

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: January 3, 2017

TO: Office of Commission Clerk

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

RE: Docket No.: 160176-WS
Company Name: Four Lakes Golf Club, Ltd.
Company Code: WS815
Audit Purpose: A1b – Staff Assisted Rate Case
Audit Control No.: 16-245-2-1

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

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Four Lakes Golf Club, Ltd.
Staff-Assisted Rate Case

Twelve Months Ended August 31, 2016

Docket No. 160176-WS
Audit Control No. 16-245-2-1

November 15, 2016

A handwritten signature in black ink, reading "Ron Mavrides", written over a horizontal line.

Ron Mavrides
Audit Manager

A handwritten signature in blue ink, reading "Tomer Kopelovich", written over a horizontal line.

Tomer Kopelovich
Audit Staff

A handwritten signature in black ink, reading "Linda Hill", written over a horizontal line.

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 objectives set forth by the Division of Accounting and Finance in its audit service request dated August 31, 2016. We have applied these procedures to the attached schedules prepared by the audit staff in support of Four Lakes Golf Club, Ltd.'s request for a Staff-Assisted Rate Case in Docket No. 160176-WS.

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

Background

Definitions

Four Lakes or Utility refers to Four Lakes Golf Club, Ltd.

Test year refers to the 12-months ended August 31, 2016.

Utility Information

Four Lakes Golf Club, Ltd., is a Class C water and wastewater utility located in Polk County. The Utility serves a mobile park community with approximately 826 water and 820 wastewater customers

The Utility has been in operation since 1995 coming under the Florida Public Service Commission's jurisdiction in May 1996. Certificates numbers 608-W and 524-S were grandfathered in 1999.

Rate base has never been established. The Utility files a U. S. Income Tax Return as a Partnership.

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. As the general ledgers were only available from 2009, audit staff used the Utility's annual reports to establish balances prior to that period. The Utility's books and records are in compliance with the NARUC USOA.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, and 3) Retirements are made when a replacement asset was put in service.

Procedures: We determined the balances for water and wastewater UPIS using invoices provided by the Utility for the initial construction which began in 1993. Construction was completed for the plants in 1995 when service commenced. The PSC's engineering staff assisted us in categorizing those invoices for plant expenditures to the proper accounts. We reviewed the Utility's annual reports for 1998 through 2015 and compared reported additions and retirements to audit staff's findings. We determined the year-end and average balances as of August 31, 2016. Our recommended adjustments to UPIS are discussed in Finding 1.

Land & Land Rights

Objectives: The objectives were to determine whether utility land was recorded at original cost and is owned or secured under a long-term lease agreement.

Procedures: We determined the beginning balances for Land as of 1992 as that was the year the land was purchased for the construction of the utilities and related residential developments. We reconciled these amounts to the Utility's general ledger. We searched the Polk County Tax Collector's website for additional activity related to the Utility's land and determined that no additions or sales were made. We calculated the land values per documentary stamp tax for the warranty deed and two special warranty deeds the Utility provided. We determined the year-end and average balances as of August 31, 2016. Our recommendations for land are discussed in Finding 2.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation accruals are properly calculated and recorded based on Rule 25-30.140-Depreciation, Florida Administrative Code (F.A.C.) and that retirements are recorded when an asset was replaced.

Procedures: We determined the beginning balances of UPIS and used these balances as the basis for depreciable items. We depreciated the plant assets in compliance with Rule 25-30.140, F.A.C. We determined the year-end and average balances as of August 31, 2016. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 3.

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, and 3) Retirements are recorded when a contributed asset was replaced.

Procedures: We used the Utility's annual report to establish the basis for CIAC. We reconciled the annual reports to the general ledger. We determined the year-end and average balances as of August 31, 2016. Our recommended adjustments to CIAC are discussed in Finding 4.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., and that retirements are recorded when a contributed asset was replaced.

