

State of Florida



Public Service Commission

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

Auditor's Report

Labrador Utilities Incorporated
File & Suspend Rate Case (PAA)

Twelve Months Ended December 31, 2013

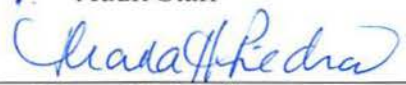
Docket No. 140135-WS
Audit Control Number 14-268-4-1
December 12, 2014



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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 Labrador Utilities Inc. in support of its filing for rate relief in Docket No. 140135-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.

Labrador Utilities Inc. (Utility) is a Class B utility providing water and wastewater services in Pasco 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-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS.

The Utility's general ledger consists 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 utility 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-12-0206-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 UPIS balance as of December 31, 2013. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the 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 UPIS activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 1-5 discuss our recommended adjustments to UPIS.

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: Utility land is secured under a long term lease. We searched the property records of the County Clerk's Office in Seminole County, Florida for utility related activity. No activity

was found. The land activity in the UA ledger was audited in the Audit of Affiliate Transactions. No exceptions were noted.

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-12-0206-PAA-WS. There were no CIAC additions or retirements since the last rate proceeding. We recalculated the average balance for the filing. No exceptions were noted.

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-12-0206-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 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. Findings 1-6 discuss our recommended adjustments to 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-12-0206-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We recalculated the 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. No exceptions were noted.

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 recalculated the working capital allowance balance for the filing. Findings 8-10 discuss our recommended adjustments to 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 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, F.A.C. 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. Findings 6 and 7 provide information for Accumulated Deferred Income Tax.

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 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. Findings 3 and 9-11 discuss our recommended adjustments to 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 utility 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 1-6 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 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. No exceptions were noted.

Other

Analytical Review

Objectives: The objectives were to determine whether Rate Base and O&M expense accounts contained information that could be deemed unusual and to assist in assessing risk.

Procedures: We performed a trend analysis on Rate base accounts for the years 2010 to 2013. We performed a trend analysis on O&M expense accounts for the test year. 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-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-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 May 15, 2012.

On August 10, 2012, the Utility filed a copy of the booking entries that were made to its general ledger as of July 21, 2012, to comply with the Commission Order.

In the instant proceeding, audit staff is charged with ensuring that the Utility's general ledger includes the rate base adjustments required in Order No. PSC-12-0206-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 some differences.

Tables 1-1 through 1-3 that follows, reflect adjustments needed to the Utility's water and wastewater rate base accounts for the filing. The accumulated depreciation adjustment includes the cumulative effect of additional depreciation accruals on our UPIS adjustments through the end of the test year. The adjustments in this Finding do not include the effect of adjustments in our 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, ACN 14-197-1-1.

Effect on the General Ledger: Reduce water and wastewater accumulated depreciation by \$536 and \$4,452, respectively, as of December 31, 2013. Reduce test year water and wastewater depreciation expense by \$6 and \$3, respectively. The offsetting adjustments should be determined by the Utility.

Effect on the Filing: Reduce average water and wastewater accumulated depreciation by \$533 and \$4,450, respectively, for the test year. Reduce test year water and wastewater depreciation expense by \$6 and \$3, respectively.

Table 1-1

Utility Plant in Service Adjustments

OBJ	Acct.	Account Description	Per Order	Per Utility	Adjust.
1020	301	Organization	\$0	\$0	\$0
1025	302	Franchises	\$0	\$0	\$0
1050	304	Struct & Imprv Src Supply	\$0	\$0	\$0
1055	304	Struct & Imprv Wtr Trt Plt	\$0	\$0	\$0
1080	307	Wells & Springs	\$0	\$0	\$0
1090	309	Supply Mains	(\$315)	(\$1,494)	\$1,180
1095	310	Power Generation Equip	\$0	\$0	\$0
1100	311	Electric Pumping Equip Src	\$0	\$0	\$0
1105	311	Electric Pump Equip Wtp	(\$112)	(\$112)	\$0
1110	311	Electric Pump Equip Trans Dist	\$0	\$0	\$0
1115	320	Water Treatment Eqpt	(\$347)	(\$347)	\$0
1120	330	Dist Resv & Standpipes	\$0	\$0	\$0
1125	331	Trans & Distr Mains	\$315	\$1,494	(\$1,180)
1130	333	Service Lines	(\$363)	(\$363)	\$0
1135	334	Meters	\$1	\$1	\$0
1140	334	Meter Installations	\$0	\$0	\$0
1145	335	Hydrants	(\$1,463)	(\$1,463)	\$0
1150	336	Backflow Prevention Devices	\$0	\$0	\$0
1180	341	Office Furn & Eqpt	\$0	\$0	\$0
1190	344	Tool Shop & Misc Eqpt	\$0	\$0	\$0
1195	345	Laboratory Equipment	\$0	\$0	\$0
1200	346	Power Operated Equip	\$0	\$0	\$0
1205	347	Communication Eqpt	\$0	\$0	\$0
Total Water UPIS Adjustment			(\$2,282)	(\$2,282)	\$0
1250	352	Franchises Intang Plt	\$0	\$0	\$0
1290	354	Struct/Imprv Coll Plt	(\$270)	(\$847)	\$577
1295	354	Struct/Imprv Pump Plt Ls	\$270	\$847	(\$577)
1300	354	Struct/Imprv Treat Plt	\$416	\$568	(\$152)
1305	354	Struct/Imprv Reclaim Wtp	\$0	\$0	\$0
1310	354	Struct/Imprv Reclaim Wtr Dist Plt	\$0	\$0	\$0
1330	355	Power Gen Equip Coll Plt	(\$416)	(\$568)	\$152
1345	360	Sewer Force Main	(\$13,449)	(\$13,449)	\$0
1350	361	Sewer Gravity Main	(\$22)	(\$24)	\$1
1353	361	Manholes	\$22	\$24	(\$1)
1360	363	Services To Customers	\$13,449	\$13,449	\$0
1365	364	Flow Measure Devices	(\$1,233)	(\$1,233)	\$0
1380	371	Pumping Equipment Pump Plt	(\$6)	\$2,196	(\$2,202)
1395	380	Treat/Disp Equip Lagoon	\$0	\$0	\$0
1400	380	Treat/Disp Equip Trt Plt	(\$7,091)	(\$7,091)	\$0
1410	381	Plant Sewers Trtmt Plt	(\$2,946)	(\$2,946)	\$0
1420	382	Outfall Lines	\$0	\$0	\$0
1435	389	Other Plt Pump	(\$157)	(\$658)	\$500
1440	389	Other Plt Treatment	(\$5,930)	(\$7,632)	\$1,701
1460	391	Office Furn & Eqpt	\$0	\$0	\$0
1470	394	Tool Shop & Misc Eqpt	\$0	\$0	\$0
1475	395	Laboratory Eqpt	\$0	\$0	\$0
1480	396	Power Operated Equip	\$0	\$0	\$0
1535	375	Reuse Distr Reservoirs	(\$305)	(\$305)	\$0
1540	376	Reuse Transmission & Dist Sys	\$305	\$305	\$0
Total Wastewater UPIS Adjustment			(\$17,363)	(\$17,363)	(\$0)

