

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:** October 1, 2019

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20190125-WS  
Company Name: The Woods Utility Company, Inc.  
Company Code: WS965  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2019-183-4-1

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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/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  
Miami District Office

### Auditor's Report

The Woods Utility Company  
Staff-Assisted Rate Case

**Twelve Months Ended March 31, 2019**

Docket No. 20190125-WS  
Audit Control No. 2019-183-4-1

**September 11, 2019**

A handwritten signature in black ink, appearing to read "Iliana H. Piedra".

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Iliana H. Piedra  
Audit Manager

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Thomas Wolff  
Audit Staff

A handwritten signature in blue 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 July 2, 2019. We have applied these procedures to the attached schedules prepared by the audit staff in support of The Woods Utility Company's request for a Staff-Assisted Rate Case in Docket No. 20190125-WS.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to The Woods Utility Company.

Test year refers to the twelve months ended March 31, 2019.

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

#### Background

The Woods Utility Company is a Class C utility serving approximately 54 residential water customers and 1 general service customer in Sumter County. The Utility was purchased by The Woods Utility Company from Aqua Utilities Florida, Inc. in March 2013. The transfer was approved in Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014, in Docket No. 20130171-WS. Rate Base was last established in this Order. This Utility is operated by U.S. Water Services Corporation.

The Utility files an 1120S Federal Tax Return, and is a Subchapter S Corporation.

#### 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. 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 into 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 March 28, 2013 from Order No. PSC-2014-0300-PAA-WS to the general ledger. We scheduled UPIS activity through March 31, 2019. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year-end and simple average balances as of March 31, 2019. Finding 1 discusses our recommended adjustments to UPIS.

## 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 reconciled the beginning balances for land, as of March 28, 2013 from Order No. PSC-2014-0300-PAA-WS to the general ledger. We noted that there were no additions to land since the last NBV proceeding. We determined the year-end and simple average balances as of March 31, 2019. 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 in its books and records.

**Procedures:** We reconciled the beginning balances for accumulated depreciation, as of March 28, 2013 from Order No. PSC-2014-0300-PAA-WS 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 through March 31, 2019. We determined the year-end and simple average balances as of March 31, 2019. Finding 1 discusses our recommended adjustments to accumulated depreciation.

## 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 March 28, 2013 from Order No. PSC-2014-0300-PAA-WS to the general ledger. We scheduled CIAC additions totaling \$2,356 for water and \$3,780 for wastewater through March 31, 2019. We determined the year-end and simple average balances as of March 31, 2019. 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 reconciled the beginning balances for accumulated amortization of CIAC, as of March 28, 2013 from Order No. PSC-2014-0300-PAA-WS to the general ledger. We calculated annual accruals to accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C., through March 31, 2019. We determined the year-end and simple

average balances as of March 31, 2019. Finding 1 discusses our recommended adjustments to accumulated amortization of CIAC.

### Acquisition Adjustment

**Objectives:** The objective was to determine the appropriate accumulated amortization of the acquisition adjustment and the yearly amortization of the acquisition adjustment for water and wastewater.

**Procedures:** Order No. PSC-2014-0300-PAA-WS provided a negative acquisition adjustment of \$259,183 for water and \$71,232 for wastewater. Audit staff calculated the accumulated amortization of the acquisition adjustment and yearly amortization of the acquisition adjustment using Rule 25-30.0371(4)(b)2 F.A.C. Finding 2 discusses our recommended adjustment to the acquisition adjustment accumulated amortization and the amortization expense.

### 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 March 31, 2019 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 4 discusses our recommended adjustment to working capital.

## **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 stock, paid in capital, retained earnings and customer deposits. We determined the year-end and simple average capital structure balance and its weighted average cost as of March 31, 2019. No exceptions were noted.

## **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 ended March 31, 2019, using the Utility's monthly customer billings. 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. We also determined 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 the amounts to the general ledger. Finding 3 discusses our recommended adjustment 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 expenses for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature as stated in the above objectives. Finding 4 discusses our recommended adjustments to O&M expense.

#### Depreciation and Amortization

**Objectives:** The objectives were to determine whether the Utility's depreciation and CIAC amortization expense is properly calculated 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. Finding 1 discusses our recommended adjustments to depreciation and amortization expense.

#### Amortization Expense

**Objectives:** The objective was to determine whether the Utility's amortization for a Deferred Asset is properly calculated using the average service life of the asset in accordance with Rule 25-30.433(8).

