

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: March 17, 2025

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Lynn Deamer, Bureau Chief, Office of Auditing & Performance Analysis 

RE: Docket No.: 20240108-SU
Company Name: K W Resort Utilities Corp.
Company Code: SU336
Audit Purpose: A1f: Rate Case (PAA)
Audit Control No.: 2025-015-1-1

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.

Attachment: Audit Report

Cc: Office of Auditing & Performance Analysis

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing

Auditor's Report

K W Resort Utilities Corp.
Rate Case (PAA)

Twelve Months Ended June 30, 2024

Docket No. 20240108-SU
Audit Control No. 2025-015-1-1
March 17, 2025

A handwritten signature in black ink, appearing to read "K Guan".

Kathryn Guan
Audit Manager

A handwritten signature in blue ink, appearing to read "K. Sai Rashmitha".

Sai Rashmitha Kolli
Audit Staff

A handwritten signature in black ink, appearing to read "Wesley Thurmond".

Wesley Thurmond
Audit Staff

A handwritten signature in black ink, appearing to read "Curt Mouring".

Curt Mouring
Audit Staff

A handwritten signature in black ink, appearing to read "Lynn M. Deamer".

Lynn M. Deamer
Reviewer

Table of Contents

| | |
|---|----|
| Purpose..... | 1 |
| Objectives and Procedures..... | 2 |
| Audit Findings | |
| 1: Working Capital..... | 7 |
| 2: Operations and Maintenance Expense..... | 9 |
| 3: Taxes Other than Income..... | 12 |
| 4: Utility Plant in Service..... | 13 |
| 5: Operating Revenue..... | 14 |
| 6: Accumulated Depreciation & Depreciation Expense..... | 15 |
| Exhibits | |
| 1: Rate Base..... | 17 |
| 2: Capital Structure..... | 18 |
| 3: Net Operating Income..... | 19 |

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 January 14, 2025. We have applied these procedures to the attached schedules prepared by K W Resort Utilities Corp. in support of its filing for rate relief in Docket No. 20240108-SU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility/Company refers to K W Resort Utilities Corp.

Affiliate Company refers to WS Utility Inc.

ERC refers to the Equivalent Residential Connections as defined by Rule 25-30.055, Florida Administrative Code (F.A.C.).

NARUC refers to the National Association of Regulatory Utility Commissioners.

USoA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, F.A.C.

Background

K W Resort Utilities Corp. is a Class A Wastewater Utility located in Monroe County, Florida. The test year established for final rates is the historical test year ended June 30, 2024.

The Company's last rate proceeding was in Docket No. 20170141-SU, with the historical test year ended June 30, 2017. Commission granted an increase in wastewater rates and set rate base with Order No. PSC-2018-0446-FOF-SU, issued on September 4, 2018.

There is an approximate amount of \$335,000 for the preparation of a Collection System Action Plan for pro forma expenses as is required by Rule 62-600.705(2), F.A.C. , and the engineering expense of the permit renewal estimated to be \$40,000.

The Company anticipates including a pro forma capital project, which will be completed and placed into service within 24 months of the proposed test year ended June 30, 2024. The pro forma project consists of the replacement of the South WWTP blowers and an electrical upgrade to the Treatment Plant, both of which are past their useful life. This project is estimated to cost \$2,550,000.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether the 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 NARUS USOA, 3) Retirements are made when replacement item is put into service, 4) UPIS balances are properly stated based on Commission adjustments in the prior rate case and to

determine the 13-month average balance for UPIS as of December 31, 2023, and 5) Where plant additions were allocated from the corporate offices, the basis of the allocation was reviewed.

Procedures: We compiled schedules for UPIS balances from June 30, 2017 to June 30, 2024, reconciled to MFR Schedules A-4 and A-6, obtained and verified supporting documentation from the Utility. We reconciled the beginning balances to Commission approved balances per Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018. We sampled plant additions from June 30, 2017 to June 30, 2024 capturing at least 60% of the dollars spent in each year in plant additions. We also sampled plant retirements and transfers of UPIS from June 30, 2017 to June 30, 2024 capturing at least 60% of the dollars retired each year. We noted for correct amounts, proper timing, and proper classification of samples received. See Finding 4.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land was recorded at original cost is used for utility operations, and was owned or secured under a long-term lease for the historical test year ended December 31, 2024.

Procedures: We confirmed that no land was purchased or sold since the last rate case (Docket No. 20170141-SU) and confirmed amounts in the GL matched amounts in the MFRs. No further work performed.

