

State of Florida



**Public Service Commission**

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

**Auditor's Report**

HC Waterworks, Inc.  
File and Suspend Rate Case (PAA)

**Twelve Months Ended June 30, 2014**

Docket No. 140158-WS  
Audit Control No. 14-302-2-1  
**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 October 20, 2014. We have applied these procedures to the attached schedules prepared by HC Waterworks, Inc. in support of its filing for rate relief in Docket No. 140158-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 June 30, 2014 unless otherwise specified.

HC Waterworks, Inc. (Utility) is a Class B utility providing water and wastewater service to approximately 934 water customers and 298 wastewater customers in Highlands County. In Docket No. 100330-WS, the Commission last set rates for the three water systems and the one wastewater system by Order No. PSC-12-0102-FOF-WS, issued March 5, 2012, when they were owned by Aqua Utilities Florida, Inc. On June 24, 2013, the Utility filed an application for the transfer of Certificate Nos. 422-W and 359-S in Docket No. 130175-WS. Order No. PSC-14-0314-PAA-WS, issued June 13, 2014, established the Utility's net book value as of March 28, 2013.

### **Rate Base**

#### Utility Plant in Service

**Objectives:** The objectives were to determine whether utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are 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 in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-14-0314-PAA-WS. We verified that the Commission ordered adjustments were posted to the general ledger. We scheduled utility additions and retirements since net book value was last established to determine the UPIS balance as of June 30, 2014. We traced additions and retirements to source documents and verified that additions were recorded at original cost and that retirements were properly posted. We recalculated the simple average balance for the filing. Our recommended adjustments to water and wastewater plant in service are discussed in Findings 1 and 3.

#### 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 by Order No. PSC-14-0314-PAA-WS. We determined the land balance as of June 30, 2014. We recalculated the simple average balance for the filing. We searched the property records of the County Clerk's Office in Highlands County, Florida for utility related activity. We noted that there were no changes to land since the net book value was last established.

### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine whether utility contributions-in-aid-of-construction (CIAC) balances are properly stated, are reflective of the service availability charges authorized in the Utility's Commission approved tariffs, and the adjustments required in the Utility's last rate 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-14-0314-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility additions and retirements since the net book value was established to determine the CIAC balances as of June 30, 2014. We traced the additions and retirements to source documents and traced the service availability charges to the Utility's approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. We recalculated the simple average balance for the filing. Our recommended adjustments to water and wastewater CIAC are discussed in Findings 4 and 5.

### 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 depreciations accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-14-0314-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We calculated the accumulated depreciation accruals using the rates authorized in Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.). We schedule the accruals and retirements since the net book value was last established to determine the accumulated depreciation balances as of June 30, 2014. We recalculated the simple average balance for the filing. Our recommended adjustments to water and wastewater accumulated depreciation are discussed in Findings 1 and 2.

### 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-14-0314-PAA-WS. We verified whether the Utility included the Commission adjustments from the order. We calculated accumulated amortization of CIAC accruals using the rates authorized in Rule 25-30.140, F.A.C. We scheduled the accruals since the net book value was last established to determine the accumulated amortization of CIAC

balances as of June 30, 2014. We recalculated the simple average balance for the filing. No exceptions were noted.

#### Acquisition Adjustment

**Objectives:** The objective was to determine whether the Utility recorded the proper acquisition adjustment for water and wastewater.

**Procedures:** Order No. PSC-14-0314-PAA-WS established a negative acquisition adjustment when the net book value was last established. We determined that the adjustment was properly recorded. We traced the adjustment to the filing. No exceptions were noted.

#### Accumulated Amortization of Acquisition Adjustment

**Objectives:** The objective was to determine whether the Utility correctly calculated the accumulated amortization of acquisition adjustment.

**Procedures:** We recalculated the accumulated amortization of acquisition adjustment and compared it to the filing. Finding 6 discusses our recommended adjustment to accumulated amortization of acquisition adjustment.

#### 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 verified the Utility's calculation of working capital as of June 30, 2014 using one-eighth of operation and maintenance (O&M) expense as required by Commission Rule 30.433(2), F.A.C. No exceptions were noted.

