

State of Florida



Public Service Commission

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DATE: September 6, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110153-SU
Company Name: Utilities, Inc of Eagle Ridge
Company Code: SU749
Audit Purpose: Rate Case
Audit Control No: 11-192-4-1

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

CJP/kby

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

06404 SEP-6 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Utilities, Inc. of Eagle Ridge
Rate Case Audit

Twelve Months Ended December 31, 2010

Docket No. 110153-SU
Audit Control No. 11-192-4-1
September 1, 2011

Gabriela M. Leon
Audit Manager

Kathy L. Welch
Reviewer

DOCUMENT NUMBER-DATE

06404 SEP-6 =

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 6, 2011. We have applied these procedures to the attached summary exhibits prepared by Utilities, Inc. of Eagle Ridge in support of its filing in Docket 110153-SU.

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 or holding company of Utilities, Inc. of Eagle Ridge or Utility. The Utility has filed a rate case with the test year ended December 31, 2010. The Utility's last rate case order PSC-09-0264-PAA-SU was issued April 27, 2009 in Docket No. 080247-SU.

Utility Books and Records

Objectives: To determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's accounting systems. The Utility does not use NARUC account numbers in its ledgers but maintains a conversion table and converts its filings into NARUC accounts.

Rate Base

Objectives: Our objective was to determine that the adjustments to rate base were correct and supported by adequate audit evidence.

Procedures: We obtained supporting documentation for the adjustments to rate base and verified the assumptions used. We traced any test year data used to the test year general ledger.

Utility Plant in Service

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

Procedures: We determined the wastewater plant balances as of December 31, 2007 that were established in Docket 080247-SU. We reviewed and sampled additions to wastewater plant for the period December 1, 2008 through December 31, 2010, to verify the wastewater plant balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the wastewater utility plant site to observe whether plant additions were completed and in service, and to ascertain if a retirement was needed. Finding 1 recommends an adjustment to the general ledger for commission adjustments ordered in Docket 080247-SU. Finding 2 consists of retirements the Utility did not record. Findings 3 and 5 relates to the recording of permit and hurricane costs to plant accounts which should have been deferred and amortized over 5 years.

Land & Land Rights

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

Procedures: We determined the wastewater land balances as of December 31, 2007 that were established in Docket 080247-SU. No land was added since the last rate case.

Contributions-in-Aid-of-Construction (CIAC)

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

Procedures: We determined the wastewater CIAC balances as of December 31, 2007 that were established in Docket 080247-SU. We reviewed and sampled additions to wastewater CIAC for the period December 1, 2008 through December 31, 2010, to verify the Utility's CIAC balances for the rate case proceeding. We reviewed the Income Tax returns for unrecorded cash and property contributions.

Accumulated Depreciation

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

Procedures: We determined the wastewater accumulated depreciation balances as of December 31, 2007 that were established in Docket 080247-SU. We reviewed and sampled additions to accumulated depreciation balances for this proceeding. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. Finding 2 relates to retirements which need to be recorded in accumulated depreciation.

Accumulated Amortization of CIAC

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

Procedures: We determined the wastewater accumulated amortization of CIAC balances as of December 31, 2007 that were established in Docket 080247-SU. We reviewed and sampled additions to accumulated amortization of CIAC for the period December 1, 2008 through December 31, 2010, to verify the Utility's accumulated amortization of CIAC balances for this proceeding.

Working Capital

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

Procedures: We verified the Utility's calculation of working capital balances as of December 31, 2010, using the balance sheet approach and traced the components to the general ledger.

Net Operating Income

Operating Revenue

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

Procedures: We verified the Utility's revenues for the 12-month period ending December 31, 2010, by tracing them to the Utility's general ledger and billing register system. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

Operation and Maintenance Expense

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

Procedures: We verified wastewater operating and maintenance expenses for the 12-month period ending December 31, 2010, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. Finding 7 relates to the recording of an expense that should have been capitalized.

We reviewed related party allocations from Utilities, Inc. for payroll and services provided from its headquarters in Northbrook, Illinois, its regional office, and its Altamonte Springs, Florida office in the separate affiliate audit (ACN 11-192-4-2) performed under this same docket.

