

State of Florida



Public Service Commission

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DATE: September 14, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120183-WU
 Company Name: TLP Water, Inc.
 Company Code: WU924
 Audit Purpose: A1b Staff Assisted Rate Case
 Audit Control No: 12-214-2-2

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 were no confidential work papers associated with this audit.

PD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

06182 SEP 14 2012

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

TLP Water, Inc.
Staff Assisted Rate Case

Twelve Months Ended June 30, 2012

Docket No. 120183-WU
Audit Control No. 12-214-2-2
September 11, 2012

A handwritten signature in black ink, appearing to read "Jeffery A. Small".

Jeffery A. Small
Audit Manager

A handwritten signature in black ink, appearing to read "Linda Hill-Slaughter".

Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated August 1, 2012. We applied these procedures to the attached schedules prepared by the audit staff in support of TLP Water, Inc.'s request for a Staff Assisted Rate Case in Docket No. 120183-WU.

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

Objectives and Procedures

General

Utility Information

TLP Water, Inc. (TLP) is a Class C Utility that provides water services to approximately 52 residential customers and one general service customer in Lake County, Florida. The Utility's service territory has the potential to serve 59 customers. The Utility is owned by Three Lakes Park Co-op, Inc., a Florida Non-Profit Corporation, that consists of 31 resident owners and one common club house located within the Three Lakes Park mobile home community. TLP is managed by a Board of Directors elected from the resident owners within the mobile home park. The remaining 21 customers live outside the mobile home community and have no ownership interest in TLP. Six homes in the Utility's service territory have opted to remain on or install private wells and forgo utility service.

The Commission granted Certificate No. 644-W to TLP in Order No. PSC-09-0542-PAA-WU, issued August 4, 2009, in Docket No. 080499-WU. Rate base was last established in Order No. PSC-10-0124-PAA-WU, issued March 1, 2010, in a staff assisted rate case in Docket No. 090244-WU.

Utility Books and Records

Objective: Our objective was to determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedure: We reviewed the Utility's accounting system and determined that they are not in compliance with the NARUC USOA. See our discussion of this issue in Finding 1.

Rate Base

Utility Plant in Service

Objectives: Our objectives were to determine and verify that 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 properly classified in compliance with Commission rules and the NARUC USOA, 3) Retirements were made when a replacement asset was put in service and, 4) Adjustments required in the Utility's last rate proceeding were posted to its books and records.

Procedures: We determined the UPIS account balance as of June 30, 2009, which was established in Docket No. 090244-WU. We searched utility records for additions to plant for the period July 1, 2009, through June 30, 2012, to substantiate the UPIS balances for this proceeding. We toured the utility plant site to determine the presence and condition of plant assets. Our recommended adjustment to UPIS is discussed in Finding 2.

Land & Land Rights

Objectives: Our objectives were to determine that utility land is either: 1) Recorded at original cost or, 2) Secured under a long-term lease.

Procedure: We verified that utility land continues to be held by a long-term lease that meets the criteria of Rule 25-30.433(10), Florida Administrative Code (F.A.C.). Our recommended adjustment to land lease expense is discussed in Finding 4.

Accumulated Depreciation

Objectives: Our objectives were to determine and verify that Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Commission rules and the NARUC USOA, 2) Retirements are properly recorded and, 3) Adjustments required in the Utility's last rate proceeding were posted to its books and records.

Procedures: We determined the Accumulated Depreciation account balances as of June 30, 2009, which were established in Docket No. 090244-WU. We calculated the annual accruals to accumulated depreciation for the period July 1, 2009, through June 30, 2012, to determine the Accumulated Depreciation account balances for this proceeding. Our recommended adjustment to Accumulated Depreciation is discussed in Finding 2.

Working Capital

Objective: Our objective was to determine the Utility's working capital adjustment per Commission rule.

Procedure: We calculated the Utility's working capital adjustment for the test year ended June 30, 2012, using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule 25-30.433(2), F.A.C. Our recommended working capital adjustment is discussed in Finding 4.

Capital Structure

Objectives: Our objectives were to determine: 1) The components of the Utility's capital structure, 2) The respective cost rates used to arrive at the overall weighted cost of capital and that, 3) They are properly recorded in compliance with Commission requirements.