**Procedures:** We determined the deferred asset amount and recalculated the related amortization. Finding 5 discusses our recommended adjustment to amortization expense.

#### 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 scheduled TOTI based on documentation provided by the Utility. We included property taxes and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. We recalculated RAFs using the approved RAF rate and the audited revenue balances. The Utility does not have employees because it is operated by U.S. Water Services Corporation, therefore, no payroll taxes are applicable. Finding 6 discusses our recommended adjustments to TOTI.



## **Other**

### **Proforma Plant**

**Objectives:** The objective is to review plant assets that were placed into service subsequent to March 31, 2019.

**Procedures:** We scheduled plant assets that went into service subsequent to the test year and traced the amount to the supporting invoice paid to U.S. Water Services Corporation. Audit staff determined the water treatment plant rehabilitation cost to be \$68,187, recorded in Account 320 in May 2019, and the related yearly depreciation of \$4,009. These amounts are not reflected in the attached exhibit. No further work performed.

### **Proforma Expense**

**Objectives:** The objective is to review expense items that increased subsequent to March 31, 2019.

**Procedures:** For the test year ended March 31, 2019, audit staff determined the U.S. Water Services Corporation operating monthly fee to be \$1,547 for water and \$1,866 for wastewater. The new monthly fee, which increased in April 2019, is \$1,583 for water and \$1,909 for wastewater. These increased amounts are not reflected in the attached exhibit. No further work performed.

## Audit Findings

### **Finding 1: Plant in Service and Accumulated Depreciation/Amortization**

**Audit Analysis:** According to the Utility's general ledger, the UPIS balances for water and wastewater as of March 31, 2019 are \$531,468 and \$198,798, respectively. Audit staff determined that wastewater UPIS is overstated by \$1,500. This relates to the filing fees that were not included for the transfer in Order No. PSC-2014-0300-PAA-WS which were recorded in June 2013 in Account 351 – Organization. NARUC Uniform System of Accounts states this account should include expenditures that are incident to organizing the corporation. We determined the wastewater UPIS to be \$197,298 as shown in Table 1-1. We determined the water UPIS to be \$531,468 as shown in Table 1-2.

**Table 1-1**

<b>Wastewater Plant In Service</b>		Utility	Audit	Audit	Simple
Account Number	Account	Balance 3/31/2019	Adjustment	Balance 3/31/2019	Average
351	Organization	\$ 1,556	\$ (1,500)	\$ 56	\$ 56
352	Franchises	\$ 427		\$ 427	\$ 427
354	Structures and Improvements	\$ 46,394		\$ 46,394	\$ 46,394
360	Collection Sewers - Force	\$ 12,044		\$ 12,044	\$ 10,870
361	Collection Sewers - Gravity	\$ 30,372		\$ 30,372	\$ 30,372
365	Flow Measuring Installations	\$ 1,061		\$ 1,061	\$ 1,061
371	Pumping Equipment	\$ 11,870		\$ 11,870	\$ 10,773
380.4	Treatment and Disposal Equipment	\$ 8,449		\$ 8,449	\$ 8,370
381	Plant Sewers	\$ 837		\$ 837	\$ 837
389	Other Plant and Miscellaneous Equipment	\$ 81,665		\$ 81,665	\$ 81,665
390	Office Furniture and Equipment	\$ 100		\$ 100	\$ 100
398	Other Tangible Plant	\$ 4,024		\$ 4,024	\$ 4,024
	<b>Total</b>	<b>\$ 198,798</b>	<b>\$ (1,500)</b>	<b>\$ 197,298</b>	<b>\$ 194,948</b>

