

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: June 14, 2022

TO: Office of the Commission Clerk

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

RE: Docket No.: 20220032-WS
Company Name: Anglers Cove West, Ltd.
Company Code: WS817
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2022-070-2-1

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 the 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
Tampa District Office

Auditor's Report

Anglers Cove West, Ltd
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2021

Docket No. 20220032-WS
Audit Control No. 2022-070-2-1
June 2, 2022

A handwritten signature in black ink, appearing to read "Simon O. Ojada", written over a horizontal line.

Simon O. Ojada
Audit Manager

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

Tomer Kopelovich
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting & Finance in its audit service request dated March 11, 2022. We have applied these procedures to the attached schedules prepared by the audit staff in support of Anglers Cove West, Ltd.'s request for a Staff Assisted Rate Case in Docket No. 20220032-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Anglers Cove West, Ltd.

The test year for this proceeding is the historical twelve months ended December 31, 2021.

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

Anglers Cove West, Ltd. (Anglers Cove or Utility) is a Class C water and wastewater utility currently providing service to approximately 344 water customers and 340 wastewater customers in Polk County. Anglers Cove has been in existence and charging rates since 1985. The Utility was granted Certificate Nos. 610-W and 526-S in 1999.

The Utility serves the Anglers Cove and Anglers Cove West Mobile Home Parks. The Utility's 2021 Annual Report shows total gross revenues of \$74,662 for water and \$72,576 for wastewater, with a total operating expenses of \$91,445 and \$93,278 for water and wastewater, respectively. The current rates have been in effect since September 2008.

The Utility files a 1065 Federal Tax Return, and is a Partnership.

Utility Books and Records

Objective: 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. We determined that the Utility is in substantial compliance with the NARUC USOA.

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, 2008, from Order No. PSC-2008-0496-PAA-WS, issued August 5, 2008, in Docket No. 20070417-WS, to the

general ledger. We scheduled UPIS activity from January 1, 2007, through December 31, 2021. 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, 2021. Finding 1 discusses our recommended adjustments to UPIS.

Land & Land Rights

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

Procedures: We reconciled the beginning balance for land that was established in Order No. PSC-2008-0496-PAA-WS, issued August 5, 2008, to the general ledger. There was no change to utility land since the last rate case proceeding. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Adjustments to accumulated depreciation in the Utility's last rate case proceeding were recorded in its general ledger, 2) Accumulated depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140 - Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset is replaced.

Procedures: We reconciled the beginning balances for accumulated depreciation that were established in Order No. PSC-2008-0496-PAA-WS, issued August 5, 2008, to the general ledger. We calculated accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C - Depreciation. We determined the year-end and simple average accumulated depreciation balance as of December 31, 2021. Our recommended adjustments to accumulated depreciation are discussed in Finding 2.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions-in-aid-of-construction (CIAC) is properly recorded in compliance with Commission rules and the NARUC USOA, 2) Donated property is properly accounted for and recorded as CIAC, and 3) Adjustments to CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We reviewed the general ledger for CIAC, as of January 1, 2007, through December 31, 2021. The Utility does not have CIAC recorded on its books and records. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether: 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2) Retirements are recorded when a contributed asset is replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: The Utility did not have CIAC on its books, therefore, there were no accumulated amortization of CIAC. No exceptions were noted.

Working Capital

Objective: The objective was to determine the working capital adjustment to be included in the Utility's rate base per Rule 25-30.433(3).

Procedures: We calculated the Utility's working capital using one-eighth of Operation and maintenance (O&M) expense as required by Rule 25-30.433(3), F.A.C. Our recommended working capital is calculated in Finding 5.

Capital Structure

Objectives: The objectives were to determine: 1) Component balances for the Utility's capital structure, 2) Cost rates to be used to arrive at the overall weighted cost of capital and, if 3) Components are properly recorded in compliance with Commission requirements.

