

State of Florida




## Public Service Commission

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

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

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**DATE:** March 20, 2015  
**TO:** Office of Commission Clerk   
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 140239-WS  
Company Name: Orchid Springs Development Corporation  
Company Code: WS789  
Audit Purpose: Staff-Assisted Rate Case  
Audit Control No: 15-012-2-2

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

LMD/cp

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**

Orchid Springs Water and Sewer  
Staff Assisted Rate Case

**Twelve Months Ended December 31, 2014**

Docket No. 140239-WS  
Audit Control No. 15-012-2-2  
**February 23, 2015**

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Intesar Terkawi  
Audit Manager

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Kernather Auguste  
Audit Staff

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Linda Hill  
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 and Finance in its audit service request dated January 12, 2015. We have applied these procedures to the attached schedules prepared by audit staff in support of Orchid Springs Development Corporation's request for a Staff-Assisted Rate Case in Docket No. 140239-WS.

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

## Objectives and Procedures

### **Background**

#### Definitions

Utility refers to Orchid Springs Development Corporation.

Test year refers to the historical 12-months ended December 31, 2014.

#### Utility Information

Orchid Springs Development Corporation operates a Class C water and wastewater utility serving approximately 510 water and 494 wastewater customers in Polk County. Orchid Springs Development Corporation also has non-utility operations. The Utility has been in existence since 1969 and includes residential, multi-residential, and general service customers. Rate base was last established as of November 25, 1998, for the Utility by Order No. PSC- 98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS.

The Utility files an 1120S U.S. Corporate Tax Return that covers its regulated and unregulated operations. The Company keeps separate records for each of its operations.

### **General**

#### Utility Books and Records

**Objective:** The objective was to determine whether the Utility maintains its books and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We reviewed the Utility's books and records. Finding 1 discusses the issues with the Utility's books and records.

### **Rate Base**

#### Utility Plant in Service

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

**Procedures:** We determined the beginning balances of UPIS as of March 31, 1998, established in Order No. PSC-98-1579-FOF-WS and scheduled UPIS activities from that date through December 31, 2014. We traced asset additions to supporting documentation such as invoices and cancelled checks. We calculated or verified retirements where necessary. We toured the plant site on January 20, 2015, and February 11, 2015, to observe and ascertain the condition and existence of utility assets. The Utility is no longer utilizing the wastewater treatment plant and has retired a portion of the plant. We determined the year end and simple average UPIS balances as of December 31, 2014. Our recommended adjustments to UPIS are discussed in Findings 2, 3 and 4.

### Land and Land Rights

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

**Procedures:** The Land values were estimated in Order No. PSC-98-1579-FOF-WS as of March 31, 1998, because Warranty Deeds were not obtained at that time. In this audit, we calculated the water land value using documentary stamp values as filed with the warranty deeds in April 9, 1970. We did not calculate the Wastewater Land as it is no longer used for Utility's purposes and we believe should be removed from Rate Base. See Finding 4 for more information. We reviewed the Utility's annual reports, general ledger, and searched the Polk County Tax Collector's website for additional activity related to utility land and determined that no additions were made. We determined the year end and simple average Land balances as of December 31, 2014. Our recommended adjustments to Land and additional information concerning the Utility's land ownership are discussed in Finding 5.

### Accumulated Depreciation

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

**Procedures:** We determined the beginning balances for Accumulated Depreciation as of March 31, 1998, established in Order No. PSC-98-1579-FOF-WS. We calculated the Accumulated Depreciation as of December 31, 2014, using the depreciation rates established by Rule 25-30.140-Depreciation, F.A.C. We determined the year end and simple average Accumulated Depreciation balances as of December 31, 2014. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 6.

### Contributions-in-Aid-of-Construction

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

**Procedures:** We determined the beginning balances for CIAC as of March 31, 1998, established in Order No. PSC-98-1579-FOF-WS. We reviewed the Utility's annual report and general ledger and determined that no additions had been recorded. We also verified with the Utility that there were no additions to CIAC. We determined the year end and simple average CIAC balances as of December 31, 2014. No exceptions were noted.

#### Accumulated Amortization of CIAC

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

**Procedures:** We determined the beginning balances of Accumulated Amortization of CIAC as of March 31, 1998, established in Order No. PSC-98-1579-FOF-WS. We calculated the Accumulated Amortization of CIAC as of December 31, 2014, using the depreciation rates established by Rule 25-30.140-Depreciation, F.A.C. We determined the year end and simple average Accumulated Amortization of CIAC balances as of December 31, 2014. No exceptions were noted.

#### Acquisition Adjustment

**Objective:** The objective was to determine whether an acquisition adjustment has been approved in a prior Commission proceeding and if so, that it is recorded and amortized pursuant to Rule 25-30-0371, Acquisition Adjustments, F.A.C.

**Procedures:** We reviewed utility records and Commission documents to determine if an acquisition adjustment was recorded or approved. None was found, so no further work was performed.