**Table 1-2**

<b>Water Plant in Service</b>		<b>Utility</b>	<b>Audit</b>	<b>Audit</b>	<b>Simple</b>
<b>Account</b>		<b>Balance</b>	<b>Audit</b>	<b>Balance</b>	<b>Simple</b>
<b>Number</b>	<b>Account</b>	<b>3/31/2019</b>	<b>Adjustment</b>	<b>3/31/2019</b>	<b>Average</b>
301	Intangible Plant	\$ 351		\$ 351	\$ 351
302	Franchise	\$ 535		\$ 535	\$ 535
304.2	Structure and Improvements	\$ 1,081		\$ 1,081	\$ 1,081
304.3	Structure and Improvements	\$ 23,837		\$ 23,837	\$ 23,837
307	Wells and Springs - Other	\$ 1,601		\$ 1,601	\$ 1,601
309	Supply Mains	\$ 8,086		\$ 8,086	\$ 6,197
311.4	Pumping Equipment	\$ 9,901		\$ 9,901	\$ 7,376
320	Water Treatment Equipment	\$ 264,677		\$ 264,677	\$ 264,677
330	Distribution Reservoirs & Standpoints	\$ 35,181		\$ 35,181	\$ 35,181
331	Transmission and Distribution Pipes	\$ 24,666		\$ 24,666	\$ 22,228
333	Services	\$ 9,328		\$ 9,328	\$ 7,504
333.4	Services- Other	\$ 2,359		\$ 2,359	\$ 2,359
334	Meter and Meter Installations	\$ 21,089		\$ 21,089	\$ 20,847
339	Miscellaneous Equipment	\$ 112,728		\$ 112,728	\$ 112,728
340	Office Furniture & Equipment	\$ 121		\$ 121	\$ 121
343	Tools, Shop, and Garage Equipment	\$ 15,289		\$ 15,289	\$ 15,289
344	Laboratory Equipment - Other	\$ 639		\$ 639	\$ 319
	<b>Total</b>	<b>\$ 531,468</b>	<b>\$ -</b>	<b>\$ 531,468</b>	<b>\$ 522,231</b>

According to the Utility's general ledger, the accumulated depreciation balance was \$280,549 for water and \$117,112 for wastewater. Audit staff recalculated accumulated depreciation using the audited UPIS plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. We determined that the accumulated depreciation year-end balance should be \$279,453 for water and \$116,882 for wastewater.

Staff recalculated accumulated amortization of CIAC using the audited CIAC balances and the rates established by the Rule noted above. We determined the accumulated amortization of CIAC year-end balance should be \$90,768 for water and \$65,440 for wastewater as shown in Table 1-3. We also determined the test year depreciation expense to be \$21,450 for water and \$4,241 for wastewater as shown in Table 1-4.

**Table 1-3**

**Water Accumulated Depreciation**

Account Number	Account	Utility Balance 3/31/2019	Audit Adjustment	Audit Balance 3/31/2019	Simple Average
301	Organization	\$ 48		\$ 49	\$ 45
302	Franchises	\$ 283		\$ 283	\$ 277
304,2	Structures and Improvements	\$ 343	\$ (1,420)	\$ (1,077)	\$ (1,097)
304,3	Structures and Improvements	\$ 9,496		\$ 9,496	\$ 9,056
307	Wells and Springs	\$ (4,691)		\$ (4,691)	\$ (4,720)
309	Supply Mains	\$ 1,252		\$ 1,252	\$ 1,162
311.4	Pumping Equipment	\$ (1,856)		\$ (1,856)	\$ (1,856)
311.4	Pumping Equipment	\$ 3,384		\$ 3,384	\$ 3,164
320	Water Treatment Plant	\$ 126,244		\$ 126,244	\$ 118,464
330	Distribution Reservoirs & Standpipes	\$ 10,692		\$ 10,692	\$ 10,159
331	Tranmission and Distribution Mains	\$ 1,198	\$ 324	\$ 1,522	\$ 1,200
333	Services	\$ 790		\$ 790	\$ 677
333.4	Services	\$ 628		\$ 628	\$ 594
334	Meter and Meter Installations	\$ 6,124		\$ 6,124	\$ 6,235
339	Other Plant and Miscellaneous Equipment	\$ 112,728		\$ 112,728	\$ 112,728
340	Office Furniture and Equipment	\$ 121		\$ 121	\$ 121
343	Tools, Shop and Garage	\$ 13,760		\$ 13,760	\$ 13,250
344	Laboratory Equipment	\$ 4		\$ 4	\$ 2
	<b>Total</b>	<b>\$ 280,549</b>	<b>\$ (1,096)</b>	<b>\$ 279,453</b>	<b>\$ 269,459</b>
272.1	Accumulated Amortization CIAC	\$ 90,784	\$ (16)	\$ 90,768	\$ 90,720