Construction Work in Progress

Objectives: The objectives were to determine the nature and purpose of utility projects recorded as Construction Work In Progress (CWIP), and whether CWIP was properly stated and authorized.

Procedures: We obtained MFR Schedule A-2 that shows the balance of CWIP and the adjustment setting it to zero for rate making purposes. No further work performed.

Contributions-in-Aid-of-Construction

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

Procedures: We compiled a schedule, showing the beginning balances as set in the last Commission Order. We determined that the adjustments per the last order were made. We traced additions to the utility CIAC schedules. and verified correct CIAC amortization rates were being charges. 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 NARUS USOA, 2) Depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded, 3) Adjustments required in the Utility's last rate case

proceeding were recorded in its books and records, and 4) Where accruals to accumulated depreciation were allocated from the corporate offices, the basis of the allocation is reviewed.

Procedures: We traced all the additions and retirements of plant from the Utility's general ledger, agreed them to the MFRs and the Utility's trial balance. We also traced them to accumulated depreciation to confirm whether the Utility calculated properly for the additions and retirements. See Finding 6.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC balances were properly stated, that annual accruals 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 compiled a schedule, which included beginning balances as set in the last commission order. We determined that the adjustments per the last Order were made. We traced additions to the utility amortization of CIAC schedule and verified the composite rate used for amortization accruals. We also traced accumulated amortization of CIAC amounts to the general ledger and MFR, Schedule A-13. No exceptions were noted.

Working Capital

Objectives: The objectives were to determine whether working capital balances represented actual obligations of the Utility, and to verify whether working capital was properly recorded and reflected on MFR Schedules A-17 to A-19.

Procedures: We recalculated the working capital balance from the general ledger and balance sheet, and reconciled to MFR Schedules A-17 to A-19. We judgmentally selected 75 transactions in working capital for sample testing. We obtained the supporting documentation, and requested the explanations from the Utility regarding variances. See Finding 1.

Capital Structure

Common Equity

Objectives: The objectives were to determine whether equity balances were representative of actual equity, and whether the equity was properly recorded in compliance with USoA for the test year ended June 30, 2024.

Procedures: We recalculated the common equity balances from the general ledger, and traced to 13-Month Average on MFR Schedules A-19 and D-2. We recalculated the ROE, reconciled to MFR Schedule D-1, and confirmed the cost rate was in compliance with the Commission Order No. PSC-2024-0165-PAA-WS. We obtained the additions for the common equity, and verified the balances since last rate case. No exceptions were noted.

Long-Term Debt

Objectives: The objectives were to determine whether Long-Term Debt (LTD) balances were representative of the actual obligations of the Utility, and whether they were properly recorded in compliance with USoA for the test year ended June 30, 2024.

Procedures: We recalculated the Long-Term Debt balance from the general ledger, and reconciled to 13-Month Average, Balance Sheet and MFR Schedule D-6. We obtained the Long-Term Debt Notes, verified the principal amount, rate and dates. We also recalculated the interest cost and reconciled to MFR Schedule D-6. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether customer deposit balances represented actual obligations of the Utility, and to verify whether customer deposits were properly recorded and reflected on MFR.

Procedures: We recalculated the customer deposits from the general ledger, and reconciled to balance sheet and MFR Schedule D-7. We verified the Customer Deposits were in compliance with the Rule 25-30.311, F.A.C. We judgmentally selected 41 transactions for sample testing. We obtained and verified the supporting documentation for the sample, and requested the explanation for the variance from the Utility. The explanation from the Utility was sufficient. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objective was to determine whether the revenues, billing determinants, and customers was properly booked and recorded for the test year ended June 30, 2024.

Procedures: From the general ledger, we recalculated the operating revenues for the 12 months ended June 2024 and reconciled the revenues to MFR Schedule B-4. We judgmentally selected three customer bills from each rate category for the months of August 2023 and June 2024. We requested explanation for any variance. The explanation provided by the Utility was appropriate. We recalculated the revenues by meter size and class of service, and traced to the billing register. We recalculated the miscellaneous service charges by type and reconciled to MFR Schedule E-5. We scheduled the customer bills by service class and meter size for the test year, and reconciled to MFR Schedule E-3. We reconciled the billing analysis to MFR Schedule E-2. In addition, the Utility did not include base charge. See Finding 5.

Operation and Maintenance Expense

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

Procedures: We verified O&M expenses for the test year ended June 30, 2024, by tracing amounts recorded to the utility's general ledger to source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We then

compared the audited amounts to MFR Schedule B-6. See Finding 2, and information Finding in WP 43.

