

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: February 1, 2023

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

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

RE: Docket No.: 20220157-WU
Company Name: Keen Sales, Rentals and Utilities, Inc.
Company Code: WU771
Audit Purpose: A1b: Staff-Assisted Rate Case
Audit Control No.: 2022-305-2-1

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.

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

Auditor's Report

Keen Sales, Rentals and Utilities, Inc.
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2021

Docket No. 20220157-WU
Audit Control No. 2022-305-2-1
January 25, 2023

A large, stylized handwritten signature in black ink, appearing to read "Ronald A. Mavrides".

Ronald A. Mavrides
Audit Manager

A handwritten signature in black ink, appearing to read "Tomer Kopelovich".

Tomer Kopelovich
Audit Staff

A handwritten signature in black ink, appearing to read "Intesar Terkawi".

Intesar Terkawi
Audit Staff

A handwritten signature in black ink, appearing to read "Simon O. Ojada".

Simon O. Ojada
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 & Finance in its audit service request dated November 1, 2022. We have applied these procedures to the attached schedules prepared by the audit staff in support of Keen Sales, Rentals and Utilities, Inc.'s request for a Staff Assisted Rate Case in Docket No.20220157-WU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Keen Sales, Rentals and Utilities, Inc.

Keen refers to Keen Subdivisions.

Paradise Island refers to Lake Region Paradise Island.

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 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Background

Keen Sales, Rentals and Utilities, Inc. (Utility) is a Class C water utility operating in Polk County. The Utility currently owns and operates two water systems in Polk County: Keen Subdivisions and Lake Region Paradise Island. This audit addresses both water systems. The Utility files an 1120-S Federal Tax Return, and is a Partnership.

Keen Subdivisions

Keen is a water only utility currently providing water service to approximately 120 home site customers in Polk County. Keen was granted a grandfather certificate in 1997. The Utility's 2021 Annual Report shows total gross revenues of \$64,388, with net operating expenses of \$71,383, respectively. The current rates have been in effect since 2009.

Paradise Island

Paradise Island provides water service to approximately 97 customers. The Commission approved the transfer of the facilities of Paradise Island to the Utility in 2000. According to the Utility's 2021 Annual Report, total gross revenues for Paradise Island were \$44,041, and total operating expenses were \$79,094. Paradise Island's prior rate case was in 2005.

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 determined that the Utility's books are in substantial compliance with the NARUC USOA. No exception were noted.

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 (Keen): We reconciled the beginning balances for UPIS, as of December 31, 2008, from Order No. PSC-2009-0716-PAA-WU, issued on October 28, 2009, in Docket No. 20090072-WU, to the general ledger. We scheduled UPIS activity from December 31, 2008, to 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. Our recommended adjustments to UPIS are discussed in Finding 1.

Procedures (Paradise Island): We reconciled the beginning balances for UPIS, as of December 31, 2003, from Order No. PSC-2005-0442-PAA-WU, issued on April 25, 2005, in Docket No. 20040254-WU, to the general ledger. We scheduled UPIS activity from December 31, 2003, to 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. No exceptions were noted.

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 (Keen): We reviewed the warranty deed for the land used by the Utility. There is no land recorded in Keen's general ledger, as the only Utility land is associated with Paradise Island. There was no change to Keen's land since the last rate case proceeding. No exceptions were noted.

Procedures (Paradise Island): We reconciled the beginning balance for land that was established in Order No. PSC-2005-0442-PAA-WU, in Docket No. 20040254-WU, to the general ledger. There was no change to Paradise Island's 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 (Keen): We reconciled the beginning balances for accumulated depreciation that were established in Order No. PSC-2005-0442-PAA-WU, issued on April 25, 2005, in Docket No. 20040254-WU, to the general ledger. We calculated accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C – Depreciation. The appropriate NARUC depreciation rates were not consistently followed. 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.

Procedures (Paradise Island): We reconciled the beginning balances for accumulated depreciation that were established in Order No. PSC-2009-0716-PAA-WU, issued on October 28, 2009, in Docket No. 20090072-WU, to the general ledger. We calculated accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C – Depreciation. The appropriate NARUC depreciation rates were not consistently followed. We determined the year-end 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: 1) 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 (Keen): There was no change to CIAC since the last rate case proceeding. No exceptions were noted.

Procedures (Paradise Island): There was no change to CIAC since the last rate case proceeding. 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 (Keen): There was no change to accumulated amortization of CIAC since the last rate case proceeding. No exceptions were noted.

