

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Franklin County by Water Management
Services, Inc.

DOCKET NO. 100104-WU

DATED: SEPTEMBER 3, 2010

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony and Exhibit DMD-1 of Debra M. Dobiac have been served by U.S. Mail this 3rd day of September, 2010, to the following:

Lisa C. Scoles, Esquire
Radey Thomas Yon Clark
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Mr. Gene D. Brown
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Docket No. 100104-WU: Application for increase in water rates in Franklin County by Water Management Services, Inc.

Witness: **Direct Testimony of Debra M. Dobiac**, Appearing on Behalf of the staff of the Florida Public Service Commission

Date Filed: September 3, 2010

DIRECT TESTIMONY OF DEBRA M. DOBIAC

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Q. Please state your name and business address.

A. My name is Debra M. Dobiac, and my business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in the Office of Auditing and Performance Analysis.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since January 2008.

Q. Briefly review your educational and professional background.

A. I graduated with honors from Lakeland College in 1993 and have a Bachelor of Arts degree in accounting. Prior to my work at the Commission, I worked for 6 years in internal auditing at the Kohler Company and First American Title Insurance Company. I also have approximately 12 years of experience as an accounting manager and controller.

Q. Please describe your current responsibilities.

A. Currently, I am a Regulatory Analyst II with the responsibilities of managing regulated utility financial audits. I am also responsible for creating audit work programs to meet a specific audit purpose.

Q. Have you presented testimony before this Commission?

A. Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 080121-

1 WS.

2

3 **Q. What is the purpose of your testimony today?**

4 A. The purpose of my testimony is to sponsor the staff audit report of Water
5 Management Services, Inc. ("Utility") which addresses the Utility's application for a rate
6 increase. This audit report is filed with my testimony and is identified as Exhibit DMD-1.

7

8 **Q. Was this audit prepared by you or under your direction?**

9 A. Yes, it was prepared under my direction and supervision.

10

11 **Q. Please describe the work you performed in this audit.**

12 A. We performed the following procedures:

13 **Rate Base:**

14 We reconciled the Rate Base balances to the supporting Minimum Filing
15 Requirements (MFR) schedules of Utility Plant in Service (UPIS), Contributions In Aid
16 of Construction (CIAC), Accumulated Depreciation, Accumulated Amortization of
17 CIAC, and Advances for Construction. We traced these balances to the general ledger
18 and prior Commission Orders. We reconciled the Rate Base balances from December 31,
19 1992, the end of the test year in the Utility's last general rate case, to June 30, 2004, the
20 end of test year in the Utility's last limited proceeding. We reviewed the Commission
21 staff audit workpapers that were prepared during the Utility's last limited proceeding, in
22 Docket 000694-WU.

23 We tested plant additions for the period July 1, 2004, through December 31, 2009.
24 We verified that the Utility properly recorded retirements when a capital item was
25 removed or replaced. We sampled construction project additions and the corresponding

1 source documentation.

2 We tested land purchases and sales from July 1, 2004, to December 31, 2009, to
3 determine that land was recorded at original cost and used for utility operations.

4 We sampled CIAC additions for the period July 1, 2004, through December 31,
5 2009, and traced them to contracts to verify compliance with Commission rules and the
6 Utility's tariff.

7 We sampled Advances for Construction additions for the period July 1, 2004,
8 through December 31, 2009, and traced them to contracts to verify compliance with
9 Commission rules.

10 We tested additions and retirements to Accumulated Depreciation from July 1,
11 2004, to December 31, 2009. We verified that the Utility used Commission-authorized
12 rates to depreciate its plant accounts. We verified that the Utility properly recorded
13 retirements to accumulated depreciation when the corresponding plant was removed or
14 replaced.

15 We tested additions to Accumulated Amortization of CIAC from July 1, 2004, to
16 December 31, 2009. We verified that annual accruals are in compliance with
17 Commission rules and prescribed amortization rates.

