

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:** February 15, 2018

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20170230-WU  
Company Name: Orange Land Utilities, LLC  
Company Code: WU977  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2017-319-1-1

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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 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  
Tallahassee District Office

### Auditor's Report

Orange Land Utilities, LLC.  
Staff-Assisted Rate Case

**Twelve Months Ended September 30, 2017**

Docket No. 20170230-WU  
Audit Control No. 2017-319-1-1  
**February 1, 2018**

A handwritten signature in black ink, appearing to read "George Simmons".

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George Simmons  
Audit Manager

A handwritten signature in blue ink, appearing to read "Thomas Wolff".

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Thomas Wolff  
Audit Staff

A handwritten signature in black ink, appearing to read "Marisa N. Glover".

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Marisa N. Glover  
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 November 14, 2017. We have applied these procedures to the attached schedules prepared by the audit staff in support of Orange Land Utilities, LLC.'s request for a Staff-Assisted Rate Case in Docket No. 20170230-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

OLU/Utility refers to Orange Land Utilities, LLC.

FUS1 refers to Florida Utility Services 1, LLC

Test Year refers to the twelve months ended September 30, 2017.

NARUC refers to the National Association of Regulatory Utility Commissioners.

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

#### Background

Orange Land Utilities, LLC is a Class C utility serving approximately 74 residential and two general service water customers in Pasco County. Rate base was last established by the Florida Public Service Commission (Commission), in Docket No. 20160144-WU by Order No. PSC 2017-0092-PAA-WU , issued March 13, 2017.

Mr. Mike Smallridge records common costs on FSU1's books. Common costs include salaries, employee benefits, rent, electric, transportation, material and supplies, office supplies, and postage. These costs were allocated among all utilities based on number of customers in each utility.

Mr. Smallridge files a Form 1040, which includes a Schedule C – Profit or Loss from Business, for each of his businesses. One of these schedules represented Orange Land Utilities, LLC.

#### Utility Books and Records

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

**Procedures:** We reviewed the Utility's accounting system by examining the records provided for this proceeding and compared them to the NARUC USOA and 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 rate proceeding were recorded in its books and records.

**Procedures:** We reconciled the beginning balances for UPIS, as of May 1, 2016 from the Commission Order to the general ledger. We scheduled UPIS activity from May 1, 2016 through September 30, 2017. We traced asset additions to supporting documentation. We verified that retirements were made when an asset was removed or replaced. We determined the year-end and simple average balances as of September 30, 2017. No exceptions were noted.

### Land & Land Rights

**Objectives:** The objectives were to determine whether the utility land is: 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 case proceeding were recorded in its books and records.

**Procedures:** We verified that the land is owned by the Utility and determined that there have been no changes to the Utility's cost of land since the last Order No. PSC 2017-0092-PAA-WU, dated May 13, 2008. We determined the year-end and simple average balances as of September 30, 2017. No exceptions were noted.

### 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 rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balances for accumulated depreciation, as of May 1, 2016 from the Commission Order to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from May 1, 2016 to September 30, 2017. We determined the year-end and simple average balances as of September 30, 2017. No exceptions were noted.

### 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 in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balances for CIAC, as of May 1, 2016 from the Commission Order to the general ledger. We determined the year-end and simple average balances as of September 30, 2017. 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 scheduled accumulated amortization of CIAC as per Commission Order PSC 2017-0092-PAA-WU and recalculated amortization based upon composite depreciation rates from May 1, 2016 to September 30, 2017. We determined the year-end and simple average balances as of September 30, 2017. No exceptions were noted.

### Working Capital

**Objectives:** The objective was to determine whether the Utility’s working capital balance is properly calculated in compliance with Commission rules.

**Procedures:** We calculated the Utility’s working capital balance as of September 30, 2017 using one eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. No exceptions were noted.

## **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 determined that the Utility’s capital structure consists of common equity, long-term debt, and customer deposits. We determined the year-end and simple average balances as of September 30, 2017. Finding 1 discusses our recommend balances.

## **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 detemined individual customer consumption for the test year ended September 30, 2017, using the Utility’s monthly customer billings. We calculated test year revenues based on billing determinates and compared our calculated revenue amouont to the revenues reflected in the general ledger. We detemined whether the Utility is charging its authorized tariff rates. We also detemined the number of miscellaneous service charges by type. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the number we determined and traced amounts to the general ledger. Finding 2 discusses our recommended adjustments to operating revenues.

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether operation and maintenance expenses (O&M) 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 reviewed the invoices provided in support of 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 supporting documentation. We examined related party transactions with other utilities owned or managed by Mr. Smallridge. We have determined the most recent costs that are common to all the utilities and calculated an allocation percentage based on number of customers and ERC's. Finding 3 discusses our recommended adjustments to Operation and Maintenance expense.

### Depreciation and Amortization

**Objectives:** The objective was to determine the Utility's depreciation and CIAC amortization expense for the twelve months ended September 30, 2017 using the Commission authorized rates.