Procedures (Paradise Island): There was no change to accumulated amortization of CIAC since the last rate case proceeding. No exceptions were noted.

Working Capital

Objectives: 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), F.A.C.

Procedures (Keen): We calculated the Keen’s working capital adjustment as of December 31, 2021, 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.

Procedures (Paradise Island): We calculated the Paradise Island’s working capital adjustment as of December 31, 2021, using one-eighth of 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 (Keen): We reviewed the general ledger and determined that Keen’s capital structure is composed of long-term affiliated debt, common equity, and negative retained earnings. We determined the year-end and simple average capital structure balances and its weighted average cost as of December 31, 2021. Our recommended adjustments to capital structure are discussed in Finding 3.

Procedures (Paradise Island): We reviewed the general ledger and determined that the Paradise Island’s capital structure is composed of long-term affiliated debt, common equity, short-term debt, accrued taxes, and negative retained earnings. We determined the year-end and simple average capital structure balances and its weighted average cost as of December 31, 2021. Our recommended adjustments to capital structure 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 (Keen): 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 adjustment to revenue is discussed in Finding 4.

Procedures (Paradise Island): 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 adjustment to revenue is 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 (Keen): 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 reviewed invoices for proper amount, period, classification, NARUC account, and whether recurring in nature. We verified each expense against the invoice and supporting documentation. We verified payroll expense and the current allocation. We reviewed the allocations between Keen and Paradise Island. Our recommended adjustments to O&M expenses are discussed in Finding 5.

Procedures (Paradise Island): 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 reviewed invoices for proper amount, period, classification, NARUC account, and whether recurring in nature. We verified each expense against the invoice and supporting documentation. We verified payroll expense and the current allocation. We reviewed the allocations between Paradise Island and Keen. 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 (Keen): 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. CIAC has been fully amortized. Our recommended adjustments to depreciation expenses are discussed in Finding 2.

Procedures (Paradise Island): 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. CIAC has been fully amortized. Our recommended adjustments to depreciation expense 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 (Keen): 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 are discussed in Finding 6.

Procedures (Paradise Island): 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 are discussed in Finding 6.

Audit Findings

Finding 1: Utility Plant in Service (UPIS)

Keen

Audit Analysis: According to the Utility's general ledger, the UPIS balance was \$221,645 as of December 31, 2021. The Utility's water UPIS balance is overstated by \$18,522 as outlined in Table 1-1. The following audit adjustments are necessary:

1. Acct. No. 304 – Structures and Improvements is reduced by \$12,512 for lack of supporting documentation.
2. Acct. No. 307 – Wells is reduced by \$38 for lack of supporting documentation.
3. Acct. No. 311 – Pumping Equipment is reduced by \$4 for lack of supporting documentation.
4. Acct. No. 320 – Water Treatment Equipment is reduced by \$10 for lack of supporting documentation.
5. Acct. No. 330 – Distribution Reservoirs and Standpipes is reduced by \$5,881 for lack of supporting documentation.
6. Acct. No. 331 – Transmission and Distribution Mains is reduced by \$19 for lack of supporting documentation.
7. Acct. No. 333 – Services is reduced by \$4 for lack of supporting documentation.
8. Acct. No. 334 – Meters and Meter Installation is reduced by \$44 for lack of supporting documentation.
9. Acct. No. 335 – Hydrants is reduced by \$3 for lack of supporting documentation.
10. Acct. No. 341 – Transportation Equipment is reduced by \$7 for lack of supporting documentation.

Table 1-1

No.	Account Description	Balance Per		Balance Per Audit	Simple Average
		Utility	Adjustments		
304	Structures & Improvements	\$ 14,946	\$ (12,512)	\$ 2,434	\$ 8,690
307	Wells	64,874	(38)	64,836	64,855
311	Pumping Equipment	7,595	(4)	\$ 7,591	7,593
320	Water Treatment Equipment	16,842	(10)	16,832	16,837
330	Dist. Reservoirs & Standpipes	43,573	(5,881)	37,692	40,633
331	Transmission & Distribution Mains	32,026	(19)	32,007	32,017
333	Services	5,945	(4)	5,941	5,943
334	Meters & Meter Installations	18,565	(44)	18,521	18,543
335	Hydrants	4,651	(3)	4,648	4,650
340	Office Furniture & Equipment	783	-	783	783
341	Transportation Equipment	11,845	(7)	11,838	11,842
	Total UPIS	\$ 221,645	\$ (18,522)	\$ 203,123	\$ 212,386

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

Effect on the Filing: Keen's UPIS should be reduced by \$18,522.