18 We traced the components of working capital to the general ledger and
19 recalculated the 13-month average working capital balances. We judgmentally sampled
20 and tested the components of working capital for the proper amount, proper time period,
21 and classification.

22 **Net Operating Income:**

23 We reviewed the Utility's Commission approved tariffs, compiled a schedule of
24 the Utility water revenue for the 12-month period ending December 31, 2009, from the
25 Utility's billing register, and traced the balance to the general ledger and to the Minimum

1 Filing Requirements (MFRs). We tested the reasonableness of the Utility revenue by
2 multiplying the average consumption times the number of customers in each class of
3 service and compared it to the amount recorded by the Utility. We selected a judgmental
4 sample of customer bills and recalculated the bills using the authorized rates.

5 We compiled Operation and Maintenance (O&M) expense items from the Utility's
6 general ledger and traced them to the MFRs. We reviewed a judgmental sample of the
7 Utility's invoices for proper amount, proper time period, proper National Association of
8 Utility Commissioners' (NARUC) account, and recurring nature. We reviewed the
9 Utility's methodology for proper allocation of expenses for water operations.

10 We reviewed the Utility's books and records for depreciation and amortization
11 expense. We calculated depreciation on plant and amortization on CIAC for the test year
12 ending December 31, 2009.

13 We compiled Taxes Other Than Income (TOTI) expenses from the Utility's
14 general ledger and traced them to the MFRs. We reviewed the property tax bills and
15 Commission-filed regulatory assessment fee forms for proper amount, proper time period,
16 proper NARUC account, and recurring nature.

17 **Capital Structure:**

18 We reviewed the Utility's Reconciliation of Capital Structure to Requested Rate
19 Base, MFR Schedule D-2, and traced amounts to the general ledger as of December 31,
20 2009. We verified debt to the loan agreements. We determined that the Utility is
21 collecting and accounting for customer deposits as authorized in its Commission-approved
22 tariff and verified that the Utility is calculating and remitting interest on customer deposits
23 per Rule 25-30.311, Florida Administrative Code.

24
25 **Q. Please review the audit findings in this audit report, DMD-1, which address**

1 **the Water Management Services, Inc. rate case filing.**

2 **A.** Our report included six findings which are explained on the following pages.

3 **Audit Finding 1**

4 This finding discusses the proceeds from a settlement of a lawsuit received in
5 2008. In 2008, the Utility received net proceeds after legal costs of \$719,337 as part of a
6 settlement agreement pertaining to the performance of pipe coating for a supply main.
7 The Utility recorded the \$719,337 as a reduction to the Plant in Service (Supply Mains).
8 The utility paid additional cost of \$13,500 in 2009 related to the final settlement. The
9 2009 payments effectively reduced the net proceeds to \$705,837.

10 Audit staff believes that the proceeds of the settlement should be used to offset the
11 future costs of a maintenance contract rather than a reduction in the cost of Plant in
12 Service. The maintenance contract referred to above is described in the pre-filed
13 testimony of Company witness Brown and will cost \$48,000 annually for ten years.

14 Account 101 - Plant in Service 13-month average balance should be increased by
15 \$719,337; Account 108 - Accumulated Depreciation 13-month average balance should be
16 increased by \$23,855; Account 403 - Depreciation Expense should be increased by
17 \$23,978, and Operation and Maintenance Expenses should be reduced by \$13,500.
18 Furthermore, \$36,000 should be removed from the Schedule B-3 adjustments to
19 normalize the expense detail for the Bridge Maintenance Contract.

20 The remaining balance of the proceeds of \$705,837 should be reviewed for either
21 a reduction in working capital or cost free debt in the utility's capital structure.

22 **Audit Finding 2**

23 This finding discusses \$3,400 included in the test year land balance, which
24 pertained to appraisal and surveying costs applicable to land purchased in 2006. The land
25 was sold in 2007, but the Utility did not remove these costs when recording the sale

1 transaction.

2 These costs should be removed from the Utility's land balance. The Account 101
3 Plant in Service 13-month average balance should be reduced by \$3,400.