Procedures: We determined the beginning balances of CIAC and used these balances as the basis for amortization. We amortized CIAC in compliance with Rule 25-30.140, F.A.C. We determined the year-end and average balances as of August 31, 2016. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 4.

Working Capital

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

Procedure: We calculated Working Capital as of August 31, 2016, using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule 25-30.433(2), F.A.C.

Capital Structure

Objectives: The objectives were to determine whether the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital were properly recorded in compliance with Commission rules and that it accurately represented the ongoing utility operations.

Procedures: We verified there were no Customer Deposits as of August 31, 2016. We determined the Long-Term Debt balance as of August 31, 2016. We obtained the Equity balance per the general ledger as of August 31, 2016. We calculated a simple average for each component using the balances as of August 31, 2016, and August 31, 2015. We calculated the percent of rate base, rate, and composite rate for each component. Our recommended adjustment to Capital Structure is discussed in Finding 5.

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 Billing Report. We normalized the number of bills issued by adjusting for customers moving in or out to reflect 12 months of bills for each property. We calculated Revenues for water using the number of bills and gallonages. We compared the calculated Revenues obtained with the Water and Wastewater Revenues reported in the general ledger. We also verified several customers' bills to determine if the correct tariff rates were used. We verified that the Utility had not collected Miscellaneous Revenues to include late fee charges, returned check charges, and reconnect fees. We verified that non-utility revenues were not included in Revenues. Our recommended adjustments to Revenues are discussed in Finding 6.

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 invoices for the Utility's O&M Expense for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and its supporting documentation. We verified that non-utility expenses were not included in the Utility's O&M accounts. Our recommended adjustments to O&M are discussed in Finding 7.

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 and CIAC Amortization Expense are discussed in Findings 3 and 4.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) are: 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 developed a schedule for the Utility's TOTI Expense for the test year. We included Real Estate Taxes and Regulatory Assessment Fees (RAF) and confirmed the classification by the Utility. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI are discussed in Finding. 8.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: The Utility reported water and wastewater balances of 704,613 and \$1,373,940, respectively. Audit staff reduced total UPIS by a total of \$147,257 for water and \$366,532 for wastewater. These adjustments are summarized in Tables 1-1 and 1-2.

**Table 1-1
Water**

Acct. No.	Description	Balance Per Utility as of 8/31/2016	Audit Adjs.	Audit Balance as of 8/31/2016	Simple Average
301	Organization	\$500	(\$500)	\$0	\$0
302	Franchises	1,800	(1,800)	-	-
304	Structures and Improv.	14,906	5,146	20,052	20,052
307	Wells & Springs	62,227	78,999	141,226	122,776
309	Supply Mains	10,011	(7,798)	2,213	2,213
310	Power Generation Equipment	68,158	(40,854)	27,304	27,304
311	Pumping Equipment	48,053	(42,418)	5,635	5,635
320	Water Treatment Equipment	10,987	11,081	22,068	22,068
330	Distribution Reservoirs	13,683	(13,683)	-	-
331	Trans and Distrib. Mains	337,408	(90,790)	246,618	246,618
333	Services	26,340	35,950	62,290	62,290
334	Meters & Meter Installations	65,301	(58,561)	6,740	6,740
335	Hydrants	39,731	(20,571)	19,160	19,160
340	Office Furniture & Equipment	1,457	(1,457)	-	-
345	Power Generation Equipment	4,051	(4,051)	-	-
348	Other Tangible Plant	-	4,050	4,050	4,050
	Total	\$704,613	(\$147,257)	\$557,356	\$538,906

Acct. 301 – Organization – Decrease account by \$500 to remove unsupported items.

Acct. 302 – Franchises – Decrease account by \$1,800 to remove unsupported items.

Acct. 304 – Structures and Improvements – Increase account by \$5,146 to support existing invoices.

Acct. 307 – Wells and Springs – Increase by \$78,999 to support existing invoices.

Acct. 309 – Supply Mains – Decrease account by \$7,798 to remove unsupported items.