Procedures: We compiled the Utility's capital structure for the test year ended June 30, 2012, using information extracted from the Utility's federal tax returns, general ledger, and Commission filed annual reports. We determined that the Utility's capital structure is composed of long-term debt. Our recommended balance for the Utility's capital structure and its weighted average cost rate are discussed in Finding 3.

Net Operating Income

Operating Revenue

Objectives: Our objectives were to determine: 1) Test year utility revenues based on Commission rules and, 2) Revenues are calculated using the Commission approved tariff rates.

Procedures: We compiled the Utility's revenues for the test year ended June 30, 2012, by obtaining the monthly customer billing records. We recalculated and tested the reasonableness of the Utility's 2011 calendar year revenues using billing information and its Commission approved tariff rates. Our recommended amount for Revenues is discussed in Finding 4.

Operation and Maintenance Expense

Objectives: Our objectives were to: 1) Compile the Utility's O&M Expense in compliance with NARUC USOA and Commission rules and, 2) Ensure that O&M Expense is representative of ongoing utility operations.

Procedures: We compiled O&M Expenses for the test year ended June 30, 2012, by reconciling utility invoices to original source documentation. We included invoices for the test year period and verified their recurring nature. Our recommended amount for O&M Expense is discussed in Finding 5.

Depreciation Expense

Objective: Our objective was to determine that Depreciation Expense is properly recorded in compliance with Commission rules.

Procedure: We calculated Depreciation Expense for the test year ended June 30, 2012, using the rates established by Rule 25-30.140, F.A.C. Our recommended amount for Depreciation Expense is discussed in Finding 2.

Taxes Other than Income

Objectives: Our objectives were to: 1) Compile the Utility's Taxes Other Than Income (TOTI) Expense in compliance with Commission rules, 2) Ensure that TOTI Expense is representative of ongoing utility operations and, 3) Audit the Utility's 2011 Regulatory Assessment Fee (RAF) Return filed with the Commission.

Procedures: We compiled TOTI Expenses for the test year ended June 30, 2012, by calculating the RAF due based on the test year revenue determined in this rate proceeding. Our recommended amount for TOTI Expense is discussed in Finding 6.

We reviewed and recalculated the Utility's 2011 RAF Return filed with the Commission Clerk on March 28, 2012. Our findings and recommended adjustment are also discussed in Finding 6.

Income Taxes

Objective: Our objective was to determine that the Utility's income tax calculation is accurate.

Procedures: We obtained copies of the Utility's 2011 federal and state income tax returns to verify its filing status and to determine the existence of net income loss carryovers. Our recommended amount for Income Tax Expense is discussed in Finding 7.

Audit Findings

Finding 1: Utility Books and Records

Audit Analysis: In Order No. PSC-09-0542-PAA-WU, the Commission granted the Utility Certificate No. 644-W to serve the customers in its prescribed territory. In that proceeding, the Utility acknowledged that it was aware that it must maintain its books and records according to the NARUC USOA.

Order No. PSC-10-0124-PAA-WU approved the Utility's request for rate relief in a staff assisted rate case. In that proceeding, the Utility was put on further notice that it was required to maintain its books and records according to the NARUC USOA.

The Utility uses a cash basis accounting method that is maintained by a contract bookkeeper in QuickBooks™. The bookkeeper also prepared the Utility's federal and state tax returns as well as the 2011 Annual Report filed with the Commission.

The Utility's current accounting system is not in compliance with Commission Orders referenced above. The Utility's records are maintained on a cash basis for income tax purposes rather than an accrual basis. These differences and the fact that the test year we chose do not equate to a calendar year complicated our effort to adapt the information we extracted from the Utility's accounting system for this proceeding. Other issues with the Utility's books and records and its annual report are discussed within the specific findings in this report.

The impact of the Utility's accounting method on our work was considerable. However, because the Utility's underlying records were sufficient and fully accessible we were able to complete our assigned objectives for this proceeding.

The Utility should be reminded of its obligation to maintain its books and records according to the NARUC USOA.

