

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 17, 2022

TO: Office of the Commission Clerk

FROM: Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20220033-WS
Company Name: CHC VII, Ltd.
Company Code: WS816
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2022-070-2-2

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.

TMB/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

CHC VII, Ltd.
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2021

Docket No. 20220033-WS
Audit Control No. 2022-070-2-2
June 6, 2022

A handwritten signature in cursive script, appearing to read "Intesar Terkawi".

Intesar Terkawi
Audit Manager

A handwritten signature in cursive script, appearing to read "Simon O. Ojada".

Simon O. Ojada
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Utility Plant in Service (UPIS)	6
2: Accumulated Depreciation and Depreciation Expense.....	9
3: Capital Structure	11
4: Operating Revenue.....	12
5: Operations and Maintenance Expense	14
6: Taxes Other than Income (TOTI)	16
Exhibits	
1: Rate Base	17
2: Capital Structure	18
3: Net Operating Income.....	19

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 March 11, 2022. We have applied these procedures to the attached schedules prepared by the audit staff in support of CHC VII, Ltd.'s request for a Staff Assisted Rate Case in Docket No. 20220033-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to the water and wastewater facilities owned and operated by CHC VII, Ltd.

Company refers to CHC VII, Ltd., the owner and operator of the Utility and the two mobile home parks.

Parent refers to Century Realty Funds, Inc., the parent company of CHC VII, Ltd.

Test year is the twelve months ended December 31, 2021.

NARUC refers to the National Association of Regulatory Commissioners.

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

Background

CHC VII, Ltd. (CHC or Utility) is a Class C water and wastewater utility which serves approximately 869 water and wastewater customers. The Utility is located in Polk County and is part of Southwest Florida Water Management District. The Utility serves the Swiss Golf and Tennis Club Mobile Home Park and the Hidden Golf Club Mobile Home Park. Both communities are located on Lake Alfred.

Polk County came under the Commission's jurisdiction on July 11, 1996. The Commission subsequently granted grandfather certificates No. 609-W and 525-S to CHC in 1999.

CHC VII's last staff-assisted rate was in Docket No. 20130210-WS, where water and wastewater rate base balances were established. The Utility had a limited water proceeding rate increase in Docket No. 20190121-WS, where the current water rate structure was established. In this docket, CHC requested a final water revenue increase of \$27,355, that represents the associated costs with installing automatic meter reading (AMR). The wastewater rates remain the same as established in Docket No. 20130210-WS.

The Utility's 2021 Annual Report shows total gross revenues of \$144,438 for water and \$168,182 for wastewater, with a total operating expenses of \$171,598 and \$229,449 for water and wastewater, respectively.

The parent is a real estate development firm with a specialty in the development of senior mobile home parks. The Parent owns and operates a total of five utilities all of which are under the Commission's jurisdiction. All utilities owned are in Polk County and serve senior mobile home park communities. The Parent allocates a portion of its operating costs to the utilities they own based on the number of mobile home rental lots in each community.

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 accounts and records in conformity with the (NARUC) (USOA).

Procedure: We reviewed the Utility's books and records and determined that it is in 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 item is put into service, and 4) Adjustments required in the Utility's last rate case proceeding are recorded in its books and records.

Procedures: We obtained the beginning balances for water and wastewater UPIS as of June 30, 2013, as reflected in Order No. PSC-2014-0196-PAA-WS, issued May 1, 2014. We scheduled UPIS activity from June 30, 2013, through December 31, 2021. We traced asset additions and retirements to supporting documentations and to the general ledger. We determined the year-end and simple average balances as of December 31, 2021. Our recommended adjustments to UPIS balance are discussed in Finding 1.

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-2014-0196-PAA-WS, issued May 1, 2014, 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 was replaced.

Procedures: We obtained the beginning balances for water and wastewater accumulated depreciation as of June 30, 2013, as reflected in Order No. PSC-2014-0196-PAA-WS, issued May 1, 2014. We recalculated depreciation accruals for each UPIS account to verify that the correct depreciation rates were used. We determined whether retirements were made when a capital asset was removed or replaced. We recalculated and 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: Order No. PSC-2014-0196-PAA-WS, issued May 1, 2014, established no CIAC balances as of June 30, 2013. No CIAC additions were added since the last rate proceedings. 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 was replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: No CIAC additions were added since the last rate proceedings. 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 Commission rule 25-30.433(3).

