

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: September 1, 2016

TO: Office of Commission Clerk

FROM: Lynn M. Deamer,  Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 160143-WU
Company Name: Charlie Creek Utilities, LLC
Company Code: WU975
Audit Purpose: A1b - Staff Assisted Rate Case
Audit Control No.: 16-182-4-1

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 Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cm

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
Miami District Office

Auditor's Report

Charlie Creek Utilities, LLC
Staff-Assisted Rate Case

12 Months Ended December 31, 2015

Docket No. 160143-WU
Audit Control No. 16-182-4-1

July 29, 2016

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

Yeh Ngo
Audit Manager

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

Gabriela Leon
Audit Staff

A handwritten signature in blue ink, appearing to read "Marisa Glover", written over a horizontal line.

Marisa Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report set forth by the Division of Accounting and Finance in its audit service request dated June 29, 2016. We have applied these procedures to the attached schedules prepared by the audit staff in support of Charlie Creek Utilities, LLC's request for a Staff-Assisted Rate Case in Docket No. 160143-WU.

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

Objectives and Procedures

General

Definitions

CCU/Utility refers to Charlie Creek Utilities, LLC.

FUS1 refers to Florida Utility Services 1, LLC.

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.).

The test year for the instant proceeding is the historical twelve months ended December 31, 2015.

Background

Charlie Creek Utilities, LLC (Utility) is a Class C utility serving approximately 158 residential water customers located in Hardee County. The Utility was purchased on November 28, 2014. The buyer and seller executed an asset purchase agreement on November 11, 2014, for \$100. The transaction was finalized on November 28, 2014. The buyer assumed operations in November 2014 and filed an application for original certificate on August 21, 2015. The original certificate was approved by Order No. PSC-16-0043-PAA-WU, issued on January 25, 2016. The order did not establish balances for rate base components.

The original certificate audit could not establish the UPIS balance because no records existed. The audit did include a land balance calculated by using \$1,925 in documentary stamps indicated on the face of the deed divided by the county clerk's 1990 recording fee of \$0.55 per \$100 in purchase price ($(\$1,925 / \$0.55) \times \$100$). The land value is \$12,050, as of November 28, 2014 ($\$5,000 \times 2.41$ acres). The owner did not request an acquisition adjustment. In the current audit, we determined the UPIS balance by tracing 2015 additions to supporting documentation, and calculating accumulated depreciation based on these additions.

The owner, Mr. Smallridge, also owns Pinecrest Utilities, LLC; Holiday Gardens Utilities, LLC; Crestridge Utilities, LLC; and East Marion Utilities, LLC. Mr. Smallridge also manages West Lakeland Wastewater, Inc., Four Points Utility Corporation, Bimini Bay Utilities Corporation, and Lake Forest Utility. As of January 1, 2015, Mr. Smallridge has been recording common costs on FUS1's books. Common costs include salaries, employee benefits, rent, electric, telephone, internet, transportation, material and supplies, office supplies, and postage. These costs were allocated among all the utilities based on customer count.

Mr. Smallridge files a Form 1040, which includes Schedule C-Profit or Loss from Business. One of these schedules represented Charlie Creek Utilities, LLC.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedure: We reviewed the Utility's accounting system by reviewing the records provided for this proceeding. No exceptions 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 was put in service, and 4) Adjustments required in the Utility's last transfer proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for UPIS, as of January 1, 2015 to the general ledger. We reviewed the Utility's general ledger for asset additions, retirements and adjustments. We scheduled water UPIS activity from January 1, 2015 to December 31, 2015. We sampled and traced asset additions to supporting documentation. We examined related party transactions with other utilities owned or managed by Mr. Smallridge; including the common plant for office furniture and equipment, transportation and tools, shop, and garage equipment. We determined the year-end and simple average UPIS balance as of December 31, 2015. Findings 1 and 2 discuss the plant in service and allocated common plant, respectively.

Land & 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 transfer proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for land as of January 1, 2015 to the general ledger. We determined the year-end and simple average land balance as of December 31, 2015. We noted that there had been no land additions during the test year.

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, F.A.C., 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last transfer proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for accumulated depreciation, of January 1, 2015 to the general ledger. We calculated accumulated depreciation for water using the depreciation rates established by Rule 25-30.140(2), F.A.C - Depreciation. We determined the year-end and simple average accumulated depreciation balance as of December 31, 2015. Our recommended adjustments to accumulated depreciation are discussed in Findings 1 and 2.

