

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: October 16, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150071-SU
Company Name: K W Resort Utilities Corp.
Company Code: SU336
Audit Purpose: Rate Case (PAA)
Audit Control No.: 15-189-4-1

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

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

KWRU 018865

State of Florida



Public Service Commission

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

Auditor's Report

KW Resort Utilities Corporation
Rate Case (PAA)

Year Ended December 31, 2014

Docket No. 150071-SU
Audit Control No. 15-189-4-1
October 7, 2015

A handwritten signature in blue ink, appearing to read "Iliana Piedra".

Iliana H. Piedra
Audit Manager

A handwritten signature in blue ink, appearing to read "Bety".

Bety Maitre
Audit Staff

A handwritten signature in blue ink, appearing to read "Jeffery A. Small".

Jeffery A. Small
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 & Finance in its audit service request dated July 8, 2015. We have applied these procedures to the attached schedules prepared by KW Resort Utilities Corporation in support of its filing for rate relief in Docket No. 150071-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 is the historical thirteen months ended December 31, 2014.

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, 2006, by Order No. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU.

KW Resort is a 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 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-09-0057-PAA-SU. 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, 2014. We requested support for the Utility's adjustments and traced them to the filing. We traced a sample of additions and retirements to source documentation and verified that additions were recorded at original cost and that retirements were properly posted. We recalculated the 13-month average balance for the filing. Our recommended adjustment to UPIS is discussed in Finding 1.

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-09-0057-PAA-SU. We determined the land balance as of December 31, 2014. We recalculated the 13-month average balance for the filing. We searched the property records of the County Clerk's

Office in Monroe County, Florida for utility related activity. We recalculated the 13-month average balance for the filing. Our recommended adjustment to Land is discussed in Finding 3.

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 by Order No. PSC-09-0057-PAA-SU. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility additions and retirements since the last rate proceeding to determine the CIAC balance as of December 31, 2014. We reviewed support for the Utility's adjustments and traced them to the filing. We traced additions and retirements to source documents and traced service availability charges to the Utility's approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. We recalculated the 13-month average balance for the filing. Our recommended adjustment to CIAC is discussed in Finding 4.

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-09-0057-PAA-SU. We verified whether the Utility included the Commission adjustments from the order. We scheduled accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of December 31, 2014. We reviewed supporting documentation for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We calculated accumulated depreciation accruals 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 filing. We recalculated the 13-month average balance for the filing. Our recommended adjustment to accumulated depreciation is discussed in Finding 5.

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-09-0057-PAA-SU. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated amortization of CIAC balance as of December 31, 2014. We reviewed supporting documentation for the Utility's adjustments and traced them to the filing. We recalculated the 13-month average balance for the filing. We calculated accumulated amortization of CIAC accruals using the rates authorized in Rule 25-30.140, F.A.C. and compared our balance to the balances in the filing. We recalculated the 13-month average balance for the filing. Our recommended adjustment to accumulated amortization of CIAC is discussed in Finding 4.

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. Our recommended adjustment to working capital is discussed in Finding 7.

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 No. PSC-15-0259-PAA-WS. The debt cost rates were agreed to debt instruments. Finding 8 provides additional information on the Utility's requested capital structure.

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. Our recommended adjustment to revenues is discussed in Finding 9.

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 a sample of O&M expense invoices for proper amount, period, classification, recurring nature, and whether the expense was utility related. Our recommended adjustments to O&M expenses are discussed in Findings 10, 11 and 12. Finding 13 provides additional information on 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 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. Our recommended adjustment to depreciation and CIAC amortization expense is discussed in Findings 4 and 5.

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 December 31, 2014.

Procedures: We reconciled the components of the (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, and ensured that these taxes included the maximum discount and are only for utility property. We calculated payroll taxes and performed a reasonableness test. Our recommended adjustment to TOTI expense is discussed in Finding 14.

Other

Analytical Review

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

Procedures: We performed a trend analysis on Utility accounts and compared the results of our review with the Utility's benchmark analysis included in the filing. No material exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: The Utility's filing reflects the following activity for UPIS in the years indicated.

				Adjustments	Ending Balance
Balance per General Ledger at 12/31/06					\$10,170,911
Utility's ProForma Adjustment				\$1,291,962	
Order adjustment to UPIS				(\$810,064)	(\$657,810)
Remove Utility's ProForma Adjustment				(\$1,139,707)	
Adjusted Balance per General Ledger at 12/31/06					\$9,513,101
We removed offsetting amounts for clarity of presentation.					
Year	Beg. Balance	Additions	Retirements	Adjustments	Ending Balance
2007	\$9,513,101	\$974,776	\$0	(\$597,751)	\$9,890,125
2008	\$9,890,125	\$1,930,418	(\$74,637)	\$0	\$11,745,906
2009	\$11,745,906	\$198,902	\$0	\$0	\$11,944,808
2010	\$11,944,808	\$22,000	\$0	\$0	\$11,966,808
2011	\$11,966,808	\$6,000	(\$900)	\$0	\$11,971,908
2012	\$11,971,908	\$52,017	\$0	\$0	\$12,023,925
2013	\$12,023,925	\$148,589	\$0	\$0	\$12,172,514
2014	\$12,172,514	\$333,467	\$0	\$0	\$12,505,980
Remove Land balance of \$381,000 to determine UPIS balance.					
2014	\$11,791,514				\$12,124,980
Small differences are due to rounding.					

Adjusted Balance per General Ledger at 12/31/06

The Utility's balance of \$9,513,101 is understated by \$15,575 (\$810,064-\$794,489). Order No. PSC-09-0057-FOF-SU required the Utility to reduce UPIS by an average amount of \$933,498 as of December 31, 2006. That adjustment included an adjustment that reduced average pro forma plant by \$124,921 and included two specific items that increased UPIS by \$577 and \$910, respectively. The corresponding average adjustment for these two items reduced UPIS by \$3,173 and \$10,915, respectively. When these three adjustments are removed from the total average adjustment of \$933,498, the year end adjustment to UPIS becomes \$794,489 (\$933,498-\$124,921-\$3,173-\$10,915). The difference between the two pro forma adjustments in the filing is a land balance of \$152,255 that was reclassified from UPIS to land and is included within the \$933,498 adjustment and is therefore offset within the overall calculation. The understatement of \$15,575 was corrected in the 2007 UPIS activity described below.

Additional Information

After the last rate proceeding in Docket No. 070293-SU, the Utility initiated a detailed review of its UPIS accounts for years 2005 through 2009. The Utility prepared schedules that analyzed and restated its UPIS balances in a restatement schedule (RSS) for years 2006 through 2009 based on that review. A consultant was engaged to review the Utility's initial analysis which resulted in additional adjustments that were included in the RSS. The UPIS activity presented above for years 2007 through 2009 reflect the Utility's restated balances which differ from the

Utility's historical general ledgers. The difference between the historical general ledger balance and the restated balance is shown below.

	2006	Adjusted 2006	2007	2008	2009
Restatement Schedule	\$10,170,911	\$9,528,677	\$9,890,125	\$11,745,906	\$11,944,808
Historical G/L	\$10,170,911	\$10,170,911	\$10,388,623	\$10,426,070	\$11,944,808
Difference	\$0	(\$642,234)	(\$498,498)	\$1,319,836	\$0

The 2006 RSS balance of \$9,528,677 only includes the UPIS adjustments made in Order No. PSC-09-0057-FOF-SU to UPIS. The Order adjustment discussed above is \$794,486 and includes an adjustment that increases Land by \$152,255. When the Land amount is removed the UPIS adjustment becomes \$642,234 (\$794,489-\$152,255).

2007 UPIS Activity

The 2007 activity presented above and in the current filing contained errors which were corrected by the Utility's RSS.

The Utility's RSS includes two adjustments, one prepared by the Utility that increases plant by \$939,668 and one prepared by the consultant that decreases plant by \$578,220 resulting in an ending balance of \$9,890,125, as of December 31, 2007.

The adjustments were posted to the following accounts.

Acct. No/Description	Restatement Adjustments	
	Utility	Consultant
3554 - Power Gen Equip	\$11,553	\$1,299
3602 - Collect Sewer-Force	\$31,168	(\$25,757)
3612 - Collect Sewer- Gravity	\$701,338	(\$578,439)
3612 - Collect Sewer Gravity	\$21,845	
3632 - Services To Customers		\$1,485
3640 - Flow Measuring Devices		\$454
3703 - Receiving Well		\$825
3713 - Pumping Equip		\$21,344
3756 - Reuse Trans. & Dist. Equip.	\$34,996	\$1,908
3804 - Treat. & Disp. Equip.	\$120,779	(\$1,338)
3907 - Office Furniture & Equip.	\$2,599	
3937 - Tools Shop & Garage Equip.	\$2,644	
3940 - Laboratory Equip.	\$11,407	
3957- Power Operated Equip.	\$1,338	
Totals	\$939,668	(\$578,220)

Small differences are due to rounding.

The Utility's amount increased UPIS by \$939,668, which we have reduced by \$761,284 to \$197,811 with the following adjustments.

- We removed seven transactions totaling \$4,120 that should have been included in O&M expense in 2007.

- We removed six transactions totaling \$82,857 that were non-utility in nature, duplicate charges, or not supported by adequate documentation. One significant adjustment removed an unsupported amount of \$80,000 from Weiler Engineering Corp. which provided engineering services for the Utility's ATW construction project.
- We removed eleven transactions totaling \$30,160 that were for major repairs and services that we deemed as non-recurring events that should have been recorded in a deferred asset account and amortized over five years per Rule 25-30.433 (8) – Rate Case Proceedings, F.A.C.
- We reduced UPIS by \$30,267 to record retirements for eighteen transactions where utility assets were replaced that should have included a retirement. The plant additions totaled \$40,356. We retired seventy-five percent of the new cost per the Utility's stated capitalization and retirement policy.
- We reduced UPIS by \$10,000 to reclassify a transaction that was described as a Utility refund of Contributions in Aid of Construction (CIAC) capacity fees to a utility customer. Refunds of CIAC should be recorded to CIAC when paid.
- We removed seven transactions totaling \$584,453 that were already included in the UPIS balance approved in the Utility's last rate proceeding in Docket No. 070293-SU.