Effect on the General Ledger: None

Effect on the Filing: None

Finding 2: Rate Base

Audit Analysis: The Utility's 2011 Annual Report reflects the following balances:

<u>Rate Base Component</u>	<u>Year End</u>
Utility Plant in Service (UPIS)	\$0
Land	0
Contributions in Aid of Construction (CIAC)	0
Accumulated Depreciation	26,579
Accumulated Amortization of CIAC	<u>0</u>
Total	\$26,579

The Accumulated Depreciation balance above is a debit balance that is identified as "Buildings and Other Depreciable Assets" on the Comparative Balance Sheet section of the Utility's 2011 Annual Report. This balance is not included in the Utility's general ledger as of June 30, 2012, or its 2011 federal tax return.

Order No. PSC-10-0124-PAA-WU established the following balances as of June 30, 2009:

<u>Rate Base Component</u>	<u>Year End</u>
Utility Plant in Service (UPIS)	\$70,373
Land	0
Contributions in Aid of Construction (CIAC)	0
Accumulated Depreciation	(6,473)
Accumulated Amortization of CIAC	<u>0</u>
Total	\$63,900

We reviewed the transactions posted to the Utility's general ledger from July 1, 2009, through June 30, 2012, and determined that there were no additions or retirements to UPIS. A tour of the water plant site was performed on August 1, 2012, which confirmed our finding.

We calculated annual accruals to Accumulated Depreciation since July 1, 2009, by multiplying the average UPIS account balances by the prescribed rates set forth in Rule 25-30.140, F.A.C. We determined the following rate base balances as of June 30, 2012. See Schedule A that follows for our calculations.

<u>Rate Base Component</u>	<u>Test Year End</u>	<u>Test Year Average</u>
Utility Plant in Service (UPIS)	\$70,373	\$70,373
Land	0	0
Contributions in Aid of Construction (CIAC)	0	0
Accumulated Depreciation	(13,756)	(12,543)
Accumulated Amortization of CIAC	<u>0</u>	<u>0</u>
Total	\$56,617	\$57,830

Additionally, Depreciation Expense is \$2,427 for the test year ended June 30, 2012.

Effect on the General Ledger: Establish UPIS and Accumulated Depreciation balances of \$70,373 and \$13,756, respectively, as of June 30, 2012. See Schedule A for specific sub-account balances.

Effect on the Filing: Include average UPIS and Accumulated Depreciation balances of \$70,373 and \$12,543, respectively, and include Depreciation Expense of \$2,427 for the test year ended June 30, 2012.

Finding 2 (cont'd)

Schedule A

UPIS & Acc. Dep.		A	B	C	D	E	F	G	H	I
		UPIS	Avg. UPIS	Dep.	Acc. Dep.	24-Month	Acc. Dep.	Test Year	Acc. Dep.	Avg. Acc. Dep.
Acc#	Description	@06/30/09-12	@06/30/12	Rate	@06/30/09	Accrual	@06/30/11	Accrual	@06/30/12	@06/30/12
301.00	Organization	\$9,607	\$9,607	2.50%	(\$440)	(\$480)	(\$920)	(\$240)	(\$1,161)	(\$1,040)
304.00	Struct. & Improve.	9,356	9,356	3.57%	(680)	(668)	(1,348)	(334)	(1,682)	(1,515)
305.00	Coll. & Imp. Res.	43,987	43,987	3.57%	(4,690)	(3,142)	(7,832)	(1,571)	(9,403)	(8,617)
311.00	Pumping Equip.	1,450	1,450	6.67%	(242)	(193)	(435)	(97)	(532)	(484)
330.00	Dist. Res. & Stand.	678	678	3.33%	(56)	(45)	(101)	(23)	(124)	(113)
331.00	Trans. & Dist. Mains	4,888	4,888	2.50%	(264)	(244)	(508)	(122)	(631)	(570)
345.00	Power Op. Equip.	<u>407</u>	<u>407</u>	10.00%	<u>(102)</u>	<u>(81)</u>	<u>(183)</u>	<u>(41)</u>	<u>(224)</u>	<u>(204)</u>
	Total	\$70,373	\$70,373		(\$6,473)	(\$4,855)	(\$11,329)	(\$2,427)	(\$13,756)	(\$12,543)

Audit Calculations:

A&D Per Order No. PSC-10-0124-PAA-W¹

$E = (B \times C \times 2\text{yrs})$

$F = (D + E)$

$G = (B \times C)$

$H = (F + G)$

$I = ((F + H) / 2)$

(Small differences are due to rounding)