Table 1-2

Water Accumulated Depreciation Adjustments

OBJ	NARUC	Account Description	AD at 12/31/10		Audit Adjustment	AD on PIS Adjustments	Audit Adj. 12/31/12	AD on PIS Adjustments	Audit Adj. 12/31/13	Audit Adj. TY Avg.
			Per Order	Per Utility						
1835	301.1	Organization	\$834	\$2,595	(\$1,761)	\$0	(\$1,761)	\$0	(\$1,761)	(\$1,761)
1840	302.1	Franchises	(\$1,171)	(\$0)	(\$1,171)	\$0	(\$1,171)	\$0	(\$1,171)	(\$1,171)
1845	304.2	Struct & Imprv Src Supply	\$40	(\$2)	\$42	\$0	\$42	\$0	\$42	\$42
1850	304.3	Struct & Imprv Wtr Trt Plt	\$7	(\$7)	\$14	\$0	\$14	\$0	\$14	\$14
1875	307.2	Wells & Springs	\$154	(\$5)	\$159	\$0	\$159	\$0	\$159	\$159
1885	309.2	Supply Mains	\$16	\$48	(\$31)	(\$14)	(\$45)	(\$34)	(\$79)	(\$62)
1890	310.2	Power Generation Equip	(\$5)	(\$5)	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
1895	311.2	Electric Puming Equip Src	(\$70)	(\$70)	\$0	\$0	\$0	\$0	\$0	\$0
1900	311.3	Electric Pump Equip Wtp	(\$251)	(\$209)	(\$42)	\$0	(\$42)	\$0	(\$42)	(\$42)
1905	311.4	Electric Pump Equip Trans Dist	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1910	320.3	Water Treatment Eqpt	\$338	\$339	(\$1)	\$0	(\$1)	\$0	(\$1)	(\$1)
1915	330.4	Dist Resv & Standpipes	\$0	\$1	(\$1)	\$0	(\$1)	\$0	(\$1)	(\$1)
1920	331.4	Trans & Distr Mains	\$17	\$12	\$5	\$11	\$16	\$27	\$44	\$30
1925	333.4	Service Lines	\$384	\$383	\$2	\$0	\$2	\$0	\$2	\$2
1930	334.4	Meters	(\$1)	(\$7)	\$7	\$0	\$7	\$0	\$7	\$7
1935	334.4	Meter Installations	(\$0)	(\$0)	\$0	\$0	\$0	\$0	\$0	\$0
1940	335.4	Hydrants	\$1,594	\$1,594	\$1	\$0	\$1	\$0	\$1	\$1
1945	336.4	Backflow Prevention Devices	(\$0)	\$1	(\$1)	\$0	(\$1)	\$0	(\$1)	(\$1)
1970	340.5	Office Furn & Eqpt	(\$0)	(\$0)	\$0	\$0	\$0	\$0	\$0	\$0
1975	343.5	Tool Shop & Misc Eqpt	\$1,022	(\$1,022)	\$2,044	\$0	\$2,044	\$0	\$2,044	\$2,044
1985	344.5	Laboratory Equipment	(\$82)	(\$120)	\$38	\$0	\$38	\$0	\$38	\$38
1990	345.5	Power Operated Equip	(\$324)	\$0	(\$324)	\$0	(\$324)	\$0	(\$324)	(\$324)
2000	346.5	Communication Eqpt	\$0	(\$495)	\$495	\$0	\$495	\$0	\$495	\$495
Total Water AD Adjustment			\$2,504	\$3,031	(\$527)	(\$3)	(\$529)	(\$6)	(\$536)	(\$533)

Table 1-3

Wastewater Accumulated Depreciation Adjustments

OBJ	NARUC	Account Description	AD at 12/31/10		Audit Adjustment	AD on PIS Adjustments	Audit Adj. 12/31/12	AD on PIS Adjustments	Audit Adj. 12/31/13	Audit Adj. TY Avg.
			Per Order	Per Utility						
2040	352.1	Franchises Intang Plt	\$0	(\$1)	\$1	\$0	\$1	\$0	\$1	\$1
2050	354.2	Struct/Imprv Coll Plt	\$24	\$50	(\$25)	(\$8)	(\$33)	(\$18)	(\$51)	(\$42)
2055	354.3	Struct/Imprv Pump Plt Ls	(\$291)	(\$322)	\$30	\$8	\$38	\$18	\$56	\$47
2060	354.4	Struct/Imprv Treat Plt	(\$4,462)	\$86	(\$4,548)	\$2	(\$4,546)	\$5	(\$4,541)	(\$4,543)
2065	354.5	Struct/Imprv Reclaim Wtp	(\$27)	(\$27)	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2070	354.6	Struct/Imprv Reclaim Wtr Dist Plt	(\$83)	(\$83)	(\$1)	\$0	(\$1)	\$0	(\$1)	(\$1)
2080	355.4	Power Gen Equip Coll Plt	\$65	\$71	(\$6)	(\$3)	(\$10)	(\$8)	(\$17)	(\$13)
2105	360.2	Sewer Force Main	\$448	\$450	(\$2)	\$0	(\$2)	\$0	(\$2)	(\$2)
2110	361.2	Sewer Gravity Main	(\$34)	(\$59)	\$24	(\$0)	\$24	(\$0)	\$24	\$24
2113	361.2	Manholes	(\$72)	(\$104)	\$32	\$0	\$32	\$0	\$32	\$32
2120	363.2	Services To Customers	(\$24)	(\$38)	\$14	\$0	\$14	\$0	\$14	\$14
2125	364.2	Flow Measure Devices	\$1,578	\$1,578	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2140	371.3	Pumping Equipment Pump Plt	\$5,970	\$5,794	\$176	\$51	\$227	\$122	\$349	\$288
2155	380.4	Treat/Disp Equip Lagoon	(\$2,287)	(\$2,287)	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2160	380.4	Treat/Disp Equip Trt Plt	(\$7,963)	(\$7,963)	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2170	381.4	Plant Sewers Trtmt Plt	\$3,144	\$3,144	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2180	382.4	Outfall Lines	\$0	(\$0)	\$0	\$0	\$0	\$0	\$0	\$0
2195	389.3	Other Plt Pump	\$14	\$18	(\$4)	(\$12)	(\$15)	(\$28)	(\$43)	(\$29)
2200	389.4	Other Plt Treatment	\$656	\$797	(\$141)	(\$39)	(\$180)	(\$95)	(\$275)	(\$227)
2220	390.7	Office Furn & Eqpt	\$0	\$0	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2230	393.7	Tool Shop & Misc Eqpt	\$2	(\$0)	\$2	\$0	\$2	\$0	\$2	\$2
2235	394.7	Laboratory Eqpt	(\$2)	(\$3)	\$1	\$0	\$1	\$0	\$1	\$1
2240	395.7	Power Operated Equip	(\$9)	(\$9)	(\$0)	\$0	(\$0)	\$0	(\$0)	(\$0)
2280	374.5	Reuse Distr Reservoirs	\$32	\$34	(\$2)	\$0	(\$2)	\$0	(\$2)	(\$2)
2285	375.6	Reuse Transmission & Dist Sys	(\$30)	(\$31)	\$1	\$0	\$1	\$0	\$1	\$1
Total Wastewater AD Adjustment			(\$3,351)	\$1,097	(\$4,448)	(\$1)	(\$4,449)	(\$3)	(\$4,452)	(\$4,450)

Finding 2: Utility Plant in Service – Capitalized Salary Adjustments

Audit Analysis: We performed an analysis of capitalized salaries posted to UPIS accounts in year 2011. The objective was to insure that salaries capitalized to UPIS and Construction Work in Progress (CWIP) was included in the proper account based on a description of the work performed.