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: The Utility does not have CIAC.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 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: The Utility does not have accumulated amortization of CIAC.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

Procedures: We calculated the working capital adjustment for the test year using one-eighth of Operation and Maintenance (O&M) Expense as required by the Rule. Our recommended working capital adjustments are discussed in Findings 5 & 6.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We reviewed the 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, 2015. Our recommended capital structures adjustments are discussed in Finding 3.

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 NARUC USOA.

Procedures: We determined individual customer consumption for the test year using the Utility's monthly billing registers. We normalized the number of bills by adjusting for customers moving in or out to reflect 12 months of bills for each service address with the data

obtained from the billing registers. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the general ledger. We determined whether the Utility is charging its authorized tariff rates. The miscellaneous revenues charged to the customers were agreed to the appropriate tariffs. Our recommended adjustment to operating revenue is discussed in Finding 4.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether Operation and Maintenance Expense (O&M) 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 invoices for the Utility's direct O&M Expense for the test year. We ensured that all expenses we reviewed were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. We examined related party transactions with other utilities owned or managed by Mr. Smallridge including the salaries from FUS1. We have determined the most recent costs that are common to all the utilities, and calculated an allocation percentage based on number of customers. Our recommended adjustments for O&M Expense for the test year are discussed in Findings 5 & 6.

Depreciation Expense

Objectives: The objectives were to determine whether depreciation expense is properly calculated and recorded in compliance with the NARUC USOA.

Procedures: We calculated the Utility's depreciation expense for the test year ended December 31, 2015, using the rates established by Rule 25-30.140, F.A.C. CIAC amortization expense was not calculated because the Utility does not have any CIAC. Our recommended adjustments for depreciation are discussed in Findings 1 and 2.

Taxes Other than Income

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

Procedures: We scheduled the Utility's TOTI Expense for the test year using the supporting documentation provided. We included tangible property taxes and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. In addition, we recalculated the allocated payroll taxes based on the employee salaries from FUS1 using the applicable social security rates and the Medicare rates. Our recommended adjustments for TOTI expense for the test year are discussed in Finding 8.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: Rate Base has never been established for this Utility. Based on the Transfer Order in Docket No. 150186-WU, Audit Control No. 15-265-4-1, the UPIS balances could not be determined because the prior owner's records were destroyed.

Audit staff recalculated and tested the plant additions and depreciation accruals for all water accounts since the transfer audit as of November 28, 2014 through December 31, 2015. We noted the Utility installed new water meters in Account 334 –Meters and Meter Installation, but only recorded the cost of the meters and not the associated labor charges. In addition the Utility did not record several charges related to the purchase and repair of the pumps, wells, and mains.

The utility plant was understated by \$6,976, and accumulated depreciation and depreciation expense were understated by \$98 as shown in Tables 1-1 through 1-3.

Table 1-1

Audit Finding 1

Account 101-Utility Plant in Service (UPIS)

NARUC		Per Utility		Per Audit	Average
Sub-Accts	Account Description	@12/31/2015	Adjustments	@12/31/2015	Test Year
307.00	Wells & Springs		\$ 926	\$ 926	\$ 463
309.00	Supply Mains		\$ 1,800	\$ 1,800	\$ 900
311.00	Pumping Equipment (Electric)	\$ 588	\$ 3,890	\$ 4,478	\$ 2,239
334.00	Meters & Meter Installations	\$ 2,456	\$ 360	\$ 2,816	\$ 1,408
Total Water UPIS		\$ 3,044	\$ 6,976	\$ 10,020	\$ 5,010

Table 1-2

Account 108-Accumulated Depreciation

NARUC

Sub-Accts	Account Description	Per Utility	Adjustments	Per Audit	Average
		@12/31/2015		@12/31/2015	Test Year
307.00	Wells & Springs		\$ (17)	\$ (17)	\$ (9)
309.00	Supply Mains		\$ (28)	\$ (28)	\$ (14)
311.00	Pumping Equipment (Electric)	\$ (35)	\$ (114)	\$ (149)	\$ (75)
334.00	Meters & Meter Installations	\$ (144)	\$ 61	\$ (83)	\$ (41)
Total Water Accumulated Depreciation		\$ (179)	\$ (98)	\$ (277)	\$ (139)