Depreciation and Amortization Expense

Objectives: The objective was to determine whether depreciation expense for both direct and allocated UPIS was properly recorded in compliance with Commission Rules and that it accurately represented the depreciation of UPIS assets and the amortization of the CIAC assets for ongoing utility operations.

Procedures: We compiled a schedule of the Utility plant balances by Utility's general ledger from June 30, 2023 through June 30, 2024. We recalculated depreciation expense based on the methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, and calculation for retirements and adjustments per Rule 25-30.140. We also traced them to the MFR Schedule B-11.

Taxes Other than Income

Objectives: The objective was to determine the appropriate amounts for Taxes Other Than Income tax (TOTI) for the test year ended June 30, 2024.

Procedures: We reconciled TOTI expense accounts presented in the MFRs to the general ledger. We recalculated Regulatory Assessment Fees (RAFs) based on audited revenues. We traced real estate and tangible property taxes to source documents, verified the discount for payments made in November were applied, and verified that the taxable properties are only used for utility service. We also verified that the appropriate payroll taxes were assess through the third party payroll company used by the Utility. See Finding 3.

Federal and Income Taxes

Objectives: The objective was to determine whether the test year income taxes were properly recorded in compliance with the USoA.

Procedures: As per 26 U.S. Code § 1361, the Utility is a qualified subchapter subsidiary and pays no income taxes. No further work performed.

Audit Findings

Finding 1: Working Capital

Audit Analysis: Audit staff has three adjustments to Working Capital.

The first adjustment is to remove the amount from Cash based on the prior Commission Order. Commission Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, removed the interest-bearing account “1311100 BB&T Customer Escrow Account” from Cash in working capital for this Utility. Audit staff removed the amount of \$9,910 from Working Capital. Audit staff also determined that there was another interest-bearing account “1315000 Business Truist MRS” included in the working capital. Audit staff removed the amount of \$336,159 from Working Capital. See Table 1-1.

Table 1-1

| Description | Actual Ending Balance | 13-Month Average Balance |
|---|----------------------------------|-------------------------------------|
| Balance per Utility on MFR | \$ 748,278 | \$ 697,744 |
| Adjustment to 1311100 BB&T Customer Escrow Account - 0761 | \$ (336,159) | \$ (439,639) |
| Adjustment to 1315000 Business Truist MRS | \$ (9,910) | \$ (9,910) |
| Balance per Audit | \$ 402,210 | \$ 248,196 |
| Audit Adjustment Amount to Cash | \$ (346,068) | \$ (449,548) |

The second adjustment pertains to the variances between the general ledger and MFR Schedules of the Utility for Working Capital. For the account “1810100 Closing Costs” of Unamortized Debt Discount and Expenses, the amount of \$505 for January 2024 was not included in MFR. See Table 1-2.

Table 1-2

| Description | Actual Ending Balance | 13-Month Average Balance |
|---|----------------------------------|-------------------------------------|
| Balance per Utility on MFR | \$ 3,027 | \$ 5,783 |
| Balance per Audit | \$ 2,523 | \$ 5,550 |
| Adjustment to 1810110 Accumulated Amortization - Closing Costs | \$ (505) | \$ (233) |
| Audit Adjustment to Unamortized Debt Discount & Exp. | \$ (505) | \$ (233) |

The third adjustment pertains to the account “2332000 Accounts Payable” of Account Payable. An amount of \$537 for June 2024 has not being included in MFR. See Table 1-3.

Table 1-3

Accounts Payable

| Description | Actual | 13-Month Average |
|--|----------------|------------------|
| | Ending Balance | Balance |
| Balance per Utility on MFR | \$ 166,665 | \$ 105,147 |
| Balance per Audit | \$ 167,201 | \$ 105,188 |
| Adjustment to 2332000 Accounts Payable | \$ 537 | \$ 41 |
| Audit Adjustement to Accounts Payable | \$ 537 | \$ 41 |

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

Effect on the Filing: For the actual ending balance of working capital, there should be a \$346,068 decrease in Cash, a \$505 decrease in Unamortized Debt Discount& Expense, and a \$537 increase in Account Payable. This results in an actual ending balance for Working Capital of \$744,120, and a 13-month average balance of \$652,071.