Finding 1 (Continued)

Acct. 310 – Power Generation Equipment – Decrease account by \$40,854 to remove unsupported items.

Acct. 311 – Pumping Equipment – Decrease account by \$42,418 to remove unsupported items.

Acct. 320 – Water Treatment Equipment – Increase account by \$11,081 to support existing invoices.

Acct. 330 – Distribution Reservoirs – Decrease account by \$13,683 to remove unsupported items.

Acct. 331 – Transmission & Distribution Mains – Decrease account by \$90,790 to remove unsupported items.

Acct. 333 – Services – Increase account by \$35,950 to support existing invoices.

Acct. 334 – Meter & Meter Installations – Decrease account by \$58,561 to remove unsupported items.

Acct. 335 – Hydrants – Decrease account by \$20,571 to remove unsupported items.

Acct. 340 – Office Furniture & Equipment – Decrease account by \$1,457 to remove unsupported items.

Acct. 345 – Power Generation Equipment – Decrease account by \$4,051 to remove unsupported items.

Acct 348 – Other Tangible Plant – Increase account by \$4,050 to support an existing invoice.

Finding 1 (Continued)

**Table 1-2
Wastewater**

Acct. No.	Description	Balance Per Utility as of 8/31/2016	Audit Adjs.	Audit Balance as of 8/31/2016	Simple Average
351	Organization	\$400	(\$400)	\$0	\$0
352	Franchises	2,028	(2,028)	-	-
354	Structure and Improv	174,030	7,328	181,358	181,358
360	Collection-Force	48,694	(38,200)	10,494	10,494
361	Collection-Gravity	650,880	(252,766)	398,113	398,113
363	Services to Customers	68,103	28,391	96,494	96,494
364	Flow Measuring Devices	6,169	11,415	17,584	17,584
365	Flow Measuring Installations	2,800	(2,800)	-	-
370	Receiving Wells	17,555	20,138	37,693	37,693
371	Pumping Equipment	62,461	(41,925)	20,536	18,717
380	Treatment and Disposal Equip.	334,418	(134,279)	200,139	198,326
381	Plant Sewers	-	43,416	43,416	43,416
389	Other Plant & Misc. Equipment	894	685	1,579	1,579
390	Office Furniture & Equipment	1,457	(1,457)	-	-
395	Power Operated Equipment	4,051	(4,051)	-	-
	Total	\$1,373,940	(\$366,532)	\$1,007,407	\$1,003,774

- Acct. 351– Organization – Decrease by \$400 to remove organization costs that were unsupported.
- Acct. 352 – Franchises – Decrease account by \$2,028 to remove unsupported items.
- Acct. 354 – Structure and Improvements – Increase account by \$7,328 to support existing invoices.
- Acct. 360– Collection – Force – Decrease account by \$38,200 to remove unsupported items.
- Acct. 361 – Collection – Gravity – Decrease account by \$252,766 to remove unsupported items.
- Acct. 363 – Services to Customers – Increase account by \$28,391 to support existing invoices.
- Acct. 364 – Flow Measuring Devices – Increase account by \$11,415 to support existing invoices.
- Acct. 365– Flow Measuring Installations – Decrease account by \$2,800 to remove unsupported items.
- Acct. 370 – Receiving Wells – Increase account by \$20,138 to support existing invoices.
- Acct. 371 – Pumping Equipment – Decrease account by \$41,925 to remove unsupported items.

Finding 1 (Continued)

Acct. 380 – Treatment and Disposal Equipment – Decrease account by \$134,279 to remove unsupported items.

Acct. 381 – Plant Sewers – Increase account by \$43,416 to support existing invoices.

Acct. 389 – Other Plant and Miscellaneous Equipment – Increase account by \$685 to support existing invoices.

Acct. 390 – Office Equipment and Furniture – Decrease account by \$1,457 to remove unsupported items.

