

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: April 3, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150010-WS
Company Name: Aquarina Utilities, Inc.
Company Code: WS949
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 15-015-4-1

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

State of Florida



Public Service Commission

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

Auditor's Report

Aquarina Utilities, Inc.
Staff-Assisted Rate Case

12 Months Ended December 31, 2014

Docket No. 150010-WS
Audit Control No. 15-015-4-1
March 30, 2015

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

Jeffery A. Small
Audit Manager

A handwritten signature in blue ink, appearing to read "Yen N. Ngo", written over a horizontal line.

Yen N. Ngo
Audit Staff

A handwritten signature in blue ink, appearing to read "Iliana H. Piedra", written over a horizontal line.

Iliana H. Piedra
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated January 15, 2015. We have applied these procedures to the attached schedules prepared by the audit staff in support of Aquarina Utilities, Inc.'s request for a Staff-Assisted Rate Case in Docket No. 150010-WS.

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

Objectives and Procedures

Background

Aquarina Utilities, Inc. (Utility) is a Class B utility serving approximately 295 water and wastewater customers, and residential wastewater only service to approximately 23 in Brevard County. In addition, approximately 111 of the Utility's water customers also receive non-potable irrigation service. Rate base was last established as of February 22, 2011 by Order No. PSC-12-0577-PAA-WS, issued October 25, 2012.

The test year for the instant proceeding is the historical twelve months ended December 31, 2014.

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, Florida Administrative Code (F.A.C.).

The Utility files an 1120 U.S. Corporate Tax Return.

The Utility's 2014 books were not closed and final as of March 20, 2015, the end of audit fieldwork. However, the Utility did provide an unadjusted 2014 general ledger that only lacked depreciation accruals and other year-end adjusting entries as determined by its outside accounting firm. We believe that the general ledger provided contained enough substantial information to allow us to compile the Utility's test year operations for this proceeding. Therefore, "general ledger" when used in this report refers to the Utility's 2014 unadjusted general ledger.

General

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedure: We reviewed the Utility's accounting system by examining the records provided for this proceeding. No exceptions were noted.

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 recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the beginning balances for UPIS as of February 22, 2011, established in Order No. PSC-12-0577-PAA-WS. We reviewed the Utility's annual reports and general ledger for asset additions, retirements and adjustments. We scheduled water UPIS activity from February 23, 2011 to December 31, 2014. We sampled and traced asset additions to supporting documentation. We determined the year-end and simple average UPIS balance as of December 31, 2014. Our recommended adjustment to UPIS is discussed in Findings 1 and 2.

Land & Land Rights

Objectives: The objectives were to determine whether utility land was: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the beginning balances for Land as of February 22, 2011, established in Order No. PSC-12-0577-PAA-WS. We reviewed the Utility's annual reports and general ledger for land additions, retirements and adjustments. We searched the Brevard County records and determined that no additions were made. We verified that the land is owned by the Utility. We determined the year-end and simple average Land balance as of December 31, 2014. Our recommended average land balance and additional information concerning the Utility's land ownership is discussed in Finding 3.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances for Accumulated Depreciation as of February 22, 2011, established in Order No. PSC-12-0577-PAA-WS. We calculated Accumulated Depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C Depreciation. We determined the year-end and simple average Accumulated Depreciation balance as of December 31, 2014. Our recommended adjustment to accumulated depreciation is discussed in Finding 5.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances for CIAC as of February 22, 2011, established in Order No. PSC-12-0577-PAA-WS. We reviewed the Utility's annual reports, general ledger and federal tax returns for cash contributions. We sampled and traced CIAC additions to supporting documentation. We determined the year-end and simple average CIAC balance as of December 31, 2014, based on the requirements of Rule 25-30.140(9), F.A.C. Depreciation. Our recommended adjustment to CIAC is discussed in Finding 4.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances for Accumulated Amortization of CIAC as of February 22, 2011, established in Order No. PSC-12-0577-PAA-WS. We calculated CIAC amortization accruals using the depreciation rates established by Rule 25-30.140(2), F.A.C Depreciation. We determined the year-end and simple average Accumulated Amortization of CIAC balance as of December 31, 2014. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 6.

Acquisition Adjustment

Objectives: The objective was to determine whether an acquisition adjustment has been approved in a prior Commission proceeding and if so, that it is recorded and amortized pursuant to Rule 25-30.0371, Acquisition Adjustments, F.A.C.

Procedures: We reviewed utility records and Commission documents to determine if an acquisition adjustment was recorded or approved. Nothing was found, so no further work was performed.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

Procedures: We calculated the working capital adjustment for the test year using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule. Our recommended Working Capital adjustment is discussed in Finding 8.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We reviewed the Utility's annual reports, general ledger and federal tax returns and determined that the Utility's Capital Structure is composed of common equity, long term debt and customer deposits. We determined the year-end and simple average Capital Structure balance and its weighted average cost as of December 31, 2014. Our recommended average capital structure balance and weighted average cost rate are discussed in Finding 7.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether Revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We determined individual customer consumption for the test year using the Utility's monthly billing registers. We normalized the number of bills by adjusting for customers moving in or out to reflect 12 months of bills for each service address with the data obtained from the billing registers. We calculated test year Revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the billing register. We determined whether the Utility is charging its authorized tariff rates. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether Operation and Maintenance Expense (O&M) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We sampled and reviewed invoices for the Utility's O&M Expense for the test year. We ensured that expenses we sampled were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Our recommended amount for O&M Expense for the test year is discussed in Finding 8.

Depreciation and CIAC Amortization Expense

Objectives: The objectives were to determine whether Depreciation and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

Procedures: We calculated the Utility's Depreciation and CIAC Amortization Expenses for the test year ended December 31, 2014, using the rates established by Rule 25-30.140, F.A.C. Our recommended amount for Depreciation and CIAC Amortization Expense are discussed in Findings 5 and 6.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We compiled the Utility's TOTI Expense for the test year using the supporting documentation provided. We included property taxes and Regulatory Assessment Fees (RAF) for the test year and confirmed their utility classification. We recalculated RAF's based on test year Revenues. Our recommended amount for TOTI Expense for the test year is discussed in Finding 9.

Audit Findings

Finding 1: Utility Plant in Service - Water

Audit Analysis: The Utility's general ledger reflects a water UPIS balance of \$1,929,415 as of December 31, 2014. We have increased this balance by \$53,778 to \$1,983,194 based on the following specific account adjustments discussed below. A summary of our adjustments by subaccount is provided in Table 1-1 that follows.

Account 304 - Structures and Improvements

We increased this account by \$210 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 311 - Pumping Equipment

We increased this account by \$5,963 (\$4,143+\$1,820) to: 1) Add back a 2013 credit adjustment of \$4,143 to correct the transfer balance posted in 2011 that was not needed, and, 2) Record a 2014 addition for two pumps to this account of \$7,277 that was reclassified from test year operating expense in Finding 8. The net addition is \$1,820 after a retirement of \$5,457, which is 75 percent of the cost of the asset addition.

Account 320 - Water Treatment Equipment

We increased this account by \$5,559 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 331 - Transmission and Distribution Mains

We increased this account by \$2,188 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 333 – Services

We increased this account by \$158 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 334 – Meters and Meter Installations

We reduced this account by \$5,956 (\$3,722-\$13,874+\$4,196) to: 1) Increase by \$3,722 (\$3,497+\$225) to correct a \$3,497 credit adjustment error and to remove a \$225 credit entry for two meter installation fees that should have been recorded as CIAC, all of which occurred in 2012, 2) Decrease by \$13,874 (\$2,475-\$2,067-\$14,282) to remove a \$2,475 credit entry for twenty-two meter installation fees that should have been recorded as CIAC, to remove a debit adjustment of \$2,067 to correct the transfer balance posted in 2011 that was not needed and to retire \$14,282 of meter additions based on 75 percent of \$19,043 of additions, all of which occurred in 2013, and, 3) Increase by \$4,196 to remove a credit entry for nineteen meter installation fees that should have been recorded as CIAC.