Taxes Other than Income

Objectives: Our objective was to determine that taxes other than income expenses are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

Procedures: We verified wastewater taxes other than income tax expense expenses for the 12-month period ending December 31, 2010, by tracing invoiced taxes to original source documentation. We reviewed the 2010 regulatory assessment fee returns and no exceptions were noted.

Capital Structure

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

Procedures: We reviewed the cost of capital components allocated from Utilities, Inc. headquarters in Northbrook, Illinois in the separate affiliate audit (ACN 11-192-4-2) performed under this same docket. Customer deposits and deferred taxes were reconciled to the general ledger.

Audit Findings

Finding 1: Comparison of Restatement Schedule to General Ledger

Audit Analysis: The Utility prepared a “Restatement Schedule” in which it adjusted the filing for Commission Ordered Adjustments not booked and for depreciation/amortization expense related to those adjustments. In addition, in this restatement schedule it corrected the depreciation/amortization expense for possible incorrect rates used.

However, the Utility did not record in its general ledger adjustments 1-5 and 7 from Commission Order PSC-09-0264-PAA-SU. The Utility needs to record these adjustments to the general ledger. The following adjustments correct the ledger at December 31, 2010.

Effect on the General Ledger: The general ledger should be adjusted for the differences in the schedule on the following page.

Effect on the Filing: There is no effect in the filing since the Utility did correctly include all the Commission Ordered Adjustments from the last rate case except as shown in other findings.

