

State of Florida



# Public Service Commission - FPSC

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**DATE:** December 17, 2010  
**TO:** Bart Fletcher, Public Utilities Supervisor, Division of Economic Regulation  
**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CP*  
**RE:** Docket No.: 100127-WS  
Company Name: Tradewinds Utilities, Inc.  
Company Code: WS350  
Audit Purpose: Rate Case  
Audit Control No: 10-175-2-1

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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 were no confidential work papers associated with this audit.

CP/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE  
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State of Florida



**Public Service Commission**

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

**Auditor's Report**

Tradewinds Utilities, Inc.  
File and Suspend Rate Case Audit

Twelve Month Period Ended December 31, 2009

Docket No. 100127-WS  
Audit Control No. 10-175-2-1  
December 15, 2010

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

DOCUMENT NUMBER-DATE  
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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated June 24, 2010. We have applied these procedures to the attached schedules which were prepared by Tradewinds Utilities, Inc. in support of its filing for rate relief in Docket No. 100127-WS for the test year ending 2009.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Utility Information

Tradewinds Utilities, Inc. is a Class B utility that provides utility services to approximately 501 water and 292 wastewater customers in Marion County, Florida. The Utility is managed by Mr. Charles deMenzes, the Utility's sole shareholder. Additionally, Mr. deMenzes owns and manages M.I.R.A. International, Inc. which provides payroll services, general maintenance and office services for the Utility and three other utilities under the Florida Public Service Commission's jurisdiction.

#### Definitions

The term "Utility" used within this report refers to Tradewinds Utilities, Inc. The term "MIRA" refers to M.I.R.A. International, Inc., the Utility's "parent" or Service Company.

#### 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 it is in substantial compliance with the NARUC USOA.

### **Rate Base**

#### Utility Plant in Service (UPIS)

**Objectives:** Our objectives were to: 1) Determine that property exists and is owned by the Utility and that UPIS additions are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of UPIS were made when a replacement item was put in service, and 3) Verify that the adjustments to UPIS in the Utility's last rate proceeding were recorded in its general ledger.

**Procedures:** We determined the water and wastewater UPIS balances as of June 30, 1993 that were established in Docket No. 930524-WS.<sup>1</sup> We reviewed and sampled additions to water and wastewater plant for the period July 1, 1993 through December 31, 2009, 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

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<sup>1</sup> See Order No. PSC-94-0245-FOF-WS, issued March 4, 1994, Docket No.930524-WS, In Re: Application For a Staff Assisted Rate Case in Marion County by Tradewinds Utilities, Inc.

was needed. Audit Finding 1 discusses our findings and recommended adjustments to water and wastewater UPIS.

### Land

**Objectives:** Our objectives were to: 1) Determine that utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

**Procedures:** We determined the water and wastewater land balances as of June 30, 1993 that was established in Docket No. 930524-WS. We reviewed Utility documents for a land addition to the water system in 1998. Audit Finding 3 discusses our findings and recommended adjustments to water and wastewater land.

### Contributions in Aid of Construction (CIAC)

**Objectives:** Our objectives were to: 1) Determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, and 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in its general ledger.

**Procedures:** We determined the water and wastewater CIAC balances as of June 30, 1993 that were established in Docket No. 930524-WS. We reviewed and sampled additions to water and wastewater CIAC for the period July 1, 1993 through December 31, 2009, to verify the Utility's CIAC balances for this rate case proceeding. We searched a sample of the Utility's Federal Income Tax returns for unrecorded cash and property contributions. Audit Finding 4 discusses our findings and recommended adjustments to water and wastewater CIAC.

### Accumulated Depreciation

**Objectives:** Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in its general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

**Procedures:** We determined the water and wastewater accumulated depreciation balances as of June 30, 1993 that was established in Docket No. 930524-WS. We reviewed and sampled additions to accumulated depreciation for the period July 1, 1993 through December 31, 2009, 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. Audit Finding 2 discusses our findings and recommended adjustments for water and wastewater accumulated depreciation.

### Accumulated Amortization of CIAC

**Objectives:** Our objectives were to: 1) Determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in its general ledger.

**Procedures:** We determined the water and wastewater accumulated amortization of CIAC balances as of June 30, 1993 that was established in Docket No. 930524-WS. We reviewed and sampled additions to accumulated amortization of CIAC for the period July 1, 1993 through December 31, 2009, to verify the Utility's accumulated amortization of CIAC balances for this proceeding. Audit Finding 5 discusses our findings and recommended adjustments for accumulated amortization of CIAC.

### Working Capital

**Objective:** Our objective was to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

**Procedure:** We verified the Utility's calculation of the working capital balance as of December 31, 2009, using one-eighth of operation and maintenance expense as required by Commission Rule 30.433(2), Florida Administrative Code.

## **Net Operating Income**

### Operating Revenue

**Objective:** Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

**Procedures:** We verified the Utility's revenues for the 12-month period ending December 31, 2009, by tracing them to the Utility's general ledger and billing register system. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

### Operation and Maintenance Expense

**Objective:** Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with NARUC USOA and Commission rules and are representative of ongoing utility operations.

**Procedures:** We verified water and wastewater operation and maintenance expenses for the 12-month period ending December 31, 2009, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reviewed related party allocations from MIRA for payroll,

general maintenance and office services. We determined the proper allocation of expenses between the Utility's related party operations and its water and wastewater operations. Audit Findings 7 and 8 discuss our findings and recommended adjustments to water and wastewater operation and maintenance expenses for the 12-month period ending December 31, 2009.

#### Depreciation and CIAC Amortization Expense

**Objective:** Our objective was to determine that 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.

**Procedure:** We verified the calculation of water and wastewater depreciation expenses and CIAC amortization expense balances. Audit Findings 2 and 5 discuss our findings and recommended adjustments to water and wastewater depreciation expenses and CIAC amortization expense balances for the 12-month period ending December 31, 2009.

#### Taxes Other than Income (TOTI)

**Objective:** Our objective was to determine that TOTI expenses are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

**Procedures:** We verified water and wastewater TOTI expenses for the 12-month period ending December 31, 2009, by tracing the invoiced taxes to original source documentation. We reviewed the 2009 regulatory assessment fee returns and no exceptions were noted. Audit Finding 9 discusses our findings and recommended adjustments to water and wastewater TOTI expense for the 12-month period ending December 31, 2009.

### **Capital Structure**

**Objective:** Our objective was to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission requirements.

**Procedure:** We determined that the Utility's capital structure is comprised of long term debt, customer's deposits, and common equity. Audit Finding 10 discusses our findings and recommended adjustments to the Utility's capital structure.



## Audit Finding 1

### Subject: Water and Wastewater Utility Plant in Service

**Audit Analysis:** The Utility's filing reflects the following utility plant in service (UPIS) balances.

System	@12/31/2008	@12/31/2009	Average 2009
Water	\$1,069,948	\$1,080,554	\$1,075,251
Wastewater	\$944,339	\$954,075	\$949,207

(After removing water and wastewater land balances of \$182,500 and \$93,388, respectively.)

Order No. PSC-94-0245-FOF-WS, established the following UPIS balances and required adjustments as of June 30, 1993.

System	Per Utility	Adjustment	Per Commission
Water	\$314,067	\$1,791	\$315,858
Wastewater	\$630,424	(\$14,077)	\$616,348

(Small differences are attributed to rounding errors)

The NARUC USOA<sup>2</sup> and Rule 25-30.115, F.A.C., by adoption require the retirement of plant assets when they are replaced or removed from service.

We have determined that the Utility's average water and wastewater UPIS balances are overstated by \$52,582 and \$15,776, respectively, for the test year 2009, based on the following findings during our audit investigation.

- 1) The Utility did not record the prior order adjustment to wastewater plant as required in the order mentioned above. We have included this adjustment by reducing wastewater UPIS by \$14,077, as of December 31, 2008, to correct the general ledger balance. The water adjustment in the prior order was recorded.
- 2) During our fieldwork we performed a tour of the water and wastewater plant sites with the Utility's owner. We determined that several utility assets that were added in prior years no longer existed or were no longer owned by the Utility. We removed \$2,540 from water UPIS and \$609 from wastewater UPIS, as of December 31, 2008, to retire these assets and to correct the general ledger balance.
- 3) Our analysis of Acct. No. 334 – Meters and Meter Installations confirmed additions totaling \$117,611, during the three year period of 2005-2007. We verified that the Utility had completed a major asset replacement program that replaced or converted substantially all of its manual read water meters with new automated read water meters. We determined that there was no corresponding retirement recorded to Acct. No. 334 by the Utility for the replaced water meters. Our adjustment reflects a retirement of \$50,042 from water UPIS as

<sup>2</sup> See NARUC, Class B, Accounting Instruction No. 22.

of December 31, 2008 to remove an estimated amount for the water meters that were replaced and to correct the general ledger balance. Our adjustment equaled the corresponding accumulated depreciation balance for Acct. No. 334 as of December 31, 2008. Our approach followed the NARUC USOA accounting instruction cited above that requires equal entries to plant and accumulated depreciation accounts when a plant asset is retired.

