**State of Florida**

# Public Service Commission

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

## Auditor's Report

Sanlando Utilities Corporation
File & Suspend Rate Case (PAA)

**Twelve Months Ended December 31, 2013**

Docket No. 140060-WS
Audit Control No. 14-199-4-1
**October 18, 2014**

Gabriela M. Leon
Audit Manager

Bety Maitre
Audit Staff

Jeffery A. Small
Audit Staff

Iliana H. Piedra
Reviewer

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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 July 11, 2014. We have applied these procedures to the attached schedules prepared by Sanlando Utilities Corporation in support of its filing for rate relief in Docket No. 140060-WS.

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

## Objectives and Procedures

## General

The test year is the historical twelve months ended December 31, 2013 unless otherwise specified.

Sanlando Utilities Corporation (Utility) is a Class A utility providing water and wastewater services in Seminole County, Florida. The Utility is a wholly-owned subsidiary of Utilities, Inc. (Parent). Rate base as of December 31, 2010 was established in the Utility's last rate proceeding by Order No. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS.

The Utility's general ledger consist of three sub-ledgers, the AA (direct ledger), the UA (allocation ledger), and the UR (commission adjustment ledger). This audit pertains only to direct costs which are posted to the Utility's AA and UR ledgers. All allocated costs which are posted to the Utility's UA ledger were audited in the Audit of Affiliate Transactions in Docket No.140060-WS, Audit Control Number (ACN) 14-197-1-1.

## Rate Base

Utility Plant in Service (UPIS)

**Objectives:** The objectives were to determine whether plant in service: 1) Consists of property that exists and is owned by the Utility, 2) Additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission rules and the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USoA), 3) Retirements are made when a replacement item is put into service, and 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

**Procedures:** We reconciled the UPIS accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-13-0085-PAA-WS. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled utility additions and retirements since the last rate proceeding to determine the PIS balance as of December 31, 2013. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We traced a sample of additions and retirements from the AA and UR ledgers to source documentation and we verified that additions were recorded at original cost and that retirements were properly posted. The PIS activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 1 and 3-12 discuss our recommended adjustments to water and wastewater plant in service.

Land & Land Rights

**Objectives:** The objectives were to determine whether utility land is recorded at original cost, is used for utility operation, and is owned or secured under a long-term lease.

**Procedures:** We reconciled the land accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established in Order No. PSC-13-0085-PAA-WS. We determined the land balance as of December 31, 2013. We recalculated the 13-month average balance for the filing. We searched the property records of the County Clerk's Office in Seminole County, Florida for utility related activity. No activity was found. We noted that there were no changes to land accounts in the AA ledger since the last rate proceeding. The land activity in the UA ledger was audited in the Audit of Affiliate Transactions. Finding 3 discusses our recommended adjustment to wastewater land.

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

**Objectives:** The objectives were to determine whether utility CIAC balances are properly stated, are reflective of service availability charges authorized in the Utility's Commission approved tariffs, and the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

**Procedures:** We reconciled the CIAC accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-13-0085-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility additions and retirements since the last rate proceeding to determine the CIAC balance as of December 31, 2013. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We reconciled additions to the Utility's CIAC Tap Fee schedule and traced service availability charges to the Utility's approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. Findings 12 and 13 discuss our recommended adjustments to water and wastewater CIAC.

Accumulated Depreciation

**Objectives:** The objectives were to determine whether: 1) Accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USoA, 2) Depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded, and 3) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

**Procedures:** We reconciled the accumulated depreciation accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-13-0085-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of December 31, 2013. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We calculated accumulated depreciation accruals from the AA and UR ledgers using the rates authorized in Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.) and compared our balance to the balances in the AA ledger and the filing. The accumulated depreciation activity in the UA ledger was audited in the Audit of Affiliate Transactions. Finding 1 and 3-12 discuss our recommended adjustments to water and wastewater accumulated depreciation.

Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether accumulated amortization of CIAC balances were properly stated, that annual accruals were reflective of the depreciation rates and were in compliance with Commission rules and orders, and that the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

**Procedures:** We reconciled the accumulated amortization of CIAC accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-13-0085-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated amortization of CIAC balance as of December 31, 2013. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We calculated accumulated amortization of CIAC accruals using the rates authorized in Rule 25-30.140, F.A.C. and compared our balance to the balances in the AA ledger and the filing. Findings 12 and 13 discuss our recommended adjustments to water and wastewater accumulated amortization of CIAC.

Working Capital

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

**Procedures:** We reconciled the working capital accounts presented in the filing to the general ledger. We recalculated the 13-month average working capital allowance balance for the filing. The working capital account activity in the UA ledger was audited in the Audit of Affiliate Transactions. Finding 14 discusses our adjustment to water and wastewater working capital.

## Capital Structure

**Objectives: :** The objectives were to determine whether the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital were properly recorded in compliance with Commission rules and that it accurately represented the ongoing utility operations.

**Procedures:** We recalculated the cost rates and reconciled the components of the Utility's capital structure presented in the filing to the general ledger. We recalculated the 13-month average component balances of the capital structure for the filing. We verified customer deposits by tracing additions and refunds to the general ledger and supporting schedules provided by the Utility. We recalculated a sample of interest expense paid on customer deposits. We verified that interest rates were in accordance with Rule 25-30.311 – Customer Deposits. We verified Deferred Income Tax Expense by tracing activity to the general ledger and supporting schedules provided by the Utility. The equity and debt components of the capital structure presented in the filing were audited in the Affiliate Transaction audit. No exceptions were noted.

## Net Operating Income

Operating Revenue

**Objectives:** The objectives were to determine whether: 1) Utility charges were those approved by the Commission in the Utility's current authorized tariff for both water and wastewater and 2) Revenue earned from utility property during the test year was recorded and properly classified in compliance with Commission rules and the NARUC USoA.

**Procedures:** We reconciled the water and wastewater revenue accounts presented in the filing to the general ledger. We reviewed a sample of customer accounts from the billing register for proper customer classification, use of approved tariffs, and miscellaneous service changes. We tested the reasonableness of the utility revenues for the months of April and September 2013 by multiplying the average consumption by the tariff rate for each customer class in the billing register. We reconciled the gallons sold and customer bill counts presented in the filing to the billing register. No exceptions were noted.

Operation and Maintenance Expense (O&M)

**Objectives: :** The objectives were to determine whether O&M expenses were properly recorded in compliance with Commission rules, and were reasonable and prudent for ongoing utility operations.

**Procedures:** We reconciled the O&M expense accounts presented in the filing to the general ledger. We reviewed a sample of O&M expense invoices from the AA ledger for proper amount, period, classification, recurring nature, and whether the expense was utility related. We verified the proper allocation of expenses between water and wastewater operations. The O&M expense activity in the UA ledger was audited in the Audit of Affiliate Transactions. Finding 15 discusses our recommended adjustment to wastewater O&M expense.

Depreciation and Amortization

**Objectives:** The objective was to determine whether depreciation was properly recorded in compliance with Commission rules and that it accurately represented the depreciation of plant in service assets and the amortization of utility CIAC assets for ongoing utility operations.

**Procedures:** We reconciled the depreciation and amortization expense accounts presented in the filing to the general ledger. We calculated depreciation and amortization expense for the test year using the rates prescribed in Rule 25-30.140, F.A.C. and compared our amounts to the amounts reflected in the AA ledger and the filing. The depreciation expense activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 2-13 discuss our recommended adjustments to depreciation and amortization expense.

Taxes Other than Income

**Objectives:** The objective was to determine the appropriate amounts for taxes other than income tax for the test year ended December 31, 2013.

**Procedures:** We reconciled the components of the taxes other than income tax expense accounts presented in the filing to the general ledger. We recalculated regulatory assessment

fees based on audited revenues. We traced real estate and tangible property taxes to source documents, and ensured that these taxes included the maximum discount and are only for utility property. The taxes other than income tax expense activity in the UA ledger was audited in the Affiliate Transaction audit. Finding 16 discusses our recommended adjustment to water and wastewater taxes other than income tax expense.

## Other

Analytical Review

**Objectives:** The objectives were to determine whether Revenues and O&M expenses contained information that could be deemed unusual and to assist in assessing risk.

**Procedures:** We performed a trend analysis on Utility revenues for the years 2010 to 2013. We performed a trend analysis on Utility O&M expense for the years 2010 to 2013. We compared the results of our review with the Utility's benchmark analysis included in the filing. No exceptions were noted.

## Audit Findings

### Finding 1: Commission Ordered Adjustments

**Audit Analysis:** Order No. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, established rate base and required the Utility to make several adjustments to specific rate base account balances as of December 31, 2010. The Utility was required to provide proof that the Commission Ordered Adjustments (COA) had been made within 90 days of the Consummating Order which was issued on March 11, 2013.

On June 10, 2013, the Utility filed a copy of the booking entries that were made to its general ledger as of May 31, 2013, to comply with the Commission Order.

On June 21, 2013, the Office of Public Counsel (OPC) filed a letter that identified four areas of concern that they had with the Utility's filing above to adjust its books and records per the Commission order. Specifically, OPC stated that there were significant differences in what was included in the Commission Order and what was submitted in the Utility's booking entries and that it appears that the Utility included additional adjustments to its books and records that were not included in the Commission Order.

On July 22, 2013, Sanlando filed a letter in response to OPC's letter that addressed the specific items in OPC's letter and explained the Utility's methodology and calculations for the adjusting entries. The response included additional schedules to illustrate how the Utility arrived at the adjusting entries submitted.

In the instant proceeding, audit staff is charged with ensuring that the Utility's general ledger include the rate base adjustments required in Order No. PSC-13-0085-PAA-WS. We determined the specific adjustments in the Order by the Utility's AA and UR ledger accounts. We then compared our schedule to the Utility's adjustments as filed and determined that there were significant differences as iterated by OPC.

We reviewed and attempted to reconcile the schedules provided by the Utility in its second response to the COA. The Utility did not respond in a timely manner to our subsequent requests for information and explanation of the adjustment schedules.

Without sufficient information and supporting details we were not able to substantiate or confirm whether the Utility's adjustment complied with the Commission Order. Therefore, we calculated the effect of the COA on the test year for the instant proceeding based on the following criteria.

1. We determined the December 31, 2010, adjusted rate base balances for the Utility's AA ledger accounts, including the adjustments in Order No. PSC-13-0085-PAA-WS.
2. We determined the 2011, 2012 and 2013 rate base activity for the Utility's AA ledger accounts, excluding all journal entries posted in May 2013, identified as COA.
3. We prepared a schedule using the information obtained above that calculates the rate base balances for the Utility's AA ledger accounts from December 31, 2010 through December 31, 2012 and December 31, 2013.

4. We prepared a schedule that compares our calculated rate base balances to the Utility's filing and AA ledger account balances as of December 31, 2013. The differences indicate additional adjustments are needed to bring the Utility's books and records into compliance with the Commission order referenced above.

5. The calculations in the schedules we prepared used the half-year convention method to determine annual depreciation and amortization accruals and the average year end account balances. Therefore, the year end and 13-month average recommended adjustments reflected below are the same.

Table 1-1 and Table 1-2, that follow, reflect additional adjustments needed to the Utility's water and wastewater rate base accounts for the filing. The adjustments in this Finding do not include the effect of adjustments in our other Findings that we recommend later in this report. If accepted, the adjustments in other findings of this report should be applied to the "Per Audit" account balances reflected in the two tables that follow.

Our adjustments pertain only to the direct costs COA which are posted to the Utility's AA ledger before the water and wastewater allocation of common accounts. All Parent level allocated COA which are posted to the Utility's UA ledger were audited in the Audit of Affiliate Transactions in Docket No.140060-WS, Audit Control Number (ACN) 14-197-1-1.

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

**Effect on the Filing:** 13-month average water rate base and wastewater rate base should be reduced by $272,605 and $167,617, respectively, pending the reallocation of common AA ledger rate base accounts between water and wastewater operations. The effect on test year depreciation expense is discussed in Finding 2.

**Table 1-1**

| OBJ | NARUC | | Description | AA Ledger as of December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | | | | Per Utility | Difference | Per Audit |
| 1020 | 101 | 301 | Organization | $0 | $0 | $0 |
| 1025 | 101 | 302 | Franchises | $146,392 | $0 | $146,392 |
| 1030 | 101 | 303 | Land & Land Rights Pump | $19,340 | $0 | $19,340 |
| 1035 | 101 | 303 | Land & Land Rights Wtr Trt | $70,027 | $0 | $70,027 |
| 1045 | 101 | 303 | Land & Land Rights Gen Plt | $393 | $0 | $393 |
| 1050 | 101 | 304 | Struct & Imprv Src Supply | $228,485 | $0 | $228,485 |
| 1055 | 101 | 304 | Struct & Imprv Wtr Trt Plt | $2,670,837 | ($122,238) | $2,548,599 |
| 1065 | 101 | 304 | Struct & Imprv Gen Plt | $0 | ($14,591) | ($14,591) |
| 1080 | 101 | 307 | Wells & Springs | $830,576 | $9,255 | $839,830 |
| 1085 | 101 | 308 | Infiltration Gallery | $138,232 | $0 | $138,232 |
| 1090 | 101 | 309 | Supply Mains | $9,342 | $0 | $9,342 |
| 1095 | 101 | 310 | Power Generation Equip | $3,015 | $0 | $3,015 |
| 1100 | 101 | 311 | Electric Pump Equip Src Pump | $99,103 | $0 | $99,103 |
| 1105 | 101 | 311 | Electric Pump Equip Wtp | $3,196,497 | $9,522 | $3,206,019 |
| 1110 | 101 | 311 | Electric Pump Equip Trans Dist | $66,196 | $0 | $66,196 |
| 1115 | 101 | 320 | Water Treatment Eqpt | $664,885 | $0 | $664,885 |
| 1120 | 101 | 330 | Dist Resv & Standpipes | $1,058,019 | ($0) | $1,058,019 |
| 1125 | 101 | 331 | Trans & Distr Mains | $8,029,855 | $0 | $8,029,855 |
| 1130 | 101 | 333 | Service Lines | $1,777,505 | $0 | $1,777,505 |
| 1135 | 101 | 334 | Meters | $1,577,917 | $4,237 | $1,582,153 |
| 1140 | 101 | 334 | Meter Installations | $364,480 | $0 | $364,480 |
| 1145 | 101 | 335 | Hydrants | $766,533 | $0 | $766,533 |
| 1150 | 101 | 336 | Backflow Prevention Devices | $675 | $206 | $881 |
| 1165 | 101 | 339 | Oth Plt&Misc Equip Wtp | $2,745 | $0 | $2,745 |
| 1170 | 101 | 339 | Oth Plt&Misc Equip Trans Dist | $4,880 | ($206) | $4,673 |
| 1175 | 101 | 304 | Office Struct & Imprv | $751 | $0 | $751 |
| 1180 | 101 | 340 | Office Furn & Eqpt | $69,109 | $0 | $69,109 |
| 1190 | 101 | 343 | Tool Shop & Misc Eqpt | $285,365 | $1,284 | $286,649 |
| 1195 | 101 | 344 | Laboratory Equipment | $27,810 | $0 | $27,810 |
| 1200 | 101 | 345 | Power Operated Equip | $1,033 | $0 | $1,033 |
| 1205 | 101 | 346 | Communication Eqpt | $62,307 | $225 | $62,532 |
| 1210 | 101 | 347 | Misc Equipment | $22,265 | ($400) | $21,865 |
| 1220 | 101 | 348 | Other Tangible Plt Water | $616 | $0 | $616 |
| 1555 | 101 | 341 | Transportation Eqpt | $266 | $0 | $266 |
| 1640 | 101 | 348 | Other Plant | $22,363 | $0 | $22,363 |
| 1835 | 108 | 301 | Acc Depr-Organization | $0 | $0 | $0 |
| 1840 | 108 | 302 | Acc Depr-Franchises | ($39,618) | ($0) | ($39,618) |
| 1845 | 108 | 304 | Acc Depr-Struct&Imprv Src Sply | ($43,467) | ($171,033) | ($214,501) |
| 1850 | 108 | 304 | Acc Depr-Struct&Imprv Wtp | ($796,882) | $11,221 | ($785,660) |
| 1860 | 108 | 304 | Acc Depr-Struct&Imprv Gen Plt | $0 | $135,410 | $135,410 |
| 1875 | 108 | 307 | Acc Depr-Wells & Springs | ($643,869) | $1,980 | ($641,890) |
| 1880 | 108 | 308 | Acc Depr-Infiltration Gallery | ($21,028) | $2,021 | ($19,007) |
| 1885 | 108 | 309 | Acc Depr-Supply Mains | ($660) | $108 | ($552) |
| 1890 | 108 | 310 | Acc Depr-Power Generation Equp | ($729) | $7 | ($721) |
| 1895 | 108 | 311 | Acc Depr-Elect Pump Equip Src Pump | ($15,012) | ($9,881) | ($24,893) |
| 1900 | 108 | 311 | Acc Depr-Elect Pump Equip Wtp | ($2,045,322) | $20,989 | ($2,024,333) |
| 1905 | 108 | 311 | Acc Depr-Elect Pump Equip Tran | ($15,218) | $10,317 | ($4,901) |
| 1910 | 108 | 320 | Acc Depr-Water Treatment Eqpt | ($134,617) | $149 | ($134,468) |
| 1915 | 108 | 330 | Acc Depr-Dist Resv & Standpipe | ($813,272) | ($126) | ($813,398) |
| 1920 | 108 | 331 | Acc Depr-Trans & Distr Mains | ($4,755,034) | $1,720 | ($4,753,314) |