Procedures: We calculated the Utility's working capital adjustment using one-eighth of operation and maintenance (O&M) expense as required by Commission 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 determined that the Utility's capital structure is composed of common equity, and long-term debt. We calculated the year-end simple average capital structure balances and its weighted average cost as of December 31, 2021. Our recommended adjustments to capital structures are discussed in Finding 3.

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 obtained the Utility's monthly billing registers and summarized the billing and usage data for the test year by meter size. We reconciled the revenue in the billing register to the

general ledger. We recalculated test year revenues based on the consumption data and billing determinants using the Utility's authorized tariff rates. We identified those customers not properly billed for utility's services. Our recommended adjustments to revenue are discussed in Finding 4.

Operation and Maintenance Expense

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

Procedures: We reviewed all invoices for the Utility's O&M expense for the test year. We traced each invoice to the detailed general ledger. 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. We reviewed all available contracts and test checked billings for agreement. We verified payroll expense and the current allocation. We reviewed the Parent's allocations among the five utilities for payroll, corporate general and administrative services, and management fees. 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 expenses for the test year ended December 31, 2021, by using the rates established by Commission Rule 25-30.140, F.A.C. There was no CIAC amortization expense. 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. Our recommended adjustments to TOTI expenses are discussed in Finding 6.

Audit Findings

Finding 1: Utility Plant in Service (UPIS)

Audit Analysis: Utility records reflect water and wastewater UPIS balances of \$692,466 and \$760,128, respectively, as of December 31, 2021. The audit staff calculated UPIS water and wastewater to be \$702,575 and \$780,797, respectively, as of December 31, 2021. The Utility's water and wastewater UPIS balances are understated by \$10,109 and \$20,668, respectively, as of December 31, 2021.

Acct. Nos. 341 and 391 – Transportation Equipment were increased by \$20,669 for water and \$20,669 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 \$20,669 and account 391 – Transportation Equipment was also increased by \$20,669.

In addition to the adjustment described above, Table 1-1 and 1-2 outline the adjustments discussed below:

1. Acct. No. 311 – Pumping Equipment was reduced by \$5,400 for unrecorded retirement.
2. Acct. No. 334 – Meter & Meter Installations was reduced by \$3,221 by for unrecorded retirement.
3. Acct. No. 335- Hydrants was reduced by \$1,938 for unrecorded retirement.
4. Acct. No. 370 – Receiving Wells was reduced by \$6,914 and reclassified to Acct. 371 – Pumping Equipment.
5. Acct. No. 371 – Pumping Equipment was increased by \$7,681, reclassified from Accounts 370 – Receiving Wells, 380 – Treatment and Disposal Equipment, and 389 – Other Plant & Miscellaneous Equipment
6. Acct. No. 380 – Treatment and Disposal Equipment was reduced by \$495 and reclassified to Acct. No. 371 – Pumping Equipment.
7. Acct. No. 389 – Other Plant & Miscellaneous Equipment was reduced by \$272 and reclassified to Acct. 371 – Pumping Equipment.

Table 1-1

Acct. No.	Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021	Simple Average
301	Organization	\$0	\$0	\$0	\$0
302	Franchises	0	0	0	0
304	Structures & Improvements	8,000	0	8,000	8,000
307	Wells & Springs	7,482	0	7,482	7,482
308	Wells & Springs - Other	0	0	0	0
309	Supply Mains	0	0	0	0
310	Power Generation Equipment	0	0	0	0
311	Pumping Equipment	107,842	(5,400)	102,442	102,442
320	Water Treatment Equipment	10,463	0	10,463	10,463
330	Distribution Reservoirs & Standpipes	71,500	0	71,500	71,500
331	Transmission & Distribution Mains	178,501	0	178,501	178,501
332	Transmission & Distribution Mains - Other	0	0	0	0
333	Services	0	0	0	0
334	Meters & Meter Installations	250,804	(3,221)	247,583	247,583
335	Hydrants	39,292	(1,938)	37,354	37,354
336	Backflow Prevention Devices	5,268	0	5,268	5,268
339	Other Plant & Miscellaneous Equipment	0	0	0	0
340	Office Furniture & Equipment	2,250	0	2,250	2,250
341	Transportation Equipment	0	20,669	20,669	16,564
342	Stores Equipment	0	0	0	0
343	Tools, Shop, & Garage Equipment	0	0	0	0
344	Laboratory Equipment	0	0	0	0
346	Communication Equipment	9,264	0	9,264	9,264
347	Miscellaneous Equipment	0	0	0	0
348	Other Tangible Plant	1,800	0	1,800	1,800
	Total UPIS	\$692,466	\$10,109	\$702,575	\$698,470