#### Working Capital

**Objective:** The objective was to calculate the Utility's Working Capital adjustments in compliance with Commission rules.

**Procedures:** We calculated the Working Capital adjustment as of December 31, 2014, using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule 25-30.433(2), F.A.C. Our working capital allowance is discussed in Finding 10.

### **Capital Structure**

**Objective:** The objective was to determine the components of the Utility's capital structure.

**Procedures:** We reviewed the Utility's general ledger and determined that the Utility's Capital Structure is composed of common equity, long term debt, and customer deposits. We determined the year end and simple average Capital Structure balances and its weighted average cost as of December 31, 2014. Our recommended adjustments to Customer Deposits are discussed in Finding 7.

## **Net Operating Income**

### Operating Revenue

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

**Procedures:** We summarized the Utility's gallonage by customer account for the test year using the Utility's monthly Billing Reports. We calculated Revenues for water and wastewater using the number of bills and gallonages. We compared the calculated water and wastewater Revenues obtained with the Revenues reported in the general ledger. We examined the customer billing detailed listing to verify that the Utility is using its authorized tariff rates. We reviewed Miscellaneous Revenues which include late fee charges, returned check charges, and reconnect fees and compared them to the tariffs. We verified that non-utility revenues were not included in revenues. Our recommended adjustments to Revenues are discussed in Findings 8 and 9.

### 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) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

**Procedures:** We reviewed all O&M invoices for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature and did not include non-utility expenses. We verified each expense against the invoice and supporting documentation. We verified the accuracy of all expense allocations between Orchid Springs Development Corporation, and the Utility, which has the same owner. Our recommended adjustments to O&M Expense are discussed in Finding 10.

### Depreciation Expense and CIAC Amortization Expense

**Objectives:** The objectives were to determine whether Depreciation Expense and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

**Procedures:** We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments to Depreciation Expense are discussed in Finding 6.



## Taxes Other than Income

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

**Procedures:** We scheduled the Utility's TOTI Expense for the test year using the supporting documentation provided. We included Real Estate Taxes, Regulatory Assessment Fees (RAF), and Tangible Taxes. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI Expense are discussed in Finding 11.

## Audit Findings

### **Finding 1: Utility's Books and Records**

**Audit Analysis:** The NARUC USOA requires:

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

The Utility could not provide reliable general ledgers for the 1998 - 2012 to audit staff. The Utility was not able to provide invoices for all the proforma plant additions referenced in the prior Order. However, audit staff did include the proforma plant additions in the Plant in Service balances in this report, as reported in the prior Order because it appeared the Utility did incur these costs. Audit Staff relied on the annual reports for all the plant additions and retirements for the years 1998 through 2013.

The Utility included the Accumulated Depreciation of Water and Wastewater as a combined sum in the 2014 general ledger. The Utility should utilize separate Accumulated Depreciation accounts for the water and the sewer systems in the general ledger.

**Effect on the General Ledger:** None.

**Effect on the Filing:** None.

**Finding 2: Utility Plant in Service**

**Audit Analysis:** The Utility’s general ledger reflects UPIS balances of \$249,136 and \$668,207 for water and wastewater, respectively, as of December 31, 2014.

Order No. PSC-98-1579-FOF-WS established UPIS balances as of March 31, 1998, to be \$244,160 and \$667,389 for water and wastewater, respectively. We compiled water and wastewater UPIS additions from March 31, 1998, to December 31, 2014, using invoices presented by the Utility. Our audited UPIS balances as of December 31, 2014, are \$269,014 and \$650,802 for water and wastewater, respectively. The Utility UPIS balances and the audit UPIS balances are displayed in Tables 2-1 and 2-2. Explanations for the adjustments immediately follow each table.

**Table 2-1**  
**Water UPIS**

<b>Acct. No.</b>	<b>Account Description</b>	<b>Utility Balance 12/31/14</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/14</b>
304	Structures & Improvements	\$5,373	\$0	\$5,373
307	Wells & Springs	3,360	0	3,360
309	Supply Mains	1,631	(1,631)	0
310	Power Generation Equipment	14283	23,154	37,437
311	Pumping Equipment	1,975	1,300	3,275
320	Water Treatment Equipment	3,991	5,409	9,400
330	Distributions Reservoirs & Standpipes	31,000	(18,951)	12,049
331	Transmission & Distribution Mains	153,284	7,518	160,802
333	Services	16,737	0	16,737
334	Meter & Meter Installation	11,923	3,079	15,002
335	Hydrants	5,579	0	5,579
		<u>\$249,136</u>	<u>\$19,878</u>	<u>\$269,014</u>

Account 309 – Supply Mains – Decrease the account by \$1,631 for lack of support documentation.

Account 310 – Power Generation Equipment – Increase the account by \$23,154. \$12,476 represents the amount that the Utility failed to adjust to the Order, and \$10,678 represents an original plant addition of a pressure reducer.

