

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Franklin County by Water Management
Services, Inc.

DOCKET NO. 110200-WU

DATED: December 6, 2012

COMMISSION
CLERK

12 DEC -6 PM 1:28

RECEIVED FPSC

CERTIFICATE OF SERVICE


I HEREBY CERTIFY that the original and six copies of the testimony of DEBRA M. DOBIAC, on behalf of the Florida Public Service Commission, was filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by U.S. Mail, on this 6th day of December, 2012.

Water Management Services, Inc.
Mr. Gene D. Brown
250 John Knox Rd., #4
Tallahassee, FL 32303-4234

Mr. Martin S. Friedman
Sundstrom, Friedman & Fumero, LLP
766 North Sun Drive, Suite 4030
Lake Mary, FL 32746

J.R. Kelly/Joseph A. McGlothlin/Erik L. Sayler
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

Ms. Patricia Vest
1499 E. Gulf Beach Dr.
St. George Island, FL 32328



MARTHA F. BARRERA
SENIOR ATTORNEY

FLORIDA PUBLIC SERVICE COMMISSION
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
Telephone: (850) 413-6212

DOCUMENT NUMBER DATE

07996 DEC-6 2012

FPSC-COMMISSION CLERK

Docket No. 110200-WU: Application for increase in water rates in Franklin County by Water Management Services, Inc.

Witness: **Direct Testimony of Debra M. Dobiac**, Appearing on Behalf of the staff of the Florida Public Service Commission

Date Filed: December 6, 2012

COM 5
AFD _____
APA _____
ECO _____
ENG _____
GCL _____
IDM _____
TEL _____
CLK I

DOCUMENT NUMBER-DATE

07995 DEC-6 2012

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF DEBRA M. DOBIAC**

4 **DOCKET NO. 110200-WU**

5 **DECEMBER 6, 2012**

6 **Q. Please state your name and business address.**

7 **A. My name is Debra M. Dobiac, and my business address is 2540 Shumard Oak**
8 **Boulevard, Tallahassee, Florida, 32399.**

9 **Q. By whom are you presently employed and in what capacity?**

10 **A. I am employed by the Florida Public Service Commission as a Public Utilities**
11 **Analyst II in the Office of Auditing and Performance Analysis.**

12 **Q. How long have you been employed by the Commission?**

13 **A. I have been employed by the Commission since January 2008.**

14 **Q. Briefly review your educational and professional background.**

15 **A. I graduated with honors from Lakeland College in 1993 and have a Bachelor of**
16 **Arts degree in accounting. Prior to my work at the Commission, I worked for 6 years in**
17 **internal auditing at the Kohler Company and First American Title Insurance Company. I**
18 **also have approximately 12 years of experience as an accounting manager and controller.**

19 **Q. Please describe your current responsibilities.**

20 **A. Currently, I am a Public Utilities Analyst II with the responsibilities of managing**
21 **regulated utility financial audits. I am also responsible for creating audit work programs**
22 **to meet a specific audit purpose.**

23 **Q. Have you presented testimony before this Commission?**

24 **A. Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 080121-**
25 **WS, the Water Management Services, Inc. Rate Case, Docket No. 100104-WU, and the**

1 Gulf Power Company Rate Case, Docket No. 110138-EI.

2 **Q. What is the purpose of your testimony today?**

3 **A.** The purpose of my testimony is to sponsor the staff audit report of Water
4 Management Services, Inc. (Utility), which addresses the Cash Flow Audit as
5 required by the Commission in Order No. PSC-11-0010-SC-WU in Docket No.
6 100104-WU. I will also address Finding 7, Cash Flow Analysis Update, in the
7 Rate Case Audit Report filed in Docket No. 110200-WU. The Cash Flow Audit
8 Report and the Rate Case Audit Report are filed with my testimony and are
9 identified as Exhibit DMD-1 and Exhibit DMD-2, respectively.

10 **Q. Were these audits prepared by you?**

11 **A.** Yes.

12 **Q. Please describe the work you performed in the Cash Flow Audit, Exhibit**
13 **DMD-1.**

14 **A.** We scheduled each of the Utility's 14 cash accounts by month from January 1,
15 2004, through December 31, 2010, separating cash receipts from disbursements, and
16 determined the disposition of any excess cash or the resolution of any cash shortages.

17 We scheduled the beginning and ending balance for each month from January 1,
18 2004, through December 31, 2010, for Account 123 – Investment in Associated
19 Companies (Account 123). We documented the transactions that represented cash flows
20 into the Utility from associated companies and cash flows out of the Utility to associated
21 companies.

22 We analyzed all invoices, receipts, and other documentation supporting the 1,368
23 transactions in Account 123 and determined whether the amounts represented security
24 investments or were duplicative of the Utility's expenses.

25 We scheduled the 17 current and long-term notes payable accounts recorded on

1 the Utility's books, indicating the beginning and ending balance of debt for each month
2 from January 1, 2004, through December 31, 2010. We obtained copies of the loan
3 agreements or other documentation that verified the amount of debt incurred by the
4 Utility's President and associated companies used for the Utility's operations.

5 We scheduled the Department of Environmental Protection (DEP) loan and its
6 four amendments and noted the change in interest rate, the amount of the decrease in the
7 annual debt service, and the incremental increase in interest paid over the term of the new
8 DEP loan compared to the total amount of interest applicable to the original loan.

9 **Q. Please review the audit findings in the Cash Flow Audit, Exhibit DMD-1.**

10 **A.** Our report included five findings, which are explained on the following pages.

11 **Finding 1: Associated Companies - General**

12 This finding discusses that the Utility's President has been an Officer, Director,
13 Managing Partner, General Partner, and majority owner of the following entities:

- 14 • Brown Management Group, Inc.
- 15 • Leisure Development Services, Inc.
- 16 • St. George's Plantation, Inc.
- 17 • Equity Management Systems, Inc.
- 18 • Real Estate Services of North Florida, Inc.
- 19 • Gene D. Brown, P.A.
- 20 • Real Estate Equities of Florida, LLC
- 21 • Leisure Properties, Ltd.
- 22 • St. George Island Utility Co., Ltd.

23 We had requested that the Utility provide any contracts, agreements, or other
24 business arrangements between the Utility's officers and directors for professional
25 services for each firm, partnership, or organization with which the director or officer is

1 affiliated. The Utility stated that there are no written documents responsive to this
2 request. The Utility's President owns, either personally or through various business
3 entities, the controlling interest in the Utility and the aforementioned associated
4 companies.

5 **Finding 2: Cash Receipts and Disbursements**

6 This finding discusses the comparison of the Utility's cash received to the cash
7 spent on utility and non-utility related expenditures.

8 The utility activity cash receipts include utility loan proceeds, cash advances,
9 interest income, proceeds from the sale of assets, proceeds from the Supply Main lawsuit,
10 and cash received for regulated utility services. The utility activity cash disbursements
11 include loan payments, credit card payments, lease payments, and utility-related
12 investment in capitalized assets and operational expenses. Cash receipts for utility
13 activities were greater than cash disbursements in five of the seven years. In two of the
14 years, 2004 and 2010, cash disbursements were greater than cash receipts.

15 The non-utility activity cash receipts include funds from the Utility's President,
16 associated companies, proceeds from a lease agreement, and cash received from non-
17 utility services. The non-utility activity cash disbursements include funds to the Utility's
18 President, associated companies, payroll tax penalties, bank and credit card fees, and
19 other costs pertaining to non-utility services. In five of the seven years, cash
20 disbursements for non-utility activities were greater than cash receipts. In two of the
21 years, 2004 and 2010, cash receipts were greater than cash disbursements.

22 From January 1, 2004, through December 31, 2010, utility activity cash receipts
23 exceeded cash disbursements by \$442,475; therefore, cash flow was positive. Non-utility
24 activity cash disbursements exceeded cash receipts by \$883,264; therefore, cash flow was
25 negative. Overall, cash disbursements for the Utility exceeded cash receipts by \$440,789

1 during the seven-year period; therefore, cash flow was negative.

2 In addition, we analyzed the Accounts Receivable (A/R) aging reports for the
3 years 2005 through 2010. The Utility did not have a 2004 A/R aging report available.
4 For the six years reviewed, the A/R average aging reports show that 77 percent of the
5 accounts were current, 4 percent were 30-59 days past due, 1 percent were 60-89 days
6 past due, and 18 percent were greater than 90 days past due.

7 Audit staff also analyzed the Accounts Payable (A/P) aging reports for the years
8 2004 through 2010. For the seven years reviewed, the A/P average aging reports show
9 that 22 percent of the accounts were current, 14 percent were 31-60 days past due, 6
10 percent were 61-90 days past due, and 58 percent were greater than 91 days past due.

11 The analysis of the Utility's A/R and A/P aging reports demonstrate that the
12 Utility received its cash from the ratepayers in a timely manner, but did not pay its
13 operational and financing expenses timely.

14 **Finding 3: Investments in Associated Companies**

15 This finding discusses our review of the supporting documentation for the 1,368
16 transactions in Account 123 from January 1, 2004, through December 31, 2010. We
17 determined that the transactions were either:

- 18 1. Utility cash being used for the benefit of the Utility's President or associated
19 companies, and vice versa, or
- 20 2. Utility-related expenses being recorded in a non-cash transaction, such as
21 recording legal expense without actually paying the Utility's President for his
22 services or selling a vehicle to Brown Management Group by removing the asset
23 and the corresponding debt without recording cash proceeds.

24 The amount of \$3,095,289 was identified as a receivable from the Utility's
25 President and associated companies. The amount of \$1,920,214 was identified as a

1 payable to the Utility's President and associated companies. This results in a net
2 receivable from the Utility's President and associated companies of \$1,175,075, which is
3 the same amount recorded on the Utility's books, as of December 31, 2010.

4 The net receivable of \$1,175,075 from the Utility's President and associated
5 companies, as of December 31, 2010, represents funds that have been moved out of the
6 Utility to the Utility's President or one of his associated companies.

7 **Finding 4: Debt Incurred by the Utility's President and Associated**
8 **Companies**

9 This finding discusses the details of the terms and conditions of the debt and/or
10 loans, which the Utility's President claimed were incurred by him and Brown
11 Management Group, Inc. on behalf of the Utility.

12 We received documentation for seven loans totaling \$935,301. The outstanding
13 balance, as of December 31, 2010, was \$372,147.

14 **Finding 5: Department of Environmental Protection Loan Restructured**

15 This finding discusses the DEP loan agreement the Utility originally entered into
16 on December 20, 2001. The Utility entered into four amendments to the loan from
17 December 31, 2002, through February 18, 2011, which revised the terms of the loan.

18 Ultimately, the term of the DEP loan was increased an additional 10 years for an
19 incremental increase in interest expense of \$928,071, while the Utility's annual loan
20 payments were lowered by \$112,507.

21 **Q. Please describe the work you performed in the Rate Case Audit Finding 7,**
22 **Cash Flow Analysis Update, Exhibit DMD-2 Page 7 of 26.**

23 **A.** We scheduled each of the Utility's cash accounts by month for the 12-months
24 ended December 31, 2011, and separated cash receipts from disbursements. We also
25 reviewed Account 123 – Investment in Associated Companies for any activity.

1 **Q. Please review Finding 7, Cash Flow Analysis Update, of the Rate Case Audit**
2 **Report, Exhibit DMD-2 Page 19 of 26.**

3 **A. Finding 7: Cash Flow Analysis Update**

4 This finding discusses the updated statements of cash flows for 2011. Audit staff
5 presented the Utility's cash flow using three different methods.

6 First, the direct method reflects the principal components of cash receipts and cash
7 payments for operating, investing, and financing activities, excluding non-cash
8 transactions.

9 Second, the indirect method reconciles net income to net cash flows from
10 operating activities. The adjustments necessary to complete this reconciliation are made
11 to net income to remove the effects of all non-cash deferrals, all non-cash accruals, and all
12 items classified as investing or financing cash flows.