Procedures: We reviewed the general ledger and determined that the Utility's capital structure is composed of common equity, long term debt, and notes payable. We determined the year-end and simple average capital structure balances and its weighted average cost as of December 31, 2021. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

Procedures: We compiled the Utility's revenues for the test year ending December 31, 2021, by obtaining the monthly customer billing registers. We reconciled the billing registers to the general ledger. We recalculated revenues based on current tariffs in effect by class. We completed a billing analysis as requested by technical staff. Our recommended adjustments to revenue are discussed in Finding 4.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance (O&M) expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Properly recorded in the appropriate period for the correct amount, and 3) Recorded in compliance with NARUC USOA and Commission rules.

Procedures: We verified O&M expense for the test year ended December 31, 2021, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and whether recurring in nature. We determined the proper allocation of expenses between the Utility's related party operations and its operations. Our recommended adjustments to O&M expenses are discussed in Finding 5.

Depreciation and CIAC Amortization Expense

Objectives: The objectives were to determine whether depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations.

Procedures: We recalculated depreciation expense for the test year ended December 31, 2021, by using the rates established by Commission Rule 25-30.140, F.A.C. The Utility does not have CIAC recorded on its books and records. Our recommended adjustments to depreciation expenses are discussed in Finding 2.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income (TOTI) expenses are: 1) Properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We verified TOTI expenses for the test year ended December 31, 2021, by tracing the taxes to original source documentation. We reviewed the 2021 regulatory assessment fee returns. No exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service (UPIS)

Audit Analysis: The Utility's general ledger reflects UPIS balances of \$195,361 and \$356,560 for water and wastewater, respectively, as of December 31, 2021. Audit staff made adjustments to account 340 and 391 – Transportation Equipment of \$8,268 for water and \$8,268 for wastewater as outlined in Table 1-1, and Table 1-2.

Acct. Nos. 341 and 391 – Transportation Equipment were increased by \$8,268 for water and \$8,268 for wastewater. The Utility purchased three Ford F-250 trucks for utility operations and the payments were being expensed. Auditors removed the payment amounts from the O&M expense accounts. We capitalized the three Ford vehicles and included the amounts in the appropriate plant accounts. Account 341 – Transportation Equipment was increased by \$8,268 and account 391 – Transportation Equipment was also increased by \$8,268.

Table 1-1

Acct. No.	Description	Water	Balance Per Utility	Audit Adjust	Balance Per Audit	Simple Average
			12/31/2021	12/31/2021	12/31/2021	12/31/2021
311	Pumping Equipment		\$ 28,383	\$ -	\$ 28,383	\$ 28,383
331	Transmission & Distribution Mains		92,448	-	92,448	92,448
334	Meters & Meter Installations		59,255	-	59,255	59,255
335	Hydrants		9,177	-	9,177	9,177
340	Office Furniture & Equipment		2,464	-	2,464	2,464
341	Transportation Equipment		-	8,268	8,268	8,268
345	Power Operated Equipment		1,692	-	1,692	1,692
348	Other Tangible Plant		1,942	-	1,942	1,942
			\$ 195,361	\$ 8,268	\$ 203,629	\$ 203,629

Table 1-2

Acct. No.	Wastewater Description	Balance Per Utility 12/31/2021	Audit Adjust	Balance Per Audit 12/31/2021	Simple Average 12/31/2021
354	Structures and Improvements	\$ 132,000	\$ -	\$ 132,000	\$ 132,000
355	Power Generation Equipment	445	-	445	445
361	Collection Sewer - Gravity	195,922	-	195,922	195,922
371	Pumping Equipment	5,572	-	5,572	5,572
380	Treatment & Disposal Equipment	17,900		17,900	17,900
390	Office Furniture and Equip.-Comp.	609		609	609
391	Transportation Equipment	-	8,268	8,268	8,268
395	Power Operated Equipment	1,692		1,692	1,692
398	Other Tangible Plant	2,420		2,420	2,420
		<u>\$ 356,560</u>	<u>\$ 8,268</u>	<u>\$ 364,828</u>	<u>\$ 364,828</u>

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

Effect on the Filing: UPIS for water and wastewater should be increased by \$8,268 and \$8,268, respectively, as of December 31, 2021. The UPIS simple average balance is \$203,629 for water and \$364,828 for wastewater.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, Accumulated Depreciation balances were \$179,844 and \$322,246 for water and wastewater, respectively, as of December 31, 2021. 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. Our calculation for accumulated depreciation, depreciation expense, and simple average are shown in Table 2-1 and 2-2.

