

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:** July 18, 2019

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20190114-WU  
Company Name: Gator Waterworks, Inc.  
Company Code: WU984  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2019-155-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/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  
Tallahassee District Office

### Auditor's Report

Gator Waterworks, Inc.  
Staff-Assisted Rate Case

**Twelve Months Ended March 31, 2019**

Docket No. 20190114-WU  
Audit Control No. 2019-155-1-1  
**June 28, 2019**

Handwritten signature of Debra M. Dobiac in black ink.

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Debra M. Dobiac  
Audit Manager

Handwritten signature of Marisa N. Glover in blue ink.

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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 May 31, 2019. We have applied these procedures to the attached schedules prepared by the audit staff in support of Gator Waterworks, Inc.'s request for a Staff-Assisted Rate Case in Docket No. 20190114-WU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Gator/Utility refers to Gator Waterworks, Inc.

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

Gator Waterworks, Inc. is a Class C water utility serving approximately 331 water customers in Alachua County.

The Utility began providing water service in 1965 under the name Kincaid Hills Water Company (Kincaid). On June 30, 1992, the Alachua County Board of County Commissioners adopted a resolution, which gave jurisdiction over the regulation of privately-owned water and wastewater utilities to this Commission. On November 18, 1992, Kincaid filed its application for an original certificate to provide water service in Alachua County under grandfather rights, and Certificate No. 555-W was granted by Order No. PSC-1993-1027-FOF-WU, issued July 13, 1993.

Gator Waterworks, Inc. purchased Kincaid Hills Water Company on February 23, 2018, and filed an application for Transfer of Certificate on March 12, 2018. The Utility's transfer application was subsequently approved by Order No. PSC-2018-0587-PAA-WU on December 17, 2018. On May 13, 2019, the Utility filed an application for a Staff Assisted Rate Case (SARC). The Utility's net book value for transfer purposes was updated to reflect balances as of February 23, 2018.

In its SARC application, the Utility is requesting a year-end rate base as of March 31, 2019. The year-end rate base excludes averaging adjustments and is used to allow the Utility to recover its allowed rate of return on significant plant improvements that were made after the acquisition.

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 February 23, 2018 from Order No. PSC-2018-0587-PAA-WU to the general ledger. We scheduled UPIS activity from February 23, 2018 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 balances as of March 31, 2019. No exceptions were noted.

### Land & Land Rights

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

**Procedures:** We reconciled the beginning balances for land, as of February 23, 2018 from Order No. PSC-2018-0587-PAA-WU to the general ledger. We noted that there were no additions to land since the last NBV proceeding. We determined the year-end 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 February 23, 2018 from Order No. PSC-2018-0587-PAA-WU to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from February 23, 2018 through March 31, 2019. We determined the year-end 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 February 23, 2018 from Order No. PSC-2018-0587-PAA-WU to the general ledger. We noted that there were no

additions to CIAC since the last NBV proceeding. We determined the year-end 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 February 23, 2018 from Order No. PSC-2018-0587-PAA-WU 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., from February 23, 2018 through March 31, 2019. We determined the year-end balances as of March 31, 2019. Finding 1 discusses our recommended adjustments to accumulated amortization of CIAC.

#### 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 1 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, and retained earnings. We determined the year-end 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 2 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. We verified each expense against the invoice and supporting documentation. Finding 2 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 2 discusses our recommended adjustments to depreciation and 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. Finding 2 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 amounts to the supporting invoices. Audit staff determined that the water treatment plant rehabilitation cost \$158,790 and the April 2019 meter replacements cost a net of \$33. These amounts were not reflected in the attached exhibit, nor did we calculate accumulated depreciation or depreciation expense. No further work performed.



## Audit Findings

### Finding 1: Rate Base Adjustments

**Audit Analysis:** According to the Utility's general ledger, the accumulated depreciation balance was \$265,341 and the accumulated amortization of CIAC balance was \$134,990 as of March 31, 2019. 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 also recalculated accumulated amortization of CIAC using the audited CIAC balances and the rates established by the Rule noted above. We determined that the accumulated depreciation year-end balance should be \$265,508 and the accumulated amortization of CIAC year-end balance should be \$134,304 as shown in Table 1-1.