We made an additional adjustment that reduced UPIS by \$19,426 to retire a vacuum truck that was included in the RSS that was disposed of in 2007.

Our adjustments to the RSS 2007 UPIS activity reduces UPIS by \$761,284 ($\$4,120 + \$82,857 + \$30,160 + \$30,267 + \$10,000 + \$584,453 + \$19,426$).

The Consultant's amount reduced UPIS by \$578,220, which we have reduced by \$581,764 to increase UPIS by \$3,544, based on the following information.

The consultants' adjustment of \$578,220 in the RSS was revised to \$584,181 during the audit period and consists of three adjustments. The first adjustment reclassified several transactions to the proper NARUC accounts and netted to \$0. The second adjustment reduced UPIS by \$1,528 to remove one transaction for \$1,338 that was recorded twice and to remove a transaction for \$190 that should have been expensed in 2007. The third adjustment reduced UPIS by \$582,653 to remove estimated additions that were included in the Utility's last rate case proceeding in Docket No. 070293-SU. ($0\$ + \$1,528 + \$582,653$)

- We reviewed the first adjustment reclassifications in context with the UPIS adjustments that we made above. Based on our adjustments to many of the same transactions being reclassified an additional adjustment that reduces UPIS by \$4,899 is needed.
- We reviewed the second adjustment and determined that we had made the same adjustments in our work above so the \$1,528 adjustment needs to be removed.
- We reviewed the third adjustment and determined that we had made the same adjustment in our work above so the \$582,653 adjustment needs to be removed.

- We made additional adjustments that increased UPIS by \$2,481 to correct transaction errors and true-up the consultant's original and revised adjustment schedules.

Our adjustments to the consultants revised 2007 UPIS activity amount of \$578,220 increase UPIS by \$581,764 ($\$582,653 + \$1,529 + \$2,481 - \$4,899$).

Our combined adjustment to the Utility's and the consultants combined amounts reduce UPIS by \$179,520 ($\$581,764 - \$761,283$).

2008 UPIS Activity

The Utility amount was \$1,930,418, which we have reduced by \$620,303 to \$1,310,114 with the following adjustments. We accept the Utility's retirement of \$75,637 without exception.

- We removed eleven transactions totaling \$7,088 that should have been included in O&M expense in 2008.
- We removed eleven transactions totaling \$517,606 that were non-utility in nature, duplicate charges, or not supported by adequate documentation. Significant adjustments include one unsupported amount of \$362,114 from Weiler Engineering Corp. which provided engineering services for the Utility's ATW construction project and two transactions totaling \$115,094 that were for administrative overhead fees related to the AWT project. Fees such as these were removed in the Utility's last rate proceeding in Docket No. 070293-SU.
- We removed five transactions totaling \$19,320 that were for major repairs and services that we deemed as non-recurring events that should have been recorded in a deferred asset account and amortized over five years per Rule 25-30.433 (8) – Rate Case Proceedings, F.A.C.
- We reduced UPIS by \$36,310 to record retirements for thirteen transactions where utility assets were replaced that should have included a retirement. The plant additions totaled \$48,414. We retired seventy-five percent of the new cost per the Utility's stated capitalization and retirement policy.
- We removed twenty-five transactions totaling \$39,979 that were included in the UPIS balance approved in the Utility's last rate proceeding in Docket No. 070293-SU.

Our combined adjustments to the RSS 2008 UPIS activity reduces UPIS by \$620,303 ($\$7,088 + \$517,606 + \$19,320 + \$36,310 + \$39,979$).

2009 UPIS Activity

The Utility amount was \$198,902, which we have reduced by \$59,620 to \$139,282 with the following adjustments.

- We removed fifteen transactions totaling \$9,548 that should have been included in O&M expense in 2008.
- We removed three transactions totaling \$4,984 that were non-utility in nature or not supported by adequate documentation.

- We removed fifteen transactions totaling \$30,539 that were for major repairs and services that we deemed as non-recurring events that should have been recorded in a deferred asset account and amortized over five years per Rule 25-30.433 (8) – Rate Case Proceedings, F.A.C. The balance is deemed fully recovered before the test year 2014.
- We reduced UPIS by \$14,549 to record retirements for four transactions where utility assets were replaced that should have included a retirement. The plant additions totaled \$27,782. We retired seventy-five percent of the new cost for two transactions totaling \$7,012 per the Utility’s stated capitalization and retirement policy. The remaining two transactions totaling \$20,770 replaced assets that were in service for over thirty years. The Utility’s retirement policy would result in an excessive retirement amount given the age of the assets. We calculated an adjusted retirement amount for these two assets using a discounted original cost factor from the Handy Whitman Index of Cost Trends for Utility Construction (HWI).

We made an additional adjustment that reduced UPIS by \$11,546 (\$1,500+\$10,000-\$23,046) to record the purchase of a used 1998 Ford pick-up truck for \$1,500, to record the retirement of a 1999 backhoe with an original cost of \$23,046 that was exchange for a used tractor valued at \$10,000. The exchange was made with the Key West Golf Club, a wastewater customer. The Utility made minor repairs to the backhoe as a condition of the exchange and no other consideration was involved. The backhoe is included in the RSS. The truck and the tractor were not.

Our combined adjustments to the RSS 2009 UPIS activity reduces UPIS by \$71,166 (\$9,548+\$4,984+\$30,539+\$14,549+\$11,546).

2010 through 2012 UPIS Activity

No issues were noted.

2013 UPIS Activity

We decreased Account 3804 - Treatment & Disposal Equipment by \$54,601 to reclassify costs associated with the wastewater treatment plant (WWTP) expansion project to Account 1051 - Construction Work in Progress (CWIP) discussed in Finding 2. No other issues were noted.

2014 UPIS Activity

We have decreased UPIS by \$163,722 (\$130,642+\$31,138+\$1,942) by the following amounts.

- We decreased Account 3544 – Structures & Improvements by \$130,642 to, reclassify \$100,552 of cost associated with the WWTP expansion project to Account 1051 - CWIP discussed in Finding 2, and, to reclassify \$30,090 of cost associated related to the Utility’s WWTP permit modification application on file with the Florida Department of Environmental Protection (FDEP) to deferred asset account for permit fees discussed in Finding 6.
- We decreased Account 3602 – Collection Sewers Force by \$31,138 to include a retirement that should have been made when a lift station was replaced at a cost of \$86,326. The lift station had been in service over thirty years. The Utility’s retirement policy would result in an excessive retirement amount given the age of the asset. We calculated an adjusted retirement amount using a discounted original cost factor from the Handy Whitman Index of Cost Trends for Utility Construction (HWI).

- We decreased Account 3612 –Collection Sewers Gravity by \$1,942 to include a retirement that should have been made when a manhole was replaced at a cost of \$8,000. The man hole had been in service over thirty years. The Utility’s retirement policy would result in an excessive retirement amount given the age of the asset. We calculated an adjusted retirement amount using a discounted original cost factor from the Handy Whitman Index of Cost Trends for Utility Construction (HWI).

Our total adjustments to UPIS are summarized below. A detailed schedule of the adjustments by NARUC account is displayed in Table 1-1. The corresponding effect on accumulated depreciation and test year depreciation expense are discussed in Finding 5. The Land account that is displayed in the Table is included for presentation purposes and is discussed in Finding 3.

Period	Increase(Decrease) UPIS
2007	(\$179,520)
2008	(\$620,303)
2009	(\$71,165)
2010	\$0
2011	\$0
2012	\$0
2013	(\$54,601)
2014	(\$163,721)
Total	(\$1,089,311)
<i>Small differences are due to rounding.</i>	

Effect on the General Ledger: The specific NARUC account adjustments to correct the general ledger can be found in Table 1-1. The corresponding offsetting amount and account should be determined by the Utility.

Effect on the Filing: Average UPIS should be reduced by \$978,063, for the test year ended December 31, 2014.

Included in our average balance is a proforma addition of \$12,000 for a Dodge pick-up truck that the Utility purchased in February 2015. If a simple average adjustment was applied to this addition our adjustment that reduces UPIS by \$978,063 would increased by \$6,000 to \$984,063, for the test year ended December 31, 2014, to remove one-half of the addition.

The Utility’s proforma adjustments to UPIS in the filing are discussed in Finding 2.