Table 1-2

Acct. No.	Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021	Simple Average
351	Organization	\$0	\$0	\$0	\$0
352	Franchises	0	0	0	0
354	Structures & Improvements	14,864	0	14,864	14,864
355	Power Generation Equipment	1,139	0	1,139	1,139
360	Collection Sewers - Force	4,669	0	4,669	4,669
361	Collection Sewers - Gravity	353,575	0	353,575	353,575
362	Special Collecting Structures	0	0	0	0
363	Services to Customers	1,050	0	1,050	1,050
364	Flow Measuring Devices	4,328	0	4,328	4,328
365	Flow Measuring Installations	350	0	350	350
370	Receiving Wells	132,129	(6,914)	125,215	103,960
371	Pumping Equipment	93,688	7,681	101,368	77,672
380	Treatment and Disposal Equipment	139,547	(495)	139,051	137,714
389	Other Plant & Miscellaneous Equipr	2,053	(272)	1,781	1,781
390	Office Equioment & Furniture	2,250	0	2,250	2,250
391	Transporation Equipment	0	20,669	20,669	16,564
393	Tools, Shop, & Garage Equipment	0	0	0	0
395	Power Operated Equipment	10,488	0	10,488	10,488
397	Miscellaneous Equipments	0	0	0	0
	Total UPIS	\$760,128	\$20,668	\$780,797	\$730,403

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

Effect on the Filing: UPIS for water should be increased by \$10,109, and UPIS for wastewater should be increased by \$20,668 as of December 31, 2021.

Audit staff determined the year-end and simple average UPIS for water and wastewater to be \$698,470, and \$730,403, as of December 31, 2021.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: Utility records reflect water and wastewater accumulated depreciation balances of \$409,243 and \$517,955, respectively, as of December 31, 2021. The audit staff recalculated accumulated depreciation for water and wastewater using the discussed UPIS balances in Finding 1, and the depreciation rates established by Rule 25-30.140(2), F.A.C.

Audit staff calculated water and wastewater depreciation expenses to be \$27,373, and \$31,468, respectively, for the year ended December 31, 2021. Our calculation for accumulated depreciation, depreciation expense, and simple average are shown in Tables 2-1 and 2-2.

Table 2-1

Acct. No.	Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021	Simple Average	Depreciation Expense
301	Organization	0	\$0	\$0	\$0	\$0
304	Structures and Improvements	8,000	0	8,000	8,000	0
307	Wells & Springs	7,482	0	7,482	7,482	0
309	Supply Mains	0	0	0	0	0
310	Power Generation Equipment	0	0	0	0	0
311	Pumping Equipment	107,842	(5,399)	102,442	102,442	0
320	Water Treatment Equipment	7,359	2,641	10,000	9,692	615
330	Storage Tank	26,909	(11)	26,899	25,826	2,145
331	Transmission& Distribution Mains	159,475	(14)	159,461	157,112	4,697
333	Services	0	0	0	0	0
334	Meters&Meters Installations	45,190	(13,022)	32,168	24,867	14,602
335	Fire Hydrant	32,902	202	33,103	32,644	918
336	Backflow Prevention Devices	2,108	(176)	1,933	1,757	351
340	Office Furniture& Equioment	2,250	0	2,250	2,250	0
341	Transportation Equipments	0	7,832	7,832	6,452	2,761
345	Power Operated Equipment	9,264	(3,891)	5,373	4,821	1,104
348	Other Tangible Plant	462	234	697	607	180
		\$409,243	(\$11,605)	\$397,639	\$383,952	\$27,373

