

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: February 13, 2018

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, *LD* Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20170141-SU
Company Name: K W Resort Utilities Corp.
Company Code: SU336
Audit Purpose: A1a: Rate Case
Audit Control No.: 2017-334-1-1

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

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

K W Resort Utilities Corp.
Rate Case Audit

Twelve Months Ended June 30, 2017

Docket No. 20170141-SU
Audit Control No. 2017-334-1-1
February 1, 2018

A handwritten signature in blue ink, appearing to read "M. Glover", written over a horizontal line.

Marisa N. Glover
Audit Manager

A handwritten signature in blue ink, appearing to read "M. Glover for Debra Dobiac", written over a horizontal line.

Debra Dobiac
Audit Staff

A handwritten signature in black ink, appearing to read "G. Simmons", written over a horizontal line.

George Simmons
Audit Staff

A handwritten signature in blue ink, appearing to read "T. Wolff", written over a horizontal line.

Thomas Wolff
Audit Staff

A handwritten signature in blue ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated November 30, 2017. We have applied these procedures to the attached schedules prepared by K W Resort Utilities Corp. in support of its filing for rate relief in Docket No. 20170141-SU.

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

Objectives and Procedures

General

The test year established for final rates is the historical twelve months ended June 30, 2017.

KW Resort (Utility) is a Class A Utility providing wastewater service to approximately 2,061 customers in Monroe County. Rate Base was last established as of December 31, 2014, by Order PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket 20150071-SU.

KW Resort is wholly owned subsidiary of WS Utility, Inc. WS Utility, Inc. is owned 70 percent by William L. Smith, 10 percent by Alexander Smith, 10 percent by Leslie Johnson, and 10 percent by Barton Smith.

The Utility's customers are billed on usage information obtained from the Florida Keys Aqueduct Authority, the water service provider.

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 the original costs, 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 in Order PSC-2017-0091-FOF-SU, issued March 13, 2017. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled plant additions and retirements since the last rate proceeding to determine the UPIS balance as of June 30, 2017. We requested support for the Utility's adjustments and traced them to the filing and general ledger. We recalculated the thirteen month average balance. We traced additions and retirements from the general ledger to source documentation and we verified that additions were recorded at original cost and that retirements were properly posted. Finding 1 discusses 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: We reconciled the land accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established in Order PSC-2017-0091-FOF-SU. We scheduled utility land additions and retirements since the last rate proceeding to determine the land balance as of June 30, 2017. We recalculated the thirteen month average. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether the utility's 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 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 in Order PSC-2017-0091-FOF-SU, issued March 13, 2017. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled CIAC additions and retirements since the last rate proceeding to determine the CIAC balance as of June 30, 2017. We recalculated the thirteen month average balance. We traced the additions and retirements to source documents and the service availability charges to the Utility's Commission approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. 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 in Order PSC-2017-0091-FOF-SU. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of June 30, 2017. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the thirteen month average balance. We calculated accumulated depreciation accruals 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 general ledger and the filing. Finding 1 discusses 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 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 in Order PSC-2017-0091-FOF-SU. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated amortization of CIAC balance as of June 30, 2017. We recalculated the thirteen month average balance. We calculated accumulated

amortization of CIAC accruals 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 general 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 reconciled the working capital accounts presented in the filing to the general ledger. We recalculated the 13-month average working capital allowance balance for the filing. Finding 2 discusses our recommended adjustment 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 13-month average component balances of the capital structure for the filing. We verified customer deposits by tracing additions and refunds to the general ledger and supporting schedules provided by the utility. We recalculated a sample of interest expense paid on customer deposits. We verified that interest rates were in accordance with Rule 25-30.311- Customer Deposits, F.A.C. The equity cost rate was recalculated using the formula established by Order PSC-2017-0249-PAA-WS. The debt cost rates agree to debt instruments. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether: 1) Utility charges were those approved by the Commission in the utility’s current authorized tariff for 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 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 and use of approved tariffs. We reviewed miscellaneous service charges. We tested the reasonableness of revenues by multiplying the average consumption by the tariff rate for each customer class in the billing register. We reconciled the gallons treated and customer bill counts presented in the filing to the billing register. We agreed the billing register to the billing analysis. Finding 3 discusses our recommended adjustments to Revenue.

