

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 6, 2018

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20170219-WS  
Company Name: River Ranch Water Management, LLC  
Company Code: WS850  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2017-311-2-2

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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  
Tampa District Office

### Auditor's Report

River Ranch Water Management, L.L.C.  
Staff Assisted Rate Case

**Twelve Months Ended September 30, 2017**

Docket No. 20170219-WS  
Audit Control No. 2017-311-2-2  
**January 08, 2018**

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Intesar Terkawi  
Audit Manager

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Ronald Mavrides  
Audit Staff

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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 November 6, 2017. We have applied these procedures to the attached schedules prepared by the audit staff in support of River Ranch Water Management, L.L.C.'s request for a Staff Assisted Rate Case in Docket No. 20170219-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

### **General**

#### Utility Information

River Ranch Water Management, L.L.C. (the Utility) is a Class C utility that provides services to approximately 1,267 water and 807 wastewater customers in Polk County, Florida. The Utility is managed and owned by Central Florida Investments, Inc. (CFI), the Utility's sole shareholder. Order PSC-2003-0740-PAA-WS established the Utility's rate base as of December 31, 2002 in Docket 20021067-WS, The Utility subsequently filed for a staff assisted rate case on May 10, 2011. An audit was performed but the Utility withdrew its application on March 16, 2012. On October 10, 2017, the Utility filed for the current staff assisted rate case.

#### Utility Books and Records

**Objective:** The objective was to determine whether 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 books and records and determined that it is in compliance with the NARUC USOA.

### **Rate Base**

#### Utility Plant in Service

**Objectives:** The objectives were to determine whether: 1) Property exists and is owned by the Utility, 2) Utility Plant in Service (UPIS) additions are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 3) Proper retirements of UPIS were made when a replacement item was put in service, and 4) Adjustments to UPIS in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** We determined the balances for water and wastewater UPIS that were established in Docket No. 20021067-WS as of December 31, 2002. We reviewed and sampled plant additions to water and wastewater plant for the period January 1, 2003, through September 30, 2017, to verify the water and wastewater UPIS balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the water and wastewater utility plant sites to observe whether plant additions were completed and in service and to ascertain if a retirement was needed. We determined the year-end and average balances as of September 30, 2017. Our recommended adjustments to water and wastewater UPIS balances are discussed in Findings 1-3.

#### Land & Land Rights

**Objectives:** The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease, and 3) Adjustments to land in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** We determined the balances for water and wastewater land that were established in Docket No. 20021067-WS, as of December 31, 2002. We reconciled the Utility's water and wastewater land balances for this proceeding to the balances established in Order No. PSC-2003-0740-PAA-WS. There were no changes to utility land since the rate case proceeding. No exceptions were noted.

#### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine whether: 1) Additions to Contributions in Aid of Construction (CIAC) are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Donated property is properly accounted for and recorded as CIAC, and 3) Adjustments to CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** We determined the balances for water and wastewater CIAC that were established in Docket No. 20021067-WS, as of December 31, 2002. We reviewed and sampled additions to water and wastewater CIAC for the period January 1, 2003, through September 30, 2017. We determined the year-end and average balances as of September 30, 2017. No exceptions were noted.

#### Accumulated Depreciation

**Objectives:** The objectives were to determine whether: 1) Adjustments to Accumulated Depreciation in the Utility's last rate case proceeding were recorded in its general ledger, 2) Accumulated Depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140-Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset was replaced.

**Procedures:** We determined the balances for water and wastewater Accumulated Depreciation that were established in Docket No. 20021067-WS, as of December 31, 2002. We reviewed and sampled additions to accumulated depreciation for the period January 1, 2003, through September 30, 2017, to verify the Utility's Accumulated Depreciation balances for this proceeding. We ensured that retirements to Accumulated Depreciation were made when a capital item was removed or replaced. We determined the year-end and average balances as of September 30, 2017. Our recommended adjustments to water and wastewater Accumulated Depreciation balances are discussed in Finding 4.

#### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether: 1) Accruals to Accumulated Amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, 3) Adjustments to Accumulated Amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** We determined the balances for water and wastewater Accumulated Amortization of CIAC that were established in Docket No. 20021067-WS, as of December 31, 2002. We reviewed and sampled additions to Accumulated Amortization of CIAC for the period January 1, 2003, through September 30, 2017, to verify the Utility's Accumulated Amortization of CIAC balances for this proceeding. We determined the year-end and average balances as of September 30, 2017. No exceptions were noted.

#### Working Capital

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

**Procedures:** We calculated the Utility's working capital adjustment as of September 30, 2017, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission Rule 25-30.433(2), F.A.C. Our recommended water and wastewater working capital adjustments are discussed in Finding 6.

