

State of Florida



Public Service Commission

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

Auditor's Report

Utilities, Inc.
Audit of Affiliate Transactions

Twelve Months Ended December 31, 2011

Docket No. 120209-WS
Audit Control No. 12-254-4-1
July 12, 2013

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Table of Contents

| | |
|--|----|
| Purpose..... | 1 |
| Objectives and Procedures..... | 2 |
| Audit Findings | |
| 1: Transportation Equipment | 5 |
| 2: Project Phoenix | 8 |
| 3: Project Phoenix Depreciation | 12 |
| 4: Accumulated Depreciation Adjustment Misclassified..... | 14 |
| 5: Cost of Capital | 20 |
| 6: Error in Orange County Allocations | 23 |
| 7: Adjustment to Expenses Allocated From Altamonte Springs Headquarters | 24 |
| 8: Adjustment to Expenses Allocated from Northbrook, Illinois Headquarters. | 26 |
| 9: Payroll, Benefits, and Taxes | 29 |
| 10: Salaries in Rate Case Expense | 32 |
| 11: Marion County | 34 |

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 Accounting and Finance Division in its audit service request dated April 15, 2013. We have applied these procedures to the attached schedules prepared by Utilities, Inc. in support of its filing for rate relief for Utilities, Inc. of Florida in Docket No. 120209-WS.

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

Objectives and Procedures

General

Definitions

The term “Company” refers to Utilities, Inc., the parent of Utilities, Inc. of Florida. Utility refers to Utilities, Inc. of Florida (UIF). UIF uses the test year ended December 31, 2011 in its filing for rate relief in Docket No. 120209-WS. The Company’s balances were last audited for the rate case of Eagle Ridge Utilities, Inc. in Docket 110153-SU. UIF files for rate relief by county.

In Docket No. 120209-WS, UIF prepared filings for Orange, Pasco, Pinellas, and Seminole Counties. It did not include a filing for Marion County. The Utility did include Marion County allocations in its supporting schedules for the allocations. In this report, Marion County adjustments will be included in the detail of each filing. Since there is no filing to adjust, Marion County will be addressed in Finding 10 and, the effect of each finding will be summarized in that finding.

The Company allocates its costs to each of its utility subsidiaries based on Equivalent Residential Customers (ERCs). UIF receives costs based on its ERC ratio to the total ERCs at the corporate level for the Northbrook, Illinois costs. The Company allocates costs using the same method for its Regional and Florida Altamonte Springs offices based on the total ERCs for the Region and the State of Florida, respectively.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether: 1) Plant additions that are allocated to subsidiaries are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Proper retirements were made when a replacement item was put in service, and 3) The allocation basis was reasonable for the assets allocated.

Procedures: We determined the plant balance as of December 31, 2010, that was established in Docket No. 110153-SU. We reviewed and sampled the Illinois and Florida headquarters additions for the period January 1, 2011, through December 31, 2011, and verified the ledger to the Company’s allocation worksheets. We ensured that retirements were made when a capital item was removed or replaced. We reconciled the differences between the Company’s allocated balances in its allocation worksheets and the UIF allocation ledger to the rate base adjustments in the filing. Findings 1 and 2 discuss plant in service.

Accumulated Depreciation and Amortization

Objectives: The objectives were to determine whether: 1) Commission ordered adjustments to accumulated depreciation were included in the beginning balances, 2) Accruals to accumulated depreciation accounts that are allocated to subsidiaries are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Depreciation Expense accruals for accounts that are allocated are calculated using previously authorized rates, and 4) Retirements are properly recorded.

Procedures: We determined the accumulated depreciation balances as of December 31, 2010, that were established in Docket No. 110153-SU. We recalculated the Illinois and Florida headquarters accrual to accumulated depreciation for the period January 1, 2011, through December 31, 2011, using rates from prior audits and the verified Company's allocation worksheets. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocation worksheets and the UIF allocation ledger to the rate base adjustments in the filing. Findings 1, 2, 3, and 4 discuss accumulated depreciation.

Working Capital

Objectives: The objectives were to determine whether the adjustments made in the UIF filing for working capital were based on the correct ledger balances of the affiliate companies and that correct allocation factors were used.

Procedures: Working capital accounts allocated were reconciled to the parent's general ledger and traced to the appropriate ERC allocation.

Net Operating Income

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance (O&M) expense allocated to subsidiaries are properly recorded in compliance with NARUC USOA and Commission rules and that they are representative of its subsidiary's ongoing utility operations.

Procedures: We verified O&M expense accounts allocated for the 12 months-s ended December 31, 2011, by tracing a sample of invoices selected based on an analytical review, to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the UIF allocation ledger to the rate base adjustments in the filing.

Salaries, benefits, and transportation expenses from the Illinois office, Regional office, call center locations, and Florida offices by employee were recalculated and reconciled to payroll department data. The allocation factors were reviewed for applicability to the type of job. We tested the benefit and tax calculations. We reconciled the differences between the audited

allocated balances and the UIF allocation ledger to the net operating income adjustments in the filing. Findings 6, 7, 8, 9, and 10 discuss O & M expenses.

Depreciation and Amortization

Objectives: The objectives were to determine whether the depreciation expense allocated is properly recorded in compliance with Commission rules and that they accurately represent the depreciation of the Company's asset used to manage ongoing utility operations.

Procedures: We determined that the Company's calculation of depreciation expense was consistent with the balances in the ledger and the rates used in prior audits. We reconciled the differences between the Company's allocation worksheets and the UIF allocation ledger to the rate base adjustments in the filing. Findings 1 and 2 discuss depreciation expense.

Taxes Other than Income

Objectives: The objectives were to determine whether the Company's allocation of taxes represented the actual taxes recorded in the ledger and that they were allocated using the appropriate ERC factors.

Procedures: We determined the real estate taxes for the Company and the ERC factors used. We re-calculated payroll taxes based on allocated payroll and compared it to the amounts included in the UIF allocated ledger. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation workpapers and the UIF allocation ledger to the rate base adjustments in the filing.

Capital Structure

Objectives: The objectives were to determine whether the equity and debt components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are based on the weighted percent of the Company's financial statements audited by Price, Waterhouse, Coopers, LLP and Commission's authorized rate of return.

Procedures: We verified the Company's long-term debt and common equity to the audited financial statements and general ledger. We traced the long-term debt to the prior audit. There was no short term debt for this period. The equity rate filed was compared to Order No.'s PSC-12-0339-PAA-WS and PSC-13-0241-PAA-WS. Finding 5 discusses cost of capital.

Audit Findings

Finding 1: Transportation Equipment

Audit Analysis: In 2011, the Company traded, sold and purchased many vehicles. Some of the older vehicles were transferred to the pool vehicles. The Company did not retire all the vehicles sold in 2011, some were retired in 2012. Instead of retiring vehicles, some new vehicles purchased were recorded at the value net of the trade-in. For the items that were retired in the books, the entries were not recorded according to the NARUC Uniform System of Accounts (NARUC USoA) which states:

“When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.”

In prior cases, the Utility has taken the 13-month average of the cost of the vehicles and its accumulated depreciation, the depreciation expense, and the associated transportation costs, and allocated each vehicle based on the payroll allocation used for the employee using the vehicle. It did another allocation for pool vehicles and special equipment. Several errors were found in the schedules provided by the Company. Some of the errors were:

1. The 13-month average for the plant accounts were the same as the ending balances even though vehicles were replaced during the year.
2. Pool vehicles and special equipment were not separated by state.
3. The retirement of the asset, the debit to accumulated depreciation and the salvage were all recorded to a below the line account.
4. Values on new vehicles were shown net of trade-in amounts.

Staff prepared schedules consistent with the Company’s calculations in other dockets after determining the vehicles used and the appropriate average. These were allocated to the counties based on the employees using the vehicles whose salary was allocated to the counties. We compared the filings for Orange, Pasco, Pinellas, and Seminole Counties to staff’s revised transportation schedules. For Marion County, we compared the ledger to the revised schedules. A summary of this comparison for transportation equipment, transportation accumulated depreciation, depreciation expense, and transportation expenses follows:

Transportation Equipment - 13-Month Average
NARUC 341.5/391.7 (JDE account 1555)

| County | Per Filing | Add. Vehicle Per Staff Using Company Method | Staff Vehicle Per Staff Using Company Method | Total Per Staff Using Company Method | Difference | Water | Wastewater |
|----------|--------------|---|--|--------------------------------------|----------------|---------------|---------------|
| Marion | \$ 32,913.02 | \$ 8,732.98 | \$ 13,087.00 | \$ 21,819.98 | \$ (11,093.04) | \$ (9,693.10) | \$ (1,399.94) |
| Orange | \$ 4,437.00 | \$ 4,366.49 | \$ 4,830.28 | \$ 9,196.77 | \$ 4,759.77 | \$ 4,759.77 | |
| Pasco | \$ 72,264.00 | \$ 58,368.40 | \$ 69,027.84 | \$ 127,396.24 | \$ 55,132.24 | \$ 39,540.84 | \$ 15,591.40 |
| Pinellas | \$ 7,732.00 | \$ 6,237.84 | \$ 7,385.43 | \$ 13,623.27 | \$ 5,891.27 | \$ 5,891.27 | |
| Seminole | \$ 52,068.00 | \$ 57,655.50 | \$ 62,014.20 | \$ 119,669.70 | \$ 67,601.70 | \$ 44,170.95 | \$ 23,430.75 |

Transportation Accumulated Depreciation - 13-Month Average
NARUC 108.1 (JDE account 2300)

| County | Per Filing | Add. Vehicle Per Staff Using Company Method | Staff Vehicle Per Staff Using Company Method | Total Per Staff Using Company Method | Difference | Water | Wastewater |
|----------|----------------|---|--|--------------------------------------|----------------|----------------|----------------|
| Marion | \$ (23,011.01) | \$ (6,747.94) | \$ (6,099.18) | \$ (12,847.12) | \$ 10,163.89 | \$ 8,881.21 | \$ 1,282.68 |
| Orange | \$ (1,802.00) | \$ (3,373.97) | \$ (3,378.73) | \$ (6,752.70) | \$ (4,950.70) | \$ (4,950.70) | |
| Pasco | \$ (35,126.00) | \$ (45,100.99) | \$ (39,657.76) | \$ (84,758.75) | \$ (49,632.75) | \$ (35,596.61) | \$ (14,036.14) |
| Pinellas | \$ (3,758.00) | \$ (4,819.95) | \$ (4,243.40) | \$ (9,063.35) | \$ (5,305.35) | \$ (5,305.35) | |
| Seminole | \$ (21,690.00) | \$ (44,550.13) | \$ (43,259.80) | \$ (87,809.93) | \$ (66,119.93) | \$ (43,202.76) | \$ (22,917.17) |