Acct. 395 – Power Operated Equipment – Decrease account by \$4,051 to remove unsupported items.

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

Effect on Staff Prepared Exhibits: Reduce water UPIS by \$147,257 and wastewater UPIS by \$366,532 and reflect simple average amounts of \$538,906 for water and \$1,003,774 for wastewater.

Finding 2: Land

Audit Analysis: Audit staff acquired special warranty deeds and one warranty deed for the land for the water and wastewater sites. A value was ascertained by the documentation stamp tax on the deeds, and the Utility also claimed a large parcel (331 acres) utilized by the plants whose value the Utility claimed was different than could be determined from the documentary stamp tax. The Utility stated: “part of the cost of the large parcel, however, which is not able to be calculated from deed transfer rates, was an ownership stake in the deal. The sellers of the large parcel were also compensated with 50% ownership. So the land basis is not as easy as going to the deed transfer records and backing into a cost per acre. What we gave up in ownership should also be considered when looking at land valuations.”

Audit staff’s opinion is that the large parcel of 331 acres is excessive for strictly plant use. However, since the general ledger values are considerably less than the amount calculated by the documentary stamp tax, audit staff accepts the general ledger value for plant land as is, but defers to the analyst as to determine the acreage used by the water and wastewater plants and the costs associated with each.

Amounts per the General Ledger:

Water Plant Land =	\$38,979
Wastewater Plant Land =	<u>\$70,004</u>
TOTAL	\$108,983

Effect on the General Ledger: None

Effect on Staff Prepared Exhibit: We determined the simple average amounts of \$38,979 for water and \$70,004 for wastewater.

Finding 3: Accumulated Depreciation

Audit Analysis: The Utility's annual report reflects an Accumulated Depreciation balance of \$445,837 for the water plant and \$920,248 for the wastewater plant as of December 31, 2015. The 2015 annual report was used in lieu of the general ledger because it reflected detail account information. The general ledger reflects a single amount for both water and wastewater. Accumulated Depreciation amount of \$453,729 for water and \$935,734 for wastewater. Audit staff calculated Accumulated Depreciation for the test year using audit UPIS balances, plant additions and retirements, and depreciation rates prescribed in Rule 25-30.140, F.A.C. to be \$322,874 for the water plant and \$767,419 for the wastewater plant. Depreciation expense was calculated to be \$15,865 for the water plant and \$28,609 for the wastewater plant. Tables 3-1 and 3-2 summarize audit staff's adjustments.

**Table 3-1
Water**

Acct. No.	Description	Accumulated	Audit	Accumulated	Simple
		Depreciation Per Utility 12/31/2015		Depreciation Per Audit 8/31/2016	
304	Structures and Improv.	\$10,636	\$6,163	\$16,799	\$16,428
307	Wells & Springs	44,287	30,152	74,439	71,824
309	Supply Mains	5,202	(3,811)	1,391	1,360
310	Power Generating Equip.	71,680	(44,376)	27,304	27,304
311	Pumping Equipment	28,138	(23,829)	4,309	4,143
320	Water Treatment Equip.	10,987	11,081	22,068	22,068
330	Distrib. Reserv & Standp	8,502	(8,502)	0	0
331	Trans. & Dist. Mains	167,916	(39,715)	128,201	124,956
333	Services	13,320	21,405	34,725	33,835
334	Meter & Meter Install.	65,301	(58,807)	6,494	96
335	Hydrants	18,572	(13,047)	5,525	5,312
340	Office Furniture	486	(486)	0	0
345	Power Operated Equip.	810	(810)	0	0
348	Other Tangible Plant	0	1,620	1,620	1,418
	Total	\$445,837	(\$122,963)	\$322,874	\$308,744

Finding 3 (Continued)