Table 2-2

Acct. No.	Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021	Simple Average	Depreciation Expense
351	Organization	\$0	\$0	\$0	\$0	\$0
354	Structures and Improvements	3,300	(822)	2,477	2,477	0
355	Power Generation Equipment	569	(171)	399	399	0
360	Collection Sewers - Force	2,677	2	2,679	2,592	173
361	Collection Sewers - Gravity	309,066	(76)	308,991	304,571	8,839
362	Special Collecting Structures	0	0	0	0	0
363	Services to Customers	405	(30)	375	375	0
364	Flow Measuring Devices	3,771	557	4,328	4,328	0
365	Flow Measuring Installations	350	(305)	45	40	10
370	Receiving Wells	81,441	5,422	86,864	84,784	4,158
371	Pumping Equipment	12,465	(4,481)	7,984	5,395	5,178
380	Treatment and Disposal Equip	89,976	43,269	133,245	130,073	9,181
389	Other Plant and Misc. Equip.	1,196	(125)	1,071	1,012	119
390	Office Equipment & Furniture	2,250	(0)	2,250	2,250	0
391	Transportation Equipment	0	5,944	5,944	4,563	2,761
393	Tools, Shop and Garage Equip	0	0	0	0	0
395	Power Operated Equipment	10,488	(4,147)	6,341	5,816	1,049
397	Miscellaneous Equipment	0	0	0	0	0
		<u>\$517,955</u>	<u>\$45,036</u>	<u>\$562,992</u>	<u>\$548,676</u>	<u>\$31,468</u>

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 water and wastewater accumulated depreciation to be \$383,952, and \$548,676, respectively, as of December 31, 2021. Audit staff determined water and wastewater depreciation expense to be \$27,373, and \$31,468, respectively, for the test year ended December 31, 2021.

Finding 3: Capital Structure

Audit Analysis: The Utility does not have a capital structure separate from the combined company. CHC VII, Ltd. includes both the Utility and two mobile home parks, that the company serves. The Company's records reflect a long-term debt balance of \$56,615,000 as of December 31, 2021, with an effective cost rate of 3.48%.

The Company's 2021 annual report reflects a negative equity balance of \$15,759,236, 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

Capital Component	Per Utility 12/31/2021	Audit Adjustments	Average Per Audit 12/31/2021	Ratio	Cost	Weighted Cost
Long Term Debt	\$56,615,000	\$0	\$56,615,000	100.00%	3.48%	3.48%
Common Equity	(15,759,236)	(15,759,236)	0	0.00%	7.85%	0.00%
Customer Deposits	0	0	0	0.00%	0.00%	0.00%
Total Capital	\$40,855,764	(\$15,759,236)	\$56,615,000	100.00%		3.48%

Order No. PSC-2021-0244-PAA-WS, issued July 6, 2021.

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 on its general ledger total water and wastewater revenues of \$144,438, and \$168,182, respectively, for the 12-months period ending December 31, 2021.

In our analysis of the billing register, we calculated water and wastewater revenues to be \$153,696, and \$168,459, respectively, for the test year ending December 31, 2021.

The Utility did not report Base Facility Charge or the gallonage consumption for nine General Service customers. Table 4-1 summarizes the location and size of each meter.

Table 4-1

Meter Size	Description	Location
5/8"	Common Area	Lot 929 Birdie
5/8"	Common Area	Lot 13
5/8"	Common Area	#10 Tee
5/8"	Common Area	Hydraulic Pump at WII
5/8"	Common Area	Lot #307 Put Cr (LS)
5/8"	Common Area	Lot #72 Greenv (LS)
5/8"	Common Area	# 1 Green
5/8"	Common Area	#17 Marcen S. Irrigation
5/8"	Common Area	HG Clubhouse Irrigation

Table 4-2 summarizes the adjustments that are needed to water revenues for the test year. These adjustments resulted from audit staff's calculation of the billing registers for the test year using the latest water tariff issued on December 17, 2019, and the latest wastewater tariff issued on September 25, 2018.