**Wastewater Accumulated Depreciation**

Account Number	Account	Utility Balance 3/31/2019	Audit Adjustment	Audit Balance 3/31/2019	Simple Average
351	Organization	\$ 218	\$ (211)	\$ 7	\$ 6
352	Franchises	\$ 270		\$ 270	\$ 262
354	Structures and Improvements	\$ 14,465		\$ 14,465	\$ 13,606
360	Collection Sewers - Force	\$ 3,535		\$ 3,535	\$ 3,331
361	Collection Sewers - Gravity	\$ 4,624		\$ 4,624	\$ 4,244
365	Flow Measuring Installations	\$ 357		\$ 357	\$ 342
371	Pumping Equipment	\$ 1,209		\$ 1,209	\$ 847
380.4	Treatment and Disposal Equipment	\$ 6,068		\$ 6,068	\$ 6,026
381	Plant Sewers	\$ 558		\$ 558	\$ 545
389	Other Plant and Miscellaneous Equipment	\$ 81,665		\$ 81,665	\$ 81,665
390	Office Furniture and Equipment	\$ 100		\$ 100	\$ 100
398	Other Tangible Plant	\$ 4,043	\$ (19)	\$ 4,024	\$ 4,024
	<b>Total</b>	<b>\$ 117,112</b>	<b>\$ (230)</b>	<b>\$ 116,882</b>	<b>\$ 114,999</b>
272.2	Accumulated Amortization CIAC	\$ 65,409	\$ 31	\$ 65,440	\$ 65,399

**Table 1-4**

**Water Depreciation Expense**

Account Number	Account	Utility Balance 3/31/2019	Audit Adjustment	Audit Balance 3/31/2019
301	Organization	\$ 9		\$ 9
302	Franchises	\$ 13		\$ 13
304.2	Structures and Improvements	\$ 523	\$ (483)	\$ 40
304.3	Structures and Improvements	\$ 882		\$ 882
307	Wells and Springs	\$ 59		\$ 59
309	Supply Mains	\$ 180		\$ 180
311.2	Pumping Equipment			
311.4	Pumping Equipment	\$ 443		\$ 443
320	Water Treatment Equipment	\$ 15,569		\$ 15,569
330	Distribution Reservoirs & Standpipes	\$ 1,066		\$ 1,066
331	Trans. & Dist. Mains	\$ 643		\$ 643
333	Services	\$ 226	\$ -	\$ 226
333.4	Services	\$ 67		\$ 67
334	Meter & Meter Installations	\$ 1,230		\$ 1,230
339	Other Plant and Miscellaneous Equipment	\$ 92	\$ (92)	
343	Tools, Shop and Garage Equipment	\$ 1,019		\$ 1,019
344	Laboratory Equipment	\$ 4		\$ 4
	<b>Total</b>	<b>\$ 22,025</b>	<b>\$ (575)</b>	<b>\$ 21,450</b>

**Wastewater Depreciation Expense**

Account Number	Account	Utility Balance 3/31/2019	Audit Adjustment	Audit Balance 3/31/2019
351	Organization	\$ 39	\$ (38)	\$ 1
352	Franchises	\$ 16		\$ 16
354	Structures and Improvements	\$ 1,718		\$ 1,718
360	Collection Sewers - Force	\$ 406		\$ 406
361	Collection Sewers - Gravity	\$ 759		\$ 759
365	Flow Measuring Installations	\$ 30		\$ 30
371	Pumping Equipment	\$ 724		\$ 724
380.4	Treatment and Disposal Equipment	\$ 559		\$ 559
381	Plant Sewers	\$ 26		\$ 26
	<b>Total</b>	<b>\$ 4,278</b>	<b>\$ (38)</b>	<b>\$ 4,241</b>

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

**Effect on the Filing:** Audit staff determined the year-end and average UPIS balance for water to be \$531,468 and \$522,231 and for wastewater to be \$197,298 and \$194,948. We determined the year end and average accumulated depreciation balances for water to be \$279,453 and \$269,459, and for wastewater to be \$116,882 and \$114,999. Staff determined the year-end and average accumulated amortization of CIAC for water to be \$90,768 and \$90,720, and for wastewater to be \$65,440 and \$65,399. Depreciation expense was determined to be \$21,450 for water and \$4,241 for wastewater.

## Finding 2: Acquisition Adjustment

**Audit Analysis:** We agreed the balances of the negative acquisition adjustment from the Utility's general ledger, \$259,183 for water and \$71,232 for wastewater, to the balances approved in Order No. PSC-2014-0300-PAA-WS, issued June 11, 2014. No discrepancies were found.

We calculated the accumulated amortization for the acquisition adjustment as of March 31, 2019. Order No. PSC-2004-0300-PAA-WS which is in accordance with Rule 25-30.0371(4)(b)2; indicate "Beginning with the date of the issuance of the order approving the transfer, 50 percent of the negative acquisition, which is \$129,592 for the water system and \$35,616 for the wastewater system, shall be amortized over a seven-year period, and the remaining 50 percent shall be amortized over the remaining life of the assets." The Order also states, "The Utility estimates that the remaining life of the applicable water assets is 20 years and 23 years for the wastewater assets." We determined that the year end accumulated amortization for the acquisition adjustment should be \$120,798 for water and \$32,077 for wastewater and the related test year amortization should be \$24,996 for water and \$6,637 for wastewater.

