

State of Florida



Public Service Commission

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

Auditor's Report

Brevard Waterworks, Inc.
Staff-Assisted Rate Case

Twelve Months Ended August 31, 2014

Docket No. 140186-WU
Audit Control No. 14-295-4-1
December 31, 2014

Handwritten signature of Gabriela M. Leon in blue ink.

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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 Accounting and Finance in its audit service request dated October 22, 2014. We have applied these procedures to the attached schedules prepared by audit staff in support of Brevard Waterworks, Inc.'s request for a Staff-Assisted Rate Case in Docket No.140186-WU.

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

Objectives and Procedures

Background

The test year is the historical twelve months ended August 31, 2014.

Brevard Utilities, Inc. (Brevard or Utility) is a Class C utility serving approximately 235 water customers in Brevard County. According to Brevard's 2013 annual report, total gross revenues were \$91,613 and total operating expenses were \$99,350, resulting in a net loss of \$7,737. Rate Base was last established as of March 28, 2013 by Order No. PSC-14-0326-PAA-WU, issued June 25, 2014.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115, Florida Administrative Code (F.A.C.).

General

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedures: We reviewed the Utility's books and records by obtaining a general ledger as of the transfer date. We determined that the Utility's books and records are in compliance with the NARUC USOA. No exceptions were noted.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined and reconciled the beginning balances for UPIS as of March 28, 2013, established in Order No. PSC-14-0326-PAA-WU to the general ledger. We scheduled water UPIS activity from March 29, 2013 to August 31, 2014. We traced asset additions to supporting documentation. We determined the year end and simple average UPIS balance as of August 31, 2014. Our recommended adjustment to UPIS is discussed in Finding 1.

Land & Land Rights

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

Procedures: We determined and reconciled the beginning balances for Land as of March 28, 2013, established in Order No. PSC-14-0326-PAA-WU to the general ledger. We reviewed the Utility's general ledger and searched the Brevard County records and determined that no

additions were made. We verified that the land is owned by the Utility. We determined the year end and simple average Land balance as of August 31, 2014. No exceptions were noted. Our recommended average land balance is displayed in Exhibit 1.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We determined and reconciled the beginning balances for Accumulated Depreciation as of March 28, 2013, established in Order No. PSC-14-0326-PAA-WU to the general ledger. We calculated Accumulated Depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C and confirmed that the Utility used the correct rates to calculate Accumulated Depreciation balances and reconciled it to the general ledger as of August 31, 2014. We determined the year end and simple average Accumulated Depreciation balance as of August 31, 2014. Our recommended adjustment to accumulated depreciation is discussed in Finding 1.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We determined and reconciled the beginning balances for CIAC as of March 28, 2013, established in Order No. PSC-14-0326-PAA-WU to the general ledger. We determined that there were no additions to water CIAC since the last rate proceeding. We determined the year end and simple average CIAC balance as of August 31, 2014. No exceptions were noted. Our recommended average CIAC balance is displayed in Exhibit 1.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We determined and reconciled the beginning balances for Accumulated Amortization of CIAC balances as of March 28, 2013, established in Order No. PSC-14-0326-PAA-WU. We reviewed Accumulated Amortization of CIAC for the period September 1, 2013, through August 31, 2014. We determined the year end and simple average Accumulated Amortization of CIAC balance as of August 31, 2014. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Findings 2 and 8.

Acquisition Adjustment

Objective: The objective was to determine whether the Utility recorded the proper acquisition adjustment for the water system.