**Table 1-1, continued**

| OBJ | NARUC | | Description | AA Ledger as of December 31. 2013 | | |
|---|---|---|---|---|---|---|
| | | | | Per Utility | Difference | Per Audit |
| 1925 | 108 | 333 | Acc Depr-Service Lines | ($827,675) | $56 | ($827,620) |
| 1930 | 108 | 334 | Acc Depr-Meters | ($1,437,280) | ($138,067) | ($1,575,347) |
| 1935 | 108 | 334 | Acc Depr-Meter Installs | ($92,472) | $190 | ($92,282) |
| 1940 | 108 | 335 | Acc Depr-Hydrants | ($450,269) | $143 | ($450,126) |
| 1945 | 108 | 336 | Acc Depr-Backflow Prevent Devc | ($201) | ($34) | ($236) |
| 1960 | 108 | 339 | Acc Depr-Oth Plant&Misc Wtp | ($826) | $0 | ($826) |
| 1965 | 108 | 339 | Acc Depr-Oth Plant&Misc Trans | ($1,725) | $17 | ($1,708) |
| 1970 | 108 | 304 | Acc Depr-Office Structure | ($197) | ($6) | ($203) |
| 1975 | 108 | 340 | Acc Depr-Office Furn/Eqpt | ($66,104) | $1,871 | ($64,232) |
| 1985 | 108 | 343 | Acc Depr-Tool Shop & Misc Eqpt | ($190,353) | $1,557 | ($188,796) |
| 1990 | 108 | 344 | Acc Depr-Laboratory Equipment | ($13,392) | ($3,078) | ($16,470) |
| 1995 | 108 | 345 | Acc Depr-Power Operated Equip | ($115) | ($223) | ($338) |
| 2000 | 108 | 346 | Acc Depr-Communication Eqpt | ($56,466) | $2,761 | ($53,705) |
| 2005 | 108 | 347 | Acc Depr-Misc Equipment | ($18,581) | $11,960 | ($6,621) |
| 2010 | 108 | 348 | Acc Depr-Other Tang Plt Water | ($313) | $0 | ($313) |
| TBD | 108 | 348 | Acc Depr-Other Plant | $0 | ($6,709) | ($6,709) |
| 3265 | 271 | 304 | CIAC-Struct & Imprv Src Supply | ($39,012) | $0 | ($39,012) |
| 3270 | 271 | 304 | CIAC-Struct & Imprv Wtp | ($199,082) | $0 | ($199,082) |
| 3295 | 271 | 307 | CIAC-Wells & Springs | ($520,059) | $0 | ($520,059) |
| 3305 | 271 | 309 | CIAC-Supply Mains | ($7,152) | $0 | ($7,152) |
| 3315 | 271 | 311 | CIAC-Elec Pump Eqp Src Pump | $0 | $0 | $0 |
| 3330 | 271 | 320 | CIAC-Water Treatment Eqpt | ($250,371) | $0 | ($250,371) |
| 3335 | 271 | 330 | CIAC-Dist Resv & Standpipes | ($812,298) | $0 | ($812,298) |
| 3340 | 271 | 331 | CIAC-Trans & Distr Mains | ($5,992,806) | ($10,000) | ($6,002,806) |
| 3345 | 271 | 333 | CIAC-Service Lines | ($970,201) | $0 | ($970,201) |
| 3350 | 271 | 334 | CIAC-Meters | ($10,783) | $0 | ($10,783) |
| 3355 | 271 | 334 | CIAC-Meter Installs | $0 | $0 | $0 |
| 3360 | 271 | 335 | CIAC-Hydrants | ($593,754) | $0 | ($593,754) |
| 3430 | 271 | 348 | CIAC-Other Tangible Plt Water | $0 | ($0) | $0 |
| 3435 | 271 | 271 | CIAC-Water-Tap | ($1,928,025) | $0 | ($1,928,025) |
| 3445 | 271 | 271 | CIAC-Wtr Res Cap Fee | ($521) | $0 | ($521) |
| 3450 | 271 | 271 | CIAC-Wtr Plt Mod Fee | ($2,453) | $0 | ($2,453) |
| 3455 | 271 | 271 | CIAC-Wtr Plt Mtr Fee | ($8,399) | ($5,383) | ($13,782) |
| 3810 | 272 | 304 | Acc Amort Struct & Imprv Src | $36,966 | ($10) | $36,957 |
| 3815 | 272 | 304 | Acc Amort Struct & Imprv Wtp | $191,558 | ($49) | $191,509 |
| 3840 | 272 | 307 | Acc Amort Wells & Springs | $512,597 | ($0) | $512,597 |
| 3850 | 272 | 309 | Amort-Supply Mains | $460 | ($102) | $358 |
| 3860 | 272 | 311 | Acc Amort Elec Pump Eqp Src | $0 | $264 | $264 |
| 3875 | 272 | 320 | Acc Amort Water Treatment Eqpt | $244,735 | $5,637 | $250,371 |
| 3880 | 272 | 330 | Acc Amort Dist Resv & Standpip | $744,308 | $0 | $744,308 |
| 3885 | 272 | 331 | Acc Amort Trans & Distr Mains | $4,941,908 | ($410) | $4,941,498 |
| 3890 | 272 | 333 | Acc Amort Service Lines | $812,696 | ($0) | $812,695 |
| 3895 | 272 | 334 | Acc Amort Meters | $21,047 | ($23,405) | ($2,358) |
| 3900 | 272 | 334 | Acc Amort Meter Installs | $703 | ($100) | $603 |
| 3905 | 272 | 335 | Acc Amort Hydrants | $464,275 | ($27) | $464,247 |
| 3975 | 272 | 348 | Acc Amort Other Tang Plt Water | $0 | $0 | $0 |
| 3980 | 272 | 272 | Acc Amort Water-Ciac Tap | $101,013 | ($32) | $100,982 |
| 3995 | 272 | 272 | Acc Amort Wtr Res Cap Fee-Nc | $79 | ($0) | $79 |
| 4000 | 272 | 272 | Acc Amort Wtr Plt Mod Fee-Nc | $383 | ($0) | $383 |
| 4005 | 272 | 272 | Acc Amort Wtr Plt Mtr Fee-Nc | $776 | $398 | $1,174 |
| **Water Rate Base Adjustment** | | | | | **($272,605)** | |

**Table 1-2**

| OBJ | NARUC | | Description | AA Ledger as of December 31. 2013 | | |
|---|---|---|---|---|---|---|
| | | | | Per Utility | Difference | Per Audit |
| 1245 | 101 | 351 | Organization | $0 | $0 | $0 |
| 1250 | 101 | 352 | Franchises Intang Plt | $3,182 | $0 | $3,182 |
| 1275 | 101 | 353 | Land & Land Rights Reclaim Wtp | $203,894 | $0 | $203,894 |
| 1285 | 101 | 353 | Land & Land Rights Gen Plt | $0 | $0 | $0 |
| 1290 | 101 | 354 | Struct/Imprv Coll Plt | $2,201 | $0 | $2,201 |
| 1295 | 101 | 354 | Struct/Imprv Pump Plt Ls | $3,242,110 | ($6,303) | $3,235,808 |
| 1300 | 101 | 354 | Struct/Imprv Treat Plt | $4,756,747 | $10,994 | $4,767,740 |
| 1305 | 101 | 354 | Struct/Imprv Reclaim Wtp | $0 | $0 | $0 |
| 1310 | 101 | 354 | Struct/Imprv Reclaim Wtp/Dist Plt | $121 | $0 | $121 |
| 1315 | 101 | 354 | Struct/Imprv Gen Plt | $0 | ($10,994) | ($10,994) |
| 1320 | 101 | 355 | Power Gen Equip Coll Plt | $1,275 | $0 | $1,275 |
| 1330 | 101 | 355 | Power Gen Equip Treat Plt | $1,430 | $0 | $1,430 |
| 1345 | 101 | 360 | Sewer Force Main | $317,845 | $12,333 | $330,178 |
| 1350 | 101 | 361 | Sewer Gravity Main | $7,569,379 | ($27,086) | $7,542,293 |
| 1353 | 101 | 361 | Manholes | $252,151 | $570 | $252,721 |
| 1355 | 101 | 362 | Special Coll Structures | $0 | ($0) | $0 |
| 1360 | 101 | 363 | Services To Customers | $217,726 | $14,776 | $232,502 |
| 1365 | 101 | 364 | Flow Measure Devices | $3,446 | $0 | $3,446 |
| 1380 | 101 | 371 | Pumping Equipment Pump Plt | $247,279 | $0 | $247,280 |
| 1385 | 101 | 371 | Pumping Equipment Reclaim Wtp | $12,347 | $0 | $12,347 |
| 1390 | 101 | 371 | Pumping Equip Rcl Wtr Dist | $4,543 | $0 | $4,543 |
| 1400 | 101 | 380 | Treat/Disp Equip Trt Plt | $2,093,359 | ($8,716) | $2,084,644 |
| 1410 | 101 | 381 | Plant Sewers Trtmt Plt | $10,581 | $0 | $10,581 |
| 1420 | 101 | 382 | Outfall Lines | $644,005 | $0 | $644,005 |
| 1430 | 101 | 389 | Other Plt Collection | $2,396 | $0 | $2,396 |
| 1435 | 101 | 389 | Other Plt Pump | $22,880 | $0 | $22,880 |
| 1440 | 101 | 389 | Other Plt Treatment | $20,733 | ($12,000) | $8,733 |
| 1445 | 101 | 389 | Other Plt Reclaim Wtr Trt | $6,364 | $0 | $6,364 |
| 1455 | 101 | 354 | Office Struct & Imprv | $734 | $0 | $734 |
| 1460 | 101 | 390 | Office Furn & Eqpt | $57,236 | $0 | $57,236 |
| 1470 | 101 | 393 | Tool Shop & Misc Eqpt | $96,979 | ($1,284) | $95,695 |
| 1475 | 101 | 394 | Laboratory Eqpt | $1,618 | $0 | $1,618 |
| 1480 | 101 | 395 | Power Operated Equip | $1,253 | ($337) | $916 |
| 1485 | 101 | 396 | Communication Eqpt | $85,225 | $112 | $85,337 |
| 1490 | 101 | 397 | Misc Equip Sewer | $87,458 | $400 | $87,858 |
| 1525 | 101 | 366 | Reuse Services | $57,600 | $90 | $57,690 |
| 1530 | 101 | 367 | Reuse Mtr/Installations | $23,200 | ($4,159) | $19,041 |
| 1535 | 101 | 374 | Reuse Dist Reservoirs | $15,630 | $4,069 | $19,699 |
| 1540 | 101 | 375 | Reuse Tranmission & Dist Sys | $11,168,022 | $0 | $11,168,022 |
| 2030 | 108 | 351 | Acc Depr-Organization | $0 | $0 | $0 |
| 2040 | 108 | 352 | Acc Depr Franchises Intang Plt | ($1,355) | $0 | ($1,355) |
| 2050 | 108 | 354 | Acc Depr-Struct/Imprv Coll Plt | $338 | ($25) | $313 |
| 2055 | 108 | 354 | Acc Depr-Struct/Imprv Pump Plt Ls | ($2,343,804) | $1,699 | ($2,342,106) |
| 2060 | 108 | 354 | Acc Depr-Struct/Imprv Treat Plt | ($4,151,880) | ($163) | ($4,152,043) |
| 2070 | 108 | 354 | Acc Depr-Struc/Improv Rclm Dst | ($1) | ($0) | ($1) |
| 2075 | 108 | 354 | Acc Depr-Struct/Imprv Gen Plt | ($0) | $1,620 | $1,620 |
| 2080 | 108 | 355 | Acc Depr-Pwr Gen Eqp Coll Plt | ($320) | $0 | ($320) |
| 2090 | 108 | 355 | Acc Depr-Pwr Gen Eqp Trt Plt | ($286) | ($4) | ($290) |
| 2105 | 108 | 360 | Acc Depr-Sewer Force Main | ($54,125) | ($7,548) | ($61,673) |
| 2110 | 108 | 361 | Acc Depr-Sewer Gravity Main | ($5,342,247) | $780 | ($5,341,467) |

**Table 1-2, continued**

| OBJ | NARUC | | Description | AA Ledger as of December 31. 2013 | | |
|---|---|---|---|---|---|---|
| | | | | Per Utility | Difference | Per Audit |
| 2113 | 108 | 361 | Acc Depr-Manholes | ($86,951) | $45 | ($86,906) |
| 2120 | 108 | 363 | Acc Depr-Services To Customers | ($12,261) | ($1,199) | ($13,459) |
| 2125 | 108 | 364 | Acc Depr-Flow Measure Devices | ($2,724) | ($48) | ($2,772) |
| 2140 | 108 | 371 | Acc Depr-Pump Eqp Pump Plt | $5,596 | ($2,430) | $3,166 |
| 2145 | 108 | 371 | Acc Depr-Pump Eqp Rclm Wtp | $18,300 | ($349) | $17,951 |
| 2150 | 108 | 371 | Acc Depr-Pumping Equip Rcl Dist | ($505) | ($126) | ($631) |
| 2160 | 108 | 380 | Acc Depr-Treat/Disp Eqp Trt Plt | ($912,747) | ($5,769) | ($918,516) |
| 2170 | 108 | 381 | Acc Epr - Plant Sewers Trtmt Plt | $12,440 | $211 | $12,652 |
| 2180 | 108 | 382 | Acc Depr-Outfall Lines | ($658,317) | $14,311 | ($644,005) |
| 2190 | 108 | 389 | Acc Depr-Other Plt Collection | ($765) | ($0) | ($765) |
| 2195 | 108 | 389 | Acc Depr-Other Plt Pump | ($5,710) | ($1,385) | ($7,096) |
| 2200 | 108 | 389 | Acc Depr-Other Plt Treatment | ($6,579) | $4,016 | ($2,563) |
| 2205 | 108 | 389 | Acc Depr-Other Plt Rclm Wtp | ($1,973) | $0 | ($1,973) |
| 2215 | 108 | 354 | Acc Depr-Office Structure | ($37) | ($9) | ($46) |
| 2220 | 108 | 390 | Acc Depr-Office Furn/Eqpt | ($55,869) | ($62,236) | ($118,105) |
| 2230 | 108 | 393 | Acc Depr-Tool Shop & Misc Eqpt | ($81,618) | ($39,501) | ($121,119) |
| 2235 | 108 | 394 | Acc Depr-Laboratory Eqpt | $357 | ($1,314) | ($957) |
| 2240 | 108 | 395 | Acc Depr-Power Operated Equip | ($628) | $1,475 | $847 |
| 2245 | 108 | 396 | Acc Depr-Communication Eqpt | ($84,558) | ($2,785) | ($87,343) |
| 2250 | 108 | 397 | Acc Depr-Misc Equip Sewer | ($24,624) | ($12,473) | ($37,097) |
| 2270 | 108 | 366 | Acc Depr-Reuse Services | ($9,319) | $9 | ($9,310) |
| 2275 | 108 | 367 | Acc Depr-Reuse Mtr/Installs | ($2,189) | $479 | ($1,710) |
| 2280 | 108 | 374 | Acc Depr-Reuse Dist Reservoirs | ($3,006) | ($165) | ($3,172) |
| 2285 | 108 | 375 | Acc Depr-Reuse Trans/Dist Sys | ($1,828,116) | ($2,973) | ($1,831,089) |
| 2300 | 108 | 341 | Acc Depr-Transportation | ($660) | $638 | ($22) |
| 3500 | 271 | 354 | CIAC-Struct/Imprv Pump Plt Ls | ($1,680,727) | $0 | ($1,680,727) |
| 3505 | 271 | 354 | CIAC-Struct/Imprv Treat Plt | ($3,300,164) | $0 | ($3,300,164) |
| 3520 | 271 | 354 | CIAC-Struct/Imprv Gen Plt | $0 | $0 | $0 |
| 3550 | 271 | 360 | CIAC-Sewer Force Main | ($90,354) | $0 | ($90,354) |
| 3555 | 271 | 361 | CIAC-Sewer Gravity Main | ($5,772,508) | $0 | ($5,772,508) |
| 3557 | 271 | 361 | CIAC-Manholes | ($178,351) | $0 | ($178,351) |
| 3565 | 271 | 363 | CIAC-Services To Customers | ($126,355) | $0 | ($126,355) |
| 3605 | 271 | 380 | CIAC-Treat/Disp Equip Trt Plt | $0 | $0 | $0 |
| 3625 | 271 | 382 | CIAC-Outfall Lines | $0 | $0 | $0 |
| 3705 | 271 | 271 | CIAC-Sewer-Tap | ($117,662) | $0 | ($117,662) |
| 3715 | 271 | 271 | CIAC-Swr Res Cap Fee | ($24,504) | $0 | ($24,504) |
| 3720 | 271 | 271 | CIAC-Swr Plt Mod Fee | ($10,669) | $0 | ($10,669) |
| 3750 | 271 | 366 | CIAC-Reuse Services | ($290,491) | $0 | ($290,491) |
| 3770 | 271 | 271 | CIAC Reuse Tap | ($150) | $0 | ($150) |
| 4050 | 272 | 354 | Acc Amortstruct/Imprv Pump Plt Ls | $1,593,848 | ($44,119) | $1,549,729 |
| 4055 | 272 | 354 | Acc Amortstruct/Imprv Treat Plt | $3,276,212 | ($90,187) | $3,186,024 |
| 4070 | 272 | 354 | Acc Amortstruct/Imprv Gen Plt | $0 | $0 | $0 |
| 4100 | 272 | 360 | Acc Amort Sewer Force Main | $75,506 | ($9,022) | $66,484 |
| 4105 | 272 | 361 | Acc Amort Sewer Gravity Main | $5,053,238 | $193,128 | $5,246,366 |
| 4107 | 272 | 361 | Acc Amort Manholes | $65,772 | $1,210 | $66,982 |
| 4115 | 272 | 363 | Acc Amort Services To Customers | $83,300 | $17,522 | $100,822 |
| 4155 | 272 | 380 | Acc Amort Treat/Disp Equip Trt Plt | $75,483 | ($75,483) | ($0) |
| 4175 | 272 | 382 | Acc Amort Outfall Lines | $10,617 | ($15,148) | ($4,531) |
| 4265 | 272 | 272 | Acc Amort Sewer-Tap | $38,609 | $38 | $38,647 |
| 4275 | 272 | 272 | Acc Amort Swr Res Cap Fee-Nc | $2,535 | ($16) | $2,519 |