Table 1-3

Account 403-Depreciation Expense

NARUC Sub-Accts	Account Description	Per Utility @12/31/2015	Adjustments	Per Audit @12/31/2015
307.00	Wells & Springs		\$ 17	\$ 17
309.00	Supply Mains		\$ 28	\$ 28
311.00	Pumping Equipment (Electric)	\$ 35	\$ 114	\$ 149
334.00	Meters & Meter Installations	\$ 144	\$ (61)	\$ 83
Total Water Depreciation Expense		\$ 179	\$ 98	\$ 277

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

Effect on Staff Prepared Exhibits: Audit staff determined UPIS to be \$10,020, and the simple average UPIS to be \$5,010 as of December 31, 2015. We determined the accumulated depreciation to be \$277, and the simple average to be \$139 as of December 31, 2015. Audit staff determined depreciation expense to be \$277 for the year ended December 31, 2015.

Finding 2: Allocation of Common Plant

Audit Analysis: Mr. Smallridge owns Pinecrest Utilities, LLC; Holiday Gardens Utilities, LLC; Crestridge Utilities, LLC; Charlie Creek Utilities, LLC; and East Marion Utilities, LLC. He also manages West Lakeland Wastewater, Inc., Four Points Utility Corporation, Bimini Bay Utilities Corporation, and Lake Forest Utility. As of January 1, 2015, Mr. Smallridge has been recording common costs on Florida Utility Services 1, LLC's (FUS1) books. These costs were allocated among all the utilities based on customer count. Finding 7 discusses the current allocation methodology. Based on supporting invoices, audit staff has calculated allocated plant as shown in Table 2-1.

Account - Description	Audit Balance	Simple	Accum Dep	Simple	Depreciation
	12/31/2015	Average	12/31/2015	Average	12/31/2015
340 Office Furniture & Equip.	\$ 1,349	\$ 1,349	\$ (173)	\$ (285)	\$ 225
341 Trans. Equip.	20,301	18,860	74	2	3,143
343 Tools, Shop and Garage Equip.	120	614	(696)	(222)	41
	<u>\$ 21,770</u>	<u>\$20,823</u>	<u>\$ (795)</u>	<u>\$ (505)</u>	<u>\$ 3,409</u>
Charlie Creek Allocation at 7%	1,524	1,458	(56)	(35)	239
Total:	<u>\$ 1,524</u>	<u>\$ 1,458</u>	<u>\$ (56)</u>	<u>\$ (35)</u>	<u>\$ 239</u>
Utility balance - 12/31/2015:	-	-	-	-	-
Audit Adjustment:	<u>\$ 1,524</u>		<u>\$ (56)</u>		<u>\$ 239</u>

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

Effect on Staff Prepared Exhibits: Audit staff determined UPIS to be \$1,524, and the simple average UPIS to be \$1,458 as of December 31, 2015. We determined accumulated depreciation to be a debit of \$56 and the simple average accumulated depreciation to be a debit of \$35 as of December 31, 2015. We also determined depreciation expense to be \$239 for the year ended December 31, 2015.

Finding 3: Capital Structure

Audit Analysis: According to the Utility’s general ledger, common equity has a credit balance of \$15,931 as of December 31, 2015. This balance consists of a beginning balance of \$5,701, attributed to revenue earned by the prior owner in 2014, which we removed. Order No. PSC-16-0043-PAA-WU from Docket No. 150186-WU, did not establish any rate base components. However, the Utility recorded a transaction, which corresponded to balances noted in the audit report issued in Docket No. 150186-WU, Audit Control No. 15-265-4-1. The transaction increased land by \$12,050, increased customer deposits by \$1,820, and the offsetting entry was a credit of \$10,230 to common equity. Audit staff also removed this entry. We determined that the ending balance should be the Utility’s net loss for 2015 of \$3,514.

We traced the long-term debt of \$8,660 to the supporting documentation. The original loan value was \$12,000 and was entered into on May 14, 2015. The loan is between FUS1 and Iberia Bank. The loan is for two years and has a cost rate of 6.6 percent. Audit staff calculated the average to be \$10,330, which is the simple average of the beginning loan value plus the value at year end.