Paradise Island

No adjustments were made to Paradise Island's UPIS.

Finding 2: Accumulated Depreciation and Depreciation Expense

Keen

Audit Analysis: According to the Utility’s general ledger, the accumulated depreciation balance was \$180,685 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. The correct NARUC depreciation rates were not consistently followed. Audit staff determined the year-end and simple average balances of the accumulated depreciation to be \$165,842 and \$173,264, respectively. Depreciation expense was \$2,734. Our calculations for accumulated depreciation, depreciation expense, and simple average are shown in Table 2-1.

Table 2-1

Account No.	Account Description	Balance	Audit Adjustment	Balance	Simple Average	Depreciation Expense
		Per Utility 12/31/2021		Per Audit 12/31/2021	Per Audit 12/31/2021	
304	Structures and Improvements	\$ (6,910)	\$ 4,578	\$ (2,332)	\$ (4,621)	\$ 90
307	Wells and Springs	(64,874)	-	(64,874)	(64,874)	-
309	Supply Mains	-	-	-	-	-
311	Pumping Equipment	(7,595)	-	(7,595)	(7,595)	-
320	Water Treatment Equipment	(16,842)	-	(16,842)	(16,842)	-
330	Dist. Reservoirs & Standpipes	(24,049)	14,468	(9,581)	(16,815)	678
331	Transmission and Distribution Mains	(24,023)	(2,051)	(26,074)	(25,049)	915
333	Services	(6,005)	(3)	(6,008)	(6,007)	350
334	Meters and Meter Installations	(14,186)	(1,314)	(15,500)	(14,843)	391
335	Hydrants	(3,573)	(835)	(4,408)	(3,991)	310
340	Office Furniture and Equipment	(783)	-	(783)	(783)	-
341	Transportation Equipment	(11,845)	-	(11,845)	(11,845)	-
		\$ (180,685)	\$ 14,843	\$ (165,842)	\$ (173,264)	\$ 2,734

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 accumulated depreciation and simple average balances to be \$165,842 and \$173,263, respectively, as of December 31, 2021. Audit staff determined depreciation expense to be \$2,734 for the test year ended December 31, 2021.

Paradise Island

Audit Analysis: According to the Utility's trial balance, accumulated depreciation balance was \$65,961, 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. The correct NARUC depreciation rates were not consistently followed. Audit staff determined the year-end and simple average balances of the accumulated depreciation to be \$66,431 and \$66,196, respectively. Depreciation expense was \$2,887. Our calculations for accumulated depreciation, depreciation expense, and simple average are shown in Table 2-2.

Table 2-2

Account No.	Account Description	Balance		Balance		Simple Average Per Audit 12/31/2021	Depreciation Expense
		Per Utility 12/31/2021	Audit Adjustment	Per Audit 12/31/2021	Per Audit 12/31/2021		
304	Structures and Improvements	\$ (6,483)	\$ (152)	\$ (6,635)	\$ (6,559)	\$ 357	
307	Wells and Springs	(3,000)	-	(3,000)	(3,000)	-	
311	Pumping Equipment	(10,470)	619	(9,851)	(10,161)	747	
320	Water Treatment Equipment	(2,840)	-	(2,840)	(2,840)	-	
330	Dist. Reservoirs & Standpipes	(12,024)	638	(11,386)	(11,705)	795	
331	Transmission and Distribution Mai	(8,460)	428	(8,032)	(8,246)	253	
334	Meters and Meter Installations	(6,779)	(1,936)	(8,715)	(7,747)	666	
335	Hydrants	(1,039)	(67)	(1,106)	(1,073)	69	
340	Office Furniture and Equipment	(3,428)	-	(3,428)	(3,428)	-	
341	Transportation Equipment	(11,107)	-	(11,107)	(11,107)	-	
343	Tools, Shop and Garage Equipment	(331)	-	(331)	(331)	-	
		\$ (65,961)	\$ (470)	\$ (66,431)	\$ (66,196)	\$ 2,887	

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

Effect on Filing: Audit staff determined the year-end accumulated depreciation and simple average balances to be \$66,431 and \$64,987, respectively, as of December 31, 2021. Audit staff determined depreciation expense to be \$2,887 for the test year ended December 31, 2021.