Procedures: We reviewed order PSC-14-0326-PAA-WU and determine that no acquisition adjustment was approved. No exceptions were noted.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

Procedures: We calculated the working capital adjustment for the test year using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule. Our recommended adjustment to Working Capital is discussed in Finding 3.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We reviewed the Utility's general ledger and determined that the Utility's Capital Structure is composed of common equity and customer deposits. We determined the year-end and simple average Capital Structure balance and its weighted average cost as of August 31, 2014. No exceptions were noted. Our recommended average Capital Structure and weighted average cost is displayed in Exhibit 2.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether Revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We summarized the Utility's gallonage by customer account for the test year using the Utility's Billing Report. We normalized the number of bills issued by adjusting for customers moving in or out to reflect 12 months of bills for each property with the data obtained from the Billing Report. We calculated Revenues for water using the number of bills and gallonages. We compared the calculated Revenues obtained with water Revenues reported on the general ledger. We reviewed Miscellaneous Revenues to include late fee charges, returned check charges, and violation reconnect fees and compared to the tariffs. Our recommended adjustments to Revenues for the test year are discussed in Finding 4.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether Operation and Maintenance Expense (O&M) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed all invoices for the Utility's O&M Expense for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Our recommended adjustments to O&M Expense for the test year are discussed in Findings 5, 6, and 7.

Depreciation Expense and CIAC Amortization Expense

Objective: The objectives were to determine whether Depreciation Expense and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

Procedure: We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year ended August 31, 2014, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments to Depreciation Expense and CIAC Amortization Expense for the test year are discussed in Findings 1, 2 and 8.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We compiled the Utility's TOTI Expense for the test year using the General Ledger and supporting documentation. We included property taxes and Regulatory Assessment Fees (RAF) for the test year and confirmed their utility classification. There are no employees so there were no payroll taxes to verify. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI for the test year are discussed in Finding 9.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: The Utility's books reflect a balance of \$98,963 for UPIS as of August 31, 2014. We tested all additions to UPIS since rate base was established for transfer purposes in Docket No. 130174-WU.

Account 301 – Organization Cost includes two invoice additions totaling \$1,247 which we determined were costs incurred for the transfer proceeding. No acquisition adjustment was approved in the Utility's transfer proceeding. The \$1,247 recorded as organization cost should be reclassified to NARUC Account 426 -Miscellaneous Non-Utility Expense based on precedents established in Order Nos. 25821, issued February 27, 1992, and PSC-94-0739-FOF-WS, issued June 16, 1994, which classified purchase costs associated with transfer proceedings as acquisition cost, not as organization cost.

Year end and average UPIS should decrease by \$1,247. Year end and average accumulated depreciation should decrease by \$40 and \$24 $([(\$40-\$31)+\$40]/2)$, respectively. Water depreciation expense would decrease by \$31. On the schedules below, we computed the depreciation and amortization adjustments related to the reclassification of transfer costs using the half month convention on accruals.

UPIS and Accumulated Depreciation Adjustments Increase (Decrease)

Acct.	Description	Date	Vendor	UPIS Adj.	Rate	Dep. Exp.	Months	AD Adj.
301.0	Organization	4/10/13	Booth & Cook	\$ (497)	2.50%	\$ (12)	16.5	\$ (17)
301.0	Organization	6/18/13	F.P.S.C.	\$ (750)	2.50%	\$ (19)	14.5	\$ (23)
Total Adjustment				\$ (1,247)		\$ (31)		\$ (40)

Effect on the General Ledger: The following adjustments are needed to correct the Utility's general ledger as of August 31, 2014.

Acct.	Description	Debit	Credit
301.0	Organization		\$ 1,247
108.0	Accumulated Depreciation	\$ 40	
426.0	Miscellaneous Non-Utility	\$ 1,247	
	To be determined by the utility		\$ 40
Total		\$ 1,287	\$ 1,287

Effect on the Filing: Based on the adjustments discussed above and the accumulated depreciation adjustment in Finding 8, our recommended balances for test year end and average UPIS and Accumulated Depreciation are displayed in Exhibit 1. Depreciation Expense for the test year should be decreased by \$31.

Finding 2: Accumulated Amortization of CIAC

Audit Analysis: The Utility’s books reflect a balance of \$1,967 for Accumulated Amortization of CIAC as of August 31, 2014. We tested accruals to Accumulated Amortization of CIAC through the test year.