Table 4-2

Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021
Water Residential Revenue	\$134,562	\$8,447	\$143,009
Water General Service Revenue	9,876	811	10,687
Total Water Revenue	\$144,438	\$9,258	\$153,696

Table 4-3

Description	Balance Per Utility 12/31/2021	Audit Adjustments	Balance Per Audit 12/31/2021
Wastewater Residential Revenue	\$163,865	\$277	\$164,141
Wastewater General Service Revenue	4,317	0	4,317
Total Wastewater Revenue	\$168,182	\$277	\$168,459

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

Effect on Staff Prepared Exhibits: Water and wastewater operating revenues should be increased by \$9,258, and \$277, respectively, for the period ending December 31, 2021. Audit staff defers to the analyst to impute the related test year revenue associated with the nine unread meters.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility’s O&M account balances for water and wastewater are \$138,622, and \$199,565, respectively, for the test year. Audit staff reduced O&M expense by \$4,153 for water, and \$4,153 for wastewater.

As discussed in Finding 1, the Utility misclassified the 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 \$3,983 due to improper classification of monthly auto vehicle payments that were being expensed.

Account 750 – Transportation Expense – We reduced account 750 by \$3,354 due to improper classification of monthly auto vehicle payments that were being expensed

Additional adjustment details are discussed following each table.

**Table 5-1
Summary of Test Year Water O&M Adjustments**

Acct. No.	Acct. Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
601	Salaries & Wages	\$78,181	(\$184)	\$77,998
604	Pension & Benefits	0	0	0
610	Purchased Water	0	0	0
615	Purchased Power	6,483	0	6,483
616	Fuel for Power Production	0	0	0
618	Chemicals	6,771	0	6,771
620	Material & Supplies	7,566	0	7,566
630	Contract - Billing	457	0	457
631	Contract - Prof. Fees	1,777	0	1,777
635	Contract - Testing	3,840	0	3,840
636	Contract - Other	16,532	13	16,545
640	Rents	0	0	0
650	Transportation Expense	10,540	(3,983)	6,557
655	Insurance Expense	3,473	0	3,473
665	Regulatory Commission Exp.	0	0	0
670	Bad Debt Expense	760	0	760
675	Miscellaneous Expense	2,243	0	2,243
		\$138,622	(\$4,153)	\$134,468

Account No. 601 – Salaries and Wages was decreased by \$184 to reclassify the expense to Account No. 636.

Account No. 636 – Contract - Other was increased by \$13, the net effect of the increase of \$184 to reclassify from Acct. 601 and decrease of \$171 for a double booking.

Table 5-2
Summary of Test Year Wastewater O&M Adjustments

Acct. No.	Acct. Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
701	Salaries & Wages	\$74,800	\$0	\$74,800
704	Pension & Benefits	0	0	0
710	Purchases WW Treatment	0	0	0
711	Sludge Removal Expense	14,030	0	14,030
715	Purchased Power	18,557	0	18,557
716	Fuel for Power Production	0	0	0
718	Chemicals	9,072	0	9,072
720	Material & Supplies	9,708	0	9,708
730	Contract - Billing	0	0	0
731	Contract - Prof. Fees	5,275	2,875	8,150
735	Contract - Testing	1,742	0	1,742
736	Contract - Other	53,352	(2,979)	50,373
740	Rents	0	0	0
750	Transportation Expense	8,728	(3,354)	5,374
755	Insurance Expense	3,473	0	3,473
765	Regulatory Commission Exp.	0	0	0
770	Bad Debt Expense	828	(695)	133
775	Miscellaneous Expense	0	0	0
		\$199,565	(\$4,153)	\$195,412

Account No. 731 – Contract Prof. Fees: was increased by \$2,875 for a missing invoice that the Utility located in a later date.

Account No. 736 – Contract - Other was decreased by \$2,979 for double booking in the month of September of \$658, and \$2,321.

Account No. 770 – Bad Debt Expense was decreased by \$695 for lack of support.

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

Effect on Staff Prepared Exhibit: We reduced water O&M by \$4,153, and wastewater O&M by \$4,153. Working capital was calculated using one-eighth of O&M as prescribed by Rule 25-30.433(3) F.A.C, to be \$16,809, and \$24,426, for water and wastewater, respectively.

Finding 6: Taxes Other than Income (TOTI)

Audit Analysis: The Utility’s records reflect taxes other than income expense of \$7,747 for water and \$9,571 for wastewater for the test year. The amounts represent the Utility’s Regulatory Assessment Fee (RAF) payments and property taxes for the year ended December 31, 2021.

Finding 4 determined water and wastewater revenues to be \$153,696 and \$168,459, respectively, for the test year. RAF expenses due on these amounts are \$6,916 and \$7,581 for water and wastewater, respectively. The total adjustments for water and wastewater TOTI Expenses are displayed in Tables 6-1 and 6-2 below.