### **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 simple 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. Revised Minimum Filing Requirements (MFR) Schedules D-1 and D-2 were filed with the Commission on December 8, 2014 with the correct cost of capital. Our recommended adjustments to customer deposits are discussed in Finding 7.

## **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 charges. We tested the reasonableness of the Utility's revenue by multiplying the average consumption by the tariff rate for each customer class in the billing register. We reconciled gallons sold and customer bill counts presented in the filing to the billing register. Our recommended adjustments to allowance for funds prudently invested (AFPI) and miscellaneous service revenues are discussed in Finding 4. Finding 8 discusses our recommended adjustments to water operating revenues.

### Operation and Maintenance Expense

**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 the O&M expense invoices 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. No exceptions were noted.

### 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 UPIS 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 filing. Findings 1 and 2 discuss our recommended adjustments to water and wastewater depreciation expense. Our recommended adjustments to wastewater amortization expense are discussed in Finding 9.

### Acquisition Adjustment Amortization Expense

**Objectives:** The objective was to determine whether the Utility correctly calculated the amortization expense of the acquisition adjustment.

**Procedures:** We recalculated the amortization expense of the acquisition adjustment and compared it to the filing. Our recommended adjustments to amortization expense of the acquisition adjustment are discussed in Finding 6.

#### Taxes Other than Income

**Objectives:** The objective was to determine the appropriate amounts for taxes other than income tax (TOTI) for the test year ended June 30, 2014.

**Procedures:** We reconciled the components of the TOTI tax expense accounts presented in the filing to the general ledger. We recalculated regulatory assessment fees (RAF) 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. Our recommended adjustments to TOTI are discussed in Finding 10.

#### **Other**

##### Analytical Review

**Objectives:** The objectives were to determine whether any account balances contained any information that could be deemed unusual, and to assist in assessing risk.

**Procedures:** We performed a ratio analysis of water and wastewater plant and CIAC balances in relation to the associated accumulated depreciation, depreciation expense, accumulated amortization of CIAC, and amortization expense. We compared the balances that were established in Order No. PSC-14-0314-PAA-WS to the 2013 Annual Report and the filing to determine any significant variances. We also performed a ratio analysis of water and wastewater operating revenues in relation to operating expenses, and compared the balances from the 2013 Annual Report to the filing. All anomalies were reviewed when detailed testing was performed.



## Audit Findings

### **Finding 1: Utility Plant in Service**

**Audit Analysis:** In the MFR Schedules A-5 and A-6 filed with the Commission on October 2, 2014, the Utility had balances of \$3,781,851 and \$387,569 for water and wastewater UPIS, respectively, as of June 30, 2014. Audit staff traced all plant additions and retirements to its source documentation, noting items that had not been included in the Utility's plant balances. We also noted the water transfer balance for Franchises had been recorded in the wrong account as of March 28, 2013. Tables 1-1 and 1-2 following this Finding detail the additions.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** The Account 101 – Water Plant in Service simple average balance should be increased by \$1,546, Account 108 – Water Accumulated Depreciation simple average balance should be decreased by \$969, and Account 403 – Water Depreciation Expense should be increased by \$36.

The Account 101 – Wastewater Plant in Service simple average balance should be increased by \$52. No adjustment is required for Wastewater Accumulated Depreciation and Depreciation Expense because it is immaterial.

**Finding 1 (cont'd)**

**Table 1-1**

<b>Water Account</b>	<b>Description</b>	<b>Date in Service</b>	<b>Cost</b>	<b>FPSC Rule Rate</b>	<b>Years in Service</b>	<b>Accumulated Depreciation</b>	<b>Current Depreciation</b>
301 Organization	Legal fees regarding Utility corporation	6/26/2014	\$ 327	0.0250	0.5	\$ 4	\$ 4
301 Organization	Transfer balance recorded in wrong acct	3/28/2013	(298)	0.0250	1.3	(9)	(7)
302 Franchises	Transfer balance recorded in correct acct	3/28/2013	298	0.0250	1.3	169 (A)	7
331 T & D Mains	Repair of broken water main	5/23/2014	1,978	0.0233	0.5	23	23
335 Hydrants	Replaced hydrant	6/6/2014	3,144	0.0222	0.5	35	35
335 Hydrants	Retire replaced hydrant at 75%	6/6/2014	(2,358)	0.0222	0.5	(2,332)	(26)
<b>Totals</b>			<b>\$ 3,091</b>			<b>\$ (2,110)</b>	<b>\$ 36</b>