Table 1-1

<i>KW Resort Utilities, Inc.</i>							
<i>Utility Plant in Service</i>							
<i>As of December 31, 2014</i>							
		As of 12/31/2014			13-Month Average		
Account	Description	Utility	Adjustment	Audit	Utility	Adjustment	Audit
101 352	Franchise	\$92,864	\$0	\$92,864	\$92,864	\$0	\$92,864
101 354	Structures & Improvements	\$673,398	(\$132,366)	\$541,032	\$604,685	(\$63,653)	\$541,032
101 353	Land	\$380,999.63	(\$6,000)	\$375,000	\$375,923	(\$923)	\$375,000
101 355	Power Generation Equipment	\$208,358	(\$7,234)	\$201,124	\$199,147	(\$7,234)	\$191,914
101 360	Collections Sewers - Force	\$3,760,680	(\$66,944)	\$3,693,736	\$3,678,691	(\$38,202)	\$3,640,489
101 361	Collections Sewers - Gravity	\$1,203,239	(\$141,552)	\$1,061,686	\$1,195,103	(\$139,759)	\$1,055,343
101 363	Services	\$97,440	(\$1,485)	\$95,955	\$93,127	(\$1,485)	\$91,642
101 364	Flow Measuring Devices	\$2,675	\$0	\$2,675	\$2,675	\$0	\$2,675
101 370	Receiving Wells	\$875,899	(\$825)	\$875,074	\$875,899	(\$825)	\$875,074
101 371	Pumping Equipment	\$332,703	(\$11,830)	\$320,873	\$310,672	(\$11,830)	\$298,842
101 375	Reuse Transmission & Distribution Equipment	\$316,298	(\$25,082)	\$291,215	\$316,298	(\$25,082)	\$291,215
101 380	Transmission & Distribution Equipment	\$4,227,014	(\$662,521)	\$3,564,493	\$4,226,873	(\$662,521)	\$3,564,352
	Proforma Addition				\$3,489,234	\$0	\$3,489,234
101 381	Plant Sewers	\$28,762	\$0	\$28,762	\$28,762	\$0	\$28,762
	Proforma Addition				\$85,234	\$0	\$85,234
101 389	Other Plant	\$44,203	\$0	\$44,203	\$44,203	\$0	\$44,203
101 390	Office Furniture & Equipment	\$21,596	(\$1,950)	\$19,646	\$21,596	(\$1,950)	\$19,646
101 391	Vehicles	\$98,560	(\$17,926)	\$80,634	\$95,444	(\$17,926)	\$77,518
	Proforma Addition				\$0	\$12,000	\$12,000
101 392	Stores Equipment	\$1,862	\$0	\$1,862	\$1,862	\$0	\$1,862
101 393	Tools & Shop Equipment	\$29,392	(\$1,294)	\$28,098	\$29,392	(\$1,294)	\$28,098
101 394	Laboratory Equipment	\$21,191	(\$5,255)	\$15,937	\$21,191	(\$5,255)	\$15,937
101 395	Power Operated Equipment	\$88,847	(\$13,046)	\$75,801	\$87,220	(\$13,046)	\$74,174
	Total UPIS & Land	\$12,505,980	(\$1,095,311)	\$11,410,669	\$15,876,096	(\$978,986)	\$14,897,110
	Less Land	(\$381,000)	\$6,000	(\$375,000)	(\$375,923)	\$923	(\$375,000)
	Total UPIS	\$12,124,980	(\$1,089,311)	\$11,035,670	\$15,500,173	(\$978,063)	\$14,522,110
<i>Small differences are due to rounding.</i>							

Finding 2: Construction Work in Progress – Pro Forma Plant

Audit Analysis: The Utility’s filing includes the following proforma adjustments to rate base for the expansion of its wastewater treatment.

Per Filing				
Account	Description	UPIS	Acc. Dep.	Dep. Exp.
3804	Treatment & Disposal	\$3,489,234	(\$193,897)	\$193,897
3814	Plant Sewers	\$85,234	(\$2,435)	\$2,435
Total		\$3,574,468	(\$196,332)	\$196,332

We requested a revised estimate for the expansion project as well as the supporting documents for all work that was completed as of July 15, 2015. The Utility’s response indicates that a revised estimated cost of \$3,640,372 is now projected to complete the project.

Revised as of July 2015				
Account	Description	UPIS	Acc. Dep.	Dep. Exp.
3804	Treatment & Disposal	\$3,554,878	(\$197,493)	\$197,493
3814	Plant Sewers	\$85,494	(\$2,443)	\$2,443
Total		\$3,640,372	(\$199,936)	\$199,936
Total Change		\$65,904	(\$3,604)	\$3,604

The Utility provided invoices totaling \$309,506 for cost expended for the following vendors as of July 15, 2015.

Invoices Provided in Year Recorded					
Vendor	2012	2013	2014	2015	Total
Innovative Engineering				\$15,500	\$15,500
Ferguson Enterprises				\$376	\$376
B&L Beneway				\$31,000	\$31,000
SWECO				\$62,219	\$62,219
LPS Service				\$150	\$150
Nearshore Electric			\$4,500	\$4,275	\$8,775
Bluebook			\$3,048	\$4,584	\$7,632
Prospect Surveying		\$4,000			\$4,000
Weiler Engineering	\$248	\$50,601	\$96,002	\$26,880	\$173,730
	\$248	\$54,601	\$103,550	\$144,984	\$303,382
Recorded in UPIS		\$54,601	\$100,552		

The invoices that the Utility recorded to UPIS were reclassified to CWIP in Finding 1. The Utility should create a CWIP account to record the cost for the wastewater plant expansion project. The balance is \$158,151 as of December 31, 2014 with \$144,984 of additional cost to record in 2015.

Effect on the General Ledger: The balance for Account 1051 – CWIP Wastewater Plant Expansion is \$158,151, as of December 31, 2014.

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

Finding 3: Land and Land Rights

Audit Analysis: The Utility's 2014 general ledger reflects an addition in November 2014 to Account 353 – Land and Land Rights of \$6,000. The Utility responded that the survey was to identify and locate sewer mains that cross private property in its service territory.

NARUC, Class B, Wastewater Utility Plant Accounts, Account 353 - Land and Land Rights states that this account shall include the cost of land and land rights used in connection with wastewater collection, pumping, treatment and disposal, reclaimed water treatment and distribution and general plant operations. Sub-Item No. 11 further states that surveys in connection with acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.

Per the NARUC Account Descriptions cited above, the \$6,000 survey cost to identify and locate existing plant assets should not be included in Account 353. We believe that it is a nonrecurring cost that should be reclassified to deferred asset account for survey fees and amortized over five years to Operation and Maintenance Expense Account 736 – Contractual Services Other, per Rule 25-30.433 (8), Rate Case Proceedings, F.A.C.

Effect on the General Ledger: The following adjustments are needed to correct the general ledger balance, as of December 31, 2014.

Acct. No.	Description	Debit	Credit
3534	Land & Land Rights		\$6,000
TBD	Deferred Survey Fees	\$4,800	
7360	Contractual Services - Other	\$1,200	
TBD - To be determined by the Utility.			

Effect on the Filing: Average rate base should be decreased by \$185 and Operation & Maintenance Expense (O&M) should be increased by \$1,200 (\$6,000/5), for the test year ended December 31, 2014.

Decrease	Land	(\$923)
Increase	Deferred Survey Fees	\$738
Decrease	Rate Base	(\$185)
Effect on Filing		Test Year
Increase	O&M Expense	\$1,200

Finding 4: Contributions-in-Aid-of-Construction and Amortization of CIAC

Audit Analysis: The utility’s filing reflects the following balances for Contributions in Aid of Construction (CIAC), Accumulated Amortization of CIAC and CIAC Amortization Expense for the test year ended December 31, 2014.

Acct. No.	Description	Year End	13-Month Average
271	CIAC	\$10,083,008	\$9,946,997
272	Accumulated Amortization of CIAC	\$3,300,127	\$3,096,094
403	CIAC Amortization Expense	\$350,720	

The balances were derived from a “Restatement of CIAC” schedule that was prepared by the Utility to correct and properly classify all recorded CIAC amounts based on actual cash and properties received by the Utility. We reconciled the schedule to the CIAC and Accumulated Amortization of CIAC balances reflected in Order No. PSC-09-0057-FOF-SU. The following CIAC and Accumulated Amortization of CIAC activities were included in the schedule to determine the ending 2014 balances above.

Period End	Description	CIAC	Acc. Amortz. of CIAC
12/31/06	Per Order Balance	\$5,752,701	\$810,883
	Utility Adjustments	<u>\$1,762,792</u>	<u>\$31,614</u>
12/31/06	Adjusted Balance	\$7,515,493	\$842,497
	Net Additions 2007-2014	<u>\$2,567,515</u>	<u>\$2,457,630</u>
12/31/14	Per GL/MFR Balance	\$10,083,008	\$3,300,127

Contributions in Aid of Construction

We reviewed the Utility’s “Restatement of CIAC” schedule and reconciled all of the individual CIAC entries attributable to the prior order approved balance of \$5,752,701, as of December 31, 2006. We reviewed the supporting documents for the 2007 through 2014 net additions and no issues were noted.

The Utility’s \$1,762,792 net adjustment was primarily composed of adjustments to record CIAC additions associated with the South Stock Island System (SSI) and to closeout the related Advances for Construction balance.

The Utility provided the following information on this issue,

As part of the SSI expansion with Monroe County, KWRU was required to collect capacity reservation fees from customers and remit the payments to Monroe County to reduce KWRU’s advances for construction. Instead of KRWU collecting all capacity fees from SSI vacuum customers, Monroe County permitted customers to elect to remit payments directly to Monroe County as a non-advalorem assessment which would be placed on the customer’s bill.

The initial non-advalorem assessment roll was approved in 2004 and customers identified on the roll were assessed. The County failed to provide the Utility with payment information in a timely manner. An adjustment was made to the 2004 CIAC balance to add these contributors based on the information provided by Monroe County in 2014. The customers are connected to the Utility and KWRU has been deemed to have repaid Monroe County the full amounts owing

by these customers. The Utility also made offsetting adjustments to Advances for Construction account for the amount collected by the County.

The net adjustment of \$1,762,792 included in the filing includes an adjustment that increases CIAC by \$2,724,171 in year 2004. We reviewed the details for the adjustment and determined that it contained the following two errors.

- The adjustment includes a \$293,058 addition for the Meridian West Apartments that was already included in the prior order approved balance of \$5,752,701, discussed above.
- The adjustment schedule contains calculation errors that overstate the needed adjustment by \$14,062.

Finding 1 reclassifies \$10,000 from PIS Account 3612 – Collection Sewers Gravity to CIAC Account 2711 to properly record a refund of capacity fees paid to a utility customer.