#### **Capital Structure**

**Objectives:** The objectives were to determine: 1) Component balances for the Utility's capital structure, 2) Cost rates to be used to arrive at the overall weighted cost of capital and, if 3) Properly recorded in compliance with Commission requirements.

**Procedures:** We determined that the Utility's capital structure is entirely composed of common equity. Our recommended capital structure balance and its weighted average cost rate are discussed in Finding 5.

## **Net Operating Income**

### Operating Revenue

**Objectives:** The objectives were to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

**Procedures:** We compiled the Utility's revenues for the test year ending September 30, 2017, by obtaining the monthly customer billing registers. We reconciled the billing registers to the general ledger. We recalculated revenues based on current tariffs in effect for water and wastewater customers by class. We completed a billing analysis as requested by technical staff. No exceptions were noted.

### Operation and Maintenance Expense

**Objectives:** Our objectives were to determine whether O&M Expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Properly recorded in appropriate period for the correct amount, and 3) Recorded in compliance with NARUC USOA and Commission rules.

**Procedures:** We verified water and wastewater O&M Expense for the test year ended September 30, 2017, by tracing all invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and whether recurring in nature. We determined the proper allocation of expenses between the Utility's related party operations and its water and wastewater operations. Our recommended adjustments to water and wastewater O&M Expenses are discussed in Finding 6.

### Depreciation and CIAC Amortization Expense

**Objectives:** Our objectives were to determine whether depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations.

**Procedures:** We recalculated water and wastewater depreciation expenses and CIAC amortization expenses for the test year ended September 30, 2017, by using the rates established by Commission Rule 25-30.140, F.A.C. Our recommended adjustments to water and wastewater depreciation expenses and CIAC amortization expenses are discussed in Finding 4.

### Taxes Other Than Income

**Objectives:** Our objectives were to determine whether Taxes Other Than Income (TOTI) expenses are: 1) properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with the NARUC USOA.

**Procedures:** We verified water and wastewater TOTI expenses for the test year ended September 30, 2017, by tracing the taxes to original source documentation. We reviewed the 2016 regulatory assessment fee returns and no exceptions were noted. Our recommended adjustments to water and wastewater TOTI expenses are discussed in Finding 7.



## Audit Findings

### **Finding 1: Utility Plant in Service - Water**

**Audit Analysis:** According to the Utility's general ledger, the UPIS balance was \$1,824,134 as of September 30, 2017. The Utility's water system asset balance is overstated by \$90,895 based on the following audit adjustments:

1. We have reduced Acct. No. 304-Structures and Improvements by \$18,683 to remove three (3) transactions that lacked supporting documentation that were recorded in 2003.
2. We have reduced Acct. No. 311-Power Generation Equipment by \$14,076 for three (3) retirements that the Utility did not record.
  - a. A retirement of \$5,402 for a transaction that replaced a motor in 2013.
  - b. A retirement of \$7,604 for a transaction that replaced a pump in 2015.
  - c. A retirement of \$1,070 for a transaction that replaced a Starter in 2016.
3. We have reduced Acct. No. 330-Distribution Reservoirs & Standpipes by \$12,668 for the following issues:
  - a. Duplication of an invoice that was recorded in 2011 and 2013 in the amount of \$2,300.
  - b. Duplication of an invoice that was recorded in 2013 and in 2017 in the amount of \$9,270.
  - c. Reduction in the account of \$1,098 for lack of support in 2017.
4. We have reduced Acct. No. 331-Transmission and Distribution Mains by \$5,826 to remove a transaction that lacked supporting documentation that was recorded in 2003.
5. We have reduced Acct. No. 334-Meters & Meter Installations by \$22,960 based on the following adjustments.
  - a. We have reduced the account by \$16,530 to remove a transaction that lacked supporting documentation that was recorded in 2003.
  - b. We have reduced the account by \$6,430 to remove two (2) transactions that lacked supporting documentation that were recorded in 2004.
6. We have reduced Acct. No. 335-Hydrants by \$16,680 for a retirement of replacing a hydrant in 2017 that was not recorded.

Adjustments are summarized on Table 1-1. The calculation and effect of our adjustments on the Utility's accumulated depreciation balance and test year depreciation expense are in Finding 4.