(A) The Utility didn't carry forward the accumulated depreciation transfer balance of \$160, which is included here.

**Table 1-2**

<b>Wastewater Account</b>	<b>Description</b>	<b>Date in Service</b>	<b>Cost</b>	<b>FPSC Rule Rate</b>	<b>Years in Service</b>	<b>Accumulated Depreciation</b>	<b>Current Depreciation</b>
351 Organization	Legal fees regarding Utility corporation	6/26/2014	\$ 103	0.0250	0.5	\$ 1	\$ 1
<b>Totals</b>			<b>\$ 103</b>			<b>\$ 1</b>	<b>\$ 1</b>

## **Finding 2: Accumulated Depreciation and Depreciation Expense – Wastewater**

**Audit Analysis:** In the MFR Schedules A-10 and B-14 filed with the Commission on October 2, 2014, the Utility had wastewater balances of \$287,383 for accumulated depreciation and \$8,861 for depreciation expense as of June 30, 2014. Audit staff recalculated the accruals for accumulated depreciation and found several errors in the schedules noted above.

- 1) The Utility had a balance of \$914 in Account 351 – Organization. Depreciation expense was calculated in the amount of \$19, but no amount was noted for accumulated depreciation.
- 2) In the Utility’s supporting schedule, which showed the calculation of accumulated depreciation and depreciation expense, audit staff noted that the rate used for Receiving Wells was .33 percent as opposed to 3.33 percent according to Rule 25-30.140, F.A.C.
- 3) Audit staff noted a balance of \$113,609 in Account 380 – Treatment and Disposal Equipment while the associated accumulated depreciation balance was \$113,912. The Utility correctly had no depreciation expense.

Table 2-1 following the Finding details the adjustments.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Account 108 – Wastewater Accumulated Depreciation simple average balance should be decreased by \$24, and Account 403 – Wastewater Depreciation Expense should be increased by \$357

**Finding 2 (cont'd)**

**Table 2-1**

<b>Wastewater - Adjustments Account</b>	<b>Description</b>	<b>Date in Service</b>	<b>Cost</b>	<b>FPSC Rule Rate</b>	<b>Years in Service</b>	<b>Accumulated Depreciation</b>	<b>Current Depreciation</b>
351 Organization	Organization costs	6/18/2013	\$ 750	0.0250	1.0	\$ 19	(A)
351 Organization	Organization costs	5/20/2014	48	0.0250	0.5	1	1
351 Organization	Organization costs	6/10/2014	115	0.0250	0.5	1	1
370 Receiving Wells	Transfer balance at correct rate	3/28/2013	11,836	0.0333	1.3	496	394
370 Receiving Wells	Remove transfer balance at incorrect rate	3/28/2013	(11,836)	0.0033	1.3	(49)	(39)
380 Treatment & Disposal Equip	Overaccrued accumulated depreciaton	3/28/2013	113,609	0.0556	1.3	(303)	-
						<b>\$ 165</b>	<b>\$ 357</b>

(A) The filing had recorded depreciation expense for this item, but no accumulated depreciation.

### Finding 3: Proforma Utility Plant in Service

**Audit Analysis:** The Utility provided documentation applicable to proforma UPIS. Table 3-1 details the documentation provided to audit staff that represents the proforma plant noted on the MFR Schedule A-3 filed with the Commission on October 2, 2014. Table 3-2 details additional documentation that the Utility provided to audit staff and is not found on a filed MFR schedule.