Account 339 – Other Plant and Miscellaneous Equipment

We increased this account by \$899 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 341 – Transportation Equipment

We increased this account by \$40,596 to record 66.67 percent of the 2013 purchase of a truck by the Utility for \$60,894. The allocation between water and wastewater operations was based on the formula approved in Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, the Utility’s last rate proceeding.

Account 343 – Tools, Shop & Garage Equipment

We increased this account by \$900 to record a 2014 conductivity meter purchase for the water plant that was reclassified from test year operating expense in Finding 8.

Account 344 – Laboratory Equipment

We increased this account by \$2,000 to record a 2014 laboratory asset purchase for the water plant that was reclassified from test year operating expense in Finding 8.

Account 347 –Miscellaneous Equipment

We increased this account by \$1,261 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

The effect of our adjustments on water CIAC and accumulated depreciation balances and test year water depreciation expense are discussed in Findings 4 and 5.

Effect on the General Ledger: See Table 1-1.

Effect on the Filing: Average water UPIS balance is \$1,980,834 as of December 31, 2014.

Table 1-1

Aquarina Utilities, Inc.					
Water Utility Plant in Service					
Acct.	Account Description	UPIS as of 12/31/2014			Test Year
		Per Utility	Adjustments	Per Audit	Average
301	Organization	\$1,050	\$0	\$1,050	\$1,050
302	Franchises	\$0	\$0	\$0	\$0
304	Structures & Improvements	\$18,735	\$210	\$18,945	\$18,945
305	Collecting & Impounding Reservoirs	\$0	\$0	\$0	\$0
306	Lake, River & Other Intakes	\$0	\$0	\$0	\$0
307	Wells & Springs	\$231,937	\$0	\$231,937	\$231,937
309	Supply Mains	\$25,200	\$0	\$25,200	\$25,200
310	Power Generation Equipment	\$0	\$0	\$0	\$0
311	Pumping Equipment	\$151,375	\$5,963	\$157,338	\$156,428
320	Water Treatment Equipment	\$372,462	\$5,559	\$378,021	\$378,021
330	Distribution Reservoirs & Standpipes	\$622,473	\$0	\$622,473	\$622,473
331	Transmission & Distribution Mains	\$305,369	\$2,188	\$307,557	\$307,557
333	Services	\$124,348	\$158	\$124,506	\$124,506
334	Meters & Meter Installations	\$60,748	(\$5,956)	\$54,792	\$54,792
335	Hydrants	\$10,050	\$0	\$10,050	\$10,050
336	Backflow Prevention Devices	\$4,408	\$0	\$4,408	\$4,408
339	Other Plant & Miscellaneous Equip.	\$1,261	\$899	\$2,160	\$2,160
340	Office Furniture & Equipment	\$0	\$0	\$0	\$0
341	Transportation Equipment	(\$0)	\$40,596	\$40,596	\$40,596
343	Tools, Shop, & Garage Equipment	\$0	\$900	\$900	\$450
344	Laboratory Equipment	\$0	\$2,000	\$2,000	\$1,000
345	Power Operated Equipment	\$0	\$0	\$0	\$0
347	Miscellaneous Equipment	\$0	\$1,261	\$1,261	\$1,261
Total UPIS		\$1,929,415	\$53,778	\$1,983,194	\$1,980,834

Finding 2: Utility Plant in Service - Wastewater

Audit Analysis: The Utility's general ledger reflects a wastewater UPIS balance of \$2,116,139 as of December 31, 2014. We have increased this balance by \$7,708 to \$2,123,847 based on the following specific account adjustments discussed below. A summary of our adjustments by subaccount is provided in Table 2-1 that follows.

Account 354 - Structures and Improvements

We increased this account by \$774 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 360 – Collection Sewers Forced

We increased this account by \$2,872 to record a 2014 addition that rebuilt and extended the service life a lift station pump that was reclassified from test year operating expense in Finding 8. No retirement was warranted in this situation.

Account 364 – Flow Measuring Devices

We increased this account by \$1,475 to remove a credit entry for nineteen meter installation fees that should have been recorded as water CIAC.

Account 380 – Treatment and Disposal Equipment

We reduced this account by \$8,077 to remove a 2013 debit adjustment to correct the transfer balance posted in 2011 that was not needed.

Account 390 – Office Furniture and Equipment

We reduced this account by \$10,200 to remove the transfer balance because very little office furniture or equipment was actually transferred and what was transferred was disposed of by the current utility owner because it was not usable or needed.

Account 391 – Transportation Equipment

We increased this account by \$20,298 to record 33.33 percent of the 2013 purchase of a truck by the Utility for \$60,894. The allocation between water and wastewater operations was based on the formula approved in Order No. PSC-03-1342-PAA-WS, in Docket No. 021228-WS, the Utility's last rate proceeding.

Account 394 – Laboratory Equipment

We increased this account by \$565 to add back a 2013 credit adjustment to correct the transfer balance posted in 2011 that was not needed.

The effect of our adjustments on water CIAC and wastewater accumulated depreciation balances and test year wastewater depreciation expense are discussed in Findings 4 and 5.

Effect on the General Ledger: See Table 2-1.

Effect on the Filing: Average wastewater UPIS balance is \$2,122,411 as of December 31, 2014.

Table 2-1

Aquarina Utilities, Inc.					
Wastewater Utility Plant in Service					
Acct.	Account Description	UPIS as of 12/31/2014			Test Year
		Per Utility	Adjustments	Per Audit	Average
351	Organization	\$1,050	\$0	\$1,050	\$1,050
352	Franchises	\$0	\$0	\$0	\$0
354	Structures & Improvements	\$21,228	\$774	\$22,002	\$22,002
355	Power Generating Equipment	\$0	\$0	\$0	\$0
360	Collection - Sewers forced	\$161,358	\$2,872	\$164,230	\$162,794
361	Collection - Sewers gravity	\$328,394	\$0	\$328,394	\$328,394
362	Special Collecting Structures	\$0	\$0	\$0	\$0
363	Services to customers	\$170,960	\$0	\$170,960	\$170,960
364	Flow Measuring Devices	(\$1,475)	\$1,475	\$0	\$0
365	Flow Measuring Installations	\$0	\$0	\$0	\$0
370	Receiving Wells	\$0	\$0	\$0	\$0
371	Pumping Equipment	\$50,256	\$0	\$50,256	\$50,256
380	Treatment & Disposal Equipment	\$1,224,902	(\$8,077)	\$1,216,825	\$1,216,825
381	Plant Sewers	\$0	\$0	\$0	\$0
382	Outfall Sewer Lines	\$144,908	\$0	\$144,908	\$144,908
389	Other Plant & Miscellaneous Equip.	\$909	\$0	\$909	\$909
390	Office Furniture & Equipment	\$10,200	(\$10,200)	\$0	\$0
391	Transportation Equipment	\$0	\$20,298	\$20,298	\$20,298
393	Tools, Shop, & Garage Equipment	\$0	\$0	\$0	\$0
394	Laboratory Equipment	\$0	\$565	\$565	\$565
398	Other Tangible Plant	\$3,449	\$0	\$3,449	\$3,449
	Total UPIS	\$2,116,139	\$7,708	\$2,123,847	\$2,122,411

Finding 3: Land and Land Rights

Audit Analysis: The Utility's general ledger reflects water and wastewater balances of \$62,080 and \$33,680, respectively, as of December 31, 2014. No issues were discovered concerning these balances.

However, Rule 25-30.433, Rate Case Proceedings, (10), F.A.C., states,

"A utility is required to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative."