Operation and Maintenance Expense

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

Procedures: We verified O&M expenses for the 12-months ended June 30, 2017 by tracing amounts recorded in the Utility's general ledger to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature and compared our balances to the MFR Schedule B-6. Finding 4 discusses our recommended adjustment to O&M.

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. Finding 2 discusses our recommended adjustment to Depreciation and Amortization.

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, 2017.

Procedures: We reconciled TOTI expense accounts presented in the filing to the general ledger. We recalculated regulatory assessment fees based on audited revenues. We traced real estate and tangible property taxes to source documents, used the minimum discount, and are only for utility property. We calculated payroll taxes. Finding 3 discusses our recommended adjustment to TOTI.

Proforma Expenses – Hurricane Irma

Objectives: The objective is to document the additions to plant and those expenses that were incurred as a result of Hurricane Irma.

Procedures: We scheduled all O&M expenses incurred as a result of Hurricane Irma. We traced the invoices to supporting documentation provided by the Utility. All of the expenses were outside of the test year, and not listed in the filing. Finding 5 discusses the incurred expenses by the Utility.

Audit Findings

Finding 1: Commission Ordered Adjustments

Audit Analysis: Audit staff compiled schedules for UPIS balances as of December 31, 2014 using Commission ordered adjustments, MFR schedules, and Utility provided documentation. Audit staff determined that the Utility did not record Commission ordered adjustments as shown in Table 1-1 below.

Table 1-1

Account	Description	Date in Service	Cost	FPSC Rule Rate	Years in Service	6/30/2017	
						Accumulated Depreciation	Current Depreciation
361 Collection Sewers - Gravity	unrecorded COA	12/31/2014	\$ (16,658.00)	0.0333	2.5	\$ (1,387.41)	\$ (555.27)
370 Receiving Wells	unrecorded COA	12/31/2014	\$ (825.00)	0.0333	2.5	\$ (68.71)	\$ (27.50)
371 Pumping Equipment	unrecorded COA	12/31/2014	\$ 9,514.33	0.0556	2.5	\$ 1,320.71	\$ 528.57
380 Transmission and Distribution Equipment	unrecorded COA	12/31/2014	\$ (823.26)	0.0556	2.5	\$ (114.28)	\$ (45.74)
391 Vehicles	unrecorded COA	12/31/2014	\$ 13,046.00	0.1667	2.5	\$ 5,432.85	\$ 2,174.33
394 Laboratory Equipment	unrecorded COA	12/31/2014	\$ (344.29)	0.0667	2.5	\$ (57.35)	\$ (22.95)
395 Power Operated Equipment	unrecorded COA	12/31/2014	\$ (12,038.00)	0.0833	2.5	\$ (2,506.54)	\$ (1,003.17)
\$ (8,128.22)						\$ 2,619.28	\$ 1,048.28

As shown in Table 1-1, audit staff has determined the following:

- 1) In Account 361 Collection Sewers – Gravity, audit staff determined the Utility did not record \$16,658 (\$124,296-\$140,054) of Commission ordered adjustments. The Utility recorded an adjustment in the amount of \$124,295.86 decreasing plant. The Commission ordered adjustment was to decrease plant by \$140,054.
- 2) In Account 370 - Receiving Wells, audit staff determined the Utility did not record the Commission ordered adjustment of \$825 to decrease this account.
- 3) In Account 371 - Pumping Equipment, we determined the Utility needs to make an adjustment in the amount of \$9,514 (\$21,344-\$11,830) to increase this account. The Utility recorded an adjustment in the amount of \$21,344 decreasing pumping equipment. The Commission ordered adjustment was to decrease this account by \$11,830.
- 4) In Account 380 - Transmission & Distribution Equipment, we determined that the Utility should decrease this account by \$823 (\$525,477-\$526,300). The Utility recorded an adjustment of \$525,476 to decrease this account. Audit staff determined that the Commission ordered adjustment was to decrease plant by \$526,300.
- 5) In Account 391 - Vehicles, we determined the Utility needs to make an adjustment in the amount of \$13,046 (\$30,972-\$17,926) to increase this account. The Utility recorded an adjustment in the amount of \$30,972 decreasing this account. The Commission ordered adjustment was to decrease this account by \$17,926.
- 6) In Account 394 – Laboratory Equipment, we determined the Utility needs to make an adjustment in the amount of \$344 (\$4,911-\$5,255) to decrease this account. The Utility recorded an adjustment in the amount of \$4,911 decreasing this account. The Commission ordered adjustment was to decrease this account by \$5,255.