4 **Audit Finding 3**

5 This finding discusses the balance of Account 252 - Advances for Construction.
6 In the last rate case, the Commission ordered that this account be decreased (debited) by
7 \$9,257, which was a stipulated amount. The Commission also ordered that the account be
8 increased (credited) by \$65,000 to reflect funds received from a Homeowner's
9 Association. The adjustments ordered by the Commission in the previous rate case for
10 this account were not recorded.

11 In response to an audit document request, the Utility indicated that the \$9,257
12 adjustment should have been made. However, the Utility also indicated that it did not
13 record the \$65,000 as a customer advance to Account 252 because it was not a customer
14 advance. The Utility believes that the \$65,000 is paid-in capital and booked it to Account
15 211 – Other Paid in Capital.

16 Account 252 - Advances for Construction 13-month average balance should be
17 decreased by \$9,257. As for the \$65,000 adjustment, the audit staff recommends
18 additional research and consideration by the analyst staff.

19 **Audit Finding 4**

20 This finding relates to the Utility's working capital allowance. The Utility
21 included \$112,034 of unamortized debt discount and issuing expense in the working
22 capital calculation. The unamortized debt discount and issuing expense is also included
23 in the Utility's long-term debt cost rate in the capital structure. Therefore, this debt
24 expense should be removed from the working capital allowance.

25 In addition, the Utility included \$52,851 in the calculation of the working capital

1 allowance for costs related to an application for a wastewater certificate. The application
2 was eventually withdrawn. The current rate case applies to water only, and therefore, this
3 amount should not be included in the working capital allowance.

4 The working capital allowance 13-month average balance should be reduced by
5 \$112,034 of unamortized debt discount and issuing expense and by \$35,662 for the costs
6 related to an application for a wastewater certificate.

7 **Audit Finding 5**

8 This finding relates to the reclassification of certain expenses that the Utility had
9 recorded incorrectly. The reclassifications will have no effect on total O&M Expenses.

10 **Audit Finding 6**

11 This finding relates to expenses recorded in the test year that were for activities
12 outside the test year or had insufficient supporting documentation. O&M Expenses should
13 be reduced by \$10,313.

14

15 **Q. Does that conclude your testimony?**

16 **A. Yes.**

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Tallahassee District Office

WATER MANAGEMENT SERVICES, INC.

FILE AND SUSPEND RATE CASE

TEST YEAR ENDED DECEMBER 31, 2009

DOCKET NO. 100104-WU
AUDIT CONTROL NO. 10-159-1-1

Handwritten signature of Debra M. Dobiak in black ink.

Debra M. Dobiak, Audit Manager

Handwritten signature of Donna D. Brown in black ink.

Donna D. Brown, Audit Staff

Handwritten signature of Lynn M. Deamer in black ink.

Lynn M. Deamer, District Audit Supervisor

DD FORM NUMBER DATE

07450 SEP-09

FPSC-COMMISSION CLERK

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT**

August 9, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated June 8, 2010. We have applied these procedures to the Minimum Filing Requirements (MFRs) prepared by Water Management Services, Inc. in support for rate relief in Docket No. 100104-WU for the test period ending December 31, 2009.

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

II. OBJECTIVES AND PROCEDURES

RATE BASE

Utility Plant in Service (UPIS)

Objectives: To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USoA). To verify that proper retirements of UPIS were made when a replacement item was put into service.

Procedures: We reconciled the beginning plant in service balances as of December 31, 1992 as per FPSC Order No. PSC-94-1383-FOF-WU, Docket No. 940109-WU, issued November 14, 1994. We reviewed FPSC Order No. PSC-05-1156-PAA-WU, Docket No. 000694-WU, issued November 21, 2005, and tested additions and retirements from July 1, 2004 to December 31, 2009. We determined that the prior Commission ordered adjustments were recorded. We tested the plant in service additions for the following criteria: date acquired, original cost, account recorded, and appropriate retirements. We tested the retirements for the following criteria: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal. The utility participated in a lawsuit pertaining to a performance refund on the supply main pipe coating that was installed in 2004. The lawsuit was settled in favor of the utility and recorded the proceeds to offset the supply main UPIS balance. Audit Finding No. 1 discusses our finding.