- 4) Our analysis of Acct. No. 389 – Other Plant and Miscellaneous Equipment revealed an invoice totaling \$2,180 for the installation of a septic tank system at one of the Utility’s residential customer’s property. We have removed this amount by reducing wastewater UPIS by \$2,180 and reclassifying the balance to Acct. No. 186 – Miscellaneous Deferred Debits, as of December 31, 2009 to correct the general ledger balance. See Audit Finding 6 for additional information on this action.

Our water system retirements are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment		
				@12/31/08	@12/31/09	Avg. 2009
2	341	Transportation Equipment	retire	(\$1,995)	(\$1,995)	(\$1,995)
2	343	Tools, Shop & Garage Equipment	retire	(545)	(545)	(545)
2	Total			(\$2,540)	(\$2,540)	(\$2,540)
3	334	Meters & Meter Installations	retire	(\$50,042)	(\$50,042)	(\$50,042)
		Total Water UPIS Adjustment		<u>(\$52,582)</u>	<u>(\$52,582)</u>	<u>(\$52,582)</u>

Our wastewater system adjustments, retirements and reclassifications are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment		
				@12/31/08	@12/31/09	Avg. 2009
1	352	Franchises	adjust	(\$75)	(\$75)	(\$75)
1	361	Collection Sewers - Gravity	adjust	(17,223)	(17,223)	(17,223)
1	362	Special Collection Structures	adjust	(2,400)	(2,400)	(2,400)
1	370	Receiving Wells	adjust	5,925	5,925	5,925
1	382	Outfall Sewer Lines	adjust	(304)	(304)	(304)
	Total			(\$14,077)	(\$14,077)	(\$14,077)
2	389	Other Plant & Miscellaneous Equipment	retire	(\$249)	(\$249)	(\$249)
2	393	Tools, Shop & Garage Equipment	retire	(360)	(360)	(360)
2	Total			(\$609)	(\$609)	(\$609)
4	389	Other Plant & Miscellaneous Equipment	reclass	\$0	(\$2,180)	(\$1,090)
		Total Wastewater UPIS Adjustment		<u>(\$14,686)</u>	<u>(\$16,866)</u>	<u>(\$15,776)</u>

The corresponding effect on accumulated depreciation and test year depreciation expense is discussed in Audit Finding 2.

**Effect on the General Ledger:** The Utility should record each audit adjustment by NARUC account identified above, as of December 31, 2009, to correct its general ledger.

**Effect on the Filing:** The Utility's average water and wastewater UPIS balances should be reduced by \$52,582 and \$15,776, respectively, for the test year 2009.

## Audit Finding 2

### Subject: Water and Wastewater Accumulated Depreciation

**Audit Analysis:** The Utility's filing reflects the following accumulated depreciation balances.

System	@12/31/2008	@12/31/2009	Average 2009
Water	\$464,174	\$502,813	\$483,494
Wastewater	\$685,473	\$710,748	\$698,111

Order No. PSC-94-0245-FOF-WS established the following UPIS balances and required adjustments as of June 30, 1993.

System	Per Utility	Adjustment	Per Commission
Water	\$68,239	\$4,624	\$72,863
Wastewater	\$159,882	\$9,389	\$169,271

The Utility became a Class B utility in 2008, as defined by Rule 25-30.115, F.A.C., after its annual wastewater service revenues continued to exceed \$200,000.<sup>3</sup> Rule 25-30.140 (2), F.A.C., prescribes depreciation rates for utility assets based on the class size of each utility according to its annual service revenues.

We have determined that the Utility's average water and wastewater accumulated depreciation balances are overstated by \$57,073 and \$14,617, respectively, for the test year 2009, based on the following findings during our audit investigation.

- 1) We reviewed the activity recorded in the Utility's water and wastewater accumulated depreciation accounts since July 1993. We have determined that the Utility over booked the prior order adjustments illustrated above. Based on our analysis, we have calculated correcting adjustments that reduce water and wastewater accumulated depreciation by \$1,751 and \$8,157, respectively, as of December 31, 2008.
- 2) Item No. 1 in Audit Finding 1 reduced the Utility's wastewater UPIS by \$14,077 as of June 30, 1993. We have reduced wastewater accumulated depreciation by \$2,888 as of December 31, 2009, which represents the cumulative effect of this adjustment had it been recorded when ordered. Additionally, we have reduced wastewater depreciation expense by \$255 for the 12-month test year period ending December 31, 2009.
- 3) Item No. 2 in Audit Finding 1 removed \$2,540 from water UPIS and \$609 from wastewater UPIS as of December 31, 2008. We have reduced water and wastewater accumulated depreciation by \$2,574 and \$623, respectively, as of December 31, 2009 which represents the cumulative effect of this adjustment as of December 31, 2009. Additionally, we have reduced water and wastewater depreciation expense by \$34 and \$14, respectively, for the 12-month test year period ending December 31, 2009.

<sup>3</sup> The Utility first filed a Class B Annual Report with the Commission in 2008. Its annual wastewater revenues first exceeded \$200,000 in 2006. All prior Annual Reports were filed using the Class C format.

- 4) Item No. 3 in Audit Finding 1 removed \$50,042 from water UPIS as of December 31, 2008. We have reduced water accumulated depreciation by \$52,544 which represents the cumulative effect of this adjustment as of December 31, 2009. Additionally, we have reduced water depreciation expense by \$2,502 for the 12-month test year period ending December 31, 2009.
- 5) Item No. 4 in Audit Finding 1 reclassified \$2,180 from wastewater UPIS to a deferred debit account as of December 31, 2009. We have reduced wastewater accumulated depreciation by \$121 which represents the cumulative effect of this adjustment as of December 31, 2009. Additionally, we have reduced wastewater depreciation expense by \$121 for the 12-month test year period ending December 31, 2009.
- 6) The Utility used Class C water and wastewater depreciation rates to calculate its accumulated depreciation accruals for the 12-month period ending December 31, 2009. We recalculated the Utility's water and wastewater accumulated depreciation accruals and test year depreciation expense balances using the depreciation rates for Class B utilities in accordance with the Commission rule cited above. We have reduced water and wastewater accumulated depreciation and 12-month test year depreciation expense by \$2,942 and \$6,041, respectively, as of December 31, 2009.

Our water system adjustments, retirements, and recalculations are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment			
				@12/31/08	Test Year	@12/31/09	Avg. 2009
1	108.00	301-Organization	adjust	\$61	-na-	\$61	\$61
1	108.00	302-Franchises	adjust	1	-na-	1	1
1	108.00	304-Structures & Improvements	adjust	12	-na-	12	12
1	108.00	309-Supply Mains	adjust	(12)	-na-	(12)	(12)
1	108.00	311-Pumping Equipment	adjust	194	-na-	194	194
1	108.00	320-Water Treatment Equipment	adjust	21	-na-	21	21
1	108.00	330-Dist. Reservoirs & Standpipes	adjust	19	-na-	19	19
1	108.00	331-Transmission & Dist. Mains	adjust	134	-na-	134	134
1	108.00	333-Services	adjust	35	-na-	35	35
1	108.00	334-Meters & Meter Installations	adjust	(30)	-na-	(30)	(30)
1	108.00	339- Other Plant & Misc. Equip.	adjust	87	-na-	87	87
1	108.00	340-Office Furniture & Equip.	adjust	967	-na-	967	967
1	108.00	343-Tools, Shop & Garage Equip.	adjust	<u>263</u>	-na-	<u>263</u>	<u>263</u>
				\$1,751		\$1,751	\$1,751
3	108.00	341-Transportation Equip.	retire	\$1,995	\$0	\$1,995	\$1,995
3	108.00	343-Tools, Shop & Garage Equip.	retire	<u>545</u>	<u>34</u>	<u>579</u>	<u>562</u>
				\$2,540	\$34	\$2,574	\$2,557
4	108.00	334-Meters & Meter Installations	retire	\$50,042	\$2,502	\$52,544	\$51,293
6	108.00	Class C to Class B Rule Rates *	recalculate	\$0	\$2,942	\$2,942	\$1,471
Total Water Accumulated Depreciation Adjustment				<u>\$54,334</u>		<u>\$59,812</u>	<u>\$57,073</u>
Total Water Depreciation Expense Adjustment					<u>\$5,478</u>		

\* See Schedule 1 of 2 that follows for our calculations.  
Small differences are due to rounding errors.

