

State of Florida




Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 1, 2022

TO: Office of the Commission Clerk

FROM: Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20220066-WS
Company Name: Sunny Hills Utility Company
Company Code: WS966
Audit Purpose: A1f: File & Suspend Rate Case (PAA)
Audit Control No.: 2022-110-1-1

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 the Commission Clerk. There are no confidential work papers associated with this audit.

TMB/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

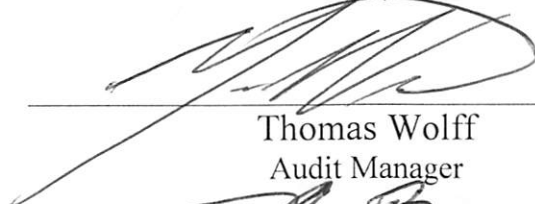
Auditor's Report

Sunny Hills Utility Company
Rate Case Audit


Twelve Months Ended December 31, 2021

Docket No. 20220066-WS
Audit Control No. 2022-110-1-1

June 24, 2022



Thomas Wolff
Audit Manager



Hymavathi Vedula
Audit Staff



Marisa N. Glover
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 April 19, 2022. We have applied these procedures to the attached schedules prepared by Sunny Hills Utility Company in support of its filing for rate relief in Docket No. 20220066-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Sunny Hills Utility Company (SHUC).

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Background

Sunny Hills Utility Company (Sunny Hills or Utility) is a Class B water utility serving approximately 585 residential customers and 18 general service customers in Washington County. The test year for final rates is the historical period ended December 31, 2021. Rates were last established by Order No. PSC-2012-0102-FOF-WS, issued March 5, 2012, in Docket No. 20100330-WS, when Sunny Hills was owned by Aqua Utilities Florida, Inc.

According to Aqua's 2012 Annual Report, on June 24, 2013, Sunny Hills Utility Company filed an application for the transfer of Certificate Nos. 501-W and 435-S on behalf of Aqua Utilities Florida, Inc (Aqua) in Washington County. The transfer was approved by Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014, in Docket No. 20130172-WS. The service area is located in the Northwest Florida Water Management District, and is not in a water use caution area.

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 NARUC USOA, 3) Retirements are made when a replacement item is put into service, 4) Adjustments required in the Utility's last rate case proceeding are recorded in its books and records, and 5) Where plant additions are allocated from the corporate offices, the basis of the allocation is reviewed.

Procedures: We reconciled the UPIS accounts to the general ledger and the Utility's MFR Filings. We reconciled the beginning balances, including ordered adjustments, in the general ledger to Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014. We verified that Commission-ordered adjustments were posted to the general ledger, and determined they were recorded correctly. We scheduled additions and retirements from March 28, 2013, to December 31, 2021, to determine the UPIS balance as of December 31, 2021. We verified that additions were recorded at original cost and the retirements were properly recorded and posted. The Utility was unable to provide all of the supporting documentation for 2013 and 2014 additions. We

requested support for the Utility's adjustments and traced them to the MFR Filing. The Utility performed an adjustment in the amount of \$272,042 in 2016. The Utility capped mains that were not in use and moved this amount from Account 331 – Transmission and Distribution Mains to Account 103 – Plant Held for Future Use. Audit staff determined, based off the Utility's response, these capped mains have been abandoned. We removed this adjustment from Account 103 and moved it to Account 331 to retire \$272,042. Finding 1 discusses 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 land presented in the MFR filing to the general ledger. We reconciled the beginning balance, including ordered adjustments, in the general ledger to Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014. We verified whether the Utility included the Commission-ordered adjustments, and determined that there were no adjustments to land. We searched the property records of the Washington County Clerk's Office for Utility related activity. We determined that there have been no changes to land since March 28, 2013. No exceptions were noted.