The Utility was a Class A system prior to transfer when it was consolidated with other utility systems under ownership by Aqua Utilities of Florida, Inc. From the date of transfer, March 28, 2013, through December 31, 2013, the Utility amortized CIAC using Class C amortization rates. During the period of January to August 2014, the Utility amortized CIAC using Class A amortization rates. UPIS was depreciated at Class C rates. To be consistent with actual UPIS depreciation accruals the Utility’s CIAC should be amortized using Class C rates as well.

Using the Commission ordered balance for CIAC and Rule 25-30.140 – Depreciation, F.A.C. amortization rates for a Class C utility; we determined that the Utility’s amortization accruals are overstated by \$42 for the test year.

Average accumulated amortization of CIAC should decrease by \$21 (\$42/2). Test year CIAC amortization expense should decrease by \$42.

**Accumulated Amortization of CIAC Adjustment
Increase (Decrease)**

Acct.	Description	CIAC Balance	Class C Rates	No. of Mos.	Amtz. Jan.-Aug. 2014
320.3	Water Treatment Equipment	\$ 2,100	5.88%	8	\$ 82
331.4	Trans and Dist. Mains	\$ 4,637	2.63%	8	\$ 81
333.4	Services	\$ 429	2.86%	8	\$ 8
334.4	Meters and Meter Installations	\$ 636	5.88%	8	\$ 25
	Total	\$ 7,802			\$ 197

Description	Amtz. Jan.-Aug. 2014
Per Audit	\$ 197
Per Books	\$ 239
Difference	\$ (42)

Effect on the General Ledger: The following adjustments are needed to correct the Utility’s general ledger as of August 31, 2014:

Acct.	Description	Debit	Credit
272.0	AA of CIAC		\$ 42
	To be determined by the utility	\$ 42	
	Total	\$ 42	\$ 42

Effect on the Filing: Based on the adjustments discussed above and the accumulated amortization of CIAC adjustment in Finding 8, our recommended balances for test year end and average Accumulated Amortization of CIAC are displayed in Exhibit 1. CIAC Amortization Expense for the test year should be decreased by \$42.

Finding 3: Working Capital Allowance

Audit Analysis: The Utility provided a schedule that reflects a Working Capital balance of \$22,896 for the test year. The Utility reduced this balance by \$4,062 to \$18,834 based on \$32,494 of O&M expense adjustments it made for the test year (\$32,494/8).

We have further decreased the Utility adjusted balance by \$915 to account for the audit adjustments made to O&M expense in Findings 5, 6, and 7.

Working Capital Allowance Adjustments Increase (Decrease)

<u>Description</u>	<u>Adjustment</u>	
O&M Expense	\$ (800)	See Finding 5
Purchase Water Expense	\$ (1,879)	See Finding 6
Bad Debt Expense	\$ (4,644)	See Finding 7
Total	\$ (7,323)	
Divided by	8	
Total Working Capital Adjustment	\$ (915)	

Effect on the General Ledger: There are no effects on the general ledger.

Effect on the Filing: Working capital should decrease by \$915.

Finding 4: Revenues

Audit Analysis: The Utility recorded total revenues of \$115,601 for the test year. Based on the billing determinants and miscellaneous service charges and adjustments, we calculated test year Revenues to be \$127,841.

We multiplied the number of 1,000 gallons billed for residential and general service customers and instances for miscellaneous service charges by current Commission approved rates to arrive at test year revenues. Our calculation normalized the number of bills issued by adjusting for customers moving in or out to reflect only 12 monthly bills for each property with the data obtained from the billing report. The difference between audit and booked revenues amount is \$12,246.

In our calculation, we used the 2014 Price Index and pass through rates that went into effect on August 26, 2014. This approximates 92 percent or \$11,284 of the difference we calculated in the residential revenues. The difference is due to the change in tariff rates and the Utility's exclusion of initial connection fees that we include. We attribute the remaining difference to the proration of months and adjustments we made to remove excess bills and to approximate monthly customer consumption.