**Finding 2 (cont'd)**

Account 311 – Pumping Equipment – Increase the account by \$1,300 that represents an unsupported retirement.

Account 320 – Water Treatment Equipment – Increase the account by \$5,409. \$1,456 needed to adjust the account to the Order. \$5,982, and \$4,486 represent the plant additions and related retirements per audit staff, respectively and \$2,457 represents plant additions.

Account 330 – Distribution Reservoirs & Standpipes – Decrease the account by \$18,951 for lack of supported documentation.

Account 331 – Transmission & Distribution Mains – Increase the account by \$7,518. \$6,683 needed to adjust the account to the Order, and \$835 represents materials for valves addition invoices by audit staff.

Account 334 - Meter & Meter Installations – Increase the account by \$3,079. \$1,450 needed to adjust the account to the Order and \$1,629 represents compiled original plant additions invoices of washers for meters by audit staff.

**Table 2-2**  
**Wastewater UPIS**

Acct. No.	Account Description	Utility Balance 12/31/14	Audit Adjustments	Audit Balance 12/31/14
354	Structures & Improvements	\$10,988	\$25,322	\$36,310
360	Collection Sewers - Force	45,514	(23,774)	21,740
361	Collection Sewers - Gravity	235,015	(12,730)	222,285
363	Services to Customers	63,265	0	63,265
364	Flow Measuring Devices	3,101	0	3,101
370	Receiving Wells	290,960	(16,807)	274,153
371	Pumping Equipment	10,960	(4,458)	6,502
380	Treatment & Dispos. Equipment	959	11,080	12,039
381	Plant Sewers	6,895	(2,239)	4,656
389	Other Plant & Misc. Equipment	550	4,531	5,081
395	Power Operated Equipment	0	1,670	1,670
		<u>\$668,207</u>	<u>(\$17,405)</u>	<u>\$650,802</u>

## **Finding 2 (cont'd)**

Account 354 – Structure & Improvement – Increase the account by \$25,322. (\$647) needed to adjust the account to the Order; \$25,969 represents the plant additions with related retirements compiled by audit staff.

Account 360 – Collection Sewer - Force – Reduce the account by \$23,774 for lack of support documentation.

Account 361 – Collection Sewer - Gravity – Reduce the account by \$12,730 for lack of support documentation.

Account 370 – Receiving Wells – Decrease the account by \$16,807. \$52,332 needed to adjust to Order and remove \$69,139 for lack of supporting documentation.

Account 371 – Pumping Equipment – Decrease by \$4,458 for lack of support documentations.

Account 380 – Treatment & Disposal Equipment – Increase the Account by \$11,080. \$13,725 needed to adjust to Order. \$2,645 represents the Utility's lack of support for additions and retirements. Audit staff defers to the analyst whether the whole balance of the Account 380 should be reduced to zero as the wastewater plant has been demolished.

Account 381 – Plant Sewers – Decrease the account by \$2,239 for lack of supporting documentation.

Account 389 – Other Plant & Miscellaneous Equipment – Increase the account by \$4,531. \$5,081 represents the Utility's lack of adjustment to Order. \$550 represents the Utility's lack of support documentation.

Account 395 – Power Operated Equipment – Increase the account by \$1,670 that represents a ridged machine that was added as an original plant addition per audit staff.

**Effect on the General Ledger:** The Utility should increase water UPIS by \$19,878 and decrease wastewater UPIS by \$17,405 as of December 31, 2014.

**Effect on Staff Prepared Exhibits:** Increase water UPIS by \$19,878 and decrease wastewater UPIS by \$17,405 as of December 31, 2014. The simple average balances as of December 31, 2014, are \$269,014 and \$650,273 for water and wastewater, respectively.

### **Finding 3: Capped Well**

**Audit Analysis:** On March 3, 2009, the Utility signed an agreement with the City of Winter Haven to provide a second well and emergency backup water source to the Utility's customers in the event the Utility is unable to provide water service.

Since the date of the agreement, the Utility's second well has been capped, and has not been in use. Audit staff visited the deserted well site and observed the unused rusted hydraulic tank, the capped well, and the Sodium Hydrochloride barrel which is full of rain water.

Audit staff has brought this to the attention of the analyst and defers the matter to the analyst and engineer to decide whether all assets of Well 2 should be retired and removed from the Utility's UPIS records.

**Effect on the General Ledger:** To be determined by the Utility.

**Effect on Staff Prepared Exhibits:** The engineer and analyst should determine if the assets for Well 2 should be retired.

#### **Finding 4: Wastewater Plant**

**Audit Analysis:** Based on the Utility receiving a DEP Consent Order dated May 23, 2007, the Utility ceased treating its wastewater and connected to the City of Winter Haven for this function. The Utility incurred costs to demolish the wastewater treatment plant, substantially improved a lift station, and constructed mains to connect to the City. The Utility provided audit staff a list of invoices during the years 2008, 2009, and 2010 for these costs. Table 4-1 show the costs that were traced to supporting documentation. The Utility booked some retirements for this, but audit staff did not review them for accuracy.