Contributions-in-Aid-of-Construction

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

Procedures: We reconciled contributions-in-aid-of-construction (CIAC) accounts in the MFR filings to the general ledger. We reconciled the beginning balances, including ordered adjustments, in the general ledger to Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014. We scheduled Utility additions and retirements from March 28, 2013, to December 31, 2021, to determine the CIAC balance as of December 31, 2021. We verified the Utility's supporting documentation and traced the rates to the service availability charges in the Utility's 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 retirements are properly recorded, and 3) Adjustments required in the Utility's last rate case proceeding are recorded in its books and records.

Procedures: We reconciled the accumulated depreciation accounts presented in the filing to the general ledger. We reconciled the beginning balances, including Commission-ordered adjustments, in the general ledger to Order No. No. PSC-2014-0315-PAA-WS, issued June 13, 2014. We scheduled the Utility's additions and retirements from March 28, 2013, to December 31, 2021, to determine the accumulated depreciation balance as of December 31, 2021. We

calculated accumulated depreciation accruals using the rates authorized in Rule 25-30.140, F.A.C., – Depreciation, and compared our balance to the general ledger, and MFR filing. We determined the Utility used the authorized depreciation rates. We requested support for the Utility’s adjustments and traced them to the MFR Filing. The Utility was unable to provide supporting documentation for additions from 2013 and 2014. The Utility performed an adjustment in the amount of \$127,448 in 2016. This adjustment was for capped mains that were not in use, and the Utility moved \$127,448 from Account 331 – Transmission and Distribution Mains to Account 103 – Plant Held for Future Use. Audit staff determined, based off the Utility’s response, these capped mains have been abandoned. We removed this adjustment from Account 103 and moved it to Account 331 to retire \$272,042. Finding 1 discusses accumulated depreciation.

Accumulated Amortization of CIAC

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

Procedures: We reconciled the accumulated amortization of CIAC presented in the Utility’s filing to the general ledger. We reconciled beginning balances, including ordered adjustments, in the general ledger to Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014. We scheduled Utility additions and retirements from March 28, 2013, to December 31, 2021, using a composite rate of 0.02715, to determine the accumulated amortization balance as of December 31, 2021. We calculated the composite rate using audited balances from accumulated depreciation and divided it by the total audited UPIS balance. We calculated our composite rate on an annual basis and the Utility calculates the rate on a monthly basis. Audit staff calculated accumulated amortization of CIAC to be \$342,387, as of December 31, 2021. The Utility’s balance per the filing was \$345,550. We determined the variance of \$3,163 from the audited accumulated amortization of CIAC balances and the MFR balances on Schedule A-13 to be immaterial. No further work was performed.

Working Capital

Objectives: The objectives are to determine whether the Utility’s working capital balance is properly calculated in compliance with Commission rules, and to determine whether the working capital adjustments in the filings are based on the correct affiliate companies’ ledger balances using the correct allocation factors.

Procedures: We determined working capital by taking 1/8th of the O&M expense and reconciled it to the general ledger. Audit staff calculated the working capital allowance to be \$37,246, and the Utility recorded working capital to be \$37,282, as of December 31, 2021. Audit staff determined the \$36 variance to be immaterial. No further work was performed.

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, are

properly recorded in compliance with Commission rules and that the capital structure accurately represents ongoing Utility operations.

Procedures: Audit staff reconciled the components of the Utility's capital structure presented in the MFR filing to the general ledger. We obtained a reconciliation of the adjustments to the capital structure and traced these to the MFRs and the general ledger. Audit staff agreed the equity components to the audited financial statements. No material effect was noted on the weighted cost of capital in the MFR filings, except that the Utility is using 8.74% cost rate instead of 7.85%. No further work performed.

Customer Deposits

Objectives: The objectives were to determine whether: 1) The Utility is collecting and accounting for customer deposits authorized in its Commission-approved tariff for the test year ended December 31, 2021, and 2) The Utility is calculating and remitting interest on customer deposits per Commission Rule 25-30.311, F.A.C.