**Table 1-1**

<b>Account - Description</b>	<b>Utility Balance Accum Dep 3/31/2019</b>	<b>Audit Adjustments</b>	<b>Audit Balance Accum Dep 3/31/2019</b>
304 Structures & Improvements	\$ 6,385	\$ 112	\$ 6,497
307 Wells & Springs	3,800	-	3,800
309 Supply Mains	316	-	316
310 Power Generation Equip.	18,300	-	18,300
311 Pumping Equip.	30,761	(71)	30,690
320 Water Treatment Equip.	1,670	14	1,684
330 Distribution Reservoirs	20,973	11	20,984
331 Transmission and Distribution Mains	130,625	113	130,738
333 Services	31	51	82
334 Meters and Meter Install.	40,164	(68)	40,096
339 Other Plant and Misc Equipment	4,000	-	4,000
340 Office Furniture and Equipment	4,366	5	4,371
343 Tools, Shop and Garage Equip	1,200	-	1,200
344 Lab Equipment	200	-	200
345 Power Operated Equip	2,200	-	2,200
346 Communication Equipment	350	-	350
<b>Total:</b>	<b>\$ 265,341</b>	<b>\$ 167</b>	<b>\$ 265,508</b>
272 Accumulated Amortization of CIAC	\$ 134,990	\$ (686)	\$ 134,304

In addition, we calculated working capital as 1/8<sup>th</sup> of O&M Expense, as discussed in Finding 2, and should be \$9,593.

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

**Effect on the Filing:** The year-end accumulated depreciation balance should be increased by \$167. The year-end accumulated amortization of CIAC should be decreased by \$686. Working capital should be \$9,593.

**Finding 2: Net Operating Income**

**Audit Analysis:** The Utility’s operating revenue was \$56,351 for the twelve months ended March 31, 2019. Audit staff recalculated revenue by determining the number of bills and gallons consumed times the Commission approved tariff rates. We also determined that there were 47 initial connection fees, 25 violation reconnection fees, 5 after hours violation reconnection fees, and 1,168 late fees for the miscellaneous service charges, which we multiplied by the approved tariff rates. We determined operating revenue to be \$56,781 as shown in Table 2-1.

**Table 2-1**

<b>NARUC</b>	<b>Description</b>	<b>Utility Balance 3/31/2019</b>	<b>Audit Adjustments</b>	<b>Audit Balance 3/31/2019</b>
461.1	Residential Revenues	\$ 50,966	422	\$ 51,388
461.2	Commercial Revenues	\$ 867	-	867
		<b>\$ 51,833</b>	<b>\$ 422</b>	<b>\$ 52,255</b>
474.1	Initial Connection Fees	\$ 940	-	\$ 940
	Violation Connect Fees	\$ 1,000	-	\$ 1,000
	Violation Connect Fees-After hours	\$ 250	-	\$ 250
474.4	Late Fees	\$ 2,328	8	\$ 2,336
		<b>\$ 4,518</b>	<b>\$ 8</b>	<b>\$ 4,526</b>
<b>Grand Total</b>		<b>\$ 56,351</b>	<b>\$ 430</b>	<b>\$ 56,781</b>

The Utility’s O&M Expenses were \$76,491, depreciation expense was \$16,307, amortization expense was \$6,788, and TOTI was \$3,955 for the twelve months ended March 31, 2019.

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

- We annualized the general liability insurance expense and increased Account 655 – Insurance Expense by \$251.
- We increased depreciation expense by \$27 after recalculating depreciation by using the audited UPIS plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C.
- We decreased amortization expense by \$747 after recalculating amortization by using the audited CIAC balances and the rates established by the Rule noted above.
- We decreased Account 408.2 – Property Taxes by \$416 to remove the monthly expense recorded after the annual expense had been recorded.
- We decreased Account 408.11 – Regulatory Assessment Fees by \$150 based on the audited operating revenue balance.

Audit staff determined O&M expenses to be \$76,742, depreciation expense to be \$16,334, amortization expense to be \$6,041, and TOTI to be \$3,389 as shown in Table 2-2.