Finding 3: Capital Structure

Audit Analysis: The Utility's general ledgers, annual reports, and federal tax returns reflect the following capital structure balances:

General Ledger		2008	2009	2010	2011
211	Other Paid In Capital	\$0	\$0	\$0	\$93,400
215	Retained Earnings	0	(1,102)	(1,290)	(1,954)
218	Proprietary Capital	0	0	0	0
224	Long-Term Debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>(93,400)</u>
Total Equity & Liability		\$0	(\$1,102)	(\$1,290)	(\$1,954)

Annual Report					
211	Other Paid In Capital	\$0	\$16,156	\$51,231	\$51,762
215	Retained Earnings	0	(17,132)	(20,114)	(22,383)
218	Proprietary Capital	0	0	0	0
224	Long-Term Debt	<u>(16,156)</u>	<u>0</u>	<u>0</u>	<u>(93,400)</u>
Total Equity & Liability		(\$16,156)	(\$976)	\$31,117	(\$64,021)

Federal Tax Return					
211	Other Paid In Capital	\$16,156	\$50,860	\$0	\$0
215	Retained Earnings	(16,156)	(17,132)	0	0
218	Proprietary Capital	0	0	0	0
224	Long-Term Debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Equity & Liability		\$0	\$33,728	\$0	\$0

The Long-Term Debt balance of \$93,400 includes the following two debts identified in the Utility's 2011 Annual Report:

Loan from Three Lakes Park CO-OP, Inc.	\$67,900
Debt to Lewis, Longman & Walker, P.A.	<u>25,500</u>
	\$93,400

Order No. PSC-10-0124-PAA-WU recognized a Long-Term Debt balance of \$136,866, as of June 30, 2009, which was reduced to \$67,899 when reconciled to the Utility's rate base for rate setting purposes. It appears that the Utility adjusted its Long-Term Debt balance to the balance used to set rates in its last rate proceeding.

We confirmed, with a representative of the Utility, that it has never made a payment towards the principal or interest of the original \$136,866 loan because of persistent cash flow problems.

The original terms of the loan from the Co-Op called for monthly payments over five years with an annual interest rate of 12 percent.

Finding 3 (cont'd)

Additionally, we determined that the \$25,500 identified as a debt to Lewis, Longman & Walker P.A., is really an outstanding accounts payable balance for legal services provided in prior years. The Utility has only made periodic payments over the last few years due to persistent cash flow problems. Its last two payments totaled \$1,500, which we removed from test year O&M Expense in Finding 4.

We surmise that the Utility's capital structure is still comprised entirely of long-term debt as determined in the order referenced above. The Utility continues to struggle to pay its annual operating expenses and it has not posted a positive net income to date as detailed in Finding 6.

Additionally, we determined after reviewing the Utility's federal income tax returns that its Common Equity balance for this proceeding would most likely be negative based on those continuing net operating losses. To be consistent with prior Commission policy we set the Utility's Common Equity balance to \$0. See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008.

The Utility's capital structure is comprised entirely of debt. The average capital structure, reconciled to our average rate base balance in Finding 2 is displayed below.

Capital Component	Per Utility Balance	Specific Adjustments	Per Audit Balance	Pro Rata Adjustments	Per Audit Balance	Percent of Total	Cost Rate	Weighted Cost
Common Equity	Undetermined		\$0	\$0	\$0	0.00%		0.00%
Long-Term Debt	<u>\$67,900</u>	<u>\$68,966</u>	<u>136,866</u>	<u>(75,358)</u>	<u>61,508</u>	<u>100.00%</u>	12.00%	<u>12.00%</u>
Total	\$67,900	\$68,966	\$136,866	(\$75,358)	\$61,508	100.00%		12.00%

(The test year average and ending balances are the same because there was no activity posted during the period.)

Effect on the General Ledger: Increase Long-Term Debt balance by \$68,966 to \$136,866, as of June 30, 2012.

Effect on the Filing: Include average Capital Structure balance of \$61,508 for the test year ended June 30, 2012. The weighted average cost is 12 percent.