Table 2-1

Acct. No.	Water Description	Balance Per Utility 12/31/2021	Variance/ Audit Adjust.	Balance Per Audit 12/31/2021	Simple Average 12/31/2021	Deprec. Expense
311	Pumping Equipment	\$ 28,383	\$ -	\$ 28,383	\$ 28,383	\$ -
331	Transmission & Distribution Mains	84,367	1,970	86,337	86,337	2,433
334	Meters & Meters Installations	55,650	(1,762)	53,888	53,888	3,486
335	Hydrants	7,800	344	8,144	8,144	230
340	Office Furniture and Equip.-Comp.	1,495	(422)	1,073	1,073	164
341	Transportation Equipment	-	2,693	2,693	2,693	1,104
345	Power Operated Equipment	846	592	1,438	1,438	169
348	Other Tangible Plant	1,303	(429)	874	874	194
		\$ 179,844	\$ 2,986	\$ 182,830	\$ 182,830	\$ 7,780

Table 2-2

Acct. No.	Wastewater Description	Balance Per Utility 12/31/2021	Variance/ Audit Adjust.	Balance Per Audit 12/31/2021	Simple Average 12/31/2021	Deprec. Expense
354	Structures and Improvements	\$ 132,000	\$ 0	\$ 132,000	\$ 132,000	\$ -
355	Power Generation Equipment	131	(13)	118	\$ 118	26
361	Collection Sewer - Gravity	171,553	(65)	171,488	\$ 171,488	4,898
371	Pumping Equipment	1,051	(3,627)	(2,576)	\$ (2,576)	343
380	Treatment & Disposal Equipment	14,434	3,466	17,900	\$ 17,900	516
390	Office Furniture and Equip.-Comp.	344	(39)	305	\$ 305	41
391	Transportation Equipment	-	2,693	2,693	\$ 2,693	1,104
395	Power Operated Equipment	1,523	(85)	1,438	\$ 1,438	169
398	Other Tangible Plant	1,210	(121)	1,089	\$ 1,089	242
		\$ 322,246	\$ 2,209	\$ 324,455	\$ 324,455	\$ 7,339

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 simple average balances of accumulated depreciation to be \$182,830 and \$324,455 for water and wastewater, respectively, as of December 31, 2021.

Also, audit staff determined depreciation expense to be \$7,780 and \$7,339 for water and wastewater, respectively, for the test year ended December 31, 2021.

Finding 3: Capital Structure

Audit Analysis: Audit Analysis: The Utility’s 2021 annual report reflects a negative equity balance of \$152,679. Audit staff calculated a simple average of \$306,656 for common equity as of December 31, 2021. Since including negative equity would penalize the Utility’s capital structure by understating the overall rate of return, we have adjusted the negative equity to zero. Table 3-1 summarizes the Company’s capital structure.

Table 3-1

Description	Balance Per Utility 12/31/2020	Balance Per Utility 12/31/2021	Avg Balance Per Audit 12/31/2021	Adjusts	Average Bal. Per Audit 12/31/2021	Ratio	Cost	Weighted Cost
Common Equity	(460,633)	(152,679)	(306,656)	306,656	-	0.00%	7.85%	0.00%
Long Term Debt	6,654,600	6,654,600	6,654,600	-	6,654,600	99.99%	4.74%	4.74%
Short Term Debt	-	-	-	-	-	0.00%	0.00%	
Notes Payable	1,253	410	832	-	832	0.01%	0.00%	0.00%
Customer Equity	-	-	-	-	-	0.00%	0.00%	0.00%
Total Capital	6,195,220	6,502,331	6,348,776	306,656	6,655,432	100.00%		4.74%

Effect on the General Ledger: None

Effect on the Filing: Audit staff defers to the analyst as to the treatment of capital structure.