Our search of the Official Records (OR) of the Brevard County Clerk of the Court records indicates that the Utility has deeded title to the land occupied by the Utility's major assets. Upon further review, we determined that the non-potable well, wastewater effluent drain field and master lift station are located on property owned by Aquarina Community Association, Inc. (ACA), an entity that serves the interest of the communities' homeowners and its golf course.

Our search of the OR of Brevard County did not reveal any recorded easements, leases or other official documents that specifically grant the Utility access to or rights of egress on the ACA property. The only document that we could find was a "Declaration of Covenants, Conditions and Restrictions for Aquarina PUD", OR Book 2434, Pages 1145-1215, between the developer, the homeowners, and the ACA. This document mentions utility easements in general on page 1155, but we could not determine whether it satisfies the specific intent of the rule cited above.

We defer this issue to Commission staff in Tallahassee for disposition.

Effect on the General Ledger: None

Effect on the Filing: Average water and wastewater Land balances are \$62,080 and \$33,680, respectively, as of December 31, 2014.

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

Audit Analysis: The Utility's general ledger reflects water and wastewater CIAC balances of \$483,149 and \$603,375, respectively, as of December 31, 2014. We have increased water CIAC by \$11,850 based on the following audit adjustments to annual CIAC activity. No adjustments to wastewater CIAC are needed.

Year	Per Utility	Adjustment	Per Audit
2011	\$0	\$0	\$0
2012	\$1,580	(\$1,130)	\$450
2013	\$16,100	\$4,580	\$20,680
2014	\$27,320	\$8,400	\$35,720
Total		\$11,850	

Our CIAC additions are based on Utility invoices paid by individuals or builders that were provided by the Utility to support its CIAC additions. We also account for and correct the erroneous CIAC postings discussed in Findings 1 and 2.

Year	Connections		Tariff		Total
	Potable	Non Potable	Potable	Non Potable	
2012	0	1	\$0	\$450	\$450
2013	11	11	\$15,730	\$4,950	\$20,680
2014	19	16	\$27,170	\$8,550	\$35,720
Utility Tariff		Main Extention	Plant Capacity	Meter Install	Total
Potable water connections		\$500	\$780	\$150	\$1,430
Non Potable water connections		\$50	\$250	\$150	\$450
In 2014 there were 15 non-potable connections at the tariff rate and 1 two-inch meter at cost for \$1,800.					

Additionally, Rule 25-30.140, Depreciation, (9), F.A.C., states,

(a) "Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC."

(b) "Beginning with the year ending December 31, 2003, for Class C utilities, where adequate CIAC records are maintained in sub-accounts, by type of charge or contributed plant, CIAC amortization rates shall be applied separately to each sub-account."

We reviewed Order Nos. PSC-95-1417-FOF-WS, issued November, 21, 1995, PSC-03-1342-PAA-WS, issued November 24, 2003, and PSC-12-0577-PAA-WS, along with the associated analyst and audit work papers. Based on our review, we were able to prepare a schedule that redistributes the Utility's CIAC balance, by specific plant subaccounts, which was established as of the transfer date in Order No. PSC-12-0577-PAA-WS for both water and wastewater CIAC

per the Rule cited above. Table 4-1 that follows provides the subaccount balances for water and wastewater CIAC and incorporates our specific adjustments discussed above.

The effect of our adjustments on water and wastewater accumulated amortization of CIAC balances and test year amortization expense are discussed in Finding 6.

Effect on the General Ledger: See Table 4-1.

Effect on the Filing: Average water and wastewater CIAC balances are \$477,139 and \$597,343, respectively, as of December 31, 2014.

Table 4-1

CALCULATION OF CIAC BY SPECIFIC ASSET GROUP					
		Per Utility @12/31/14	Adjustment	Per Audit @12/31/14	Test Year Average
WATER:					
Utility Balance		(\$483,149)	\$483,149	\$0	\$0
Potable					
331.00	T&D Mains	\$0	(\$23,179)	(\$23,179)	(\$23,179)
333.00	Services	\$0	(\$36,234)	(\$36,234)	(\$36,234)
Cash-Connections Fees		\$0	(\$328,364)	(\$328,364)	(\$314,779)
		\$0	(\$387,777)	(\$387,777)	(\$374,192)
Non-Potable					
309.00	Supply Mains	\$0	(\$23,143)	(\$23,143)	(\$23,143)
311.00	Pumping Equipment	\$0	(\$18,845)	(\$18,845)	(\$18,845)
333.00	Services	\$0	(\$48,317)	(\$48,317)	(\$48,317)
Cash-Connections Fees		\$0	(\$16,917)	(\$16,917)	(\$12,642)
		\$0	(\$107,222)	(\$107,222)	(\$102,947)
TOTAL WATER CIAC		(\$483,149)	(\$11,850)	(\$494,999)	(\$477,139)
WASTEWATER					
Utility Balance		(\$603,375)	\$603,375	\$0	\$0
360.00	Gravity Sewers	\$0	(\$61,242)	(\$61,242)	(\$61,242)
361.00	Force Sewers	\$0	(\$23,313)	(\$23,313)	(\$23,313)
363.00	Services	\$0	(\$126,392)	(\$126,392)	(\$126,392)
370.00	Receiving Wells	\$0	(\$46,805)	(\$46,805)	(\$46,805)
Cash-Connections Fees		\$0	(\$345,623)	(\$345,623)	(\$339,591)
TOTAL W/WATER CIAC		(\$603,375)	\$0	(\$603,375)	(\$597,343)

Finding 5: Accumulated Depreciation

Audit Analysis: The Utility's general ledger reflects water and wastewater Accumulated Depreciation balances of \$1,522,797 and \$1,866,186, respectively, as of December 31, 2014. Although these balances do not include depreciation expense accruals for 2014, we have used these balances as the final Utility balances on the Rate Base exhibits.

We recalculated water and wastewater accumulated depreciation accruals from February 2011 through the end of the test year using the Class B rates pursuant to Rule 25-30.140 Depreciation, F.A.C. Our calculation includes the additions, retirements and adjustments that we made to water and wastewater UPIS in Findings 1 and 2.

Based on our calculations we have increased water and wastewater accumulated depreciation balances by \$10,652 and \$21,421, respectively, as of December, 31, 2014. Water and wastewater depreciation expenses are \$46,452 and \$29,628, respectively, for the test year. Tables 5-1 and 5-2 that follow provide the subaccount balances and incorporates our specific adjustments.

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

Effect on the Filing: Average water and wastewater accumulated depreciation balances are \$1,512,951 and \$1,872,793, respectively, as of December 31, 2014. Water and wastewater depreciation expenses are \$46,452 and \$29,628, respectively, for the test year.