Audit staff capitalized these expenditures and included them in the wastewater UPIS based on these amounts. Audit staff did not determine the reasonableness of these amounts.

**Table 4-1**  
**Wastewater Expenditures**

<u>Explanation</u>	<u>Amount</u>
Electrical Modification	\$3,548
Relocate Verizon Lines	\$8,205
City of Winter Haven for Main Construction	\$22,935
Legal Expenses	\$1,238
Accounting Expenses	\$1,050
Consent Order Fee	\$1,820
Demolish Wastewater Plant	\$26,355
Haul/Dispose of Sludge	\$123,525
Engineering Fees	\$17,128
Total	<u>\$205,804</u>

**Effect on the General Ledger:** None.

**Effect on the Filing:** None.

## **Finding 5: Land**

**Audit Analysis:** Order No. PSC-98-1579-FOF-WS estimated land value of \$480 for water and \$58,860 for wastewater as the deeds were not obtained at that time. The Order stated that the Utility did not present the deed to the analyst and therefore staff analyst estimated the amount of land for ratemaking purposes. Orchid Springs Development Corporation owns both water and wastewater land.

Audit staff calculated the water land value based on the stamp deed value to be \$1,682 ( $\$9.25/0.55 \times 100$ ) where the Documentary Stamp rate is 0.55 and the total amount of Documentary Stamps paid is \$9.25. We did not calculate the wastewater land as it is no longer used for Utility purposes.

The wastewater land consists of two percolation ponds, the Polishing Pond and the Golden Pond. At one time, both ponds held sludge before being treated by the Utility's wastewater plant. In 2009, the wastewater plant was demolished and sludge was excavated from the two ponds. The Utility entered into an agreement with the City of Winter Haven whereby the City will treat the wastewater. During the plant tour on January 29, 2015, audit staff noticed that the two ponds were levelled land. It appeared that the ponds are not used as percolation ponds.

**Effect on the General Ledger:** The Utility should increase the water land value to \$1,682 and reduce the wastewater land value to zero.

**Effect on Staff Prepared Exhibits:** Increase water land value by \$1,202 to \$1,682, and decrease wastewater land value of \$58,860 to zero as of December 31, 2014. The simple average balances as of December 31, 2014, is \$1,682 and zero for water and wastewater, respectively.



## Finding 6: Accumulated Depreciation

**Audit Analysis:** The Utility's general ledger reflects Accumulated Depreciation balances of \$218,520 and \$484,173 for water and wastewater, respectively, as of December 31, 2014.

Order No. PSC-98-1579-FOF-WS established Accumulated Depreciation balances as of March 31, 1998, of \$149,075 and \$475,894 for water and wastewater, respectively.

Audit staff calculated Accumulated Depreciation to be \$261,463 and \$467,387 for water and wastewater, respectively, as of December 31, 2014, audited UPIS balances and depreciation rates prescribed in Rule 25-30.140, F.A.C. Audit staff calculated the simple average Accumulated Depreciation for water and wastewater to be \$285,650 and \$467,317, respectively, as of December 31, 2014. Depreciation Expense was calculated to be \$5,628 and \$3,311 for water and wastewater, respectively, for the 12-months ended December 31, 2014.

See Tables 6-1 and 6-2 for a summary of adjustments to Accumulated Depreciation for water and wastewater, respectively

**Table 6-1**  
**Water Accumulated Depreciation**

Acct. No.	Account Description	Utility Balance 12/31/14	Audit Adjustments	Audit Balance 12/31/14
304	Structures & Improv	\$5,373	\$0	\$5,373
307	Wells & Springs	3,360	0	3,360
309	Supply Mains	1,479	(1,479)	0
310	Power Generation Equip	14,283	23,154	37,437
311	Pumping Equipment	1,975	1,300	3,275
320	Water Treatment Equip	1,099	4,332	5,431
330	Distrib Reservoirs & Stand.	8,869	2,879	11,748
331	Trans & Distribution Mains	148,428	9,356	157,784
333	Services	16,474	0	16,474
334	Meter & Meter Installation	11,601	3,401	15,002
335	Hydrants	5,579	0	5,579
		<u>\$218,520</u>	<u>\$42,943</u>	<u>\$261,463</u>

**Finding 6 (cont'd)**

**Table 6-2**  
**Wastewater Accumulated Depreciation**

Acct. No.	Account Description	Utility Balance 12/31/14	Audit Adjustments	Audit Balance 12/31/14
354	Structures & Improv	\$6,554	\$1,657	\$8,211
360	Collection Sewers - Force	26,484	(4,744)	21,740
361	Collection Sewers - Gravity	221,789	(2,605)	219,184
363	Services to Customers	63,265	0	63,265
364	Flow Measuring Devices	1,189	1,912	3,101
370	Receiving Wells	155,537	5,107	160,644
371	Pumping Equipment	2,796	(4,405)	(1,609)
380	Treatment & Disposal Equip	959	(3,769)	(2,810)
381	Plant Sewers	5,050	(16,140)	(11,090)
389	Other Plant & Misc Equip.	550	4,531	5,081
395	Power Operated Equipment	0	1,670	1,670
		<u>\$484,173</u>	<u>(\$16,786)</u>	<u>\$467,387</u>

**Effect on the General Ledger:** The Utility should increase water Accumulated Depreciation and decrease wastewater Accumulated Depreciation balances by \$42,943 and \$16,788, respectively, as of December 31, 2014.