We found \$2,625 of capitalized salaries posted to OBJ Account 1365 / NARUC Account 364 – Flow Measure Devices. The information provided indicates that the work performed was to repair and maintain the sprinkler system used to disperse treated effluent on the Utility’s wastewater spray field. There were several other instances of capitalized salaries such as these posted to OBJ Account 1310 / NARUC Account 354 – Structure & Improvements Reclaim Water Distribution. We believe that this is the proper account to post these cost.

The \$2,625 we found in OBJ Account 1365 / NARUC Account 364 should be reclassified to OBJ Account 1310 / NARUC Account 354.

Rule 25-130.140, F.A.C. reflects service lives of 32 and 5 years respectively for NARUC Accounts 354 and 364, respectively.

Our adjustment and calculations are displayed below.

Date	OBJ	NARUC	PIS Amount	Monthly Rate	Acc. Dep. Adjustment			
					2011	2012	2013	Total
Jun-11	1310	354	\$2,397	0.260%	\$44	\$75	\$75	\$194
Jul-11	1310	354	<u>\$228</u>		<u>\$4</u>	<u>\$7</u>	<u>\$7</u>	<u>\$18</u>
			\$2,625		\$47	\$82	\$82	\$211
Jun-11	1365	364	(\$2,397)	1.667%	(\$280)	(\$479)	(\$479)	(\$1,239)
Jul-11	1365	364	<u>(\$228)</u>		<u>(\$23)</u>	<u>(\$46)</u>	<u>(\$46)</u>	<u>(\$114)</u>
			(\$2,625)		(\$302)	(\$525)	(\$525)	(\$1,353)
Net Adjustment			<u>\$0</u>		<u>(\$255)</u>	<u>(\$443)</u>	<u>(\$443)</u>	<u>(\$1,142)</u>

(Monthly Rate = 1 / Service Life / 12 months)

Average Rate Base Adjustment - Increase	(((\$1,142 - \$443) + \$1,142) / 2)	(\$921)
Test Year Dep. Expense Adjustment - Reduce		(\$443)
Test Year Net Operating Income Adjustment - Increase		\$443

Effect on the General Ledger:

OBJ	NARUC	Description	Debit	Credit
1310	101 354	PIS-Struct/Improve Reclaim Wtr Plt	\$2,625	
1365	101 364	PIS-Flow Measure Device		\$2,625
2065	108 354	AD-Struct/Improve Reclaim Wtr Plt		\$211
2125	108 364	AD-Flow Measure Device	\$1,353	
	TBD	To be determined by the Utility.		\$1,142

Effect on the Filing: Increase average rate base by \$921 and reduce depreciation expense and increase net operating income by \$443 for the test year.

Finding 3: Water Utility Plant in Service - Adjustment

Audit Analysis: As a result of our sample of additions to water utility plant in service, we determined that the Utility made major repairs to the back-up generator at the water utility plant site. The repairs required the Utility to take the generator out of service and rent a stand-by generator for eight days while the back-up generator’s radiator was being repaired. The Utility posted costs of \$3,693 to OBJ 1115/NARUC Account 320 – Water Treatment Equipment. There was no retirement recorded.

Upon inquiry the Utility stated that these costs should have been expensed rather than capitalized. Per Rule 25-30.433 –Rate Case Proceedings, (8), F.A.C., non-recurring expenses such as these should be amortized over five years.

Test year amortization expense of \$739 (\$3,693/5 years) should be charged to OBJ 6310 / NARUC Account 675.

Our adjustments and calculations to correct the Utility’s general ledger and filing in the instant proceeding are displayed in Table 3-1 that follows.

Effect on the General Ledger:

OBJ	NARUC	Description	Debit	Credit
1115	101	320 PIS-Water Treatment Equipment		\$3,693
1910	108	320 AD-Water Treatment Equipment	\$112	
TBD	186	TBD Deferred Generator Repair	\$3,693	
TBD	186	TBD Acc. Amortz.-Deferred Generator Repair		\$739
	TBD	To be determined by the Utility.	\$627	

(\$627 = Test Year Amortization Expense of \$739 less Depreciation Expense recapture of \$112)

Effect on the Filing: Average water rate base should be reduced by \$1,698, O&M expense should be increased by \$739 and depreciation expense should be reduced by \$112 for the test year.

Average Water Rate Base Calculation:	Year End	Average
Reduce plant in service	(\$3,693)	(\$1,847)
Reduce accumulated depreciation	\$112	\$56
Increase Working Capital (a)		<u>\$92</u>
		(\$1,698)

a) 1/8th of O&M expense adjustment. (\$739/8)

Table 3-1

Water Utility Plant in Service Adjustment

AUDIT ADJUSTMENT								
Move generator repairs from OBJ 1115 / NARUC 320.3 to OBJ TBD / NARUC 186 and amortize over 5 years.								
Date	Invoice	Vendor						Amount
04/29/13	78962	Paramount Power, Inc.						\$1,402.40
05/01/13	79061	Paramount Power, Inc.						<u>\$2,290.36</u>
							\$3,692.76	
General Ledger Adjustment					NARUC Acct. 108-320			
OBJ	NARUC	Acct. Description	Debit	Credit	Month	Rate	Accrual	
1115	101	320 PIS-Water Treatment Equipment		\$3,692.76	May-13	0.379%	\$13.99	
1910	108	320 AD-Water Treatment Equipment	\$111.90		Jun-13	0.379%	\$13.99	
TBD	186	TBD Deferred Generator Repair	\$3,692.76		Jul-13	0.379%	\$13.99	
TBD	186	TBD Amortz-Deferred Generator Repair		\$738.55	Aug-13	0.379%	\$13.99	
		TBD Equity - 2013 AD Recapture		\$111.90	Sep-13	0.379%	\$13.99	
		TBD Equity - 2013 Amortz. Expense	\$738.55		Oct-13	0.379%	\$13.99	
		TBD To be determined by Utility			Nov-13	0.379%	\$13.99	
					Dec-13	0.379%	<u>\$13.99</u>	
							AD Recapture \$111.90	
Average Rate Base Filing Adjustment								
Plant in Service			(\$3,692.76 / 2)	Reduce	(\$1,846.38)	(Rate = 22 years/4.545% annually)		
Accumulated Depreciation			(\$111.90 / 2)	Reduce	<u>\$55.95</u>			
Water Rate Base				Reduce	(\$1,790.43)			
Test Year Filing Adjustment					NARUC Account. No. 186			
O&M Expense				Increase	\$738.55	Amount	\$3,692.76	
Depreciation Expense				Reduce	(\$111.90)	5-year amortization	\$738.55	

Finding 4: Wastewater Utility Plant in Service - Adjustments

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

OBJ	Date	Vendor	Amount
1380	Mar-12	USA Bluebook	\$1,271
1400	Apr-11	Bob Dean Supply	\$1,550
1410	Feb-11	Nodarse & Associates	\$2,700

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. Our adjustments and calculations to correct the Utility’s general ledger and filing in the instant proceeding for the three transactions are displayed in Table 4-1, 4-2 and 4-3 that follow.