Table 5-1

Water Utility Accumulated Depreciation					
Acct.	Account Description	Accumulated Dep. as of 12/31/2014			Test Year Average
		Per Utility	Adjustments	Per Audit	
301	Organization	(\$1,050)	\$246	(\$804)	(\$791)
302	Franchises	\$0	\$0	\$0	\$0
304	Structures & Improvements	(\$17,849)	(\$279)	(\$18,128)	(\$17,832)
305	Collecting & Impounding Reservoirs	\$0	\$0	\$0	\$0
306	Lake, River & Other Intakes	\$0	\$0	\$0	\$0
307	Wells & Springs	(\$231,937)	\$0	(\$231,937)	(\$231,937)
309	Supply Mains	(\$16,776)	\$3,254	(\$13,522)	(\$13,162)
310	Power Generation Equipment	\$0	\$0	\$0	\$0
311	Pumping Equipment	(\$74,463)	(\$1,407)	(\$75,870)	(\$74,688)
320	Water Treatment Equipment	(\$372,462)	(\$5,559)	(\$378,021)	(\$378,021)
330	Distribution Reservoirs & Standpipes	(\$558,081)	(\$6,002)	(\$564,082)	(\$555,671)
331	Transmission & Distribution Mains	(\$132,521)	(\$6,018)	(\$138,539)	(\$134,963)
333	Services	(\$81,993)	(\$473)	(\$82,466)	(\$80,910)
334	Meters & Meter Installations	(\$27,327)	\$13,884	(\$13,443)	(\$12,073)
335	Hydrants	(\$4,426)	(\$49)	(\$4,475)	(\$4,363)
336	Backflow Prevention Devices	(\$147)	(\$294)	(\$441)	(\$294)
339	Other Plant & Miscellaneous Equip.	(\$1,261)	\$1,045	(\$216)	(\$173)
340	Office Furniture & Equipment	\$0	\$0	\$0	\$0
341	Transportation Equipment	(\$2,505)	(\$7,644)	(\$10,149)	(\$6,766)
343	Tools, Shop, & Garage Equipment	\$0	(\$28)	(\$28)	(\$14)
344	Laboratory Equipment	\$0	(\$67)	(\$67)	(\$33)
345	Power Operated Equipment	\$0	\$0	\$0	\$0
348	Other Tangible Plant	\$0	(\$1,261)	(\$1,261)	(\$1,261)
Total Accumulated Depreciation		(\$1,522,797)	(\$10,652)	(\$1,533,449)	(\$1,512,951)

Table 5-2

Wastewater Utility Accumulated Depreciation					
Acct.	Account Description	Accumulated Dep. as of 12/31/2014			Test Year Average
		Per Utility	Adjustments	Per Audit	
351	Organization	(\$1,050)	\$175	(\$875)	(\$862)
352	Franchises	(\$18,769)	\$18,769	\$0	\$0
354	Structures & Improvements	(\$2,377)	(\$18,664)	(\$21,042)	(\$20,698)
355	Power Generating Equipment	\$0	\$0	\$0	\$0
360	Collection - Sewers forced	(\$156,911)	(\$3,055)	(\$159,966)	(\$157,253)
361	Collection - Sewers gravity	(\$148,348)	(\$14,994)	(\$163,342)	(\$158,211)
362	Special Collecting Structures	\$0	\$0	\$0	\$0
363	Services to customers	(\$119,137)	(\$15,897)	(\$135,034)	(\$130,760)
364	Flow Measuring Devices	\$0	\$0	\$0	\$0
365	Flow Measuring Installations	\$0	\$0	\$0	\$0
370	Receiving Wells	\$0	\$0	\$0	\$0
371	Pumping Equipment	(\$38,579)	\$2,525	(\$36,054)	(\$35,426)
380	Treatment & Disposal Equipment	(\$1,224,902)	\$8,077	(\$1,216,825)	(\$1,216,825)
381	Plant Sewers	\$0	\$0	\$0	\$0
382	Outfall Sewer Lines	(\$144,908)	\$0	(\$144,908)	(\$144,908)
389	Other Plant & Miscellaneous Equip.	(\$909)	\$0	(\$909)	(\$909)
390	Office Furniture & Equipment	(\$4,340)	\$4,340	\$0	\$0
391	Transportation Equipment	(\$2,505)	(\$2,570)	(\$5,075)	(\$3,383)
393	Tools, Shop, & Garage Equipment	\$0	\$0	\$0	\$0
394	Laboratory Equipment	\$0	(\$129)	(\$129)	(\$110)
398	Other Tangible Plant	(\$3,449)	\$0	(\$3,449)	(\$3,449)
	Total Accumulated Depreciation	(\$1,866,186)	(\$21,421)	(\$1,887,607)	(\$1,872,793)

Finding 6: Accumulated Amortization of CIAC

Audit Analysis: The Utility's general ledger reflects water and wastewater Accumulated Amortization of CIAC balances of \$276,662 and \$299,305, respectively, as of December 31, 2014. Although these balances do not include CIAC amortization accruals for 2014, we have used these balances as the final Utility balances on the Rate Base exhibits.

We reviewed Order Nos. PSC-95-1417-FOF-WS, PSC-03-1342-PAA-WS and PSC-12-0577-PAA-WS, along with the associated analyst and audit work papers. Based on our review, we were able to prepare a schedule that redistributes the Utility's Accumulated Amortization of CIAC balance, by specific plant subaccounts, that was established as of the transfer date in Order No. PSC-12-0577-PAA-WS, for both water and wastewater CIAC per the Rule cited in Finding 4.

We recalculated water and wastewater accumulated amortization of CIAC accruals from February 2011 through the end of the test year using the Class B rates pursuant to Rule 25-30.140 Depreciation, F.A.C. Our calculation includes the additions and adjustments we made to water CIAC in Finding 4.

Based on our calculations we have increased water and wastewater accumulated amortization of CIAC balances by \$37,669 and \$58,562, respectively, as of December, 31, 2014. Water and wastewater CIAC amortization expenses are \$12,442 and \$15,514, respectively, for the test year. Table 6-1 that follows provides the subaccount balances for water and wastewater Accumulated Amortization of CIAC and incorporates our specific adjustments to water CIAC in Finding 4 and those discussed above.

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

Effect on the Filing: Average water and wastewater Accumulated Amortization of CIAC balances are \$308,110 and \$350,109, respectively, as of December 31, 2014. Water and wastewater CIAC amortization expenses are \$12,442 and \$15,514, respectively, for the test year.

Table 6-1

CALCULATION OF AA of CIAC BY SPECIFIC ASSET GROUP					
		Per Utility		Per Audit	Test Year
WATER:		@12/31/14	Adjustment	@12/31/14	Average
Utility Balance		\$276,662	(\$276,662)	\$0	\$0
Potable					
331	T&D Mains	\$0	\$17,074	\$17,074	\$16,805
333	Services	\$0	\$52,420	\$52,420	\$51,967
Cash-Connections Fees		<u>\$0</u>	<u>\$136,926</u>	<u>\$136,926</u>	<u>\$132,991</u>
		\$0	\$206,420	\$206,420	\$201,763
Non-Potable					
309	Supply Mains	\$0	\$19,206	\$19,206	\$18,876
311	Pumping Equipment	\$0	\$23,301	\$23,301	\$22,829
333	Services	\$0	\$62,935	\$62,935	\$62,331
Cash-Connections Fees		<u>\$0</u>	<u>\$2,469</u>	<u>\$2,469</u>	<u>\$2,311</u>
		\$0	\$107,911	\$107,911	\$106,347
TOTAL WATER AA of CIAC		\$276,662	\$37,669	\$314,331	\$308,110
		Per Utility		Per Audit	Test Year
WASTEWATER		@12/31/14	Adjustment	@12/31/14	Average
Utility Balance		\$299,305	(\$299,305)	\$0	\$0
360	Gravity Sewers	\$0	\$23,510	\$23,510	\$22,829
361	Force Sewers	\$0	\$8,919	\$8,919	\$8,530
363	Services	\$0	\$105,112	\$105,112	\$103,449
370	Receiving Wells	\$0	\$6,923	\$6,923	\$6,143
Cash-Connections Fees		\$0	\$213,403	\$213,403	\$209,158
TOTAL W/WATER AA of CIAC		\$299,305	\$58,562	\$357,867	\$350,109

Finding 7: Capital Structure

Audit Analysis: The Utility's general ledger reflects the following Capital Structure component balances as of December 31, 2014.

Capital Component	Balance
Common Equity	(\$505,064)
Long Term Debt	\$437,830
Short Term Debt	\$0
Deferred Income Tax	\$0
Customer Deposits	\$193
Total	(\$67,041)

The long term debt balance is composed of four outstanding obligations listed below. The difference of \$8,921 between the two balances is due to a discrepancy between a general ledger balance of \$52,465 for two State Revolving Fund loans, administered by the Department of Environmental Regulation (DEP), and the outstanding principal balance of \$61,387 (\$57,955+\$3,432), reflected for the two loans on the December 15, 2014 loan statement. Therefore, we have increased the Utility's long term debt balance by \$8,921.