**Table 3-1**

Date	Invoice #	Vendor	Status	Description	Amount
8/12/2014	798747	US Water Services Corp.	Pending	repairs at Covered Bridge float switch	\$ 755.20
8/13/2014	798746	US Water Services Corp.	Pending	replaced well pump at well #2, LL WTP	8,702.50
8/15/2014	1468	Amp Check Electric	Estimate	replace 20 HP soft starter, LJ water plant	2,275.00
8/18/2014	3225	Power Up Electric	Estimate	replace generator automatic switch, LL	4,160.50
8/18/2014	3226	Power Up Electric	Estimate	replace generator automatic switch, LJ	5,125.50
8/27/2014	3370662-00	FIS Outdoor	Estimate	replace well #2, LJ	2,406.17
<b>Total:</b>					<u><u>\$23,424.87</u></u>

**Table 3-2**

Date	Invoice #	Vendor	Status	Description	Amount
6/26/2014	1452	Amp Check Electric	Estimate	replace generator automatic transfer switch	\$ 4,573.00
7/1/2014	1454	Amp Check Electric	Estimate	replace generator automatic transfer switch	5,908.85
8/5/2014		Robbins Nursery	Estimate	viburnum and eucalyptus mulch	1,160.81
<b>Total:</b>					<u><u>\$11,642.66</u></u>

**Effect on the General Ledger:** None

**Effect on the Filing:** The analyst should address this issue's effect on the filing and the revenue requirement.

#### **Finding 4: Contributions-in-Aid-of-Construction - Water**

**Audit Analysis:** In the original (filed October 2, 2014) and revised (filed December 8, 2014) MFR Schedule A-12, the Utility had a water balance of \$845,820 for CIAC as of June 30, 2014. In tracing the CIAC and AFPI additions to the general ledger, audit staff noted that these additions had originally been recorded in miscellaneous service revenues - water. On December 31, 2013, the Utility removed these additions to reclassify them to CIAC and AFPI. However, we noted the following errors.

- 1) The Utility removed \$11,544 from miscellaneous service revenues, but the total deposits were \$11,733. This resulted in miscellaneous service revenues being overstated by \$189 in the general ledger.
- 2) The Utility posted \$2,144 to AFPI and \$9,400 to CIAC. However, during the review of the source documents, we determined that AFPI should total \$1,333. This resulted in AFPI being overstated by \$811.
- 3) The two items above also resulted in water CIAC being understated by \$1,000.
- 4) In the original MFR Schedule E-5, the Utility had a balance of \$13,021 for miscellaneous service revenues as of June 30, 2014. The general ledger had a balance of \$13,999, which was overstated by \$189, as noted above. However, the miscellaneous service revenues in the filing were understated by \$789 (\$13,999 - \$189 - \$13,021).

This issue's effect on accumulated amortization of CIAC and amortization expense is immaterial.

**Effect on the General Ledger:** The following journal entry is needed to correct the Utility's general ledger as of June 30, 2014.

NARUC Acct. No.	Description	Debit	Credit
469	Guaranteed Revenues - AFPI	\$ 811	
471	Miscellaneous Service Revenues	\$ 189	
271	Water CIAC		\$ 1,000

**Effect on the Filing:** Account 271.1 – Water CIAC simple average balance should be increased by \$500. Account 469 – Guaranteed Revenues should be decreased by \$811 and Account 471 – Miscellaneous Service Revenues should be increased by \$789.

## **Finding 5: Contributions-in-Aid-of-Construction - Wastewater**

**Audit Analysis:** In the MFR Schedule A-12 file with the Commission on October 2, 2014, the Utility had a wastewater balance of \$282,250 for CIAC as of June 30, 2014. However, the general ledger balance was \$292,150. Audit staff determined the general ledger balance was correct based on source documents. This resulted in wastewater CIAC to be understated by \$9,900.

This issue has no effect on accumulated amortization of CIAC and amortization expense because the additions were included in the Utility's calculations.

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

**Effect on the Filing:** A revised MFR Schedule A-12 was filed with the Commission on December 8, 2014 and Account 271.2 – Wastewater CIAC simple average balance was increased by \$4,950. An adjustment is no longer required.