Effect on the General Ledger:

OBJ	NARUC	Description	Debit	Credit
1380	101	371.3 PIS-Pumping Equipment Plant		\$953
1400	101	380.4 PIS-Treat/Disposal Treatment Plant		\$1,162
1410	101	381.4 PIS-Plant Sewers Treatment Plant		\$2,025
2140	108	371.3 AD-Pumping Equipment Plant	\$1,050	
2160	108	380.4 AD-Treat/Disposal Treatment Plant	\$1,340	
2170	108	381.4 AD-Plant Sewers Treatment Plant	\$2,189	
TBD		To be determined by the Utility.		\$439

(\$439 = AD recapture amounts of \$97 + \$178 + \$164)

Effect on the Filing: Average wastewater rate base should be increased by \$351 and depreciation expense should be reduced by \$175 for the test year.

Increase (Decrease) Wastewater	Rate Base	Dep. Expense
Table 4.1 adjustment	\$71	\$53
Table 4.2 adjustment	\$145	\$65
Table 4.3 adjustment	\$135	\$58
Net Adjustment	\$351	\$175

Table 4-1

Wastewater Utility Plant in Service - Adjustment

AUDIT ADJUSTMENT									
Retire 2hp pump that was replaced.									
Date	Invoice	Vendor							Amount
03/12/12	608782	USA Bluebook							\$1,271.08
General Ledger Adjustment					NARUC Acct No. 108-371				
OBJ	NARUC	Acct. Description	Debit	Credit	Month	Rate	Accrual		
1380	101	371.3 PIS-Pumping Equipment Plant		\$953.31	Mar-12	0.463%	\$4.41		
2140	108	371.3 AD-Pumping Equipment Plant	\$1,050.41		Apr-12	0.463%	\$4.41		
		TBD Equity - 2012-13 AD Recapture		\$97.10	May-12	0.463%	\$4.41		
		TBD To be determined by the Utility			Jun-12	0.463%	\$4.41		
					Jul-12	0.463%	\$4.41		
					Aug-12	0.463%	\$4.41		
					Sep-12	0.463%	\$4.41		
					Oct-12	0.463%	\$4.41		
					Nov-12	0.463%	\$4.41		
					Dec-12	0.463%	\$4.41		
					2012		\$44.13		
					2013	5.556%	\$52.96		
						AD Recapture	\$97.10		
						\$953.31	\$44.13	\$997.44	
						\$953.31	\$97.10	<u>\$1,050.41</u>	
						Average AD	\$1,023.93		
						(Life = 18 years/5.556% annually)			
Average Rate Base Filing Adjustment									
Plant in Service			Reduce	(\$953.31)					
Accumulated Depreciation			Reduce	<u>\$1,023.93</u>					
Wastewater Rate Base			Increase	\$70.62					
Test Year Filing Adjustment									
Depreciation Expense			Reduce	(\$52.96)					

Table 4-2

Wastewater Utility Plant in Service – Adjustment

AUDIT ADJUSTMENT									
Retire gearbox replaced at WWTP									
Date	Invoice	Vendor							Amount
04/27/11	1376465	Bob Dean Supply							\$1,549.60
General Ledger Adjustment					NARUC Account. No. 380				
OBJ	NARUC	Acct. Description	Debit	Credit	Month	Rate	Accrual		
1400	101	380.4 PIS-Treat/Disposal Treatment Plant		\$1,162.20	Apr-11	0.463%	\$5.38		
2160	108	380.4 AD-Treat/Disposal Treatment Plant	\$1,339.76		May-11	0.463%	\$5.38		
		TBD Equity - 2011-13 AD Recapture		\$177.56	Jun-11	0.463%	\$5.38		
		TBD To be determined by the Utility			Jul-11	0.463%	\$5.38		
					Aug-11	0.463%	\$5.38		
					Sep-11	0.463%	\$5.38		
					Oct-11	0.463%	\$5.38		
					Nov-11	0.463%	\$5.38		
					Dec-11	0.463%	\$5.38		
Average Rate Base Filing Adjustment									
Plant in Service			Reduce	(\$1,162.20)	2011		\$48.43		
Accumulated Depreciation			Reduce	<u>\$1,307.48</u>	2012	5.556%	\$64.57		
Wastewater Rate Base			Increase	\$145.28	2013	5.556%	\$64.57		
Test Year Filing Adjustment									
Depreciation Expense			Reduce	(\$177.56)	AD Recapture		\$177.56		
					\$1,162.20	\$112.99	\$1,275.19		
					\$1,162.20	\$177.56	<u>\$1,339.76</u>		
					Average AD		\$1,307.48		
					(Life = 18 years/5.556% annually)				

Finding 5: Water Utility Plant in Service – CWIP Transfers

Audit Analysis: On June 30, 2013 the Utility transferred \$168,569 for Construction Work in Process (CWIP) Project 2012056 to OBJ Account 1110 / NARUC Account 311 – Pumping Equipment Transmission and Distribution. The UPIS addition replaced and upgraded the existing high service pumping system for the Utility’s water distribution system. The project started accruing cost in July 2012 and stopped accruing cost in April 2013. AFUDC was accrued during the construction period through June 2013 when the total amount was transferred to UPIS.

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 utility plant in service that exceed \$5,000 and are expected to be completed in excess of sixty days. Additionally, the rule states that when a project is completed and ready for service, it shall be immediately transferred to the appropriate utility plant account(s) and that a discounted monthly AFUDC rate, calculated to six decimal places, shall be employed to ensure that the annual AFUDC charge does not exceed authorized levels.

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.

We determined the following information from Utility provide documents.

- The Utility posted the entire contract cost of \$147,000 to the project in July 2012 in advance of actual invoices received over the life of the project. The actual invoiced cost should have been posted to the project as the work was completed and request for payment was received.
- The Utility calculated AFUDC accruals based on 1/12th of its approved AFUDC rate of 9.03 percent rather than the discounted monthly AFUDC rate. The Utility did not calculate AFUDC accruals as required by Commission rule.
- The project stopped accruing invoiced and capitalized salary costs in April 2013; however, the Utility continued to accrue AFUDC through June 2013. The project was substantially completed in April 2013 when it stopped accruing cost and it should have been transferred to UPIS at that time.

Rule 25-130.140, F.A.C. reflects a service life of 20 years for utility plant charged to NARUC Account 311.

The amount of CWIP closed out to NARUC Account. 311 should be reduced by \$5,364 to \$163,205. The corresponding accumulated depreciation and depreciation expense should be increased by \$1,204 for the test year, based on the analysis and calculations in Table 5-1 that follows.