Table 1-4

Working Capital Balance

| Description | Actual | 13-Month Average |
|--|---------------------|---------------------|
| | Ending Balance | Balance |
| Working Capital Balance per MFR | \$ 1,091,229 | \$ 1,101,894 |
| Audit Adjustment to Cash | \$ (346,068) | \$ (449,548) |
| Audit Adjustment to Unamortized Debt Discount & Exp. | \$ (505) | \$ (233) |
| Audit Adjustment to Accounts Payable | \$ 537 | \$ 41 |
| Working Capital Balance per Audit | \$ 744,120 | \$ 652,071 |
| Audit Adjustment to Working Capital Balance | \$ (347,110) | \$ (449,823) |

Finding 2: Operations and Maintenance Expense

Audit Analysis: Audit staff reviewed all O&M expense accounts to determine if the transactions were made in the proper period, for the correct amount, in the correct account, and whether the expenses were utility related. Our recommended adjustments to test year O&M expenses are listed below.

Account 701 – Salaries and Wages – Employees. The General Ledger and MFRs reflected total test year Salaries and Wages – Employees of \$959,159. However, the payroll support documentation reflected a total test year amount of \$961,859. As such, test year Salaries and Wages – Employees expense should be increased by \$2,700 (\$961,859 - \$959,159).

Account 703 – Salaries and Wages – Officers. The General Ledger and MFRs reflected total test year Salaries and Wages – Officers of \$422,079. However, the payroll support documentation reflected a total test year amount of \$419,379. As such, test year Salaries and Wages – Officers expense should be decreased by \$2,700 (\$419,379 - \$422,079).

Account 704 – Employee Pensions and Benefits. The General Ledger and MFRs reflected total test year Employee Pensions and Benefits of \$322,598. The Utility covers the costs of licensing and examination fees paid to FDEP for its employees who are licensed plant operators. A \$100 Wastewater Operator examination fee was charged to Account 408.13 Taxes Other Than Income. Since the examination fee is separate from the licensing fees, this amount should not be recorded to Account 408. As such, test year Employee Pensions and Benefits expense should be increased by \$100.

Account 711 – Sludge Removal Expense. In November of 2023, the Utility was improperly billed for Sludge Removal services by Waste Management, Inc. The Utility successfully disputed the charges and was credited \$4,549 in August of 2024. Test year Sludge Removal expense should be reduced by \$4,549 to reflect the appropriate amount of Sludge Removal expense incurred during the test year.

Account 720 – Materials and Supplies. Test year Materials and Supplies included out-of-period expenses totaling \$910, and \$35 which related to vehicle maintenance and should be charged to Account 750. There were also \$145 charged to Account 750, which should be reclassified to Account 720. As such, test year Materials and Supplies expense should be reduced by \$800 (\$910 + \$35 - \$145).

Account 731 – Contractual Services – Engineering. Test year Contractual Services – Engineering included an out-of-period invoice of \$5,203. As such, test year Contractual Services – Engineering expense should be reduced by \$5,203.

Account 735 – Contractual Services – Test year Contractual Services – Testing included out-of-period invoices related to work from June and July of 2022 in the amount of \$1,025, and credits of \$90 and \$95. There was an issue with these invoices that was not fully resolved until November 2023. The Utility booked a credit of \$185 in November 2023, and recorded the expense in November 2023 of \$1,025. However, these costs are out of period. As such, test year Contractual Services – Testing expense should be reduced by \$840 ($\$1,025 - \185).

Account 750 – Transportation Expense. Test year Transportation expense included \$1,564 related to vehicle repair work done as a result of a collision, and was ultimately covered by insurance. As stated above, there was also \$145 that should be reclassified to Account 720, and \$35 of expense charged to Account 720 should be reclassified to Account 750. As such, Transportation expense should be reduced by \$1,674 ($\$1,564 + \$145 - \35).

Account 757 – Insurance – General Liability. Test year Insurance – General Liability expense was \$83,675. The Utility carries various insurance policies for general liability, wind damage, flood damage, commercial fleet automobile insurance, and insurance for a fuel tank. K W records the expenses as a levelized monthly accrual that is trued up at the end of the year. The total amount of insurance expense incurred during the test year was \$84,894. Therefore, test year insurance expense should be increased by \$1,219 ($\$84,894 - \$83,675$).

Account 760 – Advertising Expense. Test year Advertising expense included an out-of-period invoice of \$70. As such, test year Advertising expense should be reduced by \$70.

Account 775 – Miscellaneous Expenses. In the test year, the Utility included \$1,425 in association dues for the Key West Rotary Club, as well as \$462 in Miscellaneous expense associated with the Key West Chamber of Commerce. Consistent with the Commission Order in K W's last rate case, Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp. at page 66, these cost should be removed from test year expenses. Additionally, K W provided an invoice for \$537 for its June 2024 cellular phone service, which was omitted from the total Miscellaneous expenses included in its MFRs. Test year Miscellaneous expenses should be reduced by \$1,350 ($\$1,425 + \$462 - \537).