Land and Land Rights

Objective: To determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease.

Procedures: We reconciled the beginning land balance as of December 31, 1992 as per FPSC Order No. PSC-94-1383-FOF-WU, Docket No. 940109-WU, issued November 14, 1994. We reviewed FPSC Order No. PSC-05-1156-PAA-WU, Docket No. 000694-WU, issued November 21, 2005, and tested land purchases and sales from July 1, 2004 to December 31, 2009. We determined that the prior Commission ordered adjustments were recorded. We noted that additions due to appraisal and surveying costs applicable to a specific land purchase were not removed when the land was sold. Audit Finding No. 2 discusses our finding.

Contributions in Aid of Construction (CIAC)

Objectives: To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's Commission approved tariffs.

Procedures: We reconciled the beginning CIAC balances as of December 31, 1992 as per FPSC Order No. PSC-94-1383-FOF-WU, Docket No. 940109-WU, issued November 14, 1994. We reviewed FPSC Order No. PSC-05-1156-PAA-WU, Docket No. 000694-WU, issued November 21, 2005, and tested additions and retirements from July 1, 2004 to December 31, 2009. We determined that the prior Commission ordered adjustments were recorded. The audit staff read

the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements or developer agreements, and whether or not it has received any donated property as CIAC. No exceptions were noted.

Advances for Construction

Objectives: To verify that advances for construction is properly stated in accordance with the commission approved agreements and prior orders.

Procedures: We reconciled the beginning Advances for Construction balance as of December 31, 1992 as per FPSC Order No. PSC-94-1383-FOF-WU, Docket No. 940109-WU, issued November 14, 1994. We reviewed FPSC Order No. PSC-05-1156-PAA-WU, Docket No. 000694-WU, issued November 21, 2005, and tested additions and retirements from July 1, 2004 to December 31, 2009. We determined that the prior Commission ordered adjustments were not recorded. Audit Finding No. 3 discusses our finding.

Accumulated Depreciation

Objectives: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USoA. To verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

Procedures: We reconciled the beginning accumulated depreciation balances as of December 31, 1992 as per FPSC Order No. PSC-94-1383-FOF-WU, Docket No. 940109-WU, issued November 14, 1994. We reviewed FPSC Order No. PSC-05-1156-PAA-WU, Docket No. 000694-WU, issued November 21, 2005, and tested additions and retirements from July 1, 2004 to December 31, 2009. We determined that the prior Commission ordered adjustments were recorded. Our schedule includes: beginning and ending balances by UPIS sub-accounts, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense. Audit Finding No. 1 discusses our finding.

Accumulated Amortization of CIAC

Objectives: To determine that accumulated amortization of CIAC balances are properly stated and that annual accruals are reflective of the depreciation rates and are in compliance with Commission rules and orders.

Procedures: We reconciled the beginning accumulated amortization of CIAC balances as of December 31, 1992 as per FPSC Order No. PSC-94-1383-FOF-WU, Docket No. 940109-WU, issued November 14, 1994. We reviewed FPSC Order No. PSC-05-1156-PAA-WU, Docket No. 000694-WU, issued November 21, 2005, and tested additions and retirements from July 1, 2004 to December 31, 2009. We determined that the prior Commission ordered adjustments were recorded. Our schedule includes: beginning and ending balances, methodology for calculating annual accumulated amortization accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense. No material variances were noted between audit staff's accumulated amortization of

CIAC balance and the accumulated amortization of CIAC balance on the utility's MFR Schedule A-14.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We traced the components of working capital to the general ledger and recalculated the 13-month average working capital balances. We judgmentally sampled and tested the components of working capital for the proper amount, proper time period, and classification. The audit staff noted that the working capital allowance calculation included unamortized debt discount and issuing expense and a miscellaneous deferred debit which should not be included. Audit Finding No. 4 discusses our finding.