Additionally, the Utility's general ledger contains several related party payables totaling \$425,516, which arise from a combination of deferred payments to or cash infusions by the owner, his son and daughter-in-law to meet ongoing Utility obligations. The Utility's Annual Report identifies this balance as Advances from Associated Companies. We have not included this balance in our capital structure presentation. The analyst should determine whether this balance should be included for this proceeding.

	Issue	Maturity	Interest	Original	Balance	Test Year
Debt Obligation	Date	Date	Rate	Principal	@12/31/14	Average
Oculina Mortgage	11/18/11	11/18/16	6.00%	\$441,733	\$340,799	\$369,387
Ally Bank (GMC Sierra)	05/23/13	05/23/19	0.91%	\$60,105	\$44,566	\$49,485
State Revolving Fund (DEP)	06/15/00	06/15/20	3.12%	\$170,871	\$57,955	\$62,714
State Revolving Fund (DEP)	06/15/00	06/15/20	3.55%	\$9,854	\$3,432	\$3,710
Total				\$682,563	\$446,751	\$485,295

Our review of the loan documents reveals that the Oculina mortgage, which was obtained for the purchase of the Utility, is secured by a personal guarantee of a former Utility officer who is no longer associated with the Utility.

The Utility's Capital Structure is composed of common equity and debt associated with long term debt and customer deposits. The cost rate for common equity is capped at 11.16 percent as prescribed in Order No. PSC-14-0272-PAA-WS, issued May 29, 2014. We calculated an average cost rate of 3.66 percent for the Utility's long term debt. The cost rate for customer deposits is 2.00 percent per Rule 25-30.311, F.A.C.

We reconciled the Utility's capital structure to the combined average rate base balances for water and wastewater operations in Exhibits 1 and 2. Based on that reconciliation, we determined that the Utility's average capital structure as of December 31, 2014 is comprised entirely of debt and that the weighted average cost on that debt is 4.021 percent.

Effect on the General Ledger: The Utility's balance for the State Revolving Funds should be increased by \$8,921 to \$61,386 as of December 31, 2014, per the semi-annual DEP loan statements.

Effect on the Filing: The Utility's weighted average cost for its capital structure when reconciled to the average rate base of \$441,813 ($\$391,135 + \$50,678$) is 4.021 percent. Our calculations are displayed in Exhibit 3.

Finding 8: Operation and Maintenance Expense

Audit Analysis: The Utility's general ledger reflects water and wastewater Operation and Maintenance (O&M) Expenses of \$244,323 and \$126,357, respectively, for the 12-months ended December 31, 2014. These expenses are comprised of direct and common allocated expenses for each of the Utility's systems. The allocation of common expenses, 66.67 percent for water and 33.33 percent for wastewater, was established in Order No. PSC-03-1342-PAA-WS. The Utility continued this allocation methodology for all common O&M expenses throughout the test year.

We have reduced water and wastewater O&M expenses by \$2,717 and \$9,447, respectively, for the test year based on the following specific account adjustments discussed below. A summary of our adjustments by subaccount is provided in Tables 8-1 and 8-2 that follow.

Account 601/701 - Salary and Wages Employees

We reduced water and wastewater expense in these accounts by \$4,293 and \$2,147, respectively, for the test year. Our adjustments normalized salary expense by removing the payroll associated with two former employees that were not replaced by the Utility. The Utility currently has two full time employee/officers and two part time employees.

Account 604/704 – Employee Pension & Benefits

We increased water and wastewater expense in these accounts by \$14,264 and \$7,132, respectively, for the test year. Our adjustment reclassifies \$7,132 of insurance expense from Account 659/759 – Insurance Other and annualizes that amount to determine the Utility's estimated going forward cost to provide health insurance for its two employees. The \$7,132 represents four months of payments for health insurance coverage. Based on that amount, an annualized premium of \$21,396 ($\$7,132 / 4 \text{ months} \times 12 \text{ months}$) was calculated.

Account 615/715 - Purchased Power

We increased water and reduced wastewater expense in these accounts by \$3,966 and \$4,254, respectively, for the test year. Our adjustments correct the following issues that result in a net reduction of \$288 ($\$462 - \750) to total purchased power expense.

1. We replaced December 2013 electric bills included in the general ledger with December 2014 electric bills for the test year, resulting in a net increase of \$462.
2. We directly charged a lift station power bill to wastewater purchased power expense.
3. We reallocated total common purchased power from the 66.67 percent water and 33.33 percent wastewater allocation which was used by the Utility to a 75 percent water and 25 percent wastewater allocation established in Order No. PSC-03-1342-PAA-WS.
4. We removed a monthly allocation for office purchased power that ceased in May of 2014 for the test year, resulting in a net decrease of \$750.

Account 620/720 - Materials and Supplies

We reduced water by \$1,639 and increased wastewater by \$1,009, in these accounts for the test year. Our adjustments result in a net reduction of \$629 ($\$3,587 - \$3,657 - \559) to total material and supplies expense and are explained below.

1. We increased water and wastewater expense in this account \$2,391 and \$1,196, respectively, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger.
2. We reduced water expense in this account by \$3,657 to reclassify and capitalize to Account 311 the cost to replace two 7 ½ hp booster pumps at the water plant. See Finding 1 for additional information.
3. We reduced water and wastewater expense in this account \$373 and \$186, respectively, to remove a what we believe were non-utility purchases in June and September of the test year.

Account 635/735 - Contractual Services Testing

We reduced water and wastewater expense in these accounts by \$401 and \$1,106, respectively, for the test year. Our adjustments remove non-utility testing expenses that we identified during our review of the contract vendors invoices for water and wastewater testing services.

Account 636 - Contractual Services Other

We reduced water expense in this account by \$197 for the test year. We made the following adjustments that net to this amount.

1. We reduced water expense in this account by \$3,620 to reclassify and capitalize to Account 311 the cost to replace a 75 hp non-potable well pump at the water plant. See Finding 1 for additional information.
2. We increased water expense in this account by \$3,423 (\$720+\$2,703). We have included \$720 of contract labor to service the non-potable well pumps on a February miscellaneous expense voucher that was not posted to the general ledger. We have also included \$2,703 of contract labor to service the potable booster pumps on a October miscellaneous expense voucher that was not posted to the general ledger.

Account 641/741 - Rental of Building /Property

We increased water and wastewater expense in these accounts by \$5,333 (\$6,000-\$667) and \$2,667 (\$3,000-\$333), respectively, for the test year. Our adjustment removes water and wastewater office rental expense of \$667 and \$333, respectively, for the test year because the Utility going forward has an onsite office building for the office manager to work from. We added annual water and wastewater building rental expense of \$6,000 and \$3,000, respectively, for the Utility's lease of 1,200 square feet of space in a 2,400 square foot building at the employee/officers home at a cost of \$0.63 per square foot. The 2015 lease includes all 2,400 square feet of space in the building. However, after touring the site, we believe that 1,200 square feet is all that is needed for the secure storage of the Utility's three vehicles, a work area and the storage of utility parts and supplies. The Utility believes that an offsite location is needed because of concerns about access control and security at the Utility plant site.

Account 642/742 - Rental of Equipment

We reduced water and wastewater expense in these accounts by \$3,600 (\$15,600-\$12,000) and \$1,800 (\$7,800-\$6,000), respectively, for the test year. Our adjustments removed 2014 water and wastewater annual equipment lease expenses of \$15,600 and \$7,800, respectively, and replaced it with an adjusted 2015 water and wastewater annual equipment lease expense of \$12,000 and \$6,000, respectively, for the test year. The 2015 equipment lease, with the

employee/officers, requests a combined annual equipment lease payment of \$20,100 for the following items.