The Utility’s CIAC balance should be reduced by \$297,120 (\$293,058+\$14,062-\$10,000), as of December 31, 2014.

Accumulated Amortization of CIAC

We reviewed the Utility’s “Restatement of CIAC” schedule and recalculated a sample of CIAC Amortization accruals to ensure that the proper CIAC Balances and amortization rates were being used. The schedule calculates CIAC Amortization accruals based on the year end CIAC balance rather than using an average ending CIAC balance.

We recreated the Utility’s amortization schedule described above to correct the CIAC amortization accrual calculation errors noted above and other small issues within the schedule. We included our adjustment that reduced CIAC by \$297,120. Based on our adjustments and recalculations, the Utility’s balance for Accumulated Amortization of CIAC and CIAC Amortization Expense should be decreased by \$116,016 and \$14,003, respectively, for the test year ended December 31, 2014.

Effect on the General Ledger: The following adjustments are needed to correct the general ledger balance, as of December 31, 2014.

Acct. No.	Description	Debit	Credit
2711	CIAC	\$297,120	
2721	Accumulated Amortization of CIAC		\$116,016
4032	CIAC Amortization Expense	\$14,003	
TBD	To be determined by the Utility		\$195,107

Effect on the Filing: Average Rate Base and CIAC Amortization Expense should be increased by \$215,967 and decreased by \$14,003, respectively, for the test year ended December 31, 2014.

		13-Month
Effect on Filing		Average
Decrease	CIAC	\$297,120
Decrease	Accumulated Amortization of CIAC	(\$81,153)
Increase	Rate Base	\$215,967
Effect on Filing		Test Year
Decreased	CIAC Amortization Expense	\$14,003

Finding 5: Accumulated Depreciation

Audit Analysis: The Utility's filing reflects a year end balance of \$6,055,721 and a 13-Month average balance of \$6,029,427 for accumulated depreciation for the test year ended December 31, 2014. The average balance includes adjustments that increase accumulated depreciation by \$200,666 to annualize depreciation accruals on test year 2014 UPIS additions and include proforma depreciation accruals for the wastewater plant expansion.

After the last rate proceeding in Docket No. 070293-SU, the Utility initiated a detailed review of its rate base accounts for years 2005 through 2009. The Utility prepared schedules that analyzed and restated its UPIS balances in a restatement schedule (RSS) for years 2006 through 2009 based on that review. A consultant was engaged to review the Utility's initial analysis which resulted in additional adjustments that were included in the RSS. Based on the results and changes to UPIS balances in the RRS the Utility recalculated and adjusted the resulting accumulated depreciation account balances since 1984.

Our review of the RSS indicates that the Utility used the proper service lives authorized in Rule 25-30.140 - Depreciation, F.A.C. to calculate annual accruals for accumulated depreciation. However, the RSS accumulated depreciation accruals were calculated on each specific asset listed on the RSS within each asset class.

Rule 25-30.140 (5), F.A.C., states that, for the computation of depreciation expense, regulatory depreciation expense shall be computed on a monthly basis in conformity with group depreciation accounting procedures.

Rule 25-30.140 (1), F.A.C., defines group depreciation as an accounting procedure under which depreciation charges are accrued on the basis of the original cost of all property included in each depreciable group. Under the group concept, no attempt is made to keep track of the accumulated provision for depreciation applicable to individual assets of property, in view of the many items making up a utility system.

The Utility's method of calculating depreciation accruals using the specific asset balance understates the annual accrual to accumulated depreciation because when a specific asset becomes fully depreciated no further accruals occur. In contrast, under the group method depreciation accruals are continuous until the entire group balance is fully depreciated, regardless of the specific asset balance within the group.

We recalculated the Utility's accumulated depreciation from 2006 using the RSS and the UPIS adjustments we made in Finding 1 using the group method for calculating depreciation accruals required by Commission Rule.

Our calculated balance for accumulated depreciation reduces the Utility's balance of \$6,055,721 by \$83,006 to \$5,972,716, as of December 31, 2014. A detailed schedule of the adjustments by NARUC account is displayed in Table 5-1.

Our calculations also reduced the Utility's Depreciation Expense of \$647,382 by \$5,489 to \$641,892, for the test year ended December 31, 2014. A detailed schedule of the adjustments by NARUC account is displayed in Table 5-2.

Effect on the General Ledger: The specific NARUC account adjustments to correct the general ledger can be found in Table 5-1. The corresponding offsetting amount and account should be determined by the Utility.

Effect on the Filing: Average accumulated depreciation and Depreciation Expense should be reduced by \$45,131 and \$5,489, respectively, expense for the test year ended December 31, 2014.

Included in our average balance is a proforma addition of \$12,000 for a Dodge pick-up truck that the Utility purchased in February 2015. If a simple average adjustment was applied to this addition, our adjustments of \$44,612 and \$4,970 would increase by \$1,000 each to \$45,612 and \$5,970, respectively, for the test year ended December 31, 2014.

The Utility's proforma adjustments to accumulated depreciation for the wastewater plant expansion are included in Finding 2.

Table 5-1

<i>KW Resort Utilities, Inc.</i>								
<i>Accumulated Depreciation</i>								
<i>As of December 31, 2014</i>								
			As of 12/31/2014			13-Month Average		
Account		Description	Utility	Adjustment	Audit	Utility	Adjustment	Audit
108	352	Franchise	(\$35,934)	\$0	(\$35,934)	(\$34,773)	\$0	(\$34,773)
108	354	Structures & Improvements	(\$292,129)	\$14,520	(\$277,609)	(\$279,499)	\$10,907	(\$268,592)
108	355	Power Generation Equipment	(\$61,976)	\$3,850	(\$58,126)	(\$56,920)	\$3,691	(\$53,229)
		Proforma Addition				(\$568)	\$568	\$0
108	360	Collections Sewers - Force	(\$1,891,523)	\$39,023	(\$1,852,500)	(\$1,829,348)	\$9,037	(\$1,820,311)
		Proforma Addition				(\$1,869)	\$519	(\$1,350)
108	361	Collections Sewers - Gravity	(\$383,262)	\$31,388	(\$351,874)	(\$369,460)	\$27,522	(\$341,938)
		Proforma Addition				(\$147)	\$32	(\$115)
108	363	Services	(\$17,667)	\$316	(\$17,352)	(\$16,410)	\$283	(\$16,127)
		Proforma Addition				(\$92)	\$0	(\$92)
108	364	Flow Measuring Devices	(\$2,674)	\$0	(\$2,674)	(\$2,563)	(\$101)	(\$2,664)
108	370	Receiving Wells	(\$355,480)	\$207	(\$355,273)	(\$340,881)	\$193	(\$340,688)
108	371	Pumping Equipment	(\$244,011)	(\$1,733)	(\$245,744)	(\$239,654)	(\$4,284)	(\$243,938)
		Proforma Addition				(\$1,156)	\$0	(\$1,156)
108	375	Reuse Transmission & Distribution Equipment	(\$81,199)	\$4,098	(\$77,101)	(\$77,521)	\$3,807	(\$73,714)
108	380	Transmission & Distribution Equipment	(\$2,485,194)	(\$20,736)	(\$2,505,930)	(\$2,384,843)	(\$22,074)	(\$2,406,917)
		Proforma Addition				(\$193,897)	\$0	(\$193,897)
108	381	Plant Sewers	(\$7,291)	\$0	(\$7,291)	(\$6,880)	(\$0)	(\$6,880)
						(\$2,435)	\$0	(\$2,435)
108	389	Other Plant	(\$24,101)	(\$19,646)	(\$43,747)	(\$24,101)	(\$18,418)	(\$42,519)
108	390	Office Furniture & Equipment	(\$22,797)	\$3,150	(\$19,647)	(\$22,654)	\$3,007	(\$19,647)
108	391	Vehicles	(\$48,939)	\$2,075	(\$46,864)	(\$46,053)	\$5,714	(\$40,339)
		Proforma Addition				(\$375)	(\$2,000)	(\$2,375)
108	392	Stores Equipment	(\$671)	\$0	(\$671)	(\$620)	\$0	(\$620)
108	393	Tools & Shop Equipment	(\$25,214)	(\$98)	(\$25,312)	(\$24,336)	(\$98)	(\$24,434)
108	394	Laboratory Equipment	(\$10,523)	\$4,770	(\$5,753)	(\$9,816)	\$4,594	(\$5,222)
108	395	Power Operated Equipment	(\$65,136)	\$21,820	(\$43,316)	(\$62,429)	\$22,232	(\$40,197)
		Proforma Addition				(\$126)	\$0	(\$126)
		Total Accumulated Depreciation	(\$6,055,721)	\$83,006	(\$5,972,716)	(\$6,029,427)	\$45,131	(\$5,984,295)

Small differences are due to rounding.