Finding 1 (cont'd)

Table 1-1

<b>Account Description</b>	<b>Utility Balance as of 09/30/2017</b>	<b>Audit Adjustments</b>	<b>Audit Balance as of 09/30/2017</b>	<b>Simple Average</b>
301-Organization Costs	\$1,145	\$0	\$1,145	\$1,145
304-Structures and Imp.	60,437	(18,683)	41,754	41,754
307-Wells and Springs	23,929	-	23,929	23,929
309-Supply Mains	29,429	-	29,429	29,429
310-Power Generations Equip.	15,871	-	15,871	15,871
311-Pumping Equipment	69,901	(14,078)	55,823	55,823
320-Water Treatment Equip.	26,363	-	26,363	26,363
330-Distribution Reservoirs	1,033,069	(12,668)	1,020,401	579,550
331-Trans. and Distrib. Lines	355,602	(5,826)	349,776	349,776
333-Services	76,818	-	76,818	76,818
334-Meters & Meter Install.	68,443	(22,960)	45,483	45,483
335-Hydrants	63,127	(16,680)	46,447	46,447
<b>Total:</b>	<b>\$1,824,134</b>	<b>(\$90,895)</b>	<b>\$1,733,239</b>	<b>\$1,292,388</b>

**Effect on the General Ledger:** The Utility's water UPIS balance should be reduced by \$90,895, as of September 30, 2017.

**Effect on Staff Prepared Exhibit:** Audit staff determined the year-end and simple average balances of the water UPIS to be \$1,733,239 and \$1,292,388 as of September 30, 2017.

## **Finding 2: Utility Plant in Service - Wastewater**

**Audit Analysis:** According to the Utility's general ledger, the UPIS balance was \$1,925,109 as of September 30, 2017. The Utility's wastewater system asset balance is overstated by \$398,076 based on the following audit adjustments:

1. Acct. No. 354-Structures and Improvements are reduced by \$183,400:
  - a. \$34,809 to remove two (2) transactions that lacked supporting documentation that were recorded in 2003.
  - b. \$148,592 to remove a general ledger journal entry that lacked supporting documentation that was recorded in 2004.
2. Acct. No. 361-Collection Sewer Gravity is reduced by \$1,542 for duplicating the same invoice in Account 360 and in Account 361 in 2015.
3. Acct. No. 370-Receiving Wells is reduced by \$66,131:
  - a. \$6,365 to remove two (2) transactions that lacked supporting documentation that were recorded in 2003 and 2005.
  - b. \$2,123 for a transaction that replaced a lift station pump in 2003 and the retirement was not recorded.
  - c. \$57,643 for three (3) transactions that completely replaced and rebuilt three lift stations in 2005, 2010, and 2017.
4. Acct No. 371-Pumping Equipment is reduced by \$29,615:
  - a. \$7,134 for three (3) transactions that replaced three (3) pumps at the wastewater plant in 2005.
  - b. \$2,278 for two (2) transactions that replaced two (2) surge pumps at the wastewater plant in 2006.
  - c. \$7,823 for a transaction that upgraded and replaced two (2) surge pumps and related controls at the wastewater plant in 2007.
  - d. \$7,162 for a retirement for the replacement of a pump in 2014.
  - e. \$5,218 for a retirement for the replacement of a pump in 2017.
5. Acct. No. 380-Treatment and Disposal Equipment is reduced by \$117,388:
  - a. \$46,675 to reclassify property held for future use. (See Finding 3)
  - b. \$17,533 to remove two (2) transactions that lacked supporting documentation that were recorded in 2003.
  - c. \$3,040 for a retirement for replacing a blower in 2012.
  - d. \$7,947 for the retirements of two (2) replacement flanges, and four (4) center legs in a concrete tank in 2014.

Finding 2 (cont'd)

- e. \$14,928 to remove two (2) transactions that lacked supporting documentation and that were recorded in 2016.
- f. \$27,265 for retirements in 2017 for replacing a bad area in aeration tank, a clarifier, and a sewage pump.

Adjustments are summarized on Table 2-1. The calculation and effect of our adjustments on the Utility's accumulated depreciation balance and test year depreciation expense are in Finding 4.

**Table 2-1**

<b>Account Description</b>	<b>Utility Balance as of 09/30/2017</b>	<b>Audit Adjustments</b>	<b>Audit Balance as of 09/30/2017</b>	<b>Simple Average</b>
351-Organization Costs	\$1,145	\$0	\$1,145	\$1,145
354-Structures and Imp.	290,775	(183,400)	107,375	107,375
360-Collection Sewers - Force	97,243	-	97,243	97,243
361-Collection Sewers - Gravity	511,250	(1,542)	509,708	509,708
363-Services to Customers	4,471	-	4,471	4,471
364-Flow Measuring Devices	3,729	-	3,729	3,729
370-Receiving Wells	170,056	(66,131)	103,925	103,234
371-Pumping Equipment	75,464	(29,615)	45,849	44,980
380-Treatment and Disposal Eq	480,571	(117,388)	363,183	358,636
389-Other Plant and Misc Equip	290,405	-	290,405	290,405
<b>Total:</b>	<b>\$1,925,109</b>	<b>(\$398,076)</b>	<b>\$1,527,033</b>	<b>\$1,520,926</b>

**Effect on the General Ledger:** The Utility's wastewater UPIS balance should be reduced by \$398,076, as of September 30, 2017.