Object Account	NARUC Account	Account Description	Debit/(Credit) Adjustment to Books For Depreciation Restatement
1250	352.1	FRANCHISES INTANG PLT	\$ 1.00
1270		LAND AND LAND RIGHTS	\$ 39,579.18
1300	354.4	STRUCT/IMPRV TREAT PLT	\$ 2,726,425.25
1360		SERVICES TO CUSTOMERS	\$ 167,383.65
1395	380.4	TREAT/DISP EQUIP LAGOON	\$ 17,597.00
1500		OTHER TANGIBLE PLANT	\$ 3,523.86
2040	108.1	ACC DEPR FRANCHISES INTANG PLT	\$ 13,127.60
2075	108.1	ACC DEPR-STRUCT/IMPRV GEN PLT	\$ 1,960,839.08
2105	108.1	ACC DEPR-SEWER FORCE MAIN	\$ 96,151.19
2110	108.1	ACC DEPR-SEWER GRAVITY MAIN	\$ 795.45
2160	108.1	ACC DEPR-TREAT/DISP EQP TRT PLT	\$ 174,717.63
2180	108.1	ACC DEPR-OUTFALL LINES	\$ 1.13
3500	271	CIAC-STRUCT/IMPRV PUMP PLT LS	\$ 17,313.00
3515	271	CIAC-STRUCT/IMPRV RCLM DIST	\$ 901.00
3520	271	CIAC-STRUCT/IMPRV GEN PLT	\$ 1,582,018.79
3550	271	CIAC-SEWER FORCE MAIN	\$ 205,607.83
3555	271	CIAC-SEWER GRAVITY MAIN	\$ 37,682.84
3600	271	CIAC-TREAT/DISP EQUIP LAGOON	\$ 382.00
4030	272	ACC AMORT ORGANIZATION	\$ 333,882.48
4055	272	ACC AMORTSTRUCT/IMPRV TREAT PLT	\$ 1,394,091.33
4065	272	ACC AMORTSTRUCT/IMPRV RCLM DIST	\$ 4,880.00
4150	272	ACC AMORT TREAT/DISP EQUIP LAGOON	\$ 309.98
4155	272	ACC AMORT TREAT/DISP EQUIP TRT PLT	\$ 119,757.23
4175	272	ACC AMORT OUTFALL LINES	\$ 80.14
4265	272	ACC AMORT SEWER-TAP	\$ 5,347.26
	272	ACC AMORT MANHOLES	\$ 11,466.43
	272	ACC AMORT SERVICES TO CUSTOMERS	\$ 46,080.33
	215	RETAINED EARNINGS	\$ (154,692.15)
1285	353.7	LAND & LAND RIGHTS GEN PLT	\$ (39,579.18)
1295	354.3	STRUCT/IMPRV PUMP PLT LS	\$ (620.30)
1315	354.7	STRUCT/IMPRV GEN PLT	\$ (2,726,425.25)
1345	360.2	SEWER FORCE MAIN	\$ (167,383.65)
1400	380.4	TREAT/DISP EQUIP TRT PLT	\$ (17,597.00)
1495	398.7	SEWER PLANT ALLOCATED	\$ (3,523.86)
1925	108.1	ACC DEPR-SERVICE LINES	\$ (86,488.56)
2030	108.1	ACC DEPR-ORGANIZATION	\$ (4,341.74)
2050	108.1	ACC DEPR-STRUCT/IMPRV COLL PLT	\$ (13.61)
2055	108.1	ACC DEPR-STRUCT/IMPRV PUMP PLT LS	\$ (13,450.18)
2060	108.1	ACC DEPR-STRUCT/IMPRV TREAT PLT	\$ (2,042,069.38)
2070	108.1	ACC DEPR-STRUCT/IMPRV RCLM DST	\$ (1,229.40)
2090	108.1	ACC DEPR-PWR GEN EQP TRT PLT	\$ (98.76)
2113	108.1	ACC DEPR-MANHOLES	\$ (169.03)
2125	108.1	ACC DEPR-FLOW MEASURE DEVICES	\$ (308.68)
2140	108.1	ACC DEPR-PUMP EQP PUMP PLT	\$ (929.00)
2145	108.1	ACC DEPR-PUMP EQP RCLM WTP	\$ (551.07)
2150	108.1	ACC DEPR-PUMP EQP RCLM DIST	\$ (47.85)
2155	108.1	ACC DEPR-TREAT/DISP EQP LAGOON	\$ (30,705.08)
2165	108.1	ACC DEPR-TREAT/DISP EQP RWTP	\$ (73.48)
2170	108.1	ACC DEPR-PLANT SEWERS TRT PLT	\$ (1,800.91)
2175	108.1	ACC DEPR-PLANT SEWERS RECLAIM	\$ (105.49)
2190	108.1	ACC DEPR-OTHER PLT COLLECTION	\$ (88.14)
2195	108.1	ACC DEPR-OTHER PLT PUMP	\$ (75.80)
2200	108.1	ACC DEPR-OTHER PLT TREATMENT	\$ (665.65)
2215	108.1	ACC DEPR-OFFICE STRUCTURE	\$ (2,273.61)
2220	108.1	ACC DEPR-OFFICE FURN/EQPT	\$ (594.22)
2230	108.1	ACC DEPR-TOOL SHOP & MISC EQPT	\$ (2,837.50)
2235	108.1	ACC DEPR-LABORATORY EQPT	\$ (2,724.28)
2255	108.1	ACC DEPR-OTHER TANG PLT SEWER	\$ (999.09)
2280	108.1	ACC DEPR-REUSE DIST RESERVOIRS	\$ (2.78)
2285	108.1	ACC DEPR-REUSE TRANS/DIST SYS	\$ (389.37)

Journal Entry to Correct the Ledger for the Restated Adjustments in the Filing Con't.

Object Account	NARUC Account	Account Description	Debit/(Credit) Adjustment to Books For Depreciation Restatement
3505	271	CIAC-STRUCT/IMPRV TREAT PLT	\$ (1,582,493.79)
3560	271	CIAC-MANHOLES	\$ (13,327.84)
3565	271	CIAC-SERVICES TO CUSTOMERS	\$ (100,927.83)
3605	271	CIAC-TREAT/DISP EQUIP TRT PLT	\$ (49,026.00)
3625	271	CIAC-OUTFALL LINES	\$ (2,425.00)
3705	271	CIAC-SEWER-TAP	\$ (95,704.00)
4050	272	ACC AMORTSTRUCT/IMPRV PUMP PLT LS	\$ (23,217.02)
4070	272	ACC AMORTSTRUCT/IMPRV GEN PLT	\$ (1,573,966.16)
4100	272	ACC AMORT SEWER FORCE MAIN	\$ (132,867.93)

Finding 2: Retirements

Audit Analysis: As a result of our sample of plant additions, we determined that there were two retirements that were not recorded by the Utility. The Utility agreed that retirements should have been recorded when the new assets were installed. The retirements were calculated using 75% of the new addition in accordance with the Commission policy. The accumulated depreciation and depreciation expense related to these assets also need to be removed. The schedule following this finding details the accounts, the vendor for the new addition, and the amounts with the associated depreciation for each item.