Our wastewater system adjustments, retirements, reclassifications, and recalculations are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment			
				@12/31/08	Test Year	@12/31/09	Avg. 2009
1	108.00	351-Organization	adjust	\$3	\$0	\$3	\$3
1	108.00	352-Franchises	adjust	182	0	182	182
1	108.00	354-Structures & Improvements	adjust	128	0	128	128
1	108.00	360-Collection Sewers - Force	adjust	164	0	164	164
1	108.00	361-Collection Sewers - Gravity	adjust	1,498	0	1,498	1,498
1	108.00	362-Special Collection Structures	adjust	107	0	107	107
1	108.00	363-Services	adjust	353	0	353	353
1	108.00	370-Receiving Wells	adjust	607	0	607	607
1	108.00	380-Treatment & Disposal Equip.	adjust	2,816	0	2,816	2,816
1	108.00	381-Plant Sewers	adjust	485	0	485	485
1	108.00	389-Other Plant & Misc Equip.	adjust	(102)	0	(102)	(102)
1	108.00	390-Office Furniture & Equip.	adjust	1,006	0	1,006	1,006
1	108.00	393-Tools, Shop, & Garage Equip.	adjust	167	0	167	167
1	108.00	395-Power Operated Equip.	adjust	744	0	744	744
				\$8,157	\$0	\$8,157	\$8,157
2	108.00	352-Franchises	adjust	\$75	\$0	\$75	\$75
2	108.00	361-Collection Sewers - Gravity	adjust	6,243	383	6,626	6,435
2	108.00	362-Special Collection Structures	adjust	941	60	1,001	971
2	108.00	362-Special Collection Structures	adjust	(4,773)	(198)	(4,970)	(4,872)
2	108.00	382-Outfall Sewer Lines	adjust	147	10	157	152
				\$2,633	\$255	\$2,888	\$2,761
3	108.00	389-Other Plant & Misc Equip.	retire	\$249	\$14	\$263	\$256
3	108.00	393-Tools, Shop, & Garage Equip.	retire	360	0	360	360
				\$609	\$14	\$623	\$616
5	108.00	389-Other Plant & Misc Equip.	reclass	\$0	\$121	\$121	\$61
6	108.00	Class C to Class B Rule Rates *	recalculate	\$0	\$6,041	\$6,041	\$3,021
Total Wastewater Accumulated Depreciation Adjustment				<u>\$11,400</u>		<u>\$17,831</u>	<u>\$14,617</u>
Total Wastewater Depreciation Expense Adjustment					<u>\$6,431</u>		

\* See Schedule 2 of 2 that follows for our calculations.  
Small differences are due to rounding errors.

**Effect on the General Ledger:** The Utility should record each audit adjustment by NARUC account identified in the two schedules above, as of December 31, 2009, to correct its general ledger.

**Effect on the Filing:** The Utility's average water and wastewater accumulated depreciation balances should be reduced by \$57,073 and \$14,617, respectively, for the test year 2009. Additionally, water and wastewater depreciation expense should be reduced by \$5,478 and \$6,431, respectively, for the 12-month period ending December 31, 2009.

**Audit Finding 2**  
**Schedule 1 of 2**

Acc#	Account Description	2009 UPIS Average	2009 Dep. Expense		2009 Dep. Expense		Dep. Expense Difference
			Class C Rate	Accrual	Class B Rate	Accrual	
301.00	Organization	\$482	0.00%	\$0	2.50%	\$0	\$0
302.00	Franchises	925	3.35%	31	2.50%	23	(8)
304.00	Structures & Improvements	122,472	3.70%	4,536	3.13%	3,827	(709)
309.00	Supply Mains	2,469	3.12%	77	2.86%	71	(6)
310.00	Power Generation Equipment	18,514	6.30%	1,166	5.00%	987	(179)
311.00	Pumping Equipment	75,489	2.19%	1,650	5.00%	3,774	2,124
320.00	Water Treatment Equipment	6,163	14.28%	880	10.00%	616	(264)
330.00	Distribution Reservoirs & Standpipes	288,879	3.33%	9,629	2.86%	8,254	(1,375)
331.00	Transmission & Distribution Mains	282,944	2.50%	7,073	2.33%	6,580	(493)
333.00	Services	69,852	2.86%	1,995	2.50%	1,746	(249)
334.00	Meters & Meter Installations	188,742	5.94%	11,202	5.00%	9,641	(1,561)
335.00	Hydrants	8,000	5.00%	400	2.22%	178	(222)
339.00	Other Plant & Miscellaneous Equipment	305	0.00%	0	4.00%	0	0
340.00	Office Furniture & Equipment	5,740	0.00%	0	6.67%	0	0
341.00	Transportation Equipment	2,795	0.00%	0	16.67%	0	0
343.00	Tools, Shop, & Garage Equipment	<u>1,482</u>	0.00%	<u>0</u>	6.25%	<u>0</u>	<u>0</u>
	Total	\$1,075,252		\$38,639		\$35,697	(\$2,942)

Acc#	Account Description	Dep. Exp. Adj. TY 2009	Acc/Dep Adj. @12/31/09	Acc/Dep Adj. Avg 2009	Notes to the calculations in this schedule:	
301.00	Organization	\$0	\$0	\$0	Our calculation to change from Class C to Class B depreciation rates was calculated using the average utility balances for UPIS before any audit adjustments.	
302.00	Franchises	(8)	(8)	(4)		
304.00	Structures & Improvements	(709)	(709)	(354)		
309.00	Supply Mains	(6)	(6)	(3)		
310.00	Power Generation Equipment	(179)	(179)	(90)		
311.00	Pumping Equipment	2,124	2,124	1,062		
320.00	Water Treatment Equipment	(264)	(264)	(132)		
330.00	Distribution Reservoirs & Standpipes	(1,375)	(1,375)	(688)		
331.00	Transmission & Distribution Mains	(493)	(493)	(246)		
333.00	Services	(249)	(249)	(124)		
334.00	Meters & Meter Installations	(1,561)	(1,561)	(780)	Our separate calculations to record the effect of our UPIS adjustments on accumulated depreciation include the change to Class B rates for test year 2009 and are not duplicated here.	
335.00	Hydrants	(222)	(222)	(111)		
339.00	Other Plant & Miscellaneous Equipment	0	0	0		
340.00	Office Furniture & Equipment	0	0	0		
341.00	Transportation Equipment	0	0	0		
343.00	Tools, Shop, & Garage Equipment	<u>0</u>	<u>0</u>	<u>0</u>		
	Total	(\$2,942)	(\$2,942)	(\$1,471)		Accounts that do not include accruals to accumulated depreciation were already fully depreciated prior to test year 2009.

**Audit Finding 2**  
**Schedule 2 of 2**

Acc#	Account Description	2009 UPIS Average	2009 Dep. Expense		2009 Dep. Expense		Dep. Expense Difference
			Class C Rate	Accrual	Class B Rate	Accrual	
351.00	Organization	\$947	3.38%	\$32	2.50%	\$24	(\$8)
352.00	Franchises	3,806	0.00%	0	2.50%	0	0
354.00	Structures & Improvements	168,476	3.70%	6,239	3.13%	5,265	(974)
360.00	Collection Sewers - Force	33,448	3.70%	1,238	3.33%	1,115	(123)
361.00	Collection Sewers - Gravity	141,888	2.80%	3,977	2.22%	3,153	(824)
362.00	Special Collection Structures	579	14.68%	85	2.50%	14	(71)
363.00	Services	64,156	2.86%	1,833	2.63%	1,688	(145)
364.00	Flow Measuring Devices	1,711	5.84%	100	20.00%	342	242
370.00	Receiving Wells	203,953	5.39%	10,984	3.33%	6,924	(4,060)
380.00	Treatment & Disposal Equipment	124,447	0.00%	0	5.56%	0	0
381.00	Plant Sewers	153,842	0.00%	0	3.33%	0	0
382.00	Outfall Sewer Lines	9,125	6.66%	608	3.33%	304	(304)
389.00	Other Plant & Misc Equipment	6,173	2.90%	179	5.56%	404	225
390.00	Office Furniture & Equipment	5,397	0.00%	0	6.67%	0	0
393.00	Tools, Shop, & Garage Equipment	1,134	0.00%	0	6.25%	0	0
395.00	Power Operated Equipment	<u>16,049</u>	0.00%	<u>0</u>	8.33%	<u>0</u>	<u>0</u>
	Total	\$935,130		\$25,275		\$19,234	(\$6,041)

Acc#	Account Description	Dep. Exp. Adj. TY 2009	Acc/Dep Adj. @12/31/09	Acc/Dep Adj. Avg 2009	Notes to the calculations in this schedule:
351.00	Organization	(\$8)	(\$8)	(\$4)	Our calculation to change from Class C to Class B depreciation rates was calculated using the average utility balances for UPIS before any audit adjustments.
352.00	Franchises	0	0	0	
354.00	Structures & Improvements	(974)	(974)	(487)	
360.00	Collection Sewers - Force	(123)	(123)	(62)	
361.00	Collection Sewers - Gravity	(824)	(824)	(412)	
362.00	Special Collection Structures	(71)	(71)	(35)	
363.00	Services	(145)	(145)	(72)	
364.00	Flow Measuring Devices	242	242	121	
370.00	Receiving Wells	(4,060)	(4,060)	(2,030)	
380.00	Treatment & Disposal Equipment	0	0	0	
381.00	Plant Sewers	0	0	0	
382.00	Outfall Sewer Lines	(304)	(304)	(152)	Our separate calculations to record the effect of our UPIS adjustments on accumulated depreciation include the change to Class B rates for test year 2009 and are not duplicated here.
389.00	Other Plant & Misc Equipment	225	225	112	
390.00	Office Furniture & Equipment	0	0	0	
393.00	Tools, Shop, & Garage Equipment	0	0	0	
395.00	Power Operated Equipment	<u>0</u>	<u>0</u>	<u>0</u>	
	Total	(\$6,041)	(\$6,041)	(\$3,021)	Accounts that do not include accruals to accumulated depreciation were already fully depreciated prior to test year 2009.