**Table 2-1**

Accumulated Amortization Acquisition Adj					
Account Number	Account	Utility Balance 3/31/2019	Audit Adjustment	Audit Balance 3/31/2019	Simple Average
115.1	Accum Amortz Acquisiton Adj - Water	\$ 142,544	\$ (21,746)	\$ 120,798	\$ 108,302
115.2	Accum Amortz Acquisiton Adj - Wastewater	\$ 38,324	\$ (6,247)	\$ 32,077	\$ 28,758
		\$ 180,868	\$ (27,993)	\$ 152,875	\$ 137,060
Amortization Acquisition Adj					
Account Number	Account	Utility Balance 3/31/2019	Audit Adjustment	Audit Balance 3/31/2019	
408.1	Acquisiton Adj Amortization - Water	\$ 24,790	\$ 206	\$ 24,996	
408.2	Acquisition Adj Amortization - Wastewater	\$ 6,665	\$ (28)	\$ 6,637	
		\$ 31,455	\$ 178	\$ 31,633	

**Table 2-2**

Water				
Acquisition Adjustment Amortization				
Start amortization on the date of issuance of Order (6/11/14)			Monthly	Test Year
\$ 129,592	50% over 7 years	84 months	\$ 1,543	
\$ 129,591	50% over life of assets (20 years)	240 months	\$ 540	
\$ 259,183	Total acquisition adjustment		\$ 2,083	\$ 24,996
	6/30/14 - 3/31/2019	months	\$ 58	
	Balance	3/31/2019	\$ 120,798	
Wastewater				
Acquisition Adjustment Amortization				
\$ 35,616	50% over 7 years	84 months	\$ 424	
\$ 35,616	50% over life of assets (23 years)	276 months	\$ 129	
\$ 71,232	Total acquisition adjustment		\$ 553	\$ 6,637
	6/30/14 - 3/31/2019	months	\$ 58	
	Balance	3/31/2019	\$ 32,077	

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

**Effect on the Filing:** Audit staff determined the year end and average balances for accumulated amortization acquisition adjustment to be \$120,798 and \$108,302 for water and \$32,077 and \$28,758 for wastewater. Test year amortization was determined to be \$24,996 for water and \$6,637 for wastewater.



### Finding 3: Operating Revenue

**Audit Analysis:** The Woods Utility Company, Inc. used the approved tariff rates for water and wastewater to charge their residential customers, all of which have 5/8” meters. The Utility has one general service, water service only customer, whom uses a 1 ½” meter. There was a tariff price index that was effective on June 13, 2018. Base Facility Charge for Residential water customers went from \$18.50 to \$18.76 and gallonage charge (per 1000 gallons) went from \$6.37 to \$6.46, \$9.58 to \$9.72, and \$12.75 to \$12.93, depending on level on consumption. General Service water customers went from \$18.50 to \$18.76 and \$7.14 to \$7.24. Base Facility Charge for Residential wastewater customers went from \$34.21 to \$34.72 and gallonage charge (per 1000 gallons) went from \$8.81 to \$8.94.

The Utility’s operating revenue was, for the twelve months ended on March 31, 2019, \$39,229 for water and \$35,951 for wastewater. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register times the most current Commission approved tariff rate (annualized). We determined the utility charged the incorrect Base Facility Charge, for both water and wastewater customers, for multiple varying customers each month. The utility under-charged their customers the Base Facility Charge by \$60 for water customers and \$31 for wastewater customers. Audit staff calculated that the rates being annualized resulted in a variance of \$1,424 for water customers and \$67 for wastewater customers. We determined operating revenue for water to be \$40,713 and wastewater to be \$36,049, as shown in Table 3-1 and Table 3-2 respectively. There are approved miscellaneous services fees for water and wastewater, but the Utility did not charge any for their wastewater customers.