Table 2-1

| Account No. | Description | Amount |
|-------------------------------------|--|---------------------------|
| 701 Employees | Reclass from 703 | \$ 2,700 |
| 703 Officers | Reclass to 701 | \$ (2,700) |
| 704 Employee Pensions and Benefits | Reclass from 408.13 | \$ 100 |
| 711 Sludge Removal | Reversed bill | \$ (4,549) |
| 720 Materials and Supplies | Out of Period | \$ (735) |
| 720 Materials and Supplies | Out of Period | \$ (175) |
| 720 Materials and Supplies | Reclass to 750 | \$ (35) |
| 720 Materials and Supplies | Reclass from 750 | \$ 118 |
| 720 Materials and Supplies | Reclass from 750 | \$ 27 |
| Subtotal | | <u>\$ (800)</u> |
| 731 Contractual Serv. - Engineering | Out of Period | \$ (5,203) |
| 735 Contractual Serv. - Testing | Out of Period | \$ (840) |
| 750 Transportation | Reclass from 720 | \$ 35 |
| 750 Transportation | Reclass to 720 | \$ (118) |
| 750 Transportation | Truck repair covered by insurance | \$ (1,564) |
| 750 Transportation | Reclass to 720 | \$ (27) |
| Subtotal | | <u>\$ (1,674)</u> |
| 757 Insurance - Gen. Liab. | Adjust to TY actuals | \$ 1,219 |
| 760 Advertising | Out of Period | \$ (70) |
| 775 Miscellaneous | To include June 2024 invoice omitted from MFR amount | \$ 537 |
| 775 Miscellaneous | Remove KW Rotary Club Dues | \$ (1,425) |
| 775 Miscellaneous | Remove Chamber of Commerce Dues | \$ (462) |
| Subtotal | | <u>\$ (1,350)</u> |
| Total | | <u><u>\$ (13,166)</u></u> |

Effect on the General Ledger: The Utility should determine what, if any, effect on it General Ledger.

Effect on the Filing: The test year ended June 30, 2024, O&M expenses should be reduced by \$13,166, as described above.

Finding 3: Taxes Other than Income

Audit Analysis: Audit staff reviewed all Regulatory Assessment Fee returns, Property Tax receipts, Payroll tax receipts, as well as supporting documentation for other Licenses and Permits. MFR Schedule B-15 reflects total test year Taxes Other than Income of \$288,955. Based on the test year revenue adjustment discussed in Finding 5, test year RAFs should be increased by \$329 (\$7,327 x 0.045). The property taxes reflected in the MFRs appear to be based on the 2023 assessments. Subsequently, the 2024 property tax assessments have decreased from \$10,914 to \$8,751. As such, property taxes should be reduced by \$2,162 (\$8,751-\$10,914) to reflect the current property tax assessments. Lastly, the MFRs reflect Other Licenses and Permits of \$685 in the test year, but this amount included an FDEP licensing examination fee of \$100 which should have been charged to Account 704.

Table 3-1

| Description | Per MFR | Audit | Per Audit |
|----------------------------|-------------------|-------------------|-------------------|
| | Schedule B-15 | Adjustments | TYE 6/30/24 |
| Regulatory Assessment Fees | \$ 174,153 | \$ 329 | \$ 174,483 |
| Payroll Taxes | \$ 103,202 | \$ - | \$ 103,202 |
| Property Taxes | \$ 10,914 | \$ (2,162) | \$ 8,751 |
| Other (Licensing) | \$ 685 | \$ (100) | \$ 585 |
| Total | \$ 288,955 | \$ (1,933) | \$ 287,022 |

Effect on the General Ledger: The Utility should determine what, if any, effect on it General Ledger.

Effect on the Filing: For the test year ended June 30, 2024, Taxes Other than Income expense should be reduced by \$1,933, as described above.

Finding 4: Utility Plant in Service

Audit Analysis: Audit staff reviewed whether additions and retirements from Utility Plant in Service (UPIS) were made in the proper period, amount, classification and reconciled the general ledger to the MFRs. Based on a document request regarding a variance between the general ledger and the MFRs, the Utility stated an adjustment to reclass \$2,693 from Account 354.4 to 380.4 was made in June 2024 and not included in the MFRs. Our recommended adjustment to UPIS is listed below.