**Table 1-2, continued**

| OBJ | NARUC | | Description | AA Ledger as of December 31. 2013 | | |
|---|---|---|---|---|---|---|
| | | | | Per Utility | Difference | Per Audit |
| 4280 | 272 | 272 | Acc Amort Swr Plt Mod Fee-Nc | $3,797 | ($2,783) | $1,014 |
| 4310 | 272 | 366 | Acc Amort-Reuse Services | $47,203 | ($0) | $47,203 |
| TBD | 272 | 272 | Acc Amort-Reuse Tap | $3 | ($2) | $2 |
| | | | | | | |
| | | | | | | |
| | | | Wastewater Rate Base Adjustment | | ($167,617) | |

## Finding 2: Depreciation and Amortization

**Audit Analysis:** The Utility posted the COA discussed in Finding 1 to the general ledger on May 31, 2013. For accounting purposes the COA should be treated as prior-period adjustments because they were adjustments to the Utility's December 31, 2010 general ledger balance. Prior period adjustments should not affect the current year's operating expense.

The Utility's COA included adjustments that increased water and decreased wastewater net depreciation expense by $329,367 and $66,785, respectively, for the test year. These adjustments should have been posted to an equity account such as retained earnings because they do not relate to the current year operations.

Tables 2-1 and 2-2 that follow reflect the Utility's COA that were posted to test year depreciation and amortization expense accounts that should be reversed. The adjustments in this Finding do not include the effect of adjustments in other Findings that we recommend later in this report.

Our adjustments pertain only to the direct costs COA which are posted to the Utility's AA ledger before the water and wastewater allocation of common accounts. All Parent level allocated COA which are posted to the Utility's UA ledger were audited in the Audit of Affiliate Transactions in Docket No.140060-WS, Audit Control Number (ACN) 14-197-1-1.

**Effect on the General Ledger:** None

**Effect on the Filing:** Net water depreciation expense should be reduced by $329,367 and Net wastewater depreciation expense should be increased by $66,785 for the test year.

**Table 2-1**

| OBJ | NARUC | | DESCRIPTION | 2013AA |
|---|---|---|---|---|
| 6445 | 403 | 301 | DEPREC-ORGANIZATION | ($20) |
| 6450 | 403 | 302 | DEPREC-FRANCHISES | ($4,623) |
| 6455 | 403 | 304 | DEPREC-STRUCT & IMPRV SRC SUPPLY | ($170,863) |
| 6460 | 403 | 304 | DEPREC-STRUCT & IMPRV WTP | $178,094 |
| 6470 | 403 | 304 | DEPREC-STRUCT & IMPRV GEN PLT | ($2,247) |
| 6485 | 403 | 307 | DEPREC-WELLS & SPRINGS | ($2,414) |
| 6490 | 403 | 308 | DEPREC-INFILTRATION GALLERY | ($1,787) |
| 6495 | 403 | 309 | DEPREC-SUPPLY MAINS | $0 |
| 6500 | 403 | 310 | DEPREC-POWER GEN EQP | ($197) |
| 6505 | 403 | 311 | DEPREC-ELEC PUMP EQP SRC PUMP | $10,302 |
| 6510 | 403 | 311 | DEPREC-ELEC PUMP EQP WTP | $21,680 |
| 6515 | 403 | 311 | DEPREC-ELEC PUMP EQP TRANS DST | ($9,621) |
| 6520 | 403 | 320 | DEPREC-WATER TREATMENT EQPT | ($13) |
| 6525 | 403 | 330 | DEPREC-DIST RESV & STANDPIPES | ($8,426) |
| 6530 | 403 | 331 | DEPREC-TRANS & DISTR MAINS | ($11,770) |
| 6535 | 403 | 333 | DEPREC-SERVICE LINES | ($92) |
| 6540 | 403 | 334 | DEPREC-METERS | $36,125 |
| 6545 | 403 | 334 | DEPREC-METER INSTALLS | $18 |
| 6550 | 403 | 335 | DEPREC-HYDRANTS | $67 |
| 6555 | 403 | 336 | DEPREC-BACKFLOW PREVENT DEVICE | $6 |
| 6570 | 403 | 339 | DEPREC-OTH PLT&MISC EQP WTP | $33 |
| 6575 | 403 | 339 | DEPREC-OTH PLT&MISC EQP DIST | $397 |
| 6580 | 403 | 304 | DEPREC-OFFICE STRUCTURE | $7 |
| 6585 | 403 | 340 | DEPREC-OFFICE FURN/EQPT | ($504) |
| 6595 | 403 | 343 | DEPREC-TOOL SHOP & MISC EQPT | ($2,213) |
| 6600 | 403 | 344 | DEPREC-LABORATORY EQUIPMENT | $3,074 |
| 6605 | 403 | 345 | DEPREC-POWER OPERATED EQUIP | $107 |
| 6610 | 403 | 346 | DEPREC-COMMUNICATION EQPT | ($9,670) |
| 6615 | 403 | 347 | DEPREC-MISC EQUIPMENT | $4,982 |
| 6620 | 403 | 348 | DEPREC-OTHER TANG PLT WATER | $82 |
| 6985 | 407 | 301 | AMORT-ORGANIZATION | $0 |
| 6995 | 407 | 304 | AMORT-STRCT&IMPRV SRC SUPPLY | $61 |
| 7000 | 407 | 304 | AMORT-STRCT&IMPRV WTP | $316 |
| 7025 | 407 | 307 | AMORT-WELLS & SPRINGS | $789 |
| 7045 | 407 | 311 | AMORT-ELEC PUMP EQP SRC PUMP | $90,598 |
| 7050 | 407 | 311 | AMORT-ELEC PUMP EQP WTP | $21,386 |
| 7055 | 407 | 311 | AMORT-ELEC PUMP EQP TRANS DIST | $18,432 |
| 7060 | 407 | 320 | AMORT-WATER TREATMENT EQPT | $6,154 |
| 7065 | 407 | 330 | AMORT-DIST RESV & STANDPIPES | $4,826 |
| 7070 | 407 | 331 | AMORT-TRANS & DISTR MAINS | $40,883 |
| 7075 | 407 | 333 | AMORT-SERVICE LINES | $4,947 |
| 7080 | 407 | 334 | AMORT-METERS | $100,740 |
| 7085 | 407 | 334 | AMORT-METER INSTALLS | $3,614 |
| 7090 | 407 | 335 | AMORT-HYDRANTS | $483 |
| 7160 | 407 | 348 | AMORT-OTHER TANGIBLE PLT WATER | $7,914 |
| 7165 | 407 | 407 | AMORT-WATER-TAP | ($2,184) |
| 7175 | 407 | 407 | AMORT-WTR RES CAP FEE | ($8) |
| 7180 | 407 | 407 | AMORT-WTR PLT MOD FEE | ($40) |
| 7185 | 407 | 407 | AMORT-WTR PLT MTR FEE | ($61) |
| | | | **Water Net Depreciation Expense Adjustment** | **$329,367** |

**Table 2-2**

| OBJ | NARUC | | DESCRIPTION | 2013AA |
|---|---|---|---|---|
| 6640 | 403 | 351 | DEPREC-ORGANIZATION | ($0) |
| 6645 | 403 | 352 | DEPREC-FRANCHISES INTANG PLT | ($4,237) |
| 6655 | 403 | 354 | DEPREC-STRUCT/IMPRV COLL PLT | $10 |
| 6660 | 403 | 354 | DEPREC-STRUCT/IMPRV PUMP | $721 |
| 6665 | 403 | 354 | DEPREC-STRUCT/IMPRV TREAT PLT | $295,407 |
| 6680 | 403 | 354 | DEPREC-STRUCT/IMPRV GEN PLT | ($296,274) |
| 6685 | 403 | 355 | DEPREC-POWER GEN EQUIP COLL PLT | ($42) |
| 6695 | 403 | 355 | DEPREC-POWER GEN EQUIP TREAT | $53 |
| 6710 | 403 | 360 | DEPREC-SEWER FORCE MAIN | ($10,937) |
| 6715 | 403 | 361 | DEPREC-SEWER GRAVITY MAIN | ($2,336) |
| 6717 | 403 | 361 | DEPREC-MANHOLES | $10,070 |
| 6725 | 403 | 363 | DEPREC-SERVICES TO CUSTOMERS | $11,011 |
| 6730 | 403 | 364 | DEPREC-FLOW MEASURE DEVICES | $26 |
| 6745 | 403 | 371 | DEPREC-PUMP EQP PUMP PLT | ($13,658) |
| 6750 | 403 | 371 | DEPREC-PUMP EQP RCLM WTP | $36 |
| 6765 | 403 | 380 | DEPREC-TREAT/DISP EQ TRT PLT | ($5,783) |
| 6785 | 403 | 382 | DEPREC-OUTFALL LINES | ($47,944) |
| 6795 | 403 | 389 | DEPREC-OTHER PLT COLLECTION | $21 |
| 6800 | 403 | 389 | DEPREC-OTHER PLT PUMP | $1,072 |
| 6805 | 403 | 389 | DEPREC-OTHER PLT TREATMENT | $1,021 |
| 6810 | 403 | 389 | DEPREC-OTHER PLT RCLM WTR TRT | $57 |
| 6825 | 403 | 390 | DEPREC-OFFICE FURN/EQPT | ($64,429) |
| 6835 | 403 | 393 | DEPREC-TOOL SHOP & MISC EQPT | ($44,595) |
| 6840 | 403 | 394 | DEPREC-LABORATORY EQPT | $4 |
| 6845 | 403 | 395 | DEPREC-POWER OPERATED EQUIP | $22 |
| 6850 | 403 | 396 | DEPREC-COMMUNICATION EQPT | ($8,893) |
| 6855 | 403 | 397 | DEPREC-MISC EQUIP SEWER | ($18,334) |
| 6875 | 403 | 366 | DEPREC-REUSE SERVICES | ($0) |
| 6880 | 403 | 367 | DEPREC-REUSE MTR/INSTALLATIONS | $6 |
| 6885 | 403 | 374 | DEPREC-REUSE DIST RESERVOIRS | $0 |
| 6890 | 403 | 375 | DEPREC-REUSE TRANSM / DIST SYS | ($15,505) |
| 7205 | 407 | 351 | AMORT-ORGANIZATION | $0 |
| 7225 | 407 | 354 | AMORT-STRUCT/IMPRV PUMP PLT LS | ($1,588) |
| 7230 | 407 | 354 | AMORT-STRUCT/IMPRV TREAT PLT | ($206,260) |
| 7245 | 407 | 354 | AMORT-STRUCT/IMPRV GEN PLT | $201,427 |
| 7275 | 407 | 360 | AMORT-SEWER FORCE MAIN | $7,750 |
| 7280 | 407 | 361 | AMORT-SEWER GRAVITY MAIN | $12,144 |
| 7283 | 407 | 362 | AMORT-MANHOLES | ($11,483) |
| 7290 | 407 | 363 | AMORT-SERVICES TO CUSTOMERS | ($6,010) |
| 7330 | 407 | 380 | AMORT-TREAT/DISP EQUIP TRT PLT | $126,814 |
| 7350 | 407 | 382 | AMORT-OUTFALL LINES | $5,985 |
| 7430 | 407 | 407 | AMORT-SEWER-TAP | ($909) |
| 7440 | 407 | 407 | AMORT-SWR RES CAP FEE | $24 |
| 7445 | 407 | 407 | AMORT-SWR PLT MOD FEE | $18,753 |
| 7475 | 407 | 367 | AMORT-REUSE MTR/INSTALLATIONS | ($0) |
| **Wastewater Net Depreciation Expense Adjustment** | | | | **($66,785)** |

## Finding 3: Woodlands Des Pinar Wastewater Plant

**Audit Analysis:** On September 11, 2012, the Utility decommissioned and diverted all wastewater flows from the Woodlands Des Pinar (WDP) wastewater treatment plant to the Wekiva wastewater treatment and reuse plant. The shutdown was prompted by a change in wastewater effluent requirements for the Wekiva River Basin promulgated by the Florida Department of Environmental Protection (FDEP) in Rule 62-600.550 – Wastewater Management Requirements for the Wekiva Study Area, F.A.C. The Utility's decision was based on an engineering study commissioned by the Utility that evaluated and defined the least cost option that minimized the capital investment required to comply with the FDEP rule. We obtained and reviewed the study. The demolition of the WDP wastewater plant was completed in May 2014.

There was no new capital investment required to divert the wastewater flows from WDP to Wekiva because an interconnection between the two systems was already in place. The Utility asserts that any increase in annual operating expense at the Wekiva wastewater plant is offset by a corresponding decrease in annual operating expense due to the closure of the WDP wastewater plant.

NARUC Accounting Instruction No. 27 – Utility Plant – Additions and Retirements B(2), states that when depreciable plant in service is retired with or without replacement, the book cost is credited to the utility plant account with a corresponding debit to the associated accumulated depreciation account. The cost of removal and salvage shall be charged or credited, as appropriate, to the depreciation account.

NARUC Accounting Instruction No. 29 – Utility Plant – Transfers of Property A, states that when property is transferred from one utility account, utility department or utility division to another, the transfer shall be recorded by transferring the original cost thereof from the account, department or division to the other. Any related amounts carried in the accounts for accumulated depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

The audit staff has determined the following information from Commission orders and prior staff audits.

1. The original cost for utility land dedicated to public service was determined in an original cost study proffered by the Utility's predecessor corporation in Docket No. 750700-WS. Order No. 7329, issued July 21, 1976, established a combined water and wastewater utility land balance of $278,381 for 60.83 acres, or approximately $4,573 per acre. The WDP water and wastewater plant site accounts for approximately 22.27 acres of the original acreage.

2. Order Nos. PSC-99-1917-PAA-WS, issued September 28, 1999 and PSC-02-0487-PAA-SU, issued April 8, 2002, address the Commission's policy regarding the reclassification of utility land balances due to the consequence of actions required by FDEP.

3. The WDP wastewater plant was rebuilt and placed in service in December 1988. The original cost of the rebuilt wastewater plant was $263,592 and it was posted to the Utility's general ledger and audited by Commission staff in Docket No. 900338-WS. Order No. 23809, issued November 27, 1990, established rate base and approved the rebuilt cost for the WDP wastewater plant.

4. Rule 25-30.140, F.A.C. establishes an 18-year service life for Account No. 380-Treatment & Disposal Equipment. Therefore, the WDP original cost would be fully recovered through annual depreciation expense accruals before it was removed from service.

The audit staff has determined the following information from Utility records and audit request for information.

1. The Utility has not recorded any entries to retire or transfer plant assets for the decommissioning of WDP to the general ledger.