**Table 3-1**

NARUC	Description	Utility Bal 3/31/2019	Audit Adj	Audit Bal 3/31/2019
461.1	Water Residential Customers	\$ 31,431	1,500	\$ 32,931
461.2	Water Commercial Customers	\$ 1,437	(36)	\$ 1,401
		<b>\$ 32,868</b>	<b>\$ 1,464</b>	<b>\$ 34,332</b>
471.2	Reconnection Fees	\$ 4,952	10	\$ 4,962
471.4	Late Fees	\$ 1,379	10	\$ 1,389
471.5	Returned Check Fees	\$ 30	-	\$ 30
		<b>\$ 6,361</b>	<b>\$ 20</b>	<b>\$ 6,381</b>
<b>Grand Total</b>		<b>\$ 39,229</b>	<b>\$ 1,484</b>	<b>\$ 40,713</b>

**Table 3-2**

<b>NARUC</b>	<b>Description</b>	<b>Utility Bal 3/31/2019</b>	<b>Audit Adj</b>	<b>Audit Bal 3/31/2019</b>
522.1	Wastewater Residential Customers	\$ 35,951	\$ 98	\$ 36,049
		<b>\$ 35,951</b>	<b>\$ 98</b>	<b>\$ 36,049</b>
522	Reconnection Fees	\$ -	\$ -	\$ -
522	Late Fees	\$ -	\$ -	\$ -
522	Returned Check Fees	\$ -	\$ -	\$ -
		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
	<b>Grand Total</b>	<b>\$ 35,951</b>	<b>\$ 98</b>	<b>\$ 36,049</b>

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

**Effect on the Filing:** Audit staff determined the operating revenues to be \$76,762 for the test year ended March 31, 2019. The total RAF based on the above audit balances are \$1,882 for water and \$1,622 for wastewater. The fall out effect on TOTI (RAF) is shown in Finding 6.

## Finding 4: Operating and Maintenance Expenses and Working Capital

**Audit Analysis:** According to the Utility's general ledger, the O&M expense balance is \$32,150 for water and \$34,593 for wastewater for the test year ended March 31, 2019. Audit staff determined O&M expenses to be \$31,154 for water and \$35,661 for wastewater. The working capital calculation is \$3,894 for water and \$4,458 for wastewater.

**Table 4-1**

### Water O&M

Account Number	Account Name	Utility's Balance	Adjustments	Audited Balance
603	Salaries - Officers	\$ 3,150		\$ 3,150
615	Purchased Power	\$ 1,581		\$ 1,581
618	Chemicals	\$ 1,864		\$ 1,864
632	Professional Fees - Accounting	\$ 400	\$ (125)	\$ 275
633	Professional Fees - Legal	\$ 150		\$ 150
635	Contractual Services - Testing	\$ 94		\$ 94
636	Contractual Services - Other	\$ 18,560		\$ 18,560
657	Insurance - Liability	\$ 1,442	\$ (721)	\$ 721
670	Bad Debt Expense	\$ 4,038		\$ 4,038
675	Miscellaneous Expense	\$ 871	\$ (150)	\$ 721
	Total	\$ 32,150	\$ (996)	\$ 31,154

Working Capital (1/8 of O&M)

\$ 3,894

### Wastewater O&M

Account Number	Account Name	Utility's Balance	Adjustments	Audited Balance
703	Salaries - Officers	\$ 3,150		\$ 3,150
711	Sludge Removal Expense	\$ 580		\$ 580
715	Purchased Power	\$ 3,128		\$ 3,128
718	Chemicals	\$ 1,040	\$ 72	\$ 1,112
732	Professional Fees - Accounting		\$ 275	\$ 275
733	Professional Fees - Legal	\$ 150		\$ 150
736	Contractual Services - Other	\$ 23,665		\$ 23,665
757	Insurance - Liability		\$ 721	\$ 721
770	Bad Debt Expense	\$ 2,880		\$ 2,880
	Total	\$ 34,593	\$ 1,068	\$ 35,661

Working Capital (1/8 of O&M)

\$ 4,458

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

- We increased Account 718 – Chemicals by \$71.50 for an invoice that was paid in January 2019 and not recorded in this account.
- We allocated 50% of the General Liability insurance fee in Account 657 to Account 757 – Insurance. The total invoice for liability insurance is \$1,442. This policy relates to both the water and wastewater Utility systems.
- We allocated 50% of the Accounting fees in Account 632 to Account 732 – Professional Fees – Accounting. This total invoice for the fee of the preparation of the 2018 corporate tax return is \$400.
- We allocated 50% of the Professional fee in Account 675 – Miscellaneous Expense to Account 732 – Professional Fees – Accounting. We also reclassified the water portion from Account 675 to Account 632 – Professional Fees Accounting. This total invoice for the preparation of the annual report to the State of Florida is \$150.