13 Third, we analyzed the data separating cash receipts and cash disbursements into
14 utility and non-utility activity for regulatory purposes.

15 During the eight-year period reviewed, 2004 through 2011, the Utility had an
16 overall decrease in cash of \$459,828 with an ending negative cash balance of \$18,585, as
17 shown in all three statements. However, there was a \$470,725 increase of cash for utility
18 activity. The cash decrease of \$930,552 represents non-utility activity, which includes
19 cash to and from the Utility's affiliates. Account 123 – Investments in Associated
20 Companies had an incremental increase of \$40,000 during 2011, as shown on Exhibit
21 DMD-2 Page 2 of 5.

22 **Q. Please summarize your testimony.**

23 **A.** Our analysis of Account 123 – Investments in Associated Companies notes
24 a balance of \$1,215,075 as of December 31, 2011. This demonstrates that over an
25 eight-year period ending December 31, 2011, more cash flowed out of the Utility

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

to the Utility's President or one of his associated companies than flowed in.

Q. Does that conclude your testimony?

A. Yes.

State of Florida



Public Service Commission

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

Auditor's Report

Water Management Services, Inc.
Cash Flow Audit

From January 1, 2004 to December 31, 2010

Docket No. 100104-WU
Audit Control No. 11-007-1-2
July 29, 2011

Handwritten signature of Debra M. Dobiac in black ink.

Debra M. Dobiac
Audit Manager

Handwritten signature of Lynn M. Deamer in black ink.

Lynn M. Deamer
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures 2

Audit Findings

1: Associated Companies – General 5

2: Cash – Receipts and Disbursements 7

3: Investments in Associated Companies..... 9

4: Debt Incurred by Gene Brown and Associated Companies..... 12

5: Department of Environmental Protection Loan Restructured 13

Exhibits

1: Comparative Statement of Cash Flows..... 14

2: Comparative Net Change in Debt..... 16

3: Comparative Cash Receipts and Disbursements..... 17

Purpose

To: Florida Public Service Commission

We performed the procedures enumerated in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 7, 2011. Audit staff applied these procedures to prepare the accompanying Exhibits 1 through 3 for the period January 1, 2004 to December 31, 2010 for Water Management Services, Inc.

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

General

Definitions

The audit period is from January 1, 2004 to December 31, 2010.

The Utility or WMSI refers to Water Management Services, Inc., which is a C Corporation for tax purposes.

Gene D. Brown is the President and General Manager of the Utility.

During the Utility's last rate case, Docket No. 100104-WU, an issue was raised concerning the balance in the Utility's Account 123 – Investments in Associated Companies. Order No. PSC-11-0010-SC-WU¹ states:

Based on the record in this proceeding, it cannot be determined if the level of investment in associated companies is appropriate. However, the amounts in question are not included in rate base and are not considered in the determination of the appropriate rates. That said, based on the circumstances in this case, our staff shall initiate a cash flow audit of the Utility as soon as possible, and, if it is determined that the activity in the account has impaired the Utility's ability to meet its financial and operating responsibilities, our staff shall recommend an appropriate adjustment for imprudence.

Subsequent Events

The Utility provided its own cash flow analysis on May 20, 2011, which we did not audit. The Statement of Cash Flows and the findings in this report are based on audit staff's analysis of the Utility's books and records.

Audit staff was informed that, on January 3, 2011, the security interest in Brown Management Group, Inc. was transferred to the Utility for the value of the balance in Account 123 – Investment in Associated Companies as of December 31, 2010. The Utility now owns 100 percent of Brown Management Group, Inc. This transaction has no effect on the conclusions drawn in this report.

Audit Finding 1 discusses the business relationships between the Utility and the associated companies.

Cash Flow Analysis

Cash

Objectives: The objectives were to determine the beginning and ending balances of cash for each month of the audit period and to compare the cash received for services rendered to the cash

¹ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc., page 56.

disbursed for utility-related expenses. An additional objective was to determine how the Utility accounted for any cash deficiencies.

Procedures: Audit staff scheduled each of the Utility's 14 cash accounts by month for the audit period and separated cash receipts from disbursements. We determined the disposition of any excess cash or the resolution of any cash shortages. Audit Finding 2 discusses our findings.

Investments in Associated Companies

Objectives: The objectives were to determine the beginning and ending balance recorded in the National Association of Regulatory Utility Commissioners (NARUC) Account 123 – Investments in Associated Companies for each month of the audit period and to verify the movement of funds between the Utility and associated companies.

Procedures: We scheduled the beginning and ending balance for each month of the audit period for Account 123 – Investment in Associated Companies (Account 123). Audit staff documented the transactions that represented cash flows into the Utility from associated companies and cash flows out of the Utility to associated companies.

Objectives: The objectives were to:

- Review all invoices, receipts, and other documentation that verifies amounts paid by Gene Brown and associated companies on behalf of the Utility for the audit period,
- Insure that these amounts are not duplicative of other expenses or investments recorded on the Utility's books and records, and
- Verify how much, if any, of the balance recorded in Account 123 represents amounts due to or from Gene Brown and associated companies for utility-related expenses.

Procedures: Audit staff analyzed all invoices, receipts, and other documentation supporting the 1,368 transactions in Account 123 and determined if the amounts represented security investments or were duplicative of the Utility's expenses. Audit Finding 3 discusses these transactions.

Debt Instruments

Objectives: The objective was to determine how much debt Gene Brown or associated companies incurred on behalf of the Utility over the audit period. In addition, we were to obtain copies of all loan agreements or other documentation that verifies the debt and to prepare a schedule that details the terms and conditions of all identified debt.

Procedures: We scheduled the 17 current and long-term notes payable accounts recorded on the Utility's books, which indicated the beginning and ending balance of debt for each month of the audit period. Audit staff obtained copies of the loan agreements or other documentation that verified the amount of debt incurred by Gene Brown and associated companies used for the Utility's operations. Audit Finding 4 discusses the debt.

Objectives: The objective was to verify the change in interest rate, the amount of the decrease in the annual debt service, and the incremental increase in interest paid over the term of the new

Department of Environmental Protection (DEP) loan compared to the total amount of interest applicable to the original loan.

Procedures: We scheduled the DEP loan and its four amendments noting the parameters listed in the preceding objectives. Audit Finding 5 discusses our results.

Audit Findings

Finding 1: Associated Companies – General

Audit Analysis: The following is NARUC's definition of Associated Companies:

"Associated Companies" means companies or persons that, directly or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the accounting company.

"Control" (including the terms "controlling," "controlled by," and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

The following associated companies identify Gene Brown as an Officer, a Director, and majority owner:

- Brown Management Group, Inc.
- Leisure Development Services, Inc.
- St. George's Plantation, Inc.
- Equity Management Systems, Inc. – dissolved August 6, 2010
- Real Estate Services of North Florida, Inc. – dissolved August 6, 2010
- Gene D. Brown, P.A. – dissolved September 26, 2008

The following partnership identifies Gene Brown as the Managing Partner and majority owner:

- Real Estate Equities of Florida, LLC – dissolved August 6, 2010

The following partnerships identify a company for which Gene Brown is an Officer, a Director, and majority owner as the General Partner:

- Leisure Properties, Ltd.
- St. George Island Utility Co., Ltd.

In addition, Sandra Chase, the Vice President of the Utility, is the President and Director of SMC Investment Properties, Inc., which is also an associated company of the Utility.

Audit staff requested that the Utility provide any contracts, agreements, or other business arrangements between the Utility's officers and directors for professional services for each firm, partnership, or organization with which the director or officer is affiliated. The Utility stated that there are no written documents responsive to this request.

Conclusion: Gene Brown owns, either personally or through various business entities, the controlling interest in the Utility and the associated companies referenced above except for SMC

Investment Properties, Inc. Therefore, all transactions between the Utility and associated companies other than SMC Investment Properties, Inc. are under the absolute control of Gene Brown.

Finding 2: Cash – Receipts and Disbursements

Audit Analysis: We compared the Utility’s cash received to the cash spent on utility and non-utility related expenditures. Table-1 summarized the results from the Utility’s cash disbursement journal.

Table-1

Water Management Services, Inc.

For Twelve Months Ending:	Total	UTILITY ACTIVITY			NON-UTILITY ACTIVITY			Total
		Cash Receipts	Cash Disbursements	Net Cash	Cash Receipts	Cash Disbursements	Net Cash	
12/31/2003	\$ 441,242							
Net Change	\$ 7,346	\$ 2,299,729	\$ (2,632,838)	\$ (333,109)	\$ 881,792	\$ (541,337)	\$ 340,455	\$ 7,346
12/31/2004	448,588							
Net Change	(274,769)	2,226,978	(1,930,387)	296,591	258,836	(830,196)	(571,360)	(274,769)
12/31/2005	173,819							
Net Change	(103,131)	2,017,197	(1,806,488)	210,709	200,056	(513,896)	(313,840)	(103,131)
12/31/2006	70,688							
Net Change	(60,887)	1,971,529	(1,888,752)	82,777	211,190	(354,854)	(143,664)	(60,887)
12/31/2007	9,801							
Net Change	(28,783)	2,210,356	(2,011,331)	199,025	231,279	(459,087)	(227,808)	(28,783)
12/31/2008	(18,982)							
Net Change	2,639	1,460,251	(1,429,435)	30,816	413,475	(441,652)	(28,177)	2,639
12/31/2009	(16,343)							
Net Change	16,796	1,489,158	(1,533,492)	(44,334)	363,989	(302,859)	61,130	16,796
12/31/2010	453							
Total Period Net Change:	\$ (440,789)	\$ 13,675,198	\$ (13,232,723)	\$ 442,475	\$ 2,560,617	\$ (3,443,881)	\$ (883,264)	\$ (440,789)

The utility activity cash receipts include utility loan proceeds, cash advances, interest income, proceeds from the sale of assets, proceeds from the Supply Main lawsuit,² and cash received for regulated utility services. The utility activity cash disbursements include loan payments, credit card payments, lease payments, and utility-related investment in capitalized assets and operational expenses. As shown in Table-1, cash receipts were greater than cash disbursements in five of the seven years. In two of the years, 2004 and 2010, cash disbursements were greater than cash receipts.

The non-utility activity cash receipts include funds from Gene Brown, associated companies, proceeds from a lease agreement, and cash received from non-utility services. The non-utility activity cash disbursements include funds to Gene Brown, associated companies, payroll tax penalties, bank and credit card fees, and other costs pertaining to non-utility services. In five of the seven years, cash disbursements were greater than cash receipts. In two of the years, 2004 and 2010, cash receipts were greater than cash disbursements.

² See Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc., page 12.

In the utility activity cash disbursement totals in Table-1, transactions include a minimal amount of late fees and finance charges, which normally is a non-utility activity. Because the amount is approximately .007 percent of the \$13 million, we did not itemize these fees. Audit staff believes that the fees would not have a material impact on Table-1.

We analyzed the Accounts Receivable (A/R) aging reports for the years 2005 through 2010. The Utility did not have a 2004 A/R aging report available. For the six years reviewed, the A/R average aging reports show that 77 percent of the accounts are current, 4 percent are 30-59 days past due, 1 percent are 60-89 days past due, and 18 percent are greater than 90 days past due. Audit staff also analyzed the Accounts Payable (A/P) aging reports for the years 2004 through 2010. For the seven years reviewed, the A/P average aging reports show that 22 percent of the accounts are current, 14 percent are 31-60 days past due, 6 percent are 61-90 days past due, and 58 percent are greater than 91 days past due.

Conclusion: During the audit period, utility activity cash receipts exceeded cash disbursements by \$442,475; therefore, cash flow was positive. Non-utility activity cash disbursements exceeded cash receipts by \$883,264; therefore, cash flow was negative. Overall, cash disbursements for the Utility exceeded cash receipts by \$440,789; therefore, cash flow was negative.

The analysis of the Utility's A/R and A/P aging reports demonstrate that the Utility receives its cash from the ratepayers in a timely manner, but does not pay its operational and financing expenses timely.