### Audit Finding 3

#### Subject: Water and Wastewater Land

**Audit Analysis:** The Utility's filing reflects the following land balances.

System	@12/31/2008	@12/31/2009	Average 2009
Water	\$182,500	\$182,500	\$182,500
Wastewater	\$93,388	\$93,388	\$93,388

Order No. PSC-94-0245-FOF-WS established the following land balances and required adjustments as of June 30, 1993.

System	Per Utility	Adjustment	Per Commission
Water	\$20,000	\$0	\$20,000
Wastewater			
Used and Useful	\$150,716	(\$82,045)	\$68,671
Future Use	<u>0</u>	<u>66,330</u>	<u>66,330</u>
Total	\$150,716	(\$15,715)	\$135,001

We have determined that the Utility's average water and wastewater land balances are overstated by \$112,500 and \$24,717, respectively, for the test year 2009 based on the following findings during our audit investigation.

- 1) The Utility purchased two parcels of land containing ten acres each in 1992. Order No. PSC-94-0245-FOF-WS established a value of \$99,000 (\$50,000 and \$49,000) for the land and included thirty-three percent or \$32,670 as wastewater land for an effluent spray field in the Utility's last rate proceeding. The balance of \$66,330 was determined as non-used and useful and classified as plant held for future use. In 1998, the Utility constructed an elevated storage tank on the \$50,000 parcel and included a value of \$162,000 as a water land addition. We have reduced the water land balance by \$112,500 as of December 31, 2008 to properly reflect the value for this parcel as determined by the Commission.
- 2) Our review and tour of the Utility's wastewater land site indicates that there have been no changes to land use since the last rate proceeding other than the event mentioned above. We have reduced the wastewater land balance by \$24,717 as of December 2008 to reflect the Commission approved balance in the last rate proceeding.
- 3) We have transferred \$50,000 of the \$66,330 as of December 31, 2008 in land held for future use to water land as discussed in Item No. 1 above.

Our water and wastewater system adjustments are compiled below.

Water Land	Prior Order	1998 Additions	Per Audit		Audit Adjustment	Per Company 2009 Average
			@12/31/08 & 09	2009 Average		
In Service	\$20,000	\$50,000	\$70,000	\$70,000	(\$112,500)	\$182,500

Wastewater Land	Prior Order	1998 Additions	Per Audit		Audit Adjustment	Per Company 2009 Average
			@12/31/08 & 09	2009 Average		
In Service	\$68,671	\$0	\$68,671	\$68,671	(\$24,717)	\$93,388
Future Use	<u>66,330</u>	<u>(50,000)</u>	<u>16,330</u>	<u>16,330</u>	<u>16,330</u>	<u>0</u>
Total	\$135,001	(\$50,000)	\$85,001	\$85,001	(\$8,387)	\$93,388

**Effect on the General Ledger:** The Utility should reduce water and wastewater balances by \$112,500 and \$24,717, respectively, as of December 31, 2009 to correct its general ledger. Additionally, the Utility should establish an account for Land Held for Future Use in its general ledger with a posted balance of \$16,330.

**Effect on the Filing:** The Utility's average water and wastewater land balances should be reduced by \$112,500 and \$24,717, respectively, for the test year 2009.

## Audit Finding 4

### Subject: Water and Wastewater Contributions in Aid of Construction (CIAC)

**Audit Analysis:** The Utility's filing reflects the following CIAC balances.

System	@12/31/2008	@12/31/2009	Average 2009
Water	\$328,460	\$329,510	\$328,985
Wastewater	\$529,322	\$533,486	\$531,404

We have determined that the Utility's average water and wastewater CIAC balances are understated by \$12,535 and \$12,669, respectively, for the test year 2009 based on the following findings during our audit investigation.

- 1) Our analysis of UPIS additions revealed a developer agreement to extend the Utility's service lines at no cost to the Utility for a customer that was connected in 1994. The Utility recorded the developer addition in 1994 to its UPIS accounts but did not include a corresponding entry to its CIAC accounts. We have increased water and wastewater CIAC by \$12,535 and \$12,669, respectively, as of December 31, 1994 to complete this transaction.
- 2) Rule 25-30.140 (9), F.A.C., requires CIAC balances to be maintained by NARUC sub-account as of December 31, 2003. The Utility did not reallocate its CIAC balances per this rule. We have reallocated the Utility's water and wastewater CIAC balances by NARUC sub-account as of December 31, 2003 based on our review of Utility and Commission documents.
- 3) We have reclassified all additions to water CIAC for years 2003 through 2009 to the proper NARUC sub-account as required by the Commission rule cited above.

Our water system additions, reallocations, and reclassifications are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment		
				@12/31/08	@12/31/09	Avg. 2009
1	271	331-Transmission & Distribution Mains	add	\$12,535	\$12,535	\$12,535
2	271	Cash Contributions	reallocate	(58,557)	(58,557)	(58,557)
2	271	311-Pumping Equipment	reallocate	48,797	48,797	48,797
	271	334-Meters & Meter Installations	reallocate	<u>9,760</u>	<u>9,760</u>	<u>9,760</u>
	Total			\$0	\$0	\$0
3	271	Cash Contributions	reclass	(\$2,180)	(\$3,230)	(\$2,705)
3	271	334-Meters & Meter Installations	reclass	<u>2,180</u>	<u>3,230</u>	<u>2,705</u>
	Total			\$0	\$0	\$0
	Total Water UPIS Adjustment			<u>\$12,535</u>	<u>\$12,535</u>	<u>\$12,535</u>

Our wastewater system additions and reallocations are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment		
				@12/31/08	@12/31/09	Avg. 2009
1	271	361-Collection Sewers - Gravity	add	\$11,769	\$11,769	\$11,769
1	271	370-Receiving Wells	add	<u>900</u>	<u>900</u>	<u>900</u>
		Total		\$12,669	\$12,669	\$12,669
2	271	Cash Contributions	reallocate	(\$183,570)	(\$183,570)	(\$183,570)
2	271	360-Collection Sewers - Force	reallocate	23,069	23,069	23,069
2	271	370-Receiving Wells	reallocate	10,334	10,334	10,334
2	271	380-Treatment & Disposal Equipment	reallocate	<u>150,167</u>	<u>150,167</u>	<u>150,167</u>
2		Total		\$0	\$0	\$0
		Total Wastewater UPIS Adjustment		<u>\$12,669</u>	<u>\$12,669</u>	<u>\$12,669</u>

The corresponding effect of our adjustments on accumulated amortization of CIAC and test year 2009 amortization of CIAC expense is discussed in Audit Finding 5 of this report.

**Effect on the General Ledger:** The Utility should increase water and wastewater CIAC balances by \$12,535 and \$12,669, respectively, as of December 31, 2009. Additionally, the Utility should establish water and wastewater CIAC sub-accounts in its general ledger and reallocate the combined water and wastewater CIAC balances to the plant in service sub-accounts identified in the schedules above.

**Effect on the Filing:** The Utility's average water and wastewater CIAC balances should be increased by \$12,535 and \$12,669, respectively, for the test year 2009.

## Audit Finding 5

### Subject: Water and Wastewater Accumulated Amortization of CIAC

**Audit Analysis:** The Utility's filing reflects the following accumulated amortization of CIAC balances.

System	@12/31/2008	@12/31/2009	Average 2009
Water	\$240,750	\$252,532	\$246,641
Wastewater	\$398,628	\$412,760	\$405,694

Order No. PSC-94-0245-FOF-WS established the following accumulated amortization of CIAC balances and required adjustments as of June 30, 1993.

System	Per Utility	Adjustment	Per Commission
Water	\$71,091	(\$21,418)	\$49,673
Wastewater	\$137,033	(\$45,021)	\$92,012

We have determined that the Utility's average water and wastewater accumulated amortization of CIAC balances are overstated by \$27,144 and \$31,744, respectively, for the test year 2009 based on the following findings during our audit investigation.

- 1) The Utility did not record the prior order adjustment referenced above that reduced its water and wastewater accumulated amortization of CIAC balances by \$21,418 and \$45,021, respectively, as of June 30, 1993.
- 2) Item No.1 in Audit Finding 4 increased the Utility's water and wastewater CIAC by \$12,535 and \$12,669, respectively, as of December 31, 1994. We have increased water and wastewater accumulated amortization of CIAC by \$3,516 and \$4,792, as of December 31, 2002, which represents the cumulative effect of this adjustment had it been recorded when received. The remaining balance of this adjustment through year end 2009 is captured in our recalculation of accumulated amortization of CIAC which is discussed below.
- 3) Item No. 2 in Audit Finding 4 discusses our reallocation of the Utility's CIAC balances by NARUC subaccount per the Commission rules. We reallocated the Utility's water and wastewater accumulated amortization CIAC balances by NARUC sub-account as of December 31, 2003 based on our review of Utility and Commission documents.
- 4) Based on the information discussed above and using the depreciation rates discussed in Audit Finding 2, we have recalculated the Utility's water and wastewater accumulated amortization of CIAC balances beginning January 1, 2003 through December 31, 2009. Our calculations reduced water and increased wastewater accumulated amortization of CIAC by \$10,054 and \$10,640, respectively, as of December 31, 2009. Additionally, we have reduced water and increased wastewater CIAC amortization expense by \$1,624 and \$4,311, respectively, for the 12-month period ending December 31, 2009.