Finding 3: Capital Structure

Keen

Audit Analysis: The Utility’s capital structure consists of \$64,408 in a long-term note and \$300 in common equity. The Utility’s 2021 annual report also reflects a negative equity balance of \$115,220, 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, per Commission practice. Table 3-1 summarizes Keen’s capital structure.

Table 3-1

Capital Component	Balance Per Utility 12/31/2021	Audit Adjustment	Balance Per Audit 12/31/2021	Ratio	Cost Rate	Average Weighted Cost
Long-Term Affiliate Debt	64,408	-	64,408	99.54%	2.49%	2.48%
Common Equity	300	-	300	0.46%	10.55%	0.05%
Retained Earnings	(115,220)	115,220	-	0.00%	-	-
Total Capital	\$ (50,512)		\$ 64,708	100%		2.53%

Common Equity cost rate is from Order No. PSC-2021-0244-PAA-WS, issued on July 6, 2021.

Effect on the General Ledger: None

Effect on the Filing: The \$64,408 long-term loan on the general ledger and annual report could not be reconciled with the documents provided to staff. In addition, the general ledger shows \$8,295 in accrued interest that “was discontinued because it was realized that it would never be paid,” \$195,480 for accrued payroll salary for Mrs. Keen, an officer and the owner of the Utility, and accrued rent of \$88,020 for office rent. Audit staff believes there is no reasonable expectation that these debts will be paid, and recommends closing them out to eliminate or reduce the equity deficit. Audit staff defers to the analyst as to the treatment of the capital structure.

Paradise Island

Audit Analysis: The Utility’s trial balance shows long-term debt, common equity, short-term debt, and accrued taxes in the amounts of \$47,744, \$700, \$1,386, and \$1,982, respectively. The Utility provided documents supporting only \$20,089 for long-term debt. The adjustment is shown below in Table 3-2. Also, the Utility’s 2021 annual report reflects a negative equity balance of \$587,871, 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, per Commission practice. Table 3-2 summarizes Paradise Island’s capital structure.

Table 3-2

Capital Component	Balance Per Utility 12/31/2021	Audit Adjustment	Balance Per Audit 12/31/2021	Ratio	Cost Rate	Average Weighted Cost
Long-Term Affiliate Debt	\$ 47,744	\$ (27,655)	\$ 20,089	83.16%	1.04%	0.86%
Common Equity	700	-	700	2.90%	10.55%	0.31%
Short-Term Debt	1,386	-	1,386	5.74%	7.78%	0.45%
Accrued Taxes	1,982	-	1,982	8.20%	-	-
Retained Earnings	(587,871)	587,871	-	0.00%	-	-
Total Capital	\$ (536,059)	\$ 560,216	\$ 24,157	100%		1.62%

Common Equity cost rate is from Order No. PSC-2021-0244-PAA-WS, issued on July 6, 2021.

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

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

Finding 4: Operating Revenue

Keen

Audit Analysis: The Utility reported total revenues for water of \$64,388 for the 12-months ending December 31, 2021, on its general ledger.

In our analysis of the billing register, we calculated revenues for water to be \$68,538 for a difference of \$4,150. The increase is due to staff using an amended September 2021 tariff sheet for the whole test year consistent with the Commission's policy. We increased revenues for water by \$4,150.

Table 4-1 summarizes the adjustment that is needed to revenues for the test year. This adjustment resulted from audit staff's calculation of the customer's bills for the test year using the latest tariff rates.

Table 4-1

NARUC	Description	Balance Per		Balance Per
		Utility	Adjustments	Audit
		12/31/2021		12/31/2021
461.1	Residential Service	\$ 64,388	\$ 4,150	\$ 68,538
Total		\$ 64,388	\$ 4,150	\$ 68,538

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

Effect on the Filing: Operating revenues should be increased by \$4,150.

Paradise Island

Audit Analysis: The Utility reported total revenues for water of \$44,041 for the 12-months ending December 31, 2021, on its general ledger.

In our analysis of the billing register, we calculated revenues for water to be \$62,230 for a difference of \$18,189. The increase is due to staff using an amended September 2021 tariff sheet for the whole test year, consistent with the Commission's policy. We increased revenues for water by \$18,189.

Table 4-2 summarizes the adjustment that is needed to revenues for the test year. This adjustment resulted from audit staff's calculation of the billing register for those customers for the test year using the latest tariff rates.