Transportation Depreciation Expense
NARUC 403 (JDE account 6905)

| County | Per Filing | Add. Vehicle Per Staff Using Company Method | Staff Vehicle Per Staff Using Company Method | Total Per Staff Using Company Method | Difference | Water | Wastewater |
|----------|--------------|---|--|--------------------------------------|-------------|-------------|-------------|
| Marion | \$ 2,180.70 | \$ 947.74 | \$ 1,452.48 | \$ 2,400.22 | \$ 219.52 | \$ 191.82 | \$ 27.70 |
| Orange | \$ 562.00 | \$ 473.87 | \$ 652.96 | \$ 1,126.83 | \$ 564.83 | \$ 564.83 | |
| Pasco | \$ 10,553.00 | \$ 6,334.41 | \$ 9,393.56 | \$ 15,727.97 | \$ 5,174.97 | \$ 3,711.49 | \$ 1,463.48 |
| Pinellas | \$ 1,129.00 | \$ 676.96 | \$ 1,005.05 | \$ 1,682.01 | \$ 553.01 | \$ 553.01 | |
| Seminole | \$ 7,133.00 | \$ 6,257.04 | \$ 8,393.86 | \$ 14,650.90 | \$ 7,517.90 | \$ 4,912.20 | \$ 2,605.70 |

Transportation Expense
NARUC 650/750 (JDE account 6215-6230)

| County | Per Filing | Add. Vehicle Per Staff Using Company Method | Staff Vehicle Per Staff Using Company Method | Total Per Staff Using Company Method | Difference | Water | Wastewater |
|----------|--------------|---|--|--------------------------------------|---------------|---------------|---------------|
| Marion | \$ 4,378.61 | \$ 1,257.17 | \$ 2,691.80 | \$ 3,948.97 | \$ (429.64) | \$ (375.42) | \$ (54.22) |
| Orange | \$ 2,147.10 | \$ 628.58 | \$ 1,257.80 | \$ 1,886.38 | \$ (260.72) | \$ (260.72) | |
| Pasco | \$ 28,549.60 | \$ 8,402.51 | \$ 20,019.08 | \$ 28,421.59 | \$ (128.01) | \$ (91.81) | \$ (36.20) |
| Pinellas | \$ 3,045.52 | \$ 897.98 | \$ 2,141.94 | \$ 3,039.92 | \$ (5.60) | \$ (5.60) | |
| Seminole | \$ 28,259.61 | \$ 8,299.88 | \$ 15,885.03 | \$ 24,184.91 | \$ (4,074.70) | \$ (2,662.41) | \$ (1,412.29) |

Staff also recalculated accumulated depreciation using the balances adjusted for the retirements and salvage. The following schedule shows the accumulated depreciation following the NARUC USoA.

**Transportation Accumulated Depreciation - 13-Month Average
NARUC 108.1 (JDE account 2300)**

| | Per Filing | Add. Vehicle Per Staff Using NARUC Method | Staff Vehicle Per Staff Using NARUC Method | Total Per Staff Using NARUC Method | Difference | Water | Wastewater |
|----------|----------------|--|---|---|----------------|----------------|----------------|
| Marion | \$ (23,011.01) | \$ (6,723.54) | \$ (6,193.70) | \$ (12,917.24) | \$ 10,093.77 | \$ 8,819.94 | \$ 1,273.83 |
| Orange | \$ (1,802.00) | \$ (3,361.77) | \$ (3,396.61) | \$ (6,758.38) | \$ (4,956.38) | \$ (4,956.38) | |
| Pasco | \$ (35,126.00) | \$ (44,937.96) | \$ (37,837.34) | \$ (82,775.30) | \$ (47,649.30) | \$ (34,174.08) | \$ (13,475.22) |
| Pinellas | \$ (3,758.00) | \$ (4,802.53) | \$ (4,048.87) | \$ (8,851.40) | \$ (5,093.40) | \$ (5,093.40) | |
| Seminole | \$ (21,690.00) | \$ (44,389.10) | \$ (43,500.05) | \$ (87,889.15) | \$ (66,199.15) | \$ (43,254.52) | \$ (22,944.63) |

This schedule was used to determine the effect on the filing.

Effect on the General Ledger: Numerous entries need to be made to correctly record transfers of equipment, salvage, and trade-in values. However, for affiliate adjustments, the Utility adjusts the filings but not the Company's ledger.

Effect on the Filing: 13-month average water plant should be increased by \$4,759.77 for Orange County, \$39,541 for Pasco County, \$5,891 for Pinellas County, and \$44,171 for Seminole County. 13-month average wastewater plant should be increased by \$15,591 for Pasco County and \$23,431 for Seminole County.

13-month average water accumulated depreciation should be increased (credited) by \$4,956 for Orange County, \$34,174 for Pasco County, \$5,093.40 for Pinellas County, and \$43,255 for Seminole County. 13-month average wastewater accumulated depreciation should be increased by \$13,475 for Pasco County and \$22,945 for Seminole County.

Water depreciation expense should be increased by \$565 for Orange County, \$3711 for Pasco County, \$553 for Pinellas County, and \$4,912 for Seminole County. Wastewater depreciation expense should be increased by \$1,463 for Pasco County, and \$2,606 for Seminole County.

Water transportation expense should be reduced by \$261 for Orange County, \$92 for Pasco County, \$6 for Pinellas, and \$2,662 for Seminole County. Wastewater transportation expense should be reduced by \$36 for Pasco County and \$1,412 for Seminole County.

Finding 2: Project Phoenix

Audit Analysis: Project Phoenix is the Company's financial, customer care, and billing system, which became operational in December 2008. In Order No. PSC-10-0407-PAA-SU, the Commission established that the total cost for Project Phoenix at December 31, 2008, was \$21,617,487. The Commission required the Company to deduct \$1,724,166 from the total cost of Project Phoenix, reducing it to \$19,893,321, before allocating costs to the remaining UI subsidiaries. The Company provided a restatement schedule for all computer balances on its books to take into account past ordered adjustments. The Company did not make the adjustments ordered for Project Phoenix. The Company's restatement schedule shows the Project Phoenix balance at December 31, 2008, to be \$21,525,403. The difference between the Company's balance and the ordered amount is \$1,632,082.

The amount of allocated costs received by UIF is based on its ERC ratio to the total ERCs at the corporate level. In 2011, the Illinois office allocated .23% of its costs to UIF's Marion County, .11% to Orange County, 1.54% to Pasco County, .17% to Pinellas County, and 1.52% to Seminole County. Each county then allocates the cost from headquarters between its water and wastewater systems by each system's ERC as shown on the last schedule supporting this Finding.

The schedules following this Finding show the calculation of the adjustment to plant, accumulated depreciation, and depreciation expense needed to comply with the Order and the adjustment to UIF allocated rate base and expense accounts. In the Order stated above, Project Phoenix's depreciation rate was changed from eight to ten years. However, the Company has been depreciating the project over eight years beginning in 2008. In Finding 3, we adjusted the accumulated depreciation and depreciation expense on Project Phoenix from eight to ten years to comply with the Order. However, the schedule below removes depreciation for the reduction in plant using the ten year depreciation rate to avoid duplicating the adjustment.

Effect on the General Ledger: The following adjustment corrects the Company's ledger. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings:

| Co. No. | Co. Acct. | NARUC Acct. | Account Description | Debit | Credit |
|---------|-----------|-------------|---------------------------|---------------------|---------------------|
| 102 | 1590 | 340.5 | Computer System Cost | | \$ 1,632,082 |
| 102 | 2330 | 108.1 | Computer System Acc. Dep. | \$ 571,229 | |
| 102 | 4998 | 215 | Retained Earnings | \$ 1,060,853 | |
| | | | Total | \$ 1,632,082 | \$ 1,632,082 |

Effect on the Filing: Headquarters plant and accumulated depreciation's 13-month average should be reduced by \$1,632,082 and \$489,625, respectively. Depreciation expense should be reduced by \$163,208. The effect on UIF's filing is a 13-month average decrease for water plants as follow: \$1,795 for Orange County, \$18,026.15 for Pasco County, \$2,774.54 for Pinellas County, and \$16,209.32 for Seminole County. The 13-month average decreases to wastewater plant are: \$7,108 for Pasco County, and \$8,598 for Seminole County. The 13-month average decreases to water accumulated depreciation are \$539 for Orange County, \$5,408 for Pasco County, \$832 for Pinellas County, and \$4,863 for Seminole County. The 13-month average decreases to wastewater accumulated depreciation are \$2,132 for Pasco County, and \$2,580 for

Seminole County. The decreases to water depreciation expense are \$179.53 for Orange County, \$1,803 for Pasco County, \$277 for Pinellas County, and \$1,621 for Seminole County. The decreases to wastewater depreciation expense are \$711 for Pasco County and \$860 for Seminole County.