Table 4-1

| Acct. No. | Description | Actual Ending Balance | 13-Month Average Balance (Before Utility Adjustments) |
|--------------------|--------------------------------|-----------------------|---|
| Per Utility | | | |
| 354 | Structures & Improvements | \$ 7,302,379 | \$ 7,199,827 |
| 380 | Treatment & Disposal Equipment | \$ 5,810,126 | \$ 5,782,618 |
| Per Audit | | | |
| 354 | Structures & Improvements | \$ 7,299,686 | \$ 7,199,620 |
| 380 | Treatment & Disposal Equipment | \$ 5,812,819 | \$ 5,782,826 |
| Adjustments | | | |
| 354 | Structures & Improvements | \$ (2,693) | \$ (207) |
| 380 | Treatment & Disposal Equipment | \$ 2,693 | \$ 207 |

Effect on the General Ledger: This adjustment has already been made in the general ledger.

Effect on the Filing: An adjustment should be made to decrease actual ending balances of account 354.4 Structures and Improvements by \$2,693 and increase account 380.4 Treatment and Disposal Equipment by \$2,693. This results in a 13 month average decrease to account 354.4 Structures and Improvements by \$207 and increase account 380.4 Treatment and Disposal Equipment by \$207, resulting in ending 13 month average balances of accounts 354.4 and 380.4 of \$7,199,620 and \$5,782,826, respectively. This has a net zero effect on total UPIS, however this adjustment results in a decrease to accumulated depreciation and depreciation expense of \$2,618.

Finding 5: Operating Revenue

Audit Analysis: Audit staff identified that the Utility had not charged the base rates for several residential customer bills. There are a total of 141 bills that were charged solely for usage but did not include the base charge. The test year revenues should be increased by these amounts as shown in Table 5-1. In addition, the base charge changed during August 2023, so those bills are prorated based on number of days under end rate

Table 5-1

| Period | No.of Bills | Base Rate Charged | Amount Calculated |
|---------------------------------------|--------------------|--------------------------|--------------------------|
| July-23 | 15 | \$49.76 | \$746.40 |
| August-23 | 11 | \$49.76 to \$52.16 | \$582.23 |
| Sept 2023 - June 2024 | 115 | \$52.16 | <u>\$5,998.40</u> |
| Increase to Revenues per Audit | | | \$7,327.03 |

The total increase in the revenues amounts to \$7,327.03.

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

Effect on the Filing: Audit staff determined that the revenues in the MFR Schedule B-4 should be increased by \$7,327.03 to reflect the unbilled base rates.

Finding 6: Accumulated Depreciation & Depreciation Expense

Audit Analysis: Audit staff recalculated depreciation from 6/30/2017 to 6/30/2024 to determine the correct accumulated depreciation balance and depreciation expense amount. In doing so, auditors found the Utility was not applying the correct depreciation rates per Rule 25-30.140 F.A.C. For Accounts 391.7 Transportation Equipment and 395.7 Power Operated equipment, the Utility was not including the salvage value in calculating depreciation, as noted in Rule 25-30.140. Table 6-3 reflects the effect on salvage value alone on depreciation, additionally Tables 6-1 and 6-2 show the effect of salvage value as well as all other depreciation rate corrections.

Auditors also found the Utility failed to apply depreciation rates or apply them correctly. The cumulative effect of the depreciation recalculation, Accounts 391.7 and 395.7 included, are shown below on tables 6-1 and 6-2.

Table 6-1

| Acct. No. | Account Description | <u>Depreciation Expense</u> | | |
|-----------------------------------|---------------------------------------|-----------------------------|---------------------------|----------------------|
| | | Aud Depreciation Expense | Util Depreciation Expense | Depr. Exp Adjustment |
| 351.00 | Organization | \$ - | | \$ - |
| 352.1 | Franchises | \$ 2,322 | \$ 2,322 | \$ - |
| 360.2 | Collection - Sewers forced | \$ 155,710 | \$ 129,510 | \$ 26,036 |
| 361.2 | Collection - Sewers gravity | \$ 24,838 | \$ 28,558 | \$ (3,720) |
| 363.2 | Services to customers | \$ 2,770 | \$ 2,809 | \$ (39) |
| 364.2 | Flow Measuring Devices | \$ - | \$ - | \$ - |
| 354.3 | Structures & Improvements | \$ 3,654 | \$ 3,898 | \$ (244) |
| 370.3 | Receiving Wells | \$ 29,760 | \$ 29,760 | \$ - |
| 371.3 | Pumping Equipment | \$ 40,840 | \$ 58,084 | \$ 11,377 |
| 354.4 | Structures & Improvements | \$ 224,728 | \$ 257,543 | \$ (30,259) |
| 355.4 | Power Generating Equipment | \$ 4,956 | \$ 6,554 | \$ (1,598) |
| 380.4 | Treatment & Disposal Equipment | \$ 321,380 | \$ 275,574 | \$ (62,335) |
| 381.4 | Plant Sewers | \$ 822 | \$ 822 | \$ - |
| 389.4 | Other Plant & Miscellaneous Equipment | \$ 2,456 | \$ - | \$ 2,456 |
| 375.6 | Reuse Transmission & Dist. | \$ 12,370 | \$ 12,947 | \$ (679) |
| 390.7 | Office Furniture & Equipment | \$ 6,385 | \$ 4,899 | \$ 1,486 |
| 391.7 | Transportation Equipment | \$ 48,609 | \$ 33,345 | \$ 7,659 |
| 392.7 | Stores Equipment | \$ 103 | \$ 103 | \$ - |
| 393.7 | Tools, Shop, & Garage Equipment | \$ - | \$ 518 | \$ (518) |
| 394.7 | Laboratory Equipment | \$ 1,578 | \$ 614 | \$ 964 |
| 395.7 | Power Operated Equipment | \$ 8,855 | \$ 5,265 | \$ 3,505 |
| Total Depreciation Expense | | \$ 892,135 | \$ 853,125 | \$ (45,910) |