Procedures: We reviewed the Utility's MFR D-2 and D-7 schedules and reconciled deposits received and refunded, including accrued interest, to the general ledger. We reviewed the Utility's customer deposits, and noted the Utility is using the approved Commission tariff rates. We also reviewed prior audit reports for all systems to determine if there were any findings associated with customer deposits. We determined there were none and therefore did not pull a sample to test customer deposits. We determined that the MFR filings are representative of the Utility's books and records. No further work was performed.

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 water, and 2) Revenue earned from Utility property during the test year was recorded and properly classified in compliance with Commission rules and the NARUC USOA.

Procedures: We reconciled the water revenue accounts presented in the MFR filing to the general ledger and to the 2021 Annual Report. We reviewed the Utility's authorized tariff rates for residential customers, general service customers, service availability charges, miscellaneous service charges, and private fire protection service. We recalculated the Utility's E-2 MFR Schedule to determine if the Utility is using the correct rates, before and after the rate change on July 6, 2021. We recalculated the revenues for the twelve months ended December 31, 2021, based on the correct tariffs, on the correct dates. We also annualized the revenues to reflect the amount the Utility would have received using the most current Commission-approved tariff rates. We determined that the Utility's filing and the revenues in its general ledger reflect the correct tariff rates.

We audited the billing analysis for each service class by meter size, and reconciled to the MFR E-14 schedule. We scheduled all customers who were billed or served by the Utility in 2021 by class and meter size. We included the December 2021 billing analysis in the audit working papers to satisfy the Audit Service Request Item No. 10.

After performing the audit steps above, we found that historic test year revenues were overstated by \$1,958, and annualized test year revenues were understated by \$19,742 (see WP 42-2.2 for calculation of annualized revenues). The Utility had a tariff rate increase, effective July 6, 2021, for their residential service, general service, and miscellaneous service charges. We annualized the Utility's revenues to calculate their revenues at the most recent, approved tariff rate. Test year revenues were overstated due to two factors: 1) audit staff removing \$824.05 from Guaranteed Revenues associated with wastewater, and 2) audit staff determining the number of residential customers billed to be 6,979, while the MFR E-2 Schedule shows 7,025 customers billed. Annualized test year revenues were understated on the utility's MFR E-2 Schedule. This is due to the Utility understating residential and general service revenues by \$20,239 and \$325, respectively, and by overstating guaranteed revenues by \$824 ($\$20,239 + \$325 - \$824 = \$19,740$). We determined the variance of \$1,958 in the audited test year revenues and the revenues reported on the MFR, on Schedule A-13, to be less than 1%, and is immaterial. No further work was performed.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether direct and allocated operation and maintenance (O&M) expenses were properly recorded in compliance with Commission rules and the NARUC USOA, and were reasonable and prudent for ongoing Utility operations.

Procedures: We reconciled O&M expense accounts presented in the Utility's MFR filing to the general ledger. We reviewed the adjustments made on the Utility's MFR B-5 and B-6 schedules and traced them to supporting documentation. We took the supporting documentation for the expenses and tested them for proper timing, amount, classification, and whether they were non-Utility related, non-recurring, unreasonable, or imprudent.

We noted adjustments for Account 657 – Insurance – General Liability and Account 670 – Bad Debt Expense, in the amounts of \$1,390 and \$342, respectively. The adjustment for Insurance – General Liability is due to the policy being for both water and wastewater systems of the Utility. We took the total policy amount of \$3,070, and divided it in half to reach the audited amount of \$1,535. The Utility records the insurance policy monthly by taking the total amount for the policy and dividing it by twelve. We noted that the insurance policy runs from October 1st through September 30th of each year. This causes the amounts in the final three months of the year to be a different amount than the previous nine months. If the amounts for the new policy are annualized by audit staff, we would calculate the amount that the Utility stated in their general ledger. The adjustment for Bad Debt Expense is related to the delay between when the Utility sends an account to the collection agency and the agency assumes the debt and allows the Utility to remove it from their records. We determined a variance of \$288 in the audited O&M expenses and the MFR balance on Schedule B-5 to be less than 1% and is immaterial. No further work was performed.