Table 5-2

<i>KW Resort Utilities, Inc.</i>					
<i>Depreciation Expense</i>					
<i>As of December 31, 2014</i>					
			12-Month Period Ended 12/31/2014		
Account	Description		Utility	Adjustment	Audit
108	352	Franchise	\$2,322	\$0	\$2,322
108	354	Structures & Improvements	\$23,397	(\$5,363)	\$18,034
108	355	Power Generation Equipment	\$9,850	(\$245)	\$9,605
		Proforma Addition	\$568	\$0	\$568
108	360	Collections Sewers - Force	\$123,487	(\$2,173)	\$121,314
		Proforma Addition	\$1,869	(\$519)	\$1,350
108	361	Collections Sewers - Gravity	\$27,536	(\$4,086)	\$23,450
		Proforma Addition	\$147	(\$32)	\$115
108	363	Services	\$2,472	(\$62)	\$2,410
		Proforma Addition	\$92	\$0	\$92
108	364	Flow Measuring Devices	\$222	(\$136)	\$86
108	370	Receiving Wells	\$29,197	(\$28)	\$29,169
108	371	Pumping Equipment	\$8,180	(\$4,875)	\$3,305
		Proforma Addition	\$1,156	\$0	\$1,156
108	375	Reuse Transmission & Distribution Equipment	\$7,356	(\$584)	\$6,772
108	380	Transmission & Distribution Equipment	\$200,679	(\$2,656)	\$198,023
		Proforma Addition	\$193,897	\$0	\$193,897
108	381	Plant Sewers	\$822	\$0	\$822
		Proforma Addition	\$2,435	\$0	\$2,435
108	389	Other Plant	\$0	\$2,456	\$2,456
108	390	Office Furniture & Equipment	(\$3,032)	\$3,032	\$0
108	391	Vehicles	\$5,599	\$7,309	\$12,908
		Proforma Addition	\$375	\$2,000	\$2,375
108	392	Stores Equipment	\$103	\$0	\$103
108	393	Tools & Shop Equipment	\$1,757	\$0	\$1,757
108	394	Laboratory Equipment	\$1,413	(\$351)	\$1,062
108	395	Power Operated Equipment	\$5,357	\$823	\$6,180
		Proforma Addition	\$126	\$0	\$126
		Total Depreciation Expense	\$647,382	(\$5,489)	\$641,892

Small differences are due to rounding.

Finding 6: Miscellaneous Deferred Debits

Audit Analysis: The Utility's general ledger reflects a balance of \$92,745 in Account 18610 Deferred Rate Case Expense, as of December 31, 2014.

Utility adjustments on Schedule B-3 in the filing reduced the Deferred Rate Case Expense balance by \$14,764 to reclassify accounting, legal and engineering fees, related to the restatement of the 2007 - 2012 Annual Reports, to test year Operation and Maintenance Expense (O&M). The deferred rate case balance with test year adjustments are shown below.

Description/Vendor	Beg. Balance	Adjustment	End. Balance
Jeffery Allen CPA	\$1,863	(\$1,863)	\$0
Millian, Swain & Associates	\$66,875	(\$8,488)	\$58,388
Smith/Oropeza P.L.	\$21,202	(\$1,609)	\$19,593
Weiler Engineering	\$2,805	(\$2,805)	\$0
Total	\$92,745	(\$14,764)	\$77,981

In Finding 11 we determined that the \$1,863 and \$2,805 are related to the restatement of the Utility's 2007 - 2012 Annual Reports and should be reclassified as deferred assets and not be included in test year O&M expense. The \$1,609 was removed because of no support. The \$8,488 was fees for the preparation of the Annual Report which we concurred should be included in test year O&M expense.

The Utility's filing includes proforma average adjustments of \$467,625 and \$62,000 on Schedule A-17 as Miscellaneous Deferred Debits for the estimated costs to modify its wastewater permit in conjunction with the wastewater plant expansion and one-half of the estimated amortization of rate case expense. The year end estimates were \$519,593 and \$156,000, respectively.

In Finding 1, we reduced UPIS by \$30,090 for engineering cost related to the wastewater permit modification and reclassified them to a deferred asset account for permit fees. This balance was included in our analysis of deferred permit fees discussed in Finding 16.

In Finding 3, we reduced Land by \$6,000 for survey fees to locate utility infrastructure and reclassified them to a deferred asset account for survey fees.

In Finding 11, we reclassified \$4,668 (\$1,863+\$2,805) from test year O&M Expense to a deferred asset account for accounting fees for the costs incurred to restate the 2007-2012 Annual Reports.

In Finding 16, we reduced the deferred asset account for permit fees by \$42,157 to record the actual permit cost incurred based on our review of supporting documentation.

The actions above result in the following deferred asset accounts and balances, as of December 31, 2014.

Acct.	Description	Per Utility		Per Audit	
		Balance	Adjustments	Adjustments	Balance
18610	Deferred Rate Case Expense	\$92,745	(\$73,152)	\$0	\$19,594
TBD	Deferred Permit Fees (estimate)	\$519,593	\$0	(\$519,593)	\$0
TBD	Deferred Permit Fees (actual)	\$0	\$0	\$477,436	\$477,436
TBD	Deferred Accounting Fees.	\$0	\$58,388	\$4,668	\$63,056
TBD	Deferred Survey Fees	\$0	\$0	\$6,000	\$6,000
	Total	\$612,338	(\$14,764)	(\$31,489)	\$566,085

TBD - To be determined by the Utility.

The Utility's filing includes adjustments to Operating & Maintenance Expense to amortize the following expenses, which were based on the actual or estimated costs for services, consistent with Chapter 367.0816, Florida Statutes – Recovery of Rate Case Expense and Rule 25-30.433 (8), F.A.C.

Adjustment	Explanation	Period	Amount
Test Year	Amortize expenses incurred to restate 2007-2012 Annual Reports	5 yrs	\$11,678
Proforma	Amortize legal expenses for permitting and legal fees (estimate)	5 yrs	\$103,917
Proforma	Amortize Rate Case Expense (estimate)	4 yrs	\$31,200
	Total		\$146,795

Consistent with the Utility's approach, we recalculate the following amortization expense amounts based on the adjusted ending balance for the Miscellaneous Deferred Debit accounts.

Acct.	Description	Balance at 12/31/14	Amortization Amount
18610	Deferred Rate Case Expense (estimate)	\$124,800	(\$31,200)
TBD	Deferred Permit Fees (actual)	\$477,436	(\$95,487)
TBD	Deferred Accounting Fees (actual)	\$63,055	(\$12,611)
TBD	Deferred Survey Fees (actual)	\$6,000	(\$1,200)
	Total	\$671,291	(\$140,498)
	Remove Rate Case	(\$124,800)	
	Adjusted 12/31/14 Year End	\$546,491	(\$109,298)
	13-Month Average Balance	\$491,842	
	Add back one-half of Rate Case	\$62,400	(\$31,200)
	Adjusted 13-Month Average Balance	\$554,242	(\$140,498)

The Utility's adjustment to O&M expense for the Amortization of Miscellaneous Deferred Debits should be reduced by \$6,297 (\$146,795-\$140,498), for the test year ended December 31, 2014.

The Utility's adjustment to Working Capital for Miscellaneous Deferred Debits should be increased by \$24,217 (\$554,242-\$467,625-\$62,400), for the test year ended December 31, 2014.

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

Effect on the Filing: Reduce the test year adjustment to O&M expense by \$6,297 and increase Working Capital by \$24,217, for the test year ended December 31, 2014.

The information is provided for staff's consideration.

Finding 7: Working Capital

Audit Analysis: The Utility's filing reflects the following account components for the Working Capital adjustment reflected on Schedule A-1 of the filing.

Working Capital Class	Year End Balance	13-Month Average
Cash	\$818,918	\$877,289
Accounts Receivable	\$69,073	\$64,417
Less Provision for Uncollectables	(\$10,000)	(\$10,000)
Accounts Receivable - Other	\$24,029	\$19,234
Prepayments	\$25,281	\$25,334
Materials & Supplies	\$0	\$0
Misc. Current & Accrued Assets	\$13,125	\$13,442
Other Misc. Deferred Debits - Proforma		\$467,625
One-half Rate Case Expense		\$62,400
Total Current Assets	\$940,426	\$1,519,741
Accounts Payable	(\$44,945)	(\$87,182)
Accrued Taxes	(\$36,672)	(\$28,353)
Accrued Interest	\$0	\$0
Misc. Current & Accrued Liabilities	(\$36,677)	(\$36,974)
Total Current Liabilities	(\$118,294)	(\$152,509)
Total Working Capital	\$822,132	\$1,367,232

We reviewed the general ledger accounts contained within each of the Working Capital component balances and recommend the following adjustments for this proceeding.

Accounts Receivable – Other

The balance of \$24,029 represents the sum of a cash clearing account used to record customer receivables other than metered services such as deposits and service availability fees until paid. Finding 16 reclassifies a February 2014 credit entry of \$43,415 from this account to Account 433 – Extraordinary Income. The balance of the account will increase by \$43,214. Therefore, average working capital should be increased by \$40,067.

Miscellaneous Current & Accrued Assets

The component balance of \$13,125 is comprised of two general ledger accounts, Account 1740200 – Deposits Electric for \$12,975 and Account 1740333 – Deposits Water for \$150. The Utility stated that these are deposits remitted to its electric and water service providers that earn interest at a rate determined by the respective Utility boards. 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 proceeding. Therefore, average working capital should be decreased by \$13,422.

Other Miscellaneous Deferred Debits – Proforma

The \$467,625 for Miscellaneous Deferred Debits is comprised of legal fees incurred by the Utility to defend its wastewater permit renewal application with the Florida Department of Environmental Protection. The specifics of the litigation are discussed in Finding 11.

One-half Rate Case Expense

The rate case expense adjustment of \$62,400 is calculated as one-half year of an estimated total rate case expense of \$124,800 for the instant proceeding.

Finding 11 discusses the Utility's balances for Other Miscellaneous Deferred Debits, Deferred Rate Case Expense and includes balances for adjustments to a Miscellaneous Deferred Asset account. Our total average adjustment increases Working Capital by \$24,217.

The sum of our three adjustments increases the average working capital adjustment by \$50,842 (\$40,067-\$13,422+\$24,217).

Effect on the General Ledger: None

Effect on the Filing: Increase the average Working Capital adjustment by \$50,842, for the test year ended December 31, 2014.

Finding 8: Capital Structure

Audit Analysis: The Utility has included in Schedule D-5 of the filing a Note Payable to WS Utility Inc., for \$852,903 at a six percent interest rate. There is no executed debt instrument for this loan.