Table 4-2

NARUC	Description	Balance Per		Balance Per
		Utility	Adjustments	Audit
		12/31/2021		12/31/2021
461.1	Residential Service	\$ 44,041	\$ 18,189	\$ 62,230
Total		\$ 44,041	\$ 18,189	\$ 62,230

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

Effect on the Filing: Operating revenues should be increased by \$18,189.

Finding 5: Operations and Maintenance Expense

Keen

Audit Analysis: According to the Utility's trial balance, the O&M expense balance was \$62,106 as of December 31, 2021. The Utility's O&M balances are overstated by \$11,303, as outlined in Table 5-1.

1. Acct. No. 603 – Salaries – Officers and Directors is reduced by \$11,880 due to lack of supporting documentation. The Utility accrued officer's salaries, but could not provide any support. It is likely the accrued salaries will not be paid.
2. Acct. No. 604 – Employee Pension and Benefits is increased by \$112 to reflect supporting documentation.
3. Acct. No. 615 – Purchased Power is reduced by \$152 to reflect supporting documentation.
4. Acct. No. 618 – Chemicals is increased by \$77 to reflect supporting documentation.
5. Acct. No. 620 – Materials and Supplies is increased by \$61 to reflect supporting documentation.
6. Acct. No. 631 – Contractual Services – Engineer is reduced by \$1,767 to reflect supporting documentation.
7. Acct. No. 632 – Contractual Services – Acct. is increased by \$292 to reflect supporting documentation.
8. Acct. No. 635 – Contractual Services – Testing is reduced by \$498 to reflect supporting documentation.
9. Acct. No. 636 – Contractual Services – Other is increased by \$676 to reflect supporting documentation.
10. Acct. No. 650 – Transportation is reduced by \$24 to reflect supporting documentation.
11. Acct. No. 655 – Insurance is increased by \$1,326 to reflect supporting documentation.
12. Acct. No. 675 – Miscellaneous is increased by \$474 to reflect supporting documentation.

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

NARUC	Description	Balance Per		Balance Per
		Utility	Adjustment	Audit
		12/31/2021		12/31/2021
601	Salaries And Wages - Employees	\$ 18,720	\$ -	\$ 18,720
603	Salaries - Officers - Directors	11,880	(11,880)	-
604	Employee Pension And Benefits	5,492	112	5,604
615	Purchased Power	2,606	(152)	2,454
618	Chemicals	1,337	77	1,414
620	Materials And Supplies	613	61	673
631	Contractual Services - Engr	1,967	(1,767)	200
632	Contractual Services - Acct	-	292	292
635	Contractual Services - Testing	7,479	(498)	6,981
636	Contractual Services - Other	1,474	676	2,150
640	Rental Of Building/Real Property	4,860	-	4,860
642	Rental Of Equipment	-	-	-
650	Transportation Expenses	210	(24)	186
655	Insurance	3,143	1,326	4,469
675	Miscellaneous	2,327	474	2,801
	Total	\$ 62,106	\$ (11,303)	\$ 50,803

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

Effect on the Filing: Operation and maintenance expense should be decreased by \$11,303. Working capital is calculated to be \$6,350, using one-eighth of O&M as prescribed by Rule 25-30.433(3), F.A.C.

Paradise Island

Audit Analysis: The Utility's general ledger shows O&M balance of \$72,918, for the test year. Audit staff reduced O&M expense by \$15,617, according to the following details:

1. Acct. No. 603 – Salaries and Wages-Officers is decreased by \$14,520 for lack of support.
2. Acct. No. 618 – Chemicals is increased by \$82 per the accumulated invoices.
3. Acct. No. 620 – Materials & Supplies is increased by \$263 per the accumulated invoices.
4. Acct. No. 631 – Contract Services – Professional Fees is decreased by \$25 for lack of support.
5. Acct. No. 635 – Contract Services – Testing is decreased by \$612 due to erroneously recorded invoice.
6. Acct. No. 675 – Miscellaneous Expense is decreased by \$805 for lack of support.