According to the Utility’s general ledger, customer deposits have a balance of \$2,555 as of December 31, 2015. Audit staff determined customer deposits to be \$1,956 by reviewing the deposit log. We traced the customer deposits to the Commission approved tariff, and we noted that the Utility pays two percent interest on deposits when a refund check is issued. We also noted that the Utility refunds the deposits within the time frame allowed by Rule 25-30.311, F.A.C. Audit staff calculated the average to be \$978, which is the simple average of the beginning balance of zero and the year-end balance of \$1,956.

The balances for the capital structure are shown in Table 3-1. Since including negative equity in the capital structure would penalize the Utility by understating the overall rate of return, the negative equity of \$3,514 was adjusted to zero as shown below.

Table 3-1

Common Equity

NARUC	Acc't Description	Per Utility		Per Audit		Average
		@12/31/2015	Adjustment	@12/31/2015		
218	Common Equity	\$ 15,931	\$ (15,931)	\$ -		\$ -
224	L-T Debt	8,660	-	8,660		10,330
235	Customer Deposits	2,555	(599)	1,956		978
	Total	\$ 27,146	\$ (16,530)	\$ 10,616		\$ 11,308

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

Effect on Staff Prepared Exhibits: Audit staff determined that the year-end and the simple average common equity balances were adjusted to zero as of December 31, 2015. We also determined long-term debt to be \$8,660, and the simple average long-term debt to be \$10,330 as

of December 31, 2015. Audit staff determined customer deposits to be \$1,956, and the simple average customer deposits to be \$978 as of December 31, 2015.

Finding 4: Operating Revenue

Audit Analysis: The Utility's operating revenue amount was \$68,259 for the twelve months ended December 31, 2015. We recalculated test year revenues using the usage from the billing registers and the approved tariff rates based on Order No. PSC-16-0043-PAA-WU for the test year. Audit staff determined operating revenue to be \$65,621 as shown in Table 4-1.

Table 4-1

Annualized Operating Revenues

NARUC	Description	General Ledger	Adjustments	Annualized Revenue
400	Operating Revenues	\$63,582	(\$3,926)	\$59,656
474	CCCF	\$0	\$1,425	\$1,425
474	Initial Connection	\$0	\$320	\$320
474	D&R	\$1,562	(\$212)	\$1,350
474	Violation Connection	\$0	\$100	\$100
474	Premise Visit	\$0	\$10	\$10
474	Late Charges	\$3,115	(\$355)	\$2,760
	Total	\$68,259	(\$2,638)	\$65,621

The Utility's general ledger only contains two accounts for the Miscellaneous Service Charges:

- Account 474.1 Late Fee
- Account 474.3 Premise, Disconnect and Reconnect.

Audit staff noted a \$50 tampering fee, which the Utility's does not have an approved tariff rate for the tampering fee; therefore, we removed this charge from the operating revenue for the test year.

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

Effect on Staff Prepared Exhibits: Audit staff determined the operating revenues to be \$65,621 for the test year ended December 31, 2015.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility's direct O&M expense amount was \$34,101 for the twelve months ended December 31, 2015. However, audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification and whether the expenses were utility related. Audit staff determined Direct O & M expenses to be \$28,950 as shown in Table 5-1.

Table 5-1

O & M Expenses

NARUC	Account Description	Per Utility 12/31/2015	Adjustments	Per Audit 12/31/2015
615	Purchased Power	\$ 3,772	\$ 392	\$ 4,164
616	Fuel for Power	496	(496)	-
618	Chemicals	1,829	-	1,829
620	Materials and Supplies	1,293	(1,144)	148
	Contractual Services			
631	Profession	1,592	-	1,592
635	Contractual Services-Testing	5,532	-	5,532
636	Contractual Services-Other	15,234	(5,472)	9,762
650	Transportation Expense	(496)	496	-
655	Insurance Expense	1,634	-	1,634
670	Bad Debt Expense	350	1,615	1,965
675	Miscellaneous Expense	2,865	(542)	2,323
	Total	\$ 34,101	\$ (5,151)	\$ 28,950
	Working Capital			\$ 3,619

Based on the review of the supporting documentation, the adjustments that follow were made to test year Direct O & M Expenses.