Equipment	Lease	Audit Adjust.	Adj. Lease	Water	Wastewater
Golf cart	\$1,200	(\$1,200)	\$0	\$0	\$0
Office equipment	\$1,200	\$0	\$1,200	\$800	\$400
Service truck	\$7,800	\$0	\$7,800	\$5,200	\$2,600
Jetter & trailers	\$900	\$0	\$900	\$600	\$300
Misc. lawn equipment	\$1,500	\$0	\$1,500	\$1,000	\$500
Service van & tools	\$3,000	\$0	\$3,000	\$2,000	\$1,000
Gravelly mower	\$2,400	\$0	\$2,400	\$1,600	\$800
Pressure washer	\$300	(\$300)	\$0	\$0	\$0
Pole saw	\$300	(\$300)	\$0	\$0	\$0
Dump trailer	\$300	(\$300)	\$0	\$0	\$0
Gator	\$1,200	\$0	\$1,200	\$800	\$400
Total	\$20,100	(\$2,100)	\$18,000	\$12,000	\$6,000

We removed the golf cart (electric) and left the Gator (gas) because we believe that one small type of utility vehicle is sufficient for the Utility's needs. We removed the pressure washer and pole saw because we believe that it would be more cost effective for the Utility to purchase or rent these items as needed, rather than paying for a lease on an annual basis. We removed the dump trailer because there are several trailers already included in the jetter & trailer lease amount above and because the Utility purchased a commercial pick-up truck with heavy cargo capabilities. Additional information on the leased service truck and van is included in Finding 11.

Account 650/750 – Transportation

We reduced water and wastewater expense in these accounts by \$3,354 and \$1,677, respectively for the test year. Our adjustments result in a net reduction of \$4,867 (\$933-\$3,563-\$2,237) to total transportation expense and are explained below.

1. During the test year the Utility paid \$3,518 for mileage reimbursements to its employees and contractors. Based on information we present in Finding 11, we believe that the Utility has a sufficient number of vehicles available to negate the need for such payments going forward. However, we believe that the office managers use of a personal vehicle to travel to and from the bank, post office and other related duties should be reimbursed at the standard Internal Revenue Service (IRS) mileage rate. Early in the test year the office manager estimated and documented an average month mileage of 645 miles per month for these business trips. We believe that this mileage estimate is reasonable, given the remote location of the Utility with respect to commercial centers of business, such as the bank and post office. The IRS standard mileage reimbursement rate is \$.575 per mile for 2015. Using this rate and an annual mileage estimate of 7,740 (645x12) miles, we calculate a mileage allocation of \$4,451 for the test year. Therefore, we have increased the mileage portion for transportation expense by \$933 (\$4,451-\$3,518), for the test year.
2. During the test year the Utility paid \$10,750 for fuel related purchases that were charged to a fuel card or as reimbursements supported by employee and contractor receipts. We have reduced the fuel portion of transportation expense by \$3,727 to \$7,023 to remove what we believe are reimbursements for non-utility fuel purchases. These fuel purchases were made outside the State of Florida with no stated utility purpose.

3. During the test year the Utility paid \$6,754 for other types of transportation cost such as vehicle repairs and travel cost reimbursements. We have reduced the other portion of transportation expense by \$2,237 to \$4,517 to remove \$1,487 of repairs to a non-utility vehicle and to remove \$750 of unsupported travel cost for airline tickets.

Additional information related to the Utility vehicles and associated transportation cost is discussed further in Finding 11.

Account 656/756 - Insurance Vehicle

We reduced water and wastewater expense in these accounts by \$2,327 and \$1,163, respectively, to remove the 2014 and include the 2015 vehicle insurance premiums to reflect the actual going forward cost for the Utility in this rate proceeding. We only include the insurance costs for three utility vehicles based on information we provided in Finding 11.

Account 657/757 - Insurance General Liability

We reduced water and wastewater expense in these accounts by \$20 and \$11, respectively, to remove the 2014 and include the 2015 general liability insurance premiums to reflect the actual going forward cost for the Utility in this rate proceeding.

Account 659/759 - Insurance Other

We reduced water and wastewater expense in these accounts by \$4,755 and \$2,377, respectively, to reclassify the 2014 employee health insurance premiums to Account 604/704 - Employee Pension and Benefits.

Account 667/767 – Regulatory Commission Expense

We reduced water and wastewater expense by \$50 each, to reclassify the Department of Environmental Regulation (DEP) permit fees to Accounts 675/775 – Miscellaneous Expense below.

Account 675/775 - Miscellaneous Expense

We reduced water and wastewater expense in these accounts by \$5,645 and \$5,670, respectively, for the test year. Our adjustments correct the following issues that result in a net reduction of \$11,315 to total miscellaneous expense.

1. We reduced water and wastewater expense in these accounts by \$4,506 and \$2,253, respectively, to adjust communication cost by removing \$9,835 (\$6,346+\$3,173) currently in these accounts and including \$2,760 (\$1,840+\$920) for the going forward annual costs of one internet and business telephone provider and two cellular telephones used by the Utility's full time employees.
2. We reduced water and wastewater expense in these accounts by \$1,139 and \$3,417, respectively, based on the following adjustments.
 - a. We reduced wastewater expense by \$2,872 to reclassify and capitalize to Account 360 the cost to refurbish the master lift station pumps. See Finding 2 for additional information.
 - b. We increased water and wastewater expense by \$751 and \$375, respectively, to include reimbursements for an October miscellaneous expense voucher that was not posted to the general ledger.

- c. We reduced water and wastewater expense by \$1,940 and \$970 to remove what we believe are reimbursements for non-utility meal purchases.
- d. We increased water and wastewater expense by \$50 each, to reclassify DEP permit fees that were recorded in Accounts 667/767 – Regulatory Commission Expense above.

Based on our adjustments above, water and wastewater O&M Expenses are \$241,610 and \$116,910, respectively, for the test year.

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

Effect on the Filing: Water and wastewater O&M Expenses are \$241,610 and \$116,910, respectively, for the test year, and the associated Working Capital adjustments for water and wastewater Rate Base inclusion are \$30,201 ($\$241,610/8$) and \$14,614 ($\$116,910/8$), respectively.

Table 8-1

Water Operation and Maintenance Expense		Test Year 2014		
Acct.	Description	Per Utility	Adjustment	Per Audit
601	Salary & Wages	\$122,846	(\$4,293)	\$118,553
604	Employee Pension and Benefits	\$0	\$14,264	\$14,264
615	Purchased Power	\$35,330	\$3,966	\$39,296
616	Fuel for Power Production	\$824	\$0	\$824
618	Chemicals	\$1,612	\$0	\$1,612
620	Materials & Supplies	\$11,297	(\$1,639)	\$9,658
632	Contractual Services - Accounting	\$7,613	\$0	\$7,613
634	Contractual Services - Management Fees	\$3,860	\$0	\$3,860
635	Contractual Services - Testing	\$669	(\$401)	\$268
636	Contractual Services - Other	\$9,278	(\$197)	\$9,081
641	Rental of Building/Property	\$667	\$5,333	\$6,000
642	Rental of Equipment	\$15,700	(\$3,600)	\$12,100
650	Transportation Expense	\$12,648	(\$3,354)	\$9,294
656	Insurance - Vehicle	\$3,456	(\$2,327)	\$1,129
657	Insurance - General Liability	\$5,247	(\$20)	\$5,227
659	Insurance - Other	\$4,755	(\$4,755)	\$0
667	Regulatory Commission Expense	\$50	(\$50)	\$0
675	Miscellaneous Expense	\$8,477	(\$5,645)	\$2,832
Total		\$244,328	(\$2,717)	\$241,610