Service Type	Revenue Adjustment		
	Increase (Decrease)		
	TY		
	Revenues		Difference
	Per Audit	Per Ledger	
Residential Revenues	\$ 119,174	\$ 108,074	\$ 11,100
General Service Revenues	\$ 447	\$ 408	\$ 39
Misc. Service Revenues	\$ 8,226	\$ 7,119	\$ 1,107
Total	\$ 127,847	\$ 115,601	\$ 12,246

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

Effect on the Filing: Revenues should increase by \$12,246 for the test year.

Finding 5: Operation and Maintenance Expense

Audit Analysis: The Utility recorded \$183,163 of Operation and Maintenance Expenses for the test year. The Utility decreased this amount by \$32,494 to \$150,671 in a schedule provided with its filing. We reviewed all of test year O&M expenses and made three additional adjustments that decrease O&M expense by \$800.

Test Year O & M Adjustments Increase (Decrease)

Account Description		Per Utility	Per Audit	Difference
603.0 Salaries and Wages - Employees	(A)	\$ (4,333)	\$ (4,333)	\$ -
631.0 Contractual Services - Professional	(A)	\$ (2,000)	\$ (2,000)	\$ -
636.0 Contractual Services - Other		\$ -	\$ 358	\$ 358
655.0 Insurance Expense		\$ -	\$ (811)	\$ (811)
665.0 Regulatory Commission Expense	(B)	\$ 260	\$ 260	\$ -
675.0 Miscellaneous Expenses	(C)	\$ 165	\$ (182)	\$ (347)
	Total	\$ (5,908)	\$ (6,708)	\$ (800)
610.0 Purchased Water		\$ (26,586)	See Finding 6	
	Total	\$ (32,494)		

The Utility's adjustments:

- (A) To correct the general ledger to actual.
- (B) To amortize estimated Rate Case Expenses.
- (C) To transfer tangible tax accruals to Miscellaneous Expense Other

The additional audit adjustments were made for the following reasons.

1. The Utility's contract related to Operating and Billing increased in April 2014 based on the Consumer Price Index. The adjustment we made to Account 636 – Contractual Services Other for \$358 was to annualize this expense for the new contract price.
2. The adjustment we made to Account 655 – Insurance Expense for \$811 was to decrease the general ledger balance to the appropriate test year expense per supporting documentation.
3. The Utility reclassified tangible tax accruals totaling \$165 for January-August 2014 from Account 408.2 - Other Taxes & Licenses to Account 675 - Miscellaneous Expense. We did not agree with this adjustment because property taxes should be in Account 408 - Taxes Other Than Income. We made an additional adjustment to remove out of period expenses totaling \$182. Altogether, Account 675 - Miscellaneous Expense should be decreased by \$347

The Utility's adjustment to Account 665 – Regulatory Commission Expense for \$260 (\$1,040 amortized over 4 years) was to amortize the estimated Rate Case Expense for this proceeding. Of the \$1,040 of rate case expenses requested, audit staff could only verify the \$500 filing fee for this proceeding. The analyst will need to determine whether there is additional rate case expense for this proceeding. This information regarding the Regulatory Commission expenses are for informational purposes only.

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: O&M expense should decrease by \$800 for the test year.

Finding 6: Purchased Water Expense

Audit Analysis: The Utility's records reflect \$107,247 in Account 610 - Purchased Water for the test year. The Utility provided a schedule that decreased this amount by \$26,586 to \$80,661 to adjust and annualize purchased water expense based on a used and useful adjustment and new rates that went into effect as of January 1, 2014.

We reviewed the utility's adjustment that decreased purchased water by \$26,586 and determined that purchased water expense should be decreased further by \$1,879 for a total decrease of \$28,465 based on the following.