Depreciation and Amortization

Objectives: The objectives were to determine whether depreciation for both direct and allocated UPIS are properly recorded in compliance with Commission rules, and it accurately represents the depreciation of UPIS assets and the amortization of the Utility CIAC assets for ongoing Utility operations.

Procedures: We reconciled depreciation and amortization expense accounts presented in the Utility's MFR filing to the general ledger. We compiled a schedule of the Utility's UPIS balance by approved NARUC USOA, and the CIAC balance, according to NARUC. The schedules included beginning balances per Order No. PSC-2014-0315-PAA-WS, issued June 13, 2014. We recalculated depreciation expense based on the methodology for calculating annual accumulated depreciation accruals, the service lives used to determine the accrual multiplier, using the methodology accounting for retirements and adjustments as per Rule 25-30.140, F.A.C., – Depreciation, and reconciled to MFR Schedule B-13 and the general ledger. We recalculated amortization expense using an annual composite rate of 0.02715, by dividing the audited depreciation balance and UPIS balance, and reconciled to MFR Schedule A-13 and the general ledger. Audit staff calculated depreciation expense and CIAC amortization expense to be \$83,412 and \$19,344, while the Utility determined the balances to be \$83,036 and \$18,574, respectively, as of December 31, 2021. We determined variances of \$1,146 for depreciation expense and \$770 in the CIAC amortization expense to be less than 1% and is immaterial. No further work was performed.

Taxes Other than Income

Objective: The objective was to determine the appropriate amounts for taxes other than income tax (TOTI) for the test year ended December 31, 2021.

Procedures: We reconciled the components of TOTI expense accounts presented in the Utility's MFR filing to the general ledger. We recalculated regulatory assessment fees based on audited revenues. We traced real estate and tangible property taxes to source documentation, and ensured these taxes included the maximum discount, and are only for Utility property. We determined the real estate taxes for the Utility based on supporting documentation from the Washington County Tax Collector website. Audit staff determined the Utility understated their revenues by \$36. The Utility also improperly recorded two items, one overstated and the other understated, related to Real Estate & Personal Property Taxes creating a variance of \$1,360. The first payment amount was recorded in the general ledger for Property ID #00000000-26-0001-0000 in the amount of \$475.12, when the receipt shows \$472.12. The second payment amount was recorded on Property ID #5593012 in the amount of \$18,899.90, when the receipt shows \$19,155.63. The remaining variance is due to audit staff removing the property taxes for the pro forma plant additions. Finding 2 discusses TOTI.

Other

Analytical Review

Objective: The objective was to perform an analytical review of rate base and Utility expenses to identify unusual trends or amounts.

Procedures: We performed a trend analysis on the Utility's rate base components and O&M expenses for the years 2018 to 2021. All anomalies were reviewed when detailed testing was performed. No exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Utility's general ledger and MFR Schedule A-5, total utility plant in service (UPIS) was \$3,977,331, as of December 31, 2021. The Utility recorded \$10,797 in plant additions during the years of 2013 and 2014, and was only able to provide supporting documentation for \$5,948 in plant additions. Audit staff determined UPIS to be \$3,971,707, as shown in Table 1-1.

In 2016, the Utility performed an adjustment in UPIS for \$272,042. We removed the \$272,042 adjustment from Account 103 – Plant Held for Future Use and retired \$272,042 from Account 331 – Transmission and Distribution Mains. Audit staff removed the \$127,448 accumulated depreciation adjustment from Account 103 – Plant Held for Future Use and retired \$127,448, from Account 331 – Transmission and Distribution Mains. When audit staff asked the Utility for an explanation of those adjustments, the Utility responded as follows:

“Sunny Hills capped and abandoned 39,832 linear feet of water mains. This was primarily to address unaccounted for water issues. These sections of water mains had numerous leaks repaired over a period of time and there were no customers on these mains. To address the lost water and costs of repairs these lines were capped and placed into plant held for future use. To calculate the adjustments, Sunny Hills utilized the amount booked into Account 331 as of August 2016 (\$2,606,567.02) and divided this by the total linear footage of all water mains (381,650 linear feet) to come up with a per linear foot cost of \$6.83. This was then multiplied times the linear footage capped ($39,832 \times \$6.83 = \$272,041.77$). The same was done to the Accumulated Depreciation $\$1,221,140.85 / 39,832 = \3.20 . Then multiplying this times the linear footage capped to come up with \$127,447.83.”