Finding 3: Investments in Associated Companies

Audit Analysis: NARUC defines Account 123 – Investment in Associated Companies as follows:

A. This account shall include the book cost of investments in securities issued or assumed by associated companies (See definition in Finding 1) and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement. Include also the offsetting entry to the recording of amortization of discount or premium on interest-bearing investments (See account 419-Interest and Dividend Income).

B. The account shall be maintained in such manner as to show the investment in securities of, and advances to, each associated company together with full particulars regarding any of such investments that are pledged.

Based on the review of the supporting documentation for the 1,368 transactions (averaging approximately 17 transactions per month) in Account 123 during the audit period, we determined that the transactions were either:

1. Utility cash being used for the benefit of Gene Brown or associated companies, and vice versa, or
2. Utility-related expenses being recorded in a non-cash transaction, e.g. recording legal expense without actually paying Gene Brown for his services or selling a vehicle to Brown Management Group by removing the asset and the corresponding debt without recording cash proceeds.

Audit staff does not believe that these 1,368 transactions recorded during the audit period meet the NARUC definition for Account 123 – Investments in Associated Companies. We reclassified the transactions as shown in Table-2.

Table-2

Account	Description	Debit	Credit
145	A/R-Gene Brown	\$2,127,074	
145	A/R-Brown Management Group	\$ 458,684	
145	A/R-Gene Brown PA	\$ 62,168	
145	A/R-Equity Management Systems	\$ 71,606	
145	A/R-Real Estate Services of North Florida	\$ 5,460	
145	A/R-Real Estate Equities of Florida	\$ 39,489	
145	A/R-Reed Brown	\$ 2,705	
145	A/R-Land in Florida, Inc	\$ 197,978	
145	A/R-Leisure Development	\$ 150	
145	A/R-Leisure Properties	\$ 6,598	
145	A/R-St. George Island Utility Company	\$ 41,127	
145	A/R-St. George Plantation	\$ 150	
145	A/R-SMC Investments	\$ 85,000	
145	A/R-Nancy Allee	\$ 100	
123	Investments in Associated Companies		\$1,175,075
233	A/P-Gene Brown		\$ 576,460
233	A/P-Brown Management Group		\$ 708,574
233	A/P-Gene Brown PA		\$ 347,519
233	A/P-Equity Management Systems		\$ 182,211
233	A/P-Real Estate Services of North Florida		\$ 100
233	A/R-Real Estate Equities of Florida		\$ 20,350
233	A/P-SMC Investments		\$ 85,000

Conclusion: Order No. PSC-11-0010-SC-WU³, with respect to Account 123, states:

Witness Brown testified that all funds that flowed through this account were used to pay debt service on loans incurred by BMG and himself personally to obtain financing to keep the Utility in operation.

Audit staff's analysis demonstrates that the transactions in Account 123 – Investment in Associated Companies should be zero. The amount of \$3,095,289 should be recorded as a receivable from Gene Brown and associated companies. The amount of \$1,920,214 should be recorded as a payable to Gene Brown and associated companies. This results in a net receivable from Gene Brown and associated companies of \$1,175,075, which is the same amount recorded in Account 123 – Investments in Associated Companies as of December 31, 2010. Table-2 reflects the entries necessary to record the balances described above.

The net receivable of \$1,175,075 from Gene Brown and associated companies, as of December 31, 2010, represents funds that have been moved out of the Utility for either Gene Brown's personal use or one of his associated companies.

³ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc., page 51.

Finding 4: Debt Incurred by Gene Brown and Associated Companies

Audit Analysis: We scheduled the details of the terms and conditions of the debt and/or loans, which Gene Brown (GDB) claims was incurred by him and Brown Management Group (BMG) on behalf of the Utility. The results are summarized in Table-3.

Table-3

Financial			Original	Outstanding	
Institution	Borrower	Term	Amount	Balance	Interest
				12/31/2010	Rate
(1) ASB ⁴	GDB PA	Revolving Credit	\$ 20,000	\$ 17,869	Variable
(2) ASB	GDB PA	Revolving Credit	\$ 30,000	\$ 28,335	Variable
(3) ASB	GDB	20 years	\$150,000	\$148,092	Variable
(4) FMB ⁵	BMG	20 years	\$360,000	\$ -0-	7.50%
(5) FMB	BMG	Three years	\$ 50,301	\$ 27,851	6.75%
(6) FMB	BMG	Five years	\$175,000	\$ -0-	6.85%
(7) CSB ⁶	BMG	One year	<u>\$150,000</u>	<u>\$150,000</u>	6.50%
		TOTAL:	\$935,301	\$372,147	

Debts (1) and (2) are business flexline accounts. Debt (3) is an equity line secured by Gene Brown's home. Debt (4) represents the mortgage for the purchase of two lots on November 1, 2007. Brown Management Group purchased these lots, which were originally purchased by the Utility for \$236,000 in 2006. However, the Utility purchased those lots from Brown Management Group for \$325,000 on October 15, 2010. Debt (5) is a business loan for working capital and debt (6) was a business loan paid off on August 3, 2010. Finally, debt (7) is a commercial revolving draw, which renews annually.

Conclusion: These funds have been accounted for through the recommended entry in Audit Finding 3 (Table-2) as payables.

⁴ ASB – Amsouth Bank

⁵ FMB – Farmers and Merchants Bank

⁶ CSB – Citizens State Bank

Finding 5: Department of Environmental Protection Loan Restructured

Audit Analysis: The Utility entered into a loan agreement with the Department of Environmental Protection (DEP) on December 20, 2001. The principal amount of the loan was \$3,000,000, excluding capitalized interest, with a loan service fee of \$58,252 and an interest rate of 3.05 percent per annum. The loan was to be repaid in 40 semiannual payments (20 years) of \$104,894 beginning on November 15, 2003.

The Utility entered into Amendment 1 of the loan agreement on December 31, 2002. The additional financing was for \$3,080,833, excluding capitalized interest, with another loan service fee of \$59,823, an interest rate of 2.93 percent per annum, and with a revised semiannual payment of \$209,823.

On September 30, 2004, the Utility entered into Amendment 2, which revised the semiannual payments to \$208,695 in order to reflect the capitalized interest and payments made to date.

On December 30, 2009, the Utility entered into Amendment 3, which represented a restructuring of the loan because it missed a payment on November 15, 2009. This amendment deferred the May 15, 2010 payment and extended the term to 60 semiannual payments (30 years) with no change to the interest rates. The revised semiannual payments of \$104,751 were to begin November 15, 2010.

The Utility entered into Amendment 4 on February 18, 2011 because of a missed payment on November 15, 2010. The Utility made an interest payment of \$73,096 on May 15, 2011. The revised semiannual payments of \$152,442 will begin on November 15, 2011. There will be no change to the interest rates or remaining term.

Conclusion: The term of the DEP loan was increased an additional 10 years, which lowered the Utility's annual loan payments by \$112,507, however the incremental increase in interest expense over the term of the loan will be \$928,071.

Exhibits

Exhibit 1: Comparative Statement of Cash Flows

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	Seven Year Activity 12/31/2010
Cash from Operations								
Income/(Loss) from continuing operations	\$ 79,037	\$ (61,607)	\$ (94,716)	\$ (57,770)	\$ (260,464)	\$ (331,691)	\$ (504,038)	\$ (1,231,249)
Adjustments to reconcile income to net cash from operations:								
Deprec/Amort	222,243	222,800	233,901	207,664	196,776	175,545	199,395	1,458,323
Loan Fees Amort	403	12,699	29,730	19,073	18,939	18,643	12,103	111,590
(Gain)/Loss on Sale of UPIS	6,330	(23,160)	(227,098)	(210,420)	7,286	(4,500)	(1,500)	(453,061)
PSC Adjustments	-	-	-	-	-	-	222,536	222,536
Accounts Receivable	(11,090)	5,292	(7,754)	17,458	2,235	7,811	(34,505)	(20,554)
Prepaid Expense	(9,466)	(132)	(4,072)	(10,445)	7,224	8,282	31	(8,578)
Interest Receivable	-	(719)	719	-	-	-	-	-
Misc. Deferred Debits	(148,942)	(6,502)	38,113	38,800	38,800	(26,738)	(164,482)	(230,951)
Accounts Payable	(253,815)	(9,264)	(60,822)	5,429	(38,142)	109,682	270,016	23,085
Customer Deposits	2,485	1,738	(6,210)	101,681	(26,414)	(5,146)	32,505	100,639
Accruals	17,054	14,270	(17,350)	357	(25,572)	57,071	(41,088)	4,742
Operating Reserves	-	-	-	-	-	80,000	(80,000)	-
Net Cash Flows from Operations	(95,760)	155,416	(115,559)	111,828	(79,334)	88,958	(89,027)	(23,478)
Cash Flows from Investing								
UPIS	(164,785)	(123,742) B	(103,038) C	427,107 E	660,188 F	(12,981)	(211,768)	470,981
Investments in Assoc Co	(110,532) A	(535,316)	(127,586)	(151,183)	(236,086)	(53,202)	38,830	(1,175,075)
A/R- Assoc Co	240,306 A	-	-	-	-	-	-	240,306
N/R- Assoc Co	-	-	(200,000) D	-	50,000	50,000	100,000	-
Non-Utility Property Disallowed Investment in UPIS	(380,773)	-	-	-	-	-	(325,800)	(325,800)
Net Cash Flows from Investing	(415,784)	(659,058)	(430,624)	275,924	474,102	(16,183)	(398,738)	(1,170,360)
Cash Flows from Financing								
Advances for Construction	(3,300)	(2,850)	(900)	(1,200)	(300)	(300)	(9,707)	(18,557)
CIAC	99,351	77,109	38,633	26,264	29,967	26,939	149,109	447,372
Notes Payable	50,000	435,982	(328,698)	(172,996)	(2,993)	(202,239)	2,701,532	2,480,587
Long-term Debt	372,837	(281,367)	734,019	(300,707)	(450,225)	105,463	(2,336,372)	(2,156,354)
Net Cash Flows from Financing	518,888	228,873	443,053	(448,639)	(423,551)	(70,138)	504,561	753,048
Increase (decrease) in Cash	7,345	(274,769)	(103,130)	(60,888)	(28,782)	2,638	16,796	(440,791)
Cash, beginning of the year	441,243	448,588	173,819	70,689	9,801	(18,982)	(16,343)	441,243
Cash, end of the year	\$ 448,588	\$ 173,819	\$ 70,689	\$ 9,801	\$ (18,982)	\$ (16,343)	\$ 453	\$ 453

See Notes on the following page.

NOTES: A Prior to 2004, the Utility recorded their investments in associated companies as receivables/payables. The following journal entry notes the consolidation of those accounts into Account 123:

Acct	Description	Debit	Credit
123.00	Inv in Associated Companies	\$ 109,258	
145.30	A/R - Land in Florida, Inc.		\$ 197,978
145.50	A/R - Leisure Properties		\$ 6,072
145.60	A/R - SGIUC Partners		\$ 36,891
233.22	A/P - GDB PA	\$ 34,326	
233.26	A/P - GDB	\$ 97,357	

- B** Includes retirement of the land, building, and office furniture from sale of the Tallahassee office building less the purchases of 2002 Silverado, dump truck, and backhoe trailer.
- C** Includes the state park T&Ds in-service placement, the purchase of two lots in Tallahassee, and the sale of the 2002 Silverado.
- D** The notes receivable-associated companies was a promissary note from BMG to the Utility for the sale of the apartments in the island office building as per Order No. PSC-05-1156-PAA-WU.
- E** Includes the sales of the two lots to BMG, the 2005 dump truck, the 2001 GMC pickup, and the purchase of the 2008 GMC Sierra pickup.
- F** Includes settlement proceeds of \$719,337 (\$800,000 less \$80,663 in legal fees) from Supply Main lawsuit.