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

NARUC	Description	Balance Per		Balance Per
		Utility	Adjustment	Audit
		12/31/2021		12/31/2021
601	Salaries And Wages - Employees	\$ 22,880	\$ -	\$ 22,880
603	Salaries - Officers - Directors	14,520	(14,520)	-
604	Employee Pension And Benefits	6,712	-	6,712
615	Purchased Power	1,547	-	1,547
618	Chemicals	1,150	82	1,232
620	Materials And Supplies	1,071	263	1,334
631	Contractual Services - Engr	2,249	(25)	2,224
635	Contractual Services - Testing	7,422	(612)	6,810
636	Contractual Services - Other	1,189	-	1,189
640	Rental Of Building/Real Property	5,940	-	5,940
650	Transportation Expenses	204	-	204
655	Insurance	3,444	-	3,444
675	Miscellaneous	4,590	(805)	3,785
	Total	\$ 72,918	\$ (15,617)	\$ 57,301

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 \$15,617. Working capital was calculated to be \$7,163, using one-eighth of O&M as prescribed by Rule 25-30.433(3), F.A.C.

Finding 6: Taxes Other than Income (TOTI)

Keen

Audit Analysis: According to Keen’s general ledger, the TOTI totaled \$2,968 for the test year ended December 31, 2021. We increased TOTI by \$886. The adjustments are discussed below and reflected in Table 6-1. Audit staff determined that the TOTI balance amount should be \$3,854.

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

- Regulatory Assessment Fee. Should be increased by \$186 based on the audited increase in operating revenues discussed in Finding 4.
- Licensing Fees. Should be increased by \$700 to reflect a Polk County water permit fee.

Table 6-1

Water Description	Per Utility 12/31/2021	Adjustments	Per Audit 12/31/2021
Regulatory Assessment Fee	\$ 2,897	\$ 186	\$ 3,083
Licensing Fees	71	700	771
Total	\$ 2,968	\$ 886	\$ 3,854

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

Effect on the Filing: Audit staff determined that TOTI should be \$3,854 for the test year ended December 31, 2021. TOTI should be increased by \$186 to reflect the audited increase in operating revenues and by \$700 to account for an unrecorded Polk County water permit fee.

Paradise Island

Audit Analysis: According to Paradise Island’s general ledger, the TOTI balance was \$1,982 for the test year ended December 31, 2021. We increased TOTI by \$2,003. The adjustments are discussed below and reflected in Table 6-2. Audit staff determined that the TOTI balance amount should be \$3,985.

Table 6-2

Water Description	Per Utility 12/31/2021	Adjustments	Per Audit 12/31/2021
Real Estate Property Tax	\$ -	\$ 585	\$ 585
Regulatory Assessment Fee	1,982	818	2,800
Licensing Fee	-	600	600
Total	<u>\$ 1,982</u>	<u>\$ 2,003</u>	<u>\$ 3,985</u>

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

- Property Tax. The Utility did not record property tax in its general ledger, however, a payment of \$597 was made to Polk County in January 2022. That payment did not take advantage of the 2% discount. We reduced the amount by \$12 (2% of \$597) to reflect the discount. We increased TOTI by \$585 to reflect the actual amount paid less the 2% discount.
- Regulatory Assessment Fee. Should be increased by \$818 based on the audited increase in operating revenues discussed in Finding 4.
- Licensing Fees. Should be increased by \$600 to reflect a Polk County water permit fee.

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

Effect on the Filing: Audit staff determined that TOTI should be \$3,985 for the test year ended December 31, 2021. TOTI should be increased by \$818 to reflect the audited increase in operating revenues, \$585 for property taxes, and \$600 to account for an unrecorded Polk County water permit fee.

Exhibits

Exhibit 1: Rate Base

**KEEN SUBDIVISIONS
STAFF ASSISTED RATE CASE
DOCKET NO. 20220157-WU; ACN2022-305-2-1
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 2021**

Description	Balance Per			Balance Per	
	Utility	Audit	Finding	Audit	Simple
	12/31/2021	Adjustments	No.	12/31/2021	Average
					12/31/2021
Utility Plant in Service	\$ 221,645	\$ (18,522)	1	\$ 203,123	\$ 212,386
Land & Land Rights	-	-		-	-
Accumulated Depreciation	(180,685)	14,843	2	(165,842)	(173,264)
Contributions in Aid of Construction (CIAC)	-	-		-	-
Working Capital	-	6,350	5	6,350	6,350
Rate Base	\$ 40,960	\$ 2,671		\$ 43,631	\$ 45,472

**PARADISE ISLAND
STAFF ASSISTED RATE CASE
DOCKET NO. 20220157-WU; ACN2022-305-2-1
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 2021**

