAF) should increase by \$11.

**Finding 4: Operation 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 adjustment is shown on Table 3-1.

**Table 3-1**

Description	NARUC Acct.	Per Utility GL as of December 31, 2020	Audit Adjustment	Per Audit as of December 31, 2020
Purchased Power	615	401	-	401
Chemicals	618	84	-	84
Materials & Supplies	620	3,723	(76)	3,647
Professional Fees	631	3,450	-	3,450
Total Utility Expenses		<b>\$ 7,658</b>	<b>\$ (76)</b>	<b>\$ 7,582</b>
Working Capital:				<b>\$ 948</b>

Based on supporting documentation, we recommend the following adjustments.

- Account 620 – Materials and Supplies. We reviewed invoices and determined the amount for materials and supplies to be \$3,647, not \$3,723, as of December 31, 2020, due to the lack of supporting documentation. This account should be reduced by \$76.

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

**Effect on the Filing:** Audit staff determined the O&M expense to be \$7,582. Working capital, calculated using one-eighth of O&M was determined to be \$948 for the test year ended December 31, 2020.

**Finding 5: Taxes Other than Income**

**Audit Analysis:** According to the Utility’s general ledger, the Taxes Other than Income balance was \$1,384 for the twelve months ended December 31, 2020. Audit staff determined that the Taxes Other than Income balance amount should be \$1,681, as shown on Table 5-1.

**Table 5-1**

Description	Per Utility 12/31/2020	Audit Adjustments	Per Audit 12/31/2020
Property Tax	\$ 206	\$ 286	\$ 493
Regulatory Assessment Fees (RAF)	\$ 928	\$ 11	\$ 939
Other - License Fees	\$ 250	\$ -	\$ 250
<b>Total:</b>	<b>\$ 1,384</b>	<b>\$ 297</b>	<b>\$ 1,681</b>

Based on review of the supporting documentation, we recommend the following adjustment:

- Property Tax. Utility paid \$492.65 in January which, according to the Pasco County Tax Collector website, makes them eligible for a 2% discount on Real Estate and Tangible tax payment. The bill totaled \$502.70, which when multiplied by .98, gives you \$492.65. Utility recorded \$206 on their Profit & Loss Statement. This account should be increased by \$286 to reflect the actual amount paid by the utility.
- Regulatory Assessment Fees (RAF). Should be increased by \$11 based on the audited increase in operating revenues.

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

**Effect on the Filing:** Audit Staff determined the Taxes Other than Income to be \$1,681 for the test year ended December 31, 2020. Taxes other than income should be increased by \$297 for increases of \$286 in property taxes and \$11 in their regulatory assessment fees.

## Finding 6: Capital Structure

**Audit Analysis:** The Utility recorded (\$38,179) for common equity on its Balance Sheet as of December 31, 2020. Their common equity balance consists of three components: \$1,231 listed as their opening balance equity, (\$25,141) in retained earnings, and (\$14,269) in net income. The balance for net income should be included with retained earnings according to the Uniform System of Accounts for Class C Water Utilities. We reconciled the Utility's common equity components to supporting documentation.

We traced the long-term debt of \$118,000 to the supporting documentation. The original loan values were \$117,000 (mortgage) and \$1,000 (U.S. Small Business Administration Loan) and were entered into on January 1, 2017, and June 16, 2020, respectively. The loans are between A Utility, Inc. and D.S.I. (mortgage) and the U.S. Small Business Administration. The mortgage loan, which is strictly an interest-only loan, is for forty years and has an interest rate of 10 percent. The U.S. Small Business Administration Loan is for thirty years and has an interest rate of 3.75 percent. Audit staff calculated the average long-term debt to be \$117,500, which is the simple average of the beginning loan value plus the value at year-end.

The balances for the capital structure are shown in Table 6-1. Since including negative equity in the capital structure would penalize the Utility by understating the overall rate of return, the negative equity of \$38,179 was adjusted to zero as shown below. Table 6-2 shows the Long-Term Debt breakdown to reflect the simple average calculation.