NET OPERATING INCOME

Revenue

Objectives: To determine that utility charges are those approved by the Commission in the utility's current authorized tariff for water. To determine that revenue earned from utility property during the test year are recorded and are properly classified in compliance with Commission rules and the NARUC USoA.

Procedures: The audit staff reviewed the utility's Commission approved tariffs establishing rates, compiled a schedule of the water utility revenue for the 12-month period ending December 31, 2009 from the utility's billing register, and traced the balance to the general ledger and the MFRs. We tested the reasonableness of the utility revenue by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the utility. We selected a judgmental sample of customer bills and recalculated the bills using the authorized rates. No material variances were noted between audit staff's revenue balance and the revenue balance on the utility's MFR Schedule E-2.

Operation and Maintenance Expense (O&M)

Objective: To determine that O&M expenses are properly recorded in compliance with Commission rules, and are reasonable and prudent for ongoing utility operations.

Procedures: We compiled O&M expense items from the utility's general ledger and traced them to the MFRs. We reviewed a judgmental sample of the utility's invoices for proper amount, proper time period, proper NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of expenses for water operations. Audit Findings No. 5 and 6 discuss our findings.

Net Depreciation Expense

Objective: To determine that depreciation is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility CIAC assets for ongoing utility operations.

Procedures: The audit staff reviewed the utility's books and records for depreciation and amortization expense. We calculated depreciation on plant and amortization on CIAC for the test year ending December 31, 2009. Audit Finding No. 1 discusses our finding.

Taxes Other Than Income (TOTI)

Objective: To determine the appropriate amounts for TOTI for the test year ended December 31, 2009.

Procedures: We compiled TOTI expenses from the utility's general ledger and traced them to the MFRs. We reviewed the real estate and personal property tax bills and Commission filed regulatory assessment fee forms for proper amount, proper time period, proper NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of payroll tax. No exceptions were noted.

CAPITAL STRUCTURE

GENERAL

Objective: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations.

Procedures: We reviewed the utility's Reconciliation of Capital Structure to Requested Rate Base, MFR Schedule D-2, and traced amounts to the general ledger as of December 31, 2009. We verified debt to the loan agreements. We determined that the utility is collecting and accounting for customer deposits as authorized in its Commission approved tariff and verified that the utility is calculating and remitting interest on customer deposits per Rule 25-30.311, Florida Administrative Code. No exceptions were noted.

III. AUDIT FINDINGS

AUDIT FINDING NO. 1

SUBJECT: UTILITY PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE

AUDIT ANALYSIS: The utility participated in a lawsuit pertaining to a performance refund for pipe coating, and received proceeds after a settlement agreement in 2008. The following journal entry in June 2008 notes how the utility recorded the receipt of the proceeds.

<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$800,000	
Contractual Services-Legal	\$ 80,663	
Supply Mains		\$719,337

On page 14 of Mr. Brown’s testimony filed with this Commission (Document No. 04389), it states:

“The new 12 inch ductile iron supply main is suspended under the new bridge by approximately 550 plastic/stainless steel hangers. It was painted with a three coat system required to meet Department of Transportation (DOT) specs. This is a fragile system that is out of normal view and needs to be constantly inspected, repaired or adjusted, and repainted over time, starting with sections that have already experienced substantial paint failure. This is a 10 year contract which requires quarterly inspections and payments. It also requires the contractor to make any necessary repairs or adjustments to prevent a catastrophic failure. Under the contract, the pipe will be completely refurbished and recoated during the first six years and the pipe and coating system will be appropriately maintained for the full 10 year contract.”