2. The WDP facility was demolished and removed by a contractor for $10,890 net of an estimated $12,000 salvage and scrap metal right conveyed by the Utility to the contractor. Prior to demolition the Utility was to remove aluminum hand rails, pumps, separators and a crane.

3. The Utility paid a contractor $1,150 to abandon and cap three ground water monitor wells located on the WDP water and wastewater land site.

4. The Utility paid a contractor $2,540 to scrap and dispose of 200 yards of wastewater sediment from the sites percolation ponds per FDEP request.

5. The Utility paid a contractor $600 to disconnect and make safe all power and control circuits prior to demolition of the Des Pinar wastewater plant.

6. The Utility removed and transferred two blowers and assemblies to Carolina Water Service from WDP in March 2014.

7. The Utility included $475 for sludge hauling from WDP in the 2013 test year.

8. The Utility paid $7,621 of real property taxes on the 22.27 acre WDP water and wastewater land site in 2013 to Seminole County. Approximately $5,133, of the real property tax, was levied against the assessed land value of the WDP site. The remaining real property tax balance of $2,488 was levied against improvements on the WDP site such as buildings and structures.

9. The Utility paid $330,573 of tangible property tax on net taxable assets of $21,539,971 in 2013 to Seminole County. The net taxable asset value used by Seminole County was taken from the Utility' 2012 FPSC Annual Report and adjusted for non-taxable items as determined by the county's tax assessor. The WDP wastewater plant net assets were

included in the assessed value and will be included in future assessments until the assets are retired and removed from the Utility's annual report balance.

10. The Utility paid a contractor $25,800 for landscape and lawn services for all the water and wastewater plant sites in 2013.

11. Utility Account No. 364 – Flow Measuring Device reflects balances of $3,325 and $3,446, as of December 31, 2012 and 2013, respectively, for the WDP plant.

12. Utility Account No. 380 includes a 250Kw generator that was used to provide emergency power for the WDP wastewater plant. The Utility plans to relocate the generator to a different location on the WDP plant site to provide emergency power for a lift station and potable well.

In the instant proceeding the Utility filed a request for proforma treatment to recover $11,490 of the cost to decommission the WDP facility that are identified in Item Nos. 2 and 5 above.

**Recommended Land Adjustment**

The following adjustment should be made to remove the cost associated with the transfer of land at the WDP site to a Land Held for Future Use per Commission rules and policies established in Order Nos. PSC-99-1917-PAA-WS and PSC-02-0487-PAA-SU as cited above. We believe that approximately 9.94 acres of the 22.27 acre WDP site contained the three percolation ponds and the wastewater plant. Based on an original cost of $4,573 per acre, our adjustment reduces wastewater land by $45,459, as of September 30, 2012. The December 31, 2013 year end adjustment and 13-month average adjustment for the instant proceeding are the same because they are prior period adjustments before the beginning of the test year.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 104 | TBD | To be determined by the Utility | $45,459 | |
| 353 | 1275 | Land & Land Rights | | $45,459 |

**Recommended Plant in Service and Accumulated Depreciation Retirement**

The following adjustment should be made to remove utility assets due to the decommissioning of the WDP plant facility per the Commission rules and NARUC accounting instructions cited above. The December 31, 2013 year end adjustment and 13-month average adjustment for the instant proceeding are the same because they are prior period adjustments before the beginning of the test year.

| | NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|---|
| | 108 | 2160 | A/D Treat/Disp Equip Trt Plt | $279,247 | |
| a | 108 | 2125 | A/D Flow Measuring Devices | $2,724 | |
| a | 364 | 1365 | Flow Measure Devices | | $3,446 |
| | 380 | 1400 | Treat/Disp Equip Trt Plt | | $263,592 |
| | | TBD | To be determined by the Utility | | $14,933 |

a Retire entire account balance due to flow meter being scrapped.

| Accumulated Depreciation adjustment calculation: | Amount |
|---|---|
| Retire wastewater plant at original cost. | $263,592 |
| Sludge hauling cost to clean plant prior to demolition. | $475 |
| Contract cost to disconnect power service from plant. | $600 |
| Contract cost to demolish and haul off plant. | $10,890 |
| Contract cost to clean percolation ponds. | $2,540 |
| Cost to cap and abandon site monitor wells. | $1,150 |
| **Total** | **$279,247** |

Per NARUC - The cost of removal and salvage shall be charged or credited, as appropriate, to the depreciation account.

**Recommended Plant in Service and Accumulated Depreciation Transfers**

The following adjustment should be made to record the transfer of plant assets due to the demolition of the WDP plant facility per the Commission rules and NARUC accounting instructions cited above. Additional adjustments will need to be recorded for those assets where an original cost amount was not provided or could not be determined. The December 31, 2013 year end adjustment and 13-month average adjustment for the instant proceeding are the same because they are prior period adjustments before the beginning of the test year.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 1890 | A/D Power Generation Equipment | | $19,550 |
| 108 | 2090 | A/D Power Generation Treatment Plant | | $19,550 |
| 108 | 2160 | A/D Treat/Disp Treatment Plant (Generator) | $39,100 | |
| 310 | 1095 | Power Generation Equipment | $19,550 | |
| 355 | 1330 | Power Generation Treatment Plant | $19,550 | |
| 380 | 1400 | Treat/Disp Treatment Plant (Generator) | | $39,100 |

**Recommended Accumulated Depreciation Adjustment**

The WDP facility was removed from service in September 2012. All of the above adjustments should be recorded as prior period adjustments based on that date. The cumulative effect of recording the PIS adjustments as of September 2012 will necessitate a recapture of accumulated depreciation accruals on the PIS adjustments through the end of the test year. Our adjustments and calculations are illustrated below. No additional correction is needed to Account. No. 364 because our adjustment zeros out the PIS and accumulated depreciation accounts as of December 31, 2013.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 1890 | A/D Power Generation Equipment | | $1,222 |
| 108 | 2090 | A/D Power Generation Treatment Plant | | $1,222 |
| 108 | 2160 | A/D Treat/Disp Treatment Plant (Generator) | $2,715 | |
| 108 | 2160 | A/D Treat/Disp Treatment Plant (WDP plant) | $18,305 | |
| | TBD | To be determined by the Utility | | $18,576 |

The test year adjustments are displayed above. The 13-month average adjustments for the instant proceeding increase (Credit) water accumulated by $733 and reduce (Debit) wastewater accumulated depreciation by $11,879, respectively.

| Description | PIS Dec-12 | Dep. Rate | Recapture 2012 Accrual | 2012 Balance | 2013 Accrual | 2013 Balance | Average |
|---|---|---|---|---|---|---|---|
| Transfer Generator | $19,550 | 5.00% | ($244) | ($244) | ($978) | ($1,222) | ($733) |
| **Water Acc. Dep. Adjustment** | | | **($244)** | **($244)** | **($978)** | **($1,222)** | **($733)** |
| | | | | | | | |
| Retire WDP plant | ($263,592) | 5.56% | $3,661$ | 3,661 | $14,644 | $18,305 | $10,983 |
| Transfer Generator | ($39,100) | 5.56% | $543 | $543 | $2,172$ | 2,715$ | 1,629 |
| Transfer Generator | $19,550 | 5.00% | ($244) | ($244) | ($978) | ($1,222) | ($733) |
| **Wastewater Acc. Dep. Adjustment** | | | **$3,960** | **$3,960** | **$15,839** | **$19,798** | **$11,879** |

(Small differences are due to rounding)

## Recommended Depreciation Expense Adjustment

All of the audit adjustments above will affect test year 2013 depreciation expense because the general ledger includes depreciation accruals on the assets that were transferred or removed from PIS before the test year. Our adjustments are illustrated below.

| | NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|---|
| | 403 | 6500 | Dep. Expense - Power Operated Equip. | $978 | |
| | 403 | 6605 | Dep. Expense - Power Operated Equip. | $978 | |
| | 403 | 6730 | Dep. Expense - Flow Measure Devise | | $355 |
| a | 403 | 6765 | Dep. Expense - T&D Equip. | | $16,816 |
| | | TBD | To be determined by the Utility. | $15,215 | |

a Sum of WDP retirement and generator transfer ($14,644 + $2,172= $16,816)

(The generator was recorded in Acct. No. 380 / OBJ 1400 - T&D Treatment Plant)

| Description | PIS Dec-12 | Dep. Rate | Recapture Dec-13 |
|---|---|---|---|
| Transfer Generator | $19,550 | 5.00% | $978 |
| **Water Dep. Expense Adjustment** | | | **$978** |
| | | | |
| Retire WDP plant | ($263,592) | 5.56% | ($14,644) |
| Transfer Generator | ($39,100) | 5.56% | ($2,172) |
| Transfer Generator | $19,550 | 5.00% | $978 |
| Retire Effluent Flow Meter (a) | ($3,446) | | ($355) |
| **Wastewater Dep. Expense Adjustment** | | | **($16,194)** |

a Recapture entire depreciation expense amount due to flow meter being scrapped.

(Small differences are due to rounding)

## Additional Information

The adjustments above do not encompass a complete assessment of the effect of closing and demolishing the WDP plant from operations. The Utility indicated that it is still compiling a list of utility assets that were inventoried, removed or transferred to other affiliated systems. Some of the assets include the wastewater plant blowers, chlorine storage tank and various pumps. The Utility was not able to provide and we were unable to determine a value for these assets for this proceeding.

The Utility states that the effect of closing and demolishing the WDP plant on test year operating expense is offset by increase in operating cost at the Wekiva system. We were not able to determine the validity of this assertion because of limited available information. Our audit workpapers include information on the annual property tax, tangible tax and landscape

maintenance costs for WDP that were included in test year operating expense for the analyst to consider.

**Effect on the General Ledger:** The NARUC and Utility OBJ account adjustments are indicated in the respective schedules above.

**Effect on the Filing:** 13-month average water rate base and test year depreciation expense should be increased by $733 and $978, respectively. 13-month average wastewater rate base and test year depreciation expense should be reduced by $18,644 and $16,194, respectively.

| | **Audit Adjustment - Water** | **Increase(Decrease)** |
|---|---|---|
| | Plant in Service (Transfer) | $19,550 |
| | Accumulated Depreciation (Transfer) | ($19,550) |
| a | Accumulated Depreciation (Recapture) | $733 |
| | **Net Rate Base** | **$733** |

| | **Audit Adjustment - Wastewater** | **Increase(Decrease)** |
|---|---|---|
| | Land Reclassification to PHFU | ($45,456) |
| | Plant in Service (Transfer) | $19,550 |
| b | Plant in Service (Retirement) | ($267,038) |
| | Accumulated Depreciation (Transfer) | ($19,550) |
| c | Accumulated Depreciation (Retirement) | $281,971 |
| a | Accumulated Depreciation (Recapture) | $11,879 |
| | **Net Rate Base** | **($18,644)** |

| | **Audit Adjustment - Water & Wastewater** | **Increase(Decrease)** |
|---|---|---|
| a | Water Dep. Expense | $978 |
| a | Wastewater Dep. Expense | ($16,194) |

| | **Calculations:** | |
|---|---|---|
| a | See prior page for calculation. | |
| b | PIS WDP Retirement | $263,592 |
| | PIS Flow Meter Retirement | $3,446 |
| | | $267,038 |
| c | AD WDP Retirement | $279,247 |
| | AD Flow Meter Retirement | $2,724 |
| | | $281,971 |

## Finding 4: Water Plant in Service - General

**Audit Analysis:** As a result of our sample of additions to water plant in service, we determined that there were no retirements recorded by the Utility for the following transactions.

| OBJ | Date | Vendor | Amount |
|---|---|---|---|
| 1055 | May-13 | Louver Repair | $5,913 |
| 1115 | Aug-13 | Odyssey Manufacture | $8,900 |
| 1190 | Nov-13 | USA Bluebook | $785 |
| 1205 | Aug-13 | Thompson Electric | $7,198 |

The original cost of the assets replaced was not available. A retirement entry should have been booked when these assets were installed. The amount of the retirement adjustment was calculated as 75 percent of the costs of the new asset additions, based on prior Commission policy. The accumulated depreciation and depreciation expense related to these assets should also be removed. The following schedule details our calculated adjustments.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 304 | 1055 | PIS-Structures | 2013 | $5,913 | ($4,435) | $1,478 |
| 320 | 1115 | PIS-Water Treatment | 2013 | $8,900 | ($6,675) | $2,225 |
| 343 | 1190 | PIS-Tools & Shop | 2013 | $785 | ($589) | $196 |
| 346 | 1205 | PIS-Comm. Equip. | 2013 | $7,198 | ($5,399) | $1,800 |
| **Plant in Service Retirement** | | | | | **($17,097)** | |

| NARUC | OBJ | Description | Year | Retirement | Adjustment(b) | Retirement |
|---|---|---|---|---|---|---|
| 108 | 1850 | AD-Structures | 2013 | $0 | $4,435 | $4,435 |
| 108 | 1910 | AD-Water Treatment | 2013 | $0 | $6,675 | $6,675 |
| 108 | 1985 | AD-Tools & Shop | 2013 | $0 | $589 | $589 |
| 108 | 2000 | AD-Comm. Equip. | 2013 | $0 | $5,399 | $5,399 |
| **Accumulated Depreciation Retirement** | | | | | **$17,097** | |
| Accumulated Depreciation recapture | | | | | $509 | |
| **Accumulated Depreciation Adjustment** | | | | | **$17,606** | |

| NARUC | OBJ | PIS Retirement | Dep. Rate | Annual Depreciation Accrual Recapture (c) 2013 | Total |
|---|---|---|---|---|---|
| 304 | 1055 | ($4,435) | 3.13% | $69 | $69 |
| 320 | 1115 | ($6,675) | 4.55% | $152 | $152 |
| 343 | 1190 | ($589) | 6.25% | $18 | $18 |
| 346 | 1205 | ($5,399) | 10.00% | $270 | $270 |
| **Accumulated Depreciation Adjustment** | | | | **$509** | **$509** |

| | |
|---|---|
| **Depreciation Expense Adjustment** | **($509)** |

a Calculated as 75% of the cost of the new addition.

b Accumulated Depreciation retirement equals PIS retirement.

c Retirement amount times applicable depreciation rate using half-year convention method.

(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 1850A | D-Structures | $4,504 | |
| 108 | 1910A | D-Water Treatment | $6,827 | |
| 108 | 1985A | D-Tools & Shop | $607 | |
| 108 | 2000A | D-Comm. Equip. | $5,668 | |
| 304 | 1055P | IS-Structures | | $4,435 |
| 320 | 1115P | IS-Water Treatment | | $6,675 |
| 343 | 1190P | IS-Tools & Shop | | $589 |
| 346 | 1205P | IS-Comm. Equip. | | $5,399 |
| | TBD | To be determined by the Utility. | | $509 |

**Effect on the Filing:** 13-month average water PIS and Accumulated Depreciation should be reduced by $8,549 and $9,058, respectively, and Depreciation Expense should be reduced by $509, for the test year.

| Increase(Reduce) | PIS | AD | Dep. Expense |
|---|---|---|---|
| Structures & Improvements | ($2,218) | ($2,287) | ($69) |
| Water Treatment Equip. | ($3,338) | ($3,490) | ($152) |
| Tools & Shop Equip. | ($295) | ($313) | ($18) |
| Comm. Equip. | ($2,700) | ($2,970) | ($270) |
| Net Average Adjustment | ($8,549) | ($9,058) | ($509) |

## Finding 5: Water Plant in Service Retirement - Meters

**Audit Analysis:** As a result of our sample of additions to Account No. 334-Meters, we determined that there were no retirements recorded by the Utility. The original cost of the meters replaced was not available. The Utility stated that they have an ongoing meter replacement program and have replaced approximately 3,700 meters since 2009. They also confirmed that a retirement entry should have been booked when these assets were installed. The amount of the retirement adjustment was calculated as 75 percent of the costs of the new meter additions, based on prior Commission policy. The accumulated depreciation and depreciation expense related to these retired meters should also be removed. The following schedule details our calculated adjustments.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 334 | 1135 | PIS-Meters | 2011 | $96,716 | ($72,537) | $24,179 |
| 334 | 1135 | PIS-Meters | 2012 | $76,216 | ($57,162) | $19,054 |
| 334 | 1135 | PIS-Meters | 2013 | $70,371 | ($52,778) | $17,593 |
| **Plant in Service Retirement** | | | | | **($182,478)** | |

| NARUC | OBJ | Description | Year | Retirement | Adjustment(b) | Retirement |
|---|---|---|---|---|---|---|
| 108 | 1930 | AD-Meters | 2011 | $0 | $72,537 | $72,537 |
| 108 | 1930 | AD-Meters | 2012 | $0 | $57,162 | $57,162 |
| 108 | 1930 | AD-Meters | 2013 | $0 | $52,778 | $52,778 |
| **Accumulated Depreciation Retirement** | | | | | **$182,478** | |
| Accumulated Depreciation recapture | | | | | $14,674 | |
| **Accumulated Depreciation Adjustment** | | | | | **$197,152** | |

| | | PIS | Annual Depreciation Accrual Recapture (c) | | | |
|---|---|---|---|---|---|---|
| NARUC | OBJ | Retirement | 2011 | 2012 | 2013 | Total |
| 334 | 1135 | (72,537) | $1,813 | $3,627 | $3,627 | $9,067 |
| 334 | 1135 | (57,162) | | $1,429 | $2,858 | $4,287 |
| 334 | 1135 | (52,778) | | | $1,319 | $1,319 |
| **Accumulated Depreciation Adjustment** | | | **$1,813** | **$5,056** | **$7,804** | **$14,674** |

| | |
|---|---|
| **Depreciation Expense Adjustment** | **$7,804** |

a Calculated as 75% of the cost of the new addition.
b Accumulated Depreciation retirement equals PIS retirement.
c Retirement amount times depreciation rate of 5.00% using half-year convention method.
(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 1930 | AD-Meters | $197,152 | |
| 334 | 1135 | PIS-Meters | | $182,478 |
| | TBD | To be determined by the Utility | | $14,674 |

**Effect on the Filing:** 13-month average water PIS and Accumulated Depreciation should be reduced by $152,645 and $166,861, respectively, and Depreciation Expense should be reduced by $7,804, for the test year.