**Effect on Staff Prepared Exhibits:** Increase water Accumulated Depreciation balance by \$42,943 and decrease wastewater Accumulated Depreciation balance by \$16,786 as of December 31, 2014. Audit staff calculated the simple average Accumulated Depreciation for water and wastewater to be \$285,650 and \$467,317, respectively, as of December 31, 2014. Increase water Depreciation Expense by \$3,413 and decrease wastewater Depreciation Expense by \$7,823 for the test year.

## **Finding 7: Capital Structure**

**Audit Analysis:** Audit staff reviewed the Utility's the capital structure components. We noted that the 2013 Annual Report had a balance of (\$402,203) for retained earnings (deficit). We did not include this balance in calculating the capital structure.

The Utility provided a demand promissory note with Cassidy Properties, Inc., a related party, in the principal sum of \$16,000, dated March 26, 2014. Interest accrues at three and a quarter percent (3.25%) per annum. However, based on Commission practice, the line of credit from a related party should be treated as equity since no principal or interest payments have been made as of March 1, 2015.

The Utility also provided a promissory note with Commnuity Southern Bank, in the principal sum of \$250,000 dated February 2, 2012. Interest accrues at four and a half percent (4.50%) per annum. Audit staff was able to determine the balances as of December 31, 2013, to be \$210,177 and December 31, 2014, to be \$187,998. We calculated a simple average balance of \$199,086.

The Utility collects \$35 and \$50 deposits for water and wastewater, respectively, for the initial connection. Rule 25-30.311 (a) states:

*"Each public utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 2 percent per annum".*

The Utility does not pay its customers interest on the deposits collected for water and wastewater. The Utility should be required to pay interest on water and wastewater deposits pursuant to the Rule.

**Effect on the General Ledger:** To be determined by the Utility.

**Effect on Staff Prepared Exhibits:** None

**Finding 8: Operating Revenue**

**Audit Analysis:** The Utility’s general ledger reflects total revenues of \$95,103 and \$120,827 for water and wastewater, respectively, for the 12-months ended December 31, 2014.

Audit staff calculated water and wastewater revenues using the number of bills and gallonage to be \$89,806 and \$128,095. Differences of \$167 and \$7,268 for water and wastewater, respectively, exist for the test year.

The Utility charged its customers \$4,910 for late fees, \$10 per each occurrence. The Utility’s tariff does not authorize late fee charges to its customers. Audit staff reduced miscellaneous revenues by \$4,910. The Utility should be required to refund \$4,910 to the customers affected.

Customers were charged a \$10 Non Sufficient Fund fee for returned checks. The Utility’s tariff does not authorize NSF fees. Audit staff reduced miscellaneous revenues by \$10. The Utility should be required to refund the \$10 to its customer.

Tables 8-1 and 8-2 summarize audit adjustments to water and wastewater revenues for the test year.

**Table 8-1**  
**Water Revenues**

<b>Description</b>	<b>Utility Balance 12/31/2014</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/2014</b>
Water Revenues	\$89,973	(\$167)	\$89,806
Transfer Fees	-	-	-
Late Fees	4,910	(4,910)	-
Non Sufficient Funds Fees	10	(10)	-
Misc. Uncategorized	-	-	-
Reconnect Fee	210	-	210
Premise Visit	-	-	-
Meter Tampering	-	-	-
<b>Total Revenue</b>	<b>\$95,103</b>	<b>(\$5,087)</b>	<b>\$90,016</b>

**Finding 8 (cont'd)**

**Table 8-2**  
**Wastewater Revenues**

<b>Description</b>	<b>Utility Balance 12/31/2014</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/2014</b>
Wastewater Revenues	\$120,827	\$7,268	\$128,095
Transfer Fees	-	-	-
Late Fees	-	-	-
Non Sufficient Funds Fees	-	-	-
Misc. Uncategorized	-	-	-
Reconnect Fee	-	-	-
Premise Visit	-	-	-
Meter Tampering	-	-	-
Total Revenue	\$120,827	\$7,268	\$128,095

**Effect on the General Ledger:** To be determined by the Utility.

**Effect on Staff Prepared Exhibits:** Adjust NOI by decreasing water Revenues of \$5,087 and increasing wastewater revenue of \$7,268 for the test year.