Table 6-2

| | | <u>Accumulated Depreciation</u> | | |
|-----------------|---------------------------------------|---------------------------------|-------------------------|-------------------|
| Acct. No. | Account Description | Aud AD 6/30/2024 | Utility AD 6/30/2024 | Difference |
| 352.1 | Franchises | \$ 57,989 | \$ 57,989 | \$ (0) |
| 360.2 | Collection - Sewers forced | \$ 3,610,150 | \$ 3,079,236 | \$ 530,915 |
| 361.2 | Collection - Sewers gravity | \$ 583,629 | \$ 609,707 | \$ (26,078) |
| 363.2 | Services to customers | \$ 41,368 | \$ 43,107 | \$ (1,739) |
| 364.2 | Flow Measuring Devices | \$ 2,221 | \$ 2,221 | \$ (0) |
| 354.3 | Structures & Improvements | \$ 18,735 | \$ 19,956 | \$ (1,221) |
| 370.3 | Receiving Wells | \$ 635,258 | \$ 636,056 | \$ (798) |
| 371.3 | Pumping Equipment | \$ 161,991 | \$ 357,838 | \$ (195,847) |
| 353.4 | Land & Land Rights | \$ - | \$ - | \$ - |
| 354.4 | Structures & Improvements | \$ 1,438,227 | \$ 1,653,612 | \$ (215,385) |
| 355.4 | Power Generating Equipment | \$ (21,964) | \$ (8,365) | \$ (13,599) |
| 380.4 | Treatment & Disposal Equipment | \$ 3,855,476 | \$ 3,564,351 | \$ 291,125 |
| 381.4 | Plant Sewers | \$ 15,098 | \$ 15,098 | \$ (0) |
| 389.4 | Other Plant & Miscellaneous Equipment | \$ 41,291 | \$ 24,102 | \$ 17,189 |
| 375.6 | Reuse Transmission & Dist. | \$ 171,334 | \$ 173,341 | \$ (2,007) |
| 390.7 | Office Furniture & Equipment | \$ 59,428 | \$ 50,769 | \$ 8,659 |
| 391.7 | Transportation Equipment | \$ 224,110 | \$ 199,689 | \$ 24,421 |
| 392.7 | Stores Equipment | \$ 1,655 | \$ 1,655 | \$ 0 |
| 393.7 | Tools, Shop, & Garage Equipment | \$ 32,360 | \$ 35,987 | \$ (3,627) |
| 394.7 | Laboratory Equipment | \$ 21,340 | \$ 20,879 | \$ 461 |
| 395.7 | Power Operated Equipment | \$ 88,267 | \$ 76,289 | \$ 11,978 |
| Total AD | | \$ 11,037,962 | \$ 10,613,517 | \$ 424,445 |

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

Effect on the Filing: In total audit staff recommends a \$45,910 decrease to depreciation expense and a \$424,445 increase to accumulated depreciation.