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

Company Account	NARUC	Description	Debit	Credit
1708	354.3	Structures and Improvements Lift Stations		\$ (4,421.25)
1295	354.3	Structures and Improvements Lift Stations		\$ (4,994.25)
2055	108	Accumulated Depreciation	\$ 10,345.59	
4998	215	Retained Earnings		\$ (930.09)

Effect on the Filing: 13-Month Average Wastewater Plant should be reduced by \$9,415. 13-Month Average Wastewater Accumulated Depreciation should be reduced by \$10,157. Wastewater depreciation expense should be reduced by \$377.

13-Month Average Calculation

	Wastewater Plant	Wastewater Accumulated Depreciation
December 31, 2009	\$ 9,415.00	\$ 9,968.47
January 31, 2010	\$ 9,415.00	\$ 9,999.85
February 28, 2010	\$ 9,415.00	\$ 10,031.23
March 31, 2010	\$ 9,415.00	\$ 10,062.61
April 30, 2010	\$ 9,415.00	\$ 10,093.99
May 31, 2010	\$ 9,415.00	\$ 10,125.37
June 30, 2010	\$ 9,415.00	\$ 10,156.75
July 31, 2010	\$ 9,415.00	\$ 10,188.13
August 31, 2010	\$ 9,415.00	\$ 10,219.51
September 30, 2010	\$ 9,415.00	\$ 10,250.89
October 31, 2010	\$ 9,415.00	\$ 10,282.27
November 30, 2010	\$ 9,415.00	\$ 10,313.65
December 31, 2010	\$ 9,415.00	\$ 10,345.59
Total	\$ 122,395.00	\$ 132,038.31
13-Month Average	\$ 9,415.00	\$ 10,156.79

Calculation of Wastewater Depreciation

Co.	Co. Acct.	Vendor	Date	Invoice Amount	Description	Plant Adjustment 75%	Plant Account	Retirement Acc. Dep.	Acct. A/D	Year Life	Dep. Exp./RE	Mths.	Change in Accumulated Depreciation related to Plant Removal	Acct.	Retained Earnings
249	1295	Itt Water and Wastewater U.S.A.	1/8/2009	\$ 6,659.00	Lift Station 1, new pump replacement	\$ (4,994.25)	354.3	\$ 4,994.25	2055	25	\$ (199.77)	24	\$ 399.54	2055	\$ 199.77
249	1295	Lehigh Environmental Svc. Inc.	1/21/2008	\$ 5,895.00	Replace plug valves at Lift Stations	\$ (4,421.25)	354.3	\$ 4,421.25	2055	25	\$ (176.85)	36	\$ 530.55	2055	\$ 353.70
				\$ 12,554.00		\$ (9,415.50)		\$ 9,415.50			\$ (376.62)		\$ 930.09		\$ 553.47

Finding 3: Permit

Audit Analysis: The Utility has recorded an invoice from Excel Engineering Consultants in the amount of \$2,750 in account 1315 Structures and Improvements-General for a permit renewal in March 2008. The Utility agrees that this invoice should have been recorded in a deferred account and amortized over the life of the permit, which is five years. See the schedule below for the computation of depreciation and amortization expense.

Calculation of Depreciation Expense on the Permit

Acct.	Description	Amount	Year Life	Monthly	10 Months Depreciation in 2008	24 months depreciation 2009 and 2010	Total 2008-2010
1315	Structures and Improvements	\$ 2,750.00	32	\$ 7.16	\$ 71.61	\$ 171.88	\$ 243.49

Calculation of Amortization Expense

Acct.	Description	Amount	Yearly Amortization	2008 Amortization	2009 Amortization	2010 Amortization	Total Amortization	Net Deferred
3040	Deferred Charges	\$ 2,750.00	\$ 550.00	\$ 458.33	\$ 550.00	\$ 550.00	\$ 1,558.33	\$ 1,191.67
				08 and '09	\$ 1,008.33			

Effect on the General Ledger: The following adjustment is needed to correct the general ledger.