Exhibit 2: Comparative Net Change in Debt

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	Seven Year Activity 12/31/2010
<i>Notes Payable</i>								
N/P-Curr-Wachovia / World Omni	\$ (6,485)	\$ -	\$ -	\$ 8,271	\$ (8,271)	\$ -	\$ -	\$ (6,485)
N/P-Curr-GSB (GMC)	(2,330)	(3,978)	-	-	-	-	-	(6,308)
N/P-Curr-Envision GMC/Chev Loan	5,889	325	424	359	(6,997)	3,704	223	3,927
N/P-Curr-FMB (GMC) / CCB (GMC)	645	(7,578)	-	6,902	477	503	(7,882)	(6,933)
N/P-Curr-Hitachi GMC Loan	-	8,186	675	(8,861)	-	-	-	-
N/P-Curr-Gulf State Bank/Centennial Bank	23,257	(1,618)	(50,845)	42,699	1,702	1,971	2,716,800	2,733,966
N/P-Current-CCB-Chevrolet Loan	-	11,410	(11,410)	-	-	-	-	-
N/P-Curr-Bank of Tallahassee	-	-	220,000	(220,000)	-	-	-	-
N/P-Current-GSB Wcap Loan	-	252,783	(252,783)	-	-	-	-	-
N/P-Curr-GMAC	-	-	6,541	(6,541)	-	-	-	-
N/P-Curr-Wakulla GMC Loan	-	187,183	(180,745)	(6,438)	-	-	-	(0)
N/P-Curr-D.E.P.	4,624	8,622	(2,912)	7,762	7,996	(200,349)	6,249	(168,007)
N/P-Curr- F.C.C.U. (GMC)	-	-	-	-	-	3,957	247	4,204
N/P-Current-Bank of Perry	(6,492)	(17,337)	(43,200)	-	-	-	-	(67,030)
N/P-Current-GSB RAF Loan	8,338	(2,263)	(6,075)	-	-	-	-	-
N/P-Curr-FMB Backhoe Loan	23,580	5,968	(8,369)	2,851	2,100	(12,026)	(14,104)	-
N/P-Curr-FMB-Mortgage	(1,027)	(5,722)	-	-	-	-	-	(6,749)
	<u>50,000</u>	<u>435,982</u>	<u>(328,698)</u>	<u>(172,996)</u>	<u>(2,993)</u>	<u>(202,239)</u>	<u>2,701,532</u>	<u>2,480,587</u>
<i>LT Debt</i>								
N/P-Wachovia / World Omni	(7,161)	-	-	17,145	(17,145)	-	-	(7,161)
N/P-GSB-GMC	(3,971)	-	-	-	-	-	-	(3,971)
N/P-Envision GMC/Chev Loan	32,597	(6,293)	(6,738)	(6,997)	(12,569)	13,397	(3,959)	9,438
N/P-FMB (GMC) / CCB (GMC)	(7,570)	(1,364)	-	31,145	(7,379)	(7,882)	(15,884)	(8,934)
N/P-Hitachi GMC Loan	-	36,230	(8,864)	(27,366)	-	-	-	(0)
N/P-Curr-Gulf State Bank/Centennial Bank	48,492	(58,889)	2,719,848	(56,253)	(113,625)	(54,848)	(2,766,794)	(282,068)
N/P-CCB-Chevrolet Loan	-	22,271	(22,271)	-	-	-	-	-
N/P-GMAC	-	-	22,834	(22,834)	-	-	-	-
N/P-Wakulla GMC Loan	-	-	10,282	(10,282)	-	-	-	-
N/P-FMB-Lot Loan	-	-	-	-	-	-	315,595	315,595
N/P-D.E.P.	329,079	(251,460)	(247,240)	(265,449)	(273,445)	135,598	138,867	(434,050)
N/P- F.C.C.U. (GMC)	-	-	-	-	-	14,271	(4,208)	10,063
N/P-Bank of Perry	(54,910)	83,957	(1,712,744)	-	-	-	-	(1,683,697)
N/P-FMB Backhoe Loan	41,700	(20,612)	(21,088)	40,183	(26,062)	4,926	10	19,057
N/P-FMB Mortgage	(5,419)	(85,208)	-	-	-	-	-	(90,627)
	<u>372,837</u>	<u>(281,367)</u>	<u>734,019</u>	<u>(300,707)</u>	<u>(450,225)</u>	<u>105,463</u>	<u>(2,336,372)</u>	<u>(2,156,354)</u>
Total:	<u>\$ 422,837</u>	<u>\$ 154,614</u>	<u>\$ 405,320</u>	<u>\$ (473,704)</u>	<u>\$ (453,218)</u>	<u>\$ (96,777)</u>	<u>\$ 365,160</u>	<u>\$ 324,233</u>

Exhibit 3: Comparative Cash Receipts and Disbursements

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	Seven Year Activity 12/31/2010
UTILITY ACTIVITY								
Cash Receipts								
Accounts Receivable	\$ 1,497,724	\$ 1,491,003	\$ 1,495,885	\$ 1,659,592	\$ 1,365,652	\$ 1,345,936	\$ 1,471,448	\$ 10,327,240
Credit Card Cash Advances	-	30,000	43,200	10,000	44,000	38,000	17,700	182,900
Interest Income	7,022	7,675	6,760	816	2,543	15	10	24,841
Loan Proceeds	794,983	647,317	365,840	66,789	-	72,300	-	1,947,229
Supply Main Lawsuit Proceeds	-	-	-	-	798,161	-	-	798,161
Sales of Assets	-	50,983	105,512	234,332	-	4,000	-	394,827
Subtotal:	2,299,729	2,226,978	2,017,197	1,971,529	2,210,356	1,460,251	1,489,158	13,675,198
Cash Disbursements								
Utility Expenses/Capital	(1,403,185)	(575,659)	(656,115)	(490,636)	(568,613)	(369,000)	(579,285)	(4,642,493)
Payroll	(287,707)	(262,475)	(257,850)	(340,001)	(356,575)	(364,725)	(349,460)	(2,218,793)
Charles Schwab - 401(k) Plan	-	(18,680)	(26,936)	(16,819)	(21,456)	(21,927)	(22,310)	(128,128)
Credit Card Payments	(24,844)	(25,951)	(106,906)	(76,856)	(109,631)	(114,398)	(87,213)	(545,799)
D.E.P. Loan	(418,518)	(417,390)	(208,695)	(417,390)	(417,390)	(208,695)	-	(2,088,078)
Equipment/Vehicle Lease Payments	(44,251)	(56,243)	(39,683)	(6,876)	(15,997)	(14,068)	(40,495)	(217,613)
Loan Payments	(279,523)	(400,343)	(342,409)	(360,336)	(343,006)	(210,723)	(202,803)	(2,139,143)
Payroll Tax Payments	(96,491)	(109,993)	(100,823)	(112,987)	(114,053)	(62,405)	(186,815)	(783,567)
Public Service Commission	(78,319)	(63,653)	(67,071)	(66,851)	(64,610)	(63,494)	(65,111)	(469,109)
Subtotal:	(2,632,838)	(1,930,387)	(1,806,488)	(1,888,752)	(2,011,331)	(1,429,438)	(1,533,492)	(13,232,723)
Net Cash for Utility Activity:	(333,109)	296,591	210,709	82,777	199,025	30,816	(44,334)	442,475
NON-UTILITY ACTIVITY								
Cash Receipts								
Accounts Receivable - Non-utility	396,947	250	-	-	-	-	-	397,197
Lease Agreements	7,355	23,021	21,696	-	-	-	-	52,072
Brown Management Group	-	10,000	360	3,775	215,029	363,261	301,248	893,673
Gene D. Brown	433,250	214,165	71,000	32,415	16,250	45,714	61,741	874,535
Gene D. Brown, PA	42,350	8,900	100,500	-	-	4,500	-	156,250
Other Associated Companies	1,890	2,500	6,500	175,000	-	-	1,000	186,890
Subtotal:	881,792	258,836	200,056	211,190	231,279	413,475	363,989	2,560,617
Cash Disbursements								
Bank Charges	(2,568)	(3,315)	(1,720)	(1,113)	(2,672)	(4,058)	(3,382)	(18,828)
Brown Management Group	-	(61,450)	(40,050)	(82,650)	(100,750)	(108,391)	(62,940)	(456,231)
Cost of Contract Work	(190,936)	-	-	-	-	-	-	(190,936)
Credit Card Fees	(1,742)	(2,245)	(2,461)	(2,314)	(38)	-	-	(8,800)
Gene D. Brown	(293,934)	(739,898)	(431,818)	(192,287)	(246,975)	(317,935)	(227,605)	(2,450,452)
Gene D. Brown, PA	(51,800)	(8,850)	(10,100)	(18,700)	(21,100)	(2,400)	-	(112,950)
Other Associated Companies	(800)	(6,100)	(17,871)	(57,500)	(85,000)	(5,950)	(1,200)	(174,421)
Payroll Tax Penalties	443	(8,338)	(9,876)	(290)	(2,552)	(2,918)	(7,732)	(31,263)
Subtotal:	(541,337)	(830,196)	(513,896)	(354,854)	(459,087)	(441,652)	(302,859)	(3,443,881)
Net Cash For Non-Utility Activity:	340,455	(571,360)	(313,840)	(143,664)	(227,808)	(28,177)	61,130	(883,264)
Cash from WMSI Accounts	2,073,848	791,908	418,739	569,645	1,312,159	323,445	456,656	5,946,400
Cash to WMSI Accounts	(2,073,848)	(791,908)	(418,739)	(569,645)	(1,312,159)	(323,445)	(456,656)	(5,946,400)
Increase (Decrease) in Cash	7,346	(274,769)	(103,131)	(60,887)	(28,783)	2,639	16,796	(440,790)
Cash, Beginning of Year	441,243	448,588	173,819	70,689	9,801	(18,982)	(16,343)	441,243
Cash, End of Year	\$ 448,589	\$ 173,819	\$ 70,688	\$ 9,802	\$ (18,982)	\$ (16,343)	\$ 453	\$ 453

State of Florida



Public Service Commission

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

Auditor's Report

Water Management Services, Inc.
Rate Case Audit

Twelve Months Ended December 31, 2010

Docket No. 110200-WU
Audit Control No. 11-319-1-1
March 12, 2012

Handwritten signature of Debra M. Dobiak in black ink.

Debra M. Dobiak
Audit Manager

Handwritten signature of Lynn M. Deamer in black ink.

Lynn M. Deamer
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

1: Capitalized Items from Prior Rate Case..... 6

2: Accumulated Depreciation..... 8

3: Working Capital..... 10

4: Operations and Maintenance Expense..... 12

5: Depreciation Expense 15

6: Taxes Other Than Income..... 16

7: Cash Flow Analysis Update..... 17

Exhibits

1: Rate Base 22

2: Net Operating Income..... 23

3: Capital Structure 24

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 Economic Regulation in its audit service request dated November 15, 2011. We have applied these procedures to the attached schedules prepared by Water Management Services, Inc. in support of its filing for rate relief in Docket No. 110200-WU.

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

General

Definitions

The historical test year ended December 31, 2010 is the audit period.

The Utility or WMSI refers to Water Management Services, Inc., which is a C Corporation for tax purposes. WMSI is a Class A water utility providing service to approximately 1,805 water customers in Franklin County. The Utility does not provide wastewater service, and all amounts in this report refer to water service only. The Utility's last rate case order PSC-11-0010-SC-WU¹ was issued January 3, 2011 in Docket No. 100104-WU.

Order No. PSC-11-0010-SC-WU² required staff to complete a cash flow audit for the seven years ended December 31, 2010. This report was issued July 29, 2011 in Docket No. 100104-WU.

Rate Base

Objectives: Our objective was to determine that the Utility's adjustments to rate base were correct and supported by adequate audit evidence.

Procedures: We obtained supporting documentation for the adjustments to rate base and verified the assumptions used. We traced any test year data used to the test year general ledger.