**Table 3-2
Wastewater**

Acct. No.	Description	Accumulated Depreciation Per Utility 8/31/2016	Audit Adjs.	Accumulated Depreciation Per Audit 8/31/2016	Simple Average
354	Structures and Improv.	\$108,169	\$30,963	\$139,132	\$135,505
360	Collection - Force	31,805	(22,520)	9,285	9,075
361	Collection - Gravity	315,421	(45,887)	269,534	263,514
363	Services to Customers	38,013	35,662	73,675	72,228
364	Flow Measuring Devices	4,334	10,881	15,215	14,919
365	Flow Measuring Installations	1,641	(1,641)	0	0
370	Receiving Wells	17,056	10,086	27,142	26,388
371	Pumping Equipment	58,186	(51,800)	6,386	5,770
380	Treatment and Disp. Equip.	343,676	(145,151)	198,525	197,843
381	Plant Sewers	0	26,954	26,954	26,303
389	Other Plant and Misc. Equip.	894	676	1,570	1,570
390	Office Furniture	243	(243)	0	0
395	Power Operated Equip.	810	(810)	0	0
	Total	\$920,248	(\$152,829)	\$767,419	\$753,115

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

Effect on Staff Prepared Exhibit: Reduce the Accumulated Depreciation balance for water by \$122,963 and the Accumulated Depreciation balance for wastewater by \$152,829 and reflect simple average amounts of \$308,744 for water and \$753,115 for wastewater. Depreciation Expense is calculated to be \$15,865 for water and \$28,609 for wastewater.

Finding 4: Contributions-in-Aid-of-Construction

Audit Analysis: Audit staff could not acquire any backup to substantiate CIAC. There were no tariffs or developer agreement. The Utility stated “As currently shown on the PSC Reports (annual reports) there is a total of \$1,492,578 in CIAC. Of this amount \$507,425 is water and \$985,153 is wastewater. Current accumulated amortization shown is \$300,425 water and \$583,996 wastewater as of 12/31/2015.”

Audit staff drew from the unaudited amounts portrayed in the annual reports as no amounts could be substantiated for all years. Since the 2016 annual report was not available, the CIAC expenses were taken from the 2015 annual reports, which are \$18,115 for water and \$35,170 for wastewater.

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

Effect on Staff Prepared Exhibit: Defer to analyst for review of CIAC, Accumulated Amortization and related expense.

Finding 5: Capital Structure

Audit Analysis: The Utility has a note payable of \$46 million on its books. The loan was taken out in 2009, post construction of the water and wastewater facilities. When asked what portion of the note was applicable to water and wastewater plants, the following response was provided by management: “there is no direct allocation to the water and sewer plant. The loan covers both the park operations as well as the park utility plant. It’s all co-mingled. The lender doesn’t break it out and neither do we. On the PSC reports, the park operation revenues and expenses are both reflected as Non Utility Revenues and Non Utility Expenses. The interest expense for the \$46 Million loan is reflected on a separate line at 100%. We’ve never been asked for a separate allocation for the interest expense on the loan before”.

Audit staff was not able to discern whether any portion of the loan was used for water and wastewater operations. We therefore removed this item from the Utility’s capital structure calculation.

Audit staff did determine there was a small loan of \$4,861 for an excavator. However, audit staff could not determine the validity of the equity balance reported.

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

Effect on Staff Prepared Exhibit: Reduce Notes Payable to \$4,861 and reflect a simple average of \$4,325.

Finding 6: Operating Revenue

Audit Analysis: The Utility reported total Water Revenues of \$142,995 and Wastewater Revenues of \$142,371 for the 12-months ending August 31, 2016. In our analysis of the billing register, we calculated Water Revenues to be \$143,020 and Wastewater Revenues to be \$142,313. We increased Water Revenues by \$25 and reduced Wastewater Revenues by \$58.

Tables 6-1 and 6-2 summarize adjustments that are needed to Water and Wastewater Revenues for the test year.