**Effect on Staff Prepared Exhibit:**

Audit staff determined the year-end and simple average balances of the wastewater UPIS to be \$1,527,033 and \$1,520,926 as of September 30, 2017.

### **Finding 3: Retirement**

**Audit Analysis:** The Utility made substantial improvements to the water plant, including a new water tank, beginning in May 1, 2013 and ending about June 15, 2016. The Utility booked the entire amount totaling \$881,703 to Account 330 - Distribution Reservoirs & Standpipes in December 21, 2017 2017. Audit staff reviewed the twenty-four invoices that totaled this amount but could not determine with certainty which plant items were improved and which plant items should be retired.

Audit staff observed during the plant visit on December 22<sup>nd</sup>, 2017 that two older water tanks and an older tower pressure water tank was not in use. The Utility's representative stated that the new water tank replaced these three water tanks. We also observed that new connections to the new water tanks were replaced.

Technical staff needs to review these invoices and determine the disposition of these items as well as determine the appropriate retirements to plant in service.

Audit staff did not make any adjustments to the exhibits to retire the replaced plant. Technical staff would need to determine the amount to retire and the associated adjustments to accumulated depreciation and depreciation expense.

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

**Effect on the Staff Prepared Exhibits:** To be determined by technical staff.

#### **Finding 4: Property Held for Future Use - Wastewater**

**Audit Analysis:** Order No. PSC-2003-0740-PAA-WS established a UPIS balance of \$849,224 for the Utility's wastewater system as of December 31, 2002.

The order included an adjustment to the Utility's wastewater UPIS balance that reclassified an old wastewater treatment plant to property held for future use of \$46,675. The order moved equal amounts from wastewater UPIS and accumulated depreciation for the old wastewater treatment plant to Acct. No. 103-Property Held for Future Use. At the time, the Utility maintained that they planned to use the old plant as part of a future expansion of the wastewater plant. Subsequently, during our plant tour the Utility's representative stated that the old wastewater plant was now abandoned and that it would be disposed of in the future.

Under this condition the old wastewater plant no longer qualifies for this type of accounting treatment. Therefore, we have retired the old wastewater treatment plant by reducing wastewater Acct. No. 380 and its corresponding accumulated depreciation account by the \$46,765 balance determined in the order.

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

**Effect on Staff Prepared Exhibit:** None

## Finding 5: Accumulated Depreciation

**Audit Analysis:** According to the Utility's general ledger, the accumulated depreciation balance for water and wastewater was \$718,063 and \$1,281,819, respectively, as of September 30, 2017. Test year depreciation expense was not recorded in the general ledger because the Utility books depreciation expense once a year. Therefore audit staff used balances as of 12/31/2016 as the Utility balances. Audit staff recalculated accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C.

Our calculation for accumulated depreciation, depreciation expense, and simple average are shown in Tables 4-1 and 4-2.

**Table 4-1**

<b>Water</b>	<b>Acc. Dep.</b>		<b>Acc. Dep.</b>		<b>Dep.</b>
<b>Account Description</b>	<b>Per Audit</b>	<b>Audit</b>	<b>Per Utility</b>	<b>Simple</b>	<b>Expense</b>
	<b>9/30/17</b>	<b>Adjustments</b>	<b>12/31/16</b>	<b>Average</b>	<b>Per Audit</b>
108/403 301-Organization Costs	\$1,145	\$0	\$1,145	\$1,145	\$0
108/403 304-Structures and Improv.	20,488	(7,915)	28,403	19,929	1,118
108/403 307-Wells and Springs	22,344	448	21,896	22,012	665
108/403 309-Supply Mains	14,709	452	14,257	14,364	690
108/403 310-Power Generations Equip.	13,194	468	12,726	12,844	700
108/403 311-Pumping Equipment	31,134	(14,242)	45,376	29,903	2,463
108/403 320-Water Treatment Equip.	26,363	-	26,363	26,363	-
108/403 330-Distribution Reservoirs	143,009	4,095	138,914	135,765	14,489
108/403 331-Transm. and Distrib. Line:	291,385	1,618	289,767	287,933	6,903
108/403 333-Services	72,182	1,085	71,097	71,358	1,646
108/403 334-Meters & Meter Install.	26,412	(13,615)	40,027	25,559	1706
108/403 335-Hydrants	10,549	(17,543)	28,092	10,114	871
<b>Total:</b>	<b>\$672,914</b>	<b>(\$45,149)</b>	<b>\$718,063</b>	<b>\$657,289</b>	<b>\$31,251</b>