- 7) In Account 395 – Power Generation Equipment, audit staff determined the Utility did not record the Commission ordered adjustment of \$12,038 to decrease this account.

Audit staff determined that the 13-month average for plant and accumulated depreciation are \$8,128 and \$2,095, respectively.

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

Effect on the Filing: Audit staff recommends that plant should be decreased by the 13-month average of \$8,128 and accumulated depreciation should be increased by the 13-month average of \$2,095. Depreciation expense should be increased by \$1,048.

Finding 2: Working Capital

Audit Analysis: The Utility's filing on the A-17 schedule reflected \$2,133,620 in Working Capital. We reviewed the general ledger accounts contained within each of the Working Capital balances and recommended the following adjustment.

Miscellaneous Current & Accrued Assets

The balance of \$28,475 is comprised of two general ledger accounts, Accounts 1740200- Deposits Electric for \$28,325 and Account 1740300- Deposits Water for \$150. Typically interest bearing accounts, such as these, are excluded from working capital unless the associated interest income is also included above the line in Revenues. The Utility did not include any interest income in revenues for this rate case. Therefore, average working capital should be decreased by \$20,160.

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

Effect on the Filing: Working Capital should be decreased by \$20,160.

Finding 3: Revenue

Audit Analysis: The Utility recorded \$2,116,468 for operating revenues on its general ledger for the test year ended June 30, 2017. Audit staff determined operating revenues to be \$2,353,316. We tested the reasonableness of the utility revenues by multiplying the rates per tariff by the bills per audit and the Kgals per audit. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the initial connection fees and the normal reconnect fees.

Accounts 522.1 and 522.2 Residential and Commercial Sewers

These accounts represent the income generated from customers based on metered use. The Utility's filing increases the \$2,130,3017 by \$202,220 to \$2,332,527 to adjust revenues that are provided in Schedule B-3 of the filing. We obtained the Utility's billing register and billing history report to recalculate customer bills. Based on our analysis, the revenues should be increased by (\$2,353,316 -\$2,332,527) \$20,789.

	2017									
	RAF form	variance	GL	variance	MFR	B-3 ADJ	MFR ADJUSTED REVENUE	variance	Audit Revenues	
	6/30/2017		6/30/2017		Schedule B-4					
Measured - Residential Revenues (522.1)	\$ 945,020		\$ 945,020		\$ 945,011		\$ 945,011		\$	919,845
Measured - Commercial Revenues (522.2)	\$ 1,053,891		\$ 1,077,192		\$ 1,077,192	\$ 202,220	\$ 1,279,412		\$	1,315,385
	<u>\$ 1,998,911</u>	\$ 23,301	<u>\$ 2,022,212</u>	\$ (9)	<u>\$ 2,022,203</u>		<u>\$ 2,224,423</u>	\$ 10,807		<u>\$ 2,235,230</u>
Rents from Sewer Property (534)	\$ 1,200		\$ 1,200		\$ 1,200		\$ 1,200		\$	1,200
Misc. Service Revenues (571)	\$ 46,065		\$ 30,999		\$ 36,082		\$ 36,082		\$	46,065
Other Sewer Revenues (536)	\$ 41,417		\$ 32,653		\$ 41,418		\$ 41,418		\$	41,417
Measured Re-Use Revenues (541)	\$ 29,404		\$ 29,404		\$ 29,404		\$ 29,404		\$	29,404
	<u>\$ 118,086</u>	\$ (23,830)	<u>\$ 94,256</u>	\$ 13,848	<u>\$ 108,104</u>		<u>\$ 108,104</u>	\$ 9,982		<u>\$ 118,086</u>
TOTAL OPERATING REVENUE	<u>\$ 2,116,997</u>	\$ (529)	<u>\$ 2,116,468</u>	\$ 13,839	<u>\$ 2,130,307</u>		<u>\$ 2,332,527</u>	\$ 20,789		<u>\$ 2,353,316</u>
	0.045		0.045				0.045			0.045
Prepared by audit staff	<u>\$ 95,265</u>	\$ (10,634)	<u>\$ 95,241</u>	\$ (24)			<u>\$ 104,964</u>			<u>\$ 105,899</u>

Based on the audit adjustment to revenues of \$20,789. The Utility test year RAF amount should be increased by \$935, which represents the difference between the reported revenue on its RAF return and the actual revenues. ((-\$2,353,316 -\$2,332,527) x 4.50%)

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

Effect on the Filing: Revenues should be increased by \$20,789, for test year ended June 30, 2017. Test year regulatory assessment fees should be increased by \$935.