NARUC Account	Company Account	Description	Debit	Credit
186	3040	Deferred Charges	\$ 2,750.00	
108	2075	Accumulated Depreciation- Structures and Improvements	\$ 243.49	
214	4998	Retained Earnings (2010 Amortization)	\$ 550.00	
214	4998	Retained Earnings ('08 and '09 Amortization)	\$ 1,008.33	
214	4998	Retained Earnings (2008-2010)		\$ 243.49
354	1315	Structures and Improvements		\$ 2,750.00
110	3195	Accumulated Amortization		\$ 1,558.33

Effect on the Filing: 13-Month Average Plant should be reduced by \$2,750. 13-Month Average Accumulated Depreciation should be reduced by \$201 for the depreciation from 2008 to 2010. (See the following page). Depreciation Expense should be reduced by \$86 and Amortization expense should be increased by \$550. Working Capital should be increased by \$1,466 (Deferred Permit Cost increase by \$2,750 net of Accumulated Amortization of \$1,284).

13-Month Average Computation

	Plant	Accumulated Depreciation	Accumulated Amortization
12/31/2009	\$ 2,750.00	\$ 157.55	\$ 1,008.33
1/31/2010	\$ 2,750.00	\$ 164.71	\$ 1,054.16
2/28/2010	\$ 2,750.00	\$ 171.87	\$ 1,099.99
3/31/2010	\$ 2,750.00	\$ 179.03	\$ 1,145.82
4/30/2010	\$ 2,750.00	\$ 186.19	\$ 1,191.65
5/31/2010	\$ 2,750.00	\$ 193.35	\$ 1,237.48
6/30/2010	\$ 2,750.00	\$ 200.51	\$ 1,283.31
7/31/2010	\$ 2,750.00	\$ 207.67	\$ 1,329.14
8/31/2010	\$ 2,750.00	\$ 214.83	\$ 1,374.97
9/30/2010	\$ 2,750.00	\$ 221.99	\$ 1,420.80
10/31/2010	\$ 2,750.00	\$ 229.15	\$ 1,466.63
11/30/2010	\$ 2,750.00	\$ 236.31	\$ 1,512.46
12/31/2010	\$ 2,750.00	\$ 243.47	\$ 1,558.29
	\$ 35,750.00	\$ 2,606.63	\$ 16,683.03
13-Month Average	\$ 2,750.00	\$ 200.51	\$ 1,283.31

Finding 4: Expense Proforma

Audit Analysis: The Net Operating Income filing, schedule B-2, includes a pro-forma adjustment for \$13,546 to reflect an increase from 2010 rates by Karle Environmental Organic Recycling for sludge removal. However, the Utility did not experience such a rate increase and agrees that this pro-forma should be removed.

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

Effect on the Filing: Expenses should be reduced by \$13,546.

Finding 5: Hurricane Costs

Audit Analysis: The Utility has recorded an invoice from Diesel Energy Systems, Inc. for \$6,272.57 related to the rental of a Paramount Power generator due to Tropical Storm Fay which hit Naples, Florida on August 19, 2008 in Plant account 1315. This invoice should have been expensed or recorded in a Deferred Account and amortized over 5 years. See the schedule below for the computation of depreciation and amortization expense.

Calculation of Depreciation Expense on the Hurricane Costs

Acct.	Description	Amount	Year Life	Monthly	5 months of depreciation in 2008 depreciation months * rate	24 months depreciation 2009 and 2010	Total 2008-2010	
1315	Structures and Improvements	\$ 6,272.57	32	\$ 16.33	\$ 81.67	\$ 392.04	\$ 473.71	
Calculation of Amortization Expense								
Acct.			Yearly Amortization	2008 Amortization	2009 Amortization	2010 Amortization	Total Amortization	Net Deferred
	Deferred Charges	\$ 6,272.57	\$ 1,254.51	\$ 522.71	\$ 1,254.51	\$ 1,254.51	\$ 3,031.74	\$ 3,240.83
				08 and '09	\$ 1,777.23			

Effect on the General Ledger: The following adjustment is needed to correct the general ledger.