Finding 4 (cont'd)

Table 4-2

<b>Wastewater</b>	<b>Acc. Dep.</b>		<b>Acc. Dep.</b>		<b>Dep.</b>
<b>Account Description</b>	<b>Per Audit</b>	<b>Audit</b>	<b>Per Utility</b>	<b>Simple</b>	<b>Expense</b>
	<b>9/30/17</b>	<b>Adjustments</b>	<b>12/31/16</b>	<b>Average</b>	<b>Per Audit</b>
108/403 351-Organization Costs	\$1,145	\$0	\$1,145	\$1,145	\$0
108/403 354-Structures and Improv.	55,885	(76,657)	132,542	53,897	3,977
108/403 360-Collection Sewers - Force	91,185	4,674	86,511	89,384	3,602
108/403 361-Collection Sewers - Gravit	383,263	9,557	373,706	376,892	12,743
108/403 363-Services to Customers	3,830	94	3,736	3,766	128
108/403 364-Flow Measuring Devices	3,729	-	3,729	3,729	-
108/403 370-Receiving Wells	25,884	(80,380)	106,264	25,894	4,129
108/403 371-Pumping Equipment	(1,012)	(27,002)	25,990	97	2,998
108/403 380-Treatment and Disposal Eq	242,702	(102,653)	345,355	244,425	23,906
108/403 389-Other Plant and Misc. Eq	217,306	14,465	202,841	207,626	19,360
<b>Total:</b>	<b>\$1,023,917</b>	<b>(\$257,902)</b>	<b>\$1,281,819</b>	<b>\$1,006,855</b>	<b>\$70,843</b>

**Effect on the General Ledger:** The Utility's water and wastewater accumulated depreciation balances should be reduced by \$45,148 and \$257,902, respectively, as of September 30, 2017.

**Effect on Staff Prepared Exhibit:** Audit staff determined the year-end and simple average balances of the water accumulated depreciation to be \$657,289 as of September 30, 2017. Audit staff determined water depreciation expense to be \$31,251 for the test year ended September 30, 2017.

Audit staff determined the year-end and simple average balances of the wastewater accumulated depreciation to be \$1,023,917 and \$1,006,855 as of September 30, 2017. Audit staff determined wastewater depreciation expense to be \$70,843 for the test year ended September 30, 2017.



## Finding 6: Capital Structure

**Audit Analysis:** The Utility's general ledger reflects the following accounts and balances for its capital structure as of September 30, 2017.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Balance as of 9/30/16</u>	<u>Balance as of 9/30/17</u>
211000	Additional Paid in Capital	(\$869,894)	(\$869,894)
218000	Members Equity	(398,062)	(398,062)
218002	Retained Earnings	633,307	689,383
224000	Note Payable-Related Parties	(244,724)	(244,724)
		<u>(\$879,373)</u>	<u>(\$823,297)</u>

River Ranch Water Management, L.L.C. is a subsidiary of CFI and its operations and earnings (losses) roll forward to and are consolidated within CFI's federal tax return. CFI is incorporated within the State of Florida and files an 1120S Corporation federal tax return. The David Siegel Irrevocable Trust is the sole shareholder and owner of CFI and all income (losses) generated by CFI flow through to the sole shareholder.

We reviewed CFI's 2016 federal tax return. Schedule L of that tax return indicates the following balances as of December 31, 2016.

Net Assets	<u>\$641,941,694</u>
Current Liabilities	\$13,765,267
Other Liabilities	227,942,739
Mortgage Debt	250,000
Net Owners Equity	<u>399,983,688</u>
Net Liabilities & Equity	\$641,941,694

The Utility's capital structure in its 2016 annual report reflects an equity balance of \$578,573 and a long term debt balance of \$244,724.

The long term debt balance has existed unchanged since 2004 and is an obligation to CFI, a related party. Under this scenario, the Commission has treated such amounts as contributed capital in prior rate cases and included them as equity for capital structure presentation purposes such as, Order No. PSC-2005-0621-PAA-WU, issued June 6, 2005, in Docket No. 2004-1145-WU.

Based on the above information the Utility's capital structure, when reconciled to rate base, is 100 percent equity with a cost rate of 8.74 percent as determined by Order No. PSC-2017-0249-PAA-WS, issued June 26, 2017.