Our water system adjustments, reallocations, and recalculations are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment			
				@12/31/08	Test Year	@12/31/09	Avg. 2009
1	272	Cash - Amortization of Contributions	adjust	(\$21,418)	\$0	(\$21,418)	(\$21,418)
2	272	331-Transmission & Distribution Mains	add	3,516	0	3,516	3,516
3	272	Cash - Amortization of Contributions	reallocate	(\$29,278)	\$0	(\$29,278)	(\$29,278)
3	272	311-Pumping Equipment	reallocate	23,898	0	23,898	23,898
3	272	334-Meters & Meter Installations	reallocate	<u>5,380</u>	<u>0</u>	<u>5,380</u>	<u>5,380</u>
				\$0	\$0	\$0	\$0
4	272	Cash - Amortization of Contributions	recalculate	(\$25,476)	(\$5,089)	(\$30,565)	(\$28,020)
4	272	311-Pumping Equipment	recalculate	12,199	2,440	14,639	13,419
4	272	331-Transmission & Distribution Mains	recalculate	1,458	292	1,749	1,603
4	272	334-Meters & Meter Installations	recalculate	<u>3,389</u>	<u>733</u>	<u>4,123</u>	<u>3,756</u>
				(\$8,430)	(\$1,624)	(\$10,054)	(\$9,242)
		Total Water Acc. Amort. of CIAC Adjustment		<u>(\$26,332)</u>		<u>(\$27,955)</u>	<u>(\$27,144)</u>
		Total Water CIAC Amort. Expense Adjustment			<u>(\$1,624)</u>		

Our wastewater system adjustments, reallocations, and recalculations are compiled below.

Item No.	NARUC Acct. No.	Description	Action	Audit Adjustment			
				@12/31/08	Test Year	@12/31/09	Avg. 2009
1	272	Cash - Amortization of Contributions	adjust	(\$45,021)	\$0	(\$45,021)	(\$45,021)
2	272	361-Collection Sewers - Gravity	add	\$4,452	\$0	\$4,452	\$4,452
2	272	370-Receiving Wells	add	<u>340</u>	<u>0</u>	<u>340</u>	<u>340</u>
				\$4,792	\$0	\$4,792	\$4,792
3	272	Cash - Amortization of Contributions	reallocate	(\$94,631)	\$0	(\$94,631)	(\$94,631)
3	272	360-Collection Sewers - Force	reallocate	11,892	0	11,892	11,892
3	272	370-Receiving Wells	reallocate	5,327	0	5,327	5,327
3	272	380-Treatment & Disposal Equip.	reallocate	<u>77,412</u>	<u>0</u>	<u>77,412</u>	<u>77,412</u>
				\$0	\$0	\$0	\$0
4	272	Cash - Amortization of Contributions	recalculate	(\$42,411)	(\$5,437)	(\$47,848)	(\$45,130)
4	272	360-Collection Sewers - Force	recalculate	3,845	769	4,614	4,230
4	272	361-Collection Sewers - Gravity	recalculate	1,310	262	1,572	1,441
4	272	370-Receiving Wells	recalculate	1,870	374	2,244	2,057
4	272	380-Treatment & Disposal Equip.	recalculate	<u>41,715</u>	<u>8,343</u>	<u>50,058</u>	<u>45,887</u>
				\$6,329	\$4,311	\$10,640	\$8,485
		Total Wastewater Acc. Amort. of CIAC Adjustment		<u>(\$33,900)</u>		<u>(\$29,589)</u>	<u>(\$31,744)</u>
		Total Wastewater CIAC Amort. Expense Adjustment			<u>\$4,311</u>		

The details of our calculations and adjustments are displayed in the schedule that follows.

**Effect on the General Ledger:** The Utility should reduce water and wastewater accumulated amortization of CIAC balances by \$27,955 and \$29,589, respectively, as of December 31, 2009. Additionally, the Utility should establish water and wastewater CIAC sub-accounts in its general ledger and reallocate the combined water and wastewater CIAC balances to the plant in service sub-accounts identified in the schedules above.

**Effect on the Filing:** The Utility's average water and wastewater accumulated amortization of CIAC balances should be reduced by \$27,144 and \$31,744, respectively, for the test year 2009. Additionally, water and wastewater CIAC amortization expense should be reduced by \$1,624 and increased by \$4,311, respectively, for the 12-month period ending December 31, 2009.

## Audit Calculations:

Water System		Per Audit					Total	Audit Adjustment
		Generic Contribution	Pumping Equipment Acct. 272-311	T&D Mains Acct. 272-331	Meters Acct. 272-334			
Year	Per Utility							
Dec-02	\$171,231	\$171,231	\$0	\$0	\$0	\$171,231		
Accruals	\$10,577	\$10,577	\$0	\$0	\$0	\$10,577		
1993 Order Adj.		(\$21,418)	\$0	\$0	\$0	(\$21,418)	(\$21,418)	
Reallocation @ 2003		(\$29,278)	\$23,898	\$0	\$5,380	\$0	\$0	
Effect of 1994 Addition @2003				\$3,516	\$0	\$3,516	\$3,516	
Dec-03	\$181,808	\$131,112	\$23,898	\$3,516	\$5,380	\$163,906		
Accruals	\$10,953	\$6,693	\$2,440	\$292	\$656	\$10,080	(\$873)	
Dec-04	\$192,761	\$137,805	\$26,338	\$3,808	\$6,036	\$173,986		
Accruals	\$11,805	\$6,693	\$2,440	\$292	\$671	\$10,095	(\$1,710)	
Dec-05	\$204,566	\$144,498	\$28,778	\$4,100	\$6,707	\$184,082		
Accruals	\$11,123	\$6,693	\$2,440	\$292	\$676	\$10,101	(\$1,022)	
Dec-06	\$215,689	\$151,191	\$31,218	\$4,392	\$7,383	\$194,183		
Accruals	\$12,307	\$6,693	\$2,440	\$292	\$686	\$10,111	(\$2,196)	
Dec-07	\$227,996	\$157,884	\$33,658	\$4,684	\$8,069	\$204,293		
Accruals	\$12,754	\$6,693	\$2,440	\$292	\$700	\$10,124	(\$2,630)	
Dec-08	\$240,750	\$164,577	\$36,098	\$4,976	\$8,769	\$214,417	(\$26,333)	
Accruals	\$11,782	\$6,693	\$2,440	\$292	\$733	\$10,158	(\$1,624)	
Dec-09	\$252,532	\$171,270	\$38,538	\$5,268	\$9,502	\$224,575	(\$27,957)	
Average 2009	<u>\$246,641</u>					<u>\$219,496</u>	<u>(\$27,145)</u>	

Wastewater System		Per Audit					Total	Audit Adjustment
		Generic Contribution	Force Mains Acct. 272-360	Gravity Mains Acct. 272-361	Receiving Wells Acct. 272-370	T&D Equipment Acct. 272-380		
Year	Per Utility							
Dec-02	\$294,369	\$294,369	\$0	\$0	\$0	\$0	\$294,369	
Accruals	\$19,229	\$19,229	\$0	\$0	\$0	\$0	\$19,229	
1993 Order Adj.		(\$45,021)	\$0	\$0	\$0	\$0	(\$45,021)	(\$45,021)
Reallocation @ 2003		(\$94,631)	\$11,892	\$0	\$5,327	\$77,412	\$0	\$0
Effect of 1994 Addition @2003				\$4,452	\$340		\$4,792	\$4,792
Dec-03	\$313,598	\$173,946	\$11,892	\$4,452	\$5,667	\$77,412	\$273,369	
Accruals	\$18,119	\$8,436	\$769	\$262	\$374	\$8,343	\$18,184	\$65
Dec-04	\$331,717	\$182,382	\$12,661	\$4,714	\$6,041	\$85,755	\$291,553	
Accruals	\$22,048	\$8,487	\$769	\$262	\$374	\$8,343	\$18,235	(\$3,813)
Dec-05	\$353,765	\$190,869	\$13,430	\$4,976	\$6,415	\$94,098	\$309,788	
Accruals	\$16,277	\$8,539	\$769	\$262	\$374	\$8,343	\$18,287	\$2,010
Dec-06	\$370,042	\$199,408	\$14,199	\$5,238	\$6,789	\$102,441	\$328,075	
Accruals	\$13,874	\$8,552	\$769	\$262	\$374	\$8,343	\$18,300	\$4,426
Dec-07	\$383,916	\$207,960	\$14,968	\$5,500	\$7,163	\$110,784	\$346,375	
Accruals	\$14,712	\$8,604	\$769	\$262	\$374	\$8,343	\$18,352	\$3,640
Dec-08	\$398,628	\$216,564	\$15,737	\$5,762	\$7,537	\$119,127	\$364,727	(\$33,901)
Accruals	\$14,132	\$8,695	\$769	\$262	\$374	\$8,343	\$18,443	\$4,311
Dec-09	\$412,760	\$225,259	\$16,506	\$6,024	\$7,911	\$127,470	\$383,170	(\$29,590)
Average 2009	<u>\$405,694</u>						<u>\$373,949</u>	<u>(\$31,746)</u>

Small differences are attributed to rounding errors.