Project Phoenix Reconciliation

| Description | Amount |
|---|-----------------|
| Project Phoenix Total Cost Per Order | \$ 21,617,487 |
| Ordered Adjustments Per Order | \$ (1,724,166) |
| Difference | \$ 19,893,321 |
| Project Phoenix Total Cost Per Company | \$ (21,525,403) |
| Adjustment to Correct Beginning Balance | \$ (1,632,082) |

Calculation of Depreciation

| Co. No. | Co. Acct. | Description | Beg. Bal. Adjustment | Retained Earnings | Acct. | Life (Year) | Dep. Exp/RE | Acct. | Months | Acc. Dep. | Acct. |
|---------|-----------|-----------------|----------------------|-------------------|-------|-------------|--------------|-------|--------|------------|-------|
| 102 | 1590 | Project Phoenix | \$ (1,632,082) | \$ 1,632,082 | 4998 | 10 | \$ (163,208) | 6920 | 42 | \$ 571,229 | 2330 |

13-Month Average Calculation

| Date | Plant Adjustment | Acc. Dep. Adjustment |
|-------------------------|-----------------------|----------------------|
| December 31, 2010 | \$ (1,632,082) | \$ 408,021 |
| January 31, 2011 | \$ (1,632,082) | \$ 421,621 |
| February 28, 2011 | \$ (1,632,082) | \$ 435,222 |
| March 31, 2011 | \$ (1,632,082) | \$ 448,823 |
| April 30, 2011 | \$ (1,632,082) | \$ 462,423 |
| May 31, 2011 | \$ (1,632,082) | \$ 476,024 |
| June 30, 2011 | \$ (1,632,082) | \$ 489,625 |
| July 31, 2011 | \$ (1,632,082) | \$ 503,225 |
| August 31, 2011 | \$ (1,632,082) | \$ 516,826 |
| September 30, 2011 | \$ (1,632,082) | \$ 530,427 |
| October 31, 2011 | \$ (1,632,082) | \$ 544,027 |
| November 30, 2011 | \$ (1,632,082) | \$ 557,628 |
| December 31, 2011 | \$ (1,632,082) | \$ 571,229 |
| 13-MONTH AVERAGE | \$ (1,632,082) | \$ 489,625 |

Allocation of Adjustment to Divisions

| | Total Company Adjustment | Marion Water | Marion Wastewater | Orange Water | Pasco Water | Pasco Wastewater | Pinellas | Seminole Water | Seminole Wastewater |
|----------------------------------|---------------------------------|---------------------|--------------------------|---------------------|--------------------|-------------------------|-----------------|-----------------------|----------------------------|
| Illinois Allocation | | 0.23% | 0.23% | 0.11% | 1.54% | 1.54% | 0.17% | 1.52% | 1.52% |
| Water / Wastewater | | 87.38% | 12.62% | | 71.72% | 28.28% | | 65.34% | 34.66% |
| Percent Allocated 2011 | | 0.20% | 0.03% | 0.11% | 1.10% | 0.44% | 0.17% | 0.99% | 0.53% |
| | | | | | | | | | |
| Average Plant | \$ (1,632,082) | \$ (3,280.06) | \$ (473.73) | \$ (1,795.29) | \$ (18,026.15) | \$ (7,107.91) | \$ (2,774.54) | \$ (16,209.32) | \$ (8,598.33) |
| Average Accumulated Depreciation | \$ 489,625 | \$ 984.02 | \$ 142.12 | \$ 538.59 | \$ 5,407.84 | \$ 2,132.37 | \$ 832.36 | \$ 4,862.79 | \$ 2,579.50 |
| Depreciation Expense | \$ (163,208) | \$ (328.01) | \$ (47.37) | \$ (179.53) | \$ (1,802.61) | \$ (710.79) | \$ (277.45) | \$ (1,620.93) | \$ (859.83) |

Finding 3: Project Phoenix Depreciation

Audit Analysis: In Order No. PSC-10-0407-PAA-SU, the Company was directed to change the depreciation life for Project Phoenix from eight years to ten years. The Company did not change the rate at which the software is being depreciated.

The amount of allocated cost received by UIF is based on its ERC ratio by county to the total ERCs at the corporate level. UIF then allocates the cost from headquarters between its water and wastewater systems by each system’s ERC ratio to UIF’s ERCs by county.

The schedule following this Finding shows the calculation for accumulated depreciation and depreciation expense adjustments to correct the accrual balances for Headquarters and UIF by County.

Effect on the General Ledger: The following adjustment is recommended to correct the Headquarters ledger balance. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings:

| Co. No. | Co. Acct. | NARUC Acct. | Account Description | Debit | Credit |
|---------|-----------|-------------|---------------------------|---------------------|---------------------|
| 102 | 2330 | 108.1 | Computer System Acc. Dep. | \$ 1,883,473 | |
| 102 | 4998 | 215 | Retained Earnings | | \$ 1,883,473 |
| | | | Total | \$ 1,883,473 | \$ 1,883,473 |

Effect on the Filing: The 13-month average decreases to water accumulated depreciation are \$1,006 for Orange County, \$10,100 for Pasco County, \$1,554 for Pinellas County, and \$9,082 for Seminole County. The 13-month average decreases to wastewater accumulated depreciation are \$3,982 for Pasco County, and \$4,817 for Seminole County. The decreases to water depreciation expense are \$592 for Orange County, \$5,944 for Pasco County, \$915 for Pinellas County, and \$5,345 for Seminole County. The decreases to wastewater depreciation expense are \$2,344 for Pasco County, and \$2,835 for Seminole County.

Computation of Depreciation

| | Project Phoenix Cost | Depr Rate | 2008 Dep. Exp. | 2009 Dep. Exp. | 2010 Dep. Exp. | 2011 Dep. Exp. | Acc. Dep. at 12/31/11 |
|------------|----------------------|-----------|----------------|----------------|----------------|----------------|-----------------------|
| STAFF | \$ 21,525,402.85 | 10.00% | \$ 1,076,270 | \$ 2,152,540 | \$ 2,152,540 | \$ 2,152,540 | \$ 7,533,891 |
| COMPANY | \$ 21,525,402.85 | 12.50% | \$ 1,345,338 | \$ 2,690,675 | \$ 2,690,675 | \$ 2,690,675 | \$ 9,417,364 |
| DIFFERENCE | | | \$ (269,068) | \$ (538,135) | \$ (538,135) | \$ (538,135) | \$ (1,883,473) |

Computation of 13-Month Average

| Date | Acc. Dep. Adj. Debit |
|--------------------|----------------------|
| December 31, 2010 | \$ 645,338 |
| January 31, 2011 | \$ 690,183 |
| February 28, 2011 | \$ 735,027 |
| March 31, 2011 | \$ 779,872 |
| April 30, 2011 | \$ 824,716 |
| May 31, 2011 | \$ 869,561 |
| June 30, 2011 | \$ 914,406 |
| July 31, 2011 | \$ 959,250 |
| August 31, 2011 | \$ 1,004,095 |
| September 30, 2011 | \$ 1,048,939 |
| October 31, 2011 | \$ 1,093,784 |
| November 30, 2011 | \$ 1,138,628 |
| December 31, 2011 | \$ 1,183,473 |
| 13-Month Average | \$ 914,406 |

Allocation of Adjustment to Divisions

| | Total Company Adjustment | Marion Water | Marion Wastewater | Orange Water | Pasco Water | Pasco Wastewater | Pinellas | Seminole Water | Seminole Wastewater |
|----------------------------------|--------------------------|---------------|-------------------|--------------|---------------|------------------|-------------|----------------|---------------------|
| Illinois Allocation | | 0.23% | 0.23% | 0.11% | 1.54% | 1.54% | 0.17% | 1.52% | 1.52% |
| Water / Wastewater | | 87.38% | 12.62% | | 71.72% | 28.28% | | 65.34% | 34.66% |
| Percent Allocated 2011 | | 0.20% | 0.03% | 0.11% | 1.10% | 0.44% | 0.17% | 0.99% | 0.53% |
| Average Accumulated Depreciation | \$ 914,406 | \$ 1,837.72 | \$ 265.42 | \$ 1,005.85 | \$ 10,099.50 | \$ 3,982.35 | \$ 1,554.49 | \$ 9,081.59 | \$ 4,817.38 |
| Depreciation Expense | \$ (538,135) | \$ (1,081.51) | \$ (156.20) | \$ (591.95) | \$ (5,943.64) | \$ (2,343.64) | \$ (914.83) | \$ (5,344.58) | \$ (2,835.07) |

Finding 4: Accumulated Depreciation Adjustment Misclassified

Audit Analysis: The UIF filings contained adjustments to rate base to correct the booked allocations made to allocate Division 102-Northbrook, Illinois Headquarter and Division 855-Altamonte Springs, Florida Headquarter plant and accumulated depreciation. In preparing the adjustment, the Utility included the accumulated depreciation balances for Division 855 as debits instead of credits. Therefore, the difference between the revised allocations and the booked allocations resulted in a much higher debit (reduction) to accumulated depreciation than was actually needed. The schedules following this finding detail the correction.

Effect on the General Ledger: The Company's ledger was correct. The error was in the adjustment in the filing.

Effect on the Filing: Accumulated depreciation should be increased (credited) by \$10,229 for Orange County water, \$98,798 for Pasco County water and \$38,957 for Pasco County wastewater, \$14,738 for Pinellas County water, \$88,845 for Seminole County water, and \$47,128 for Seminole County wastewater.