## Finding 6: Accumulated Amortization of Acquisition Adjustment and Amortization Expense

**Audit Analysis:** Order No. PSC-14-0314-PAA-WS, Docket No. 130175-WS, issued June 13, 2014, established a negative acquisition adjustment. Pursuant to Rule 25-30.0371(4)(b)2, F.A.C., 50 percent of the negative acquisition adjustment is amortized over a seven year period and 50 percent is amortized over the remaining life of the assets, beginning with the date of the issuance of the order approving the transfer of assets. The Order specifies that the remaining life of the applicable water assets is 24 years and 12 years for the wastewater assets. We calculated the Accumulated Amortization of the Acquisition Adjustment as shown in Table 6-1.

**Table 6-1**

<b>Water</b>	<b>50% Accumulated Amortization Adjustment</b>	<b>50% Accumulated Amortization Adjustment</b>	<b>Total</b>
Acquisition Adjustment Per Order	\$ (424,720)	\$ (424,720)	\$ (849,440)
Years to Amortize	7	24	
Amortization Amount per Year	60,674	17,697	78,371
Number of Months	12	12	
Amortization Amount per Month	5,056	1,475	6,531
Amortization - 6/13/2014 to 6/30/2014	2,865	836	3,701
Amount per Filing			78,581
<b>Variance</b>			<b>\$ (74,880)</b>

<b>Wastewater</b>	<b>50% Accumulated Amortization Adjustment</b>	<b>50% Accumulated Amortization Adjustment</b>	<b>Total</b>
Acquisition Adjustment Per Order	\$ (10,539)	\$ (10,539)	\$ (21,078)
Years to Amortize	7	12	
Amortization Amount per Year	1,506	878	2,384
Number of Months	12	12	
Amortization Amount per Month	125	73	199
Amortization - 6/13/2014 to 6/30/2014	71	41	113
Amount per Filing			4,569
<b>Variance</b>			<b>\$ (4,456)</b>

**Effect on the General Ledger:** The following journal entry is needed to correct the Utility's general ledger as of June 30, 2014.

<b>NARUC Acct. No.</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
115	Accumulated Amortization - Water	\$ 3,701	
115	Accumulated Amortization - Wastewater	\$ 113	
406	Amortization - Water		\$ 3,701
406	Amortization - Wastewater		\$ 113



**Finding 6 (cont'd)**

**Effect on the Filing:** Account 115 – Water Accumulated Amortization of Acquisition Adjustment simple average balance should be decreased by \$76,730 and Account 406 – Water Amortization Expense should be decreased by \$74,880.

Account 115 – Wastewater Accumulated Amortization of Acquisition Adjustment simple average balance should be decreased by \$4,512 and Account 406 – Wastewater Amortization Expense should be decreased by \$4,456.

Audit staff calculated the acquisition adjustment amortization based on the issuance of the Order. However, the analyst should consider using a full year of amortization expense for ratemaking purposes.

## Finding 7: Customer Deposits

**Audit Analysis:** In the MFR Schedule D-7 filed with the Commission on October 2, 2014, the Utility had a balance of \$15,667 for customer deposits as of June 30, 2014. However, the general ledger had a balance of \$14,964 as of the same date.

Audit staff reviewed the customer deposits from the Utility's billing data and found several errors.

- 1) The refunds had been deducted in the same period that the deposits had been received instead of the period they had actually been refunded.
- 2) According to Order No. PSC-14-0314-PAA-WS, the approved deposit for water is \$89.06 and the approved deposit for wastewater is \$105.37. However, the Utility was charging \$81.06 for water and \$135.75 for wastewater.
- 3) The Utility had not been accruing any interest on the deposits.

We calculated the customer deposits in Table 7-1.