Table 5-1

Water Utility Plant in Service - CWIP Transfer

Per Audit Calculation							
Date	Addition		Balance	AFUDC RATE	AFUDC		CWIP & AFUDC
	Invoice	Cap Time			Accruals	Balance	
06/30/12	\$0	\$0	\$0	0.7519660%	\$0	0	\$0
07/31/12	\$73,500	\$557	\$74,057	0.7519660%	\$557	\$557	\$74,614
08/31/12	\$25	\$0	\$74,082	0.7519660%	\$557	\$1,114	\$75,196
09/30/12	\$0	\$0	\$74,082	0.7519660%	\$557	\$1,671	\$75,754
10/31/12	\$0	\$0	\$74,082	0.7519660%	\$557	\$2,228	\$76,311
11/30/12	\$0	\$0	\$74,082	0.7519660%	\$557	\$2,785	\$76,868
12/31/12	\$44,191	\$1,752	\$120,025	0.7519660%	\$903	\$3,688	\$123,713
01/31/13	\$24,132	\$1,195	\$145,352	0.7519660%	\$1,093	\$4,781	\$150,133
02/28/13	\$8,118	\$637	\$154,107	0.7519660%	\$1,159	\$5,940	\$160,046
03/31/13	\$0	\$159	\$154,266	0.7519660%	\$1,160	\$7,100	\$161,366
04/30/13	\$38	\$637	\$154,941	0.7519660%	\$1,165	\$8,265	\$163,205
05/31/13	\$0	\$0	\$0	0.7519660%	\$0	\$0	\$0
06/30/13	\$0	\$0	\$0	0.7519660%	\$0	\$0	\$0
CWIP Transfer Per Audit			\$154,941		\$8,265		\$163,205
CWIP Transfer Per Utility			<u>\$154,941</u>		<u>\$13,629</u>		<u>\$168,569</u>
CWIP Audit Adjustment			\$0		(\$5,364)		(\$5,364)

Per Utility Calculation							
Date	Addition		Balance	AFUDC RATE	AFUDC		CWIP & AFUDC
	Invoice	Cap Time			Accruals	Balance	
06/30/12	\$0	\$0	\$0		\$0	0	\$0
07/31/12	\$147,000	\$557	\$147,557	0.75263%	\$1,111	\$1,111	\$148,668
08/31/12	\$25	\$0	\$147,582	0.75237%	\$1,110	\$2,221	\$149,803
09/30/12	\$0	\$0	\$147,582	0.75250%	\$1,111	\$3,331	\$150,914
10/31/12	\$0	\$0	\$147,582	0.75250%	\$1,111	\$4,442	\$152,025
11/30/12	\$0	\$0	\$147,582	0.75250%	\$1,111	\$5,553	\$153,135
12/31/12	\$91	\$1,752	\$149,425	0.75250%	\$1,124	\$6,677	\$156,102
01/31/13	\$0	\$1,195	\$150,620	0.75250%	\$1,133	\$7,810	\$158,430
02/28/13	\$2,850	\$637	\$154,107	0.75250%	\$1,160	\$8,970	\$163,077
03/31/13	\$0	\$159	\$154,266	0.75250%	\$1,161	\$10,131	\$164,397
04/30/13	\$38	\$637	\$154,941	0.75250%	\$1,166	\$11,297	\$166,238
05/31/13	\$0	\$0	\$154,941	0.75250%	\$1,166	\$12,463	\$167,403
06/30/13	\$0	\$0	\$154,941	0.75250%	\$1,166	\$13,629	\$168,569
CWIP Transfer Per Utility			\$154,941	9.030%	\$13,629		\$168,569

Table 5-1, continued.

Date	OBJ	NARUC	PIS Amount	Monthly Rate	2013 AD Adjustment	
					Year End	Annualized
Jun-13	1110	311	(\$168,569)	0.417%	(\$4,917)	(\$8,428)
Apr-13	1110	311	\$163,205	0.417%	\$6,120	\$8,160
Net Adjustment			<u>(\$5,364)</u>		<u>\$1,204</u>	<u>(\$268)</u>

(Monthly Rate = 1 /Service Life / 12 months)

Annualized Rate Base Adjustment - Reduce (268)
 Annualized Test Year Dep. Expense Adjustment - Reduce \$268

The Utility's filing included rate base and net operating income adjustments that increased test year accumulated depreciation and depreciation expense by \$3,512 to annualize the UPIS addition. There was no corresponding adjustment to annualize the UPIS addition.

Effect on the General Ledger:

OBJ	NARUC	Description	Debit	Credit
1110	101 311	PIS-Pumping Equip. T&D		\$5,364
1905	108 311	AD-Pumping Equip. T&D		\$1,204
	TBD	To be determined by the Utility.	\$6,568	

Effect on the Filing:

Alternative 1 – Accept the Utility's adjustment in the filing to annualize the UPIS addition.

- Increase water rate base by \$79,242.
- Reduce depreciation expense \$268.

Alternative 2 – Reject the Utility's adjustment in the filing to annualize the UPIS addition.

- Increase water rate base by \$2,734.
- Reduce depreciation expense \$2,303.

Alternative 1 Calculation

System	Per Utility			Per Audit	
	Filing	Adj	Annualized	Adjustment	Annualized
PIS	\$84,232	\$0	\$84,232	\$78,974	\$163,205
AD	(\$4,911)	(\$3,512)	(\$8,423)	\$268	(\$8,155)
	\$79,321	(\$3,512)	\$75,809	\$79,242	\$155,050
Dep Exp	\$4,911	\$3,512	\$8,423	(\$268)	\$8,155

Alternative 2 Calculation

System	Per Utility			Per Audit	
	Filing	Adj	Average	Adjustment	Average
PIS	\$84,232	\$0	\$84,232	(\$2,629)	\$81,603
AD	(\$4,911)	(\$3,512)	(\$8,423)	\$5,363	(\$3,060)
	\$79,321	(\$3,512)	\$75,809	\$2,734	\$78,543
Dep Exp	\$4,911	\$3,512	\$8,423	(\$2,303)	\$6,120

Finding 6: Accumulated Depreciation – Stranded Assets

Audit Analysis: : We performed an analysis of the Utility’s UPIS and accumulated depreciation accounts as of December 31, 2013 to determine instances where accumulated depreciation reflected a debit balance rather than a normal credit balance. This situation typically occurs when retirements to UPIS and accumulated depreciation are recorded and the accumulated depreciation amount that is retired exceeds the existing depreciation reserve balance. It can also occur when adjustments are posted to accumulated depreciation based on prior period or Commission ordered adjustments to the general ledger.

NARUC, Class A, Accounting Instruction 27 - Utility Plant Additions and Retirements, B, states that if the booked cost of a unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property. Paragraph H, states that the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph B. In such instances the Commission may authorize or order the loss on retirement (less tax savings) to be charged to income in the current year or transferred to Account 186 – Miscellaneous deferred Debits, and amortized in future periods.

Our analysis determined the net “over” depreciated balance and calculated the period of time required to reverse the debit balance with annual depreciation accruals based on the respective service life. We recommend that depreciation reserve accounts that do not reverse themselves and eliminate the existing debit balance within 5 years should be adjusted and afforded a different accounting treatment as prescribed by the NARUC rule cited above.

The accounts we identified in our analysis and the ones we recommend be adjusted are displayed in Table 6-1 that follows.

Effect on the General Ledger:

OBJ	NARUC	Description	Debit	Credit
1020	108	301.1 AD-Organization		\$1,122
1150	108	336.4 AD-Backflow Prevention Devices		\$441
1295	108	354.3 AD Struct/Improv Pump Plt		\$10,633
1345	108	360.2 AD Sewer Force Main		\$25,548
1410	108	381.4 AD-Plant Sewers Trtmt Plat		\$7,074
1420	108	382.4 AD-Outfall Lines		\$5,436
1540	108	375.6 AD-Reuse T&D System		\$2,932
	TBD	To be determined by the Utility.	\$53,186	

Effect on the Filing: Reduce average water and wastewater rate base by \$1,571 and \$53,135, respectively, for the test year.