## Finding 6: Water Plant in Service Transfers - Meters

**Audit Analysis:** As a result of our sample of additions to Account No. 333-Service Lines, we determined that there were substantial additions of meters and meter supplies from one vendor recorded in this account. These items relate to the Utility's ongoing meter replacement program and should have been recorded to Account No. 334-Meters and included a retirement amount. The transfer from Account No. 333 to Account No. 334 and the amount of the retirement adjustment was calculated as 75 percent of the costs of the new meter additions, based on prior Commission policy. The accumulated depreciation and depreciation expense related to the transfer and the retired meters should also be removed. The following schedule details our calculated adjustments.

**Remove meter and meter supplies from Account No. 333**

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment | Per Audit Additions |
|---|---|---|---|---|---|---|
| 333 | 1350 | PIS-Service Lines | 2011 | $32,011 | ($32,011) | $0 |
| 333 | 1350 | PIS-Service Lines | 2012 | $25,497 | ($25,497) | $0 |
| 333 | 1350 | PIS-Service Lines | 2013 | $25,378 | ($25,378) | $0 |
| **Plant in Service Retirement** | | | | | **($82,886)** | |

| NARUC | OBJ | PIS Transfer | Annual Depreciation Accrual Recapture (b) 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|
| 333 | 1350 | (32,011) | $400 | $800 | $800 | $2,001 |
| 333 | 1350 | (25,497) | | $319 | $637 | $956 |
| 333 | 1350 | (25,378) | | | $317 | $317 |
| **Accumulated Depreciation Adjustment** | | | **$400** | **$1,119** | **$1,755** | **$3,274** |
| **Depreciation Expense Adjustment** | | | | | **($1,755)** | |

a Transfer entire cost of invoices to Account No. 334.

b Transfer amount times depreciation rate of 2.50% using half-year convention method.

## Record and retire meter and meter supplies to Account No. 334

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 334 | 1135 | PIS-Meters | 2011 | $0 | $8,003 | $8,003 |
| 334 | 1135 | PIS-Meters | 2012 | $0 | $6,374 | $6,374 |
| 334 | 1135 | PIS-Meters | 2013 | $0 | $6,345 | $6,345 |
| **Plant in Service Retirement** | | | | | **$20,722** | |

| NARUC | OBJ | Description | Year | Retirement | Adjustment(b) | Retirement |
|---|---|---|---|---|---|---|
| 108 | 1930 | AD-Meters | 2011 | $0 | $24,008 | $24,008 |
| 108 | 1930 | AD-Meters | 2012 | $0 | $19,123 | $19,123 |
| 108 | 1930 | AD-Meters | 2013 | $0 | $19,034 | $19,034 |
| **Accumulated Depreciation Retirement** | | | | | **$62,165** | |
| Annual Depreciation Accrual | | | | | ($1,637) | |
| **Accumulated Depreciation Adjustment** | | | | | **$60,527** | |

| NARUC | OBJ | PIS Addition | Annual Depreciation Accrual (d) 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|
| 108 | 1930 | $8,003 | ($200) | ($400) | ($400) | ($1,000) |
| 108 | 1930 | $6,374 | | ($159) | ($319) | ($478) |
| 108 | 1930 | $6,345 | | | ($159) | ($159) |
| **Accumulated Depreciation Adjustment** | | | **($200)** | **($559)** | **($877)** | **($1,637)** |

| | |
|---|---|
| **Depreciation Expense Adjustment** | **$877** |

a The cost of the new addition net of 75% retirement.
b Accumulated Depreciation retirement equals PIS retirement.
c Retirement amount times depreciation rate of 5.00% using half-year convention method.
d Cost of new addition times depreciation rate of 5.00% using half-year convention method.
(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 1925 | AD-Service Lines | $3,274 | |
| 108 | 1930 | AD-Meters | $60,527 | |
| 333 | 1130 | PIS-Service Lines | | $82,886 |
| 334 | 1135 | PIS-Meters | $20,722 | |
| | TBD | To be determined by the Utility | | $1,637 |

**Effect on the Filing:** 13-month average water PIS should be reduced by $51,446 and Accumulated Depreciation should be increased by $54,465, respectively, and Depreciation Expense should be reduced by $878, for the test year.

| Increase(Reduce) | PIS | AD | Dep. Expense |
|---|---|---|---|
| Service Lines | ($68,595) | $3,116 | ($1,755) |
| Meters & Supplies | $17,149 | $51,449 | $877 |
| Net Average Adjustment | ($51,446) | $54,565 | ($878) |

## Finding 7: Wastewater Plant in Service - General

**Audit Analysis:** As a result of our sample of additions to wastewater plant in service, we determined that there were no retirements recorded by the Utility for the following transactions.

| OBJ | Date | Vendor | Amount |
|---|---|---|---|
| 1353 | Oct-11 | Sunshine Building | $943 |
| 1530 | May-11 | Mopluv Service | $1,274 |
| 1385 | Oct-13 | Thompson Electric | $6,395 |
| 1385 | Nov-13 | Thompson Electric | $13,074 |

The original cost of the assets replaced was not available. A retirement entry should have been booked when these assets were installed. The amount of the retirement adjustment was calculated as 75 percent of the costs of the new asset additions, based on prior Commission policy. The accumulated depreciation and depreciation expense related to these assets should also be removed. The following schedule details our calculated adjustments.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 361 | 1353 | PIS-Manholes | 2011 | $943 | ($707) | $236 |
| 367 | 1530 | PIS-Reuse Mtr Inst. | 2011 | $1,274 | ($956) | $319 |
| 371 | 1385 | PIS-Pmp Equip Rcl | 2013 | $6,395 | ($4,796) | $1,599 |
| 371 | 1385 | PIS-Pmp Equip Rcl | 2013 | $13,074 | ($9,806) | $3,269 |
| **Plant in Service Retirement** | | | | | **($16,265)** | |

| NARUC | OBJ | Description | Year | Retirement | Adjustment(b) | Retirement |
|---|---|---|---|---|---|---|
| 108 | 2113 | AD-Manholes | 2011 | $0 | $707 | $707 |
| 108 | 2275 | AD-Reuse Mtr Inst. | 2011 | $0 | $956 | $956 |
| 108 | 2145 | AD-Pmp Equip Rcl | 2013 | $0 | $4,796 | $4,796 |
| 108 | 2145 | AD-Pmp Equip Rcl | 2013 | $0 | $9,806 | $9,806 |
| **Accumulated Depreciation Retirement** | | | | | **$16,265** | |
| Accumulated Depreciation recapture | | | | | $564 | |
| **Accumulated Depreciation Adjustment** | | | | | **$16,829** | |

| NARUC | OBJ | PIS Retirement | Dep. Rate | Annual Depreciation Accrual Recapture (c) 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|---|
| 361 | 1353 | ($707) | 5.00% | $8 | $16 | $16 | $39 |
| 367 | 1530 | ($956) | 5.00% | $24 | $48 | $48 | $119 |
| 371 | 1385 | ($4,796) | 5.56% | | | $133 | $133 |
| 371 | 1385 | ($9,806) | 5.56% | | | $272 | $272 |
| **Accumulated Depreciation Adjustment** | | | | **$32** | **$63** | **$469** | **$564** |

| | |
|---|---|
| **Depreciation Expense Adjustment** | **($469)** |

a Calculated as 75% of the cost of the new addition.

b Accumulated Depreciation retirement equals PIS retirement.

c Retirement amount times applicable depreciation rate using half-year convention method.

(Small differences are due to rounding)

As a result of our sample of additions to wastewater plant in service, we determined that there was no support provided to substantiate the following transactions.

| OBJ | Date | Vendor | Amount |
|---|---|---|---|
| 1380 | May-11 | F.J. Nugent & Associates | $6,518 |
| 1475 | Aug-11 | USA Bluebook | $305 |

The unsupported transactions should be removed. The accumulated depreciation and depreciation expense related to these assets should also be removed.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 371 | 1380 | Pumping Equip. Pmp Plt | 2011 | $6,518 | ($6,518) | $0 |
| 394 | 1475 | Laboratory Equip. | 2011 | $305 | ($305) | $0 |
| **Plant in Service Removal** | | | | | **($6,823)** | |

| | | | | | Annual Depreciation Accrual Recapture (b) | | |
|---|---|---|---|---|---|---|---|
| NARUC | OBJ | PIS Removal | Dep. Rate | 2011 | 2012 | 2013 | Total |
| 108 | 2140 | ($6,518) | 5.56% | $181 | $362 | $362 | $905 |
| 108 | 2235 | ($305) | 6.67% | $10 | $20 | $20 | $51 |
| **Accumulated Depreciation Adjustment** | | | | **$191** | **$382** | **$382** | **$956** |

| | |
|---|---|
| **Depreciation Expense Adjustment** | **($382)** |

a Calculated as 75% of the cost of the new addition.

b PIS removal amount times applicable depreciation rate using half-year convention method.

(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| | NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|---|
| a | 108 | 2113 | AD-Manholes | $746 | |
| | 108 | 2140 | AD-Pumping Equip. Pmp Plt | $905 | |
| b | 108 | 2145 | AD-Pump Equip. Rclm. | $15,007 | |
| | 108 | 2235 | AD-Laboratory | $51 | |
| c | 108 | 2275 | AD-Reuse Mtr Installs | $1,075 | |
| | 361 | 1353 | PIS-Manholes | | $707 |
| | 367 | 1530 | PIS-Reuse Mtr Installs | | $956 |
| | 371 | 1380 | PIS-Pumping Equip. Pmp Plt | | $6,518 |
| d | 371 | 1385 | PIS-Pump Equip. Rclm. | | $14,602 |
| | 394 | 1475 | PIS-Laboratory | | $305 |
| | | TBD | To be determined by the Utility | $5,304 | |

| | | | | | |
|---|---|---|---|---|---|
| a | AD Manholes retiremnet | $707 | c | AD Reuse Mtr Inst retirement | $956 |
| | AD Manholes recaptuer$39 | | | AD Reuse Mtr Inst recapture | $119 |
| | | $746 | | | $1,075 |
| b | AD Pmp Equip Rclm retirement | $4,796 | d | PIS Pmp Equip Rclm retirement | $4,796 |
| | AD Pmp Equip Rclm retirement | $9,806 | | PIS Pmp Equip Rclm retirement | $9,806 |
| | AD Pmp Equip Rclm recapture | $133 | | | $14,602 |
| | AD Pmp Equip Rclm recapture | $272 | | | |
| | | $15,007 | | | |

**Effect on the Filing:** 13-month average wastewater PIS and Accumulated Depreciation should be reduced by $11,101 and $10,058, respectively, and Depreciation Expense should be reduced by $851, for the test year.

| Increase(Reduce) | PIS | AD | Dep. Expense |
|---|---|---|---|
| Manholes | ($707) | ($738) | ($16) |
| Reuse Meter Installs | ($956) | ($1,052) | ($48) |
| Pumping Equip. Rclm. | ($2,615) | ($7,503) | ($405) |
| Pumping Equip. Pmp Plt | ($6,518) | ($724) | ($362) |
| Laboratory | ($305) | ($41) | ($20) |
| Net Average Adjustment | ($11,101) | ($10,058) | ($851) |

## Finding 8: Wastewater Plant in Service Retirement – Pumping Equipment

**Audit Analysis:** As a result of our sample of additions to Account. No. 371-Pumping Equipment, we determined that there were no retirements recorded by the Utility. A retirement entry should have been booked when these assets were installed. The amount of the retirement adjustment was calculated as 75 percent of the costs of the new pumping equipment additions, based on prior Commission policy. The accumulated depreciation and depreciation expense related to these retired pumps should also be removed. The following schedule details our calculated adjustments.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 371 | 1380 | PIS-Pumping Equip. | 2011 | $24,507 | ($18,380) | $6,127 |
| 371 | 1380 | PIS-Pumping Equip. | 2012 | $34,556 | ($25,917) | $8,639 |
| 371 | 1380 | PIS-Pumping Equip. | 2013 | $20,022 | ($15,017) | $5,006 |
| **Plant in Service Retirement** | | | | | **($59,314)** | |

| NARUC | OBJ | Description | Year | Retirement | Adjustment(b) | Retirement |
|---|---|---|---|---|---|---|
| 108 | 2140 | AD-Pumping Equip. | 2011 | $0 | $18,380 | $18,380 |
| 108 | 2140 | AD-Pumping Equip. | 2012 | $0 | $25,917 | $25,917 |
| 108 | 2140 | AD-Pumping Equip. | 2013 | $0 | $15,017 | $15,017 |
| **Accumulated Depreciation Retirement** | | | | | **$59,314** | |
| Accumulated Depreciation recapture | | | | | $5,130 | |
| **Accumulated Depreciation Adjustment** | | | | | **$64,443** | |

| NARUC | OBJ | PIS Retirement | Annual Depreciation Accrual Recapture (c) 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|
| 371 | 1380 | (18,380) | $511 | $1,021 | $1,021 | $2,553 |
| 371 | 1380 | (25,917) | | $720 | $1,440 | $2,160 |
| 371 | 1380 | (15,017) | | | $417 | $417 |
| **Accumulated Depreciation Adjustment** | | | **$511** | **$1,741** | **$2,878** | **$5,130** |

| | |
|---|---|
| **Depreciation Expense Adjustment** | **($2,878)** |

a Calculated as 75% of the cost of the new addition.

b Accumulated Depreciation retirement equals PIS retirement.

c Retirement amount times depreciation rate of 5.66% using half-year convention method.
(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 2140 | AD-Pumping Equip. | $64,443 | |
| 371 | 1380 | PIS-Pumping Equip. | | $59,314 |
| | TBD | To be determined by the Utility | | $5,129 |

**Effect on the Filing:** 13-month average wastewater PIS and Accumulated Depreciation should be reduced by $49,415 and $55,496, respectively, and Depreciation Expense should be reduced by $2,878, for the test year.

## Finding 9: Wastewater Plant in Service Retirement – T&D Equipment

**Audit Analysis:** As a result of our sample of additions to Account. No. 380 Treatment and Disposal Equipment we found that a metal storage tank was replaced in 2012 at the Wekiva wastewater plant with a 5,000 gallon polyurethane tank because of corrosion problems. There was no corresponding retirement recorded by the Utility. A retirement entry should have been booked when the tank was replaced. The original cost of the old tank was not available. The amount of the retirement adjustment was calculated as 75 percent of the costs of the new polyurethane tank addition, based on prior Commission policy. The accumulated depreciation and depreciation expense related to this retirement should also be removed. The following schedule details our calculated adjustments.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 380 | 1400 | PIS-T&D Equipment | 2012 | $14,860 | ($11,145) | $3,715 |
| **Plant in Service Retirement** | | | | | **($11,145)** | |

| NARUC | OBJ | Description | Year | Retirement | Adjustment(b) | Retirement |
|---|---|---|---|---|---|---|
| 380 | 2160 | AD-T&D Equipment | 2012 | 0 | $11,145 | 11,145 |
| **Accumulated Depreciation Retirement** | | | | | **$11,145** | |
| Accumulated Depreciation Recapture | | | | | $929 | |
| **Accumulated Depreciation Adjustment** | | | | | **$12,074** | |

| | | PIS | Annual Depreciation Accrual Recapture (c) | | |
|---|---|---|---|---|---|
| NARUC | OBJ | Retirement | 2012 | 2013 | Total |
| 380 | 1400 | (11,145) | $310 | $619 | $929 |
| **Accumulated Depreciation Adjustment** | | | **$310** | **$619** | **$929** |

| | |
|---|---|
| **Depreciatipon Expense Adjustment** | **($619)** |

a Calculated as 75% of the cost of the new addition.

b Accumulated Depreciation retirement equals PIS retirement.

c Retirement amount times depreciation rate of 5.66% using half-year convention method.