UTILITIES, INC. OF FLORIDA - MARION COUNTY SUMMARY RATE BASE ADJUSTMENT

| Obj Acct | NARUC | Account Description | WSC | Revised Regional | Total | UA Ledger | Adjustment | 87.38% Water | 12.62% Wastewater |
|----------|-------|--------------------------------|-------------|------------------|-------------|-------------|------------|--------------|-------------------|
| 1025 | 302.1 | FRANCHISES | | \$ 129 | \$ 129 | \$ 19 | \$ 109 | \$ 95 | \$ 14 |
| 1045 | 303.5 | LAND & LAND RIGHTS GEN PLT | \$ 212 | \$ - | \$ 212 | \$ 213 | \$ (1) | \$ (1) | \$ (0) |
| 1175 | 304.5 | OFFICE STRUCT & IMPRV | \$ 6,176 | \$ 8,979 | \$ 15,155 | \$ 15,154 | \$ 1 | \$ 1 | \$ 0 |
| 1180 | 340.5 | OFFICE FURN & EQPT | \$ 3,084 | \$ 1,936 | \$ 5,021 | \$ 5,030 | \$ (9) | \$ (8) | \$ (1) |
| 1190 | 343.5 | TOOL SHOP & MISC EQPT | \$ 47 | \$ 2,151 | \$ 2,198 | \$ 2,187 | \$ 10 | \$ 9 | \$ 1 |
| 1195 | 344.5 | LABORATORY EQPT | | \$ 28 | \$ 28 | \$ - | \$ 28 | \$ 25 | \$ 4 |
| 1205 | 346.5 | COMMUNICATION EQPT | \$ 795 | \$ - | \$ 795 | \$ 799 | \$ (3) | \$ (3) | \$ (0) |
| 1215 | 348.5 | WATER PLANT ALLOCATED | | \$ - | \$ - | \$ (23,061) | \$ 23,061 | \$ 20,150 | \$ 2,910 |
| 1470 | 393.7 | TOOL SHOP & MISC EQPT | | \$ - | \$ - | \$ 4 | \$ (4) | \$ (3) | \$ (1) |
| 1495 | 398.7 | SEWER PLANT ALLOCATED | | \$ - | \$ - | \$ 7,435 | \$ (7,435) | \$ (6,497) | \$ (938) |
| 1575 | 340.5 | DESKTOP COMPUTER WTR | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 1580 | 340.5 | MAINFRAME COMPUTER WTR | \$ 444 | \$ 204 | \$ 648 | \$ 2,636 | \$ (1,988) | \$ (1,737) | \$ (251) |
| 1585 | 340.5 | MINI COMPUTERS WTR | \$ 1,991 | \$ 4,344 | \$ 6,335 | \$ 7,577 | \$ (1,242) | \$ (1,085) | \$ (157) |
| 1590 | 340.5 | COMP SYS COST WTR | \$ 50,130 | \$ 370 | \$ 50,500 | \$ 51,570 | \$ (1,071) | \$ (935) | \$ (135) |
| 1595 | 340.5 | MICRO SYS COST WTR | \$ 1,036 | \$ 179 | \$ 1,215 | \$ 1,440 | \$ (225) | \$ (197) | \$ (28) |
| | | TOTAL PLANT | \$ 63,916 | \$ 18,320 | \$ 82,235 | \$ 71,005 | \$ 11,230 | \$ 9,813 | \$ 1,417 |
| 1840 | 108.1 | ACC DEPR-FRANCHISES | | \$ - | \$ - | \$ (1) | \$ 1 | \$ 1 | \$ 0 |
| 1970 | 108.1 | ACC DEPR-OFFICE STRUCTURE | \$ (3,342) | \$ (2,625) | \$ (5,967) | \$ (5,640) | \$ (327) | \$ (285) | \$ (41) |
| 1975 | 108.1 | ACC DEPR-OFFICE FURN/EQPT | \$ (2,710) | \$ (1,343) | \$ (4,053) | \$ (3,925) | \$ (128) | \$ (112) | \$ (16) |
| 1985 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ (46) | \$ (1,839) | \$ (1,885) | \$ (1,880) | \$ (5) | \$ (4) | \$ (1) |
| 1990 | 108.1 | ACC DEPR-LABORATORY | | \$ (28) | \$ (28) | \$ - | \$ (28) | \$ (25) | \$ (4) |
| 2000 | 108.1 | ACC DEPR-COMMUNICATION EQPT | \$ (53) | \$ - | \$ (53) | \$ (107) | \$ 54 | \$ 47 | \$ 7 |
| 2010 | 108.1 | ACC DEPR-OTHER TANG PLT WATER | | \$ - | \$ - | \$ 7,607 | \$ (7,607) | \$ (6,647) | \$ (960) |
| 2075 | 108.1 | ACC DEPR-STRUCT/IMPRV GEN PLT | | \$ - | \$ - | \$ (4,007) | \$ 4,007 | \$ 3,501 | \$ 506 |
| 2230 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | | \$ - | \$ - | \$ (1) | \$ 1 | \$ 1 | \$ 0 |
| 2315 | 108.1 | ACC DEPR-DESKTOP COMPUTER WTR | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2320 | 108.1 | ACC DEPR-MAINFRAME COMP WTR | \$ (428) | \$ (204) | \$ (632) | \$ (1,822) | \$ 1,191 | \$ 1,040 | \$ 150 |
| 2325 | 108.1 | ACC DEPR-MINI COMP WTR | \$ (1,707) | \$ (4,307) | \$ (6,014) | \$ (6,930) | \$ 916 | \$ 801 | \$ 116 |
| 2330 | 108.1 | COMP SYS AMORTIZATION WTR | \$ (18,456) | \$ (179) | \$ (18,635) | \$ (22,935) | \$ 4,299 | \$ 3,757 | \$ 543 |
| 2335 | 108.1 | MICRO SYS AMORTIZATION WTR | \$ (1,028) | \$ (370) | \$ (1,397) | \$ (1,440) | \$ 43 | \$ 38 | \$ 5 |
| | | TOTAL ACCUMULATED DEPRECIATION | \$ (27,770) | \$ (10,895) | \$ (38,665) | \$ (41,081) | \$ 2,417 | \$ 2,112 | \$ 305 |

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY SUMMARY RATE BASE ADJUSTMENT

| Object Acct | NARUC Account | Account Description | WSC | Revised Regional | Total | UA Ledger | Revised Adjustment | Filing Adjustment | Difference |
|-------------|---------------|--------------------------------|-------------|------------------|-------------|-------------|--------------------|-------------------|-------------|
| 1840 | 108.1 | ACC DEPR-FRANCHISES | \$ - | \$ - | \$ - | \$ (1) | \$ 1 | \$ 1 | \$ - |
| 1970 | 108.1 | ACC DEPR-OFFICE STRUCTURE | \$ (1,652) | \$ (1,298) | \$ (2,950) | \$ (2,788) | \$ (161) | \$ 2,434 | \$ (2,595) |
| 1975 | 108.1 | ACC DEPR-OFFICE FURN/EQPT | \$ (1,340) | \$ (664) | \$ (2,004) | \$ (1,940) | \$ (63) | \$ 1,264 | \$ (1,328) |
| 1985 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ (23) | \$ (909) | \$ (932) | \$ (930) | \$ (2) | \$ 1,816 | \$ (1,819) |
| 1990 | 108.1 | ACC DEPR-LABORATORY | \$ - | \$ (14) | \$ (14) | \$ - | \$ (14) | \$ 14 | \$ (28) |
| 2000 | 108.1 | ACC DEPR-COMMUNICATION EQPT | \$ (26) | \$ - | \$ (26) | \$ (53) | \$ 27 | \$ 27 | \$ (0) |
| 2010 | 108.1 | ACC DEPR-OTHER TANG PLT WATER | | \$ - | \$ - | \$ 3,761 | | | \$ - |
| 2075 | 108.1 | ACC DEPR-STRUCT/IMPRV GEN PLT | \$ - | \$ - | \$ - | \$ (1,981) | \$ 1,981 | \$ 1,981 | \$ - |
| 2230 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ - | \$ - | \$ - | \$ (0) | \$ 0 | \$ 0 | \$ - |
| 2315 | 108.1 | ACC DEPR-DESKTOP COMPUTER WTR | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2320 | 108.1 | ACC DEPR-MAINFRAME COMP WTR | \$ (212) | \$ (101) | \$ (312) | \$ (901) | \$ 589 | \$ 790 | \$ (201) |
| 2325 | 108.1 | ACC DEPR-MINI COMP WTR | \$ (844) | \$ (2,129) | \$ (2,973) | \$ (3,426) | \$ 453 | \$ 4,712 | \$ (4,258) |
| 2330 | 108.1 | COMP SYS AMORTIZATION WTR | \$ (9,124) | \$ (89) | \$ (9,213) | \$ (11,338) | \$ 2,125 | \$ 2,125 | \$ (0) |
| 2335 | 108.1 | MICRO SYS AMORTIZATION WTR | \$ (508) | \$ (183) | \$ (691) | \$ (712) | \$ 21 | \$ 21 | \$ (0) |
| | | Total | \$ (13,729) | \$ (5,386) | \$ (19,115) | \$ (20,309) | \$ 4,956 | \$ 15,184 | \$ (10,229) |

UTILITIES, INC. OF FLORIDA - PASCO COUNTY SUMMARY RATE BASE ADJUSTMENT

| Object | NARUC Acct. | Account Description | WSC | Revised Regional | Total | UA Ledger | Revised Adjustment | Filing Adjustment | Difference | 71.72% Water | 28.28% Wastewater |
|--------|-------------|--------------------------------|--------------|------------------|--------------|--------------|--------------------|-------------------|--------------|--------------|-------------------|
| 1840 | 108.1 | ACC DEPR-FRANCHISES | \$ - | \$ - | \$ - | \$ (7) | \$ 7 | \$ 7 | \$ - | \$ - | \$ - |
| 1970 | 108.1 | ACC DEPR-OFFICE STRUCTURE | \$ (22,250) | \$ (17,475) | \$ (39,725) | \$ (37,551) | \$ (2,174) | \$ 32,776 | \$ (34,950) | \$ (25,066) | \$ (9,884) |
| 1975 | 108.1 | ACC DEPR-OFFICE FURN/EQPT | \$ (18,045) | \$ (8,939) | \$ (26,984) | \$ (26,130) | \$ (854) | \$ 17,024 | \$ (17,878) | \$ (12,822) | \$ (5,056) |
| 1985 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ (306) | \$ (12,246) | \$ (12,552) | \$ (12,519) | \$ (33) | \$ 24,459 | \$ (24,492) | \$ (17,566) | \$ (6,926) |
| 1990 | 108.1 | ACC DEPR-LABORATORY | \$ - | \$ (188) | \$ (188) | \$ - | \$ (188) | \$ 188 | \$ (375) | \$ (269) | \$ (106) |
| 2000 | 108.1 | ACC DEPR-COMMUNICATION EQPT | \$ (355) | \$ - | \$ (355) | \$ (715) | \$ 360 | \$ 360 | \$ (0) | \$ (0) | \$ (0) |
| 2010 | 108.1 | ACC DEPR-OTHER TANG PLT WATER | \$ - | \$ - | \$ - | \$ 50,648 | \$ (50,648) | \$ (50,648) | \$ - | \$ - | \$ - |
| 2075 | 108.1 | ACC DEPR-STRUCT/IMPRV GEN PLT | \$ - | \$ - | \$ - | \$ (26,675) | \$ 26,675 | \$ 26,675 | \$ - | \$ - | \$ - |
| 2230 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ - | \$ - | \$ - | \$ (6) | \$ 6 | \$ 6 | \$ - | \$ - | \$ - |
| 2315 | 108.1 | ACC DEPR-DESKTOP COMPUTER WTR | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2320 | 108.1 | ACC DEPR-MAINFRAME COMP WTR | \$ (2,851) | \$ (1,355) | \$ (4,206) | \$ (12,134) | \$ 7,928 | \$ 10,638 | \$ (2,710) | \$ (1,944) | \$ (766) |
| 2325 | 108.1 | ACC DEPR-MINI COMP WTR | \$ (11,363) | \$ (28,675) | \$ (40,039) | \$ (46,140) | \$ 6,101 | \$ 63,451 | \$ (57,350) | \$ (41,132) | \$ (16,219) |
| 2330 | 108.1 | COMP SYS AMORTIZATION WTR | \$ (122,876) | \$ (1,195) | \$ (124,071) | \$ (152,695) | \$ 28,623 | \$ 28,623 | \$ 0 | \$ 0 | \$ 0 |
| 2335 | 108.1 | MICRO SYS AMORTIZATION WTR | \$ (6,841) | \$ (2,462) | \$ (9,303) | \$ (9,589) | \$ 286 | \$ 286 | \$ (0) | \$ (0) | \$ (0) |
| | | | \$ (184,887) | \$ (72,534) | \$ (257,421) | \$ (273,512) | \$ 16,091 | \$ 153,846 | \$ (137,755) | \$ (98,798) | \$ (38,957) |

UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY SUMMARY RATE BASE ADJUSTMENT

| Object | NARUC Acct. | Account Description | WSC | Revised Regional | Total | UA Ledger | Revised Adjustment | Filing Adjustment | Difference |
|--------|-------------|--------------------------------|-------------|------------------|-------------|-------------|--------------------|-------------------|-------------|
| 1840 | 108.1 | ACC DEPR-FRANCHISES | \$ - | \$ - | \$ - | \$ (1) | \$ 1 | \$ 1 | \$ - |
| 1970 | 108.1 | ACC DEPR-OFFICE STRUCTURE | \$ (2,381) | \$ (1,870) | \$ (4,250) | \$ (4,018) | \$ (233) | \$ 3,507 | \$ (3,739) |
| 1975 | 108.1 | ACC DEPR-OFFICE FURN/EQPT | \$ (1,931) | \$ (956) | \$ (2,887) | \$ (2,796) | \$ (91) | \$ 1,821 | \$ (1,913) |
| 1985 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ (33) | \$ (1,310) | \$ (1,343) | \$ (1,339) | \$ (4) | \$ 2,617 | \$ (2,620) |
| 1990 | 108.1 | ACC DEPR-LABORATORY | \$ - | \$ (20) | \$ (20) | \$ - | \$ (20) | \$ 20 | \$ (40) |
| 2000 | 108.1 | ACC DEPR-COMMUNICATION EQPT | \$ (38) | \$ - | \$ (38) | \$ (77) | \$ 39 | \$ 39 | \$ (0) |
| 2010 | 108.1 | ACC DEPR-OTHER TANG PLT WATER | \$ - | \$ - | \$ - | \$ 5,419 | \$ (5,419) | \$ (5,419) | \$ 0 |
| 2075 | 108.1 | ACC DEPR-STRUCT/IMPRV GEN PLT | \$ - | \$ - | \$ - | \$ (2,854) | \$ 2,854 | \$ 2,854 | \$ - |
| 2230 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ - | \$ - | \$ - | \$ (1) | \$ 1 | \$ 1 | \$ - |
| 2315 | 108.1 | ACC DEPR-DESKTOP COMPUTER WTR | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2320 | 108.1 | ACC DEPR-MAINFRAME COMP WTR | \$ (305) | \$ (145) | \$ (450) | \$ (1,298) | \$ 848 | \$ 1,138 | \$ (290) |
| 2325 | 108.1 | ACC DEPR-MINI COMP WTR | \$ (1,216) | \$ (3,068) | \$ (4,284) | \$ (4,936) | \$ 653 | \$ 6,789 | \$ (6,136) |
| 2330 | 108.1 | COMP SYS AMORTIZATION WTR | \$ (13,147) | \$ (128) | \$ (13,274) | \$ (16,337) | \$ 3,062 | \$ 3,062 | \$ 0 |
| 2335 | 108.1 | MICRO SYS AMORTIZATION WTR | \$ (732) | \$ (263) | \$ (995) | \$ (1,026) | \$ 31 | \$ 31 | \$ (0) |
| | | | \$ (19,781) | \$ (7,760) | \$ (27,542) | \$ (29,263) | \$ 1,722 | \$ 16,460 | \$ (14,738) |

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY SUMMARY RATE BASE ADJUSTMENT

| Object | NARUC Acct. | Account Description | WSC | Revised Regional | Total | UA Ledger | Revised Adjustment | Filing Adjustment | Difference | 65.34% Water | 34.66% Wastewater |
|--------|-------------|--------------------------------|--------------|------------------|--------------|--------------|--------------------|-------------------|--------------|--------------|-------------------|
| 1840 | 108.1 | ACC DEPR-FRANCHISES | \$ - | \$ - | \$ - | \$ (7) | \$ 7 | \$ 7 | \$ - | \$ - | \$ - |
| 1970 | 108.1 | ACC DEPR-OFFICE STRUCTURE | \$ (21,963) | \$ (17,249) | \$ (39,211) | \$ (37,065) | \$ (2,146) | \$ 32,352 | \$ (34,498) | \$ (22,541) | \$ (11,957) |
| 1975 | 108.1 | ACC DEPR-OFFICE FURN/EOPT | \$ (17,811) | \$ (8,823) | \$ (26,635) | \$ (25,792) | \$ (843) | \$ 16,804 | \$ (17,647) | \$ (11,530) | \$ (6,116) |
| 1985 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ (302) | \$ (12,088) | \$ (12,389) | \$ (12,357) | \$ (33) | \$ 24,142 | \$ (24,175) | \$ (15,796) | \$ (8,379) |
| 1990 | 108.1 | ACC DEPR-LABORATORY | | \$ (185) | \$ (185) | \$ - | \$ (185) | \$ 185 | \$ (370) | \$ (242) | \$ (128) |
| 2000 | 108.1 | ACC DEPR-COMMUNICATION EQPT | \$ (351) | \$ - | \$ (351) | \$ (706) | \$ 355 | \$ 355 | \$ 0 | \$ 0 | \$ 0 |
| 2010 | 108.1 | ACC DEPR-OTHER TANG PLT WATER | \$ - | \$ - | \$ - | \$ 49,993 | \$ (49,993) | \$ (49,993) | \$ 0 | \$ 0 | \$ 0 |
| 2075 | 108.1 | ACC DEPR-STRUCT/IMPRV GEN PLT | \$ - | \$ - | \$ - | \$ (26,330) | \$ 26,330 | \$ 26,330 | \$ - | \$ - | \$ - |
| 2230 | 108.1 | ACC DEPR-TOOL SHOP & MISC EQPT | \$ - | \$ - | \$ - | \$ (6) | \$ 6 | \$ 6 | \$ - | \$ - | \$ - |
| 2315 | 108.1 | ACC DEPR-DESKTOP COMPUTER WTR | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2320 | 108.1 | ACC DEPR-MAINFRAME COMP WTR | \$ (2,814) | \$ (1,337) | \$ (4,151) | \$ (11,977) | \$ 7,826 | \$ 10,501 | \$ (2,675) | \$ (1,748) | \$ (927) |
| 2325 | 108.1 | ACC DEPR-MINI COMP WTR | \$ (11,216) | \$ (28,304) | \$ (39,521) | \$ (45,543) | \$ 6,022 | \$ 62,631 | \$ (56,608) | \$ (36,988) | \$ (19,620) |
| 2330 | 108.1 | COMP SYS AMORTIZATION WTR | \$ (121,287) | \$ (1,179) | \$ (122,466) | \$ (150,719) | \$ 28,253 | \$ 28,253 | \$ 0 | \$ 0 | \$ 0 |
| 2335 | 108.1 | MICRO SYS AMORTIZATION WTR | \$ (6,752) | \$ (2,430) | \$ (9,182) | \$ (9,465) | \$ 283 | \$ 283 | \$ 0 | \$ 0 | \$ 0 |
| | | | \$ (182,496) | \$ (71,596) | \$ (254,091) | \$ (269,974) | \$ 15,883 | \$ 151,856 | \$ (135,973) | \$ (88,845) | \$ (47,128) |

Finding 5: Cost of Capital

Audit Analysis: The Utility filings allocated rate base to equity and long term debt based on the consolidated capital structure of Utilities, Inc. However, the total equity balances used did not agree with the audited financial statements. According to the Utility representative, the inadvertent error was made because balances before the completion of the external audit were used in the filing. The revised 13-month average equity balance is \$176,219,021. In addition, the 10.36% equity rate, used in the filings, are footnoted that these were determined using Order 12-0339-PAA-WS. Staff computation of the equity rate using the order was 10.94%. However, since the filing was made, the Commission has issued an order with a new leverage formula. Using the new formula, the return should be 10.21%. We re-computed cost of capital using the revised equity amounts and rates. The schedules follow this finding.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Cost of capital for Orange County is decreased to 7.22%, Pasco County is decreased to 7.55%, Pinellas County is decreased to 7.74%, and Seminole County is decreased to 7.69%.

Orange County Cost of Capital

| Class of Capital | Reconciled to Rate Base 13-Month Average TYE 12/31/11 | Ratio | Revised Cost Rate | Weighted Cost |
|---------------------------------|--|--------------|----------------------------------|--------------------------|
| Long Term Debt | \$ 107,145 | 43.05% | 6.65% | 2.86% |
| Short Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | \$ 104,895 | 42.15% | 10.21% | 4.30% |
| Subtotal | \$ 212,040 | | | |
| Customer Deposits | \$ 2,281 | 0.92% | 6.00% | 0.05% |
| Tax Credits-Zero Cost | \$ 2,955 | 1.19% | | 0.00% |
| Tax Credits-Weighted Cost | | | | |
| Accumulated Deferred Income Tax | \$ 31,581 | 12.69% | | 0.00% |
| Other (Explain) | | | | |
| Total | \$ 248,857 | 100.00% | | 7.22% |
| Per Filing | | | | 7.29% |

Pasco County Cost of Capital

| Class of Capital | Reconciled to Rate Base 13-Month Average TYE 12/31/11 | Ratio | Revised Cost Rate | Weighted Cost |
|---------------------------------|--|--------------|----------------------------------|--------------------------|
| Long Term Debt | \$ 2,084,609 | 45.11% | 6.65% | 3.00% |
| Short Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | \$ 2,040,820 | 44.16% | 10.21% | 4.51% |
| Subtotal | \$ 4,125,429 | | | |
| Customer Deposits | \$ 30,739 | 0.67% | 6.00% | 0.04% |
| Tax Credits-Zero Cost | \$ 39,802 | 0.86% | | 0.00% |
| Tax Credits-Weighted Cost | | | | |
| Accumulated Deferred Income Tax | \$ 425,306 | 9.20% | | 0.00% |
| Other (Explain) | | | | |
| Total | \$ 4,621,276 | 100.00% | | 7.55% |
| Per Filing | | | | 7.63% |
| Difference | | | | -0.08% |