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine that property exists and is owned by the Utility, 2) Determine that plant additions are authentic, recorded at cost, and properly classified in compliance with Commission rules and the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA), 3) Verify that the proper retirements of plant were made when a replacement item was put into service, and 4) Verify that the adjustments made by the Commission to plant in service in the Utility's last rate proceeding were recorded in the Utility's general ledger.

Procedures: We determined the plant balances as of December 31, 2009 that were established in Docket 100104-WU. We tested additions to the plant for the period January 1, 2010 to December 31, 2010 to verify the Utility's plant balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. Findings 1 and 4 discuss plant in service adjustments.

¹ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

² Ibid.

Land & Land Rights

Objectives: Our objectives were to: 1) Determine that Utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the land balances as of December 31, 2009 that were established in Docket 100104-WU. There were no land additions since the last rate case.

Contributions-in-Aid-of-Construction

Objectives: Our objectives were to: 1) Determine that additions to Contributions-in-Aid-of-Construction (CIAC) are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, and 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the CIAC balances as of December 31, 2009 that were established in Docket 100104-WU. We tested additions to CIAC for the period January 1, 2010 to December 31, 2010 to verify the Utility's CIAC balances for this proceeding. The audit staff reviewed the Utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the Utility had any special agreements or developer agreements, and whether it has received any donated property as CIAC. We also reviewed the 2010 Income Tax return for unrecorded cash or property contributions. No exceptions were noted.

Advances for Construction

Objectives: Our objectives were to: 1) Verify that advances for construction is properly stated in accordance with the Commission approved agreements and prior orders, and 2) Verify that the adjustments to advances for construction in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We determined the advances for construction balances as of December 31, 2009 that were established in Docket 100104-WU. We tested additions to the advances for construction for the period January 1, 2010 to December 31, 2010 to verify the Utility's advances for construction balances for this proceeding. No exceptions were noted.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We determined the accumulated depreciation balances as of December 31, 2009 that were established in Docket 100104-WU. We tested additions to accumulated depreciation for the period January 1, 2010 to December 31, 2010 to verify the Utility's accumulated depreciation balances for this proceeding. We ensured that retirements to accumulated

depreciation were properly recorded. Findings 1, 2, and 4 discuss adjustments to accumulated depreciation.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are reflective of the depreciation rates and are properly recorded in compliance with Commission rules and the NARUC USOA, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We determined the accumulated amortization of CIAC balances as of December 31, 2009 that were established in Docket 100104-WU. We tested additions to accumulated amortization of CIAC for the period January 1, 2010 to December 31, 2010 to verify the Utility's accumulated amortization of CIAC balances for this proceeding. No exceptions were noted.

Working Capital

Objectives: Our objective was to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We verified the Utility's calculation of working capital balances as of December 31, 2010 using the balance sheet approach and traced the components to the general ledger. Finding 3 discusses working capital.

Net Operating Income

Operating Revenue

Objectives: Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We verified the Utility's revenues for the 12-month period ending December 31, 2010, by tracing them to the Utility's general ledger and billing register. We tested the reasonableness of the utility revenue by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the Utility. We selected a judgmental sample of customer bills and recalculated the bills using the authorized rates. No material variances were noted.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance (O&M) expenses are properly recorded in compliance with NARUC USOA and Commission rules, and are representative of ongoing utility operations.

Procedures: We verified O&M expenses for the 12-month period ending December 31, 2010 by tracing amounts recorded in the Utility's general ledger to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the Utility's methodology for proper allocation of expenses for water operations. Finding 4 discusses O&M Expense.

Depreciation and CIAC Amortization Expense

Objectives: Our objective was to determine that depreciation is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service and the amortization of utility CIAC assets for ongoing utility operations.

Procedures: The audit staff reviewed depreciation and amortization expense recorded on the Utility's books and records. We calculated depreciation expense on the plant in service balances and amortization expense on the CIAC balances for the test year ending December 31, 2010. Findings 1, 4, and 5 discuss depreciation expense.

Taxes Other than Income

Objectives: Our objective was to determine that taxes other than income (TOTI) are recorded in compliance with Commission rules and are representative of ongoing utility operations.

Procedures: We verified TOTI expense for the 12-month period ending December 31, 2010 by tracing invoiced taxes to original source documentation. We also reviewed the 2010 regulatory assessment fee returns, payroll taxes, and other components of TOTI. Finding 6 discusses taxes other than income.

Capital Structure

Objectives: Our objective was to determine the appropriate components and cost rates of the Utility's capital structure were used to arrive at the overall weighted cost of capital. Our objective was to determine that these components are properly presented in compliance with Commission requirements.

Procedures: We reviewed the Utility's cost of capital components and traced amounts to the general ledger as of December 31, 2010. We verified debt to the loan agreements. We determined that the Utility is collecting and accounting for customer deposits as authorized in its Commission approved tariff and verified that the Utility is calculating and remitting interest on customer deposits per Rule 25-30.311, Florida Administrative Code. No exceptions were noted.

Other

Cash Flow Analysis

Objectives: The objective was to update the WMSI Cash Flow Audit, completed in Docket No. 100104-WU, through December 31, 2011.

Procedures: We scheduled each of the Utility's cash accounts by month for the 12-months ended December 31, 2011 and separated cash receipts from disbursements. We also reviewed Account 123 – Investment in Associated Companies for any activity. Finding 7 discusses the updated balances.

Audit Findings

Finding 1: Capitalized Items from Prior Rate Case

Audit Analysis: In the Utility's last rate proceeding, Docket No. 100104-WU, the Commission required the Utility to capitalize \$51,751 of miscellaneous expenses to plant-in-service (\$2,865 to Account 304.2 and \$48,886 to Account 311.2). The Order also required the Utility to decrease plant-in-service by \$35,387 (\$2,149 to Account 304.2 and \$33,238 to Account 311.2) to reflect the retirement costs for replaced plant items, which is 75 % of \$47,183. The remaining \$4,568 (\$51,571 - \$47,183) of capital improvements were costs the Utility incurred to rebuild a pump motor, not to replace it, therefore, no retirement was ordered.

The Utility recorded the adjustments related to the Commission Order in its general ledger in January 2011 (after the 2010 test year used in the current docket). However, the Utility incorrectly retired \$38,813, which includes 75% of 4,568 or \$3,426 (instead of \$35,387) and incorrectly classified all the capitalized items (\$51,751) to Account 311.2 (instead of Account 304.2 and Account 311.2). The Utility also incorrectly calculated the 2010 depreciation expense of \$2,588, which was recorded in January 2011, on the capitalized items of \$51,751 using the 5% rate for Account 311.2. The Utility should have calculated the 2010 depreciation expense of \$22 on \$716 (\$2,865 - \$2,149) using the 3.03% rate for Account 304.2. The Utility should have also calculated \$782 on \$15,648 (\$48,886 - \$33,238) using the 5% rate for Account 311.2. Thus, depreciation expense was overstated by \$1,784 (\$2,588 - \$804).

The Utility did adjust its 2010 rate base in the Minimum Filing Requirements (MFR) Schedule A-3 to reflect the Commission ordered adjustments. However, the Utility used the same incorrect amounts and account distribution discussed above that was used to record the January 2011 general ledger entry. In addition, the Utility did not report in the MFRs the 2010 depreciation expense applicable to the net plant-in-service adjustment of \$16,364 (\$716 + \$15,648).

Prior Commission Ordered Adjustments

Effect on Current MFR Schedules

2010 Test Year

Acct Description	Audit Balance		Utility MFR Balance		Variance	
	13-mo Average		13-mo Average		Debit	Credit
	Debit	Credit	Debit	Credit		
101 Plant in Service	\$ 51,751		\$ 51,751		\$ -	
108 Accumulated Depreciation	\$ 35,387		\$ 38,813		\$ (3,426)	
101 Plant in Service		\$ 35,387		\$ 38,813		\$ (3,426)
108 Accumulated Depreciation		\$ 582		\$ 2,588		\$ (2,006)
403 Depreciation Expense	\$ 804		\$ -		\$ 804	

Effect on the General Ledger: The following general ledger entries are needed to correct the Utility's general ledger balances as of December 31, 2010.

NARUC Acct. No.	Description	Debit	Credit
101-311.2	Plant In Service	\$3,426	
108-311.2	Accumulated Depreciation		\$3,426
To reverse Utility's incorrect additional retirement			
101-304.2	Plant In Service	\$716	
101-311.2	Plant In Service		\$716
To redistribute balance of Account 311.2 to 311.2 and 304.2 per Commission order			
108	Accumulated Depreciation	\$1,784	
403	Depreciation Expense		\$1,784
To adjust Depreciation Expense to reflect 2010 depreciation expense for the net Plant in Service Adjustment of \$16,364			

Effect on the Filing: The Account 101 – Plant in service 13-month average balance should be increased by \$3,426, Account 108 - Accumulated Depreciation 13-month average balance should be increased by \$1,420 (\$3,426 - \$2,006), and Account 403 - Depreciation Expense should be increased by \$804.

Finding 2: Accumulated Depreciation

Audit Analysis: In the Utility’s 2010 general ledger, three transactions were recorded as follows:

	Date	Acct. No.	Description	Debit	Credit
(A)	1/2/2010	108	Accumulated Depreciation	\$140,733	
	1/2/2010	215	Retained Earnings		\$140,733
(A)	12/31/2010	108	Accumulated Depreciation	\$67,063	
	12/31/2010	215	Retained Earnings		\$67,063
(B)	12/31/2010	403	Depreciation Expense	\$14,064	
	12/31/2010	108	Accumulated Depreciation		\$14,064

The Utility recorded the (A) transactions to correct what it believed to be a PSC accounting error in Order No. PSC-94-1383-FOF-WU,³ issued in Docket No. 940109-WU. In Docket No. 940109-WU, the original cost of plant in service was revisited from the prior rate case proceeding in Docket No. 871177-WU, and based on new evidence presented, rate base was adjusted in Schedule No. 1-C. The Transmission and Distribution (T&D) Main asset account was decreased \$430,289 from \$1,368,508 to \$938,219. The T&D Main accumulated depreciation account was not adjusted.

In January 2010, the Utility decreased the T&D Main accumulated depreciation account by \$140,733. The Utility also recorded an adjustment of \$67,063 in December 2010, which the Utility believed reflects the additional depreciation accumulated from 1993 to 2010. Furthermore, the Utility made a 13-month average adjustment to rate base on the MFR Schedule A-3, Adjustments to Rate Base, by decreasing accumulated depreciation by \$72,730. These adjustments precede the current docket, but affect this proceeding as they are reflected in the MFR Schedule A-9, Schedule of Accumulated Depreciation.

In support of its adjustment, the Utility provided a 10-page document, which reflects the T&D Main asset account and the related accumulated depreciation balances from 1987 and 1992 and includes the adjustments noted above. However, no auditable support was provided. The information provided by the Utility did not provide sufficient detail for audit staff to determine the validity of these adjustments.

Audit staff used the beginning balances for the T&D Main asset and accumulated depreciation accounts that were established in Order No. PSC-11-0010-SC-WU⁴ as of December 31, 2009 to determine the balances for accumulated depreciation in the current case. We traced the 2010 additions to original source documents and calculated the related accumulated depreciation in

³ Order No. PSC-94-1383-FOF-WU, issued November 14, 1994, Docket No. 940109-WU, In Re: Petition for interim and permanent rate increase in Franklin County by St. George Island Utility Company, Ltd.

⁴ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

order to determine the December 31, 2010 balances as required within the scope of the current rate proceeding.

Transaction (B) is an adjustment to the Office Furniture and Equipment accumulated depreciation account when the Utility changed the asset life for computers from 15 years to 6 years as noted in the following schedule.