**Effect on the General Ledger:** None.

**Effect on Staff Prepared Exhibits:** None.

## Finding 7: Operations and Maintenance Expense

**Audit Analysis:** The Utility's general ledger reflects O&M Expense of \$115,253 and \$137,814 for water and wastewater, respectively. A summary of audit staff's adjustments follows in Tables 6-1 and 6-2:

**Table 6-1**

Acct. No.	Account Description	Balance per Utility 9/30/2017	Audit Adjustments	Balance per Audit 9/30/2017
601	Salaries: Employees	\$24,655	(\$3,094)	\$21,562
604	Employee Pension	2,970	118	\$3,088
615	Purchased Power	12,367	5,438	17,805
618	Chemicals	33,036	(3,374)	29,662
620	Materials & Supplies	236	(168)	69
631	Contractual Services-Pro	0	3,600	3,600
632	Contractual Services - Acctg.	5,700	(5,700)	0
635	Contractual Services - Testing	1,847	0	1,847
636	Contractual Services - Other	21,554	(2,508)	19,046
640	Office Rent		1,800	1,800
642	Equipment Rental	4,445	(4,445)	0
650	Transportation Expense	153	12	165
655	Insurance	0	1,220	1,220
656	Vehicle Insurance	396	(396)	0
658	Workers Comp.	224	(224)	0
665	Regulatory Commission Expense	6,095	0	6,095
670	Bad Debt Expense	265	0	265
675	Miscellaneous Expenses	1,532	85	1,618
	Total O&M Expense	\$115,477	(\$7,636)	\$107,841

Acct. 601 - Salaries & Wages - Employees - Decrease by \$3,094 to reflect the actual 2016 W-2 provided to the audit staff.

Acct. 604 - Employee Pension - Increase by \$118 to reflect the audited amount per the actual 2016 W-2 form.

Acct. 615 - Purchased Power —Increase by \$5,438 to reflect invoices for observed power meters that were erroneously charged to wastewater Acct. 715.

Acct. 618 - Chemicals - Decrease by \$3,374 to reflect provided invoices.

Acct. 620 - Materials & Supplies - Decrease by \$168 to remove dues for Florida Rural Water Association that belongs in Acct. 675.

Acct. 631 - Contractual Services - Professional – Increase by \$3,600 to reflect provided invoices.

Acct. 632 - Contractual Services - Accounting – Decrease by \$5,700 to move improper Class B account to account 631.

Acct. 636 - Contractual Services - Other - Decrease by \$2,508 to reflect provided invoices.

Finding 6 (cont'd)

Acct. 640 - Office Rent - Increase by \$1,800 to reflect amount allocated in PSC-2003-0740-PAA-WS. Utility did not record any office rent in its general ledger.

Acct. 642 – Decrease by \$4,445 for an invoice that was out-of-period, and remove improper Class B account.

Acct. 650 - Transportation Expense - Increase by \$12 to reflect an unrecorded invoice.

Acct. 655 - Insurance Expense -Increase by \$1,220: for the following issues:

- a. \$600 is unrecorded liability insurance that is granted in Order No. PSC-2003-0740-PAA-WS.
- b. \$396 vehicle insurance that is improperly recorded in Class B account 656, and
- c. \$224 is workers compensation fee that is improperly recorded in Class B account 658.

Acct. 656 – Vehicle Insurance- Decrease by 397 to move improper Class B account to account 655.

Acct. 658 – Workers Compensation Insurance- Decrease by 224 to move improper Class B account to account 655.

Acct. 675 - Misc. Expense - Increase by \$85 to reflect dues for Florida Rural Water Association erroneously entered in Acct. 620, and to reflect provided documentation.

Finding 6 (cont'd)

Table 6-2

Acct. No.	Account Description	Balance per Utility 9/30/2017	Audit Adjustments	Balance per Audit 9/30/2017
701	Salaries: Employees	\$24,655	(\$3,094)	\$21,562
704	Employee Pension	2,970	\$118	3,088
715	Purchased Power	21,794	(\$1,811)	19,983
718	Chemicals	32,623	(\$13,643)	18,980
720	Materials & Supplies	168	(\$168)	0
731	Contractual Services - Pro.	0	\$3,600	3,600
732	Contractual Services - Pro.	5,700	(\$5,700)	0
735	Contractual Services - Testing	2,750	\$0	2,750
736	Contractual Services - Other	33,883	(\$3,433)	30,450
740	Office Rent		\$1,800	1,800
742	Equipment Rent	4,445	(\$4,445)	0
750	Transportation Expense	153	\$12	165
755	Insurance	0	\$1,220	1,220
756	Vehicle Insurance	396	(\$396)	0
758	Workers Comp.	224	(\$224)	0
765	Regulatory Commission Expense	7,456	\$0	7,456
770	Bad Debt Expense	265	\$0	265
775	Miscellaneous Expenses	332	\$85	417
	<b>Total O&amp;M Expense</b>	<b>\$137,814</b>	<b>(\$26,077)</b>	<b>\$111,737</b>

Acct. 701 - Salaries & Wages - Employees - Decrease by \$3,094 to reflect the actual 2016 W-2 provided to audit staff.