The Utility explained that WS Utility Inc. was acting as a private lender at times when financing was difficult and that no origination fees, points or closing costs were charged. Immediate funding has been provided by WS Utility Inc. when financial institutions were reluctant to lend money to the Utility. The Utility believes that a six percent per annum interest rate is reasonable due to the risk associated with a loan of this nature.

The Utility has included a proforma adjustment for \$3.5 million to Common Equity on Schedule D-2 of the filing in anticipation of self-funding the wastewater plant expansion entirely with equity.

A proforma adjustment to rate base of \$3,378,186 was included on Schedule A-1 of the filing. (\$3,574,468 for UPIS & \$196,282 for accumulated depreciation) Additional information provided in the filing estimates that the wastewater plant expansion will cost approximately \$3.5 million. The estimate was increased to \$3.7 million in subsequent information provided during our audit. The Utility has already spent approximately \$303,382, as of July 15, 2015. Additional information on the proforma adjustment is provided in Finding 2.

Effect on the General Ledger: None

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

Finding 9: Operating Revenues

Audit Analysis: The Utility's filing reflects that following revenues on Schedule B-4.

Acct. No.	Description	Amount
52210	Measured - Residential	\$615,915
52220	Measured - Commercial	\$804,874
53400	Rents from Sewer Property	\$2,100
53600	Other Sewer Revenues	\$8,620
54120	Measured Re-Use Revenues	\$47,798
	Total	\$1,479,307

The Utility's general ledger contains the following income amounts in the indicated accounts.

Acct. No.	Description	Income Classification		
		Utility	Non-Utility	Total
41900	Non-Utility Income	\$0	\$88,845	\$88,845
42100	MCDC Income	\$0	\$19,550	\$19,550
42120	Water Testing	\$0	\$19,500	\$19,500
42600	Miscellaneous Income	\$0	\$22,849	\$22,849
52210	Residential Sewer-Use	\$277,113	\$0	\$277,113
52211	Residential Sewer-Base	\$338,802	\$0	\$338,802
52220	Commercial Sewer	\$804,874	\$0	\$804,874
53400	Trailer Rental	\$2,100	\$0	\$2,100
53610	Connection/Disconnection	\$3,450	\$0	\$3,450
53640	New Connection Administration	\$5,170	\$0	\$5,170
54120	Effluent Sales	\$47,798	\$0	\$47,798
	Total	\$1,479,307	\$150,744	\$1,630,050

Account 41900 – Non-Utility Income

This account represents the income identified as the Monroe County Detention Center (MCDC) Settlement for, reimbursement of legal fees of \$76,463 and Monies withheld from the CRI Contract for \$12,382. The MCDC Settlement is discussed in Finding 15. None of the balance relates to test year income.

Account 42110 - MCDC Income

This account represents the income related to cleaning the Monroe County Detention Center lift station. This income was included above the line as Operating Revenues in the last rate case by Order No. PSC-09-0057-PAA-SU.

Account 42120 - Water Testing Income

This account represents additional reclaimed water testing on a pro-rata basis according to use. The Utility has two customers that purchase reclaimed water and directly reimburse the Utility for the cost of the additional testing. Utility records indicate that the costs for the extra tests are included in O&M expense. Therefore, this income should be included above the line for the test year to match the revenues received with the expense incurred.

Account 42600 - Miscellaneous Income

This account represents the income generated by the Utility for subcontractor work and income related to reclassifying cash receipts such as non-sufficient funds, emergency services, inspection

fees and premise visits. We reviewed the rates charged by the Utility to Keys Environmental Inc. (KEI), a related party, as shown on a contract dated January 1, 2014. The Utility explained the rates charged are inclusive of labor, benefits, overhead and a profit margin. We reviewed the labor rates for the specific Utility employees performing the work for KEI and determined that the rates charged appear to be reasonable. Our analysis indicates that the rates charged by the Utility to other, non-related party, contractors appear to be higher than the rates charged to KEI. The vendors and revenues associated with this account are identified below.

Vendor	Amount
Keys Environmental Inc.	\$10,530
Haskins Plumbing Inc	\$118
KW Golf Club	\$1,309
Monroe County Finance Department	\$4,487
Safe Harbour Marina	\$937
Reclass Cash Receipts	\$5,469
Total	\$22,849

Since these are revenues are associated with work performed by Utility employees, whose salaries and benefits are charged above the line, we believe that the entire amount of \$22,849 should be included in revenues. Therefore, this income should be included above the line for the test year to match the revenues received with the expense incurred.

Accounts 52210, 52211 and 52212 - Residential and Commercial Sewers

These accounts represent the income generated from customers based on measured use. The Utility's filing increases the \$1,420,789 (\$277,113+\$338,802+\$804,874) in these accounts by \$14,070 to \$1,493,377 to adjust and annualize the test year revenues based on a revenue analysis that was provided in Schedule E-2 of the filing. The Utility has filed two revised Schedule E-2's subsequent to the original filing but has not change the requested adjustment on Schedule B-2 of the filing. We obtained the Utility's billing registers and performed our own analysis of the Utility's requested revenue adjustment. Based on our analysis using consumption information from the billing registers and the billing determinants authorized in the Utility's tariff we have determined that test year revenues should be reduced by \$15,804. The primary factor in our adjustment is that we discovered that the Utility was billing one metered and one bulk account using incorrect tariff rates. The remaining difference was due to minor consumption discrepancies. The differences are illustrated below.

Customer Account	Number of Bills	Tariff Used			Annual Total	
		Per Audit	Per Utility		Per Audit	Per Utility
8" GS Meter	12	\$1,602	\$2,048	a	\$19,224	\$24,577
Safe Harbor Marina Bulk	12	\$917	\$1,665	b	\$11,005	\$19,980
Total Charge per Audit					\$30,230	\$44,558
Difference						(\$14,328)
Other minor differences						(\$1,477)
Total Audit Adjustment						(\$15,804)
a - The Utility used the tariff for an 8" Turbo meter.						
b - The Utility used an unauthorized rate.						

Account 54120 – Effluent Sales

This account reflects the income generated from the sale of treated effluent to two Utility customers. The tariff is a flat rate of \$0.68 per thousand gallons delivered. We calculate Re-Use Revenues of \$50,400, based on 74,117,760 gallons of effluent reported as sold in the Utility’s billing registers. Based on our calculation we believe that the Utility’s effluent sales are understated by \$2,602 (\$50,400-\$47,798).

Based on the audit adjustments described above we believe that the Utility’s Revenues should be increased by \$34,677, for the test year ended December 31, 2014.

Acct. No.	Description	Per Utility	Adjustment	Per Audit
52210	Measured - Residential	\$615,915	\$4,055	\$619,970
52220	Measured - Commercial	\$804,874	(\$19,859)	\$785,015
54120	Measured Re-Use Revenues	\$47,798	\$2,602	\$50,400
	Total Measured Income	\$1,468,587	(\$13,202)	\$1,455,385
41900	Non-Utility Income	\$0	\$0	\$0
42110	MCDC Income	\$0	\$19,550	\$19,550
42120	Water Testing	\$0	\$19,550	\$19,500
42600	Miscellaneous Income	\$0	\$22,849	\$22,849
53400	Rents from Sewer Property	\$2,100	\$0	\$2,100
53610	Connect/Disconnect	\$3,450	\$0	\$3,450
53640	New Connection Administration	\$5,170	\$0	\$5,170
	Total Other Income	\$10,720	\$61,949	\$72,619
	Total Income	\$1,479,307	\$48,747	\$1,528,004
	Utility Adjustment in the Filing	\$14,070	(\$14,070)	\$0
	Total Adjusted Income	\$1,493,377	\$34,677	\$1,528,004
<i>The Utility adjustment of \$14,070 in the filing was removed because it is not needed in our calculation.</i>				

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

Effect on the Filing: Revenues should be increased by \$34,677, for the test year ended December 31, 2014.

Finding 10: Operations and Maintenance Expense

Audit Analysis: The Utility's filing reflects Operating and Maintenance Expenses (O&M) of \$2,039,714 on Schedule B-6. Included in that amount are the following accounts and amounts.

Acct. No.	Description	Per Utility	Adjustment	Per Audit
72000	Materials and Supplies	\$43,945	(\$217)	\$43,728
73300	Contractual Services - Legal	\$2,328	(\$829)	\$1,500
73600	Contractual Services - Other	\$65,455	(\$296)	\$65,159
75000	Transportation Expenses	\$24,109	(\$1,081)	\$23,028
76000	Advertising Expense	\$1,200	(\$250)	\$950
77500	Miscellaneous Expenses	\$167,675	(\$1,839)	\$165,836

We have decreased O&M Expense by \$4,512 based on the following information.

Account 72000 – Materials and Supplies

On May 7, 2014, the Utility booked a duplicate expense totaling \$293 for the balance owed on an invoice for purchased lift station and vehicle logo signs. The expense was allocated to this account for \$217 and to Account 7500 for \$76. The Utility paid the invoice on May 8, 2014, by check and subsequently voided the duplicated check. However, they did not reverse the accrual entry for \$217. This account should be reduced by \$217 to remove the accrual.

Account 7330 – Contractual Services – Legal

This represents two invoices totaling \$829 for legal fees incurred for a dispute with the Monroe County Detention Center. These costs were recovered when a settlement was reached during the test year. See Finding 15 for more information. This account should be reduced by \$829 to remove the recovered legal fees.

Account 7360 – Contractual Services – Other

On July 8, 2014, the utility remitted to the Florida Department of Revenue \$296 for sales tax owed on several Blaylock Oil Co. invoices. The invoices in question are not recorded in the test year. Therefore, the sales tax paid should not be included in the test year because they are considered out of period. This account should be reduced by \$296.

Account 7500 – Transportation Expense

The Utility recorded a Chevron Gas invoice totaling \$1,005 to two separate vendor accounts within this expense account. The Utility confirmed that one of the entries was an error and stated that the entry was corrected in 2015. This account should be reduced by \$1,081 (\$1,005+\$76) for the duplicate entries discussed here and in Account 7200 above.