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

**Effect on the Filing:** O&M expenses should be decreased by \$996 for water and increased by \$1,068 for wastewater. Working Capital should be \$3,894 for water and \$4,458 for wastewater.

### **Finding 5: Amortization Expense for Deferred Asset**

**Audit Analysis:** The Utility's general ledger Account 186.2 – Deferred Asset includes \$8,960, recorded in August 2018, related to the Hydro Tank coatings. The Utility is amortizing this asset over 5 years to reflect the life of the asset. The amortization included in Account 407.3 – Hydro Tank Amortization by the Utility of \$1,197 reflects 8 months of amortization. Staff has calculated the amortization for the 12 months to be \$1,792 in accordance with Rule 25-30.433(9) F.A.C.

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

**Effect on the Filing:** Amortization Expense should be increased by \$595 to reflect 12 months of amortization in the test year.

## Finding 6: Taxes Other than Income

**Audit Analysis:** According to the Utility's general ledger, the TOTI balance is \$2,392 for water and \$2,299 for wastewater for the test year ended March 31, 2019. Since the Utility has no employees, payroll taxes are not applicable. Audit staff determined the TOTI balance to be \$2,478 for water and \$2,327 for wastewater.

**Table 6-1**

Water TOTI

Account Number	Account Name	Utility's Balance	Audit Adjustment	Audit Balance
408.11	Regulatory Assessment Fee	\$ 1,765	\$ 67	\$ 1,832
408.21	Property Taxes Water	\$ 627	\$ 19	\$ 646
	Total	\$ 2,392	\$ 86	\$ 2,478

Wastewater TOTI

Account Number	Account Name	Utility's Balance	Audit Adjustment	Audit Balance
408.12	Regulatory Assessment Fee	\$ 1,618	\$ 4	\$ 1,622
408.22	Property Taxes Wastewater	\$ 681	\$ 24	\$ 705
	Total	\$ 2,299	\$ 28	\$ 2,327

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

- We increased Account 408.21 – Property Taxes water by \$19 and 408.22 – Property Taxes wastewater by \$24 to reflect the 2018 tax bills. The Utility included an accrual for the 2017 and 2018 property tax bills in the test year.
- We increased Account 408.11 RAF water by \$67 and increased Account 408.12 RAF wastewater by \$4 to reflect staff's calculation of RAF with the adjusted revenues as shown on Finding 3.

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

**Effect on the Filing:** Taxes other than income should be increased by \$86 for water and by \$28 wastewater.

Exhibits

**Exhibit 1: Rate Base - Water**

**THE WOODS UTILITY COMPANY  
STAFF-ASSISTED RATE CASE  
DOCKET NO. 20190125-WS; ACN 2019-183-4-1  
SCHEDULE OF WATER RATE BASE  
AS OF MARCH 31, 2019**

<b>Description</b>	<b>Balance Per Utility as of March 31, 2019</b>	<b>Audit Adjustment</b>	<b>Audit Finding</b>	<b>Balance Per Audit as of March 31, 2019</b>	<b>Simple Average</b>
<b>Utility Plant in Service</b>	\$ 531,468			\$ 531,468	\$ 522,231
<b>Land &amp; Land Rights</b>	\$ 3,500			\$ 3,500	\$ 3,500
<b>Accumulated Depreciation</b>	\$ (280,549)	\$ 1,096	1	\$ (279,453)	\$ (269,459)
<b>Contributions in Aid of Construction</b>	\$ (92,939)			\$ (92,939)	\$ (92,939)
<b>Accumulated Amortization of CIAC</b>	\$ 90,784	\$ (16)	1	\$ 90,768	\$ 90,720
<b>Negative Acquisition Adjustment</b>	\$ (259,183)			\$ (259,183)	\$ (259,183)
<b>Accumulated Amortization Acq Adj</b>	\$ 142,544	\$ (21,746)	2	\$ 120,798	\$ 108,302
<b>Working Capital Allowance</b>			4	\$ 3,894	\$ 3,894
<b>Total Rate Base</b>	\$ 135,625	\$ (20,666)		\$ 118,853	\$ 107,066

**Exhibit 2: Rate Base - Wastewater**

**THE WOODS UTILITY COMPANY  
STAFF-ASSISTED RATE CASE  
DOCKET NO. 20190125-WS; ACN 2019-183-4-1  
SCHEDULE OF WASTEWATER RATE BASE  
AS OF MARCH 31, 2019**