1. For Account 615 - Purchased Power, we included an unrecorded bill of \$392.
2. For Account 616 - Fuel for Power, we removed \$496 since no documentation was provided to support this expense.
3. For Account 620 - Materials and Supplies, audit staff rolled the amounts the Utility booked to a non-NARUC Account 647 - Repairs and Maintenance into the Utility balance of Account 620, which is a balance of \$1,293. We removed \$1,144 related to two invoices as these should be capitalized. The first invoice is for the repair of a 7.5hp pump for \$504. The second invoice is for the repair of a pump and the purchase of a new impeller for a total of \$640.
4. For Account 636 - Contractual Services, we removed \$5,472 for expensed items that should have been recorded in Plant. The five invoices are: 1. Purchase of 30gpd pulsafeder series A for \$590, 2. Replace control box at well #2 for \$508, 3. Refurbish well #2 well pumping equipment for \$2,156, 4. Install 2 inch flush point for \$1,800, 5. Install starter on well #1 for \$418.
5. Account 670 - Bad Debt Expense, we increased this account by \$1,615 which is the difference between the estimated amount of \$350 and the actual bad debt expense of \$1,965 per the Aging Account Report.

6. For Account 675 - Miscellaneous Expenses, audit staff rolled the amounts the Utility booked to several non-NARUC accounts into the Utility balance for Account 675. Therefore, this account includes a business license fee of \$750, a bank charges of \$645, office supplies of \$100, credit card convenience charges of \$718, interest expense on loans of \$407, a miscellaneous-other charge of \$137, and legal expenses of \$108. Audit staff did not adjust the legal expenses because it would have been a reclassification between O&M expense accounts. These expenses totaled \$2,865, and are reflected in the Utility balance for Account 675 as shown in Table 5-1.

We removed \$750 for the filing fee related to the original certificate docket as this is nonrecurring. For bank charges, we removed \$105, which relates to a \$5 non-sufficient funds fee and \$100 for closing costs on a loan. We removed the \$100 related to the purchase of the Utility as this is non-recurring. The Utility pays a financial institution a convenience fee to allow customers to pay their bill with a debit or credit card. The Utility recorded \$718 for March through August expenses. We increased this amount by \$635 for five months of bills that the Utility did not record, but provided us with the supporting documentation. We, then, calculated an amount for the twelfth month $(\$718 + \$635)/11 = \$123$. This would be a total increase of \$758 $(\$635 + \$123)$. We removed the \$407 for interest on a loan. We removed \$137 expense related to the original certificate docket and increased the account by \$199 for an unrecorded expense for the video recording of the annual customer's meeting. Our adjustment is an increase of \$542 $(-\$750 - \$105 - \$100 + \$758 - \$407 - \$137 + \$199)$.

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

Effect on Staff Prepared Exhibit: Audit staff determined that direct O&M expense to be \$28,950 and working capital to be \$3,619 for the test year ended December 31, 2015.

Finding 6: Allocated O&M Expenses

Audit Analysis: The Utility's allocated O&M expense amount was \$31,359 for the twelve months ended December 31, 2015. Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were Utility related. We also reviewed how the expenses were allocated from FUS1. Finding 7 discusses the applied allocation method. Audit staff determined allocated O&M expenses to be \$26,623 as shown in Table 6-1.

Table 6-1

Allocated O&M Expenses		Per Utility G/L Allocated		
NARUC	Acct. Description	Amount	Adjustment	Per Audit
601	Salaries & Wages - Employees	\$ 12,876	\$ (1,719)	\$ 11,157
603	Salaries & Wages - Officers	5,700	(1,500)	4,200
604	Employee Pensions and Benefits	1,838	(260)	1,578
615	Purchased Power	18	(18)	-
618	Chemicals	165	(165)	-
620	Materials & Supplies	1,633	369	2,002
636	Contractual Services - Other	1,471	(495)	976
640	Rents	1,258	(104)	1,154
650	Transportation Expense	1,805	146	1,951
655	Insurance Expense	301	(301)	-
675	Miscellaneous Expenses	4,294	(689)	3,605
Total		\$ 31,359	\$ (4,737)	\$ 26,623
Working Capital Adjustment				\$ 3,328

Based on the review of FUS1's allocation methodology and supporting documentation, the adjustments that follow were made to the test year expenses.