Table 6-1

Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
Property Tax	\$1,247	\$0	\$1,247
RAF	<u>6,500</u>	<u>416</u>	<u>6,916</u>
Total	\$7,747	\$416	\$8,163

Table 6-2

Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
Property Tax	\$2,003	\$0	\$2,003
RAF	<u>7,568</u>	<u>13</u>	<u>7,581</u>
Total	\$9,571	\$13	\$9,584

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

Effect on the Filing: We increased water and wastewater TOTI expense by \$416 and \$13, respectively, for the test year.

Exhibits

Exhibit 1: Rate Base

CHC VII, Ltd

Water Rate Base

As of December 31, 2021

Docket No. 20220033-WS

	Per Utility 12/31/2021	Audit Adjustments	Audit Findings	Per Audit 12/31/2021	Simple Average
Utility Plant in Service	\$692,466	\$10,109	1	\$702,575	\$698,470
Land	3,165	0		3,165	3,165
Accumulated Depreciation	(409,243)	11,604	2	(397,639)	(383,952)
CIAC	0	0		0	0
Amortization of CIAC	0	0		0	0
Working Capital Allowance	0	16,809	5	16,809	16,809
Net Rate Base	\$286,388	\$38,522		\$324,910	\$334,492

CHC VII, Ltd

Wastewater Rate Base

As of December 31, 2021

Docket No. 20220033-WS

	Per Utility 12/31/2021	Audit Adjustments	Audit Findings	Per Audit 12/31/2021	Simple Average
Utility Plant in Service	\$760,128	\$20,669	1	\$780,797	\$730,403
Land	5,082	0		5,082	5,082
Accumulated Depreciation	(517,955)	(45,037)	2	(562,992)	(548,676)
CIAC	0	0		0	0
Amortization of CIAC	0	0		0	0
Working Capital Allowance	0	24,426	5	24,426	24,426
Net Rate Base	\$247,255	\$58		\$247,313	\$211,235

Exhibit 2: Capital Structure

CHC VII, Ltd
Capital Structure
As of December 31, 2021
Docket No. 20220033-WS

Capital Component	Per Utility 12/31/2021	Audit Adjustments	Audit Findings	Average Per Audit 12/31/2021	Ratio	Cost	Weighted Cost
Long Term Debt	\$56,615,000	\$0		\$56,615,000	100.00%	3.48%	3.48%
Common Equity	(15,759,236)	(15,759,236)	3	0	0.00%	7.85%	0.00%
Customer Deposits	0	0		0	0.00%	0.00%	0.00%
Total Capital	\$40,855,764	(\$15,759,236)		\$56,615,000	100.00%		3.48%

Order No. PSC-2021-0244-PAA-WS, issued July 6, 2021.

Exhibit 3: Net Operating Income

CHC VII, Ltd
Water Net Operating Income (NOI)
12 Months Ended December 31, 2021
Docket No. 20220033-WS

Description	Balance per Utility 12/31/2021	Audit Adjustments	Audit Findings	Balance per Audit 12/31/2021
Revenues	\$144,438	\$9,258	4	\$153,696
Operation & Maintenance Expense	138,622	(4,154)	5	134,468
Depreciation Expense	23,164	4,209	2	27,373
CIAC Amortization Expense	0	0		0
Taxes Other Than Income	7,747	417	6	8,164
Total Operating Expense	169,532	472		170,005
Net Operating Income	(\$25,094)	\$8,786		(\$16,309)

CHC VII, Ltd
Wastewater Net Operating Income (NOI)
12 Months Ended December 31, 2021
Docket No. 20220033-WS

Description	Balance per Utility 12/31/2021	Audit Adjustments	Audit Findings	Balance per Audit 12/31/2021
Revenues	\$168,182	\$277	4	\$168,459
Operation & Maintenance Expense	199,565	(4,153)	5	195,412
Depreciation Expense	20,181	11,287	2	31,468
Amortization Expense	0	0		0
Taxes Other Than Income	9,571	12	6	9,584
Total Operating Expense	229,317	7,147		236,464
Net Operating Income	(\$61,135)	(\$6,870)		(\$68,005)