Finding 4: Operations and Maintenance Expense

Audit Analysis: Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were utility related. Our recommended adjustment is to decrease O&M expense by \$1,878.

In Account 711 – Sludge Removal Expense, the MFR Schedule B-6 had a balance of \$339 for February 2017. Audit staff determined that the February 2017 balance should be \$23,862 based on source documents. Account 711 – Sludge Removal Expense should be increased by \$23,523 (\$23,862 - \$339).

In Account 715 – Purchased Power, the MFR Schedule B-6 had a balance of \$24,518 for February 2017. Audit staff determined that the February 2017 balance should be \$12,997 based on source documents. Account 715 – Purchased Power should be decreased by \$11,521 (\$24,518 - \$12,997).

In Account 720 – Materials and Supplies, the MFR Schedule B-6 had a balance of \$17,517 for February 2017. Audit staff determined that the February 2017 balance should be \$5,737 based on source documents. Account 720 – Materials and Supplies should be decreased by \$11,780 (\$17,517 - \$5,737).

In Account 775 – Miscellaneous Expense, the Utility recorded transactions of \$2,100 for social club dues, which are not recoverable expenses, and unsupported transactions. Account 775 – Miscellaneous Expense should be decreased by \$2,100.

The net effect on O&M expenses is a decrease of \$1,878 (\$23,523 - \$11,521 - \$11,780 - \$2,100).

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

Effect on the Filing: O&M expense should be decreased by \$1,878.

Finding 5: Proforma Expenses for Hurricane Irma

Audit Analysis: The Utility submitted all invoices, contracts, and insurance claims associated with Hurricane Irma that landed in Key West on September 10, 2017. Audit staff reviewed all of the submitted documentation provided by Utility. The Utility is stating the total expense for Hurricane Irma as of June 30, 2017 was \$117,333. Audit staff removed two invoices in the amount of \$305. The first invoice was for Byrons Irish Pub and totaled \$75. The second invoice was for dinner and drinks which totaled \$230. Audit staff removed Byrons Irish Pub due to the purchase of alcohol on the invoice. The second invoice was not itemized, therefore we are unable to determine if alcohol was purchased. We have accepted the amount of \$117,028 in proforma expenses.

KW Resort Invoices for Hurricane Irma

Vendor	Amount
Amazon.com	\$175
Aqseptence Group, Inc.	\$9,611
Arch Insurance Company	\$502
BRIAN Inc.	\$6,250
Bryant Answering Service	\$50
Byrons Irish Pub	\$75
C. Henderson	\$2,932
CarQuest	\$333
Charley Toppino & Sons, Inc	\$472
D. Pumar	\$1,034
Dinner/ Drinks	\$230
Enterprise Rental	\$633
Enviornmental Testing Services	\$500
Ferguson Waterworks	\$2,344
Four Star Rentals	\$130
Home Depot	\$471
Information Technology Solutions	\$5,031
J. Morse	\$1,126
J. Schober	\$1,719
Key West Engine Service	\$2,625
Key West Golf Club	\$1,075
Key West Welding & Fabrication Inc	\$70
M&M Small Engine	\$138
M. Streisel	\$3,072
ModSpace	\$5,026
National Construction Rentals	\$3,225
NationWide Plumbing Services	\$10,050
Nearshore Electric, Inc	\$9,996
Pantropic Power	\$26,520
Paychex Business Solutions	\$6,403
Port Gifts	\$16
Publix	\$52
Red Roof Inn	\$2,224
Stock Island Marina Village	\$822
Strunk Ace Hardware	\$400
Subway	\$51
Sunbelt Rentals	\$5,821
T. Sunderman	\$4,902
Weiler Engineering Corporation	\$1,226
	<u>\$117,333</u>
Remove as Non Utility	<u>(\$305)</u>
Total	<u>\$117,028</u>

Effect on the General Ledger: None

Effect on the Filing: The information is provided for staff's consideration

Exhibits

Exhibit 1: Rate Base

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: KW Resort Utilities Corp
 Docket No.:20170141-SU
 Schedule Year Ended:06/30/2017
 Interim [] Final[X]
 Historic [X] Projected []

Schedule:A-2
 Page 1 of 1
 Preparer:Milian,Swain & Associates,Inc.