Pinellas County Cost of Capital

| Class of Capital | Reconciled to Rate Base 13-Month Average TYE 12/31/11 | Ratio | Revised Cost Rate | Weighted Cost |
|---------------------------------|--|--------------|----------------------------------|--------------------------|
| Long Term Debt | \$ 293,100 | 46.30% | 6.65% | 3.08% |
| Short Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | \$ 286,944 | 45.32% | 10.21% | 4.63% |
| Subtotal | \$ 580,044 | | | |
| Customer Deposits | \$ 3,288 | 0.52% | 6.00% | 0.03% |
| Tax Credits-Zero Cost | \$ 4,258 | 0.67% | | 0.00% |
| Tax Credits-Weighted Cost | | | | |
| Accumulated Deferred Income Tax | \$ 45,503 | 7.19% | | 0.00% |
| Other (Explain) | | | | |
| Total | \$ 633,093 | 100.00% | | 7.74% |
| Per Filing | | | | 7.81% |
| Difference | | | | -0.07% |

Seminole County Cost of Capital

| Class of Capital | Reconciled to Rate Base 13-Month Average TYE 12/31/11 | Ratio | Revised Cost Rate | Weighted Cost |
|---------------------------------|--|--------------|----------------------------------|--------------------------|
| Long Term Debt | \$ 2,501,618 | 45.98% | 6.65% | 3.06% |
| Short Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | \$ 2,449,070 | 45.02% | 10.21% | 4.60% |
| Subtotal | \$ 4,950,688 | | | |
| Customer Deposits | \$ 30,341 | 0.56% | 6.00% | 0.03% |
| Tax Credits-Zero Cost | \$ 39,287 | 0.72% | | 0.00% |
| Tax Credits-Weighted Cost | | | | |
| Accumulated Deferred Income Tax | \$ 419,804 | 7.72% | | 0.00% |
| Other (Explain) | | | | |
| Total | \$ 5,440,120 | 100.00% | | 7.69% |
| Per Filing | | | | 7.76% |
| Difference | | | | -0.07% |

Finding 6: Error in Orange County Allocations

Audit Analysis: Division 855 is the Altamonte Springs, Florida headquarters division. The Company allocates Division 855 expenses to each Utility. The Utility made adjustments to each county's filings for revised allocations of the expenses for this division and the Northbrook, Illinois division. In the worksheets supporting the allocation, the Company used an incorrect allocation factor for four accounts in Orange County. The Florida allocation factor was shown as being the appropriate method and was the factor used for the other counties. The following schedule shows the amount allocated that is included in the filing, the corrected amount, and the difference.

| Utility Acct. | Description | Total 855 Expense | Allocation Factor Used | Amount Included | Correct Factor | Correct Amount | Difference |
|---------------|--------------------|-------------------|------------------------|-----------------|----------------|----------------|-------------|
| 6560 | Communication Exp. | \$ 196.55 | 15.1901% | \$ 29.86 | 0.4865% | \$ 0.15 | \$ 29.71 |
| 6365 | Equipment Rental | \$ 475.00 | 15.1901% | \$ 72.15 | 0.4865% | \$ 0.35 | \$ 71.80 |
| 6385 | Uniforms | \$ 411.59 | 15.1901% | \$ 62.52 | 0.4865% | \$ 0.30 | \$ 62.22 |
| 6390 | Fuel expense | \$ 10,218.34 | 15.1901% | \$ 1,552.18 | 0.4865% | \$ 7.55 | \$ 1,544.62 |
| | | \$ 11,301.48 | | \$ 1,716.71 | | \$ 8.35 | \$ 1,708.35 |

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Orange County expenses should be reduced by \$1,708.

Finding 7: Adjustment to Expenses Allocated From Altamonte Springs Headquarters

Audit Analysis: We tested the expenses being allocated from Division 855-Altamonte Springs, Florida Headquarters to the divisions. The following schedule lists the expenses that should be adjusted. The schedule following this Finding allocates these adjustments to the UIF divisions.

| Utility Acct. | Description | Amount | Reason for the Adjustment |
|---------------|-------------|----------------|---|
| 5965 | Office Mtc. | \$ (1,880.97) | Lift Station expenses should have been charged directly to the division the lift station belongs in. |
| 5965 | Office Mtc. | \$ (3,840.00) | Mitchell Paint was paid \$4,800 to paint the Altamonte Office. This is only done every five years. Amortization over five years leaves \$960 in expenses and removes \$3,840 to deferred maintenance. |
| 5965 | Office Mtc. | \$ (2,352.00) | Sunshine Building was paid \$2,940 to seal coat and re-stripe the parking lot. This cost should be amortized over five years leaving \$588 in the test year and \$2,352 in deferred maintenance. |
| 6025 | Legal Fees | \$ (5,788.50) | Legal Fees for Sutherland, Asbill, and Breman that are probably not re-occurring. |
| 6025 | Legal Fees | \$ (315.00) | To remove charges for Lake Utility Services and Bear Lake that should have been charged directly to a division. Total invoice of \$472.50 was paid to Rose, Sundstrom and Bentley on 3/20/11. |
| | | \$ (14,176.47) | |

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Water expenses should be reduced by \$69 for Orange County, \$666 for Pasco County, \$99 for Pinellas County, and \$599 for Seminole County. Wastewater expenses should be reduced by \$263 for Pasco County and \$318 for Seminole County.

Allocation of Adjustment to Divisions

| | Total Company Adjustment | Marion Water | Marion Wastewater | Orange Water | Pasco Water | Pasco Wastewater | Pinellas | Seminole Water | Seminole Wastewater |
|------------------------------------|---------------------------------|---------------------|--------------------------|---------------------|--------------------|-------------------------|-----------------|-----------------------|----------------------------|
| Florida Allocation | | 0.98% | 0.98% | 0.49% | 6.55% | 6.55% | 0.70% | 6.47% | 6.47% |
| Water / Wastewater | | 87.38% | 12.62% | | 71.72% | 28.28% | | 65.34% | 34.66% |
| Percent Allocated 2011 | | 0.86% | 0.12% | 0.49% | 4.70% | 1.85% | 0.70% | 4.23% | 2.24% |
| | | | | | | | | | |
| Adjustments to Division 855 | \$ (14,176) | \$ (121.90) | \$ (17.61) | \$ (68.97) | \$ (666.14) | \$ (262.66) | \$ (99.38) | \$ (599.02) | \$ (317.76) |

Finding 8: Adjustment to Expenses Allocated from Northbrook, Illinois Headquarters.

Audit Analysis: We tested the expenses being allocated from Division 102-Northbrook, Illinois Headquarters to the divisions. The following schedule lists the expenses that should be charged directly to a division instead of being allocated to all divisions.

Costs That Should be Direct to the Divisions:

| Utility Acct. | Description | Amount | Reason for the Adjustment |
|---------------|------------------------|----------------|---|
| 5785 | Advertising/Marketing | \$ (5,175.00) | Invoice for Geechie Communications Related Directly to Foxwood division 401144. |
| 5945 | Office Telecom | \$ (472.59) | Remove Farmers Telephone Co. phone charges that are directly related to Carolina Water Service Division 400100. |
| 5945 | Office Telecom | \$ (2,940.03) | Remove U.S. Cellular bills for Galena Territory Division 119102. |
| 5945 | Office Telecom | \$ (10,444.43) | Remove Windstream Communications invoices |
| 6025 | Legal Fees | \$ (2,200.00) | Haynesworth Sinkler Boyd, PA expenses related to Bio Tech which is a non-regulated company. |
| 6025 | Legal Fees | \$ (8,488.90) | Baker and Daniels invoices related t R & M Construction and a personal injury case that related directly to a division. |
| 6050 | Other Outside Services | \$ (388.87) | CSC Corporation Service Co. invoice directly related to Division 864100 State of South Carolina. |
| 6200 | Travel/Meals | \$ (146.18) | Carolina Water Service expenses that should have been direct to division 400100. |
| 7535 | Franchise Tax | \$ (14,439.24) | Nevada franchise taxes that should be charged directly to Division 866100-Nevada State. |
| | | \$ (44,695.24) | |

Some expenses may not be re-occurring.

Possible Non-Re-occurring items:

| Utility Acct. | Description | Amount | Reason for the Adjustment |
|---------------|----------------------|----------------|--|
| 5890 | Public Subscriptions | \$ (26,989.75) | Remove Intralink invoices. This service was used to transfer data to possible owners. Any costs are now being charged to the project related to ownership. |
| 6025 | Legal Fees | \$ (13,282.97) | Remove costs that are not re-occurring related to Norton and Wood LLP invoice related to an employee misconduct matter. |
| 6040 | Tax Return Review | \$ (8,800.00) | Final review of Hydro Star return. Not re-occurring since the Company was sold by Hydro Star. |
| 6205 | Travel/Entertainment | \$ (1,221.95) | Chicago Blackhawks tickets for the controller as a reward for a difficult audit. Not re-occurring. |
| | | \$ (50,294.67) | |

The Commission has traditionally disallowed lobbying expenses. The Company paid an employee's travel expenses to establish relationships with members of Congress and their staff. The travel costs for the trip were \$1,219.70. These are lobbying costs and should be recorded below the line. A portion of the employee's salary, benefits, and taxes may also need to be removed. The amount of salary allocated for this employee to Marion County is \$314, Orange County is \$159, Pasco County is \$2,067, Pinellas County is \$218, and Seminole County is \$2,030. No adjustment for the salary is made in the schedule following this adjustment.

The Company has had several legal bills related to code violations at the Northbrook office. According to the NARUC chart of accounts, penalties or fines for violations of statutes pertaining to regulation should be recorded below the line in account 426-Miscellaneous Nonutility Expenses. Although the legal bills are not penalties or fines, the costs will probably not be re-occurring. Total costs related to the code violations in 2011 were \$14,437.50. In addition, the Company paid Price Waterhouse \$14,700 related to tax services in connection with the abatement of penalties involving the State of Florida and five subsidiaries of Utilities Inc. that were assessed penalties for the 2009 tax year.

During the test year, the Company had a leadership meeting at the Rosen Center Hotel for 45 people at a cost of \$25,668.34 in Account 6185. This cost included hotel rooms, conference rooms, meals, breaks, and a two hour cocktail hour. It does not include travel for the employees. No adjustment has been made for this cost. It has been provided for informational purposes only.