1. The Utility's schedule includes a decreasing adjustment of \$29,920 for excessive unaccounted for water. Total unaccounted for water in the test year was 5,121,659 gallons. The Utility states that if this adjustment is included, it will place a financial burden on the Utility and it will have no alternative than to proceed with the replacement of its infrastructure. The Utility has stated that it has no means to recover this loss since it still has to pay for purchased water to the County. The estimated cost for replacing all water mains and distribution system is \$835,437. The Utility decision to proceed with the replacement project is pending the outcome of this rate proceeding. We are deferring this issue to the analyst and engineering staff.
2. We decreased the Utility's adjustment by \$2,449 to reflect the appropriate water purchased based on service dates. During the test year, we determined that the Utility purchased 13,001,000 gallons of water for \$109,696.
3. The Utility's schedule included an increasing adjustment of \$3,334 to annualize purchased water based on new rates effective January 1, 2014. We corrected the Utility's annualization adjustment to include the service date usage adjustments discussed above and to correct the following additional issues. Our adjustment decreases the utility adjustment by \$4,328.
 - a. We reviewed the usage for the Kingswood system and found the September 2013 purchase to be excessively high at 232,300 gallons. The average purchase for the 11 months that followed was 132,000 gallons. We reduced September 2013's usage to this amount to normalize the usage for the month.
 - b. We reviewed the usage for the Oakwood system and found that the Utility was billed for two meters, a 4-inch and a 3/4-inch meter starting December 2013. Prior to the change, the Utility was billed for the 2 meters on a combined bill with only one base facility charge. We reallocated the combined bills for September to November based on the usage patterns for the two meters for December through August and included the appropriate base facility charge for each service.

**Service Date Adjustment
Increase (Decrease)**

Description	Amount
Per Books	\$ 107,247
To include invoices with service date within the test year	\$ 8,876
To remove invoices with service dates outside of the test year	\$ (6,427)
Total Adjustment	\$ 2,449
 Revised Service Date Total	 <u>\$ 109,696</u>

Total Purchased Water Adjustment

Adjustments	Per Utility	Adjustment	Per Audit
To remove excessive unaccounted for water	\$ (29,920)	\$ -	\$ (29,920)
To properly account for usage based on service dates	\$ -	\$ 2,449	\$ 2,449
To correct annualization based on new rates	\$ 3,334	\$ (4,328)	\$ (994)
Total	<u>\$ (26,586)</u>	<u>\$ (1,879)</u>	<u>\$ (28,465)</u>

See Table 6-1 for Staff's calculation of the \$994 annualization adjustment.

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

Effect on the Filing: O&M expense should decrease by \$1,879 for the test year.

Table 6-1

		Annualized Rate Adjustment Increase (Decrease)												
	Rates	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Total
KINGSWOOD	3" Meter													
Gallons		132	141	123	114	119	117	126	134	147	178	128	126	1,684
Base Charge	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 215	\$ 2,842
Usage Charge	Tiered \$ 422	\$ 477	\$ 364	\$ 311	\$ 345	\$ 328	\$ 387	\$ 433	\$ 513	\$ 700	\$ 395	\$ 384	\$ 5,058	
Hydrant Charge	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 491
Monthly Total		\$ 677	\$ 732	\$ 620	\$ 567	\$ 601	\$ 584	\$ 643	\$ 689	\$ 768	\$ 956	\$ 651	\$ 640	\$ 8,128
OAKWOOD	4" Meter													
Gallons		461	527	529	486	562	554	529	519	516	617	546	512	6,358
Base Charge	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 381	\$ 4,566
Usage Charge	Tiered \$ 2,461	\$ 3,047	\$ 3,065	\$ 2,687	\$ 3,359	\$ 3,287	\$ 3,064	\$ 2,979	\$ 2,952	\$ 3,844	\$ 3,217	\$ 2,911	\$ 36,872	
Hydrant Charge	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 134	\$ 1,605
Monthly Total		\$ 2,976	\$ 3,561	\$ 3,579	\$ 3,201	\$ 3,873	\$ 3,801	\$ 3,578	\$ 3,493	\$ 3,466	\$ 4,358	\$ 3,731	\$ 3,425	\$ 43,042
OAKWOOD	3/4" Meter													
Gallons		359	411	289	256	348	407	395	463	518	599	500	415	4,959
Base Charge	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 13	\$ 161
Usage Charge	Tiered \$ 4,138	\$ 4,754	\$ 3,299	\$ 2,904	\$ 3,999	\$ 4,705	\$ 4,557	\$ 5,373	\$ 6,030	\$ 6,996	\$ 5,818	\$ 4,798	\$ 57,371	
Hydrant Charge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Monthly Total		\$ 4,151	\$ 4,767	\$ 3,313	\$ 2,917	\$ 4,013	\$ 4,718	\$ 4,570	\$ 5,387	\$ 6,044	\$ 7,009	\$ 5,831	\$ 4,811	\$ 57,532
													Audit Total	\$ 108,702
													Total Service Date Adjusted Balance	\$ 109,696
													Difference	\$ (994)