## **Finding 9: Additional Tariffs**

**Audit Analysis:** The Utility has stated that many customers have asked about paying their bills over the phone using their credit card. The Utility would like to have the flexibility of giving its customers this option for payment. The current tariff does not provide the Utility with a means to recoup fees for this service. A cursory review of the costs involved for this service shows that a fee of 2.7 percent with no monthly fee or an annual contract through a third party vendor is available. There is no guarantee that this service would remain without the monthly fee or annual contract in the future.

Banks also offer the option of collecting ACH funds. The fees for the current local banks are approximately \$25 per month as well as a per item charge of \$0.50.

In addition, the Utility charged late fees and non sufficient funds charges that are not allowed in the current tariff. The analyst may want to confer with the Utility to see if these charges should be incorporated into the tariff.

**Effect on the General Ledger:** For Information purpose only.

**Effect on Staff Prepared Exhibits:** For Information purposes only.

## Finding 10: Operation and Maintenance Expense

**Audit Analysis:** The Utility's general ledger reflects water and wastewater total O&M Expense of \$67,530 and \$160,617, respectively for the test year. Audit staff made adjustments to the test year expenses based on our review of supporting documentations. A summary of the adjustments follows in Tables 10-1 and 10-2.

**Table 10-1**  
**Water O&M**

Acct. No.	Description	Utility Balance 12/31/2014	Audit Adjustments	Audit Balance 12/31/2014
610	Purchased Water	\$1,149	\$0	\$1,149
615	Purchased Power	3,000	220	3,220
616	Fuel For Power Production	40	0	40
618	Chemicals	3,440	31	3,472
620	Materials and Supplies	115	0	115
630	Contractual Services - Billing	0	0	0
631	Contractual Services - Professional	1,000	(1,000)	0
633	Licenses, Fees, and Dues	150	(150)	0
635	Contractual Services - Testing	108	133	241
636	Contractual Services - Other	47,965	(7,026)	40,939
640	Rents	3,070	(3,070)	0
650	Transportation Expense	0	0	0
655	Insurance Expense	699	(536)	163
663	Repairs and Maintenance	96	0	96
665	Regulatory Commission Expense	4,294	(3,794)	500
670	Bad Debt Expense	115	0	115
675	Miscellaneous Expenses	2,289	(1,544)	745
		<b>\$67,530</b>	<b>(\$16,735)</b>	<b>\$50,795</b>

Account 615 - Purchased Power. The Utility recorded purchased power invoices totaling \$3,000 for the test year. Audit staff calculated the invoices presented by the Utility for the purchased power to be \$3,220. An adjustment of \$220 is required to the account.

## **Finding 10 (cont'd)**

Account 618 – Chemicals. The Utility recorded chemical invoices totaling \$3,440 for the test year. During the audit process, the audit staff discovered that an invoice of \$285 was incorrectly recorded as \$373 in the general ledger during the month of August. In addition, the Utility did not add a December invoice of \$119 to the general ledger. Audit staff recorded chemicals to be \$3,472 with an adjustment of \$31 ( $\$285 + \$119 - \$373$ ).

Account 631 – Professional Contractual Services. The Utility recorded an invoice for consultation fees from GAI Consultants of \$2,000 for the present rate case. These fees are removed from the account, reclassified into Account 665 - Regulatory Commission Expense, and amortized over four years.

Account 633 – Contractual Services -Legal. The Utility recorded its annual filing fee payment of \$150 to the Florida Division of Corporations in this account. This amount should be reclassified into Account 675/775 and divided evenly between water and wastewater respectively.

Account 635 – Testing. We increased account 635 by \$133. The Utility did not add the December 2014 invoice to the general ledger.

Account 636 – Contractual Services – Other. We reduced the Account by \$7,026 for the following reasons:

- A) \$288 represents the difference of the invoices presented to audit staff and the recorded amount in the general ledger.
- B) \$3,000 represents the discrepancy between the annual payments of an employee/subcontractor recorded in the general ledger and the amount presented to the audit staff.
- C) \$1,738 represents unsupported invoices.
- D) \$2,000 represents the filing fees to Florida Public Service Commission for the present staff-assisted rate case. This amount is reclassified to Accounts 665 and 765 with each account receiving \$1,000.

Account 640 – Rent. The Utility assigns an annual cost of \$3,070 for office space rental based on what was allowed in the prior Order. The Utility is in a different facility than it was then, and shares space with non-regulated businesses. Audit staff asked for documentation to determine the appropriate amount to allocate to water and wastewater. The Utility declined to provide any additional support. Therefore, audit staff is removing the entire amount as unsupported.

Account 655 – Insurance Expense. The liability insurance includes coverage for non regulated property such as the swimming pool and clubhouse. Based on reviewing the policy, we calculated the premium for just the water and wastewater plant to be \$326. We allocated this evenly between water and wastewater.