Finding 4: Operating Revenue

Audit Analysis: We compiled a utility trial balance for the test year ended June 30, 2012. The trial balance reflected revenues of \$34,257 for the period. As stated in Finding 1, the revenue amount was determined using the cash basis rather than the accrual basis of accounting.

We reviewed all customer billing transactions that comprised the revenue amount above. Our adjustments, which are explained in more detail below: 1) Corrects billing transactions where required and, 2) Converts the revenue amount from the cash basis to an accrual basis of accounting as required by the NARUC USOA and Commission rules.

<u>Rate Type</u>	<u>Utility Amount</u>	<u>Specific</u>	<u>Accrual</u>	<u>Audit Amount</u>
Permanent Rate (\$59.80 per month)	\$26,112	\$168	(\$1,642)	\$24,638
Vacation Rate (\$42.99 per month)	7,990	0	393	8,383
Permanent/Vacation Rate (a)	0	260	0	260
Late Fee (\$5)	<u>155</u>	<u>0</u>	<u>30</u>	<u>185</u>
Adjustments		\$428	(\$1,219)	
Total	\$34,257	(\$791)		\$33,466

(a) The Utility's billing system does not include this account description. We created it for presentation purposes. It reflects a combined bill for permanent and vacation rates in a single month. The amount is calculated based on the date of the month a resident gives notice and leaves for a minimum period of 60 days.

Our specific adjustment that increases revenues by \$428 is comprised of the following three items (\$108+\$60+\$260):

- 1) We increased revenues by \$108 to remove a credit that was posted to a customer's account to reimburse them for a plumber's fee to repair a water service line. We included the charge as an adjustment to test year O&M Expense.
- 2) We included \$60 in revenues for a customer that was not billed for service in March 2012.
- 3) We reclassified \$260 of mixed permanent and vacation rates from the respective accounts for presentation purposes. The remaining audit amounts in the permanent and vacation rate classifications are now direct multiples of the Utility's authorized flat rates.

Our accrual adjustment that reduces revenues by \$1,219 represents the difference between calculating revenues on an accrual basis rather than a cash basis system of accounting. We calculated test year revenues on an accrual basis as required by the NARUC USOA and Commission rules. The Utility used a cash basis as described in Finding 2.

Effect on the General Ledger: None

Effect on the Filing: Reduce Revenues by \$791 to \$33,466 for the test year ended June 30, 2012.

Finding 5: Operation and Maintenance Expense

Audit Analysis: We compiled a utility trial balance for the test year ended June 30, 2012. The trial balance reflected O&M Expenses of \$32,547 for the period. As stated in Finding 1, the O&M Expense amount was determined using the cash basis rather than the accrual basis of accounting.

We reviewed all of the transactions that comprised the O&M Expense amount. Our adjustments, which are explained in more detail below: 1) Correct specific transactions where required, 2) Reclassifies transactions to the proper NARUC account and, 3) Converts the O&M Expense amount from the cash basis to an accrual basis of accounting as required by the NARUC USOA and Commission rules.

1. We decreased Acct. No. 615 Purchased Power Expense by \$210 to \$635 to record the actual amount charged for purchased power during the test year based on the following adjustments (\$250 - \$40):
 - a. We removed two electric bills totaling \$250 for May and June 2011 services which were outside the test year.
 - b. We included one electric bill totaling \$40 for June 2012 service which is inside the test year.
2. We increased Acct. No. 618 Chemicals Expense by \$286 for 130 gallons of chlorine purchased during the test year that was reclassified from Acct Nos. 630.3 Contractual Services–Testing and 630.4 Contractual Services–Other.
3. We decreased Acct. No. 620 Material & Supplies Expense by \$278 to \$71 to record the actual amount charged for items purchased during the test year based on the following adjustments (\$349-\$71):
 - a. We removed \$349 for office supplies and postage fees which were outside our test year.
 - b. We included \$71 for materials and supplies purchased during the test year that were reclassified from Acct Nos. 630.3 and 630.4.
4. We decreased Acct. No. 630.2 Contractual Services–Professional by \$1,500 to \$12,850 to remove two payments for legal services that occurred outside the test year.
5. We decreased Acct. No. 630.3 Contractual Services–Testing by \$4,166 to \$4,563 to record the actual amount charged for water testing performed during the test year based on the following adjustments (\$575+\$350+\$3,241).
 - a. We removed \$575 to deliver boil water notices that were reclassified to Acct No. 630.4.
 - b. We removed \$350 to deliver boil water notices that occurred outside the test year.
 - c. We removed \$3,241 for non-testing services that were reclassified to Acct. Nos. 618, 620, and 630.4.