## Audit Finding 6

### Subject: Wastewater Deferred Asset

**Audit Analysis:** During the 2009 test year, one of the Utility's wastewater lift stations lost electrical power for an extended period of time. The Utility was unaware of the loss of power until a residential customer contacted them because of effluent backing up into the household.

The Utility's insurance provider determined that the loss was not covered by the general liability policy that was currently in effect. As a result, the Utility and its contract operator were sued by the affected customer.

To mitigate the potential cost and associated legal fees, the Utility and its contract operator agreed to settle the law suit using a court sponsored mediation service. On August 8, 2009, all parties executed a settlement agreement that paid the petitioner \$72,500 to settle all claims against the Utility and its contract operator. The Utility's obligation was determined to be \$62,500 of the total amount awarded. Additionally, the Utility was required, at its own cost, to seal the wastewater tap at the customers premise and install a septic tank system.

The total cost incurred by the Utility is detailed below.

<u>Description of Cost</u>	<u>Amount</u>
Mediation Agreement	\$62,500
Legal Fees	5,578
Septic Tank & Permits	<u>3,385</u>
	\$71,463

The Utility recorded the above balance in the following accounts.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Amount</u>
389.00	Other Plant & Miscellaneous Equip.	\$2,180
731.00	Contract Services- Professional	5,578
759.00	Legal Fees (Utility title)	62,500
775.00	Miscellaneous Expense	<u>1,205</u>
		\$71,463

The NARUC USOA<sup>4</sup> and Rule 25-30.433, (8), F.A.C. establish the regulatory accounting treatment for nonrecurring expenses such as those incurred above.

Audit Findings 1 and 7 of this report remove and reclassify the above amounts to Acct. No. 186 – Miscellaneous Deferred Debits as of December 31, 2009.

<sup>4</sup> See NARUC, Class B, Balance Sheet Accounts, Acct. No.186 - Miscellaneous Deferred Debits

Our calculation amortizes the total amount of \$71,463 over five years per the Commission rule cited above. The annual amortization amount is \$14,293 and we have included it in our adjustments to operation and maintenance expense that is discussed in Audit Finding 7.

Year	Beg. Balance	Amort. Amount	End Balance
2009	\$71,463	(\$14,293)	\$57,170
2010	\$57,170	(\$14,293)	\$42,878
2011	\$42,878	(\$14,293)	\$28,585
2012	\$28,585	(\$14,293)	\$14,293
2013	\$14,293	(\$14,293)	\$0

**Effect on the General Ledger:** The removal, reclassification and amortization effect of our adjustments to the general ledger are discussed and included in Audit Findings 1 and 7. The Utility should also establish Acct. No. 186 in its general ledger with an unamortized balance of \$57,170 as of December 31, 2009. Account Number 186 should be amortized as prescribed above for the remaining period of 2010-2013.

**Effect on the Filing:** The removal, reclassification and amortization effect of our adjustments on the filing are discussed and included in Audit Findings 1 and 7.

## Audit Finding 7

### Subject: Direct Operation and Maintenance Expense

**Audit Analysis:** The Utility's filing reflects water and wastewater operation and maintenance expense (O&M) of \$115,022 and \$239,436, respectively, for the 12-month period ending December 31, 2009.

The filing included an adjustment that reduced wastewater O&M expense by \$62,500 to remove legal fees associated with the law suit discussed in Audit Finding 6.

We have determined that the Utility's water and wastewater O&M expense should be reduced by \$250 and increased by \$7,510, respectively, for the 12-month period ending December 31, 2009 based on the following findings during our audit investigation.

- 1) We have reduced Acct. No. 675 – Miscellaneous Expenses to remove a \$250 charitable donation. Rule 25-30.433, (6), F.A.C., does not allow recovery of expenses such as these from utility rate payers.
- 2) We have reduced Acct. No. 731 – Contract Services Professional by \$5,578 to remove legal fees for a law suit settlement that is a nonrecurring expense. We reclassified the legal fees to Acct. No. 186 – Miscellaneous Deferred Debit. This adjustment is discussed in further detail in Audit Finding 6.
- 3) We increased Acct. No. 736 – Contract Service Other by \$14,293 to include the amortization expense for a deferred asset that is discussed in further detail in Audit Finding 6.
- 4) We have reduced Acct. No. 775 – Miscellaneous Expenses by \$1,205 to remove costs incurred to permit and install a septic tank at a customer's residence as a result of the law suit that is identified in Item No. 2 above.

Acct. No.	Account Description	Water Adjustment	Wastewater Adjustment
675.00	Miscellaneous Expense	(\$250)	\$0
731.00	Contract Services-Professional	\$0	(\$5,578)
736.00	Contract Services-Other	0	14,293
775.00	Miscellaneous Expense	0	(1,205)
Adjustment to O&M Expense		(\$250)	\$7,510

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

**Effect on the Filing:** The Utility's water and wastewater O&M expenses should be reduced by \$250 and increased by \$7,510, respectively, for the 12-month period ending December 31, 2009.

## Audit Finding 8

### Subject: Water and Wastewater Allocated Operation & Maintenance Expense

**Audit Analysis:** The Utility's filing includes \$100,276 and \$131,475 of charges from M.I.R.A. International, Inc. (MIRA), an administrative Service Company, which is a related party. The charges are for employee and officer payroll, payroll tax expenses, employee benefits, office space and support for customer billing and collections, general maintenance materials and supplies, and other general administrative support operations as needed for utility operations. The Utility has no employees of its own and all administrative and general maintenance services are provided by MIRA.

MIRA's general ledger reflects \$784,456 of operating expenses for its operations in 2009. We have reviewed MIRA's operations and related expenses and have determined that it supports the following utility and non-utility organizations. The support for non-utility organizations is limited to payroll and other related employee expense types identified above.

- ▶ Alternative Phone Company, Inc.      Payroll and related expenses only (non-utility)
- ▶ Source One Medical, Inc.              Payroll and related expenses only (non-utility)
- ▶ BFF Corporation                          { Payroll and related expenses as well as              }
- ▶ C.F.A.T. H2O, Inc.                        { general maintenance supplies and services,           }
- ▶ Residential Utility Services, Inc.      { administrative office space and supplies, and       }
- ▶ Tradewinds Utilities, Inc.              { other supporting services and operations.           }

We audited MIRA's operating expenses in 2009 and made the following adjustments.

- 1) We reduced MIRA's operating expense balance by \$380,000 to remove the employee salaries, payroll taxes, and employee benefits for MIRA employees that worked for the two non-utility operations identified above. MIRA has a staff of twelve employees, of which seven work exclusively for the two non-utility affiliates identified above. Four of the remaining five employees work exclusively for the four utility operations identified above. The President and CEO of MIRA, indicates that his time is split equally between utility and non-utility operations. We included fifty percent of his salary in the \$380,000 adjustment discussed above.
- 2) The remaining utility only expense balance of \$404,456 (\$784,456 - \$380,000) was further reduced by \$24,080 to remove invoices that we found during our audit investigation for materials or services that would not be allowed or recoverable based on Commission rules.

We reviewed and determined that the MIRA's allocation of expenses to utility operations was not applied consistently to the four utilities identified above. Therefore, we calculated a new allocation based on the Equivalent Residential Connection (ERC's) for each of the four utilities' operations as of December 31, 2009. This is consistent with the Commissions prior policy in

other rate case proceedings that included affiliated operations<sup>5</sup>. Our calculations, balances, and adjustments are displayed on the following schedule.

**Effect on the General Ledger:** None

**Effect on the Filing:** The Utility's water and wastewater O&M expense balances should be reduced by \$7,048 and \$75,721, respectively, for the 12-month period ending December 31, 2009.

**Effect on Affiliate Operations:** Our adjustments above will also affect the amounts allocated to MIRA's other affiliated operations in 2009. We defer any determination on this issue to the analyst in Tallahassee.