(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 2160 | AD-T&D Equipment | $12,074 | |
| 380 | 1400 | PIS-T&D Equipment | | $11,145 |
| | TBD | To be determined by the Utility | | $929 |

**Effect on the Filing:** 13-month average wastewater PIS and Accumulated Depreciation should be reduced by $11,145 and $11,765, respectively, and Depreciation Expense should be reduced by $619, for the test year.

## Finding 10: Wastewater Plant in Service Transfers – T&D Equipment

**Audit Analysis:** In 2009, Bio-Tech, Inc., a subsidiary of Utilities, Inc. purchased and installed five sludge sluice boxes for $189,607 or $37,921 each. Order No. PSC-13-0085-PAA-WS, determined that the Utility shared one of the sluice boxes with Longwood Utilities, Inc., an affiliated operation. The Utility was required to record $18,960 to Account No. 380-Treatment and Disposal Equipment for the shared cost of one sluice box.

In 2013, the Utility replaced the sluice box with a sludge belt spreader-dryer and transferred the sluice box to an affiliated operation in Florida. We did not find a transfer entry recorded to the Utility's general ledger. The plant in service, accumulated depreciation and depreciation expense adjustment related to this transfer is detailed in the following schedule.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 380 | 1400 | PIS-T&D Equipment | 2013 | $0 | ($18,960) | ($18,960) |
| **Plant in Service Transfer** | | | | | **($18,960)** | |

| NARUC | OBJ | PIS Transfer | Annual Depreciation Accrual Recapture (b) 2009 | 2010 to 2012 | 2013 | Total |
|---|---|---|---|---|---|---|
| 380 | 1400 | (18,960) | $527 | $3,160 | $527 | $4,214 |
| **Accumulated Depreciation Adjustment** | | | **$527** | **$3,160** | **$527** | **$4,214** |
| **Depreciation Expense Adjustment** | | | | | **($527)** | |

a Transfer entire cost of sluice box out of Account No. 380.

b Transfer amount times depreciation rate of 5.56% using half-year convention method.

(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 2160 | AD-T&D Equipment | $4,213 | |
| 145 | 2710 | Acct. Receivable (Associated Company) | $15,274 | |
| 380 | 1400 | PIS-T&D Equipment | | $18,960 |
| | TBD | To be determined by the Utility | | $527 |

**Effect on the Filing:** 13-month average wastewater PIS and Accumulated Depreciation should be reduced by $9,480 and $3,950, respectively, and Depreciation Expense should be reduced by $527, for the test year.

## Finding 11: Wastewater Plant in Service - Reimbursement

**Audit Analysis:** As a result of our sample of additions to Account No. 361-Wastewater Gravity Mains, we found an invoice for $2,773 to repair a sewer main that was damaged by an outside contractor working in the Utility's service territory. The Utility stated that it was reimbursed for the repairs by the contractor at a later date. A reversing entry should have been booked when the reimbursement was received. The accumulated depreciation and depreciation expense related to the reimbursement should also be removed. The following schedule details our calculated adjustments.

| NARUC | OBJ | Description | Year | Per Utility Additions | Debit(Credit) Adjustment(a) | Per Audit Additions |
|---|---|---|---|---|---|---|
| 361 | 1350 | PIS-Gravity Mains | 2012 | $2,773 | ($2,773) | $0 |
| **Plant in Service Adjustment** | | | | | **($2,773)** | |

| | | PIS | Annual Depreciation Accrual Recapture (b) | | | |
|---|---|---|---|---|---|---|
| NARUC | OBJ | Adjustment | 2011 | 2012 | 2013 | Total |
| 361 | 1350 | (2,773) | $0 | $31 | $62 | $92 |
| **Accumulated Depreciation Adjustment** | | | **$0** | **$31** | **$62** | **$92** |

**Depreciation Expense Adjustment** **($62)**

a Remove entire cost of invoice.

b Adjustment amount times depreciation rate of 2.22% using half-year convention method.

(Small differences are due to rounding)

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 2110 | AD-Gravity Mains | $92 | |
| 361 | 1350 | PIS-Gravity Mains | | $2,773 |
| | TBD | To be determined by the Utility | $2,681 | |

**Effect on the Filing:** 13-month average wastewater PIS and Accumulated Depreciation should be reduced by $2,773 and $62, respectively, and Depreciation Expense should be reduced by $62, for the test year.

## Finding 12: Wastewater Plant in Service – Capital Project Addition

**Audit Analysis:** On May 15, 2012 the Utility entered into a cost share agreement with the St. Johns River Water Management District (SJRWMD) to construct a reuse transmission main interconnect (Project) with the City of Apopka (City) for the transfer of all treated reuse wastewater effluent from the Wekiva wastewater plant. The SJRWMD agreed to contribute 40 percent or up to $1,468,000 towards the Utility's cost for the Project.

The Utility commenced construction of the project in November 2012. The final cost for the project was $4,296,354, which was transferred to Account. No. 375–Reuse Transmission and Distribution System from Account. No. 105–Construction Work in Progress (CWIP) on October 2013. The SJRWMD contribution was capped at $1,468,000 per the terms of the agreement. The Utility recorded the $1,468,000 contribution from SJRWMD as CIAC to Account No. 271–Water Tap on the following dates.

| Date | Contribution |
|---|---|
| 05/31/13 | $649,721 |
| 09/30/13 | $521,469 |
| 11/30/13 | $296,810 |
| | $1,468,000 |

Rule 25-30.116, F.A.C. permits Utilities to accrue Allowance for Funds Used During Construction (AFUDC) for construction projects that involve gross additions to plant in service that exceed $5,000 and are expected to be completed in excess of sixty days. However, Section 1(c) excludes projects that are reimbursable by another party. We interpret this to mean that the exclusion is limited to the amount of the reimbursement for a given project.

The Utility's approved AFUDC rate is 9.03 percent (0.751966% discounted monthly) as determined in Order No. PSC-04-0262-PAA-WS, issued March 8, 2004.

The Utility did not properly accrue the AFUDC for the project during the construction period from November 2012 through October 2013. The amount of CWIP closed out to Account. No. 375 should be reduced by $37,293 to $4,259,061. The corresponding accumulated depreciation and depreciation expense should be reduced by $402 and $67, respectively, for the test year, based on the following analysis and calculations.

- The Utility's computation of monthly AFUDC accruals used 1/12$^{th}$ of the 9.03 percent AFUDC rate rather than the 0.751966 percent discounted monthly rate per the Commission order cited above.
- The Utility computed monthly AFUDC accruals on the total month to date construction balance rather than the month to date balance net of SJRWMD contributions which is required per the Commission rule cited above.

| Date/Month | Rate for AFUDC | CWIP | | AFUDC | | CWIP & AFUDC |
|---|---|---|---|---|---|---|
| | | Additions | Balance | Accruals | Balance | |
| 11/30/12 | 0.7519660% | $60 | $60 | $0 | $0 | $60 |
| 12/31/12 | 0.7519660% | $299 | $358 | $3 | $3 | $362 |
| 01/31/13 | 0.7519660% | $512,916 | $513,274 | $3,860 | $3,863 | $517,137 |
| 02/28/13 | 0.7519660% | $380,974 | $894,248 | $6,724 | $10,587 | $904,836 |
| 03/31/13 | 0.7519660% | $769,994 | $1,664,242 | $12,515 | $23,102 | $1,687,344 |
| 04/30/13 | 0.7519660% | $350,617 | $2,014,859 | $15,151 | $38,253 | $2,053,112 |
| 05/31/13 | 0.7519660% | *($95,482)* | $1,919,377 | $14,433 | $52,686 | $1,972,063 |
| 06/30/13 | 0.7519660% | $413,236 | $2,332,613 | $17,540 | $70,226 | $2,402,839 |
| 07/31/13 | 0.7519660% | $359,901 | $2,692,514 | $20,247 | $90,473 | $2,782,987 |
| 08/31/13 | 0.7519660% | $97,978 | $2,790,491 | $20,984 | $111,457 | $2,901,948 |
| 09/30/13 | 0.7519660% | *$91,534* | $2,882,025 | $21,672 | $133,129 | $3,015,153 |
| 10/31/13 | 0.7519660% | $50,665 | $2,932,690 | $22,053 | $155,181 | $3,087,871 |
| 11/30/13 | | **($296,810)** | $2,635,880 | $0 | $155,181 | $2,791,061 |

| Date/Month | Additions | Reimbursement | Net Addition |
|---|---|---|---|
| 05/31/13 | $554,239 | ($649,721) | ($95,482) |
| 09/30/13 | $613,003 | ($521,469) | $91,534 |
| 11/30/13 | $0 | ($296,810) | ($296,810) |
| | | ($1,468,000) | |

| | |
|---|---|
| Total CWIP Transfer | $2,791,061 |
| Reimbursement | $1,468,000 |
| Additions per Audit | $4,259,061 |
| Additions per Utility | $4,296,354 |
| **Audit Adjustment** | **($37,293)** |

| Date/Month | Amort. Rate | PIS Acct. 375 (OBJ 1540) | | AD Acct. 108 of PIS (OBJ 2285) | |
|---|---|---|---|---|---|
| | | Additions | Balance | Accruals | Balance |
| 09/30/13 | | $0 | $0 | $0 | $0 |
| 10/31/13 | 2.326% | $4,296,354 | $4,296,354 | ($8,411) | ($8,411) |
| 11/30/13 | 2.326% | $0 | $4,296,354 | ($8,411) | ($16,822) |
| 12/31/13 | 2.326% | $0 | $4,296,354 | ($8,342) | ($25,164) |
| **Per Utility** | **Year End** | | **$4,296,354** | | **($25,164)** |
| | **13-Month Average** | | **$991,466** | | **($3,877)** |

| Date/Month | Amort. Rate | PIS Acct. 375 (OBJ 1540) | | AD Acct. 108 of PIS (OBJ 2285) | |
|---|---|---|---|---|---|
| | | Additions | Balance | Accruals | Balance |
| 09/30/13 | | $0 | $0 | $0 | $0 |
| 10/31/13 | 2.326% | $4,259,061 | $4,259,061 | ($8,254) | ($8,254) |
| 11/30/13 | 2.326% | $0 | $4,259,061 | ($8,254) | ($16,508) |
| 12/31/13 | 2.326% | $0 | $4,259,061 | ($8,254) | ($24,762) |
| **Per Audit** | **Year-End** | | **$4,259,061** | | **($24,762)** |
| | **13-Month Average** | | **$982,860** | | **($3,810)** |
| **Adjustment** | **Year-End** | | **($37,293)** | | **$402** |
| | **13-Month Average** | | **($8,606)** | | **$67** |

**Depreciation Expense adjustment for Year End and Average is $8,354 - $8,254 = $88**

The Utility did not record the reimbursement from SJRWMD to the proper CIAC account, accumulated amortization of CIAC account or CIAC amortization expense account. The $1,468,000 contribution should be transferred from water CIAC to wastewater CIAC and amortized at the same rate as the corresponding asset in Account No. 375 over 43 years. The

corresponding amortization accrual and expense amounts should be reduced by $7,960 and $229, respectively, for the test year, based on the following audit staff determinations and calculations.

- The CIAC balance is correct. However, the Utility posted it to Account. No. 271 (OBJ 3435), which is water CIAC account that is used to record contributions for water tap fees. The contributions from SJRWMD for the reuse project should have been recorded to a wastewater CIAC account such as Reuse Transmission and Distribution Systems, similar to Account. No. 375 where the corresponding asset balance is recorded.

- The accounts used to record the accumulated amortization of CIAC and amortization expense are incorrect as well for the same reasons as stated above.

- The calculation of the annual CIAC amortization accruals is incorrect because the rate used by the Utility for CIAC water tap is 2.50 percent, which is where the contributions are recorded. The correct rate is 2.326 percent, which is the depreciation rate for Account. No. 375 the corresponding asset account.

| Date/Month | Amort. Rate | CIAC Acct. 271 (OBJ 3435) | | AA of CIAC Acct. 272 (OBJ 3980) | |
|---|---|---|---|---|---|
| | | Additions | Balance | Accruals | Balance |
| 04/30/13 | | $0 | $0 | $0 | $0 |
| 05/31/13 | 2.500% | ($649,721) | ($649,721) | $1,354 | $1,354 |
| 06/30/13 | 2.500% | $0 | ($649,721) | $1,356 | $2,709 |
| 07/31/13 | 2.500% | $0 | ($649,721) | $1,357 | $4,067 |
| 08/31/13 | 2.500% | $0 | ($649,721) | $1,357 | $5,424 |
| 09/30/13 | 2.500% | ($521,469) | ($1,171,190) | $2,449 | $7,873 |
| 10/31/13 | 2.500% | $0 | ($1,171,190) | $2,453 | $10,326 |
| 11/30/13 | 2.500% | ($296,810) | ($1,468,000) | $3,074 | $13,400 |
| 12/31/13 | 2.500% | $0 | ($1,468,000) | $3,074 | $16,475 |
| **Per Utility** | **Year-End** | | **($1,468,000)** | | **$16,475** |
| | **13-Month Average** | | **($605,943)** | | **$4,741** |

| Date/Month | Amort. Rate | CIAC Acct. 271 (OBJ TBD) | | AA of CIAC Acct. 272 (OBJ TBD) | |
|---|---|---|---|---|---|
| | | Additions | Balance | Accruals | Balance |
| 09/30/13 | | $0 | $0 | $0 | $0 |
| 10/31/13 | 2.326% | ($1,171,190) | ($1,171,190) | $2,270 | $2,270 |
| 11/30/13 | 2.326% | ($296,810) | ($1,468,000) | $2,845 | $5,115 |
| 12/31/13 | 2.326% | $0 | ($1,468,000) | $2,845 | $7,960 |
| **Per Audit** | **Year-End** | | **($1,468,000)** | | **$7,960** |
| | **13-Month Average** | | **($315,938)** | | **$1,180** |

**Amortization Expense adjustment for Year End and Average is $3,074 - $2,845 = $229**

**Effect on the General Ledger:** The following entry should be made to correct the general ledger.

| NARUC | OBJ | Description | Debit | Credit |
|---|---|---|---|---|
| 108 | 2285 | AD-Reuse T&D System | $402 | |
| 271 | 3435 | CIAC-Water Tap Fees | $1,468,000 | |
| 271 | TBD | CIAC Reuse T&D System | | $1,468,000 |
| 272 | 3980 | AA of CIAC-Water Tap Fees | | $16,475 |
| 272 | TBD | AA of CIAC-Reuse T&D System | $7,960 | |
| 375 | 1540 | PIS-Reuse T&D System | | $37,293 |
| | TBD | To be determined by the Utility | $45,406 | |

**Effect on the Filing:** The following adjustments should be made to correct the filing.

- 13-month average wastewater plant in service and accumulated depreciation should be reduced by $8,606 and $67, respectively, as of December 31, 2013 and depreciation expense should be reduced by $67 for the test year.
- 13-month average water CIAC and accumulated amortization of CIAC should be reduced by $605,943 and $4,741, respectively, as of December 31, 2013 and amortization expense should be reduced by $3,074 for the test year.
- 13-month average wastewater CIAC and accumulated amortization of CIAC should be increased by $315,938 and $1,180, respectively, as of December 31, 2013 and amortization expense should be increased by $2,845 for the test year.