The schedule following this Finding allocates these adjustments to the UIF divisions.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Water expenses should be reduced by \$138 for Orange County, \$1,384 for Pasco County, \$213 for Pinellas County, and \$1,245 for Seminole County. Wastewater expenses should be reduced by \$546 for Pasco County and \$660 for Seminole County.

Allocation of Adjustment to Divisions

| | Total Company Adjustment | Marion Water | Marion Wastewater | Orange Water | Pasco Water | Pasco Wastewater | Pinellas | Seminole Water | Seminole Wastewater |
|-----------------------------------|---------------------------------|---------------------|--------------------------|---------------------|----------------------|-------------------------|--------------------|-----------------------|----------------------------|
| Illinois Allocation | | 0.23% | 0.23% | 0.11% | 1.54% | 1.54% | 0.17% | 1.52% | 1.52% |
| Water / Wastewater | | 87.38% | 12.62% | | 71.72% | 28.28% | | 65.34% | 34.66% |
| Percent Allocated 2011 | | 0.20% | 0.03% | 0.11% | 1.10% | 0.44% | 0.17% | 0.99% | 0.53% |
| | | | | | | | | | |
| Direct Expense | \$ (44,695.24) | \$ (89.83) | \$ (12.97) | \$ (49.16) | \$ (493.65) | \$ (194.65) | \$ (75.98) | \$ (443.90) | \$ (235.47) |
| Possible Non-reoccurring Expenses | \$ (50,295.00) | \$ (101.08) | \$ (14.60) | \$ (55.32) | \$ (555.50) | \$ (219.04) | \$ (85.50) | \$ (499.51) | \$ (264.97) |
| Lobbying | \$ (1,219.70) | \$ (2.45) | \$ (0.35) | \$ (1.34) | \$ (13.47) | \$ (5.31) | \$ (2.07) | \$ (12.11) | \$ (6.43) |
| Costs Related to Violations | \$ (29,137.50) | \$ (58.56) | \$ (8.46) | \$ (32.05) | \$ (321.82) | \$ (126.90) | \$ (49.53) | \$ (289.38) | \$ (153.51) |
| Total | \$ (125,347.44) | \$ (251.92) | \$ (36.38) | \$ (137.88) | \$ (1,384.45) | \$ (545.90) | \$ (213.09) | \$ (1,244.91) | \$ (660.37) |

Finding 9: Payroll, Benefits, and Taxes

Audit Analysis: The Company allocates costs monthly to the divisions. In prior Utilities, Inc. subsidiary rate cases, the Company provided schedules by employee. In these schedules the Company allocated the most current annualized salary and allocated the salary, benefits, and taxes using the appropriate ERC allocation factor based on the employees duties. The schedule was then compared to the costs recorded in the ledger by division. The difference was adjusted in the filings. In this case, only proforma adjustments were made to the filing for 2012 and April 2013 salary increases.

We requested the Company prepare the schedules for this case using the salaries at the end of April 2013 and the ERC factors at the end of April 2013. Overtime for the first four months was annualized. The Company schedule was compared to the booked amounts for the UIF divisions. The schedule follows this finding.

Since the schedule already includes the salaries after the 2012 and April 2013 salary increases, no proforma should be necessary. Therefore, the profoma adjustment was also removed. The Pasco County's filing did not include any adjustment for payroll taxes.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Water expenses should be reduced by \$8,090.16 for Orange County, \$61,770.32 for Pasco County, \$9,405.84 for Pinellas County, and \$58,559.22 for Seminole County. Wastewater expenses should be reduced by \$24,357.88 for Pasco County and \$31,063.25 for Seminole County.

| Salaries | Marion Water Per Books (TB) | Marion Wastewater Books (TB) | Orange Per Books (TB) | Pasco Water Per Books (TB) | Pasco Wastewater Books (TB) | Pinellas Per Books (TB) | Seminole Water Per Books (TB) | Seminole Wastewater Books (TB) |
|--|-----------------------------|------------------------------|-----------------------|----------------------------|-----------------------------|-------------------------|-------------------------------|--------------------------------|
| NARUC 601/701 (JDE account 6110) | \$ 2,264.21 | \$ 327.01 | \$ 1,305.63 | \$ 12,460.27 | \$ 4,913.23 | \$ 1,852.72 | \$ 11,232.85 | \$ 5,958.53 |
| NARUC 601/701 (JDE account 6115) | \$ 180.13 | \$ 26.01 | \$ 103.94 | \$ 991.51 | \$ 390.97 | \$ 147.23 | \$ 893.20 | \$ 473.81 |
| NARUC 603/703 (JDE account 6120) | \$ 4,243.78 | \$ 612.92 | \$ 2,440.88 | \$ 23,335.70 | \$ 9,201.53 | \$ 3,472.64 | \$ 21,036.08 | \$ 11,158.71 |
| NARUC 601/701 (JDE account 6125) | \$ 522.54 | \$ 75.47 | \$ 301.27 | \$ 2,874.35 | \$ 1,133.39 | \$ 427.73 | \$ 2,592.51 | \$ 1,375.21 |
| NARUC 601/701 (JDE account 6130) | \$ 572.55 | \$ 82.69 | \$ 330.13 | \$ 3,150.28 | \$ 1,242.19 | \$ 468.52 | \$ 2,840.34 | \$ 1,506.68 |
| NARUC 601/701 (JDE account 6135) | \$ 2,273.57 | \$ 328.36 | \$ 1,311.02 | \$ 12,511.09 | \$ 4,933.27 | \$ 1,860.48 | \$ 11,279.31 | \$ 5,983.18 |
| NARUC 601/701 (JDE account 6140) | \$ 1,854.18 | \$ 267.79 | \$ 1,068.43 | \$ 10,197.31 | \$ 4,020.92 | \$ 1,520.72 | \$ 9,191.38 | \$ 4,875.63 |
| NARUC 601/701 (JDE account 6145) | \$ 2,136.00 | \$ 308.50 | \$ 1,231.72 | \$ 11,752.58 | \$ 4,634.18 | \$ 1,748.08 | \$ 10,597.88 | \$ 5,621.71 |
| NARUC 601/701 (JDE account 6146) | \$ 269.10 | \$ 38.86 | \$ 155.06 | \$ 1,481.25 | \$ 584.08 | \$ 220.18 | \$ 1,334.51 | \$ 707.90 |
| NARUC 601/701 (JDE account 6147) | \$ 336.05 | \$ 48.54 | \$ 193.82 | \$ 1,848.86 | \$ 729.02 | \$ 275.02 | \$ 1,667.29 | \$ 884.42 |
| NARUC 601/701 (JDE account 6150) | \$ 25,787.87 | \$ 3,724.45 | \$ 14,410.87 | \$ 173,050.36 | \$ 68,235.69 | \$ 25,165.25 | \$ 107,490.10 | \$ 57,018.78 |
| NARUC 601/701 (JDE account 6155) | \$ 600.31 | \$ 86.70 | \$ 347.28 | \$ 3,399.04 | \$ 1,340.28 | \$ 977.40 | \$ 2,972.19 | \$ 1,576.62 |
| Total Booked | \$ 41,040.28 | \$ 5,927.31 | \$ 23,200.05 | \$ 257,052.62 | \$ 101,358.73 | \$ 38,135.97 | \$ 183,127.65 | \$ 97,141.17 |
| Per Salary Detail for Annualized 2013 | \$ 35,792.77 | \$ 5,169.43 | \$ 18,672.18 | \$ 221,753.77 | \$ 87,440.00 | \$ 32,644.95 | \$ 155,609.16 | \$ 82,543.82 |
| Difference | \$ (5,247.51) | \$ (757.88) | \$ (4,527.87) | \$ (35,298.85) | \$ (13,918.73) | \$ (5,491.02) | \$ (27,518.49) | \$ (14,597.35) |
| Decrease Cap Time Adjustment Based On Less Pay | \$ 1,928.17 | \$ 278.48 | \$ 372.25 | \$ 2,222.24 | \$ 876.25 | \$ 556.42 | \$ 3,210.54 | \$ 1,703.05 |
| Net decrease to payroll | \$ (3,319.34) | \$ (479.40) | \$ (4,155.62) | \$ (33,076.61) | \$ (13,042.48) | \$ (4,934.60) | \$ (24,307.95) | \$ (12,894.30) |
| Remove Proforma Salaries | | | \$ (1,917.00) | \$ (21,684.00) | \$ (8,551.00) | \$ (3,085.00) | \$ (14,558.00) | \$ (7,723.00) |
| Total Payroll Adjustment | \$ (3,319.34) | \$ (479.40) | \$ (6,072.62) | \$ (54,760.61) | \$ (21,593.48) | \$ (8,019.60) | \$ (38,865.95) | \$ (20,617.30) |

| Payroll Taxes | Marion Water Per Books (TB) | Marion Wastewater Books (TB) | Orange Per Books (TB) | Pasco Water Per Books (TB) | Pasco Wastewater Books (TB) | Pinellas Per Books (TB) | Seminole Water Per Books (TB) | Seminole Wastewater Books (TB) |
|---------------------------------------|-----------------------------|------------------------------|-----------------------|----------------------------|-----------------------------|-------------------------|-------------------------------|--------------------------------|
| NARUC 408.12 (JDE account 7510-7520) | \$ 3,493.84 | \$ 504.60 | \$ 2,014.96 | \$ 19,230.15 | \$ 7,582.67 | \$ 2,847.75 | \$ 17,328.91 | \$ 9,192.22 |
| Per Salary Detail for Annualized 2013 | \$ 3,362.29 | \$ 485.60 | \$ 1,735.23 | \$ 21,038.45 | \$ 8,295.70 | \$ 3,097.13 | \$ 14,509.44 | \$ 7,696.62 |
| Difference | \$ (131.55) | \$ (19.00) | \$ (279.73) | \$ 1,808.30 | \$ 713.03 | \$ 249.38 | \$ (2,819.47) | \$ (1,495.60) |
| Remove Proforma Payroll Taxes | | | \$ (181.00) | | | \$ (257.00) | \$ (1,560.00) | \$ (827.00) |
| Total Payroll Tax Adjustment | \$ (131.55) | \$ (19.00) | \$ (460.73) | \$ 1,808.30 | \$ 713.03 | \$ (7.62) | \$ (4,379.47) | \$ (2,322.60) |