Finding 4: Operating Revenue

Audit Analysis: The Utility reported a total water revenues of \$74,662 and wastewater revenues of \$72,577. In our analysis of the Utility's billing register, we calculated water revenues to be \$74,418 and wastewater revenues to be \$72,220 for the differences of (\$244) and (\$357), respectively. We reduced water revenues by \$244 and wastewater revenues by \$357 as reflected in table 4-1 and 4-2..

Table 4-1

	Balance Per Utility		Balance Per Audit	
	12/31/2021	Audit Adjust.	12/31/2021	
Residential Revenues	\$ 70,895	\$ 165	\$ 71,060	
Commercial Revenues	3,767	(409)	3,358	
Total Revenues	\$ 74,662	\$ (244)	\$ 74,418	

Table 4-2

	Balance Per Utility		Balance Per Audit	
	12/31/2021	Audit Adjust.	12/31/2021	
Residential Revenues	\$ 70,821	\$ (357)	\$ 70,464	
Commercial Revenues	1,756		1,756	
Total Revenues	\$ 72,577	\$ (357)	\$ 72,220	

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

Effect on the Filing: Operating revenues should be decreased by \$244 and \$357 for water and wastewater, respectively.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility's general ledger reflects O&M Expense of \$89,403 and \$67,642 for water and wastewater, respectively, as of December 31, 2021. Audit staff made adjustments to test year expenses based on our review of supporting documentation.

As discussed in finding 1, the utility misclassified monthly vehicle payments as transportation expense. We requested the purchase invoice for each vehicle and capitalized the total amount. As a result, audit staff made the following adjustments:

Account 650 – Transportation Expense – We reduced account 650 by \$1,570 due to improper classification of monthly auto vehicle payments that were being expensed.

Account 750 – Transportation Expense – We reduced account 750 by \$1,194 due to improper classification of monthly auto vehicle payments that were being expensed.

Table 5-1

Water Acct. No.	Account Description	Utility Balance 12/31/2021	Audit Adjustment	Balance Per Audit 12/31/2021
601	Salaries And Wages - Employees	\$ 29,117		\$ 29,117
610	Purchased Water	49,590		49,590
620	Materials And Supplies	2,125		2,125
636	Contractual Services - Other	2,506		2,506
650	Transportation Expenses	3,050	(1,570)	1,480
655	Insurance Expense	1,431		1,431
670	Bad Debt Expense	1,567		1,567
675	Miscellaneous	17		17
	Total Operation And Maintenance	\$ 89,403	\$ (1,570)	\$ 87,833

Table 5-2

Wastewater		Balance per		Balance
Acct. No.	Account Description	Utility	Audit	Per Audit
		12/31/2021	Adjustment	12/31/2021
701	Salaries And Wages - Employees	\$ 33,828		\$ 33,828
711	Sludge Removal Expense	10,375		10,375
715	Purchased Power	6,497		6,497
718	Chemicals	4,376		4,376
720	Materials And Supplies	3,729		3,729
735	Contractual Services - Testing	616		616
736	Contractual Services - Other	2,695		2,695
750	Transportation Expenses	3,386	(1,194)	2,192
755	Insurance Expense	1,431		1,431
770	Bad Debt Expense	409		409
775	Miscellaneous	300		300
	Total Operation And Maintenance	\$ 67,642	\$ (1,194)	\$ 66,448

Based on the total O&M expenses of \$87,833 and \$66,448 for water and wastewater respectively, we calculated working capital using 1/8th of O&M to be \$10,979 for water and \$8,306 for wastewater for the test year in accordance with Rule 25-30.433(2) F.A.C.

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

Effect on the Filing: We reduced water O&M expense by \$1,570 and wastewater O&M by \$1,194.