## Finding 13: Contributions-in-Aid-of-Construction CIAC

**Audit Analysis:** The Utility posted the following amounts to CIAC, Accumulated Amortization of CIAC and CIAC Amortization Expense to the general ledger in 2013.

| | | | Balance | Utility | | | Balance |
|---|---|---|---|---|---|---|---|
| **Acct.** | **OBJ** | **Elec. Pump. Equip.** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271W | 3315 | CIAC | ($939,269) | $0 | $0 | $939,269 | $0 |
| 272W | 3860 | A/Amort. Of CIA C | $1,014,212 | $15,654 | ($90,598) | ($939,269) | ($0) |
| 408W | 7045 | Amort. Expense | $0 | ($15,654) | $90,598 | $0 | $74,943 |
| | | | | | | | |
| **Acct.** | **OBJ** | **Meters** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271W | 3350 | CIAC | ($882,030) | $0 | $0 | $871,248 | ($10,783) |
| 272W | 3895 | A/Amort. Of CIA C | $977,975 | $15,060 | ($100,740) | ($871,248) | $21,047 |
| 408W | 7080 | Amort. Expense | $0 | ($15,060) | $100,740 | $0 | $85,680 |
| | | | | | | | |
| **Acct.** | **OBJ** | **Meter Install.** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271W | 3355 | CIAC | ($31,230) | $0 | $0 | $31,230 | $0 |
| 272W | 3900 | A/Amort. Of CIA C | $35,026 | $520 | ($3,614) | ($31,230) | $703 |
| 408W | 7085 | Amort. Expense | $0 | ($520) | $3,614 | $0 | $3,094 |
| | | | | | | | |
| **Acct.** | **OBJ** | **T&D Equip.** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271S | 3605 | CIAC | ($513,950) | $0 | $0 | $513,950 | $0 |
| 272S | 4155 | A/Amort. Of CIA C | $706,729 | $9,518 | ($126,814) | ($513,950) | $75,483 |
| 408S | 7330 | Amort. Expense | $0 | ($9,518) | $126,814 | $0 | $117,296 |
| | | | | | | | |
| **Acct.** | **OBJ** | **Outfall Lines** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271S | 3625 | CIAC | ($507,092) | $0 | $0 | $507,092 | $0 |
| 272S | 4175 | A/Amort. Of CIA C | $518,060 | $5,634 | ($5,984) | ($507,092) | $10,617 |
| 408S | 7350 | Amort. Expense | $0 | ($5,634) | $5,984 | $0 | $350 |
| | | | | | | | |
| **Acct.** | **OBJ** | **WW Plt Mod Fee** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271S | 3720 | CIAC | $10,669 | $0 | $0 | ($21,337) | ($10,669) |
| 272S | 4280 | A/Amort. Of CIA C | $769 | $445 | $0 | $2,584 | $3,797 |
| 408S | 7445 | Amort. Expense | $0 | ($445) | $0 | $18,753 | $18,309 |
| | | | | | | | |
| **Acct.** | **OBJ** | **Account** | **Dec-12** | **Activity** | **Adjust.** | **Retirement** | **Dec-13** |
| 271W | | CIAC - Water | ($1,852,529) | $0 | $0 | $1,841,746 | ($10,783) |
| 272W | | A/Amort. - Water | $2,027,213 | $31,235 | ($194,951) | ($1,841,746) | $21,750 |
| 271S | | CIAC - W/Water | ($1,010,374) | $0 | $0 | $999,705 | ($10,669) |
| 272S | | A/Amort. - W/Water | $1,225,557 | $15,597 | ($132,798) | ($999,705) | $89,897 |
| 408W | | Amort. Exp. - Water | | | | | $163,717 |
| 408S | | Amort. Exp. - W/Water | | | | | $135,955 |

The Utility's reason for the adjustments were to correct Accumulated Amortization of CIAC account balances that exceeded the corresponding balance in the respective CIAC account and to retire both accounts from the Utility's general ledger.

Our analysis of the Utility's journal adjustments indicate that the entries did not have the intended effect of zeroing out and retiring the respective account groups because of calculation and posting errors. Additionally, two of the account groups, Meters and Wastewater Plant

Modification Fee have residual balances that are incorrectly stated because of the Utility's adjustments. Our adjustments to correct the account balances are displayed below.

| Acct. | OBJ | Elec. Pump. Equip. | Balance Dec-13 | Audit Adjust. | Balance Dec-13 | Filing Adj. Dec-13 |
|---|---|---|---|---|---|---|
| 271W | 3315 | CIAC | $0 | $0 | $0 | $361,257 |
| 272W | 3860 | A/Amort. Of CIAC | ($0) | $0 | $0 | ($393,092) |
| 408W | 7045 | Amort. Expense | $74,943 | ($74,943) | $0 | ($74,943) |

| Acct. | OBJ | Meters | Dec-13 | Adjust. | Dec-13 | Dec-13 |
|---|---|---|---|---|---|---|
| 271W | 3350 | CIAC | ($10,783) | $0 | ($10,782.65) | $335,095 |
| 272W | 3895 | A/Amort. Of CIAC | $21,047 | ($19,975) | $1,072.26 | ($391,021) |
| 408W | 7080 | Amort. Expense | $85,680 | ($86,219) | ($539.13) | ($86,219) |

| Acct. | OBJ | Meter Install. | Dec-13 | Adjust. | Dec-13 | Dec-13 |
|---|---|---|---|---|---|---|
| 271W | 3355 | CIAC | $0 | $0 | $0 | $12,011 |
| 272W | 3900 | A/Amort. Of CIAC | $703 | ($703) | $0 | ($14,004) |
| 408W | 7085 | Amort. Expense | $3,094 | ($3,094) | $0 | ($3,094) |

| Acct. | OBJ | T&D Equip. | Dec-13 | Adjust. | Dec-13 | Dec-13 |
|---|---|---|---|---|---|---|
| 271S | 3605 | CIAC | $0 | $0 | $0 | $197,673 |
| 272S | 4155 | A/Amort. Of CIAC | $75,483 | ($75,483) | $0 | ($320,100) |
| 408S | 7330 | Amort. Expense | $117,296 | ($117,296) | $0 | ($117,296) |

| Acct. | OBJ | Outfall Lines | Dec-13 | Adjust. | Dec-13 | Dec-13 |
|---|---|---|---|---|---|---|
| 271S | 3625 | CIAC | $0 | $0 | $0 | $195,036 |
| 272S | 4175 | A/Amort. Of CIAC | $10,617 | ($10,617) | $0 | ($206,871) |
| 408S | 7350 | Amort. Expense | $350 | ($350) | $0 | ($350) |

| Acct. | OBJ | WW Plt Mod Fee | Dec-13 | Adjust. | Dec-13 | Dec-13 |
|---|---|---|---|---|---|---|
| 271S | 3720 | CIAC | ($10,669) | $0 | ($10,668.50) | ($8,207) |
| 272S | 4280 | A/Amort. Of CIAC | $3,797 | ($2,584) | $1,213.36 | ($1,738) |
| 408S | 7445 | Amort. Expense | $18,309 | ($18,753) | ($444.56) | ($18,753) |

| Acct. | OBJ | Account Description | Dec-13 | Adjust. | Dec-13 | Dec-13 |
|---|---|---|---|---|---|---|
| 271W | | CIAC - Water | ($10,783) | $0 | ($10,783) | $708,364 |
| 272W | | A/Amort. - Water | $21,750 | ($20,678) | $1,072 | ($798,117) |
| 271S | | CIAC - W/Water | ($10,669) | $0 | ($10,669) | $384,502 |
| 272S | | A/Amort. - W/Water | $89,897 | ($88,684) | $1,213 | ($528,709) |
| 408W | | Amort. - Water | $163,717 | ($164,256) | ($539) | ($164,256) |
| 408S | | Amort. - W/Water | $135,955 | ($136,400) | ($445) | ($136,400) |

The Utility's reason for the adjustment was to retire specific CIAC and Accumulated Amortization accounts. There was no corresponding plant in service accounts retired which would be expected. The analyst should determine whether this action is needed. Regardless, the adjustments to remove excess amortization amounts from the Accumulated Amortization of CIAC account balances should be posted.

**Effect on the General Ledger:** If the Utility's actions to retire and adjust CIAC are accepted by Commission staff then the following summary entries need to be posted to correct the general ledger.

- Reduce (Credit) water and wastewater Accumulated Amortization of CIAC by $20,678 and $88,684, respectively as of December 31, 2013.

- Increase (Credit) water and wastewater CIAC Amortization expense by $164,256 and $136,400, respectively, for the test year.

If the Utility's actions to retire CIAC are rejected by Commission staff the following summary entries need to be posted to correct the general ledger.

- Increase (Credit) water and wastewater CIAC by $1,841,746 and $1,021,679, respectively as of December 31, 2013.
- Increase (Debit) water and wastewater Accumulated Amortization of CIAC by $1,821,069 and $932,995, respectively as of December 31, 2013.
- Increase (Credit) water and wastewater CIAC Amortization expense by $164,256 and $136,400, respectively, for the test year.

**Effect on the Filing:** If the Utility's actions to retire and adjust CIAC are accepted by Commission staff then the following summary entries need to be posted to correct the filing. Our calculations follow in Table 13-1.

- Reduce (Debit) 13-month average water and wastewater CIAC by $708,364 and $384,502, respectively as of December 31, 2013.
- Reduce (Credit) 13-month average water and wastewater Accumulated Amortization of CIAC by $798,118 and 528,709, respectively, as of December 31, 2013.
- Increase (Credit) test year water and wastewater CIAC Amortization expense by $164,256 and $136,400, respectively, for the test year.

If the Utility's actions to retire CIAC are rejected by Commission staff the following summary entries need to be posted to correct the filing. . Our calculations follow in Table 13-2.

- Increase (Credit) 13-month average water and wastewater CIAC b y $1,127,992 and $637,177, respectively as of December 31, 2013.
- Increase (Debit) 13-month average water and wastewater Accumulated Amortization of CIAC by $1,043,630 and $493,132, respectively as of December 31, 2013.
- Increase (Credit) water and wastewater CIAC Amortization expense by $164,256 and $136,400, respectively, for the test year.

Our calculations follow.

## Table 13-1 Calculations if Utility Retirements and Adjustments are Accepted

| OBJ | DESCRIPTION | PER UTILITY DEC 2013 | | ADJUSTMENT | | PER AUDIT DEC 2013 | |
|---|---|---|---|---|---|---|---|
| | | G/L | Filing | G/L | Filing | G/L | Filing |
| 3315 | CIAC-ELEC PUMP EQP SRC PUMP | $0 | ($361,257) | $0 | $361,257 | $0 | $0 |
| 3350 | CIAC-METERS | ($10,783) | ($345,878) | $0 | $335,095 | ($10,783) | ($10,783) |
| 3355 | CIAC-METER INSTALLS | $0 | ($12,011) | $0 | $12,011 | $0 | $0 |
| | **WATER-CIAC** | **($10,783)** | **($719,147)** | **$0** | **$708,364** | **($10,783)** | **($10,783)** |
| 3605 | CIAC-TREAT/DISP EQUIP TRT PLT | $0 | ($197,673) | $0 | $197,673 | $0 | $0 |
| 3625 | CIAC-OUTFALL LINES | $0 | ($195,036) | $0 | $195,036 | $0 | $0 |
| 3720 | CIAC-SWR PLT MOD FEE | ($10,669) | ($2,462) | $0 | ($8,207) | ($10,669) | ($10,669) |
| | **WASTEWATER-CIAC** | **($10,669)** | **($395,171)** | **$0** | **$384,502** | **($10,669)** | **($10,669)** |
| 3860 | ACC AMORT ELEC PUMP EQP SRC | $0 | $393,092 | $0 | ($393,092) | $0 | $0 |
| 3895 | ACC AMORT METERS | $21,047 | $391,826 | ($19,975) | ($391,022) | $1,072 | $804 |
| 3900 | ACC AMORT METER INSTALLS | $703 | $14,004 | ($703) | ($14,004) | $0 | $0 |
| | **WATER-ACC/CIAC** | **$21,750** | **$798,923** | **($20,678)** | **($798,118)** | **$1,072** | **$804** |
| 4155 | ACC AMORT TREAT/DISP EQUIP TRT PLT | $75,483 | $320,100 | ($75,483) | ($320,100) | $0 | $0 |
| 4175 | ACC AMORT OUTFALL LINES | $10,617 | $206,871 | ($10,617) | ($206,871) | $0 | $0 |
| 4280 | ACC AMORT SWR PLT MOD FEE-NC | $3,797 | $2,567 | ($2,584) | ($1,738) | $1,213 | $829 |
| | **WASTEWATER-ACC/CIAC** | **$89,897** | **$529,538** | **($88,684)** | **($528,709)** | **$1,213** | **$829** |
| 7045 | AMORT-ELEC PUMP EQP SRC PUMP | $74,943 | $74,943( | $74,943) | ($74,943) | $0 | $0 |
| 7080 | AMORT-METERS | $85,680 | $85,680( | $86,219) | ($86,219) | ($539) | ($539) |
| 7085 | AMORT-METER INSTALLS | $3,094 | $3,094 | ($3,094) | ($3,094) | $0 | $0 |
| | **WATER AMORT. EXPENSE** | **$163,716** | **$163,716** | **($164,256)** | **($164,256)** | **($539)** | **($539)** |
| 7330 | AMORT-TREAT/DISP EQUIP TRT PLT | $117,296 | $117,296 | ($117,296) | ($117,296) | $0 | $0 |
| 7350 | AMORT-OUTFALL LINES | $350 | $350 | ($350) | ($350) | $0 | $0 |
| 7445 | AMORT-SWR PLT MOD FEE | $18,309 | $18,309( | $18,753) | ($18,753) | ($445) | ($445) |
| | **WASTEWATER AMORT. EXPENSE** | **$135,955** | **$135,955** | **($136,400)** | **($136,400)** | **($445)** | **($445)** |

## Table 13-2 Calculations if Utility CIAC Retirements are Rejected

| OBJ | DESCRIPTION | PER UTILITY DEC 2013 | | ADJUSTMENT | | PER AUDIT DEC 2013 | |
|---|---|---|---|---|---|---|---|
| | | G/L | Filing | G/L | Filing | G/L | Filing |
| 3315 | CIAC-ELEC PUMP EQP SRC PUMP | $0 | ($361,257) | ($939,269) | ($578,012) | ($939,269) | ($939,269) |
| 3350 | CIAC-METERS | ($10,783) | ($345,878) | ($871,247) | ($530,762) | ($882,030) | ($876,640) |
| 3355 | CIAC-METER INSTALLS | $0 | ($12,011) | ($31,230) | ($19,219) | ($31,230) | ($31,230) |
| | **WATER-CIAC** | **($10,783)** | **($719,147)** | **($1,841,746)** | **($1,127,992)** | **($1,852,529)** | **($1,847,139)** |
| 3605 | CIAC-TREAT/DISP EQUIP TRT PLT | $0 | ($197,673) | ($513,950) | ($316,277) | ($513,950) | ($513,950) |
| 3625 | CIAC-OUTFALL LINES | $0 | ($195,036) | ($507,729) | ($312,693) | ($507,729) | ($507,729) |
| 3720 | CIAC-SWR PLT MOD FEE | ($10,669) | ($2,462) | $0 | ($8,207) | ($10,669) | ($10,669) |
| | **WASTEWATER-CIAC** | **($10,669)** | **($395,171)** | **($1,021,679)** | **($637,177)** | **($1,032,348)** | **($1,032,348)** |
| 3860 | ACC AMORT ELEC PUMP EQP SRC | $0 | $393,092 | $939,269 | $546,177 | $939,269 | $939,269 |
| 3895 | ACC AMORT METERS | $21,047 | $391,826 | $851,273 | $480,227 | $872,320 | $872,054 |
| 3900 | ACC AMORT METER INSTALLS | $703 | $14,004 | $30,527 | $17,226 | $31,230 | $31,230 |
| | **WATER-ACC/CIAC** | **$21,750** | **$798,923** | **$1,821,069** | **$1,043,630** | **$1,842,819** | **$1,842,553** |
| 4155 | ACC AMORT TREAT/DISP EQUIP TRT PLT | $75,483 | $320,100 | $438,467 | $193,850 | $513,950 | $513,950 |
| 4175 | ACC AMORT OUTFALL LINES | $10,617 | $206,871 | $497,112 | $300,858 | $507,729 | $507,729 |
| 4280 | ACC AMORT SWR PLT MOD FEE-NC | $3,797 | $2,567 | ($2,584) | ($1,576) | $1,213 | $991 |
| | **WASTEWATER-ACC/CIAC** | **$89,897** | **$529,538** | **$932,995** | **$493,132** | **$1,022,892** | **$1,022,670** |
| 7045 | AMORT-ELEC PUMP EQP SRC PUMP | $74,943 | $74,943( | $74,943) | ($74,943) | $0 | $0 |
| 7080 | AMORT-METERS | $85,680 | $85,680( | $86,219) | ($86,219) | ($539) | ($539) |
| 7085 | AMORT-METER INSTALLS | $3,094 | $3,094 | ($3,094) | ($3,094) | $0 | $0 |
| | **WATER AMORT. EXPENSE** | **$163,716** | **$163,716** | **($164,256)** | **($164,256)** | **($539)** | **($539)** |
| 7330 | AMORT-TREAT/DISP EQUIP TRT PLT | $117,296 | $117,296 | ($117,296) | ($117,296) | $0 | $0 |
| 7350 | AMORT-OUTFALL LINES | $350 | $350 | ($350) | ($350) | $0 | $0 |
| 7445 | AMORT-SWR PLT MOD FEE | $18,309 | $18,309( | $18,753) | ($18,753) | ($445) | ($445) |
| | **WASTEWATER AMORT. EXPENSE** | **$135,955** | **$135,955** | **($136,400)** | **($136,400)** | **($445)** | **($445)** |

Per audit balance includes a corrected adjustment to remove the excess Accumulated Amortization of CIAC balance from select accounts.