**Finding 10 (cont'd)**

Account 665 – Regulatory Commission Expense. The Utility included \$4,294 that represents the Regulatory Assessment Fee (RAF) for 2013 in the Account. Audit staff reclassified this amount to Taxes Other Than Income and added the amortization expense of \$250 that is reclassified from Account 631, and included \$250 which is one year of amortization of the \$1,000 filing fee that was originally charged to Account 636.

Account 675 – Miscellaneous Expense. Audit staff calculated invoices presented to them to be \$745. The invoices include such things as annual report payment to the Florida Division of Corporations, and monthly billing mail outs.

**Table 10-2**  
**Wastewater O&M**

<b>Acct. No.</b>	<b>Description</b>	<b>Utility Balance 12/31/2014</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/2014</b>
710	Purchased Wastewater Treatment	\$117,987	\$0	\$117,987
711	Sludge Removal Expense	0	0	0
715	Purchased Power	4,676	(525)	4,151
716	Fuel for power production	0	0	0
718	Chemicals	0	0	0
720	Materials and Supplies	115	0	115
730	Contractual Services - Billing	0	0	0
731	Contractual Services - Professional	1,400	(1,000)	400
735	Contractual Services - Testing	0	0	0
736	Contractual Services - Other	25,496	(6,353)	19,143
740	Rents	3,070	(3,070)	0
750	Transportation Expense	0	0	0
755	Insurance Expense	699	(536)	163
763	Repairs and Maintenance	96	0	96
765	Regulatory Commission Expense	5,454	(4,954)	500
770	Bad Debt Expense	115	0	115
775	Miscellaneous Expenses	1,509	(764)	745
		<u>\$160,617</u>	<u>(\$17,202)</u>	<u>\$143,415</u>

Finding 10 (cont'd)

Account 715 - Purchased Power. The Utility recorded purchased power invoices totaling \$4,676 for the test year. Audit staff calculated the invoices presented to be \$4,151. An adjustment of \$525 is required for the account.

Account 731 – Professional Contractual Services. The Utility recorded \$1,400 as consultation fee in the account, but presented an invoice of \$2,000 from GAI Consultants for the present rate case. Audit staff amortized the amount of \$1,000 over four years and reclassified the Amortization expense of \$250 to Account 765 - Regulatory Commission Expense.

Account 736 – Contractual Services – Other. We reduced the Account by \$6,353 for the following reasons:

- A) \$2,623 represents the difference between the invoices presented to the audit staff and the ones recorded in the general ledger.
- B) \$3,000 represents the discrepancy between the annual payments of an employee/subcontractor recorded in the general ledger and the amount presented to the audit staff.
- C) \$730 represents unsupported invoices.

Account 740 – Rent. The Utility assigns an annual cost of \$3,070 for office space rental based on what was allowed in the prior Order. The Utility is in a different facility than it was then, and shares space with non-regulated businesses. Audit staff asked for documentation to determine the appropriate amount to allocate to water and wastewater. The Utility declined to provide any additional support. Therefore, audit staff is removing the entire amount as unsupported.

Account 755 – Insurance Expense. The liability insurance includes coverage for non regulated property such as the swimming pool and clubhouse. Based on reviewing the policy, we calculated the premium for just the water and wastewater plant to be \$326. We allocated this evenly between water and wastewater.

Account 765 – Regulatory Commission Expense. The Utility included \$5,454 that represents the Regulatory Assessment Fee (RAF). Audit staff classified the amount to Taxes Other Than Income and added amortization expense of \$250 that is classified from Account 731 and included \$250 which is one year of amortization of the \$1,000 filing fee that was originally charged to Account 636.

Account 775 – Miscellaneous Expense. Audit staff calculated the invoices presented to them to be \$ 745 and classified \$1,000 from Account 636. The invoices include such things as annual and monthly mail outs. Payment to the Florida Division of Corporation

Working capital adjustments for water and wastewater operations are calculated to be \$6,349 and \$17,927, respectively.

**Effect on the General Ledger:** To be determined by the Utility.

**Effect on Staff Prepared Exhibits:** Reduce O&M Expenses by \$16,735 and \$17,202 for water and wastewater, respectively for the test year.

**Finding 11: Taxes Other than Income**

**Audit Analysis:** The Utility recorded Tangible taxes in the general ledger of \$1,433 and \$1,925 for water and wastewater, respectively, for the test year. The Utility recorded 2013 Regulatory Assessment Fees (RAF) of \$4,294 and \$5,454 for water and wastewater, respectively. The Utility did not record Real Estate Taxes in the general ledger but provided four real estate bills for the four parcels of land. If wastewater land is reduced, the amount of real estate taxes attributable to wastewater would need to be reduced also.

Based on Finding 3, audit staff included the real-estate taxes of the operational water well site of \$246. Audit staff calculated the RAF based on Finding 7 to be \$4,018 (\$89,287 x 4.5%) and \$5,760 (\$127,990 x 4.5%) for water and wastewater, respectively for the test year.