**Table 1-1
UPIS**

Sunny Hills Utility Company Account - Description	Utility Balance 12/31/2021	Audit Adjustments	Audit Balance 12/31/2021	Simple Average
301 Organization	\$ 4,546	\$ (4,140)	\$ 406	\$ 406
302 Franchises	5,112	-	5,112	5,112
304 Structures & Improvements	65,941	(1)	65,940	65,819
305 Collecting & Impounding	-	-	-	-
306 Lake, River & Other	-	-	-	-
307 Wells & Springs	179,494	(1)	179,493	179,493
308 Infiltration Galleries and Tunnels	-	-	-	-
309 Supply Mains	16,135	0	16,135	16,135
310 Power Generation Equip.	187,361	(0)	187,361	185,708
311 Pumping Equip.	188,458	(822)	187,636	187,636
320 Water Treatment Equip.	20,445	(1,482)	18,963	18,963
330 Distribution Reservoirs	546,500	0	546,500	546,500
331 Transmission and Distribution Mains	2,365,227	(127)	2,365,100	2,357,578
333 Services	101,250	0	101,250	96,452
334 Meters and Meter Install.	167,312	948	168,260	166,977
335 Hydrants	58,487	-	58,487	58,487
336 Backflow Prevention Devices	-	-	-	-
339 Other Plant And Misc.	131	0	131	131
340 Office Furniture & Equip.	14,859	-	14,859	14,859
341 Trans. Equip.	-	-	-	-
342 Stores Equip.	194	-	194	194
343 Tools, Shop and Garage Equip.	2,959	-	2,959	2,959
344 Lab Equip	3,187	-	3,187	3,187
345 Power Operated Equip.	663	-	663	663
346 Communication Equip.	11,548	-	11,548	11,548
347 Misc. Equip.	7,851	-	7,851	7,851
348 Other Tangible Plant	29,671	-	29,671	29,671
Total:	\$ 3,977,331	\$ (5,624)	\$ 3,971,707	\$ 3,956,328

303 Land 10,779 - 10,779 10,779

* No Adjustments Made to Land

According to the Utility's general ledger and MFR Schedule A-9, accumulated depreciation was \$2,392,605, as of December 31, 2021. Audit staff calculated accumulated depreciation using the approved rates from Rule 25-30.140, Florida Administrative Code – Depreciation, and the audited plant additions and retirements as of December 31, 2021. Audit staff removed the \$127,448 accumulated depreciation adjustment from Account 103 – Plant Held for Future Use and retired \$127,448 from Account 331 – Transmission and Distribution Mains. We determined accumulated depreciation was \$2,401,521, as of December 31, 2021, as shown in Table 1-2.