Table 6-1

Water

<u>Description</u>	Balance Per Utility 8/31/2016	Audit Adjustments	Balance Per Audit 8/31/2016
Revenues - Residential Svc.	\$141,205	\$401	\$141,606
Revenues - General Svc.	1,790	(376)	1,414
Total Revenues	\$142,995	\$25	\$143,020

**Table 6-2
Wastewater**

<u>Description</u>	Balance Per Utility 8/31/2016	Audit Adjustments	Balance Per Audit 8/31/2016
Revenues - Residential Svc.	\$142,135	(\$529)	\$141,606
Revenues - General Svc.	236	471	707
Total Revenues	\$142,371	(\$58)	\$142,313

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

Effect on Staff Prepared Exhibit: Adjust NOI by increasing Water Revenues by \$25 and decreasing Wastewater Revenues by \$58.

Finding 7: Operation and Maintenance Expense

Audit Analysis: The Utility's general ledger reflects O&M Expense of \$150,723 and \$173,836 for water and wastewater, respectively. A summary of audit staff's adjustments follow in Tables 7-1 and 7-2:

Table 7-1

Water

Acct. No.	Description	Balance per Utility 8/31/2016	Audit Adjustments	Balance per Audit 8/31/2016
601	Salaries: Employees	\$74,356	(\$20,492)	\$53,864
603	Salaries: Officers, Directors, Etc.		1,508	\$1,508
615	Purchased Power	31,953	(24,215)	7,738
618	Chemicals	4,942	(279)	4,663
620	Materials & Supplies	9,673	(947)	8,726
631	Contractual Services - Acctg.	4,962	807	5,769
635	Contractual Services - Testing	2,806	0	2,806
636	Contractual Services - Other	10,288	(4,800)	5,488
650	Transportation Expense	5,079	(1,043)	4,036
655	Insurance	2,144	665	2,809
665	Regulatory Commission Expense	540	0	540
670	Bad Debt Expense	26	(26)	0
675	Miscellaneous Expenses	3,956	(538)	3,418
	Total O&M Expense	\$150,723	(\$49,358)	\$101,365

Acct. 601 – Salaries & Wages – Employees – Reduce by \$20,492 to reflect supported documentation.

Acct. 603 – Salaries & Wages – Officers – Increase by \$1,508 to reflect supported documentation.

Acct. 615 – Purchased Power – Reduce by \$24,215 to reflect invoices for observed power meters.

Acct. 618 – Chemicals – Reduce by \$279 to reflect provided invoices.

Finding 7 (Continued)

Acct. 620 – Materials & Supplies – Reduce by \$947 to reflect provided documentation.

Acct. 631 – Contractual Services – Acctg. – Increase by \$807 to reflect provided documentation.

Acct. 636 – Contractual Services – Other – Decrease by \$4,800 to reflect provided documentation

Acct. 650 – Transportation Expense – Decrease by \$1,043 to reflect examined invoices.

Acct. 655 – Insurance – Expense – Increase by \$665.43 to reflect the actual allocation of insurance among the company’s properties. The insurance policies covered all parent owned developments to include policies for liability, general and other, which covers equipment. These expenses are allocated based on the number of lots in each development.

Acct. 670 – Bad Debt Expense – Decrease by \$26.19 to reflect provided documentation.

Acct. 675 – Misc. Expense – Decrease by \$537.61 to reflect provided documentation.

**Table 7-2
Wastewater**

Acct. No.	Description	Balance per Utility 8/31/2016	Audit Adjustments	Balance per Audit 8/31/2016
701	Salaries: Employees	\$83,921	(\$17,387)	\$66,534
703	Salaries: Officers, Directors, Etc.	\$0	1,508	1,508
711	Sludge Removal	21,540	0	21,540
715	Purchased Power	15,669	(859)	14,810
718	Chemicals	15,626	(884)	14,742
720	Materials & Supplies	4,288	1,829	6,117
731	Contractual Services - Pro.	10,250	(5,930)	4,320
735	Contractual Services - Testing	6,651	13,643	20,294
736	Contractual Services - Other	4,229	(4,229)	0
750	Transportation Expense	6,800	(3,713)	3,087
755	Insurance	2,539	(651)	1,888
765	Regulatory Commission Expense	540	0	540
775	Miscellaneous Expenses	1,782	1,867	3,649
	Total O&M Expense	\$173,835	(\$14,806)	\$159,029

Acct. 701 – Salaries & Wages – Employees – Decrease by \$17,387 to reflect audited amount.