This contract is noted on MFR Schedule B-11. The proceeds of the settlement should be placed in an escrow account to offset the future costs of the contract which will be \$48,000 annually for ten years. In addition, \$13,500 should be removed from the current test year O&M expenses and \$36,000 removed from the Schedule B-3 adjustments to normalize the expense detail for the Bridge Maintenance Contract. Furthermore, the deferred credit of \$705,837 should be reviewed for either a reduction in working capital or cost free debt in the utility’s capital structure.

EFFECT ON THE GENERAL LEDGER: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2009.

<u>NARUC Acct. No</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$ 11,989	
309	Supply Mains	\$719,337	
403	Depreciation Expense	\$ 23,978	

108	Accumulated Depreciation	\$ 35,967
253	Other Deferred Credits	\$705,837
633	Contractual Services – Legal	\$ 1,500
636	Contractual Services – Other	\$ 12,000

EFFECT ON THE FILING: The Account 101 Plant in Service 13-month average balance should be increased by \$719,337, Account 108 Accumulated Depreciation 13-month average balance should be increased by \$23,855, Account 403 Depreciation Expense should be increased by \$23,978, and Operation and Maintenance Expenses should be reduced by \$13,500. This issue's effect on the filing and revenue requirement should be addressed at the discretion of the Commission.

AUDIT FINDING NO. 2

SUBJECT: LAND

AUDIT ANALYSIS: The utility included \$3,400 in the MFR land balances which pertained to appraisal and surveying costs applicable to a land purchase in 2006. The land was sold in 2007, but the utility did not remove these costs when recording the sale transaction.

These costs should be removed from the utility's land balance.

EFFECT ON GENERAL LEDGER: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2009.

NARUC			
Acct. No	Description	Debit	Credit
215	Retained Earnings-Prior Years	\$3,400	
303	Land and Land Rights		\$3,400

EFFECT ON THE FILING: The Account 101 Plant in Service 13-month average balance should be reduced by \$3,400.

AUDIT FINDING NO. 3

SUBJECT: ADVANCES FOR CONSTRUCTION

AUDIT ANALYSIS: The balance of the utility's general ledger Account 252.10 – Advances for Construction is (\$20,737) as of December 31, 2009 which agrees with its MFRs. After reviewing this account, the audit staff has determined that the balance for this account should be (\$76,480). It appears that the Commission ordered adjustments, from FPSC Order No. PSC-94-1383-FOF-WU issued November 14, 1994, were not recorded. The adjustments were:

AE # 20, Stipulation #10:	\$ 9,257
Funds from Homeowners, Issue # 6:	(\$65,000)

	<u>(\$55,743)</u>

In response to a document request, Mr. Brown stated:

“The utility did not record the \$65,000 as a customer advance under account 252 because it was not. The money was paid to Gene D. Brown and his development affiliates as damages in a lawsuit against the homeowner’ association. Those affiliates included Leisure Properties, Ltd. which was the General Partner and major owner of the utility company, St. George Island Utility Company, Ltd. Gene D. Brown was the other major owner of the utility company which was not a party to the litigation that resulted in the \$65,000 payment to Gene D. Brown and his development affiliates. As owners, Leisure and Gene D. Brown then paid \$65,000 to the utility as paid-in capital under account 211. ... It was an equity transaction, and was properly treated as such on the utility’s books.”

The utility agreed that the \$9,257 should have been made but was not. As for the \$65,000 adjustment, the audit staff recommends additional research and consideration.

EFFECT ON THE GENERAL LEDGER: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2009.

NARUC			
Acct. No	Description	Debit	Credit
252	Advances for Construction	\$9,257	
215	Retained Earnings-Prior Years		\$9,257

EFFECT ON THE FILING: The Account 252 Advances for Construction 13-month average balance should be decreased by \$9,257.

AUDIT FINDING NO. 4

SUBJECT: WORKING CAPITAL

AUDIT ANALYSIS: The utility included \$102,597, as of December 31, 2009, of unamortized debt discount and issuing expense in the working capital calculation. The unamortized debt discount and issuing expense is also included in the utility's long-term debt cost rate in the capital structure. Therefore, it should be removed from the working capital allowance.