Tables 10-1 and 10-2 show adjustments for Taxes Other Than Income (TOTI).

**Table 11-1**  
**Water TOTI**

	<b>Utility Balance 12/31/14</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/2014</b>
Real Estate Taxes	\$0	\$246	\$246
Regulatory Assessment Fee	4,294	(276)	4,018
Tangible Taxes	1,433	444	1,877
	<b>\$5,727</b>	<b>\$414</b>	<b>\$6,141</b>

**Table 11-2**  
**Wastewater TOTI**

	<b>Utility Balance 12/31/14</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/14</b>
Real Estate Taxes	\$0	\$0	\$0
Regulatory Assessment Fee	5,454	306	5,760
Tangible Taxes	1,925	(48)	1,877
	<b>\$7,379</b>	<b>\$258</b>	<b>\$7,637</b>

**Effect on the General Ledger:** None.

**Effect on Staff Prepared Exhibits:** Taxes Other Than Income were increased by \$414 and \$258 for water and wastewater, respectively.

Exhibits

**Exhibit 1: Rate Base**

**Orchid Springs Development Corporation  
Rate Base  
As of December 31, 2014**

<b>Water Operations</b>	<b>Utility Balance 12/31/2014</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/2014</b>	<b>Simple Avg. Per Audit</b>
Utility Plant in Service	\$249,136	\$19,878	\$269,014	\$269,014
Land	480	1,202	1,682	1,682
Accumulated Depreciation	(218,520)	(42,943)	(261,463)	(258,650)
CIAC	(171,516)	0	(171,516)	(171,516)
Accumulated Amortization of CIAC	171,252	0	171,252	171,142
Working Capital	0	6,349	6,349	6,349
<b>Total Rate Base</b>	<b>\$30,832</b>	<b>(\$15,514)</b>	<b>\$15,318</b>	<b>\$18,021</b>

<b>Wastewater Operations</b>	<b>Utility Balance 12/31/2014</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/2014</b>	<b>Simple Avg. Per Audit</b>
Utility Plant in Service	\$668,207	(\$17,405)	\$650,802	\$650,273
Land	58,860	(58,860)	0	0
Accumulated Depreciation	(484,173)	16,786	(467,387)	(467,317)
CIAC	(302,109)	0	(302,109)	(302,109)
Accumulated Amortization of CIAC	302,109	0	302,109	302,109
Working Capital	0	17,927	17,927	17,927
<b>Total Rate Base</b>	<b>\$242,894</b>	<b>(\$41,552)</b>	<b>\$201,342</b>	<b>\$200,883</b>

Note: The Water CIAC of \$171,516 will be fully amortized by August 2015.

## Exhibit 2: Capital Structure

**Orchid Springs Development Corporation  
Capital Structure  
As of December 31, 2014**

<b>Description</b>	<b>Utility Balance 12/31/14</b>	<b>Audit Adjs.</b>	<b>Audit Balance 12/31/14</b>	<b>Simple Avg.</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost of Capital</b>
Common Equity(1)	\$16,000	\$0	\$16,000	\$8,000	0.036	11.16%	0.40%
Long Term Notes	187,998	0	187,998	199,086	0.897	4.50%	4.04%
Customer Deposits	14,990	0	14,990	14,798	0.067	2%	0.13%
<b>Total</b>	<b>\$218,988</b>	<b>\$0</b>	<b>\$218,988</b>	<b>\$221,884</b>			<b>4.57%</b>

(1) Common Equity cost rate is per Commission Order PSC-14-0272-PAA-WS, issued 05/29/2014.

### Exhibit 3: Net Operating Income

**Orchid Springs Development Corporation**  
**Net Operating Income**  
**12-Months Ended December 31, 2014**

<b>Water Operations</b>	<b>Utility Balance 12/31/14</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/14</b>
Operating Revenues	\$95,103	(\$5,087)	\$90,016
Operating Expenses			
Operation & Maintenance	67,530	(16,735)	50,795
Depreciation Expense	2,215	3,413	5,628
Amortization Expense (CIAC)	(479)	-	(479)
Taxes Other Than Income	5,727	414	6,141
Income Taxes	0	0	0
Total Operating Expenses	74,993	(12,908)	62,085
Operating Income	\$20,110	\$7,821	\$27,931
<b>Wastewater Operations</b>	<b>Utility Balance 12/31/14</b>	<b>Audit Adjustments</b>	<b>Audit Balance 12/31/14</b>
Operating Revenues	\$120,827	\$7,268	\$128,095
Operating Expenses			
Operation & Maintenance	160,617	(17,202)	143,415
Depreciation Expense	11,134	(7,823)	3,311
Amortization Expense (CIAC)	0	0	0
Taxes Other Than Income	7,379	258	7,637
Income Taxes	0	0	0
Total Operating Expenses	179,130	(24,767)	154,363
Operating Income	(\$58,303)	\$32,035	(\$26,268)