**Procedures:** We compiled a schedule from audited UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. We also recalculated amortization of CIAC using Commission approved rates for the test year. No exceptions were noted.

### 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 NARUC USOA.

**Procedures:** We verified property taxes and local business tax incurred for the test year. We recalculated the 2016 RAF form and we calculated the test year Regulatory Assessment Fee (RAF) using the approved RAF rate and the audited revenue balances. In addition we calculated payroll taxes based on salaries of the Utility employees using the Social Security tax rate and the Medicare tax rate. Finding 4 discusses our recommended adjustments to Taxes Other than Income.



## Audit Findings

### **Finding 1: Capital Structure**

**Audit Analysis:** Audit staff determined the paid in capital in the general ledger of \$9,071 to be the cash the Utility paid at closing for the Utility's purchase price and closing costs on May 5, 2016. We also noted that the Retained Earnings balance as of September 30, 2017 of (\$680) reflects the Retained Earnings balance as of December 31, 2016. This amount does not reflect the Retained Earnings balance as of September 30, 2017.

According to the Utility, there was no outstanding debt during the test year. However, on September 29, 2017, Florida Utility Services executed a five year note with Iberia Bank in the amount of \$37,001 at a 6.88% interest rate. The purpose of the note was to pay for the replacement of two hydropneumatics water storage tanks at Orange Land Utilities and East Marion Utilities, an affiliate. Orange Land was allocated \$9,801 of the \$37,001 note and the proceeds will be used for the new tank's purchase price of \$10,273.70. Orange Land's allocated portion of the monthly principal and interest of \$732.24 is \$190.28 per month or approximately 26%. We included it in our exhibit.

Audit staff also determined that the Utility has a tariff to collect Customer Deposits effective April 26, 2017. Prior to this, no customer deposits were collected. There were no deposits collected during the test year. One customer deposit was collected in December 2017, outside the test year and is mentioned for technical staff's information, but is not included in the Audit Staff exhibits.

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

**Effect on the Filing:** Provided to technical staff for consideration.

**Finding 2: Operating Revenue**

**Audit Analysis:** The Utility's general ledger reflected operating revenue of \$22,351 for the twelve months ended September 30, 2017. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register as well as the number of miscellaneous services charges times the Commission approved tariff rates. We determined operating revenue to be \$21,703 as shown in Table 2-1.

<b>Table 2-1</b>				
<b>For the 12 Month Test Year Ended 9/30/17</b>				
<b>NARUC</b>	<b>Description</b>	<b>Utility Bal 9/30/17</b>	<b>Audit Adj</b>	<b>Audit Bal 9/30/17</b>
461.1	Metered Water Revenue	\$ 21,975	(579)	\$ 21,396
		<b>\$21,975</b>	<b>(579)</b>	<b>\$21,396</b>
474.1	Late Fees	\$ 376	(87)	\$ 289
474.2	Connection Fees	\$ -	19	\$ 19
474.3	Disconnection Fees	\$ -	-	\$ -
		\$ 376	\$ (68)	\$ 307
	<b>Grand Total</b>	<b>\$22,351</b>	<b>\$ (647)</b>	<b>\$21,703</b>

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

**Effect on Staff Prepared Exhibits:** Audit Staff determined operating revenues to be \$21,703 for the twelve months ended September 30, 2017.

**Finding 3: Operation and Maintenance Expense**

**Audit Analysis:** Audit staff examined operation and maintenance expenses to determine if the Utility classified expenses for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent. Audit staff determined that in Account 615 - Purchased Power, the Utility paid a bill in the amount of \$71 which included a late fee payment of \$5. We recommend that an adjustment of \$5 should be made to decrease this account. We also determined that in Account 655 – Insurance expense, the Utility provided supporting documentation for an insurance policy with Arch Insurance Company that was effective November 28, 2016 to November 28, 2017 in the amount of \$1,073. In the general ledger, the Utility had expenses totaling \$1,338. Audit staff recommends an adjustment of \$265 (\$1,338-\$1,073) to reduce insurance expense. Table 3-1 below shows the adjustments.

**Table 3-1**

Orange Land Utilities, LLC				
Docket No: 20170230-WU ; ACN: 2017-319-1-1				
Operation & Maintenance Expense				
As of September 30, 2017				
Acct. Nos.	Acct. Description	Per Utility	Adjustment	Per Audit
601	Salaries & Wages - Employees	\$8,116	\$0	\$8,116
603	Salaries & Wages - Officers	\$3,553	\$0	\$3,553
604	Employee Pension & Benefits	\$958	\$0	\$958
615	Purchased Power	\$826	(\$5)	\$821
620	Materials & Supplies	\$474	\$0	\$474
631	Contractual Services - Professional	\$473	\$0	\$473
635	Contractual Services - Testing	\$465	\$0	\$465
636	Contractual Services - Other	\$3,460	\$0	\$3,460
640	Rents	\$756	\$0	\$756
650	Transportation Expenses	\$1,228	\$0	\$1,228
655	Insurance Expense	\$1,624	(\$265)	\$1,359
665	Reg. Commission Expense	\$0	\$0	\$0
675	Miscellaneous Expense	\$3,649	\$0	\$3,649
<b>Total</b>		<b>\$25,581</b>	<b>(\$270)</b>	<b>\$25,311</b>

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

**Effect on the Filing:** Audit Staff determined that Operation and Maintenance expense should be decreased by \$270 for the twelve months ended September 30, 2017.