Table 1-2

Sunny Hills Utility Company Account - Description	Utility Balance 12/31/2021	Audit Adjustments	Audit Balance 12/31/2021	Simple Average	Audit Balance Depreciation Exp. 12/31/2021
301 Organization	\$ (903)	\$ 827	\$ (76)	\$ (71)	\$ 10
302 Franchises	(4,352)	(12)	(4,364)	(4,300)	128
303 Land	-	-	-	-	-
304 Structures & Improvements	(7,639)	(447)	(8,086)	(7,417)	2,057
305 Collecting & Impounding	-	-	-	-	-
306 Lake, River & Other	-	-	-	-	-
307 Wells & Springs	(90,754)	(114)	(90,868)	(87,877)	5,983
308 Infiltration Galleries and Tunnels	-	-	-	-	-
309 Supply Mains	(6,967)	(77)	(7,044)	(6,813)	461
310 Power Generation Equip.	(185,195)	(2,166)	(187,361)	(184,428)	5,866
311 Pumping Equip.	(188,930)	1,294	(187,636)	(184,773)	5,726
320 Water Treatment Equip.	(6,676)	1,642	(5,034)	(4,603)	862
330 Distribution Reservoirs	(319,136)	(202)	(319,338)	(311,953)	14,770
331 Transmission and Distribution Mains	(1,379,405)	(4,796)	(1,384,201)	(1,359,600)	54,827
333 Services	(67,136)	27	(67,109)	(65,903)	2,411
334 Meters and Meter Install.	(45,563)	(831)	(46,394)	(44,962)	8,349
335 Hydrants	(16,420)	52	(16,368)	(15,718)	1,300
336 Backflow Prevention Devices	-	-	-	-	-
339 Other Plant And Misc.	(14)	371	357	360	5
340 Office Furniture & Equip.	(14,859)	(0)	(14,859)	(14,859)	-
341 Trans. Equip.	(2,515)	(4,552)	(7,067)	(7,067)	-
342 Stores Equip.	(194)	-	(194)	(194)	-
343 Tools, Shop and Garage Equip.	(2,959)	-	(2,959)	(2,959)	-
344 Lab Equip	(3,187)	-	(3,187)	(3,187)	-
345 Power Operated Equip.	(663)	-	(663)	(663)	-
346 Communication Equip.	(11,548)	-	(11,548)	(11,548)	-
347 Misc. Equip.	(7,851)	-	(7,851)	(7,851)	-
348 Other Tangible Plant	(29,739)	68	(29,671)	(29,671)	-
Total:	\$ (2,392,605)	\$ (8,916)	\$ (2,401,521)	\$ (2,356,057)	\$ 102,756

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

Effect on the Filing: Audit staff determined UPIS should be decreased by \$5,624 to include the actual total additions and retirements to UPIS from March 28, 2013, through December 31, 2021. Audit staff determined accumulated depreciation should be increased by \$8,916.

Finding 2: Taxes Other than Income

Audit Analysis: According to the Utility’s MFR B-15 Schedule, taxes other than income (TOTI) were \$37,412, as of December 31, 2021. Audit Staff determined that the TOTI balance should be \$36,088, as shown in Table 2-1.

Table 2-1

Description	Per Utility 12/31/2021	Audit Adjustments	Per Audit 12/31/2021
Regulatory Assessment Fees (RAFs)	\$ 15,835	\$ 36	\$ 15,871
Real Estate & Personal Property Taxes	\$ 21,577	\$ (1,360)	\$ 20,217
Total:	\$ 37,412	\$ (1,324)	\$ 36,088

Based on review of the supporting documentation, we recommend the following adjustments:

- **Regulatory Assessment Fees (RAFs):** Audit staff recalculated the RAFs by taking the audited historical test year revenue balance for residential, general service, miscellaneous service revenues, and guaranteed revenues and multiplying that amount by the regulatory assessment fee, 0.045. Based on that calculation, RAF should be increased by \$36 to reflect a balance of \$15,871.
- **Real Estate & Personal Property Taxes:** Audit staff verified real estate and personal property tax by going to the Washington County tax Collector website and pulling receipts for the payments made by the Utility for the twelve month period ended December 31, 2021. The Utility incorrectly recorded two payment amounts in their general ledger and on their filing. The first payment amount was recorded for Property ID #00000000-26-0001-0000 in the amount of \$475.12, when it should have been \$472.12. The second payment amount was recorded on Property ID #5593012 in the amount of \$18,899.90, when it should have been \$19,155.63. Based on the above, real estate and personal property taxes should be increased by \$253.

The remaining variance is due to audit staff removing the property taxes for the pro forma plant additions.

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

Effect on the Filing: Audit staff determined TOTI should be decreased by \$1,324, as of December 31, 2021.