Table 8-2

Wastewater Operation and Maintenance Expense		Test Year 2014		
Acct.	Description	Per Utility	Adjustment	Per Audit
701	Salary & Wages	\$61,423	(\$2,147)	\$59,276
704	Employee Pension and Benefits	\$0	\$7,132	\$7,132
711	Sludge Hauling	\$0	\$0	\$0
715	Purchased Power	\$17,665	(\$4,254)	\$13,411
716	Fuel for Power Production	\$412	\$0	\$412
718	Chemicals	\$1,289	\$0	\$1,289
720	Materials & Supplies	\$6,023	\$1,009	\$7,032
732	Contractual Services - Accounting	\$3,807	\$0	\$3,807
734	Contractual Services - Management Fees	\$1,930	\$0	\$1,930
735	Contractual Services - Testing	\$3,107	(\$1,106)	\$2,001
736	Contractual Services - Other	\$2,154	\$0	\$2,154
741	Rental of Building/Property	\$333	\$2,667	\$3,000
742	Rental of Equipment	\$7,800	(\$1,800)	\$6,000
750	Transportation Expense	\$6,520	(\$1,677)	\$4,843
756	Insurance - Vehicle	\$1,728	(\$1,163)	\$565
757	Insurance - General Liability	\$2,624	(\$11)	\$2,613
759	Insurance - Other	\$2,377	(\$2,377)	\$0
767	Regulatory Commission Expense	\$50	(\$50)	\$0
775	Miscellaneous Expense	\$7,116	(\$5,670)	\$1,446
Total		\$126,357	(\$9,447)	\$116,910

Finding 9: Taxes Other Than Income

Audit Analysis: The Utility's general ledger reflects water and wastewater Taxes Other Than Income (TOTI) Expenses of \$35,905 and \$19,126, respectively, for the 12-months ended December 31, 2014. We have reduced these expenses by \$565 and \$233, respectively, based on the following specific adjustments discussed below. The allocation of real estate and payroll taxes between water and wastewater operations is the same as described in Finding 8.

Real Estate Tax

We reduced water and wastewater property taxes by \$89 and \$44, respectively, to remove the 2013 property taxes paid which are included in the 2014 general ledger and include the 2014 property taxes at the maximum discount per the property tax bill. The water and wastewater plant occupies the same parcel of land.

Payroll Tax

We reduced water and wastewater payroll tax by \$328 and \$164, respectively, to remove the payroll taxes associated with our adjustment to employee salaries described in Finding 8.

Regulatory Assessment Fee (RAF)

We have increased water and wastewater test year RAF's by \$170 and \$134, respectively, to remove the 2013 RAF's paid which are included in the 2014 general ledger and include the calculated RAF due on Utility water and wastewater revenues of \$266,168 and \$160,261, respectively, for the test year.

Our calculations and adjustments are detailed in Table 9-1 that follows.

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

Effect on the Filing: Water and wastewater TOTI Expenses are \$35,658 and \$19,052 respectively, for the test year.

Table 91

TAXES OTHER THAN INCOME			
	For the 12-Months Ended 12/31/2014		
Water System	Per Utility	Adjustments	Per Audit
Real Property Tax	\$7,912	(\$89)	\$7,823
Tangible Property Tax	\$0	\$0	\$0
Payroll Tax	\$16,185	(\$328)	\$15,857
Regulatory Assessment Fees (RAF)	\$11,808	\$170	\$11,978
Total	\$35,905	(\$247)	\$35,658
	For the 12-Months Ended 12/31/2014		
Wastewater System	Per Utility	Adjustments	Per Audit
Real Property Tax	\$3,956	(\$44)	\$3,912
Tangible Property Tax	\$0	\$0	\$0
Payroll Tax	\$8,093	(\$164)	\$7,929
Regulatory Assessment Fees (RAF)	\$7,077	\$134	\$7,212
Total	\$19,126	(\$74)	\$19,052

Finding 10: Information on Related Parties

Audit Analysis: The Utility is owned 100 percent by Reginald Burge who serves two additional roles as the Utility's Vice President, and as a part-time contractor for maintenance services. Kevin Burge, the son, serves dual roles as President and Utility Director/Maintenance Foreman. Holly Burge, Kevin's spouse, serves dual roles as Secretary/treasurer and Office Manager/Controller.

Reginald Burge is reimbursed for time, materials, transportation and meals for the services he provides as a contractor for utility services. He also receives monthly payments for personal equipment that he leases to the Utility.

Kevin and Holly Burge are employees of Aquarina Waterworks, Inc., an affiliated company that is wholly owned by Kevin and Holly Burge. Their entire salary as well as all associated payroll and employment taxes is charged to the Utility, as if they were utility employees. Additionally, they are reimbursed for parts, materials, supplies, transportation and meals for services they provide as utility employees. They also receive monthly payments for personal equipment and maintenance building space that they lease to the Utility.

Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, found that, "Related party transactions require heightened scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its cost are reasonable. This burden is even greater when the transaction is between related parties. The Courts have established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence to contrary. The standard is to evaluate affiliate transactions and determine whether those transactions exceed the going market rate or are otherwise unfair".

The reimbursement amounts included in the test year for these services are detailed below.

Lessor/Expense	Amount
Reginald Burge	
Time	\$2,512
Materials & Supplies	\$8,268
Transportation	\$280
Meals	\$185
Equipment lease	\$5,400
Kevin & Holly Burge	
Salaries	\$137,160
Payroll & Employment Taxes	\$35,710
Management Fee	\$5,790
Materials & Supplies	\$16,258
Office Supplies & Materials	\$8,084
Testing & Chemicals	\$790
Insurance & Dues	\$4,264
Transportation	\$15,676
Meals	\$2,704
Office lease & phones	\$5,050
Equipment lease	\$18,000
Total	\$249,487

A portion of the costs included above are the result of direct reimbursements that are supported by adequate documentation. However, we believe that the salaries, associated payroll and employment taxes, and lease payments, though not necessarily excessive, fall under the “heightened” level of scrutiny as described in the Order above.

We made adjustments that increased the test year expense for leased property and equipment by \$2,600 (Property increase of \$8,000 less equipment decrease of \$5,400) based on the new 2015 lease agreements which are discussed in Finding 8. Time constraints prevented us from determining whether the new lease rates included for the equipment and building exceed the going market rate or are otherwise unfair.

Additionally, for the same reason, we were unable to determine whether the salary expenses displayed above were reasonable based on the job descriptions provided and task that the employees’ perform.

The transportation costs are discussed in Finding 11.

We defer the disposition of leased property and equipment and the employee salary amounts to the analyst and engineer in this rate proceeding.

Effect on the General Ledger: None

Effect on the Filing: To be determined by Tallahassee staff.

Finding 11: Information on Transportation Costs

Audit Analysis: The Utility's general ledger and our audit adjustments include the following vehicles and transportation related costs for the test year.

Description	Per Utility	Adjustment	Per Audit
Transportation Equip. (2013 GMC Sierra)	\$0	\$60,894	\$60,894
Transportation Equip. (Acc. Dep.)	\$0	(\$15,224)	(\$15,224)
Net Water & Wastewater Rate Base	\$0	\$45,670	\$45,670
Water Rate Base	\$0	\$30,447	\$30,447
Wastewater Rate Base	\$0	\$15,223	\$15,223
Description	Per Utility	Adjustment	Per Audit
Transportation Expense-Mileage	\$3,518	\$933	\$4,451
Transportation Expense-Fuel	\$10,750	(\$3,727)	\$7,023
Transportation Expense-Other	\$6,754	(\$2,237)	\$4,517
Total Transportation Expense	\$21,022	(\$5,031)	\$15,991
Vehicle Lease (Service truck & van)	\$10,800	\$0	\$10,800
Insurance-Vehicle	\$5,184	(\$3,490)	\$1,694
Transportation Equip. (Depreciation Exp.)	\$0	\$10,149	\$10,149
Net Water and Wastewater NOI	\$37,006	\$1,628	\$38,634
Water NOI	\$24,671	\$1,085	\$25,756
Wastewater NOI	\$12,335	\$543	\$12,878

Our transportation adjustments above are based on the belief that the Utility only needs a maximum of three service vehicles to serve its customers. The three vehicles are described below and are used in the following manner.