Acct. 703 – Salaries & Wages – Officers – Increase by \$1,508 to reflect audited amount.

Finding 7 (Continued)

Acct. 715 – Purchased Power – Reduce by \$859 to reflect invoices for observed power meters.

Acct. 718 – Chemicals – Reduce by \$884 to reflect examined invoices.

Acct. 720 – Materials and Supplies – Reduce by \$1,829 to reflect examined invoices.

Acct. 731 – Contractual Services – Professional – Reduce by \$5,930 to reflect audited amount.

Acct. 735 – Contractual Services – Testing – Reduce by \$3,287 to reflect audited amount.

Acct. 736 – Contractual Services – Other – Reduce by \$4,229 to reflect audited amount.

Acct. 750 – Transportation Expense – Reduce by \$3,713 to reflect audited amount.

Acct. 755 – Insurance – Reduce by \$651 to reflect the actual allocation of insurance among the company's properties. The insurance policies covered all parent owned developments to include policies for liability, general and other, which covers equipment. These expenses are allocated based on the number of lots in each development.

Acct. 775 – Miscellaneous Expense – Increase by \$1,867 to reflect audited amount.

Effect of the General Ledger: Decrease O & M expense by \$48,818 for water and \$28,742 for wastewater.

Effect on Staff Prepared Exhibit: Decrease O & M expense by \$48,818 for water and \$28,742 for wastewater.

Based on the total O&M Expense of \$101,365 for water and \$159,029 for wastewater, we calculated working capital to be \$12,671 for water and \$19,879 for wastewater for the test year in accordance with Rule 25-30.433, F.A.C.

Finding 8: Taxes Other than Income

Audit Analysis: Audit staff calculated TOTI for water and wastewater as August 31, 2016, of \$16,783 and \$22,630, respectively. Payroll taxes were not available from the Utility. Audit staff estimated these taxes to be 7.5% of total payroll or \$4,153 for water and \$5,103 for wastewater.

Audit staff notes that any adjustment made to the land value by the technical staff should have a fall out adjustment to the property taxes as well. Adjustments to TOTI are summarized in Table 8-1.

Table 8-1

Water Description	Utility Balance	Audit Adjustments	Audit Balance
	12 Mos. Ended 12/31/2015		12 Mos. Ended 8/31/2016
Real Property Taxes	\$6,194	\$0	\$6,194
Payroll Taxes	\$0	\$4,153	\$4,153
Regulatory Assessment Fee	6,391	45	6,436
Total	\$12,585	\$4,198	\$16,783

Wastewater Description	Utility Balance	Audit Adjustments	Audit Balance
	12 Mos. Ended 12/31/2015		12 Mos. Ended 8/31/2016
Real Property Taxes	\$11,123	\$0	\$11,123
Payroll Taxes	\$0	\$5,103	\$5,103
Regulatory Assessment Fee	6,269	135	6,404
Total	\$17,392	\$5,238	\$22,630

Effect of the General Ledger: Increase TOTI by \$4,198 for water and \$5,238 for wastewater.

Effect on Staff Prepared Exhibit: Increase TOTI by \$4,198 for water and \$5,238 for wastewater.

Finding 9: Pro-Forma Utility Plant in Service

Audit Analysis: The Utility intends on replacing all water meters in the near future. An estimate was submitted from the Municipal Water Works Company for the purchase and installation of 822 new meters at an estimated cost of \$193,499.

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

Effect on Staff Prepared Exhibit: Defer to the Analyst.