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	\$ 13,541,772	\$ 6,346,024 (A)	\$ 19,887,796	A-3,A-6
2					
3	Utility Land & Land Rights	375,000		375,000	A-3,A-6
4					
5	Less:Non-Used & Useful Plant		(2,652,257) (B)	(2,652,257)	A-7
6					
7	Construction Work in Progress	1,311,463	(1,311,463) (C)		A-3,A-7
8					
9	Less:Accumulated Depreciation	(6,490,653)	212,960 (D)	(6,277,693)	A-3,A-10
10					
11	Less:CIAC	(10,406,318)		(10,406,318)	A-3,A-12
12					
13	Accumulated Amortization of CIAC	3,898,064		3,898,064	A-3,A-14
14					
15	Acquisition Adjustments				
16					
17	Accum. Amort. of Acq. Adjustments				
18					
19	Advances For Construction				A-3,A-16
20					
21	Working Capital Allowance		2,219,132 (E)	2,219,132	A-3,A-17
22					
23	Total Rate Base	\$ 2,229,328	\$ 4,814,396	\$ 7,043,724	

Exhibit 2: Capital Structure

Schedule of Requested Cost of Capital
13 Month Average Balance

Florida Public Service Commission

Company: KW Resort Utilities Corp
Docket No.:20170141-SU
Test Year Ended: 06/30/2017
Interim [] Final[x]
Historical[x] Projected []

Schedule D-1
Page 1 of 1

Preparer:Milian,Swain & Associates,Inc.

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.

	(1)	(2)	(3)	(4)	(5)
Une No.	Class of Capital	Reconciled to Requested Rate Base AYE 06/30/17	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	\$ 3,460,280	49.13%	4.88%	2.40%
2	Short Term Debt				
3	Preferred Stock				
4	Common Equity	3,382,403	48.02%	10.39%	4.99%
5	Customer Deposits	201,041	2.85%	2.00%	0.06%
6	Tax Credits - Zero Cost				
7	Tax Credits -Weighted Cost				
8	Accumulated Deferred Income Tax				
9	Other (Explain)				
10					
11	Total	<u>\$ 7,043,724</u>	<u>100.00%</u>		<u>7.45%</u>

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

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

Exhibit 3: Net Operating Income

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: KW Resort Utilities Corp
 Docket No. 20170141-SU
 Test Year Ended: 06/30/2017
 Interim Final
 Historic Projected

Schedule: B-2
 Page 1 of 1
 Preparer: Milian, Swain & Associates, Inc.

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	\$ 2,130,307	\$ 202,220 (A)	\$ 2,332,526	\$ 1,349,890 (A)	\$ 3,682,216	B-4, B-3
2							
3	Operation & Maintenance	1,720,331	612,726 (B)	2,533,058		2,533,058	B-6, B-3
4	Depreciation, net of CIAC Amort.	144,159	192,323 (C)	336,482		336,482	B-14, B-3
5							
6	Amortization						
7							
8	Taxes Other Than Income	175,513	51,669 (D)	227,182	60,736 (D)	287,919	B-15, B-3
9							
10	Provision for Income Taxes						C-1, B-3
11							
12	OPERATING EXPENSES	<u>2,040,004</u>	<u>1,056,719</u>	<u>3,096,723</u>	<u>60,736</u>	<u>3,157,459</u>	
13							
14	NET OPERATING INCOME	<u>\$ 90,303</u>	<u>\$ (854,499)</u>	<u>\$ (764,196)</u>	<u>\$ 1,288,954</u>	<u>\$ 524,757</u>	
15							
16							
17	RATE BASE	<u>\$ 2,229,328</u>	<u>\$ 4,814,396</u>	<u>\$ 7,043,724</u>		<u>\$ 7,043,724</u>	
18							
19							
20	RATE OF RETURN	<u>4.05 %</u>		<u>=====</u> %		<u>7.45%</u>	
21							