OBJ	NARUC	OBJ DESCRIPTION	2012	Accrual	2013	Avg.	
1835	108	301.1	AD-Organization	\$1,122	\$0	\$1,122	\$1,122
1945	108	336.4	AD-Backflow Prevention Devices	\$458	(\$17)	\$441	\$450
Total				\$1,579	(\$17)	\$1,563	\$1,571

OBJ	NARUC	OBJ DESCRIPTION	2012	Accrual	2013	Avg.	
2055	108	354.3	AD-Struct/Imprv Pump Plt Ls	\$11,259	(\$626)	\$10,633	\$10,946
2105	108	360.2	AD-Sewer Force Main	\$26,996	(\$1,448)	\$25,548	\$26,272
2170	108	381.4	AD-Plant Sewers Trtmt Plt	\$7,543	(\$469)	\$7,074	\$7,309
2180	108	382.4	AD-Outfall Lines	\$5,629	(\$193)	\$5,436	\$5,532
2285	108	375.6	AD-Reuse Transmission & Dist Sys	\$3,221	(\$289)	\$2,932	\$3,076
Total				\$54,648	(\$3,025)	\$51,623	\$53,135

Table 6-1

Accumulated Depreciation - Stranded Assets

PIS OBJ	AD OBJ	NARUC	OBJ DESCRIPTION	PIS	AccDep	Net	Service Life	Annual Accrual	Years to Reverse	Audit Adjustment
1020	1835	301.1	Organization	(\$0)	\$1,122	\$1,122	40	(\$0)	.	(\$1,122)
1130	1925	333.4	Service Lines	\$37,876	\$583	\$38,459	40	\$947	0.6	\$0
1145	1940	335.4	Hydrants	\$8,035	\$273	\$8,308	45	\$179	1.5	\$0
1150	1945	336.4	Backflow Prevention Devices	\$248	\$441	\$689	15	\$17	26.7	<u>(\$441)</u>
Water Accumulated Depreciation Adjustment										(\$1,563)
1295	2055	354.3	Struct/Imprv Pump Plt Ls	\$20,020	\$10,633	\$30,653	32	\$626	17.0	(\$10,633)
1310	2070	354.6	Struct/Imprv Reclaim Wtr Dist Plt	\$6,308	\$865	\$7,173	32	\$197	4.4	\$0
1345	2105	360.2	Sewer Force Main	\$43,438	\$25,548	\$68,987	30	\$1,448	17.6	(\$25,548)
1380	2140	371.3	Pumping Equipment Pump Plt	\$45,137	\$2,212	\$47,349	18	\$2,508	0.9	\$0
1410	2170	381.4	Plant Sewers Trtmt Plt	\$16,419	\$7,074	\$23,493	35	\$469	15.1	(\$7,074)
1420	2180	382.4	Outfall Lines	\$5,778	\$5,436	\$11,214	30	\$193	28.2	(\$5,436)
1540	2285	375.6	Reuse Transmission & Dist Sys	\$12,441	\$2,932	\$15,373	43	\$289	10.1	<u>(\$2,932)</u>
Wastewater Accumulated Depreciation Adjustment										(\$51,623)

Finding 7: Accumulated Deferred Income Tax - Depreciation

Audit Analysis: The Utility’s Cost of Capital filing includes an average debit balance of \$3,261 for Accumulated Deferred Income Tax (ADIT) as shown below.

<u>@12/31/2012</u>	<u>@12/31/2013</u>	<u>Average</u>
(\$23,472)	\$29,994	\$3,261

NARUC, Balance Sheet Accounts, 190 - Accumulated Deferred Income Taxes, states that this account will be debited (credited) with an amount equal to that by which income taxes payable for the year are lower (higher) because of the inclusion (exclusion) of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility’s determination of annual net income until subsequent years. Included in the average ADIT was the following sub-account balance for Deferred Federal Tax –Depreciation.

<u>OBJ</u>	<u>NARUC</u>	<u>OBJ Description</u>	<u>@12/31/2012</u>	<u>Activity</u>	<u>@12/31/2013</u>	<u>Average</u>
4387	190.1	Def Fed Tax - Depreciation	\$26,979	\$347	\$27,326	\$27,152

A large debit transaction was posted to this account in 2013 for \$33,523 and identified as a prior period adjustment that recorded Commission adjustments in dockets that preceded the Utility’s last rate case in Docket No. 110264-WS.

<u>OBJ</u>	<u>NARUC</u>	<u>OBJ Description</u>	<u>Amount</u>
1020	301	Organization	(\$29,139)
1105	311	Electric Pumping Equipment	(\$557)
1190	343	Tools Shop & Miscellaneous Equip.	(\$5,873)
1835	108	AD-Organization	\$4,796
1900	108	AD-Electric Pumping Equipment	\$253
1985	108	AD-Tools Shop & Miscellaneous Equip.	\$3,829
2400	114	Utility Purchase Acquisition Adj.	(\$62,401)
Total Adjustment			(\$89,092)
2013 Effective Federal & State Tax Rate (blended)			<u>37.63%</u>
Total ADIT Adjustment Debit(Credit)			\$33,523

The ADIT adjustment includes a utility acquisition adjustment component which should have been removed for rate setting purposes because the acquisition adjustment was excluded from the rate base established by Commission in Order No. PSC-03-0638-PAA-WS, issued May 27, 2003.

Typically, one would expect a utility to carry a credit balance in this account in the early years after formation because federal tax depreciation rates are higher than the book depreciation rates authorized in Rule 25-30.140, F.A.C. These “temporary” differences would reverse over time as federal tax depreciation falls off and book depreciation “catches” up.

Using information provided by the Utility and their 2003 through 2013 annual reports we attempted to recalculate the balance for Deferred Federal Tax –Depreciation. Because of time constraints, insufficient records and discrepancies between documents that should have reflected similar balances we were unable to verify or determine an appropriate balance for this account.

We defer this issue to the staff analyst in Tallahassee.

Effect on the General Ledger: None

Effect on the Filing: To be determined by staff analyst.

Finding 8: Accumulated Deferred Income Tax – Net Operating Loss

Audit Analysis: The Utility’s Cost of Capital filing includes an average debit balance of \$3,261 for Accumulated Deferred Income Tax (ADIT) as shown below.

<u>@12/31/2012</u>	<u>@12/31/2013</u>	<u>Average</u>
(\$23,472)	\$29,994	\$3,261

NARUC, Balance Sheet Accounts, 190 - Accumulated Deferred Income Taxes, states that this account will be debited (credited) with an amount equal to that by which income taxes payable for the year are lower (higher) because of the inclusion (exclusion) of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility’s determination of annual net income until subsequent years. Included in the average ADIT were the following sub-account balances for Deferred Federal and State Tax – Net Operating Loss (NOL).

<u>OBJ</u>	<u>NARUC</u>	<u>OBJ Description</u>	<u>@12/31/12</u>	<u>Activity</u>	<u>@12/31/13</u>	<u>Average</u>
4387	190.1	Def Fed Tax - NOL	\$0	\$36,259	\$36,259	\$18,130
4439	190.2	Def State Tax - NOL	\$0	\$485	\$485	<u>\$243</u>
Total						\$18,372

The debit balance in these accounts reflect a deferred income tax asset that is associated with the Utility recording a \$102,065 net income loss for federal tax purposes in 2013. In theory, this deferred tax asset would be used to offset future year’s tax obligations when the Utility records a positive net income. Because it was included in the Utility’s capital structure it increases the Utility’s revenue requirement in this rate proceeding. For the purpose of setting rates, the ADIT-NOL should not be included in the capital structure unless the NOL is included in the calculation of the per book income tax expense.