Exhibits

Exhibit 1: Water Rate Base

**Anglers Cove West, Ltd
Water Rate Base
As of December 31, 2021
Docket No. 20220032-WS**

<u>Description</u>	<u>Balance Per Utility 12/31/2021</u>	<u>Audit Adjustments 12/31/2021</u>	<u>Audit Finding</u>	<u>Balance Per Audit 12/31/2021</u>	<u>Simple Average Per Audit 12/31/2021</u>
Utility Plant In Service	\$ 195,361	\$ 8,268	1	\$ 203,629	\$ 203,629
Land	-	-		-	-
Accumulated Depreciation	(179,844)	(2,986)	2	(182,830)	(182,830)
Contributions In Aid of Construction (CIAC)	-	-		-	-
Amortization of CIAC	-	-		-	-
Working Capital	-	10,429	5	10,429	10,429
Water Rate Base	\$ 15,517	\$ 15,711		\$ 31,228	\$ 31,228

Exhibit 2: Wastewater Rate Base

**Anglers Cove West, Ltd
Wastewater Rate Base
As of December 31, 2021
Docket No. 20220032-WS**

Description	Balance Per Utility 12/31/2021	Audit Adjustments 12/31/2021	Audit Finding	Balance Per Audit 12/31/2021	Simple Average Per Audit 12/31/2021
Utility Plant In Service	\$ 356,560	\$ 8,268	1	\$ 364,828	\$ 364,828
Land	32,659	-		32,659	32,659
Accumulated Depreciation	(322,246)	(2,209)	2	(324,455)	(324,455)
Contributions In Aid of Construction (CIAC)	-	-			-
Amortization of CIAC	-	-			-
Working Capital	-	8,385	5		8,385
Wastewater Rate Base	\$ 66,973	\$ 14,444		\$ 73,032	\$ 81,417

Exhibit 3: Capital Structure

**Anglers Cove West, Ltd
Capital Structure
As of December 31, 2021
Docket No. 20220032-WS**

Description	Balance Per Utility 12/31/2020	Balance Per Utility 12/31/2021	Avg Balance Per Audit 12/31/2021	Adjusts	Audit Finding	Average Bal. Per Audit 12/31/2021	Ratio	Cost	Weighted Cost
Common Equity	(460,633)	(152,679)	(306,656)	306,656	3	-	0.00%	7.85%	0.00%
Long Term Debt	6,654,600	6,654,600	6,654,600	-		6,654,600	99.99%	4.74%	4.74%
Short Term Debt	-	-	-	-		-	0.00%	0.00%	
Notes Payable	1,253	410	832	-		832	0.01%	0.00%	0.00%
Customer Equity	-	-	-	-		-	0.00%	0.00%	0.00%
Total Capital	6,195,220	6,502,331	6,348,776	306,656		6,655,432	100.00%		4.74%

Exhibit 4: Net Operating Income - Water

**Anglers Cove West, Ltd
Water Net Operating Income
For The 12 Months Ended December 31, 2021
Docket No. 20220032-WS**

DESCRIPTION	Bal Per Utility 12/31/2021	Audit Adjustments 12/31/2021	Audit Finding	Bal Per Audit 12/31/2021
Operating Revenues	\$ 74,662	\$ (244)	4	\$ 74,418
Operation & Maintenance Expense	89,403	(1,570)	5	87,833
Depreciation Expense	6,443	1,337	2	7,780
Amortization Expense	-	-		-
Taxes Other Than Income	3,360	-		3,360
Total Operating Expense	99,206	(233)		98,973
Net Operating Income (Loss)	\$ (24,544)	\$ (11)		\$ (24,555)

Exhibit 5: Net Operating Income - Wastewater

Anglers Cove West, Ltd
Wastewater Net Operating Income
For The 12 Months Ended December 31, 2021
Docket No. 20220032-WS

DESCRIPTION	Bal Per Utility 12/31/2021	Audit Adjustments 12/31/2021	Audit Finding	Bal Per Audit 12/31/2021
Operating Revenues	\$ 72,577	\$ (357)	4	\$ 72,220
Operation & Maintenance Expense	67,642	(1,194)	5	66,448
Depreciation Expense	5,967	1,372	2	7,339
Amortization Expense	-	-		-
Taxes Other Than Income	19,035	-		19,035
Total Operating Expense	92,644	178		92,822
Net Operating Income (Loss)	\$ (20,067)	\$ (535)		\$ (20,602)