Description	Balance Per Utility as of March 31, 2019	Audit Adjustment	Audit Finding	Balance Per Audit as of March 31, 2019	Simple Average
Utility Plant in Service	\$ 198,798	\$ (1,500)	1	\$ 197,298	\$ 194,949
Land & Land Rights	\$ 7,500			\$ 7,500	\$ 7,500
Accumulated Depreciation	\$ (117,112)	\$ 230	1	\$ (116,882)	\$ (114,999)
Contributions in Aid of Construction	\$ (69,065)			\$ (69,065)	\$ (69,065)
Accumulated Amortization of CIAC	\$ 65,409	\$ 31	1	\$ 65,440	\$ 65,399
Negative Acquisition Adjustment	\$ (71,232)			\$ (71,232)	\$ (71,232)
Accumulated Amortization Acq Adj	\$ 38,324	\$ (6,247)	2	\$ 32,077	\$ 28,758
Working Capital Allowance			4	\$ 4,458	\$ 4,458
<b>Total Rate Base</b>	<b>\$ 52,622</b>	<b>\$ (7,486)</b>		<b>\$ 49,594</b>	<b>\$ 45,768</b>



### Exhibit 3: Capital Structure

**THE WOODS UTILITY COMPANY**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20190125-WS; ACN 2019-183-4-1**  
**CAPITAL STRUCTURE**  
**AS OF MARCH 31, 2019**

Capital Components	Year End	Audit Adjustment	Adjusted Year End	Ratio	Rate	Composite
						Rate
Long Term Debt	\$ -	\$ -	\$ -			0.00%
Equity	\$ 275,788		\$ 275,788	97.24%	7.85%	7.63%
Customer Deposits	\$ 7,817		\$ 7,817	2.76%	2.00%	0.06%
<b>Total</b>	<b>\$ 283,605</b>	<b>\$ -</b>	<b>\$ 283,605</b>	<b>100.00%</b>		<b>7.69%</b>

2019 Equity Formula as approved in PSC Order No. PSC-2019-0267-PAA-WS

$$\text{Return} = 6.05 + (1.800/\text{equity ratio})$$

$$\text{Return} = 6.05 + (1.800/1.000)$$

$$\text{Return} = \qquad \qquad \qquad 7.85$$

**Exhibit 4: Net Operating Income - Water**

**THE WOODS UTILITY COMPANY  
STAFF-ASSISTED RATE CASE  
DOCKET NO. 20190125-WS; ACN 2019-183-4-1  
NET OPERATING INCOME WATER  
FOR TEST YEAR ENDED MARCH 31, 2019**

Description	Balance per Utility 3/31/2019	Audit Adjustments	Audit Finding	Balance per Audit 3/31/2019
<b>Operating Revenues</b>	\$ 39,229	1,484	3	\$40,713
<b>O&amp;M Expenses</b>	32,150	(996)	4	31,154
<b>Depreciation Expense</b>	22,025	(575)	1	21,450
<b>Amortization Expense CIAC</b>	(88)	-		(88)
<b>Amortization Expense Acquisition Adj</b>	(24,790)	(206)	2	(24,996)
<b>Amortization Expense Tank Coating</b>	1,197	595	5	1,792
<b>Taxes Other than Income</b>	2,392	86	6	2,478
<b>Total Operating Expenses:</b>	\$ 32,886	\$ (1,096)		\$ 31,790
<b>Net Operating Income (Loss)</b>	\$ 6,343	\$ 2,580		\$ 8,923

## Exhibit 5: Net Operating Income - Wastewater

**THE WOODS UTILITY COMPANY**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20190125-WS; ACN 2019-183-4-1**  
**NET OPERATING INCOME WASTEWATER**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2019**

Description	Utility	Audit	Audit	Audit
	Balance 3/31/2019	Adjustments	Finding	Balance 3/31/2019
<b>Operating Revenues</b>	\$ 35,951	\$ 98	3	\$36,049
<b>O&amp;M Expenses</b>	34,593	1,068	4	35,661
<b>Depreciation Expense</b>	4,278	(38)	1	4,240
<b>Amortization Expense CIAC</b>	(82)	-		(82)
<b>Amortization Expense Acquisition Adj</b>	(6,665)	28	2	(6,637)
<b>Taxes Other than Income</b>	2,299	28	6	2,327
<b>Total Operating Expenses:</b>	\$ 34,423	\$ 1,086		\$ 35,509
<b>Net Operating Income (Loss)</b>	\$ 1,528	\$ (988)		\$ 540