Acct. 704 - Employee Pension – Increase by \$118 to reflect the actual 2016 W-2 provided to audit staff.

Acct. 715 - Purchased Power - Decrease by \$1,811 to reflect invoices for observed power meters and removal of water plant power meter that were erroneously charged to wastewater

Acct. 718 - Chemicals - Decrease by \$13,643 to reflect provided invoices.

Finding 6 (cont'd)

Acct. 720 - Materials and Supplies - Decrease by \$168 to reclassify association dues to Acct. 775.

Acct. 731 – Contractual Services – Professional – Increase by \$3,600 to reflect provided invoices.

Acct. 732 - Contractual Services - Accounting - Decrease by 2,100 as unsupported and \$3,600 to move improper Class B account to account 731.

Acct. 736 - Contractual Services - Other - Decrease by \$3,433 to reflect provided invoices.

Acct. 740 - Contractual Services - Other - Increase by \$1,800 to reflect amount allocated in PSC-03-0740-PAA-WS. Utility did not record any office rent in its general ledger.

Acct. 742 – Equipment Rental – Decrease by \$4,445 to move out of period invoice, and to remove improper Class B account.

Acct. 750 – Transportation Expense – Increase be \$12 to reflect an unrecorded invoice.

Acct. 755 – Insurance – Insurance - Increase by \$1,220: for the following issues:

- a. \$600 is unrecorded liability insurance that is granted in Order No. PSC-2003-0740-PAA-WS
- b. \$396 is Vehicle insurance that is improperly recorded in Class B account 656, and
- c. \$224 is workers compensation fee that is improperly recorded in Class B account 658.

Acct. 756 – Vehicle Insurance – Decrease by \$397 to move improper Class B account to account 755.

Acct 758 – Workers Compensation Insurance – Decrease by \$224 to move improper Class B account to account 755.

Acct. 775 – Miscellaneous Expense – Increase by \$85 to add association dues from Acct. 720 and to reflect the provided documentation amount.

**Effect of the General Ledger:** Decrease O&M water and wastewater expense by \$7,636 and \$26,077 respectively.

**Effect on Staff Prepared Exhibit:** Decrease O&M water and wastewater expense by \$7,636 and \$26,077, respectively.

We calculated working capital to be \$13,480 and \$13,967 for water and wastewater, respectively for the period ending September 30, 2017 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 of September 30, 2017, of \$16,474 and \$9,175, respectively. Tangible taxes were not recorded in the general ledger but are included here.

Adjustments to TOTI are summarized in Tables 7-1 and Table 7-2.

**Table 7-1**

		<b>TOTI SUMMARY</b>		
		Balance Per	Audit	Balance Per
Water		Utility	Adjustments	Audit
Acct.	Account Description	9/30/2017	9/30/2017	9/30/2017
408	Real Estate Taxes	\$ 387	\$ (262)	\$ 125
408	Regulatory Assessment	6,096	-	6,096
408	Tangible Tax	-	8,616	8,616
408	Payroll Tax	1,847	(210)	1,637
	<b>Total</b>	<b>\$ 8,330</b>	<b>\$ 8,144</b>	<b>\$ 16,474</b>

**Table 7-2**

		<b>TOTI SUMMARY</b>		
		Balance	Audit	Balance Per
Wastewater		Per Utility	Adjustments	Audit
Acct.	Account Description	9/30/2017	9/30/2017	9/30/2017
408	Real Estate Taxes	\$ 183	\$ (101)	\$ 82
408	Regulatory Assessment	7,456	-	7,456
408	Tangible Tax	-	-	-
408	Payroll Tax	1,847	(210)	1,637
	<b>Total</b>	<b>\$ 9,486.00</b>	<b>\$ (311.00)</b>	<b>\$ 9,175.00</b>

**Effect of the General Ledger:** Increase water TOTI by \$8,145 and decrease wastewater TOTI by \$311.

**Effect on Staff Prepared Exhibit:** Increase water TOTI by \$8,145 and decrease wastewater TOTI by \$311.

Exhibits

**Exhibit 1: Rate Base**

**RIVER RANCH WATER MANAGEMENT, L.L.C.**

As of September 30, 2017

Docket No. 20170219-WS

<b>WATER ACCOUNT DESCRIPTION</b>	<b>PER UTILITY</b>	<b>AUDIT ADJUSTMENTS</b>	<b>PER AUDIT</b>	<b>SIMPLE AVERAGE</b>
UTILITY PLANT IN SERVICE	\$1,824,134	(\$90,895)	\$1,733,239	\$1,292,388
LAND AND LAND RIGHTS	\$500	\$0	\$500	\$500
ACCUMULATED DEPRECIATION	(\$718,063)	\$45,148	(\$672,915)	(\$657,289)
CONTRIBUTION IN AID OF CONSTRUCTION	(\$524,938)	\$0	(\$524,938)	(\$524,938)
ACCUMULATED AMORTIZATION OF CIAC	\$464,260	\$0	\$464,260	\$463,506
WORKING CAPITAL	\$0	\$13,480	\$13,480	\$13,480
NET RATE BASE	\$1,045,893	(\$32,267)	\$1,013,626	\$587,647