Table 6-3

| | | <u>Effect of Salvage Value on Depreciation</u> | | | |
|-----------|--------------------------|--|-----------------------|-------------------------|---------------|
| Acct. No. | Description | Asset Life | Audit AD 6/30/2024 | Utility AD 6/30/2024 | AD Adjustment |
| 391.7 | Transportation Equipment | 6 | \$ 224,110 | \$ 199,689 | \$ 24,421 |
| 395.7 | Power Operated Equipment | 12 | \$ 88,267 | \$ 76,289 | \$ 11,978 |

| Acct. No. | Description | Asset Life | Aud Depreciation Expense | Util Depreciation Expense | Depr. Exp Adjustment |
|-----------|--------------------------|------------|--------------------------|---------------------------|----------------------|
| 391.7 | Transportation Equipment | 6 | \$ 48,609 | \$ 33,345 | \$ 15,264 |
| 395.7 | Power Operated Equipment | 12 | \$ 8,855 | \$ 5,265 | \$ 3,590 |

Exhibits

Exhibit 1: Rate Base

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: K W Resort Utilities Corp

Schedule: A-2

Docket No.:20240108

Page 1 of 1

Schedule Year Ended: 06/30/2024

Preparer: Milian, Swain & Associates, Inc.

Interim Final

Historic Projected

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

| Line No. | (1) Description | (2) Average Amount Per Books | (3) A-3 Utility Adjustments | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| 1 | Utility Plant in Service | \$ 21,985,301 | \$ 2,132,047 (A) | \$ 24,117,348 | A-3, A-6 |
| 2 | | | | | |
| 3 | Utility Land & Land Rights | 375,000 | | 375,000 | A-3, A-6 |
| 4 | | | | | |
| 5 | Less: Non-Used & Useful Plant | - | | - | A-7 |
| 6 | | | | | |
| 7 | Construction Work in Progress | 94,385 | (94,385) (B) | - | A-3, A-7 |
| 8 | | | | | |
| 9 | Less: Accumulated Depreciation | (10,211,165) | (33,033) (C) | (10,244,198) | A-3, A-10 |
| 10 | | | | | |
| 11 | Less: CIAC | (12,091,323) | | (12,091,323) | A-3, A-12 |
| 12 | | | | | |
| 13 | Accumulated Amortization of CIAC | 6,665,424 | | 6,665,424 | 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 | - | 1,439,394 (D) | 1,439,394 | A-3, A-17 |
| 22 | | | | | |
| 23 | Total Rate Base | \$ 6,817,622 | \$ 3,444,023 | \$ 10,261,645 | |

Exhibit 2: Capital Structure

Schedule of Requested Cost of Capital
13 Month Average Balance

Florida Public Service Commission

Company: KW Resort Utilities Corp

Schedule D-1

Docket No.:20240108

Page 1 of 1

Test Year Ended: 06/30/2024

Interim Final

Preparer: Millan, Swain & Associates, Inc.

Historical Projected

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

| | (1) | (2) | (3) | (4) | (5) |
|----------|---------------------------------|--|----------------|-----------|---------------|
| | | Reconciled to Requested Rate Base AYE 06/30/24 | Ratio | Cost Rate | Weighted Cost |
| Line No. | Class of Capital | | | | |
| 1 | Long Term Debt | \$ 4,264,575 | 41.56% | 5.90% | 2.45% |
| 2 | Short Term Debt | - | | | |
| 3 | Preferred Stock | - | | | |
| 4 | Common Equity | 5,664,435 | 55.20% | 10.05% | 5.55% |
| 5 | Customer Deposits | 332,635 | 3.24% | 2.00% | 0.06% |
| 6 | Tax Credits - Zero Cost | - | | | |
| 7 | Tax Credits - Weighted Cost | - | | | |
| 8 | Accumulated Deferred Income Tax | - | | | |
| 9 | Other (Explain) | - | | | |
| 10 | | | | | |
| 11 | Total | <u>\$ 10,261,645</u> | <u>100.00%</u> | | <u>8.06%</u> |

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-2024-0165-PAA-WS

Exhibit 3: Net Operating Income

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: KW Resort Utilities Corp
 Docket No.:20240108
 Test Year Ended: 05/30/2024
 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 | \$ 3,851,481 | \$ 69,066 (A) | \$ 3,920,547 | \$ 913,843 (A) | \$ 4,834,390 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 2,832,631 | 253,623 (B) | 3,086,254 | | 3,086,254 | B-6, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 424,360 | 142,619 (C) | 566,979 | | 566,979 | B-14, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | | | - | | - | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 288,955 | 23,991 (D) | 312,945 | 41,123 (D) | 354,068 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | | | - | | - | C-1, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 3,545,945 | 420,233 | 3,966,178 | 41,123 | 4,007,301 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | \$ 305,536 | \$ (351,167) | \$ (45,631) | \$ 872,720 | \$ 827,089 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | \$ 6,817,622 | \$ 3,444,023 | \$ 10,261,645 | | \$ 10,261,645 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | 4.48 % | | -- | % | 8.06% | |