The analyst in Tallahassee should determine the prudence and appropriateness of including a balance for Deferred Federal and State Taxes - NOL in the Utility’s capital structure for this proceeding.

Effect on the General Ledger: None

Effect on the Filing: To be determined by staff analyst.

Finding 9: CWIP – Abandoned Projects

Audit Analysis: On August 31, 2013 the Utility transferred \$1,427 for CWIP Project 2012058 to OBJ Account 6165 / NARUC Accounts 601/701 Salary Expense. The project was identified as a Preliminary Survey Project that accrued costs in 2012 that was abandoned and written off in 2013. All of the costs were capitalized salaries accrued during the period August through October 2012.

On August 31, 2013 the Utility transferred \$78,535 for CWIP Project 2012107 to the following Utility and NARUC accounts.

<u>OBJ</u>	<u>NARUC</u>	<u>Description</u>	<u>Amount</u>
1665	601/701	Capitalized Salary Adjustment	\$3,053
6025	633/733	Legal Fees	\$57,289
6050	636/736	Outside Services	<u>\$14,312</u>
Amount in O&M Expense			\$74,653
7750	420	IDC Interest Expense	<u>\$3,882</u>
Total			\$78,535

The project was identified as a Preliminary Survey Project to accrue legal and consulting costs in 2012 and 2013 that were related to a Labrador Eminent Domain action that was being contemplated in response to the ongoing legal proceedings with the Forest Lake Estates Co-Op.

NARUC, Account, 183-Preliminary Survey and Investigation Charges, states that abandoned projects, such as this, shall be charged to Account 426-Miscellaneous Nonutility Expense or to the appropriate operating expense account unless otherwise ordered by the Commission.

The costs for both projects were incurred in 2012 and 2013. When the decision to abandon the projects was made in 2013 all of the accrued costs should have been written off per the NARUC rule cited above.

Additionally, Rule 25-30.433 Rate Case Proceedings, (8), states that Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.

Since the costs are non-recurring, they should be removed from test year O&M expense for the instant proceeding. The allocation between water and wastewater O&M expense should be determined using the recommendations provided in the Audit of Affiliate Transactions in Docket No.140060-WS, ACN 14-197-1-1.

The analyst should make a determination as to whether any of these costs should be included in the instant proceeding.

Effect on the General Ledger: None

Effect on the Filing: Reduce O&M Expense by \$76,080 (\$1,427+\$74,653) and reduce average rate base by reducing working capital \$9,510 (\$76,080/8) for the test year. The allocation between water and wastewater average rate base and O&M expense should be determined by the analyst using the recommendations provided in the Audit of Affiliate Transactions in Docket No.140060-WS, ACN 14-197-1-1.

Finding 10: O&M Expense – Lawsuit Expense

Audit Analysis: Based on the information obtained and disclosed in Finding 9, we requested from the Utility a full detailed accounting for the legal proceedings with the Forest Lake Estates Co-Op. (FLE) The Utility’s response indicates that a lawsuit was initially filed against Labrador in May 2008 by FLE over alleged noxious odors from the wastewater treatment plant.(WWTP) In 2012 the lawsuit was amended to include a claim that Labrador was in default with the terms of the property lease agreement for WWTP land. Labrador exercised various options from looking for suitable land to relocate the WWTP to the use of eminent domain proceedings to acquire the present WWTP site. Ultimately, a settlement agreement was signed in June 2013 that resolved the outstanding issues.

The Utility provided a schedule that indicates that the total cost incurred to date for this issue was \$106,100. We found one additional invoice totaling \$6,312 that the Utility did not include in its response. Therefore, the total cost incurred by the Utility for this issue was \$112,412 as illustrated below.

Year	OBJ 1665	OBJ 6020	OBJ 6025	OBJ 6050	Total
2008	\$0	\$0	\$2,901	\$0	\$2,901
2009	\$0	\$0	\$171	\$0	\$171
2010	\$0	\$0	\$5,224	\$0	\$5,224
2012	\$738	\$0	\$20,916	\$8,000	\$29,654
2013	\$2,315	\$7,602	\$58,235	\$6,312	\$74,463
Total	\$3,053	\$7,602	\$87,446	\$14,312	\$112,412
AF 9	\$3,053	\$0	\$57,289	\$14,312	\$74,653
Remaining	\$0	\$7,602	\$30,157	\$0	\$37,759
2008 to 2012	\$0	\$0	\$29,211	\$0	\$29,211
2013	\$0	\$7,602	\$946	\$0	\$8,548

OBJ	NARUC	Description
1665	601/701	Capitalized Salary Adjustment
6020	631/731	Engineering Fees
6025	633/733	Legal Fees
6050	636/736	Outside Services

We addressed \$74,653 of the \$112,412 total litigation cost in Finding 9. The Utility recovered \$29,211 of the remaining \$37,759 in litigation costs in years 2008 through 2011.

The final \$8,548 of costs currently included in test year O&M expense should be handled in a manner consistent with Finding 9.

Since the costs are non-recurring, they should be removed from test year O&M expense for the instant proceeding. The allocation between water and wastewater O&M expense should be determined using the recommendations provided in the Audit of Affiliate Transactions in Docket No.140060-WS, ACN 14-197-1-1.

The analyst should make a determination as to whether any of these costs should be included in the instant proceeding.

Effect on the General Ledger: None

Effect on the Filing: Reduce O&M Expense by \$8,548 and reduce average rate base by reducing working capital \$1,069 ($\$8,548/8$) for the test year. The allocation between water and wastewater average rate base and O&M expense should be determined by the analyst using the recommendations provided in the Audit of Affiliate Transactions in Docket No.140060-WS, ACN 14-197-1-1.

Finding 11: O&M Expense – Capitalized Salary Adjustments

Audit Analysis: We performed an analysis of capitalized salary expense for years 2011 through 2013. The objective was to insure that salaries capitalized to UPIS, CWIP and deferred asset accounts were properly offset against annual salary expense for the respective years. No issues were found in years 2011 and 2012.

In 2013, we found \$1,117 of capitalized salaries that were not offset against 2013 salary expense.

OBJ	NARUC	OBJ DESCRIPTION	LT	DESCRIPTION	TY	DOC	DATE	NET
1105	311.3	Electric Pump Equip Wtp	AA	Neal, William L.	T4	1164	04/15/13	\$119
1120	330.4	Dist Resv & Standpipes	AA	Neal, William L.	T4	1221	08/31/13	\$121
1400	380.4	Treat/Disp Equip Trt Plt	AA	Reincke, Sean	T4	1167	04/16/13	\$159
1400	380.4	Treat/Disp Equip Trt Plt	AA	Neal, William L.	T4	1209	07/31/13	\$81
1410	381.4	Plant Sewers Trtmt Plt	AA	Reincke, Sean	T4	1167	04/16/13	\$319
1410	381.4	Plant Sewers Trtmt Plt	AA	Reincke, Sean	T4	1167	04/16/13	<u>\$319</u>
	Total							\$1,117

Salary expense should be reduced by \$1,117 to prevent an over recovery of these costs in rate base and O&M expense in the test year. The allocation between water and wastewater salary expense should be determined using the recommendations provided in the Audit of Affiliate Transactions in Docket No.140060-WS, ACN 14-197-1-1.