Finding 7: Bad Debt Expense

Audit Analysis: The Utility's records reflect \$18,161 in Account 670 - Bad Debt Expense for the test year. This amount represents the customer accounts receivable balance for accounts outstanding over 60 days as of August 31, 2014.

The Utility's policy is to accrue 2% of monthly revenues as Bad Debt Expense. This amount is then trued up to the customer accounts receivable balance for accounts outstanding over 60 days on a semi-annual basis. We reviewed this account and found that bad debt expense should be decreased by \$4,645 based on the following.

The Utility's customer accounts receivable balance for accounts outstanding over 60 days increased \$12,222 during the test year. We believe that this increase is a better representation of the Utility's actual bad debt expense for the period. The Utility's revenues were \$115,601 for the test year before annualization and other adjustments. The actual bad debt percentage based on unadjusted revenues is 10.57 percent ($\$12,222/\$115,601$).

<u>Description</u>	<u>Amount</u>
Customer Account Receivable balance over 60 days at 08/31/14	\$ 18,161
Customer Account Receivable balance over 60 days at 08/31/13	\$ 5,939
Change during the test year	\$ 12,222

Finding 4 determined that adjusted test year revenues are \$127,841 for this proceeding. We calculate an estimated bad debt expense of \$13,516 for the test year ($\$127,841 \times 10.57\%$). Bad debt expense should be decreased by \$4,645 for the test year ($\$18,161 - \$13,516$).

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: O&M expense should be decreased by \$4,645 for the test year.

Finding 8: Depreciation and Amortization Expense

Audit Analysis: The Utility's records reflect \$6,449 and \$221 for Depreciation Expense and CIAC Amortization Expense, respectively, for the test year. The Utility reduced Depreciation Expense by \$1,724 to \$4,725 to correct depreciation expense accruals during the test year. There was no utility adjustment to CIAC Amortization Expense.

We reviewed the Utility's calculations and account balances and determined that the Utility's adjustment to Depreciation Expense and CIAC Amortization Expense should decrease by \$1 and increase by \$116, respectively, for the test year based on the following.

1. The Utility recorded a journal entry at December 31, 2013 to accrue \$3,534 for depreciation expense and \$221 of CIAC amortization expense for the year. This entry calculated accruals for the nine month period of April through December 31, 2013. The Utility's adjustment properly removes \$1,964 of depreciation expense for the five months prior to the test year. However, the Utility did not remove \$123 of CIAC amortization expense related to the same period.