In addition, the utility incurred costs of \$52,851 during the test year ended December 31, 2009 which was included in the working capital allowance. The miscellaneous deferred debit pertains to the utility's application for a wastewater certificate. The utility withdrew its application. However, the current rate case applies to water only, and therefore, this amount should not be included in the working capital allowance.

EFFECT ON THE GENERAL LEDGER: None.

EFFECT ON THE FILING: The working capital allowance 13-month average balance should be reduced by \$112,034 and \$35,662, respectively.

AUDIT FINDING NO. 5

SUBJECT: OPERATION AND MAINTENANCE RECLASSIFICATIONS

AUDIT ANALYSIS: The audit staff reviewed the supporting documentation for O&M expenses and determined that the utility had recorded expenses incorrectly. We are recommending the following reclassifications as per the NARUC Uniform System of Accounts:

NARUC Acct.	Description	Balance per Utility 12/31/2009	variance	Balance per Audit 12/31/2009
426	Miscellaneous Non-utility Expenses	\$-0-	\$12,020	\$12,020
604	Employee Pension and Benefits	\$130,569	\$814	\$131,383
620	Materials and Supplies	\$18,790	\$93,255	\$112,045
636	Contractual Services - Other	\$46,407	(\$2,259)	\$44,148
641	Rental of Building/Real Property	\$22,002	\$1,960	\$23,962
650	Transportation Expense	\$23,168	(\$28)	\$23,140
659	Insurance – Other	\$16,927	(\$12,015)	\$4,912
675	Miscellaneous Expenses	\$121,716	(\$93,747)	\$27,969
		<u>\$379,579</u>	<u>\$0</u>	<u>\$379,579</u>

EFFECT ON THE GENERAL LEDGER: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2009.

NARUC Acct. No	Description	Debit	Credit
426	Miscellaneous Non-utility Expenses	\$12,020	
604	Employee Pension and Benefits	\$ 814	
620	Materials and Supplies	\$93,255	
641	Rental of Bldg/Real Property	\$ 1,960	
636	Contractual Services – Other		\$ 2,259
650	Transportation Expense		\$ 28
659	Insurance – Other		\$12,015
675	Miscellaneous Expenses		\$93,747

EFFECT ON THE FILING: Operation and Maintenance Expenses should be reduced by \$12,020.

AUDIT FINDING NO. 6

SUBJECT: OPERATION AND MAINTENANCE EXPENSES

AUDIT ANALYSIS: Audit staff reviewed the supporting documentation for O&M expenses and noted the following adjustments.

Description	Balance per Utility 12/31/2009	variance	Balance per Audit 12/31/2009	
Materials & Supplies	\$18,790	(\$8)	\$18,782	(1)
Rental of Equipment	\$13,990	(\$387)	\$13,603	(1)
Transportation Expense	\$23,168	(\$9,104)	\$14,064	(2)
Miscellaneous Expenses	\$121,716	(\$89)	\$121,627	(2)
	<u>\$177,664</u>	<u>(\$9,588)</u>	<u>\$168,076</u>	

These expenses were (1) outside the test year or (2) had insufficient supporting documentation.

EFFECT ON THE GENERAL LEDGER: None.

EFFECT ON THE FILING: Operation and Maintenance Expenses should be reduced by \$9,588.

IV. EXHIBITS

EXHIBIT NO. 1 - WATER RATE BASE

Schedule of Water Rate Base

Florida Public Service Commission

Company: Water Management Services, Inc.
Docket No.: 100104-WU
Schedule Year Ended: December 31, 2009
Interim [] Final [X]
Historic [X] Projected []