## Finding 14: Working Capital

**Audit Analysis:** The Utility's filing includes the following working capital balances for the test year 2013.

| Average Test Year | Water | Wastewater | Total |
|---|---|---|---|
| **Current and Accrued Assets** | | | |
| Cash | $0 | $0 | $0 |
| Account Receivable | $456,486 | $435,480 | $891,966 |
| Materials and Supplies | $27,515 | $32,584 | $60,099 |
| Misc. Current and Accrued Assets | $2,417 | $1,907 | $4,324 |
| Deferred Rate Case Expense | $95,203 | $75,122 | $170,325 |
| **Current and Accrued Liabilities** | | | |
| Accounts Payable | ($123,929) | ($97,789) | ($221,718) |
| Customer Deposits | ($27,695) | ($21,854) | ($49,549) |
| Accrued Taxes | ($260,296) | ($205,392) | ($465,688) |
| Accrued Interest | ($3,812) | ($3,008) | ($6,820) |
| Misc. Current and Accrued Liabilities | ($1,869) | ($1,475) | ($3,344) |
| **Working Capital** | **$164,019** | **$215,575** | **$379,594** |

Customer deposits are a component of the Utility's capital structure and should not be included in working capital for the filing. The Utility properly included customer deposits in its capital structure for the filing.

**Effect on the General Ledger:** None

**Effect on the Filing:** The 13-month average water and wastewater working capital balance should be increased by $27,695 and 21,854, respectively, as of December 31, 2013.

## Finding 15: Operations and Maintenance Expense – Sludge Hauling

**Audit Analysis:** The Utility's filing includes $148,359 for sludge hauling for the test year 2013.

Included in this amount was an invoice from January 2013 for $475. Finding 2 transferred and included this amount as demolition cost to clean out the residual sludge at the Woodlands Des Pinar wastewater plant prior to demolition.

The Utility's contract vendor increased its fee for hauling sludge from $475 to $625 per load effective September 2013.

Finding 7 provides information on a new sludge belt spreader-dryer that was placed in service in October 3013.

We performed an analysis of the Utility's sludge hauling expense for the period January 2013 through June 2014 to quantify and estimate the impact of the two events discussed above on the test year 2013. Our analysis, calculations and recommended adjustment follows.

1. The Utility hauled 293 loads costing approximately $147,884 in 2013.

2. The annualized cost to haul the same 293 loads at the current contract rate of $625 per load is $183,125.

3. The Utility hauled 133 loads costing approximately $63,175 for the eight month period November 2013 through June 2014, after the new sludge belt spreader-dryer was placed in service.

4. The new sludge belt spreader-dryer has reduced the loads of sludge hauled per month. We estimate that the Utility will require 200 sludge hauling trips annually costing approximately $124,688.

5. Total sludge hauling expense should be reduced by $23,197 for the filing to account for the change in the contract rate and the effect of the new sludge belt spreader-dryer that reduced the number of loads to be hauled.

| OBJ | Description | Month | Actual | Loads | $625/trip Annualized |
|---|---|---|---|---|---|
| 6410 | Shelley's Septic Tanks, Inc. | Jan-13 | $17,100 | 36.00 | $22,500 |
| 6410 | Shelley's Septic Tanks, Inc. | Feb-13 | $10,450 | 22.00 | $13,750 |
| 6410 | Shelley's Septic Tanks, Inc. | Mar-13 | $16,150 | 34.00 | $21,250 |
| 6410 | Shelley's Septic Tanks, Inc. | Apr-13 | $15,834 | 33.00 | $20,625 |
| 6410 | Shelley's Septic Tanks, Inc. | May-13 | $16,150 | 34.00 | $21,250 |
| 6410 | Shelley's Septic Tanks, Inc. | Jun-13 | $11,400 | 24.00 | $15,000 |
| 6410 | Shelley's Septic Tanks, Inc. | Jul-13 | $15,200 | 32.00 | $20,000 |
| 6410 | Shelley's Septic Tanks, Inc. | Aug-13 | $8,075 | 17.00 | $10,625 |
| 6410 | Shelley's Septic Tanks, Inc. | Sep-13 | $10,500 | 18.00 | $11,250 |
| 6410 | Shelley's Septic Tanks, Inc. | Oct-13 | $6,875 | 11.00 | $6,875 |
| 6410 | Shelley's Septic Tanks, Inc. | Nov-13 | $7,500 | 12.00 | $7,500 |
| 6410 | Shelley's Septic Tanks, Inc. | Dec-13 | $13,125 | 21.00 | $13,125 |
| | Remove invoice for Woodland Des Pinar | | ($475) | (1.00) | ($625) |

| | | | | | |
|---|---|---|---|---|---|
| A | Total Year 2013 | A = Sum of above | $147,884 | 293.00 | $183,125 |
| B | Average per Month | B = A divided by 12 months | $12,324 | 24.42 | $15,260 |
| C | Total for Nov-13 to Jun-14 | C = 133 times $475 or $625 | $63,175 | 133.00 | $83,125 |
| D | Average per Month | D= C divided by 8 months | $7,897 | 16.63 | $10,391 |
| E | Average per Month Adjustment | E = B less D | $4,427 | 7.79 | $4,870 |
| F | Total Adjustment for 2013 | F= E times 12 months | $53,122 | 93.50 | $58,438 |
| G | Total Adjusted 2013 | G = A less F | $94,763 | 199.50 | $124,688 |
| H | Annualized and reduced sludge hauling cost adjustment. | H = G (annualized) less A (actual) | | | ($23,197) |

**Effect on the General Ledger:** None

**Effect on the Filing:** Sludge hauling expense should be reduced by $23,197 to $124,688 for the test year.

## Finding 16: Operations and Maintenance Expense – Purchased Power

**Audit Analysis:** The Utility's filing includes $462,147 of purchased power expense for wastewater operations in the 2013. Included in this amount was $7,220 of charges to a power meter that was associated with the Woodlands Des Pinar wastewater plant which was decommissioned and taken off line in 2012. The Utility states that the power meter still serves the Des Pinar field office and maintenance shops that support the remaining water plant and potable wells.

Our analysis of the electric power bills for this account indicates that the monthly billed amount has dropped significantly as would be expected when the wastewater plant was removed from service. However, the $7,220 amount includes a power bill for $2,658 for the month of December 2012, which is outside the test year for this proceeding. Therefore, we have removed this amount and added in the actual December 2013 power bill for $457.

| Description | Wastewater | Adjustment | Water |
|---|---|---|---|
| Per Utility | $7,220 | | $0 |
| Remove Dec 2012 bill | | ($2,658) | |
| Add Dec 2013 bill | | $457 | |
| Per Audit | $0 | | $5,020 |
| **Audit Adjustment** | **($7,220)** | **($2,200)** | **$5,020** |

(Small differences are due to rounding)

**Effect on the General Ledger:** None

**Effect on the Filing:** Increase water O&M expense by $5,020 and reduce wastewater O&M expense by $7,220 for the test year.

## Finding 17: Operations and Maintenance Expense – Engineering Fees

**Audit Analysis:** As a result of our sample of invoiced additions to Utility Account. No. 731-Engineering Fees, we discovered two invoices totaling $12,945 from CPH Inc. for design and engineering services that support Capital Project No. 2014049. This capital project is for the Wekiva Surge Tank expansion and included as a proforma adjustment to wastewater rate base in the filing.

The $12,945 should be removed from Account. No. 731 and transferred to the Wekiva surge tank expansion project.

**Effect on the General Ledger:** None

**Effect on the Filing:** Reduce wastewater O&M expense and increase the proforma adjustment to wastewater rate base in the filing by $12,945


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## Finding 18: Taxes Other than Income - Regulatory Assessment Fees

**Audit Analysis:** The Utility's filing reflects adjusted water and wastewater regulatory assessment fees (RAFs) of $181,494 and $175,850, respectively, for the test year. These amounts represent the actual payments made by the Utility based on June to December 2012 and January to June 2103 revenues and an adjustment to annualize 2013 RAFs for the period. The utility stated that the RAF adjustment was to adjust the difference between the amount accrued and the actual amount that was paid.

We compared the Utility's RAF amounts to our calculated RAF's based on actual 2013 revenues. The Utility's water RAF is understated by $1,927 and the wastewater RAF is overstated by $869. Our calculations are detailed below.

| OBJ | NARUC | Description | Water | Wastewater |
|---|---|---|---|---|
| 7535 | 408 | Regulatory Assessment Fee (Jul-Dec 2012) | $91,684 | $88,698 |
| 7535 | 408 | Regulatory Assessment Fee (Jan-Jun 2013) | $90,380 | $87,601 |
| 7535 | 408 | Regulatory Assessment Fee(JE Adjustment) | ($570) | ($449) |
| Per Utility G/L and Filing | | | $181,494 | $175,850 |
| Per Audit | | | $183,421 | $174,981 |
| **Audit Adjustment** | | | **$1,927** | **($869)** |

| Per Audit Calculation: | Revenues | Rate | RAF |
|---|---|---|---|
| Water Revenues Jan-Dec 2013 | $4,076,016 | 4.50% | $183,421 |
| Wastewater Revenues Jan-Dec 2013 | $3,888,457 | 4.50% | $174,981 |

**Effect on the General Ledger:** None

**Effect on the Filing:** Increase water and decrease wastewater RAFs by $1,927 and $869, respectively, for the test year.

# Exhibits

## Exhibit 1: Rate Base-Water

Schedule of Water Rate Base

Company: Sanlando Utilities Corp.
Docket No.: 140060-WS
Schedule Year Ended: 12/31/2013
Interim [ ] Final [x]
Historic [x] Projected [ ]

Florida Public Service Commission

Schedule: A-1
Page 1 of 1
Preparer: Darrien Pitts

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

| Line No. | (1) Description | (2) Average Amount Per Books | (3) A-3 Utility Adjustments | | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|---|---|---|---|---|---|---|
| 1 | Utility Plant in Service | $ 26,039,977 | $ (1,497,684) | (A) | $ 24,542,293 | A-3, A-5 |
| 2 | | | | | | |
| 3 | Utility Land & Land Rights | 97,286 | (18) | (A) | 97,268 | A-3, A-5 |
| 4 | | | | | | |
| 5 | Less: Non-Used & Useful Plant | | | | - | A-7 |
| 6 | | | | | | |
| 7 | Construction Work in Progress | 174,744 | (174,744) | (B) | - | A-3 |
| 8 | | | | | | |
| 9 | Less: Accumulated Depreciation | (15,022,215) | 1,146,809 | (C) | (13,875,406) | A-3, A-9 |
| 10 | | | | | | |
| 11 | Less: CIAC | (11,147,950) | (463) | (D) | (11,148,413) | A-3, A-12 |
| 12 | | | | | | |
| 13 | Accumulated Amortization of CIAC | 8,755,443 | | | 8,755,443 | A-3, A-14 |
| 14 | | | | | | |
| 15 | Acquisition Adjustments | | | | | - |
| 16 | | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | | | | | - |
| 18 | | | | | | |
| 19 | Advances For Construction | | | | | A-3, A-16 |
| 20 | | | | | | |
| 21 | Working Capital Allowance | | 164,019 | (E) | 164,019 | A-3, A-17 |
| 22 | | | | | | |
| 23 | Total Rate Base | $ 8,897,285 | $ (362,081) | | $ 8,535,204 | |

# Exhibit 2: Rate Base-Wastewater

Schedule of Wastewater Rate Base

Company: Sanlando Utilities Corp.
Docket No.: 140060-WS
Schedule Year Ended: 12/31/2013
Interim [ ] Final [X]
Historic [X] Projected [ ]

Florida Public Service Commission

Schedule: A-2
Page 1 of 1
Preparer: Darrien Pitts

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

| Line No. | (1) Description | (2) Average Amount Per Books | (3) A-3 Utility Adjustments | | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|---|---|---|---|---|---|---|
| 1 | Utility Plant in Service | $ 27,282,234 | $ 4,818,824 | (A) | $ 32,101,058 | A-3, A-6 |
| 2 | | | | | | |
| 3 | Utility Land & Land Rights | 203,894 | (14) | (A) | 203,880 | A-3, A-6 |
| 4 | | | | | | |
| 5 | Less: Non-Used & Useful Plant | - | - | | - | A-7 |
| 6 | | | | | | |
| 7 | Construction Work in Progress | 1,792,058 | (1,792,058) | (B) | - | A-3 |
| 8 | | | | | | |
| 9 | Less: Accumulated Depreciation | (15,335,542) | (948,640) | (C) | (16,284,182) | A-3, A-10 |
| 10 | | | | | | |
| 11 | Less: CIAC | (11,976,178) | (420) | (D) | (11,976,598) | A-3, A-12 |
| 12 | | | | | | |
| 13 | Accumulated Amortization of CIAC | 10,603,129 | | | 10,603,129 | A-3, A-14 |
| 14 | | | | | | |
| 15 | Acquisition Adjustments | | | | | - |
| 16 | | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | | | | | - |
| 18 | | | | | | |
| 19 | Advances For Construction | | | | | A-3, A-16 |
| 20 | | | | | | |
| 21 | Working Capital Allowance | - | 215,575 | (E) | 215,575 | A-3, A-17 |
| 22 | | | | | | |
| 23 | Total Rate Base | $ 12,569,595 | $ 2,293,268 | | $ 14,862,863 | |

# Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital
13 Month Average Balance

Florida Public Service Commission

Company: Santaindo Utilities Corp.
Docket No.: 140060-WS
Test Year Ended: 12/31/2013
Interim [] Final [x]
Historical [x] Projected []

Schedule D-1
Page 1 of 1

Preparer: Dorrien Pitts

Explanation: Provide a schedule which calculates the requested cost of capital on a 13-month average basis. If 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 AYE 12/31/13 | (3) Ratio | (4) Cost Rate | (5) Weighted Cost |
|---|---|---|---|---|---|
| 1 | Long Term Debt | $11,103,149 | 47.46% | 6.64% | 3.15% |
| 2 | Short Term Debt | 574,442 | 2.46% | 2.82% | 0.07% |
| 3 | Preferred Stock | - | 0.00% | 0.00% | 0.00% |
| 4 | Common Equity | 10,499,652 | 44.87% | 10.53% | 4.73% |
| 5 | Customer Deposits | 48,348 | 0.21% | 6.00% | 0.01% |
| 6 | Tax Credits - Zero Cost | - | 0.00% | 0.00% | 0.00% |
| 7 | Tax Credits - Weighted Cost | - | 0.00% | 0.00% | 0.00% |
| 8 | Accumulated Deferred Income Tax | 1,169,279 | 5.00% | 0.00% | 0.00% |
| 9 | Other (Explain) | - | 0.00% | 0.00% | 0.00% |
| 10 | | | | | |
| 11 | Total | $23,398,067 | 100.00% | | 7.96% |

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-11-0287-PAA-WS

Note: Long term debt, short term debt, preferred stock and common equity are actual for Santaindo's parent company, Utilities, Inc.

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

# Exhibit 4: Net Operating Income-Water

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Sanlando Utilities Corp.
Docket No.: 140060-WS
Test Year Ended: 12/31/2013
Interim [ ] Final [X]
Historic [X] Projected [ ]

Schedule: B-1
Page 1 of 1
Preparer: Darrien Pitts

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 ar 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 | $ 4,076,016 | $ 92,739 (A) | $ 4,168,755 | $ 648,693 (A) | $ 4,817,448 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 2,049,029 | 12,890 (B) | 2,061,919 | (B) | 2,061,919 | B-5, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 911,369 | (3,903) (C) | 907,466 | (C) | 907,466 | B-13, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | - | | - | | - | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 478,042 | (46,103) (D) | 431,938 | 29,191 (D) | 461,129 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | 380,867 | (196,123) (E) | 184,744 | 233,119 (E) | 417,863 | C-1, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 3,819,307 | (233,240) | 3,586,067 | 262,310 | 3,848,377 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | $ 256,709 | $ 325,978 | $ 582,687 | $ 386,383 | $ 969,071 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | $ 8,897,285 | $ (362,081) | $ 8,535,204 | | $ 8,535,204 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | 2.89 % | | 6.83 % | | 11.35% [1] | |

[1] Rate of Return with shifting of $486,320 in revenues from Sewer.

# Exhibit 5: Net Operating Income-Wastewater

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Sanlando Utilities Corp.
Docket No.: 140060-WS
Test Year Ended: 12/31/2013
Interim [ ] Final [X]
Historic [X] Projected [ ]

Schedule: B-2
Page 1 of 1
Preparer: Darrien Pitts

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 | $ 3,888,457 | $ 47,163 (A) | $ 3,935,620 | $ 537,442 (A) | $ 4,473,063 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 2,009,026 | 9,667 | 2,018,692 | (B) | 2,018,692 | B-6, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 538,829 | 257,934 | 796,762 | (C) | 796,762 | B-14, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | | | - | | - | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 384,902 | 105,601 (D) | 490,503 | 24,185 (D) | 514,688 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | 39 | 56,327 (E) | 56,366 | 193,139 (E) | 249,505 | C-1, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 2,932,795 | 429,528 | 3,362,324 | 217,324 | 3,579,648 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | $ 955,662 | $ (382,365) | $ 573,297 | $ 320,118 | $ 893,415 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | $ 12,569,595 | $ 2,293,268 | $ 14,862,863 | | $ 14,862,863 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | 7.60 % | | 3.86 % | | 6.01% [1] | |

[1] Rate of Return with shifting of $486,320 in revenues to Water.