In-Service Year	Computers Balance	Dkt 100104-WU	Dkt 110200-WU	
		Accumulated Depreciation 12/31/2009 Balance	Accumulated Depreciation 12/31/2009 Balance	Accumulated Depreciation 2010 Additions
2001	\$ 2,536	\$ 1,462	\$ 2,536	\$ -
2002	7,935	4,123	7,935	-
2003	10,071	4,427	10,071	-
2004	2,268	802	2,079	189
2005	1,606	482	1,204	268
2006	1,800	420	1,050	300
2007	-	-	-	-
2008	3,032	101	758	505
2009	2,596	87	216	433
2010	4,708	-	-	392
	<u>\$ 36,553</u>	<u>\$ 11,904</u>	<u>\$ 25,851</u>	<u>\$ 2,087</u>

According to Rule 25-30.140(2a), Florida Administrative Code (F.A.C.), the service life for computers in Account 340 is 6 years. However, in (3c) it states, "If guideline depreciation rates have been implemented, the rates shall not be changed unless approved by the Commission."

Should the Commission agree to change the service life for computers, audit staff calculated accumulated depreciation using the shorter life and noted an immaterial variance from the balance for Account 340.5 – Office Furniture and Equipment on the MFR Schedule A-9, Schedule of Accumulated Depreciation as of December 31, 2010. However, in recalculating the 13-month average, we noted that the audited balance was \$12,981 greater than the MFR 13-month average balance for the same account, which represents the cumulative effect of the accounting change prior to 2010. The Utility did not include an adjustment to Accumulated Depreciation on the MFR Schedule A-3, Adjustments to Rate Base. Audit staff discusses the associated depreciation expense in Finding 4.

Effect on the General Ledger: None.

Effect on the Filing: The Analyst should address this issue's effect on the filing and revenue requirement.

Finding 3: Working Capital

Audit Analysis: On the MFR Schedule A-17, Working Capital Allowance Calculation, the deferred rate case expense 13-month average is \$85,399. The Utility included an adjustment of \$143,781 for deferred rate case expense in the 13-month average working capital calculation. This total amount of \$229,180 (\$85,399 + \$143,781) was the approved rate case expense from Order No. PSC-11-0010-SC-WU.⁵ In addition, the Utility included the annual amortized amount of \$57,295 in rate case expense on the MFR Schedule B-5, O&M Expenses by Month. The unamortized amount of rate expense will be much less than the \$229,180 since the new rates went into effect February 22, 2011.

Audit staff scheduled deferred rate case expense as follows:

Date	Deferred Rate Case Expense Balance	Amortized Rate Case Expense
12/31/2010	\$ 229,180	
	\$ (57,295)	\$ 57,295
12/31/2011	<u>\$ 171,885</u>	
	\$ (57,295)	\$ 57,295
12/31/2012	<u>\$ 114,590</u>	
	\$ (57,295)	\$ 57,295
12/31/2013	<u>\$ 57,295</u>	
	\$ (57,295)	\$ 57,295
12/31/2014	<u>\$ -</u>	

The Analyst should address this issue's effect on the filing and revenue requirement.

Also included in the 13-month working capital allowance calculation is \$12,715 of deposits held by Progress Energy, the Utility's electricity provider. These deposits earned \$724 of interest, which the Utility recorded below the line in Account 419 - Interest and Dividend Income. If the deposits are included in the working capital allowance calculation, then the interest income should be recorded above the line.

In addition, the Utility included a liability of \$7,685, which is the 13-month average balance for the interim rates that were ordered to be refunded. However, this liability should be removed from the working capital allowance since it should not affect any subsequent rates. Therefore, we increased the 13-month average for the working capital allowance by \$7,685.

⁵ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

Effect on the General Ledger: None.

Effect on the Filing: The working capital allowance 13-month average balance should be increased by \$7,685. The Analyst should address deferred rate case expense and interest on deposits in the working capital allowance calculation.

Finding 4: Operations and Maintenance Expense

Audit Analysis: Audit staff reviewed the supporting documentation for O&M expenses and for the adjustments to net operating income, and verified the assumptions used. We noted the following.

Description	Account	Balance per	Utility	Balance per	Audit	Balance per
		MFR, Schedule B-5	Adjustments	MFR, Schedule B-7	Adjustments	Audit 12/31/2010
		A	B (C-A)	C	D (E-C)	E
Salaries & Wages - Employees	601	\$ 341,206	\$ (10,283)	\$ 330,923	\$ (9,332)	A \$ 321,591
Salaries & Wages - Officers, Etc.	603	115,192	(10,692)	104,500	(8,250)	A 96,250
Employee Pension & Benefits	604	111,432	(738)	110,694	(9,285)	A 101,409
Purchased Water	610	-	-	-	-	-
Purchased Power	615	62,127	-	62,127	(29)	B 62,098
Fuel for Power Purchased	616	-	2,275	2,275	-	2,275
Chemicals	618	12,879	(26)	12,853	-	12,853
Materials & Supplies	620	18,661	26	18,687	(1,302)	C 17,385
Contractual Services - Engineering	631	22,680	4,920	27,600	(7,600)	D 20,000
Contractual Services - Acct.	632	18,550	(9,000)	9,550	-	9,550
Contractual Services - Legal	633	6,000	-	6,000	-	6,000
Contractual Services - Mgmt. Fees	634	600	(600)	-	-	-
Contractual Services - Testing	635	4,490	668	5,158	(668)	E 4,490
Contractual Services - Other	636	91,572	526	92,098	(731)	F 91,367
Rental of Building/Real Property	641	22,014	(900)	21,114	(1,350)	A 19,764
Rental of Equipment	642	34,322	(721)	33,601	-	33,601
Transportation Expenses	650	37,533	3,177	40,710	(9,160)	G 31,550
Insurance - Vehicle	656	11,331	(3,351)	7,980	(2,380)	G 5,600
Insurance - General Liability	657	24,221	-	24,221	-	24,221
Insurance - Worker's Comp.	658	3,864	2,312	6,176	-	6,176
Insurance - Other	659	16,849	(12,015)	4,834	-	4,834
Advertising Expense	660	600	-	600	-	600
Reg. Comm. Exp. - Rate Case Amort.	666	63,421	(6,126)	57,295	-	57,295
Reg. Comm. Exp. - Other	667	-	-	-	-	-
Water Resource Conservation Exp.	668	-	-	-	-	-
Bad Debt Expense	670	2,240	-	2,240	-	2,240
Miscellaneous Expenses	675	93,318	-	93,318	(12,070)	H 81,248
Total		\$ 1,115,102	\$ (40,548)	\$ 1,074,554	\$ (62,157)	\$ 1,012,397

(A) Audit staff decreased the Utility's adjusted balance for Accounts 601/603 - Salaries & Wages by \$17,852 (\$9,332 + \$8,250), Account 604 - Employee Pension & Benefits by \$9,285, and Account 641 - Rental of Building/Real Property by \$1,350 to allocate 12.5% to affiliates as per Order No. PSC-11-0010-SC-WU.⁶ The Utility maintains an administrative and accounting office in Tallahassee that is used for regulated and non-regulated operations. The Utility allocated 5% of the applicable salaries, benefits, and rent to affiliates. The adjustment above reflects the increase in the allocation to affiliates by 7.5% (12.5% - 5%).

(B) We decreased Account 615 - Purchased Power by \$29 to remove a late fee.

⁶ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

(C) We decreased Account 620 - Materials and Supplies by \$1,302 (\$27 + \$1,200 + \$75). We removed \$27 of out of period (2009) and \$1,200 of non-regulated expenses (bulk purchases of Gatorade, candy, and snacks, etc.). We also removed \$75 of expenses with insufficient support.

(D) Audit staff noted three adjustments to Account 631 - Contractual Services-Engineering on the MFR Schedule B-3, Adjustments to Operating Income. The Utility decreased the account by \$2,680, which is applicable to a 2009 expense and was disallowed in the last rate proceeding. Audit staff agrees with this adjustment.

The account was increased by \$4,000 for the estimated engineering expense of \$2,000 per month, which includes the Northwest Florida Water Management District (NFWFMD), the Department of Environmental Protection (DEP), and all of the other engineering services that the Utility needs on an ongoing basis. However, there was no supporting documentation for these amounts.

Exhibit A of the pre-filed testimony of Les Thomas, Document No. 08222, shows a hydraulic analysis and capacity study, which the Utility had requested done at an hourly rate but not to exceed \$36,000. The capacity study includes a design period of 10 years, and the cost will be amortized at \$3,600 per year. However, there was no supporting documentation of billable hours or expenses incurred by the engineer for this project. Based on the above, we decreased the Utility's adjusted balance for Account 631 - Contractual Services-Engineering by \$7,600 (\$4,000 + \$3,600).

(E) The Utility increased Account 635 - Contractual Services-Testing by \$668, which is the amortized amount for the lead, copper, and organic testing required every three years. Again, no invoices were provided as support for the calculation. Audit staff decreased the Utility's adjusted balance for Account 635 - Contractual Services-Testing by \$668.

(F) The Utility increased Account 636 - Contractual Services-Other by \$526 for the Annual Report preparation cost. Based on the actual invoice, the account should be increased by an additional \$1,063 for a total of \$1,589. However, audit staff also decreased the account by \$1,794 for expenses with insufficient support. Therefore, we decreased the Utility's adjusted balance for Account 636 - Contractual Services-Other by \$731 (\$1,063 - \$1,794).

(G) The Utility increased Account 650 - Transportation Expense by \$3,177, which represents mileage reimbursement for Gene Brown and Sandy Chase. We removed this amount because no mileage logs or expense reports were provided to audit staff to support these numbers as required by Order No. PSC-11-0010-SC-WU.⁷ An additional \$5,739 of expenses was recorded in this account for their vehicles for repairs, maintenance, and gasoline purchases. Audit staff removed this amount because we could not discern the amount applicable to utility business from the Utility provided support for these amounts (credit card statements, not receipts). Audit staff also removed an additional \$244 of expenses because of insufficient support provided. The total decrease to Account 650 - Transportation Expense is \$9,160 (\$3,177 + \$5,739 + \$244).

Since the vehicles for Gene Brown and Sandy Chase were removed from plant in service, the Utility decreased Account 656 - Insurance-Vehicle by \$3,351, which represents the amortized insurance expense for the two vehicles. The remaining balance of \$7,980 in this account is the

⁷ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

amortized expense for the remaining three vehicles owned or leased by the Utility. However, audit staff calculated \$5,600 of actual insurance expense for these vehicles based on details in the actual policies. Therefore, we decreased the Utility's adjusted balance for Account 656 - Insurance-Vehicle by \$2,380 (\$7,980 - \$5,600).

(H) Audit staff decreased Account 675 - Miscellaneous Expense by \$12,070 (\$8,405 + \$3,665). We reclassified \$8,405 to plant in service for a split case pump and removed the following:

<u>Account Description</u>	<u>Expense</u>	<u>Explanation</u>
Bank Charges Total	\$ (310)	Support Insufficient to determine regulated vs non regulated
Postage Total	(16)	Support Insufficient to determine regulated vs non regulated
Travel Expense Total	(243)	Support Insufficient to determine regulated vs non regulated
Insufficient support	<u>(569)</u>	Support Insufficient to determine regulated vs non regulated
Bank Charges Total	(635)	Non Regulated expense
Dues & Subscriptions Total	(736)	Non Regulated expense
Travel Expense Total	(1,400)	Non Regulated expense
Non Regulatory	<u>(2,771)</u>	Non Regulated expense
Repairs & Maintenance	<u>(325)</u>	Out of Period (2009)
Total	<u>\$ (3,665)</u>	

Effect on the General Ledger: The following general ledger entries are needed to correct the Utility's general ledger balances as of December 31, 2010.

NARUC Acct. No.	Description	Debit	Credit
311	Pumping Equipment	\$8,405	
403	Depreciation Expense	\$210	
108	Accumulated Depreciation		\$210
675	Miscellaneous Expense		\$8,405

Effect on the Filing: The Account 101 - Plant in Service 13-month average balance should be increased by \$6,465, Account 108 - Accumulated Depreciation 13-month average balance should be increased by \$148, Account 403 - Depreciation Expense should be increased by \$323, and Account 401 - Operation and Maintenance Expenses should be decreased by \$62,157.