#### **Finding 4: Taxes Other than Income**

**Audit Analysis:** According to the Utility's general ledger, the Taxes Other than Income (TOTI) balance was \$1,943 as of September 30, 2017. Audit Staff determined that the TOTI balance was \$1,861 as shown in Table 4-1.

**Table 4-1**

Description	For the 12 Month Test Year Ended 09/30/2017		
	Per Utility	Adjustments	Per Audit
Real Property Tax	\$ 340	\$ (53)	\$ 287
Payroll Tax	\$ 597	\$ -	\$ 597
Regulatory Assessment Fees (RAF)	\$ 1,006	\$ (29)	\$ 977
<b>Total</b>	<b>\$ 1,943</b>	<b>\$ (82)</b>	<b>\$ 1,861</b>

Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

1. We used the Property tax bill received by the Utility in November 2017 which is \$287, rather than the Property tax bill that was due in November 2016.
2. We decreased test year Regulatory Assessment Fees (RAF) by \$29 based on the audited revenues.

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

**Effect on the Filing:** Audit Staff determined the TOTI to be \$1,861 for the twelve months ended September 30, 2017.

Exhibits

**Exhibit 1: Rate Base**

**Orange Land Utilities, LLC.  
Staff Assisted Rate Case  
As of September 30, 2017  
Dkt 20170230-WU ; ACN: 2017-319-1-1  
Rate Base**

<b>Description</b>	<b>Balance Per Utility as of September 30, 2017</b>	<b>Audit Adjustment</b>	<b>Balance Per Audit as of September 30, 2017</b>	<b>Test Year Average</b>
<b>Utility Plant in Service</b>	\$ 52,241	\$ -	\$ 52,241	\$ 53,107
<b>Land &amp; Land Rights</b>	\$ 1,000	\$ -	\$ 1,000	\$ 1,000
<b>Accumulated Depreciation</b>	\$ (44,378)	\$ -	\$ (44,378)	\$(45,203)
<b>Contributions in Aid of Construction</b>	\$ (7,350)	\$ -	\$ (7,350)	\$ (7,350)
<b>Accumulated Amortization of CIAC</b>	\$ 6,222	\$ -	\$ 6,222	\$ 6,168
<b>Working Capital Allowance</b>	\$ -	\$ -	\$ 3,164	\$ 3,164
<b>Total Rate Base</b>	\$ 7,735	\$ -	\$ 10,899	\$ 10,886

## Exhibit 2: Capital Structure

**ORANGE LAND UTILITIES, LLC**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20170230-WU; ACN 2017-319-1-1**  
**SCHEDULE OF CAPITAL STRUCTURE**  
**AS OF SEPTEMBER 30, 2017**

<b>Class of Capital</b>	<b>Balance 9/30/2017 Per Utility</b>	<b>Audit Adjustment</b>	<b>Balance 9/30/2017 Per Audit</b>	<b>Cost Rate</b>
Long Term Debt	\$ 9,801	\$ -	\$ 9,801	6.88%
Paid in Capital	\$ 9,071	\$ -	\$ 9,071	11.16%
Retained Earnings	\$ (680)	\$ -	\$ (680)	11.16%
	\$ 18,192		\$ 18,192	

Return = 7.13 + (1.610/equity ratio)

Return = 7.13 + (1.610/.4000)

Return= 11.16

**Exhibit 3: Net Operating Income**

**Orange Land Utilities, LLC.  
Staff Assisted Rate Case  
Twelve Months Ended September 30, 2017  
Dkt 20170230-WU ; ACN: 2017-319-1-1  
Net Operating Income**

Description	Balance Per Utility 9/30/2017	Audit Adjustment	Audit Finding	Balance Per Audit 9/30/2017
<b>Operating Revenues</b>	\$ 22,351	\$ (648)	<b>2</b>	\$ 21,703
<b>Operation &amp; Maintenance Expenses</b>	\$ 25,581	\$ (270)	<b>3</b>	\$ 25,311
<b>Depreciation Expense</b>	\$ 807	\$ -		\$ 807
<b>Amortization Expense</b>	\$ (56)	\$ -		\$ (56)
<b>Taxes Other Than Income</b>	\$ 1,943	\$ (82)	<b>4</b>	\$ 1,861
<b>Total Operating Expenses:</b>	\$ 28,274	\$ (351)		\$ 27,923
<b>Net Operating Income (Loss)</b>	\$ (5,923)	\$ (297)		\$ (6,220)