Account 7600 - Advertising Expense

On August 11, 2014, the Utility contributed \$250 for Team Sponsorship. Charitable contributions such as this are considered non-utility expense per Rule 25-30.433 (6), Rate Case Proceedings, F.A.C. This account should be reduced by \$250.

Account 7750 – Miscellaneous Expenses

The Utility included thirteen invoices each, for the Waste Management disposal fees and Sprint telephone services. The extra invoices were bills for December 2013 that were paid in January 2014. The invoices were for \$147 Waste Management and \$401 for Sprint, respectively.

The Utility included Rotary Club of Key West membership dues of \$1,291 for the Utility's president. Order No. PSC-97-0847-FOF-WS, issued December 15, 1997, determined that social club dues, such as these, are non-utility in nature and not recoverable.

This account should be reduced by \$1,839. (\$147+ \$401+\$1,291)

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

Effect on the Filing: O&M Expenses should be reduced by \$4,512, for the test year ended, December 31, 2014.

Finding 11: Test Year Adjustments to O&M Expense

Audit Analysis: The Utility has included the following adjustments in Schedule B-3 of the filing.

- Contractual Services Engineer - \$2,805
- Contractual Services Accounting - \$1,862
- Contractual Services Legal - \$1,609
- Outside Services – Other - \$8,488
- Adjustment to Amortize Other Deferred Expenses - \$11,678

Contractual Services Engineer

The invoice was for costs incurred in 2014 to compile and restate the Utility's books and Annual Reports for the period 2007 through 2012. Therefore, we have removed and reclassified \$2,805 to a deferred asset account for accounting fees.

Contractual Services Accounting

The invoice was for costs incurred in 2014 to compile and restate the Utility's books and Annual Reports for the period 2007 through 2012. Therefore, we have removed and reclassified \$1,862 to a deferred asset account for accounting fees.

Contractual Service Legal

The Utility could not provide any documentation to support the legal fees of \$1,609. Therefore they should be removed.

Outside Services – Other

The invoice was for costs incurred to prepare the Utility's Annual Report. We concur that it should be included in test year O&M expense.

Adjustment to Amortize Other Deferred Expenses

The adjustment includes costs the Utility incurred in 2014 to compile and restate the Utility's books and Annual Reports for the period 2007 through 2012. Finding 6 provides additional information on this issue.

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

Effect on the Filing: The test year adjustment to O&M Expense by the Utility should be reduced by \$6,276 (\$2,805+\$1,862+\$1,609), for the test year ended December 31, 2014.

The adjustment of \$11,678 to amortize the deferred accounting fees, as well as the two other amounts we have deferred above, are addressed in Finding 6.

Finding 12: Proforma Adjustments to O&M Expense

Audit Analysis: The Utility has included the following proforma adjustments in Schedule B-3 of the filing.

Acc. No.	Description	Amount
70100	Salary and Wages	\$155,996
70400	Employee Benefits	\$42,762
71100	Sludge Disposal	\$109,334
71500	Purchased Power	\$42,900
71800	Chemicals	\$224,741
72000	Materials and Supplies	\$60
73400	Contractual Services - Engineer	\$4,730
73500	Contractual Services - Testing	\$20,673
73600	Contractual Services - Other	\$28,557
75700	Insurance - General Liability	\$2,752
75800	Work Comp Insurance	\$25,555
76000	Advertising	(\$1,564)
77500	Miscellaneous Expense	\$9,638
Total		\$666,134

The Utility explained that these estimates are based on reviews conducted in previous years. We received some documentation for the estimates for the Salary and Wages, Sludge Disposal, Purchased Power and Chemicals. No documentation was received for the remaining items. We believe the Commission Staff Engineer should review the above proforma adjustments.

Effect on the General Ledger: None

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

Finding 13: Contractual Service – Management Fee

Audit Analysis: The Utility has included \$60,000 in Account 73400 – Contractual Services Management Fee. This represents a management fee from Green Fairways, Inc.

The Utility explained that Mr. William L. Smith, President of Green Fairways, Inc. does not keep time records and that he spends approximately twenty-five percent of his time on Utility matters. His duties include supervision of company officers, financial planning, reviewing the treatment of customers, employees and vendors. Also included in his responsibilities are reviewing the overall wastewater operations, planning for the expansion and dealing with PSC rate and complaint matters.

The same fee was requested in the last rate case proceeding and was reduced by \$30,000 by Order No. PSC-09-0057-PAA-SU. The Utility explained that the increased cost from the \$30,000 is significantly below the benchmark when compared to the increase in number of customers and inflation.

Effect on the General Ledger: None

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

Finding 14: Taxes Other Than Income

Audit Analysis: The Utility's filing reflects that following Taxes Other Than Income Expense (TOTI) on Schedule B-15.

Acct. No.	Description	Amount	Adjustments	Adj. Amount
40810	Regulatory Assessment Fees	\$68,242	\$633	\$68,875
40811	Property Taxes	\$14,217	\$36,087	\$50,304
40813	Other Taxes	\$737	\$0	\$737
70181	Payroll Taxes	\$49,411	\$13,526	\$62,937
	Total	\$132,607	\$50,246	\$182,853

Account 40810 – Regulatory Assessment Fees (RAF)

The \$68,242 represents the sum of monthly accrued RAF's posted to the general ledger in 2014. The \$633 adjustment is a true-up of the RAF amount to the 2014 test year revenues reported in the filing and reconciles with the Utility's actual RAF payment to the Commission. The Utility's RAF payment to the Commission was based on the following revenue amounts in comparison with the filing.

Acct. No.	Description	Utility Revenues	
		For RAF	For Filing
41900	Non-Utility Income	\$0	\$0
42100	MCDC Income	\$0	\$0
42120	Water Testing	\$19,500	\$0
42600	Miscellaneous Income	\$22,849	\$0
52210	Residential Sewer-Use	\$277,113	\$277,113
52211	Residential Sewer-Base	\$338,802	\$338,802
52220	Commercial Sewer	\$804,874	\$804,874
53400	Trailer Rental	\$2,100	\$2,100
53610	Connection/Disconnection	\$3,450	\$3,450
53640	New Connection Administration	\$0	\$5,170
54120	Effluent Sales	\$47,798	\$47,798
	Total	\$1,516,486	\$1,479,307
	Utility Adjustment in the Filing	\$0	\$14,070
	Adjusted Total	\$1,516,486	\$1,493,377
	RAF's at 4.05%	\$68,242	

In Finding 9, we increased test year revenues by \$34,627 to \$1,528,004. The corresponding RAF's due on this revenue amount is \$68,760 (\$1,528,004x4.50%).

No exceptions were found with the other TOTI accounts in our review.

The TOTI amount of \$182,853 reported in the filing should be reduced by \$115, for the test year ended December 31, 2015.

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

Effect on the Filing: Taxes Other Than Income Expense should be reduced \$115, for the test year ended December 31, 2015.

Based on our calculations, the Utility owes an additional RAF amount to the Commission of \$518, which represents the difference between reported revenues on its RAF filing and the actual revenues determined in Finding 9. $((\$1,528,004 - \$1,516,486) \times 4.50\%)$

Finding 15: Monroe County – Proceeds Received From Settlement of Dispute

Audit Analysis: On April 17, 2013 the Utility filed a complaint against Monroe County, Florida, with the Commission over the collection of excess capacity reservation fees as provided in the Parties' Utility Agreement executed on August 16, 2001. Docket No. 130086-SU was opened on April 18, 2013 to adjudicate the matter.

On December 13, 2013, an executed settlement agreement to resolve all of the outstanding issues was executed by the Parties. The agreement was entered into the docket record on February 17, 2014, with the Utility's voluntary withdrawal of its initial complaint. Order No. PSC-14-0150-FOF-SU, issued April 3, 2014, acknowledged the voluntary dismissal of the Utility's complaint with prejudice and closed the docket.

The Utility received \$500,000 in compensation and in exchange the Parties agreed that all outstanding issues pertaining to the complaint were resolved.

The Utility posted the \$500,000 of funds received to the following accounts.

Acct. No.	Description	Amount
14200	Acct. Receivable Other	\$43,415
27110	CIAC	\$367,740
41900	Non-Utility Income	\$88,845
	Total	\$500,000

Account 14200 - Account Receivable Other

The Accounts Receivable Other amount was described by the Utility as an offset to recognize prior unbilled wastewater service provided to the Monroe County Detention Center (MCDC). The Utility contacted the Florida Keys Aqueduct Authority (FFAA), the potable water provider for the Utility's customers, in April 2009 concerning questionable water consumption history for MCDC. The Utility believed that FKAA was providing inaccurate readings and that the MCDC was using more water than what was being reported. The Utility continued to periodically contact FKAA concerning the water readings and was told that they were correct. In November 2011 FKAA concurred that there was an issue with the water consumption readings due to an employee's incorrect interpretation of the consumption readings. This resulted in under billings for the period April 2009 through April 2011. The issue was considered resolved as of June 14, 2011.

The estimated unpaid sewer usage totaled \$43,415. We do not believe that this is appropriate accounting treatment for the compensation received in an unrelated incident. The perceived income that the Utility would have received was for prior periods. Additionally, the income was never recorded as receivable in the general ledger. Therefore, there is no balance in a receivable account to offset when recorded.

NARUC USOA, Income Accounts, Account 433 – Extraordinary Income, states, upon approval of the regulatory authority this account shall be credited with non-typical, non-customary, infrequently recurring gains, which would significantly distort the current years income computed before extraordinary items.