**Table 7-1**

<b>Month/Year</b>	<b>Beginning Balance</b>	<b>Deposits Received</b>	<b>Deposits Refunded</b>	<b>Ending Balance</b>
6/30/2013				\$ 3,462
7/13	3,462	405	-	3,867
8/13	3,867	946	81	4,732
9/13	4,732	946	379	5,299
10/13	5,299	243	81	5,461
11/13	5,461	1,358	162	6,657
12/13	6,657	1,813	81	8,389
1/14	8,389	974	81	9,282
2/14	9,282	1,217	217	10,283
3/14	10,283	1,272	162	11,393
4/14	11,393	2,516	162	13,747
5/14	13,747	1,272	298	14,721
6/30/2014	14,721	243	-	14,964
<b>Refund due:</b>			\$ 737	\$ 14,227
			<b>Simple Average:</b>	<b>\$ 8,845</b>

We determined that there were 33 water and wastewater customers that had overpaid their deposits by \$22.34 for a total refund of \$737. In discussions with utility personnel, the deposits will be credited to the customer accounts and the water customers who underpaid their deposits will not be charged an additional \$8.04. In addition, the Utility will begin accruing interest.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Finding 7 (cont'd)**

**Effect on the Filing:** On the revised MFR Schedule D-2 filed with the Commission on December 8, 2014, Account 235 – Customer Deposits simple average balance should be increased by \$282.

## Finding 8: Operating Revenues - Water

**Audit Analysis:** In the revised MFR Schedule B-1 filed with the Commission on December 8, 2014, the Utility had an adjusted test year balance of \$397,690 for water operating revenues as of June 30, 2014. However, in the revised MFR Schedule E-2w filed with the Commission on December 8, 2014, the Utility had an adjusted test year balance of \$406,028 for water operating revenues. Table 8-1 details the water operating revenues balance from the MFR Schedule E-2w.

**Table 8-1**

	<b>Revised 12/8/2014 Adjusted Test Yr Balance <u>Schedule E-2w</u></b>
<b>Unmetered Water Revenues (460)</b>	-
<b>Residential Revenues (461.1)</b>	\$ 413,877
<b>Commercial Revenues (461.2)</b>	25,341
<b>Industrial Revenues (461.3)</b>	-
<b>Revenues from Public Authorities (461.4)</b>	-
<b>Multiple Family Dwelling Revenues (461.5)</b>	-
	<u>439,218</u>
<b>AFPI (469)</b>	2,144
<b>Misc. Service Revenues (471)</b>	13,021
<b>Adjustments to Customers</b>	(355)
<b>Unbilled Revenue</b>	(48,000)
	<u>(33,190)</u>
<b>TOTAL OPERATING REVENUES</b>	<u><u>\$ 406,028</u></u>

The unbilled revenue adjustment of (\$48,000) was unsupported and should be removed.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Water operating revenues should be increased by \$48,000.

## **Finding 9: Amortization Expense - Wastewater**

**Audit Analysis:** In the MFR Schedule B-14 filed with the Commission on October 2, 2014, the Utility had a wastewater adjusted balance of \$11,350 for amortization expense as of June 30, 2014. The Utility had calculated a composite rate of 3.96 percent by dividing depreciation expense by UPIS. However, as noted in Finding 2, errors were found in the Utility's calculations. Audit staff calculated a composite rate of 2.37 percent by dividing the audited depreciation expense by the audited UPIS balance and determined that amortization expense should be \$6,782.

The Utility had not adjusted its wastewater accumulated amortization of CIAC balance in the filing.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Account 407 – Wastewater Amortization Expense should be decreased by \$4,568.

## Finding 10: Taxes Other than Income - Water

**Audit Analysis:** In the revised MFR Schedule B-1 filed with the Commission on December 8, 2014, the Utility had an adjusted test year balance of \$54,618 for water TOTI as of June 30, 2014. However, in the MFR Schedule B-15 filed with the Commission on October 2, 2014, the Utility had an adjusted test year balance of \$55,235 for water TOTI. The source documents traced to the components of TOTI on the MFR Schedule B-15 except for the water RAF amount. Table 10-1 details the audited water operating revenues, which includes the revenue adjustments from Findings 4 and 8, and the adjustment to TOTI.