**RIVER RANCH WATER MANAGEMENT, L.L.C.**  
**As of September 30, 2017**  
**Docket No. 20170219-WS**

<b>WASTEWATER ACCOUNT DESCRIPTION</b>	<b>PER UTILITY</b>	<b>AUDIT ADJUSTMENTS</b>	<b>PER AUDIT</b>	<b>SIMPLE AVERAGE</b>
UTILITY PLANT IN SERVICE	\$1,925,109	(\$398,076)	\$1,527,033	\$1,520,929
LAND AND LAND RIGHTS	\$500	\$0	\$500	\$500
ACCUMULATED DEPRECIATION	(\$1,281,819)	\$257,902	(\$1,023,917)	(\$1,006,855)
CONTRIBUTION IN AID OF CONSTRUCTION	(\$665,542)	\$0	(\$665,542)	(\$665,542)
ACCUMULATED AMORTIZATION OF CIAC	\$526,382	\$0	\$526,382	\$519,136
WORKING CAPITAL	\$0	\$13,967	\$13,967	\$13,967
NET RATE BASE	\$504,630	(\$126,207)	\$378,423	\$382,135



## Exhibit 2: Capital Structure

### RIVER RANCH WATER MANAGEMENT, L.L.C.

As of September 30, 2017

Docket No. 20170219-WS

CLASS OF CAPITAL	BALANCE	ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE (b)	WEIGHTED COST
LONG TERM DEBT	\$244,724	(\$244,724)	\$0	0.00%	0.00%	0.00%
COMMON EQUITY (a)	\$823,297	\$568,751	\$1,392,048	100.00%	8.74%	8.74%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
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TOTAL(c)	\$1,068,021	\$324,027	\$1,392,048	100.00%		8.74%

Notes to above schedule:

- a) Common Equity is reconciled to the sum of the water and wastewater rate base balance in this proceeding. (\$1,013,626 + \$378,423)
- b) Common Equity cost rate is set at 8.74% for 100% equity per Order No. PSC-2017-0249-PAA-WS, issued June 26, 2017.
- c) All amounts are rounded to the nearest whole dollar.

### Exhibit 3: Net Operating Income

**RIVER RANCH WATER MANAGEMENT, LLC**  
12-Month Ended September 30, 2017  
Docket No. 2010219-WS

<b>WATER ACCOUNT DESCRIPTION</b>	<b>PER UTILITY</b>	<b>AUDIT ADJUSTMENTS</b>	<b>PER AUDIT</b>
REVENUES	\$135,486	\$0	\$135,486
OPERATION AND MAINTENANCE EXPENSE	\$115,477	(\$7,636)	\$107,841
DEPRECIATION EXPENSE	\$30,269	\$982	\$31,251
AMORTIZATION OF CIAC	(\$8,634)	\$0	(\$8,634)
TAXES OTHER THAN INCOME	\$8,330	\$8,144	\$16,474
OPERATING EXPENSE	\$145,442	(\$6,654)	\$146,932
NET OPERATING INCOME	(\$9,956)	\$6,654	(\$11,446)

**RIVER RANCH WATER MANAGEMENT**  
**12-Month Ended September 30, 2017**  
**Docket No. 20170219-WS**

<b>WASTEWATER ACCOUNT DESCRIPTION</b>	<b>PER UTILITY</b>	<b>AUDIT ADJUSTMENTS</b>	<b>PER AUDIT</b>
REVENUES	\$165,612	\$0	\$165,612
OPERATION AND MAINTENANCE EXPENSE	\$137,814	(\$26,077)	\$111,737
DEPRECIATION EXPENSE	\$86,506	(\$15,663)	\$70,843
AMORTIZATION OF CIAC	(\$10,880)	\$0	(\$10,880)
TAXES OTHER THAN INCOME	\$9,486	(\$311)	\$9,175
OPERATING EXPENSE	\$222,926	(\$42,051)	\$180,875
NET OPERATING INCOME	(\$57,314)	\$42,051	(\$15,263)