Schedule: A-1
Page 1 of 1
Preparer: F. Seidman

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/3 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) 12 Mo Avg Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 8,932,312	\$ 1,572,072 (A)	\$ 10,504,384	A-3, A-6
2	Utility Land & Land Rights	90,994	450,000 (A)	540,994	A-6
3	Less: Non-Used & Useful Plant		(46,325) (B)	(46,325)	A-3, A-7
4	Construction Work in Progress		- (C)	-	A-3, A-18
5	Less: Accumulated Depreciation	(3,263,577) \$	151,326 (D)	(3,112,251)	A-3, A-10
6	Less: CIAC	(3,228,165)		(3,228,165)	A-12
7	Accumulated Amortization of CIAC	1,327,593	(E)	1,327,593	A-3, A-14
8	Acquisition Adjustments				-
9	Accum. Amort. of Acq. Adjustments				-
10	Advances For Construction	(20,864)		(20,864)	A-16
11	Working Capital Allowance	181,157	- (F)	181,157	A-3, A-17
12	Total Rate Base	\$ 4,019,449	\$ 2,127,073	\$ 6,146,522	

EXHIBIT NO. 2 - WATER NET OPERATING INCOME

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Water Management Services, Inc.
Docket No.: 100104-WU
Test Year Ended: December 31, 2009
Interim Final
Historic or Projected

Schedule: B-1
Page 1 of 1
Preparer: F. Seidman

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

(1) Line No.	(2) Description	(3) Balance Per Books	(4) Utility Test Year Adjustments	(5) Utility Adjusted Test Year	(6) Requested Revenue Adjustment	(7) Requested Annual Revenues	(8) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 1,319,313	\$ (17,646) (A)	\$ 1,301,667	\$ 641,629 (G)	\$ 1,943,296	B-4, E-2
2	Operation & Maintenance	1,057,196	118,756 (B)	1,175,952	57,153 (H)	1,233,105	B-6, B-3
3	Depreciation, net of CIAC Amort.	175,545	50,100 (C)	225,645	-	225,645	B-14, B-3
4	Amortization	14,616	23,450 (D)	38,066	-	38,066	B-3
5	Taxes Other Than Income	100,197	9,469 (E)	109,666	28,873 (I)	138,539	B-15, B-3
6	Provision for Income Taxes	-	- (F)	-	- (J)	-	C-1, B-3
7	OPERATING EXPENSES	<u>1,347,554</u>	<u>201,774</u>	<u>1,549,329</u>	<u>86,027</u>	<u>1,635,355</u>	
8	NET OPERATING INCOME	<u>\$ (28,242)</u>	<u>\$ (219,420)</u>	<u>\$ (247,662)</u>	<u>\$ 555,603</u>	<u>\$ 307,941</u>	
9	RATE BASE	<u>\$ 4,019,449</u>		<u>\$ 6,146,522</u>		<u>\$ 6,146,522</u>	
10	RATE OF RETURN		<u>(0.70) %</u>		<u>(4.03) %</u>	<u>5.01 %</u>	

EXHIBIT NO. 3 – CAPITAL STRUCTURE

Schedule of Requested Cost of Capital (Final Rates)
 12 Month Average

Florida Public Service Commission

Company: Water Management Services, Inc.
 Docket No.: 100104-WU
 Test Year Ended: December 31, 2009
 Schedule Year Ended: December 31, 2009
 Historic (X) or Projected ()

Schedule D-1
 Page 1 of 1
 Prepared by: F. Soldman
 Subsidiary () or Consolidated (X)

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	6,046,023	98.36 %	4.99 %	4.91 %
2	Short-Term Debt		%	0.00 %	%
3	Preferred Stock	-			
4	Customer Deposits	100,499	1.64 %	6.00 %	0.10 %
5	Common Equity	-	%	11.30 %	0.00 %
6	Tax Credits - Zero Cost	-			
7	Accumulated Deferred Income Tax	- \$	%	0.00 %	%
8	Other (Explain)	-			
9	Total	<u>6,146,523</u>	<u>100.00 %</u>		<u>5.01 %</u>

Note: Cost of Equity based on Order No. PSC-09-0430-PA-A-W3: 8.58% + 1.087/Equity Ratio,
 where Equity ratio = Equity/(Equity + Preferred + Long & Short Term Debt) = 0.00 %