Depreciation and Amortization Expense Adjustment Increase (Decrease)

Account	Description	Date	Amount	Number of Months	Monthly Accrual	Months in Prior Period	Dep./Amtz. Expense	AD/AA Average
403.0	Depreciation Exp.	12/31/13	\$ 3,534	9	\$ 393	5	\$ (1,964)	\$ 982
407.0	Amortization Exp.	12/31/13	\$ 221	9	\$ 25	5	\$ (123)	\$ 61

2. The Utility began recording monthly depreciation expense and CIAC amortization expense accruals in January 2014 to Account 403 - Depreciation Expense. The CIAC Amortization Expense accruals should have been recorded in Account No. 407 - CIAC Amortization Expense. We determined that depreciation expense should be increased by \$239 and CIAC Amortization expense should be increased by \$239 for the test year.

Below, we calculated the additional test year depreciation and amortization adjustments needed based on our determinations and calculations above. Our calculations in this finding only address the specific issues discussed within. Additional adjustments related to the depreciation and amortization rates used by the Utility are addressed in Finding 2.

Net Depreciation Expense Adjustment Increase (Decrease)

Description	Dep. Exp.	Amtz. Exp.
Utility Adjustment	\$ (1,724)	\$ -
Removal of Prior Period Accruals	\$ (1,964)	\$ (123)
To Reclassify CIAC Amortization Exp.	\$ 239	\$ 239
Audit Adjustment	\$ (1,725)	\$ 116
Additional Adjustment	\$ (1)	\$ 116

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

Effect on the Filing: Based on the adjustments discussed above and the adjustments in Findings 1 and 2, respectively, our recommended balances for test year end and average Accumulated Depreciation and Accumulated Amortization of CIAC are displayed in Exhibit 1. Depreciation Expense and CIAC Amortization Expense should decrease by \$1 and increase by \$116, respectively, for the test year.

Finding 9: Taxes Other than Income

Audit Analysis: The Utility's books reflect \$8,341 for Taxes Other Than Income (TOTI) Expense for the test year. The Utility reduced this amount by \$2,682 to \$5,659 in a schedule provided with its filing to adjust regulatory assessment fees on booked revenues and to reclassify tangible property taxes to miscellaneous expenses. We reviewed all of test year TOTI expense and made three adjustments that increased TOTI expense by \$445 to \$6,104 based on the following.

Total TOTI Adjustments Increase(Decrease)

Adjustments	Per Utility	Per Audit	Difference
Properly report RAFs on Test Year Revenues	\$ (2,517)	\$ (1,966)	\$ 551
Reclass Tangible Tax in Account 408.2	\$ (165)	\$ -	\$ 165
True-up Property Taxes to 2014 Tax Bills	\$ -	\$ (271)	\$ (271)
Total	\$ (2,682)	\$ (2,237)	\$ 445

We agreed with the Utility's decreasing adjustment for Regulatory Assessment Fees (RAF) of \$2,517 to reduce the general ledger balance to the appropriate test year expense related to revenues recorded. However, we are increasing test year RAF by \$551 to include the RAF on the annualized test year revenues discussed in Finding 4. Our calculation follows:

RAF Adjustments Increase (Decrease)

Description	Revenues Per Books	Revenues Per Audit	Difference
Total Revenues	\$ 115,601	\$ 127,847	\$ 12,246
		RAF Rate	4.50%
		Additional RAF Fees	\$ 551

In addition, our review of the filed RAF form for calendar year 2013 revealed that the Utility has not paid regulatory assessment fees on Miscellaneous Service Charges totaling \$3,845. The amount of RAF due is \$173 (\$3,845 x 4.5%). However, this has no effect on our exhibit as the RAF calculated by audit staff for the test year includes Miscellaneous Service Charges.

As part of the adjustments to Net Operating Income the Utility reclassified tangible tax accruals totaling \$165 from TOTI to O&M expense. Finding 5 reversed this adjustment and left the taxes in TOTI where it belongs. The \$165 is included in our \$445 adjustment above.

Below, we calculate the proper property tax balance and true up the balance to the 2014 tax bills totaling \$351 for a net decreasing property tax adjustment of \$271.