Finding 5 (cont'd)

6. We increased Acct. No. 630.4 Contractual Services—Other by \$1,826 to \$5,536 to record the actual amount charged for services performed during the test year based on the following adjustments (\$3,205+\$575+\$108+\$398-\$255-\$681-\$1,523):
 - a. We included \$3,205 for operator services that were reclassified from Acct. No. 630.3.
 - b. We included \$575 to deliver boil water notices that were reclassified from Acct. No. 630.3.
 - c. We included \$108 for repairs of the water distribution line that were paid for by a customer and incorrectly credited against his water service account. See Finding 4.
 - d. We included \$398 for the annual amortization of legal fees that was approved in the Utility's last rate proceeding.
 - e. We removed \$255 of office supplies and postage fees that were outside our test year.
 - f. We removed \$681 for various items such as bank fees, membership fees, and permits that were reclassified to Acct. No. 675-Miscellaneous Expense.
 - g. We removed \$1,523 of RAF paid on the Utility's 2011 Revenues. See Finding 6 for additional details.
7. We increased Acct. No. 640 Rent Expense by \$90 to \$3,900 to annualize a \$15 increase for the water plant lease that went into effect on January 1, 2012.
8. We accepted Acct. No. 655 Insurance Expense for \$754 for fees paid for Director and Officer Liability insurance.
9. We increased Acct. No. 675 Miscellaneous Expense for \$831 to record the actual amounts paid for miscellaneous items during the test year based on the following adjustments (\$681+\$150):
 - a. We included \$681 for various invoiced items such as bank fees, membership fees, and permits that were reclassified from Acct. No. 630.4.
 - b. We included \$150 for the annual amortization of application fees that was approved in the Utility's last rate proceeding.

(Small differences are due to rounding)

Effect on the General Ledger: None

Effect on the Filing: Reduce O&M Expense by \$3,122 to \$29,425 for the test year ended June 30, 2012. See Schedule B that follows for details of our adjustment by NARUC sub-account.

Include a working capital adjustment of \$ 3,678 for the test year ended June 30, 2012, which is calculated as 1/8 of our O&M Expense balance (\$29,425/8).

Finding 5 (cont'd)

Schedule B

TLP Water Inc. - Test Year O&M Expense by NARUC Sub-Account

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Trial Balance</u>	<u>Adjustment</u>	<u>Audit Balance</u>
615	Purchased Power	\$845	(\$210)	\$635
618	Chemicals	0	286	286
620	Materials & Supplies	349	(278)	71
630.1	Contractual Services - Billing	0	0	0
630.2	Contractual Services - Professional	14,350	(1,500)	12,850
630.3	Contractual Services - Testing	8,729	(4,166)	4,563
630.4	Contractual Services - Other	3,710	1,826	5,536
640	Rent Expense	3,810	90	3,900
655	Insurance	754	0	754
665	Regulatory Commission	0	0	0
670	Bad Debt Expense	0	0	0
675	Miscellaneous Expense	<u>0</u>	<u>831</u>	<u>831</u>
	Totals	\$32,547	(\$3,122)	\$29,425

Finding 6: Taxes Other Than Income

Audit Analysis: In Finding 4, we determined that the Utility's Revenues are \$33,466 for the test year. The RAF calculated on the above revenue amount is \$1,506 ($\$33,466 \times 4.5$ percent).

Effect on the General Ledger: None

Effect on the Filing: Increase TOTI Expense by \$1,506 for the test year ended June 30, 2012.

Additional Information: The Utility reported Revenues of \$33,844 for year 2011 and paid \$1,523 of RAF, which we removed from test year O&M Expense in Finding 5. We reviewed the reported Revenues and associated RAF paid. As stated in Finding 1, these Revenues were determined using a cash basis of accounting rather than the accrual basis of accounting required by the Commission.

Using customer billing information, we calculated Utility Revenues of \$33,382 for year 2011 using an accrual basis of accounting. We did not review the specific transactions of customer accounts in our recalculation. The difference between accrual basis and cash basis revenues was \$462 ($\$33,844 - \$33,382$).