**Table 6-1**

Account Description	Per Utility 12/31/2020	Audit Adjustments	Per Audit 12/31/2020	Simple Average
Common Equity	\$ (38,179)	\$ 38,179	\$ -	\$ -
Long-Term Debt	\$ (118,000)	\$ -	\$ (118,000)	\$ (117,500)
Customer Deposits	\$ -	\$ -	\$ -	\$ -
<b>Total:</b>	<b>\$ (156,179)</b>	<b>\$ 38,179</b>	<b>\$ (118,000)</b>	<b>\$ (117,500)</b>

**Table 6-2**

Account Description	Utility Balance at 12/31/2019	Utility Balance at 12/31/2020	Variance	Simple Average Balance
Mortgage Loan	\$ (117,000)	\$ (117,000)	\$ -	\$ (117,000)
SBA Loan	\$ -	\$ (1,000)	\$ 500	\$ (500)
<b>Total:</b>	<b>\$ (117,000)</b>	<b>\$ (118,000)</b>	<b>\$ 500</b>	<b>\$ (117,500)</b>

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

**Effect on the Filing:** Audit staff adjusted the year-end and simple average common equity balances to zero as of December 31, 2020. We determined long-term debt to be (\$118,000), and the simple average long-term debt to be (\$117,500) as of December 31, 2020.



## **Finding 7: Books and Records**

**Audit Analysis:** A Utilities Inc.'s books and records are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA)

NARUC, Class C, Accounting Instructions, state:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, Florida Administrative Code (F.A.C.), requires utilities to maintain their books and records in conformity with the NARUC USoA.

The audit staff noted that A Utilities Inc. does not maintain a general ledger to record their transactions. They rely on a Profit & Loss Statement and a Balance Sheet in order to track the balances in their accounts.

Exhibits

**Exhibit 1: Rate Base**

A UTILITY INC. STAFF-ASSISTED RATE CASE DOCKET NO. 20210098-WU; A.C.N. 2021-183-1-1 SCHEDULE OF WATER RATE BASE AS OF DECEMBER 31, 2020					
Description	Utility 12/31/2020	Audit Adjustments	Audit Finding	Audit 12/31/2020	Simple Average
Utility Plant in Service	\$ 97,700	\$ (43,107)	1	\$ 54,593	\$ 54,593
Land	19,300	(18,300)	1	1,000	1,000
Accumulated Depreciation	(15,268)	(33,692)	1	(48,959)	(48,645)
Contributions in Aid of Construction	-	(26,625)	2	(26,625)	(26,625)
Accumulated Amortization of CIAC	-	26,625	2	26,625	26,625
Working Capital Allowance:	-	948	4	948	948
<b>RATE BASE</b>	<b>\$ 101,732</b>	<b>\$ (94,151)</b>		<b>\$ 7,582</b>	<b>\$ 7,896</b>

**Exhibit 2: Capital Structure**

**A UTILITY INC.**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20210098-WU; ACN 2021-183-1-1**  
**CAPITAL STRUCTURE**  
**AS OF DECEMBER 31, 2020**

Capital Components	Balance Per Utility as of 12/31/2020	Audit Adjustment	Balance Per Audit as of 12/31/2020	Simple Average	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ (38,176)	\$ 38,176	\$ -	\$ -	0.00%		0.00%
Long Term Debt	\$ (118,000.00)	\$ -	\$ (118,000.00)	\$ (117,500.00)	100.00%	7.85%	7.85%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accum. Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
<b>Total</b>	\$ (156,176)	\$ 38,176	\$ (118,000)	\$ (117,500)	100.00%		7.85%

2019 Equity Formula used as approved at the June 11, 2019 Agenda Conference:

Return = 6.05 + (1.800/equity ratio)  
 Return = 6.05 + (1.800/1.000)  
 Return = 7.85

**Exhibit 3: Net Operating Income**

**A UTILITY INC.**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20210089-WU; ACN 2021-183-1-1**  
**SCHEDULE OF WATER NET OPERATING INCOME**  
**FOR TEST YEAR ENDED DECEMBER 31, 2020**

Description	Balance Per Utility 12/31/2020	Audit Adjustments	Audit Finding	Balance Per Audit 12/31/2020
Operating Revenues	\$ 20,722	\$ 136	3	\$ 20,858
Operation & Maintenance Expenses	7,658	(76)	4	7,582
Depreciation Expense	3,817	(3,384)	1	433
Amortization Expense	0	0		0
Taxes Other Than Income	1,384	297	5	1,681
Income Tax Expense	0	0		0
<b>Total Operation Expenses:</b>	<b>\$ 12,859</b>	<b>\$ (3,162)</b>		<b>\$ 9,697</b>
<b>Net Operating Income (Loss)</b>	<b>\$ 7,863</b>	<b>\$ 3,298</b>		<b>\$ 11,161</b>