**Table 10-1**

	<u>Test Yr Balance</u>
Unmetered Water Revenues (460)	-
Residential Revenues (461.1)	\$ 413,877
Commercial Revenues (461.2)	25,341
Industrial Revenues (461.3)	-
Revenues from Public Authorities (461.4)	-
Multiple Family Dwelling Revenues (461.5)	-
	<u>439,218</u>
AFPI (469)	1,333
Misc. Service Revenues (471)	13,810
Adjustments to Customers	(355)
	<u>14,788</u>
<b>TOTAL OPERATING REVENUES</b>	<u><u>454,006</u></u>
<b>RAF rate:</b>	0.045
<b>RAF due:</b>	<b>\$ 20,430</b>
<b>Audit Adjustment:</b>	<b>\$ 1,919</b>
<b>MFR Schedule B-15:</b>	<b>\$ 18,511</b>

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Water TOTI should be increased by \$1,919.

## Exhibits

### Exhibit 1: Rate Base-Water, Revised December 8, 2014

**Schedule of Water Rate Base**

**Florida Public Service Commission**

HC Waterworks, Inc.  
Docket No. 140158-WS  
Historical Test Year Ending June 30, 2014  
Historical & Pro Forma

Revised      Schedule: A-1  
Page: 1 of 1  
Preparer: WT Rendell

Explanation: Provide the calculation of the average Water 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. Description	(1)	Historical Test Year		(4)	(5)
		Average Balance Per Books	Adjustments	Adjusted Average Balance	Supporting Schedules
	(2)	(3)			
1 Utility Plant in Service		3,722,490	6,423	3,728,913	A-5
2 Utility Land & Land Rights		25,450	0	25,450	A-5
3 Less: Non-Used & Useful Components		0	(299,010)	(299,010)	A-7
4 Construction Work in Progress		0	0	0	
5 Less: Accumulated Depreciation		(695,456)	16,762	(678,694)	A-9
6 Less: CIAC		(841,545)	0	(841,545)	A-12
7 Accumulated Amortization of CIAC		469,066	0	469,066	A-14
8 Acquisition Adjustments		0	(849,440)	(849,440)	
9 Less: Accum. Amort. of Acq. Adjustments		0	78,581	78,581	
10 Less: Advances For Construction		0	0	0	A-16
11 Working Capital Allowance		0	38,182	38,182	A-17
12 Total Rate Base		<u>2,680,005</u>	<u>(1,008,503)</u>	<u>1,671,502</u>	

## Exhibit 2: Rate Base-Wastewater, Revised December 8, 2014

**Schedule of Sewer Rate Base**

**Florida Public Service Commission**

HC Waterworks, Inc.  
 Docket No. 140158-WS  
 Historical Test Year Ending June 30, 2014  
 Historical & Pro Forma

Revised      Schedule:    A-2  
 Page:            1 of 1  
 Preparer:        WT Rendall

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

	(1)	(2)	(3)	(4)	(5)
		<b>Historical Test Year</b>			
Line No. Description		Average Balance Per Books	Adjustments	Adjusted Average Balance	Supporting Schedules
1 Utility Plant in Service		385,287	0	385,287	A-6
2 Utility Land & Land Rights		2,200	0	2,200	A-6
3 Less: Non-Used & Useful Components		0	(22,136)	(22,136)	A-7
4 Construction Work in Progress		0	0	0	
5 Less: Accumulated Depreciation		(282,952)	0	(282,952)	A-10
6 Less: CIAC		(285,550)	0	(285,550)	A-12
7 Accumulated Amortization of CIAC		240,663	0	240,663	A-14
8 Acquisition Adjustments		0	(21,078)	(21,078)	
9 Less: Accum. Amort of Acq. Adjustments		0	4,569	4,569	
10 Less: Advances For Construction			0	0	A-16
11 Working Capital Allowance		0	9,495	9,495	A-17
12 Total Rate Base		<u>59,848</u>	<u>(29,150)</u>	<u>30,498</u>	



### Exhibit 3: Capital Structure, Revised December 8, 2014

Schedule of Requested Cost of Capital  
 13 Month Average balance  
 HC Waterworks, Inc.  
 Docket No. 140158-WS  
 Historical Test Year Ending June 30, 2014  
 Historical  Projected