NARUC Account	Company Account	Description	Debit	Credit
186		Deferred Hurricane Costs	\$ 6,272.57	
101	1315	Structures and Improvements		\$ 6,272.57
110		Accumulated Amortization- Hurricane cost		\$ 3,031.74
214	4998	Retained Earnings depreciation - 2008-2010		\$ 395.30
214	4998	Retained Earnings amortization 2008-2009	\$ 1,777.23	
214	4998	Retained Earnings amortization 2010	\$ 1,254.51	
108		Accumulated Depreciation-Hurricane Costs	\$ 395.30	

Effect on the Filing: 13-Month Average Plant should be reduced by \$6,273. 13-Month Average Accumulated Depreciation should be reduced by \$376. (See following page). Depreciation expense should be reduced by \$196. Amortization expense should be increased by \$1,255 for 2010. Working Capital should be increased by \$3,869 (Deferred Hurricane cost of \$6,273 less Accumulated Amortization of \$2,404)

13-Month Average Computation

	Plant	Accumulated Depreciation	Accumulated Amortization
12/31/2009	\$ 6,272.57	\$ 277.63	\$ 1,777.22
1/31/2010	\$ 6,272.57	\$ 293.96	\$ 1,881.76
2/28/2010	\$ 6,272.57	\$ 310.29	\$ 1,986.30
3/31/2010	\$ 6,272.57	\$ 326.62	\$ 2,090.84
4/30/2010	\$ 6,272.57	\$ 342.95	\$ 2,195.38
5/31/2010	\$ 6,272.57	\$ 359.28	\$ 2,299.92
6/30/2010	\$ 6,272.57	\$ 375.61	\$ 2,404.46
7/31/2010	\$ 6,272.57	\$ 391.94	\$ 2,509.00
8/31/2010	\$ 6,272.57	\$ 408.27	\$ 2,613.54
9/30/2010	\$ 6,272.57	\$ 424.60	\$ 2,718.08
10/31/2010	\$ 6,272.57	\$ 440.93	\$ 2,822.62
11/30/2010	\$ 6,272.57	\$ 457.26	\$ 2,927.16
12/31/2010	\$ 6,272.57	\$ 473.59	\$ 3,031.70
	\$ 81,543.41	\$ 4,882.93	\$ 31,257.98
13-Month Average	\$ 6,272.57	\$ 375.61	\$ 2,404.46

Finding 6: Depreciation Restatement

Audit Analysis: Commission Order PSC-09-0264-PAA-SU required the Utility to debit Accumulated Depreciation Services to Customers by \$3,177. In preparing its depreciation restatement, the Utility included the entry as a credit.

Effect on the General Ledger: The Accumulated Depreciation should be decreased by \$6,354.

Effect on the Filing: 13-Month Average Accumulated Depreciation should be decreased by \$6,354.

Finding 7: Incorrectly Recorded Expense

Audit Analysis: The Utility has recorded an invoice from Karle Recycling dated December 19, 2010 for \$3,162.50 to account 6345 Sewer Other Maintenance Expense for sludge hauling related to a surge tank failure which turned into a capital project. The following schedule calculates the depreciation expense.

CALCULATION OF DEPRECIATION EXPENSE

Invoice Amount	Year Life	Depreciation Months in 2010	Depreciation 2010
\$ 3,162.50	32	1	\$ 8.24

Effect on the General Ledger: The following entry needs to be made to correct the books.

Company Account	NARUC Account	Description	Debit	Credit
1300	354	Structures and Improvements Treatment	\$ 3,162.50	
4998	215	Retained Earnings	\$ 8.24	
2060	108	Accumulated Depreciation		\$ 8.24
6345		Sewer Other Maintenance Expenses		\$ 3,162.50

Effect on the Filing: 13-Month Average Plant should be increased by \$3,163. Depreciation Expense should be increased by \$8.