| Benefits | Marion Water Per Books (TB) | Marion Wastewater Books (TB) | Orange Per Books (TB) | Pasco Water Per Books (TB) | Pasco Wastewater Books (TB) | Pinellas Per Books (TB) | Seminole Water Per Books (TB) | Seminole Wastewater Books (TB) |
|--|--|---|--------------------------------------|---|--|--|--|---|
| NARUC 604/704 (JDE account 5625-5690) | \$ 8,810.79 | \$ 1,272.51 | 5,078.96 | \$ 48,492.77 | \$ 19,121.24 | 7,214.09 | \$ 43,735.79 | \$ 23,199.91 |
| Per Salary Detail for Annualized 2013 | \$ 7,789.53 | \$ 1,125.01 | 3,972.15 | \$ 44,068.76 | \$ 17,376.81 | 6,487.47 | \$ 32,376.98 | \$ 17,174.57 |
| Difference | \$ (1,021.26) | \$ (147.50) | (1,106.81) | \$ (4,424.01) | \$ (1,744.43) | (726.62) | \$ (11,358.80) | \$ (6,025.35) |
| Remove Proforma Benefits | | | \$ (450.00) | \$ (4,394.00) | \$ (1,733.00) | \$ (652.00) | \$ (3,955.00) | \$ (2,098.00) |
| Total Benefit Adjustment | \$ (1,021.26) | \$ (147.50) | \$ (1,556.81) | \$ (8,818.01) | \$ (3,477.43) | \$ (1,378.62) | \$ (15,313.80) | \$ (8,123.35) |
| | | | | | | | | |
| Total Adjustment to Payroll, Benefits and Taxes | \$ (4,472.15) | \$ (645.90) | \$ (8,090.16) | \$ (61,770.32) | \$ (24,357.88) | \$ (9,405.84) | \$ (58,559.22) | \$ (31,063.25) |

Finding 10: Salaries in Rate Case Expense

Audit Analysis: In the Utilities, Inc. of Pennbrooke's rate case, Order No. PSC-12-0667-PAA-WS removed the in-house employee fees in rate case expense because they are already included in test year expenses. Schedule B-10, of the filing, included \$165,121 of in-house staff salaries in rate case expense. This amount was amortized over four years or \$41,280.25 per year. The schedule following this Finding computes the amount allocated to the counties to remove these salaries.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger.

Effect on the Filing: Water expenses should be reduced by \$1,321 for Orange County, \$12,769 for Pasco County, \$1,903 for Pinellas County, and \$11,483 for Seminole. Wastewater expenses should be reduced by \$5,035 for Pasco County and \$6,091 for Seminole County.

Allocation of Adjustment to Divisions

| | Total Company Adjustment | Marion Water | Marion Wastewater | Orange Water | Pasco Water | Pasco Wastewater | Pinellas | Seminole Water | Seminole Wastewater |
|------------------------|---------------------------------|---------------------|--------------------------|---------------------|--------------------|-------------------------|-----------------|-----------------------|----------------------------|
| UIF Allocation Factor | | 6.48% | 6.48% | 3.20% | 43.13% | 43.13% | 4.61% | 42.57% | 42.57% |
| Water / Wastewater | | 87.38% | 12.62% | | 71.72% | 28.28% | | 65.34% | 34.66% |
| Percent Allocated 2011 | | 5.66% | 0.82% | 3.20% | 30.93% | 12.20% | 4.61% | 27.82% | 14.75% |
| | | | | | | | | | |
| Direct Expense | \$ (41,280.25) | \$ (2,337.38) | \$ (337.58) | \$ (1,320.97) | \$ (12,769.15) | \$ (5,035.02) | \$ (1,903.02) | \$ (11,482.20) | \$ (6,090.80) |

Finding 11: Marion County

Audit Analysis: UIF did not prepare a filing for Marion County. However, Marion County was included in the schedules the Company provided to support the adjustments to rate base and net operating income to correct the booked allocations. The schedules following this finding contain the rate base and net operating income schedules prepared in this docket for the direct charges to each county. These schedules have been adjusted for the corrections calculated by the Company in the Company's worksheets and the findings made throughout this report. Income tax has not been recalculated.

Effect on the General Ledger: Since the test year is already closed in the ledger, there is no effect on the general ledger for expense adjustments.

Effect on the Filing: No filing was made for Marion County.

| Description | 13-Month Avg. Adjusted ACN 12-254-1-1 | Finding 1 | Finding 2 | Finding 3 | Finding 4 | 13-Month Avg. Adjusted Balance With Affiliate Adjustments |
|---------------------------------------|---|------------|------------|-----------|-----------|--|
| Utility Plant in Service | \$ 893,545 | \$ (9,693) | \$ (3,280) | | \$ 9,813 | \$ 890,385 |
| Land | \$ 17,295 | | | | | \$ 17,295 |
| Non-Used & Useful Plant | \$ - | | | | | \$ - |
| Construction Work-in-Progress | \$ - | | | | | \$ - |
| Accumulated Depreciation | \$ (422,794) | \$ 8,820 | \$ 984 | \$ 1,838 | \$ 2,112 | \$ (409,040) |
| Contributions in Aid of Construction | \$ (158,909) | | | | | \$ (158,909) |
| Accumulated Amortization of CIAC | \$ 75,293 | | | | | \$ 75,293 |
| Acquisition Adjustment | | | | | | \$ - |
| Accumulated Amortization of Acq. Adj. | | | | | | \$ - |
| Working Capital Allowance | \$ 42,775 | | | | | \$ 42,775 |
| Rate Base Water | \$ 447,205 | \$ (873) | \$ (2,296) | \$ 1,838 | \$ 11,925 | \$ 457,798 |

Wastewater

| Description | 13-Month Avg. Adjusted ACN 12-254-1-1 | Finding 1 | Finding 2 | Finding 3 | Finding 4 | 13-Month Avg. Adjusted Balance With Affiliate Adjustments |
|--------------------------------------|---|------------|-----------|-----------|-----------|--|
| Utility Plant in Service | \$ 209,806 | \$ (1,400) | \$ (474) | | \$ 1,417 | \$ 209,350 |
| Land | \$ 10,800 | | | | | \$ 10,800 |
| Non-Used & Useful Plant | \$ - | | | | | \$ - |
| Construction Work-in-Progress | \$ - | | | | | \$ - |
| Accumulated Depreciation | \$ (138,341) | \$ 1,274 | \$ 142 | \$ 265 | \$ 305 | \$ (136,354) |
| Contributions in Aid of Construction | \$ (7,200) | | | | | \$ (7,200) |
| Accumulated Amortization of CIAC | \$ 1,279 | | | | | \$ 1,279 |
| Working Capital Allowance | \$ 6,178 | | | | | \$ 6,178 |
| Rate Base Wastewater | \$ 82,522 | \$ (126) | \$ (332) | \$ 265 | \$ 1,722 | \$ 84,052 |

Cost of Capital

| Class of Capital | Reconciled to Rate Base 13-Month Average TYE 12/31/11 | Ratio | Revised Cost Rate | Weighted Cost |
|---------------------------------|--|--------------|----------------------------------|--------------------------|
| Long Term Debt | \$ 245,913 | 45.12% | 6.65% | 3.00% |
| Short Term Debt | | | | |
| Preferred Stock | | | | |
| Common Equity | \$ 240,748 | 44.18% | 10.21% | 4.51% |
| Subtotal | \$ 486,661 | | | |
| Customer Deposits | \$ 5,149 | 0.94% | 6.00% | 0.06% |
| Tax Credits-Zero Cost | \$ 5,248 | 0.96% | | 0.00% |
| Tax Credits-Weighted Cost | | | | |
| Accumulated Deferred Income Tax | \$ 47,903 | 8.79% | | 0.00% |
| Other (Explain) | | | | |
| Total | \$ 544,961 | 100.00% | | 7.57% |

Water

| Description | Adjusted Balance From ACN 12-254-1-1 | Utility Allocation Worksheet Adjustments | Finding 1 | Finding 2 | Finding 3 | Finding 7 | Finding 8 | Finding 9 | 13-Month Avg. Adjusted Balance With Affiliate Adjustments |
|-----------------------------------|--------------------------------------|--|---------------|---------------|-----------------|---------------|---------------|-----------------|---|
| Operating Revenues | \$ 172,542 | | | | | | | | \$ 172,542 |
| Operation and Maintenance | \$ 99,411 | \$ (621) | \$ (375) | | | \$ (122) | \$ (252) | \$ (3,451) | \$ 94,590 |
| Depreciation, Net of CIAC Amort. | \$ 31,627 | \$ (648) | \$ 192 | \$ (328) | \$ (1,082) | | | | \$ 29,762 |
| Amortization | \$ - | | | | | | | | \$ - |
| Taxes Other Than Income | \$ 13,896 | \$ 1 | | | | | | \$ (1,021) | \$ 12,875 |
| Income Taxes | \$ 31 | | | | | | | | \$ 31 |
| Net Operating Income Water | \$ 27,577 | \$ 1,268 | \$ 183 | \$ 328 | \$ 1,082 | \$ 122 | \$ 252 | \$ 4,472 | \$ 35,283 |

Wastewater

| Description | Adjusted Balance From ACN 12-254-1-1 | Utility Allocation Worksheet Adjustments | Finding 1 | Finding 2 | Finding 3 | Finding 7 | Finding 8 | Finding 9 | 13-Month Avg. Adjusted Balance With Affiliate Adjustments |
|--|--------------------------------------|--|--------------|--------------|---------------|--------------|--------------|---------------|---|
| Operating Revenues | \$ 48,956 | | | | | | | | \$ 48,956 |
| Operation and Maintenance | \$ 33,404 | \$ (90) | \$ (54) | | | \$ (10) | \$ (36) | \$ (498) | \$ 32,716 |
| Depreciation, Net of CIAC Amort. | \$ 9,655 | \$ (94) | \$ 28 | \$ (47) | \$ (156) | | | | \$ 9,386 |
| Amortization | \$ - | | | | | | | | \$ - |
| Taxes Other Than Income | \$ 3,085 | \$ 0 | | | | | | \$ (148) | \$ 2,938 |
| Income Taxes | \$ 5 | | | | | | | | \$ 5 |
| Net Operating Income Wastewater | \$ 2,807 | \$ 183 | \$ 26 | \$ 47 | \$ 156 | \$ 10 | \$ 36 | \$ 646 | \$ 3,913 |