Finding 5: Depreciation Expense

Audit Analysis: In 2010, the Utility implemented the Peachtree Fixed Asset Software to calculate the depreciation expense and accumulated depreciation. However, the adjustments recorded to true-up the accumulated depreciation balances caused depreciation expense to be misstated for the test year as shown in the following schedule.

Description	MFR Schedule B-13 12/31/10	Audit Adjustments	Audited Balances 12/31/2010
301 Organization	-	-	-
302 Franchises	-	-	-
303 Land	-	-	-
304 Structures & Improvements	\$ 9,642	\$ 22 (A)	\$ 9,664
305 Collecting & Impounding	-	-	-
306 Lake, River & Other	-	-	-
307 Wells & Springs	12,712	(763)	11,949
308 Infiltration Galleries and Tunnels	-	-	-
309 Supply Mains	128,282	-	128,282
310 Power Generation Equip.	2,305	1,944	4,249
311 Pumping Equip.	10,048	782 (A)	10,830
320 Water Treatment Equip.	1,730	509	2,239
330 Distribution Reservoirs	9,296	1,433	10,729
331 Transmission and Distribution Mains	59,275	11	59,286
333 Services	6,234	302	6,536
334 Meters and Meter Install.	5,271	-	5,271
335 Hydrants	3,546	21	3,567
336 Backflow Prevention Devices	-	-	-
339 Other Plant And Misc.	-	-	-
340 Office Furniture & Equip.	2,959	-	2,959
340 Office Furniture & Equip.-Computers	16,148	(14,061) (B)	2,087
341 Trans. Equip.	19,026	(13,974) (C)	5,052
342 Stores Equip.	-	-	-
343 Tools, Shop and Garage Equip.	2,177	23	2,200
344 Lab Equip	-	-	-
345 Power Operated Equip.	5,439	(60)	5,379
346 Communication Equip.	-	-	-
347 Misc. Equip.	-	-	-
348 Other Tangible Plant Water Plant	\$ 294,090	\$ (23,811)	\$ 270,279

(A) The recommended disposition of these amounts is addressed in Finding 1. If the commission accepts the recommendation in this finding (Finding 5), then the amount adjusted should be \$24,615 so as not to double count \$22 and \$782.

(B) This amount is due to changing the asset life for computers from 15 years to 6 years. See discussion in Finding 2.

(C) This adjustment is to remove the depreciation expense applicable to the Gene Brown and Sandy Chase vehicles.

Effect on the General Ledger: None.

Effect on the Filing: The Account 403 - Depreciation Expense should be decreased by \$24,615.

Finding 6: Taxes Other Than Income

Audit Analysis: We noted the following adjustments to TOTI.

Description	Balance per Utility 12/31/2010	Utility Adjustments		Balance per MFR Schedule B-15	Audit Adjustments	Balance per Audit 12/31/2010
Regulatory Assessment Fees (RAFs)	\$ 58,138	\$ 613		\$ 58,751	\$ -	\$ 58,751
Payroll Taxes	34,895	(1,605)		33,290	(549)	32,741
Real Estate & Personal Property Taxes	11,826	12,972	(A)	24,798	(829)	23,969
Other	2,812	-		2,812	(269)	2,543
	\$ 107,671	\$ 11,980		\$ 119,651	\$ (1,647)	\$ 118,004

(A) The Utility adjusted Property Taxes by \$12,972, which relates to proforma additions to plant. This issue's effect on the filing and revenue requirement should be addressed by the Analyst.

Based on actual payroll tax returns, audit staff increased payroll tax expense by \$796. However, we decreased payroll tax expense by \$1,345 based on the Salaries and Wages Expense adjustments from Finding 4. The net effect decreases the Utility's adjusted payroll taxes by \$549 (\$796 - \$1,345).

Audit staff decreased Real Estate and Personal Property Taxes by \$829 (\$621 + \$208), which includes the removal of \$621 for property taxes applicable to non-utility land and the removal of \$208 for discounts not taken due to late payments.

We also decreased TOTI-Other by \$269, which relates to removing the registration cost of \$159 for Gene Brown's vehicle. The registration cost for Sandy Chase's vehicle was not included in the Utility's balance. We also removed accrued payroll taxes of \$110, which were classified to the incorrect account. The audited payroll tax balance of \$32,741 includes the actual amount applicable to the accrual recorded in this account.

Effect on the General Ledger: None.

Effect on the Filing: Account 408 - Taxes Other Than Income should be decreased by \$1,647.

Finding 7: Cash Flow Analysis Update

Audit Analysis: According to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 230 – Statement of Cash Flows,

A statement of cash flows specifies the amount of net cash provided or used by an enterprise during a period from (a) operating activities, (b) investing activities, and (c) financing activities ... A reconciliation of beginning and ending cash and cash equivalents is included in the statement of cash flows.⁸

As required by Order No. PSC-11-0010-SC-WU,⁹ audit staff created statements of cash flows from 2004 through 2010. The specific audit steps and objectives are contained in the audit report that was issued July 29, 2011. Audit staff was asked to update these statements for 2011.

As such, audit staff updated the statement of cash flows for 2011. Cash flow can be presented using the direct or the indirect methods. The direct method reflects the principle components of cash receipts and cash payments for operating, investing, and financing activities (excluding non-cash transactions). Our results are summarized in Table 1.

ASC 230 also requires that a reconciliation of net income to net cash flow be provided in conjunction with the statement of cash flow, regardless of whether an enterprise uses the direct or the indirect method. Hence, audit staff updated the statement of cash flows for 2011 using the indirect method, which reconciles net income to net cash flows from operating activities. The adjustments necessary to complete this reconciliation are made to net income to remove the effects of all deferrals (non-cash), all accruals (non-cash), and all items classified as investing or financing cash flows. Our results are summarized in Table 2.

Furthermore, we analyzed the data separating cash receipts and cash disbursements into utility and non-utility activity for regulatory purposes. Our results are summarized in Table 3.

During the eight-year period reviewed, WMSI had an overall decrease in cash of \$459,828 with an ending negative cash balance of \$18,585 as shown in all three statements. However, there was a \$470,725 increase of cash for utility activity. The cash decrease of \$930,552 represents non-utility activity, which includes cash to and from the Utility's affiliates.

⁸ Jan R. Williams et al., GAAP Guide Volume I, CCH, Chicago, 2011, p. 7002

⁹ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, Docket No. 100104-WU, In Re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

Table 1 - Comparative Statement of Cash Flows - Direct Method

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	Eight Year Activity 12/31/2011
Operating Activities									
Cash received from									
Customers	\$1,401,642	\$1,409,993	\$1,467,704	\$1,518,663	\$1,377,033	\$1,327,369	\$1,311,317	\$1,356,055	\$11,169,776
Contract work/plumbing	396,947	250	-	140	-	-	-	-	397,337
Interest	7,079	6,690	13,706	15,838	14,892	9,412	3,387	781	71,785
Rents	6,855	22,964	11,742	-	-	-	-	-	41,561
Customer Deposits	2,486	1,738	-	101,681	-	-	-	12,884	118,789
Cash paid for									
General operating and admin expenses	(829,969)	(426,867)	(569,474)	(457,852)	(460,813)	(325,515)	(379,103)	(423,591)	(3,873,184)
Contract work/plumbing	(265,579)	(100)	-	(100)	-	-	-	-	(265,779)
Wage expenses	(393,125)	(395,237)	(387,890)	(482,078)	(490,554)	(586,060)	(577,350)	(533,984)	(3,846,278)
Interest	(312,943)	(362,538)	(521,570)	(469,420)	(357,655)	(287,453)	(290,432)	(316,349)	(2,918,360)
Taxes other than income	(109,153)	(101,477)	(123,567)	(115,045)	(135,822)	(43,649)	(150,727)	(89,091)	(868,530)
Customer Deposits	-	-	(6,210)	-	(26,414)	(5,146)	(6,120)	-	(43,890)
Net Cash Flows from operations	(95,760)	155,416	(115,559)	111,828	(79,334)	88,958	(89,027)	6,705	(16,773)
Investing Activities									
Cash receipts from									
Sale of property and equipment	-	71,615	227,098	475,090	-	4,500	1,500	541	780,344
Proceeds from Supply Main Lawsuit	-	-	-	-	719,337	-	-	-	719,337
Collecton of principle on loans	240,306	-	-	-	50,000	50,000	138,830	3,621	482,757
Cash paid for									
Purchase of property and equipment	(164,785)	(195,357)	(330,136)	(47,983)	(59,149)	(17,481)	(213,268)	(110,811)	(1,138,970)
Making loans to other entities	(491,305)	(535,316)	(327,586)	(151,183)	(236,086)	(53,202)	(325,800)	(44,348)	(2,164,825)
Net Cash Flows from Investing	(415,784)	(659,058)	(430,624)	275,924	474,102	(16,183)	(398,738)	(150,997)	(1,321,357)
Financing Activities									
Cash receipts from									
Contributions in Aid of Constuction	99,351	77,109	38,633	26,264	29,967	26,939	149,109	22,268	469,639
Borrowing	422,837	435,982	734,019	-	-	105,463	2,701,532	103,286	4,503,118
Cash paid for									
Advances for Construction	(3,300)	(2,850)	(900)	(1,200)	(300)	(300)	(9,707)	(300)	(18,857)
Repayments of loans	-	(281,367)	(328,698)	(473,703)	(453,218)	(202,239)	(2,336,372)	-	(4,075,598)
Net Cash Flows from Financing	518,888	228,873	443,053	(448,639)	(423,551)	(70,137)	504,561	125,254	878,302
Increase (decrease) in Cash	7,345	(274,769)	(103,130)	(60,888)	(28,783)	2,638	16,796	(19,038)	(459,828)
Cash, beginning of the year	441,243	448,588	173,819	70,689	9,801	(18,982)	(16,343)	453	441,243
Cash, end of the year	<u>\$ 448,588</u>	<u>\$ 173,819</u>	<u>\$ 70,689</u>	<u>\$ 9,801</u>	<u>\$ (18,982)</u>	<u>\$ (16,343)</u>	<u>\$ 453</u>	<u>\$ (18,585)</u>	<u>\$ (18,585)</u>