Finding 10: Pro-Forma Operations and Maintenance Expense

Audit Analysis: The Utility's parent company currently does not allocate rent to its utilities. Per the management, this practice will no longer be followed. An estimate of what the rent will be going forward has not yet been determined.

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

Effect on the Filing: Defer to the Analyst.

Exhibits

Exhibit 1: Rate Base

**Four Lakes Golf Club, Ltd.
Rate Base
As of August 31, 2016**

Water

Description	Balance Per Utility as of 8/31/2016	Adjustments	Balance Per Audit as of 8/31/2016	Simple Average Per Audit
Utility Plant in Service	\$704,613	(\$147,257)	\$557,356	\$538,906
Land	38,979	\$0	38,979	38,979
Accumulated Depreciation	(445,837)	\$122,963	(322,874)	308,744
CIAC	(507,425)	\$0	(507,425)	(507,425)
Amortization of CIAC	300,425	\$0	300,425	300,425
Working Capital	0	\$12,671	12,671	12,671
Total Rate Base	\$90,755	(\$24,294)	\$79,132	\$84,944

Wastewater

Description	Balance Per Utility as of 8/31/2016	Adjustments	Balance Per Audit as of 8/31/2016	Simple Average Per Audit
Utility Plant in Service	\$1,373,940	(\$366,533)	\$1,007,407	\$1,003,774
Land	70,004	0	70,004	70,004
Accumulated Depreciation	(920,248)	152,829	(767,419)	753,115
CIAC	(985,153)	0	(985,153)	(985,153)
Amortization of CIAC	583,996	0	583,996	583,996
Working Capital	0	19,879	19,879	19,879
Total Rate Base	\$122,539	(\$213,704)	(\$71,286)	\$25,627

Exhibit 2: Capital Structure

**Four Lakes Golf Club, Ltd
Capital Structure
As of August 31, 2016**

Capital Components	9/1/2016 G/L	Staff Adjs.	8/31/2016 Staff Balance	9/1/2015 Balance	Simple Average	% of Comp.	Rate Base	% of Rate Base	Rate	Composite Rate
Notes Payable	\$3,789	\$0	\$3,789	\$4,861	\$4,325	100.00%	\$4,325	100.00%	8.32%	8.32%
Equity		\$0	\$0		\$0	0.00%	\$0			0.00%
Total Equity and Debt	\$3,789	\$0	\$3,789	\$4,861	\$4,325	100.00%	\$4,325			
Customer Deposits	\$0	\$0	\$0	\$0	\$0		\$0	0.00%	0.00%	0.00%
Total	\$3,789	\$0	\$3,789	\$4,861	\$4,325		\$4,325	100.00%		8.32%

Exhibit 3: Net Operating Income

**Four Lakes Golf Club, Ltd
Net Operating Income
12 Months Ended August 31, 2016**

Water

Description	Utility Balance 8/31/2016	Audit Adjs.	Balance per Audit 8/31/2016
Operating Revenues	\$142,995	\$25	\$143,020
Operation & Maintenance	150,723	(48,818)	101,905
Depreciation Expense	19,472	(3,607)	15,865
Amortization Expense (CIAC)	(18,115)	-	(18,115)
Taxes Other Than Income	12,585	4,198	16,783
Total Operating Expenses	\$164,665	\$0	\$116,438
Operating Income	(\$21,670)	\$48,252	\$26,582

Wastewater

Description	Utility Balance 8/31/2016	Audit Adjs.	Balance per Audit 8/31/2016
Operating Revenues	\$142,371	(\$58)	\$142,313
Operation & Maintenance	173,836	(14,807)	159,029
Depreciation Expense	49,181	(20,572)	28,609
Amortization Expense (CIAC)	(35,170)	-	(35,170)
Taxes Other Than Income	17,392	5,238	22,630
Total Operating Expenses	\$205,239	(\$30,199)	\$175,098
Operating Income	(\$62,868)	\$30,083	(\$32,785)