The RAF calculated on the above Revenue amount is \$1,502 ($\$33,382 \times 4.5$ percent). The Utility over paid its 2011 RAF by \$21 ($\$1,523 - \$1,502$).

Finding 7: Income Taxes

Audit Analysis: The following information was extracted from the Utility's federal and state tax returns.

TLP Water, Inc. files an 1120 Federal Income Tax return on a calendar year basis.

TLP Water, Inc. reported the following amounts in the year indicated.

Year	Federal Net Operating Income(Loss)	Federal Carry Over Income(Loss)		State Net Operating Income(Loss)
2008	(\$16,156)	(\$16,156)		NA
2009	(\$976)	(\$17,132)		(\$976)
2010	(\$2,982)	(\$2,982)	CP	(\$2,982)
2011	(\$2,286)	(\$5,250)		(\$2,286)

NA The tax return was not available for review.

CP The Utility changed tax preparers in 2010. The new preparer did not bring forward the existing federal carry over loss from 2009.

The Utility's net loss carry over for federal tax reporting purposes is \$25,364 (\$17,132+\$2,982+\$5,250), given the information presented above. Should the Utility correct the filing error noted above, this net loss carry forward should be sufficient to offset any income tax liability for the next several years. Therefore, we did not include an amount for income taxes in the Net Operating Income.

Effect on the General Ledger: None

Effect on the Filing: Income Tax Expense is \$0 for the test year ended June 30, 2012.

Exhibits

Exhibit 1: Rate Base

**TLP WATER, INC.
AVERAGE YEAR ENDED JUNE 30, 2012
DOCKET NO. 120183-WU**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS		PER AUDIT
UTILITY PLANT IN SERVICE	\$0	\$70,373	AF-2	\$70,373
LAND AND LAND RIGHTS	\$0	\$0		\$0
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0	\$0		\$0
ACCUMULATED AMORTIZATION OF CIAC	\$0	\$0		\$0
ACCUMULATED DEPRECIATION	\$0	(\$12,543)	AF-2	(\$12,543)
WORKING CAPITAL	\$0	\$3,678	AF-5	\$3,678
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NET RATE BASE	\$0	\$61,508		\$61,508

(All amounts are rounded to the nearest whole dollar)

Exhibit 2: Capital Structure

**TLP WATER, INC.
AVERAGE YEAR ENDED JUNE 30, 2012
DOCKET NO. 120183-WU**

CAPITAL COMPONENT	PER UTILITY BALANCE	SPECIFIC ADJUSTMENTS	PER AUDIT BALANCE	PRO RATA ADJUSTMENTS	AUDIT BALANCE	AF-3	PERCENT OF TOTAL	COST RATE
COMMON EQUITY	(UNDETERMINED)		\$0	\$0	\$0	AF-3	0.00%	0.00%
LONG-TERM DEBT	<u>\$93,400</u>	<u>\$43,466</u>	<u>136,866</u>	<u>(75,358)</u>	<u>61,508</u>	AF-3	<u>100.00%</u>	<u>12.00%</u>
TOTAL	\$93,400	\$43,466	\$136,866	(\$75,358)	\$61,508		100.00%	12.00%

(All amounts are rounded to the nearest whole dollar)

Exhibit 3: Net Operating Income

**TLP WATER, INC.
12 MONTHS ENDED JUNE 30, 2012
DOCKET NO. 120183-WU**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
REVENUES	\$34,257	(\$791) AF-4	\$33,466
OPERATION AND MAINTENANCE EXPENSE	\$32,547	(\$3,122) AF-5	\$29,425
DEPRECIATION EXPENSE	\$0	\$2,427 AF-2	\$2,427
CIAC AMORTIZATION EXPENSE	\$0	\$0	\$0
TAXES OTHER THAN INCOME TAX EXPENSE	\$0	\$1,506 AF-6	\$1,506
PROVISION FOR INCOME TAX EXPENSE	\$0	\$0 AF-7	\$0
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OPERATING EXPENSE	\$32,547	\$811	\$33,358
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NET OPERATING INCOME	\$1,710	(\$1,602)	\$108

(All amounts are rounded to the nearest whole dollar)