- The purchased 2013 GMC Sierra is used in the day to day activities for utility service.
- The leased truck is a 2008 F550 Super Duty utility truck with a crane that is used as needed to pull and repair the water plant pumps and wastewater lift station pumps.
- The leased van is a 2007 E150 Cargo Van that is used as needed with an assortment of tools and equipment to service and maintain the Utility's water and wastewater systems.

All three vehicles are located at the leased maintenance building which is offsite from the Utility plant. The Utility also leases a Gator, which is a small gas powered utility type vehicle which is used and stored at the utility plant site.

Our transportation mileage adjustment accounts for the office managers use of a personal vehicle for utility business. However, included in the Utility's mileage amount of \$3,518 were reimbursements to other employees for personal vehicles which we believe are no longer needed.

Our review of the fuel costs enabled us to remove fuel expenses which were incurred outside of the state. However, there were also reimbursements for fuel that may have been for personal vehicles or non-utility in nature. The detail that was provided did not enable us to make that determination.

The analyst or engineer for this proceeding should make the following determinations related to leased vehicles and associated transportation expense for this proceeding.

1. Is the Utility's lease for the two service vehicles prudent and whether the annual lease cost of \$10,800 is reasonable?
2. The test year fuel cost, after our audit adjustments, is \$7,178. Is this amount reasonable for the three vehicles that we have included as well as the Gator and mowing equipment that is leased by the Utility.

Effect on the General Ledger: None

Effect on the Filing: To be determined by Tallahassee staff.

Exhibits

Exhibit 1: Water Rate Base

**Aquarina Utilities, Inc.
Docket No.150010-WS
As of December 31, 2014**

Description	Per Utility @12/31/14	Adjustments	Per Audit @12/31/14	Test Year Average
Plant in Service	\$1,929,415	\$53,779	\$1,983,194	\$1,980,834
Land & Land Rights	\$62,080	\$0	\$62,080	\$62,080
Contributions in Aid of Construction	(\$483,149)	(\$11,850)	(\$494,999)	(\$477,139)
Accumulated Depreciation	(\$1,522,797)	(\$10,652)	(\$1,533,449)	(\$1,512,951)
Accumulated Amortization of CIAC	\$276,662	\$37,669	\$314,331	\$308,110
Working Capital	\$0	\$30,210	\$30,210	\$30,201
Total	\$262,211	\$99,156	\$361,367	\$391,135

Utility balances for Accumulated Depreciation and Accumulated Amortization of CIAC do not include accruals for the test year. Small differences are due to rounding.

Exhibit 2: Wastewater Rate Base

Aquarina Utilities, Inc.				
Docket No.150010-WS				
As of December 31, 2014				
Description	Per Utility @12/31/14	Adjustments	Per Audit @12/31/14	Test Year Average
Plant in Service	\$2,116,139	\$7,708	\$2,123,847	\$2,122,411
Land & Land Rights	\$33,680	\$0	\$33,680	\$33,680
Contributions in Aid of Construction	(\$603,375)	\$0	(\$603,375)	(\$597,343)
Accumulated Depreciation	(\$1,866,186)	(\$21,421)	(\$1,887,607)	(\$1,872,793)
Accumulated Amortization of CIAC	\$299,305	\$58,562	\$357,867	\$350,109
Working Capital	\$0	\$14,614	\$14,614	\$14,614
Total	(\$20,437)	\$59,463	\$39,026	\$50,678
Utility balances for Accumulated Depreciation and Accumulated Amortization of CIAC do not include accruals for the test year. Small differences are due to rounding.				

Exhibit 3: Capital Structure

Aquarina Utilities, Inc.								
Docket No.150010-WS								
As of December 31, 2014								
Capital Component	As of 12/31/2014				Average	Ratio	Cost Rate	Weighted Average Cost
	Per Utility	Adjustments	Per Audit	Adjustments	Per Audit			
Common Equity	(\$505,064)	\$0	(\$505,064)	\$461,420	(\$43,644)	-9.88%	11.16%	0.000%
Long Term Debt	\$437,830	\$8,921	\$446,751	\$38,544	\$485,295	109.84%	3.66%	4.020%
Short Term Debt	\$0	\$0	\$0	\$0	\$0	0.00%		0.000%
Accumulated Deferred Income Tax	\$0	\$0	\$0	\$0	\$0	0.00%		0.000%
Investment Tax Credits	\$0	\$0	\$0	\$0	\$0	0.00%		0.000%
	(\$67,234)	\$8,921	(\$58,313)	\$499,964	\$441,651	99.96%		0.000%
Customer Deposits	\$193	\$0	\$193	(\$32)	\$162	0.04%	2.00%	0.001%
Total	(\$67,041)	\$8,921	(\$58,120)	\$499,933	\$441,813	100.00%		4.021%
<p>The Utility balance for Common Equity does not include the results from operations in the test year.</p> <p>The cost rate for Common Equity is capped at 11.16 percent per Order No. PSC-14-0272-PAA-WS.</p> <p>The audit balance for Common Equity is the sum of the average Net Rate Base balances displayed on Exhibits 1 and 2.</p> <p>Small differences are due to rounding.</p>								

Exhibit 4: Water Net Operating Income

Aquarina Utilities, Inc.			
Docket No.150010-WS			
Twelve Months Ended December 31, 2014			
Description	Per Utility	Adjustments	Per Audit
Operating Revenues	\$266,168	\$0	\$266,168
Operating Expenses			
Operation & Maintenance Expense	\$244,328	(\$2,718)	\$241,610
Depreciation Expense	\$0	\$46,452	\$46,452
CIAC Amortization Expense	\$0	(\$12,442)	(\$12,442)
Taxes Other Than Income Expense	\$35,905	(\$247)	\$35,658
Income Tax Expense	<u>\$2,884</u>	<u>(\$2,884)</u>	<u>\$0</u>
Total Operating Expenses	\$283,117	\$28,161	\$311,278
Net Operating Income	(\$16,949)	(\$28,161)	(\$45,110)
<p>The Utility's 2013 Federal & State Tax return reflects a Net Operating Loss Carry over of \$377,873. Based on this this balance we do not believe that the Utility will present a positive taxable income in the near future. Therefore, we have set Income Tax Expense to \$0. Small differences are due to rounding.</p>			

Exhibit 5: Wastewater Net Operating Income

Aquarina Utilities, Inc.			
Docket No.150010-WS			
Twelve Months Ended December 31, 2014			
Description	Per Utility	Adjustments	Per Audit
Operating Revenues	\$160,261	\$0	\$160,261
Operating Expenses			
Operation & Maintenance Expense	\$126,357	(\$9,447)	\$116,910
Depreciation Expense	\$0	\$29,628	\$29,628
CIAC Amortization Expense	\$0	(\$15,514)	(\$15,514)
Taxes Other Than Income Expense	\$19,126	(\$74)	\$19,052
Income Tax Expense	<u>\$1,442</u>	<u>(\$1,442)</u>	<u>\$0</u>
Total Operating Expenses	\$146,925	\$3,151	\$150,076
Net Operating Income	\$13,336	(\$3,151)	\$10,185
<p>The Utility's 2013 Federal & State Tax return reflects a Net Operating Loss Carry over of \$377,873. Based on this this balance we do not believe that the Utility will present a positive taxable income in the near future. Therefore, we have set Income Tax Expense to \$0. Small differences are due to rounding.</p>			