1. For Account 601 – Salaries and Wages-Employees, we removed \$222 because the January 2015 payroll allocation included a 20 percent mark-up. We also removed \$929 from this account for payroll taxes recorded incorrectly to salaries and wages. We removed \$567 to annualize salaries based on the year-end customer account percentage of seven percent. This represents a decrease of \$1,719 (\$222 + \$929 + \$568) to Account 601 – Salaries & Wages-Employees.
2. For Account 603 - Salaries and Wages-Officers, we removed \$322 from this account for payroll taxes recorded incorrectly to salaries and wages. We also decreased this account by \$1,178. We determined that his actual salary to be \$4,200 based on his annual salary times the allocated percentage applicable for this Utility.
3. For Account 604– Employee Benefits, we decreased this account by \$260. After the review of the policies and payments made for current employees, we noted that the health insurance premiums had not been offset by one employee's reimbursement for his

spouse's coverage. The Utility originally recorded the allocated health insurance premiums in Account 655 – Insurance Expense for the months of January, February, and March. The February entry was duplicated in Account 604. Therefore, we removed the health insurance premiums of \$301 recorded in Account 655 – Insurance Expense.

4. For Account 615 - Purchased Power, we decreased this account by \$18 for an out of period expense.
5. For Account 618 – Chemicals, we decreased this account by \$165 related to a double entry.
6. For Account 620 - Materials and Supplies, we increased this account by \$369 for supported allocated expenses not recorded in the Utilities general ledger.
7. For Account 636 - Contractual Services-Other, we removed \$528 for an item that was recorded in January and February. We also increased this account by \$33 for supported allocated expenses not recorded in the Utilities general ledger. This represents a decrease of \$495 (\$33 – 528) for Account 636 – Contractual Services-Other.
8. For Account 640 – Rent, we removed \$104 to reflect the annualized rent expense for FUS1's current lease agreement.
9. For Account 650 – Transportation expense, we removed \$122 because FUS1 had been allocating a truck loan payment to all of the utilities owned or managed by Mr. Smallridge. We increased transportation expense by \$295, which reflects the allocated portion of the vehicle insurance on the two trucks owned by FUS1. We also decreased this account by \$27 for unsupported allocated transportation expense. The net effect of these adjustments is an increase of \$146 (-\$27 - \$122 + \$295) to Account 650 – Transportation Expense.
10. For Account 675 – Miscellaneous Expenses, we decreased this account by \$233, which represents allocated expenses that are not recoverable, i.e. a contribution and the cost of the employees' working lunches. We removed \$123 for unsupported expenses. We increased this account by \$17 for supported allocated expenses. We removed \$170 based on annualized expenses for FUS1's current expenses. We also removed \$179, which we reclassified to Account 640 – Rent. The net effect of these adjustments is a decrease of \$689 (\$233 + \$123 - \$17 + \$170 + \$180).

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

Effect on Staff Prepared Exhibits: Audit staff determined that allocated O&M expenses to be \$26,623 and working capital to be \$3,328 for the test year ended December 31, 2015

Finding 7: Allocation Methodology

Audit Analysis: During the review of FUS1's allocation schedules, audit staff noted that there were inconsistencies in the allocation method applied from month to month. We obtained the customer counts for each of the utilities that are owned or managed by Mr. Smallridge as of December 31, 2015. We compiled the allocation percentages used by the Utility in Table 7-1.

Table 7-1

Utility	Salary allocations -12/31/2015		Rent allocations - 12/31/2015	
	Number of Customers	All Employees	Number of Customers	Allocated Expenses
Holiday Gardens	446	20%	446	20%
Crestridge	597	26%	597	26%
West Lakeland	307	14%	307	14%
Pinecrest Utilities	128	6%	128	6%
Lake Forest Utilities	61	3%	61	3%
Charlie Creek Utilities	152	7%	152	7%
East Marion Utilites	103	5%	103	5%
Four Points Utilities	276	12%	276	12%
Bimini Bay Utilities	197	9%	197	9%
	2267	100%	2267	100%

Audit staff reviewed all of the transactions that were ultimately allocated to all nine utilities. Based on supporting documentation and using the seven percent for Charlie Creek, we made adjustments to allocated expenses as reported in Finding 6.

We also determined whether using Equivalent Residential Connections (ERCs) as an allocation methodology would be more useful as more systems are acquired. As Mr. Smallridge purchases more systems, we believe that the use of ERCs as the primary factor in allocating costs would spread costs more equitably across the Utilities.

However, audit staff used the customer counts in this proceeding.

Effect on the General Ledger: This is for informational purposes only.

Effect on the Filing: This is for informational purposes only.