Effect on the General Ledger: None

Effect on the Filing: Reduce O&M Expense by \$1,117 and reduce working capital by \$140 (\$1,117/8) for the test year. The allocation between water and wastewater O&M expense should be determined by the analyst using the recommendations provided in the Audit of Affiliate Transactions in Docket No.140060-WS, ACN 14-197-1-1.

Finding 12: Water Utility Plant in Service – Pro Forma Addition

Audit Analysis: Order No. PSC-12-0206-PAA-WS approved \$30,138 for a pro forma deferred maintenance project to sandblast and recoat the Utility’s ground storage water tank. The estimated cost was to be amortized over five years at an annual cost of \$6,028.

We scanned the Utility’s general ledger for invoiced transactions related to this project and found none. In response to our inquiry, the Utility stated that the project was abandoned because a contractor’s reassessment of the water storage tanks condition indicated that the deterioration was excessive and that the planned improvements would not have been successful.

The Utility’s filing includes a request to now replace the same ground storage tank at an estimated cost of \$100,000.

Effect on the General Ledger: None

Effect on the Filing: To be determined by Commission staff.

Exhibits

Exhibit 1: Rate Base-Water

Schedule of Water Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.

Schedule: A-1

Docket No.: 140135-WS

Page 1 of 1

Schedule Year Ended: 12/31/2013

Preparer: Darrien Pitts

Interim Final

Historic Projected

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	\$ 934,990	\$ 73,246 (A)	\$ 1,008,236	A-3, A-5
2					
3	Utility Land & Land Rights	540	(3) (A)	537	A-3, A-5
4					
5	Less: Non-Used & Useful Plant			-	A-7
6				-	
7	Construction Work in Progress	94,653	(94,653) (B)	-	A-3
8					
9	Less: Accumulated Depreciation	(375,176)	20,140 (C)	(355,036)	A-3, A-9
10					
11	Less: CIAC	(342)		(342)	A-12
12					
13	Accumulated Amortization of CIAC	64		64	A-14
14					
15	Acquisition Adjustments	(351,387)	351,387 (D)	-	A-3
16					
17	Accum. Amort. of Acq. Adjustments	94,285	(94,285) (D)	-	A-3
18					
19	Advances For Construction				A-16
20					
21	Working Capital Allowance		25,633 (E)	25,633	A-3, A-17
22					
23	Total Rate Base	\$ 397,628	\$ 281,464	\$ 679,092	

Exhibit 2: Rate Base-Wastewater

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 140135-WS
 Schedule Year Ended: 12/31/2013
 Interim Final
 Historic Projected

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	\$ 2,086,875	\$ 653,285 (A)	\$ 2,740,160	A-3, A-6
2					
3	Utility Land & Land Rights	-	-	-	A-6
4					
5	Less: Non-Used & Useful Plant	-	-	-	A-7
6					
7	Construction Work in Progress	1,565	(1,565) (B)	-	A-3
8					
9	Less: Accumulated Depreciation	(876,820)	(16,983) (C)	(893,803)	A-3, A-10
10					
11	Less: CIAC	-	-	-	A-12
12					
13	Accumulated Amortization of CIAC	-	-	-	A-14
14					
15	Acquisition Adjustments				-
16					
17	Accum. Amort. of Acq. Adjustments				-
18					
19	Advances For Construction				A-16
20					
21	Working Capital Allowance	-	38,148 (E)	38,148	A-3, A-17
22					
23	Total Rate Base	<u>\$ 1,211,620</u>	<u>\$ 671,885</u>	<u>\$ 1,884,505</u>	

Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital
Simple Average Basis

Florida Public Service Commission

Company: Labrador Utilities, Inc.

Schedule D-1

Docket No.: 140135-WS

Page 1 of 1

Test Year Ended: 12/31/2013

Interim [] Final [x]

Preparer: Darrien Pitts

Historical [x] Projected []

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

	(1)	(2)	(3)	(4)	(5)
		Reconciled to Requested Rate Base			
Line No.	Class of Capital	12/31/2013	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	\$1,290,632	50.34%	6.64%	3.34%
2	Short Term Debt	22,227	0.87%	8.48%	0.07%
3	Preferred Stock	-	0.00%	0.00%	0.00%
4	Common Equity	1,250,167	48.77%	10.43%	5.09%
5	Customer Deposits	3,833	0.15%	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	(3,261)	-0.13%	0.00%	0.00%
9	Other (Explain)	-	0.00%	0.00%	0.00%
10					
11	Total	<u>\$2,563,596</u>	<u>100.00%</u>		<u>8.51%</u>
12					
13	Notes.				
14	1. The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-14-0272-PAA-WS				
15	2. Long term debt, short term debt, preferred stock, and common equity are actual for Labrador's Utilities Inc.'s parent company,				
16	Utilities, Inc.				

Exhibit 4: Net Operating Income-Water

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 140135-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 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	\$ 264,903	(\$2,853) (A)	\$ 262,050	\$ 96,942 (A)	\$ 358,992	B-4, B-3
2							
3	Operation & Maintenance	202,275	2,785 (B)	205,060	(B)	205,060	B-5, B-3
4							
5	Depreciation, net of CIAC Amort.	40,877	3,961 (C)	44,838	(C)	44,838	B-13, B-3
6							
7	Amortization		(D)			-	
8							
9	Taxes Other Than Income	31,188	(5,099) (D)	26,089	4,362 (D)	30,451	B-15, B-3
10							
11	Provision for Income Taxes	(19,913)	5,917 (E)	(13,996)	34,838 (E)	20,842	C-1, B-3
12							
13	OPERATING EXPENSES	254,428	7,564	261,991	39,200	301,191	
14							
15	NET OPERATING INCOME	\$ 10,476	\$ (10,416)	\$ 59	\$ 57,742	\$ 57,801	
16							
17							
18	RATE BASE	\$ 397,628	\$ 281,464	\$ 679,092		\$ 679,092	
19							
20							
21	RATE OF RETURN	2.63 %		0.01 %		8.51 %	

Exhibit 5: Net Operating Income-Wastewater

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 140135-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	\$ 406,290	(\$170) (A)	\$ 406,120	\$ 287,269 (A)	\$ 693,389	B-4, B-3
2							
3	Operation & Maintenance	286,328	18,853 (B)	305,181		305,181	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	69,563	34,739 (C)	104,302		104,302	B-14, B-3
6							
7	Amortization			-		-	
8							
9	Taxes Other Than Income	38,644	14,102 (D)	52,746	12,927 (D)	65,673	B-15, B-3
10							
11	Provision for Income Taxes	3	(45,404) (E)	(45,401)	103,235 (E)	57,834	C-1, B-3
12							
13	OPERATING EXPENSES	394,538	22,290	416,828	116,162	532,990	
14							
15	NET OPERATING INCOME	\$ 11,752	\$ (22,460)	\$ (10,708)	\$ 171,107	\$ 160,399	
16							
17							
18	RATE BASE	\$ 1,211,620	\$ 672,885	\$ 1,884,505		\$ 1,884,505	
19							
20							
21	RATE OF RETURN	0.97 %		-- %		8.51 %	