We believe that the \$43,415 should be considered as extra ordinary revenue and reclassified from Account 1420 to Account 4330 per our discussions above. Additionally, the \$43,415 should also be considered as a regulatory revenue recovery and be subject to regulatory assessment fees (RAF). The amount of RAF owed the Commission would be \$1,954 ($\$43,415 \times 4.50\%$).

Account 27110 - CIAC

The CIAC amount of \$367,740 was derived by multiplying the estimated outstanding Equivalent Dwelling Units (EDU) of 136.2, times the authorized capacity reservation tariff of \$2,700. We traced this amount to the CIAC account in this proceeding with no exception noted.

Account 41900 – Non-Utility Income

The Utility explained that the \$88,845 posted to Account 4190 represents \$76,463 of legal fees incurred for the dispute and \$12,382 of monies withheld from the South Stock Island Capacity Reservation and Infrastructure Contract (CRI), an ancillary issue within the dispute. The Utility believes that \$88,845 should be used to offset the costs that it incurred to pursue this matter. We agree that the legal fees incurred for the dispute should be offset by the compensation.

The Utility provided two schedules of legal expenses totaling \$76,463. We obtained and reconciled each invoice on the schedule to the respective years' general ledger. The first invoice was recorded in January 2004 and the last invoice was recorded in March 2014. We found that \$829 of the legal expenses is recorded in the test year 2014. Finding 10 removes these legal fees from test year O&M expense since they are being offset by proceeds received in the settlement,

The Utility's initial complaint over the CRI Contract as part of the overall dispute exceeds the \$12,382 included as non-utility income. The amount recorded represents the remaining portion of the \$500,000 settlement after accounting for the known CIAC, unpaid sewer usage and the legal expense invoices. Therefore, there was no documentation to support this amount.

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

Effect on the Filing: The effect of reclassifying of \$43,415 from Account 1420 is discussed in Finding 7.

Additionally, the Utility should be required to remit RAF's of \$1,954 ($\$43,415 \times 4.50\%$) to the Commission for the prior period revenues recovered.

Finding 16: Wastewater Treatment Plant Permit Modification Fees

Audit Analysis: On April 1, 2014 the Utility filed an application with the Florida Department of Environmental Protection (FDEP) for authorization to substantially modify the operation of its wastewater treatment plant by increasing wastewater flows from 0.499 million gallons per day (MPG) to 0.849 MGP. The existing permit was issued on February 20, 2012, with an expiration date of February 19, 2017. The modification is a necessary component of Utility's project to expand the wastewater treatment plant to comply with the requirements for advanced wastewater treatment (AWT) mandated by FDEP for the Florida Keys.

The FDEP issued the "Notice of Intent" to issue the modified permit on June 23, 2014. FDEP's action was appealed by third-party respondents on August 5, 2014. Litigation between the Utility, FDEP and the respondents ensued. The case went before an Administrative Law Judge in the summer of 2015 and the parties are awaiting the final ruling.

The Utility's filing includes a proforma average adjustment of \$467,625 on Schedule A-17 as Miscellaneous Deferred Debits for the estimated costs to modify its wastewater permit in conjunction with the wastewater plant expansion with a year end estimate of \$519,593.

The Utility provided a schedule with supporting documents for \$477,436 of legal and FDEP permit fees associated with the permit modification.

Finding 1 reclassified \$30,090 of permit fees that were recorded to UPIS in 2014. We determined that these costs are included in the \$477,436 above.

Based on the information provided, we recommend reducing the balance for the permit fees by \$42,157 (\$519,593-\$477,436) to the supported actual cost of \$477,436.

The Utility's filing includes an adjustment of \$103,887 to Operating & Maintenance Expense that amortizes the \$519,593 over five years which is consistent with Rule 25-30.433 (8), F.A.C.

Typically, the Commission amortizes costs such as these over the life of the permit. The existing wastewater permit, though modified, expires on February 19, 2017. This would require a shorter amortization period than the five years used by the Utility. If the cost were amortized over the remaining two years of the existing permit, an adjustment of \$238,718 would be required for the instant proceeding.

We recommend that the existing five year period be maintained and that the unamortized balance for these costs be rolled into the future cost the Utility will incur to renew the existing permit in 2017. Then those costs should be amortized over the life of the new permit.

Effect on the General Ledger: None

Effect on the Filing: Reduce the deferred asset account for permit fees by \$42,157 to actual costs incurred to date.

Finding 17: Advance Waste Treatment (AWT) Project

Audit Analysis: The AWT was a project that upgraded and renovated the Utility's wastewater plant to advanced treatment standards as required by the Florida Department of Environmental Protection. The AWT project commenced in 2006 and it was completed in 2007. The Utility included \$606,580 in rate base and \$1,139,707 of proforma cost as a rate base addition in the last rate case proceeding, in Docket No. 070293-SU. Order No. PSC-09-0057-FOF-SU reduced the proforma amount by \$124,921. The total AWT cost included in setting rates was \$1,621,366 for the test year ended December 31, 2006.

We reviewed the Utility's 2006 and 2007 general ledgers and determined that the final cost of the AWT project that was recorded to UPIS was \$2,591,652, based on two journal entries that closed out the Construction Work in Progress account to various plant accounts on March 28, 2007 and March 6, 2009.

In Finding 1, we disclosed that the Utility initiated a detailed review of its rate base accounts for years 2005 through 2009. The Utility prepared schedules that analyzed and restated its UPIS balances in a restatement schedule (RSS) for years 2006 through 2009 based on that review. The UPIS activity presented in the RSS for years 2007 through 2009 reflect the Utility's restated balances which differ from the Utility's historical general ledgers.

We performed an analysis of the AWT project transactions between the information recorded in the historical general ledger and the transactions included in the RSS. Our analysis indicates that the RSS captures \$2,466,982 of the historical general ledger balance or approximately 95 percent of the AWT cost originally recorded.

Adjustments in Finding 1 remove two unsupported amounts of \$80,000 in 2007 and \$362,114 in 2008 that total \$442,114. They are for engineering fees paid to Weiler Engineering. As of the date of this report the Utility has been unable to provide any documentation to support either amount. We assume the engineering fees are for the AWT project. However, the historical general ledger transaction analysis only reflects \$11,868 of fees paid to Weiler Engineering.

Finding 6 of staff's auditor's report, filed October 29, 2007, in Docket No. 070293-SU, provided information concerning plant retirements when the AWT project is completed. As part of the project a new expansion chamber and clarifying unit was installed, this required the demolition or removal of the drying beds and sludge thickening unit. The information states that the Utility planned to include a retirement adjustment when the AWT project was completed. Our review of the RSS schedule through 2009 and the 2010 through 2014 general ledgers indicates that no retirement was ever recorded.

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: K W Resort Utilities Corp
 Docket No.: 150071-SU
 Schedule Year Ended: 12/31/2014
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-2
 Page 1 of 1
 Preparer: Millian, 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	\$ 11,925,704	\$ 3,574,468 (A)	\$ 15,500,172	A-3, A-6
2					
3	Utility Land & Land Rights	375,923		375,923	A-3, A-6
4					
5	Less: Non-Used & Useful Plant	-		-	A-7
6					
7	Construction Work in Progress	-		-	A-3
8					
9	Less: Accumulated Depreciation	(5,828,761)	(200,666) (B)	(6,029,427)	A-3, A-10
10					
11	Less: CIAC	(9,946,997)		(9,946,997)	A-3, A-12
12					
13	Accumulated Amortization of CIAC	3,096,094		3,096,094	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	-	1,367,232 (C)	1,367,232	A-3, A-17
22					
23	Total Rate Base	\$ (378,037)	\$ 4,741,034	\$ 4,362,997	

Exhibit 2: Capital Structure

Schedule of Requested Cost of Capital
13 Month Average Balance

Florida Public Service Commission

Company: K W Resort Utilities Corp
Docket No.: 150071-SU
Test Year Ended: 12/31/2014
Interim Final
Historical Projected

Schedule D-1
Page 1 of 1

Preparer: Millian, 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.

Line No.	(1) Class of Capital	(2) Reconciled to Requested Rate Base AYE 12/31/14	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long Term Debt	\$ 1,172,469	26.87%	5.37%	1.44%
2	Short Term Debt				
3	Preferred Stock				
4	Common Equity	3,027,556	69.39%	9.36%	6.50%
5	Customer Deposits	162,972	3.74%	2.00%	0.07%
6	Tax Credits - Zero Cost				
7	Tax Credits - Weighted Cost				
8	Accumulated Deferred Income Tax				
9	Other (Explain)				
10					
11	Total	<u>\$ 4,362,997</u>	<u>100.00%</u>		<u>8.01%</u>

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

Exhibit 3: Net Operating Income

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: K W Resort Utilities Corp
 Docket No.: 150071-SU
 Test Year Ended: 12/31/2014
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: Millan, 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	\$ 1,479,307	\$ 14,070 (A)	\$ 1,493,377	\$ 1,438,382 (A)	\$ 2,931,759	B-4, B-3
2							
3	Operation & Maintenance	1,199,672	840,042 (B)	2,039,714		2,039,714	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	95,996	200,666 (C)	296,662		296,662	B-14, B-3
6							
7	Amortization			-		-	
8							
9	Taxes Other Than Income	132,607	50,246 (D)	182,853	63,054 (D)	245,907	B-15, B-3
10							
11	Provision for Income Taxes			-		-	C-1, B-3
12							
13	OPERATING EXPENSES	1,428,275	1,090,954	2,519,229	63,054	2,582,283	
14							
15	NET OPERATING INCOME	\$ 51,032	\$ (1,076,884)	\$ (1,025,852)	\$ 1,375,328	\$ 349,476	
16							
17							
18	RATE BASE	\$ (378,037)	\$ 4,741,034	\$ 4,362,997		\$ 4,362,997	
19							
20							
21	RATE OF RETURN		%	--	%	8.01%	