Finding 8: Taxes Other than Income

Audit Analysis: We searched the Hardee County Property Appraiser’s website, which verified payment of the property tax. Audit staff noted that the Utility recorded the 2013 and 2014 property taxes paid in its 2015 general ledger, which we removed. We reclassified the payroll taxes, which were originally included in the allocated salaries. Finally, we calculated regulatory assessment fees based on audit calculated revenue. The adjustments to TOTI are shown in Table 8-1.

Table 8-1

Property Tax

NARUC	Description	Per Utility @12/31/2015	Adjustments	Per Audit @12/31/2015
408.3	Regulatory Assessment Fees	\$ -	\$ 2,953	\$ 2,953
408.5	Property Tax	5,993	(4,278)	1,714
408.6	Payroll Taxes	-	1,251	1,251
		\$ 5,993	\$ (74)	\$ 5,918

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

Effect on Staff Prepared Exhibits: Audit staff determined the TOTI balance to be \$5,918 for the test year ended December 31, 2015.

Exhibits

Exhibit 1: Rate Base

**CHARLIE CREEK UTILITIES LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 160143-WU; ACN 16-182-4-1
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 2015**

Description	Balance Per Utility as of December 31, 2015	Audit Adjustment	Audit Finding	Balance Per Audit as of December 31, 2015	Test Year Average
Utility Plant in Service	\$ 3,044	\$ 6,976	1	\$ 10,020	\$ 5,010
Utility Plant in Service - Allocated	\$ -	\$ 1,524	2	\$ 1,524	\$ 1,458
Land & Land Rights	\$ 12,050	\$ -		\$ 12,050	\$ 6,025
Accumulated Depreciation	\$ (179)	\$ (98)	1	\$ (277)	\$ (139)
Accumulated Depreciation - Allocated	\$ -	\$ 56	2	\$ 56	\$ 35
Contributions in Aid of Construction	\$ -	\$ -		\$ -	\$ -
Accumulated Amortization of CIAC	\$ -	\$ -		\$ -	\$ -
Working Capital Allowance			5	\$ 3,619	\$ 3,619
Working Capital Allowance - Allocated			6	\$ 3,328	\$ 3,328
Total Rate Base	\$ 14,915	\$ 8,458		\$ 30,320	\$ 19,336

Exhibit 2: Capital Structure

**CHARLIE CREEK UTILITIES LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 160143-WU; ACN 16-182-4-1
CAPITAL STRUCTURE
AS OF DECEMBER 31, 2015**

Capital Component	As of 12/31/2015			Average Per Audit	Ratio	Cost Rate	Average Weighted Cost
	Per Utility	Adjustments	Per Audit				
Common Equity	\$ 15,931	\$ (15,931)	\$ -	\$ -	0.00%	11.16%	0.000%
Long Term Debt	\$ 8,660	\$ -	\$ 8,660	\$ 10,330	91.35%	6.62%	6.047%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%	0.000%
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%	0.000%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%	0.000%
Customer Deposits	\$ 2,555	\$ (599)	\$ 1,956	\$ 978	8.65%	2.00%	0.173%
Total	\$ 27,146	\$ (16,530)	\$ 10,616	\$ 11,308	100.00%		6.22%

Common Equity cost rate is from Order No. PSC-16-0254-PAA-WS. P. 3

Exhibit 3: Net Operating Income

CHARLIE CREEK UTILITIES LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 160143-WU; ACN 16-182-4-1
SCHEDULE OF WATER NET OPERATING INCOME
FOR TEST YEAR ENDED DECEMBER 31, 2015

Description	Balance per Utility 9/30/2015	Audit Adjustments	Audit Finding	Balance per Audit 9/30/2015
Operating Revenues	\$ 68,259	\$ (2,638)	4	\$65,621
O&M Expenses	34,101	(5,151)	5	28,950
O&M Expenses - Allocated	31,359	(4,736)	6	26,623
Depreciation Expense	179	98	1	277
Depreciation Expense - Allocated	-	239	2	239
Amortization Expense	-	-		-
Taxes Other than Income	5,993	(1,326)	8	4,667
Taxes Other than Income - Allocated	-	1,251	8	1,251
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 71,632	\$ (9,625)		\$ 62,007
Net Operating Income (Loss)	\$ (3,373)	\$ 6,987		\$ 3,614