**Propety Tax Adjustments
Increase (Decrease)**

Acct	Description	G/L Balance
408.3	Property Taxes	\$ 457
408.2	Other Taxes & Licnences	\$ 165
	Total Taxes	\$ 622
	2014 Taxes Paid	\$ 351
	Difference	\$ (271)

Effect on the General Ledger: No effect on the general ledger.

Effect on the Filing: TOTI should increase by \$445 for the test year.

Exhibits

Exhibit 1: Rate Base

Brevard Waterworks, Inc.
Docket No. 140186-WU
Rate Base as of August 31, 2014

Rate Base Components	Per Utility	Utiltiy Adjustments	Adjusted Utility	Audit Adjustments	Per Audit	Simple Average per Audit
Utility Plant in Service	\$ 98,963	\$ -	\$ 98,963	\$ (1,247)	\$ 97,716	\$ 97,123
Land and Land Rights	\$ 2,766	\$ -	\$ 2,766	\$ -	\$ 2,766	\$ 2,766
Non-used and Useful Components	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated Depreciation	\$ (38,099)	\$ -	\$ (38,099)	\$ 40	\$ (38,059)	\$ (35,715)
CIAC	\$ (7,803)	\$ -	\$ (7,803)	\$ -	\$ (7,803)	\$ (7,803)
Accumulated Amortization of CIAC	\$ 1,967	\$ -	\$ 1,967	\$ (42)	\$ 1,925	\$ 1,777
Working Capital	\$ 22,896	\$ (4,062)	\$ 18,834	\$ (915)	\$ 17,919	\$ 17,919
Rate Base	\$ 80,690	\$ (4,062)	\$ 76,628	\$ (2,164)	\$ 74,464	\$ 76,067

Exhibit 2: Capital Structure

**Brevard Waterworks, Inc.
Capital Structure as of August 31, 2014
Docket No. 140186-WU**

Description	Per Utility	Audit Adjustments	Reconciled to Avg. Rate Base	Ratio	CostRate	Weighted Cost
Long Term Debt	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
Short Term Debt	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
Preferred Stock	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
Common Equity	\$ 30,660	\$ 63,818	\$ 73,515	96.64%	8.74%	8.45%
Customer Deposits	\$ 4,132	\$ 2,552	\$ 2,552	3.36%	2.00%	0.07%
Total Capital	\$ 34,792	\$ 66,370	\$ 76,067	100.00%		8.51%

Notes:

The Cost Rate for Return on Common Equity based on the Leverage Formula found in Order No. PSC-14-0272-PAA-WS, issued May 29, 2014.

Average Customer Deposit are computed using the September 1, 2013 beginning balance of \$972 and the August 31, 2014 ending balance of \$4,132.

Exhibit 3: Net Operating Income

**Brevard Waterworks, Inc.
Test Year Ended August 31, 2014
Docket No. 140186-WU**

Description	Per Utility	Utility Adjustments	Adjusted Utility	Audit Adjustments	Per Audit
Operating Revenues	\$ 115,601	\$ -	\$ 115,601	\$ 12,246	\$ 127,847
<u>Operating Expenses:</u>					
Operating & Maintenance	\$ 183,165	\$ (32,494)	\$ 150,671	\$ (7,324)	\$ 143,347
Depreciation Expense	\$ 6,449	\$ (1,724)	\$ 4,725	\$ (32)	\$ 4,693
CIAC Amortization Expense	\$ (221)	\$ -	\$ (221)	\$ (74)	\$ (295)
Taxes Other Than Income	\$ 8,341	\$ (2,682)	\$ 5,659	\$ 445	\$ 6,104
Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expense	\$ 197,734	\$ (36,900)	\$ 160,834	\$ (6,985)	\$ 153,849
Operating Income (Loss)	\$ (82,133)	\$ 36,900	\$ (45,233)	\$ 5,261	\$ (26,002)

Income taxes are reported on the individual tax returns of the partners that own the utility.