**Table 2-2**

Acct. Nos.	Acct. Description	Per Utility		Per Audit
		3/31/2019	Adjustment	3/31/2019
603	Salaries & Wages - Officers	\$ 5,000	\$ -	\$ 5,000
615	Purchased Power	12,923	-	12,923
618	Chemicals	669	-	669
632	Contractual Services - Accounting	400	-	400
633	Contractual Services - Legal	300	-	300
635	Contractual Services - Testing	157	-	157
636	Contractual Services - Other	49,732	-	49,732
655	Insurance Expense	1,256	251	1,507
665	Reg. Commission Expense	-	-	-
670	Bad Debt Expense	5,404	-	5,404
675	Miscellaneous Expense	650	-	650
<b>Total - O&amp;M</b>		<b>\$ 76,491</b>	<b>\$ 251</b>	<b>\$ 76,742</b>
403	<b>Depreciation Expense</b>	<b>\$ 16,307</b>	<b>\$ 27</b>	<b>\$ 16,334</b>
407	<b>Amortization Expense</b>	<b>\$ (6,788)</b>	<b>\$ 747</b>	<b>\$ (6,041)</b>
408.2	Property Tax	1,250	(416)	834
408.11	Regulatory Assessment Fee	2,705	(150)	2,555
<b>Total - TOTI</b>		<b>\$ 3,955</b>	<b>\$ (566)</b>	<b>\$ 3,389</b>
<b>Total Net Operating Expenses</b>		<b>\$ 89,965</b>	<b>\$ 459</b>	<b>\$ 90,424</b>

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

**Effect on the Filing:** Operating revenue should be increased by \$430 and operating expenses should be increased by \$459 for the test year.

Exhibits

**Exhibit 1: Rate Base**

**GATOR WATERWORKS, INC.  
STAFF-ASSISTED RATE CASE  
DOCKET NO. 20190114-WU; ACN 2019-155-1-1  
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>Utility Plant in Service</b>	\$ 468,703	\$ -		\$ 468,703
<b>Land &amp; Land Rights</b>	\$ 8,000	\$ -		\$ 8,000
<b>Accumulated Depreciation</b>	\$ (265,341)	\$ (167)	1	\$ (265,508)
<b>Contributions in Aid of Construction</b>	\$ (165,685)	\$ -		\$ (165,685)
<b>Accumulated Amortization of CIAC</b>	\$ 134,990	\$ (686)	1	\$ 134,304
<b>Working Capital Allowance</b>		\$ 9,593	1	\$ 9,593
<b>Total Rate Base</b>	\$ 180,667	\$ 8,740		\$ 189,407

## Exhibit 2: Capital Structure

**GATOR WATERWORKS, INC.**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20190114-WU; ACN 2019-155-1-1**  
**SCHEDULE OF CAPITAL STRUCTURE**  
**AS OF MARCH 31, 2019**

Capital Components	Year End	% of Components	Prorata Adjustment	Rate Base	% of Rate Base	Rate	Composite Rate
Long Term Debt	\$ -	0.00%		\$ -	0.00%	0.00%	0.00%
Equity	\$ 356,836	100.00%	\$ (167,429)	\$ 189,407	100.00%	7.85%	7.85%
<b>Total</b>	<b>\$ 356,836</b>			<b>\$ 189,407</b>	<b>100.00%</b>		<b>7.85%</b>

2019 Equity Formula used as approved at the June 11, 2019 Agenda Conference:

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

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

$$\text{Return} = 7.85$$

### Exhibit 3: Net Operating Income

**GATOR WATERWORKS, INC.**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20190114-WU; ACN 2019-155-1-1**  
**SCHEDULE OF WATER NET OPERATING INCOME**  
**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>	\$ 56,351	\$ 430	2	\$56,781
<b>O&amp;M Expenses</b>	76,491	251	2	76,742
<b>Depreciation Expense</b>	16,307	27	2	16,334
<b>Amoritization Expense</b>	(6,788)	747	2	(6,041)
<b>Taxes Other than Income</b>	3,955	(566)	2	3,389
<b>Income Tax Expense</b>	-	-		-
<b>Total Operating Expenses:</b>	\$ 89,965	\$ 459		\$ 90,424
<b>Net Operating Income (Loss)</b>	\$ (33,614)	\$ (29)		\$ (33,643)