Description	Balance Per			Balance Per	
	Utility	Audit	Finding	Audit	Simple
	12/31/2021	Adjustments	No.	12/31/2021	Average
					12/31/2021
Utility Plant in Service	\$ 92,992	\$ -		\$ 92,992	\$ 93,804
Land & Land Rights	2,000	-		2,000	2,000
Accumulated Depreciation	(65,961)	(470)	2	(66,431)	(66,196)
Contributions in Aid of Construction (CIAC)	-	-		-	-
Working Capital	-	7,163	5	7,163	7,163
Rate Base	\$ 29,031	\$ 6,693		\$ 35,724	\$ 36,771

Exhibit 2: Capital Structure

KEEN SUBDIVISIONS
STAFF ASSISTED RATE CASE
DOCKET NO. 20220157-WU; ACN2022-305-2-1
SCHEDULE OF CAPITAL STRUCTURE
AS OF DECEMBER 31, 2021

Capital Component	Balance Per Utility 12/31/2021	Audit Adjustment	Balance Per Audit 12/31/2021	Ratio	Average	
					Cost Rate	Weighted Cost
Long-Term Affiliate Debt	\$64,408	-	\$64,408	99.54%	2.49%	2.48%
Common Equity	300	-	300	0.46%	10.55%	0.05%
Retained Earnings	(115,220)	115,220	-	-	-	-
Total Capital	\$ (50,512)	\$ 115,220	\$64,708	100%		2.53%

Common Equity cost rate is from Order No. PSC-2021-0244-PAA-WS, issued on July 6, 2021.

PARADISE ISLAND
STAFF ASSISTED RATE CASE
DOCKET NO. 20220157-WU; ACN2022-305-2-1
SCHEDULE OF CAPITAL STRUCTURE
AS OF DECEMBER 31, 2021

Capital Component	Balance Per Utility 12/31/2021	Audit Adjustment	Balance Per Audit 12/31/2021	Ratio	Average	
					Cost Rate	Weighted Cost
Long-Term Affiliate Debt	\$47,744	\$ (27,655)	\$20,089	83.16%	1.04%	0.86%
Common Equity	700	-	700	2.90%	10.55%	0.31%
Short-Term Debt	1,386	-	1,386	5.74%	7.78%	0.45%
Accrued Taxes	1,982	-	1,982	8.20%	-	-
Retained Earnings	(587,871)	587,871	-	0.00%	-	-
Total Capital	\$ (536,059)	\$ 560,216	\$ 24,157	100%		1.62%

Common Equity cost rate is from Order No. PSC-2021-0244-PAA-WS, issued on July 6, 2021.

Exhibit 3: Net Operating Income

**KEEN SUBDIVISIONS
STAFF ASSISTED RATE CASE
DOCKET NO. 20220157-WU; ACN2022-305-2-1
SCHEDULE OF WATER NET OPERATING INCOME
AS OF DECEMBER 31, 2021**

DESCRIPTION	Balance Per Utility 12/31/2021	Audit Adjustments	Audit Finding No.	Balance Per Audit 12/31/2021
Operating Revenues	\$ 64,388	\$ 4,150	4	\$ 68,538
Operation & Maintenance Expenses	62,106	(11,303)	5	50,803
Depreciation Expense	3,293	(559)	2	2,734
Taxes Other Than Income	2,968	886	6	3,854
Total Operating Expense	<u>68,367</u>	<u>(10,976)</u>		<u>57,391</u>
Net Operating Income (Loss)	<u>\$ (3,979)</u>	<u>\$ 15,126</u>		<u>\$ 11,147</u>

**PARADISE ISLAND
STAFF ASSISTED RATE CASE
DOCKET NO. 20220157-WU; ACN2022-305-2-1
SCHEDULE OF WATER NET OPERATING INCOME
AS OF DECEMBER 31, 2021**

DESCRIPTION	Balance Per Utility 12/31/2021	Audit Adjustments	Audit Finding No.	Balance Per Audit 12/31/2021
Operating Revenues	\$ 44,041	\$ 18,189	4	\$ 62,230
Operation & Maintenance Expenses	72,918	(15,617)	5	57,301
Depreciation Expense	2,780	107	2	2,887
Taxes Other Than Income	1,982	2,003	6	3,985
Total Operating Expense	<u>77,680</u>	<u>(13,507)</u>		<u>64,173</u>
Net Operating Income (Loss)	<u>\$ (33,639)</u>	<u>\$ 31,696</u>		<u>\$ (1,943)</u>