Exhibits

Exhibit 1: Rate Base

PG 4 Schedule of Water Rate Base

Florida Public Service Commission

Sunny Hills Utility Company
Docket No. 20220066-WS
 Historical Test Year Ending December 31, 2021
 Historical & Pro Forma

Schedule: A-1
 Page: 1 of 1
 Preparer: W T Rendell

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. If method other than formula approach (1/8 O & M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No	Description	(1)	Historical Test Year		(5) Supporting Schedules
		(2) Average Balance Per Books	(3) Adjustments	(4) Adjusted Average Balance	
1	Utility Plant in Service	3,961,954	270,514	4,232,468	A-5
2	Utility Land & Land Rights	10,779	0	10,779	A-5
3	Less: Non-Used & Useful Components	0	(701,782)	(701,782)	A-7, A-5
4	Construction Work in Progress	0	0	0	
5	Less: Accumulated Depreciation	(2,347,823)	106,534	(2,241,289)	A-9
6	Less: CIAC	(725,308)	381,292	(344,015)	A-12
7	Accumulated Amortization of CIAC	336,263	(183,509)	152,754	A-14
8	Acquisition Adjustments	(1,538,571)	0	(1,538,571)	
9	Less: Accum. Amort. of Acq. Adjustments	1,148,084	0	1,148,084	
10	Less: Advances For Construction	0	0	0	A-16
11	Working Capital Allowance	0	37,282	37,282	A-17
12	Total Rate Base	845,377	(89,867)	755,710	

Exhibit 2: Capital Structure

PG 41 Schedule of Requested Cost of Capital
Sunny Hills Utility Company
 Docket No. 20220066-WS
 Historical Test Year Ending December 31, 2021
 Historical Projected

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

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

Line No.	(1) Class of Capital	(2) Reconciled To Test Yr Rate Base	(3) Ratio	(4) Cost Rate	(5) Weighted Cost Rate	(6) Cost	(7) Supporting Schedules
COMPOSITE WATER & SEWER							
1	Long-Term Debt	0	0.00%	0.00%	0.00%		D-2, D-5
2	Short-Term Debt	0	0.00%	0.00%	0.00%		D-2
3	Preferred Stock	0	0.00%	0.00%	0.00%		D-2
4	Common Equity	735,093	97.27%	8.74%	8.50%		D-2
5	Customer Deposits	20,617	2.73%	2.00%	0.05%		D-2
6	Accumulated Deferred Income Taxes	0	0.00%	0.00%	0.00%		D-2
7							
8	Total	<u>755,710</u>	<u>100.00%</u>		<u>8.56%</u>		

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

Exhibit 3: Net Operating Income

PG 24 Schedule of Water Net Operating Income

Florida Public Service Commission

Sunny Hills Utility Company
 Docket No. 20220066-WS
 Historical Test Year Ending December 31, 2021
 Historical & Pro Forma

Schedule: B-1
 Page: 1 of 2
 Preparer: WT Rendell

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Per Books Test Year	(3) Utility Test Year Adjustment	(4) Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedules
1	OPERATING REVENUES	345,265	8,628	351,891	90,740	442,631	B-4, E-2
2	Operation & Maintenance	297,509	749	298,258	1,778	300,036	B-5, B-3
3	Depreciation, net of CIAC Amort., U&U	83,035	(35,560)	47,475	0	47,475	B-13, B-3
4	Amortization Acquisition Adjustment	(54,261)	36,202	(18,059)	0	(18,059)	B-3
5	Amortization Deferred Assets	7,029	0	7,029	0	7,029	
6	Taxes Other Than Income	35,817	1,595	37,411	4,083	41,495	B-15, B-3
7	Provision for Income Taxes	0	0	0	0	0	C-1, B-3
8	OPERATING EXPENSES	369,129	2,988	372,115	5,861	377,976	
9	NET OPERATING INCOME	(23,863)	3,640	(20,223)	84,879	64,656	
10	RATE BASE	845,377	(69,667)	755,710		755,710	A-1
11	RATE OF RETURN	-2.82%		-2.68%		8.56%	