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<sup>5</sup> See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, Docket No.020071-WS, In Re: Application For Rate Increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

**Audit Finding 8**  
**Schedule 1 of 1**

Tradewinds Utilities, Inc.  
MIRA Allocations of Common Cost

	Total	Remove	Utility	Audit	Adj. Utility	107	227	221	964	612	366	2,497	
	Balance	Non-Utility	Balance	Adjustment	Balance	ERC's per 2009 Annual Report 4.29%	CFAT Water	CFAT W/Water	Residential Water	Tradewinds Water	Tradewinds W/Water	100.00%	
						BFF W/Water						Total for all Utility	
<b>MIRA Expenses</b>													
MIRA COS	(\$70,668)	\$3,107	(\$67,561)	\$2,314	(\$65,247)	(\$2,796)	(\$5,932)	(\$5,775)	(\$25,190)	(\$15,992)	(\$9,564)	(\$65,247)	
MIRA O&M	(133,634)	17,852	(115,782)	21,766	(94,016)	(4,029)	(8,547)	(8,321)	(36,296)	(23,043)	(13,780)	(94,016)	
MIRA Payroll Taxes	(43,104)	26,991	(16,113)	0	(16,113)	(690)	(1,465)	(1,426)	(6,221)	(3,949)	(2,362)	(16,113)	
MIRA Officer Salaries	(223,600)	124,800	(98,800)	0	(98,800)	(4,234)	(8,982)	(8,744)	(38,143)	(24,215)	(14,482)	(98,800)	
MIRA Employee Salaries	<u>(313,450)</u>	<u>207,250</u>	<u>(106,200)</u>	<u>0</u>	<u>(106,200)</u>	<u>(4,551)</u>	<u>(9,655)</u>	<u>(9,399)</u>	<u>(41,000)</u>	<u>(26,029)</u>	<u>(15,566)</u>	<u>(106,200)</u>	
Total Expenses	(\$784,456)	\$380,000	(\$404,456)	\$24,080	(\$380,376)	(\$16,300)	(\$34,580)	(\$33,666)	(\$146,849)	(\$93,228)	(\$55,754)	(\$380,376)	
						Total MIRA Recoverable	\$16,300	\$34,580	\$33,666	\$146,849	\$93,228	\$55,754	\$380,376
						Current MIRA Allocation	<u>8,385</u>	<u>16,718</u>	<u>65,346</u>	<u>161,994</u>	<u>100,276</u>	<u>131,475</u>	<u>484,194</u>
						Audit Adjustment Increase(Decrease)	\$7,915	\$17,862	(\$31,680)	(\$15,145)	(\$7,048)	(\$75,721)	(\$103,817)

## Audit Finding 9

### Subject: Taxes Other Than Income Expense

**Audit Analysis:** The Utility's filing reflects the following component balances as taxes other than income (TOTI) for the 12-month period ending December 31, 2009.

Description	Water Amount	Wastewater Amount
Regulatory Assessment Fees	\$5,559	\$9,197
Payroll Taxes	1,530	13,260
Property Taxes	<u>917</u>	<u>2,291</u>
TOTI	\$8,006	\$24,748

We have determined that the Utility's water and wastewater TOTI balances are overstated by \$536 and \$14,287, respectively, for the test year 2009 based on the following findings during our audit investigation.

- 1) We removed the Utility's payroll taxes because we included payroll taxes in our MIRA allocation that is discussed in Audit Finding 8.
- 2) We increased water property taxes by \$994 and decreased wastewater property taxes by \$1,027 based on the actual real estate taxes we observed for the water and wastewater plant sites and our reallocation of intangible property taxes using the ratio of water and wastewater net UPIS to the total net UPIS. Our calculations are displayed below.

Property Tax Parcel Id #	Utility Water System			Utility Wastewater System		
	Per Company	Adjustment	Per Audit	Per Company	Adjustment	Per Audit
15845-007-06	\$145	(\$1)	\$144			
15848-001-00	18	0	18			
15845-000-02				\$484	(\$5)	\$479
15840-004-00				48	0	48
P840063	<u>754</u>	<u>996</u>	<u>1,750</u>	<u>1,759</u>	<u>(1,022)</u>	<u>737</u>
	\$917	\$994	\$1,911	\$2,292	(\$1,027)	\$1,264
Utility Balance for 2009 Annual Report	Total	Water	Wastewater			
Plant	\$2,310,517	\$1,263,054	\$1,047,463			
Land	(275,888)	(182,500)	(93,388)			
Acc/Dep	<u>(1,213,561)</u>	<u>(502,813)</u>	<u>(710,748)</u>			
Net Plant	\$821,068	\$577,741	\$243,327			
	100.00%	70.36%	29.64%			
P840063	\$2,487	\$1,750	\$737			Tangible Property Tax

The per audit amounts above are from the actual property tax bills and reflect the maximum discount allowed for early payment. Small differences are due to rounding errors.

**Effect on the General Ledger:** None

**Effect on the Filing:** The Utility's water and wastewater TOTI expenses should be reduced by \$536 and \$14,287, respectively, for the 12-Month period ending December 31, 2009.

<u>Description</u>	<u>Water Amount</u>	<u>Wastewater Amount</u>
Remove payroll taxes	(\$1,530)	(\$13,260)
Adjust property taxes	<u>994</u>	<u>(1,027)</u>
Total	(\$536)	(\$14,287)



## Audit Finding 10

### Subject: Capital Structure

**Audit Analysis:** The Utility included the following component balances in its capital structure filing.

Class of Capital	@12/31/2008	@12/31/2009	Average 2009
Long Term Debt	\$843,293	\$870,156	\$856,725
Common Equity	176,616	176,616	176,616
Customer Deposits	<u>20,333</u>	<u>20,754</u>	<u>20,544</u>
Total	\$1,040,242	\$1,067,526	\$1,053,885

The long term debt balances above were taken from the Utility's 2008 and 2009 Annual Report and they are displayed below.

Description	@12/31/2008	@12/31/2009	Average 2009
Regions Bank Line of Credit	\$0	\$86,611	\$43,306
Independent Bank Loan	\$382,000	\$367,776	\$374,888
Refundable Adv. Due deMenzes	\$80,936	\$54,936	\$67,936
Florida Revolving Fund Loan	\$380,357	\$349,026	\$364,692
Loan Due deMenzes	<u>\$0</u>	<u>\$11,807</u>	<u>\$5,903</u>
	\$843,293	\$870,156	\$856,724

We have determined that the Utility's average combined capital structure balance is overstated by \$192,062 (\$1,053,885 - \$861,823) for the test year 2009 based on the following findings during our audit investigation.

- 1) We have reduced average long term debt by \$74,211 for the period 2009. Our calculation of the Utility's outstanding long term debt follows.
  - a) We removed the related party refundable advance and loan balances of \$67,936 and \$5,903 because there are no documents that support or reflect the outstanding principal balance, terms, repayment, or interest rate for an advance or loan. Transactions such as these are not considered long term debt.
  - b) We reduced the Independent Loan's average balance by \$668 to the actual balance as of period end 2009. We determined the actual balance based on the Utility's loan payments and the contractual terms for the obligation.
  - c) The Utility combined two Florida Revolving loans with different interest cost rates for this proceeding. We separated and calculated the actual balance for each obligation based on the Utility's loan payments and the contractual terms for each obligation. We

increased the total Florida Revolving Loan average balance by \$296 (\$60,404 - \$60,700) to the actual total balance for each of the two obligations as of the period end 2009.

Description	Cost Rate	Utility Average 2009	Adjustments	Audit Average 2009
Regions Bank Line of Credit	variable	\$43,306	\$0	\$43,306
Independent Bank Loan	6.50%	374,888	(668)	374,220
Refundable Adv. Due deMenzes	none	67,936	(67,936)	0
Florida Revolving Fund Loan	3.05%	364,692	(60,404)	304,288
Florida Revolving Fund Loan	2.99%	0	60,700	60,700
Loan Due deMenzes	none	<u>5,903</u>	<u>(5,903)</u>	<u>0</u>
		\$856,724	(\$74,211)	\$782,514

Small differences are attributed to rounding errors.

- d) We increased the average unamortized debt issue cost by \$648 for the period 2009, and we reduced the total interest and issue cost by \$1,018 for the 12-month period ending December 31, 2009. We calculated the actual amounts based on Utility documents and our actions and calculations discussed in Sections B and C of Item No. 1 above. The effective cost rate on average long term debt is 5.23 percent based on the calculation below.

	Average 2009			Interest & Issue Cost	Effective Cost Rate
	Long Term Debt	Unamortized Debt Issue Cost	Net Long Term Debt		
Per Utility	\$856,725	\$12,814	\$843,911	\$41,246	5.13%
Per Audit	<u>782,514</u>	<u>13,462</u>	<u>769,052</u>	<u>40,228</u>	<u>5.23%</u>
Adjustment	(\$74,211)	\$648	(\$74,859)	(\$1,018)	0.10%

- 2) We have reduced common equity by \$117,650 to include balances for common stock and retained earnings that the Utility did not include in the filing.

Common Equity	Per Utility Average 2009	Audit Adjustments	Per Audit Average 2009
Common Stock	\$0	\$200	\$200
Paid in Capital	176,416	0	176,416
Retained Earnings	<u>0</u>	<u>(117,850)</u>	<u>(117,850)</u>
Total	\$176,416	(\$117,650)	\$58,766

The Utility's combined water and wastewater capital structure before rate base reconciliation is \$861,824 and is composed of long term debt, common equity and customer deposits. The Utility's weighted cost for capital is 5.63 percent for the test year 2009.