13-MONTH ACCUMULATED DEPRECIATION	
Months	Accumulated Depreciation
12/31/2009	
1/31/2010	
2/28/2010	
3/31/2010	
4/30/2010	
5/31/2010	
6/30/2010	
7/31/2010	
8/31/2010	
9/30/2010	
10/31/2010	
11/30/2010	
12/31/2010	\$ 8.24
	\$ 8.24
13-Month Average	\$ 0.63

Exhibits

Exhibit 1: Rate Base

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: **Utilities, Inc. of Eagle Ridge**
 Docket No.: **110183-SU**
 Schedule Year Ended: **December 31, 2010**
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: **A-2**
 Page 1 of 1
 Preparer: **Kirsten Weeks**

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.

(1)	(2)	(3)		(4)	(5)
Line No.	Average Balance Per Books	Utility Adjustments	Ref.	Adjusted Utility Balance	Supporting Schedule(s)
1	6,897,768	(26,771)	(A)	6,870,997	A-6, A-3
2					
3	51,847	41	(A)	51,888	A-6, A-3
4					
5	-	-		-	A-7
6					
7	3	(3)	(C)	-	A-3
8					
9	(3,161,316)	141,777	(B)	(3,019,539)	A-10, A-3
10					
11	(3,809,952)	1	(D)	(3,809,951)	A-12, A-3
12					
13	2,355,036	88,346	(E)	2,453,382	A-14, A-3
14					
15	310,957	(310,957)	(F)	-	A-3
16					
17	(44,192)	44,192	(F)	-	A-3
18					
19	-			-	A-16
20					
21	-	282,328	(G)	282,328	A-17, A-3
22					
23	<u>2,600,151</u>	<u>228,954</u>		<u>2,829,105</u>	

Exhibit 2: Net Operating Income

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Utilities, Inc. of Eagle Ridge
 Docket No.: 110153-SU
 Test Year Ended: December 31, 2010
 Interim Final
 Historic or Projected

Schedule: B-2
 Page 1 of 1
 Preparer: Kirsten Weeks

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.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	990,978	5,271	996,249	238,843 (A)	1,235,092	B-4, B-3
2							
3	Operation & Maintenance	683,190	(33,752)	649,438	71,590 (B)	721,028	B-6, B-3
4	Depreciation, net of CIAC Amort.	165,260	(29,396)	135,864	4,333 (C), (D)	140,197	B-14, B-3
5							
6	Amortization	-	-	-	-	-	
7							
8	Taxes Other Than Income	67,378	3,494	70,872	10,748 (E)	81,620	B-15, B-3
9							
10	Provision for Income Taxes	8,834	12,020	18,854	57,262 (F)	76,116	C-1, C-2, B-3
11							
12	OPERATING EXPENSES	922,662	(47,634)	875,028	143,933	1,018,961	
13							
14	NET OPERATING INCOME	68,316	52,905	121,221	94,910	216,131	
15							
16							
17	RATE BASE	2,600,151	228,854	2,829,105		2,829,105	
18							
19							

Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital
13-Month Average Balance

Florida Public Service Commission

Company: Utilities, Inc. of Eagle Ridge
Docket No.: 110153-SU
Schedule Year Ended: December 31, 2010
Interim Final
Historical Projected

Schedule D-1
Page 1 of 1

Preparer: Kirsten E. Weeks

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

Line No.	(1) Class of Capital	(2) Reconciled to Requested Rate Base Average TYE 12/31/10	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long Term Debt	1,263,140	44.65%	6.64%	2.96%
2	Short Term Debt	113,197	4.00%	3.88%	0.16%
3	Preferred Stock	-			
4	Common Equity	1,190,499	42.08%	10.60%	4.46%
5	Customer Deposits	28,844	1.02%	6.00%	0.06%
6	Tax Credits - Zero Cost	-			
7	Tax Credits - Weighted Cost	-			
8	Accumulated Deferred Income Tax	233,425	8.25%		
9	Other (Explain)	-			
10					
11	Total	<u>2,829,105</u>	<u>100.00%</u>		<u>7.64%</u>
12					
13					

Notes:

1. The cost of equity is based on the leverage formula in Docket No. 110006-WS approved by the Commission on June 14, 2011.
2. Long term debt, short term debt, preferred stock, and common equity are actual for Utilities, Inc. of Eagle Ridge's parent company, Utilities, Inc.

Supporting Schedules: D-2

Recap Schedule: A-2