Florida Public Service Commission  
 Revised Schedule: D-1 Revised  
 Page: 1 of 2  
 Preparer: W T Rendell

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No.	(1) Class of Capital	(2) Reconciled To Test Yr Ratio Base	(3) Ratio	(4) Cost Rate	(5) Weighted Cost Rate	(6) Cost	(7) Supporting Schedules
<b>COMPOSITE WATER &amp; SEWER</b>							
1	Long-Term Debt	651,568	32.41%	4.25%	1.38%		D-2, D-5
2	Short-Term Debt	0	0.00%	0.00%	0.00%		D-2
3	Preferred Stock	0	0.00%	0.00%	0.00%		D-2
4	Common Equity	1,144,668	67.25%	9.52%	6.40%		D-2
5	Customer Deposits	5,768	0.34%	2.00%	0.01%		D-2
6	Accumulated Deferred Income Taxes	0	0.00%	0.00%	0.00%		D-2
7							
8	Total	<u>1,702,000</u>	<u>100.00%</u>		<u>7.78%</u>		

## Exhibit 4: Net Operating Income-Water, Revised December 8, 2014

**Schedule of Water Net Operating Income**

Florida Public Service Commission

HC Waterworks, Inc.  
 Docket No. 140168-WS  
 Historical Test Year Ending June 30, 2014  
 Historical & Pro Forma

Revised      Schedule: B-1      Revised  
 Page: 1 of 1  
 Preparer: WT Rendell

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) Per Books Test Year	(3) Utility Test Year Adjustment	(4) Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedules
1	OPERATING REVENUES	390,595	7,004	397,600	111,975	509,665	B-4, E-2
2	Operation & Maintenance	299,335	6,117	305,453	2,194	307,648	B-5, B-3
3	Depreciation, net of CIAC Amort., U&U	95,608	(4,768)	90,840	0	90,840	B-13, B-3
4	Amortization		(78,581)	(78,581)	0	(78,581)	B-3
5	Taxes Other Than Income	59,409	(4,790)	54,618	5,039	59,657	B-15, B-3
6	Provision for Income Taxes	0	0	0	0	0	C-1, B-3
7	OPERATING EXPENSES	454,352	(82,022)	372,330	7,233	379,563	
8	NET OPERATING INCOME	(83,755)	89,119	25,360	104,743	130,103	
9	RATE BASE	2,680,005	(1,008,503)	1,671,502		1,671,502	A-1
10	RATE OF RETURN	-2.38%		1.52%		7.78%	

# Exhibit 5: Net Operating Income-Wastewater, Revised December 8, 2014

Schedule of Sewer Net Operating Income

Florida Public Service Commission

HC Waterworks, Inc.  
 Docket No. 140159-WS  
 Historical Test Year Ending June 30, 2014  
 Historical & Pro Forma

Revised Schedule: B-2 Revised  
 Page 1 of 1  
 Preparer: W T Rancet

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) Per Books Test Year	(3) Utility Test Year Adjustment	(4) Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedules
1	OPERATING REVENUES	111,686	9,480	121,145	(47,674)	73,971	B-4, E-2
2	Operation & Maintenance	79,399	(3,439)	75,959	(932)	75,027	B-6, B-3
3	Depreciation, net of CIAC Amort., U&U	(372)	(4,288)	(4,660)	0	(4,660)	B-14, B-3
4	Amortization		(4,569)	(4,589)	0	(4,680)	B-3
5	Taxes Other Than Income	8,903	(1,368)	7,537	(2,141)	5,397	B-15, B-3
6	Provision for Income Taxes	0	0	0	0	0	C-1, B-3
7	OPERATING EXPENSES	87,900	(13,082)	74,868	(3,073)	71,195	
8	NET OPERATING INCOME	23,755	23,122	46,877	(44,502)	2,376	
9	RATE BASE	59,648	(26,150)	30,498		30,498	A-2
10	RATE OF RETURN	39.83%		153.71%		7.79%	