Class of Capital	Avg. 2009	Ratio	Cost Rate	Weighted Cost
Long term debt	\$782,514	90.80%	5.23%	4.75%
Common Equity	58,766	6.82%	10.85%	0.74%
Customer Deposits	<u>20,544</u>	<u>2.38%</u>	<u>6.00%</u>	<u>0.14%</u>
Total	\$861,824	100.00%		5.63%

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

**Effect on the Filing:** The Utility's combined average capital structure balance before rate base reconciliation should be reduced by \$191,861 ( $\$74,211 + \$117,650$ ) for the test year 2009.

## Audit Finding 11

**Subject: Information on Bad Debt Expense Adjustment**

**Audit Analysis:** The Utility's filing includes adjustments that increase its water and wastewater bad debt expense by \$2,625 and \$3,412, respectively, for the 12-month period ending December 31, 2009. The Utility calculated these amounts as 1.75 percent of its water and wastewater test year revenues.

We requested information on the Utility's bad debt write-offs for the five year period 2004 through 2009. The following schedule provides the actual bad debt write-off history for the Utility based on the information provided.

Revenues	Annual Report Schedule F-3 2005	Annual Report Schedule F-3 2006	Annual Report Schedules W9 & S9 2007	Annual Report Schedules W9 & S9 2008	Annual Report Schedules W9 & S9 2009
Water	\$115,089	\$127,997	\$124,914	\$124,788	\$120,439
Wastewater	<u>199,031</u>	<u>214,588</u>	<u>218,835</u>	<u>213,167</u>	<u>204,388</u>
Total	\$314,120	\$342,585	\$343,749	\$337,955	\$324,827
Total Write-Off	\$1,259	\$397	\$1,775	\$1,950	\$2,614
Write-Off Percent	0.40%	0.12%	0.52%	0.58%	0.80%

Additionally, the Utility included information supporting write-offs of \$1,206 in bad debts for the current year as of September 30, 2010.

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

**Effect on the Filing:** We defer any determination on this issue to the analyst in Tallahassee.

# Exhibit 1

Schedule of Water Rate Base

Florida Public Service Commission

Company: Tradewinds Utilities, Inc.  
 Docket No.: 100127  
 Historical Test Year Ended: December 31, 2009  
 Interim [ ] Final [X]

Schedule: A-1  
 Page 1 of 1  
 Preparer: W. Wade Horigan, CRRA

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Average Amount Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	\$ 1,075,251	\$ -	\$ 1,075,251	A-3.A-5
2					
3	Utility Land & Land Rights	182,500	-	182,500	A-3.A-5
4					
5	Less: Non-Used & Useful Plant	-	-	-	A-7
6					
7	Construction Work In Progress	-	-	-	A-3
8					
9	Less: Accumulated Depreciation	483,494	-	483,494	A-3, A-9
10					
11	Less: CIAC	328,985	-	328,985	A-12
12					
13	Accumulated Amortization of CIAC	246,641	-	246,641	A-14
14					
15	Acquisition Adjustments	-	-	-	A-3
16					
17	Advances For Construction	-	-	-	A-16
18					
19	Working Capital Allowance	-	15,678 (A)	15,678	A-17
20					
21	Total Rate Base	<u>\$ 691,914</u>	<u>\$ 15,678</u>	<u>\$ 707,591</u>	
22					
23	Explanation of Adjustments				
24	A. Adjustment to calculate working capital, per Schedule A-17				

## Exhibit 2

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Tradewinds Utilities, Inc.

Schedule: A-2

Docket No.: 100127

Page 1 of 1

Historical Test Year Ended: December 31, 2009

Preparer: W. Wade Horgan, CRRA

Interim [ ] Final [X]

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Average Amount Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	\$ 949,207	\$ -	\$ 949,207	A-3.A-6
2					
3	Utility Land & Land Rights	93,388	-	93,388	A-3.A-6
4					
5	Less: Non-Used & Useful Plant	-	-	-	A-7
6					
7	Construction Work In Progress	-	-	-	A-3
8					
9	Less: Accumulated Depreciation	698,111	-	698,111	A-3, A-10
10					
11	Less: CIAC	531,404	-	531,404	A-12
12					
13	Accumulated Amortization of CIAC	405,694	-	405,694	A-14
14					
15	Acquisition Adjustments	-	-	-	A-3
16					
17	Advances For Construction	-	-	-	A-16
18					
19	Working Capital Allowance	-	23,481 (A)	23,481	A-17
20					
21	Total Rate Base	<u>\$ 218,775</u>	<u>\$ 23,481</u>	<u>\$ 242,255</u>	
22					
23	Explanation of Adjustments				
24	A. Adjustment to calculate working capital, per Schedule A-17				

# Exhibit 3

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Tradewinds Utilities, Inc.

Schedule: B-1

Docket No.: 100127

Page 1 of 1

Historical Test Year Ended: December 31, 2009

Preparer: W. Wade Horgan, CRRA

Interim  Final

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 7) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenue	(7) Supporting Schedules
1	OPERATING REVENUES	\$ 123,534	\$ -	\$ 123,534	\$ 83,750	\$ 207,284	B-4, B-3
2							
3	Operation & Maintenance	115,021	8,934	123,955	1,466	125,420	B-5, B-3
4							
5	Depreciation, net of CIAC Amort.	26,857	-	26,857	-	26,857	B-13, B-3
6							
7	Amortization	-	-	-	-	-	
8							
9	Taxes Other Than Income Taxes	8,006	-	8,006	3,769	11,775	B-15, B-3
10							
11	Provision for Income Taxes	-	-	-	-	-	C-1, B-3
12							
13	OPERATING EXPENSES	<u>149,884</u>	<u>8,934</u>	<u>158,818</u>	<u>5,234</u>	<u>164,052</u>	
14							
15	NET OPERATING INCOME	<u>\$ (26,350)</u>	<u>\$ (8,934)</u>	<u>\$ (35,284)</u>	<u>\$ 78,516</u>	<u>\$ 43,232</u>	
16							
17							
18	RATE BASE	<u>\$ 691,914</u>	<u>\$ 15,678</u>	<u>\$ 707,591</u>		<u>\$ 707,591</u>	
19							
20							
21	RATE OF RETURN	-3.81%		-4.99%		6.11%	
22							

# Exhibit 4

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Tradewinds Utilities, Inc.  
 Docket No.: 100127  
 Historical Test Year Ended: December 31, 2009  
 Interim [ ] Final [X]

Schedule: B-2  
 Page 1 of 1  
 Preparer: W. Wade Horigan, CRRA

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 7) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenue	(7) Supporting Schedules
1	OPERATING REVENUES	\$ 204,388	\$ -	\$ 204,388	\$ 35,750	\$ 240,138	B-4, B-3
2							
3	Operation & Maintenance	239,436	(52,216)	187,220	626	187,845	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	11,143	-	11,143	-	11,143	B-14, B-3
6							
7	Amortization	-	-	-	-	-	
8							
9	Taxes Other Than Income Taxes	24,748	-	24,748	1,609	26,357	B-15, B-3
10							
11	Provision for Income Taxes	-	-	-	-	-	C-1, B-3
12							
13	OPERATING EXPENSES	<u>275,327</u>	<u>(52,216)</u>	<u>223,111</u>	<u>2,234</u>	<u>225,345</u>	
14							
15	NET OPERATING INCOME	<u>\$ (70,939)</u>	<u>\$ 52,216</u>	<u>\$ (18,723)</u>	<u>\$ 33,516</u>	<u>\$ 14,793</u>	
16							
17							
18	RATE BASE	<u>\$ 218,775</u>	<u>\$ 23,481</u>	<u>\$ 242,255</u>		<u>\$ 242,255</u>	
19							
20							
21	RATE OF RETURN	-32.43%		-7.73%		6.11%	



# Exhibit 5

Schedule of Requested Cost of Capital  
Simple Average Balance

Florida Public Service Commission

Company: Tradewinds Utilities, Inc.  
Docket No.: 100127  
Historical Test Year Ended: December 31, 2009  
Interim [ ] Final [X]

Schedule: D-1  
Page 1 of 1

Preparer: W. Wade Horigan, CRRA

Explanation: Provide a schedule which calculates the requested cost of capital on a simple average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	(1) Class of Capital	(2) Reconciled to Requested Rate Base		(3) Ratio	(4) Cost Rate	(5) Weighted Cost
		AYE				
1	Long Term Debt	\$	772,150	81.29%	5.13%	4.17%
2	Short Term debt		-	0.00%	0.00%	0.00%
3	Preferred stock		-	0.00%	0.00%	0.00%
4	Common Equity		159,181	16.76%	10.85%	1.82%
5	Customer Deposits		18,515	1.95%	6.00%	0.12%
6	Tax Credits - Zero Cost		-	0.00%	0.00%	0.00%
7	Tax Credits - Weighted Cost		-	0.00%	0.00%	0.00%
8	Accumulated Deferred Income Tax		-	0.00%	0.00%	0.00%
9	Other		-	0.00%	0.00%	0.00%
10						
11	Total	\$	949,846	100.00%		6.11%

Supporting Schedules: D-2  
Recap Schedules: A-2