Table 2 - Comparative Statement of Cash Flows - Indirect Method

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	Eight Year Activity 12/31/2011
Cash from Operations									
Income/(Loss) from continuing operations	\$ 79,037	\$ (61,607)	\$ (94,716)	\$ (57,770)	\$ (260,464)	\$ (331,691)	\$ (504,038)	\$ (348,540)	(1,579,789)
Adjustments to reconcile income to net cash from operations:									
Deprec/Amort	222,243	222,800	233,901	207,664	196,776	175,545	199,395	171,419	1,629,743
Loan Fees Amort	403	12,699	29,730	19,073	18,939	18,643	12,103	19,239	130,828
(Gain)/Loss on Sale of UPIS	6,330	(23,160)	(227,098)	(210,420)	7,286	(4,500)	(1,500)	(541)	(453,602)
PSC Adjustments	-	-	-	-	-	-	222,536	43,378	265,914
Accounts Receivable	(11,090)	5,292	(7,754)	17,458	2,235	7,811	(34,505)	27,391	6,837
Prepaid Expense	(9,466)	(132)	(4,072)	(10,445)	7,224	8,282	31	817	(7,761)
Interest Receivable	-	(719)	719	-	-	-	-	-	-
Misc. Deferred Debits	(148,942)	(6,502)	38,113	38,800	38,800	(26,738)	(164,482)	(57,609)	(288,560)
Accounts Payable	(253,815)	(9,264)	(60,822)	5,429	(38,142)	109,682	270,016	152,917	176,001
Customer Deposits	2,485	1,738	(6,210)	101,681	(26,414)	(5,146)	32,505	(25,740)	74,899
Accruals	17,054	14,270	(17,350)	357	(25,572)	57,071	(41,088)	23,975	28,718
Operating Reserves	-	-	-	-	-	80,000	(80,000)	-	-
Net Cash Flows from Operations	(95,760)	155,416	(115,559)	111,828	(79,334)	88,958	(89,027)	6,705	(16,773)
Cash Flows from Investing									
UPIS	(164,785)	(123,742)	(103,038)	427,107	660,188	(12,981)	(211,768)	(110,270)	360,711
Investments in Assoc Co	(110,532)	(535,316)	(127,586)	(151,183)	(236,086)	(53,202)	38,830	(40,000)	(1,215,075)
A/R-A/P-Assoc Co	240,306	-	-	-	-	-	-	3,621	243,928
N/R-Assoc Co	-	-	(200,000)	-	50,000	50,000	100,000	-	-
Non-Utility Property	-	-	-	-	-	-	(325,800)	-	(325,800)
Disallowed Investment in UPIS	(380,773)	-	-	-	-	-	-	(4,348)	(385,121)
Net Cash Flows from Investing	(415,784)	(659,058)	(430,624)	275,924	474,102	(16,183)	(398,738)	(150,997)	(1,321,357)
Cash Flows from Financing									
Advances for Construction	(3,300)	(2,850)	(900)	(1,200)	(300)	(300)	(9,707)	(300)	(18,857)
CIAC	99,351	77,109	38,633	26,264	29,967	26,939	149,109	22,268	469,640
Notes Payable	50,000	435,982	(328,698)	(172,996)	(2,993)	(202,239)	2,701,532	75,168	2,555,754
Long-term Debt	372,837	(281,367)	734,019	(300,707)	(450,225)	105,463	(2,336,372)	28,118	(2,128,235)
Net Cash Flows from Financing	518,888	228,873	443,053	(448,639)	(423,551)	(70,138)	504,561	125,254	878,302
Increase (decrease) in Cash	7,345	(274,769)	(103,130)	(60,888)	(28,782)	2,638	16,796	(19,037)	(459,828)
Cash, beginning of the year	441,243	448,588	173,819	70,689	9,801	(18,982)	(16,343)	453	441,243
Cash, end of the year	<u>\$ 448,588</u>	<u>\$ 173,819</u>	<u>\$ 70,689</u>	<u>\$ 9,801</u>	<u>\$ (18,982)</u>	<u>\$ (16,343)</u>	<u>\$ 453</u>	<u>\$ (18,585)</u>	<u>\$ (18,585)</u>

Table 3 – Comparative Regulated and Non-Regulated Cash Receipts and Disbursements

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	Eight Year Activity 12/31/2011
UTILITY ACTIVITY									
Cash Receipts									
Accounts Receivable	\$ 1,497,724	\$ 1,491,003	\$ 1,495,885	\$ 1,659,592	\$ 1,365,652	\$ 1,345,936	\$ 1,471,448	\$ 1,395,619	\$ 11,722,859
Credit Card Cash Advances	-	30,000	43,200	10,000	44,000	38,000	17,700	1,200	184,100
Interest Income	7,022	7,675	6,760	816	2,543	15	10	57	24,898
Insurance Claim Proceeds	-	-	-	-	-	-	-	12,950	12,950
Loan Proceeds	794,983	647,317	365,840	66,789	-	72,300	-	-	1,947,229
Supply Main Lawsuit Proceed:	-	-	-	-	798,161	-	-	-	798,161
Sales of Assets	-	50,983	105,512	234,332	-	4,000	-	500	395,327
Subtotal:	2,299,729	2,226,978	2,017,197	1,971,529	2,210,356	1,460,251	1,489,158	1,410,326	15,085,524
Cash Disbursements									
Utility Expenses/Capital	(1,403,185)	(575,659)	(656,115)	(490,636)	(568,613)	(369,000)	(579,285)	(467,793)	(5,110,286)
Payroll	(287,707)	(262,475)	(257,850)	(340,001)	(356,575)	(364,725)	(349,460)	(338,236)	(2,557,029)
Charles Schwab - 401(k) Plan	-	(18,680)	(26,936)	(16,819)	(21,456)	(21,927)	(22,310)	(82,919)	(211,047)
Credit Card Payments	(24,844)	(25,951)	(106,906)	(76,856)	(109,631)	(114,398)	(87,213)	(55,546)	(601,345)
D.E.P. Loan	(418,518)	(417,390)	(208,695)	(417,390)	(417,390)	(208,695)	-	-	(2,088,078)
Equip/Vehicle Lease Payment:	(44,251)	(56,243)	(39,683)	(6,876)	(15,997)	(14,068)	(40,495)	(59,365)	(276,978)
Loan Payments	(279,523)	(400,343)	(342,409)	(360,336)	(343,006)	(210,723)	(202,803)	(179,327)	(2,318,470)
PR Tax Payments	(96,491)	(109,993)	(100,823)	(112,987)	(114,053)	(62,405)	(186,815)	(127,756)	(911,323)
Public Service Commission	(78,319)	(63,653)	(67,071)	(66,851)	(64,610)	(63,494)	(65,111)	(71,134)	(540,243)
Subtotal:	(2,632,838)	(1,930,387)	(1,806,488)	(1,888,752)	(2,011,331)	(1,429,435)	(1,533,492)	(1,382,076)	(14,614,799)
Net Cash for Utility Activity:	(333,109)	296,591	210,709	82,777	199,025	30,816	(44,334)	28,250	470,725
NON-UTILITY ACTIVITY									
Cash Receipts									
A/R - Non-utility	396,947	250	-	-	-	-	-	-	397,197
Lease Agreements	7,355	23,021	21,696	-	-	-	-	-	52,072
Brown Management Group	-	10,000	360	3,775	215,029	363,261	301,248	38,534	932,207
Gene D. Brown	433,250	214,165	71,000	32,415	16,250	45,714	61,741	73,600	948,135
Gene D. Brown, PA	42,350	8,900	100,500	-	-	4,500	-	-	156,250
Other Associated Companies	1,890	2,500	6,500	175,000	-	-	1,000	-	186,890
Subtotal:	881,792	258,836	200,056	211,190	231,279	413,475	363,989	112,134	2,672,751
Cash Disbursements									
Bank Charges	(2,568)	(3,315)	(1,720)	(1,113)	(2,672)	(4,058)	(3,382)	(4,599)	(23,427)
Brown Management Group	-	(61,450)	(40,050)	(82,650)	(100,750)	(108,391)	(62,940)	(8,411)	(464,642)
Cost of Contract Work	(190,936)	-	-	-	-	-	-	-	(190,936)
Credit Card Fees	(1,742)	(2,245)	(2,461)	(2,314)	(38)	-	-	-	(8,800)
Gene D. Brown	(293,934)	(739,898)	(431,818)	(192,287)	(246,975)	(317,935)	(227,605)	(110,212)	(2,560,664)
Gene D. Brown, PA	(51,800)	(8,850)	(10,100)	(18,700)	(21,100)	(2,400)	-	(36,200)	(149,150)
Other Associated Companies	(800)	(6,100)	(17,871)	(57,500)	(85,000)	(5,950)	(1,200)	-	(174,421)
Payroll Tax Penalties	443	(8,338)	(9,876)	(290)	(2,552)	(2,918)	(7,732)	-	(31,263)
Subtotal:	(541,337)	(830,196)	(513,896)	(354,854)	(459,087)	(441,652)	(302,859)	(159,422)	(3,603,303)
Net Cash For Non-Utility Activity:	340,455	(571,360)	(313,840)	(143,664)	(227,808)	(28,177)	61,130	(47,288)	(930,552)
Cash from WMSI Accounts	2,073,848	791,908	418,739	569,645	1,312,159	323,445	456,656	194,802	6,141,202
Cash to WMSI Accounts	(2,073,848)	(791,908)	(418,739)	(569,645)	(1,312,159)	(323,445)	(456,656)	(194,802)	(6,141,202)
Increase (Decrease) in Cash	7,346	(274,769)	(103,131)	(60,887)	(28,783)	2,639	16,796	(19,038)	(459,828)
Cash, Beginning of the Year	441,243	448,588	173,819	70,689	9,801	(18,982)	(16,343)	453	441,243
Cash, End of the Year	\$ 448,589	\$ 173,819	\$ 70,688	\$ 9,802	\$ (18,982)	\$ (16,343)	\$ 453	\$ (18,585)	\$ (18,585)

Effect on the General Ledger: This finding is included for informational purposes only.

Effect on the Filing: This finding is included for informational purposes only.

Exhibits

Exhibit 1: Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: Water Management Services, Inc.
Docket No.: 110200-WU
Schedule Year Ended: December 31, 2010
Interim Final
Historic Projected

Schedule: A-1
Page 1 of 1
Preparer: J. Allen

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) 13 Mo Avg Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 8,840,469	\$ 3,353,442 (A)	\$ 12,193,911	A-3, A-5
2	Utility Land & Land Rights	87,856	501,238 (B)	589,094	A-3, A-5
3	Less: Non-Used & Useful Plant	-	-	-	
4	Construction Work in Progress	48,946	(48,946) (C)	-	A-3, A-18
5	Less: Accumulated Depreciation	(3,345,867)	182,184 (D)	(3,163,683)	A-3, A-9
6	Less: CIAC	(3,322,830)	-	(3,322,830)	A-12
7	Accumulated Amortization of CIAC	1,420,734	-	1,420,734	A-14
8	Acquisition Adjustments	-	-	-	-
9	Accum. Amort. of Acq. Adjustment	-	-	-	-
10	Advances For Construction	(12,019)	712 (E)	(11,307)	A-3, A-16
11	Working Capital Allowance	39,885	- (F)	39,885	A-3, A-17
12	Total Rate Base	\$ 3,757,174	\$ 3,988,630	\$ 7,745,805	

Exhibit 2: Net Operating Income

Schedule of Water Net Operating Income

2/14/2012 REVISION

Florida Public Service Commission

Company: Water Management Services, Inc.
Docket No.: 110200-WU
Test Year Ended: December 31, 2010
Interim [] Final [X]
Historic [X] or Projected []

Schedule: B-1
Page 1 of 1
Preparer: J. Allen

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

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 1,291,712	\$ 13,875 (A)	\$ 1,305,587	\$ 714,035 (F)	\$ 2,019,622	B-4, E-2
2	Operation & Maintenance	1,115,100	(40,548) (B)	1,074,552	55,000 (G)	1,129,552	B-5, B-3
3	Depreciation, net of CIAC Amort	199,395	52,841 (C)	252,236	-	252,236	B-13, B-3
4	Amortization	14,616	9,784 (D)	24,400	-	24,400	B-3
5	Taxes Other Than Income	107,672	11,981 (E)	119,652	32,132 (H)	151,784	B-15, B-3
6	Provision for Income Taxes	-	-	-	- (I)	-	C-1, B-3
7	OPERATING EXPENSES	1,436,783	34,057	1,470,840	87,132	1,557,972	
8	NET OPERATING INCOME	\$ (145,071)	\$ (20,182)	\$ (165,254)	\$ 626,904	\$ 461,650	
9	RATE BASE	\$ 3,757,174		\$ 7,745,805		\$ 7,745,805	
10	RATE OF RETURN	(3.86) %		(2.13) %		5.96 %	

Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital (Final Rates)
13 Month Average

Florida Public Service Commission

Company: Water Management Services, Inc.
Docket No.: 110200-WU
Test Year Ended: December 31, 2010
Schedule Year Ended: December 31, 2010
Historic [X] or Projected []

Schedule: D-1
Page 1 of 1
Preparer: J. Allen

Subsidiary [] or Consolidated [X]

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

Line No.		(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	7,641,281	98.65 %	5.96 %	5.88 %
2	Short-Term Debt		%	0.00 %	%
3	Preferred Stock	-			
4	Customer Deposits	104,524	1.35 %	6.00 %	0.08 %
5	Common Equity	-	%	11.16 %	0.00 %
6	Tax Credits - Zero Cost	-			
7	Accumulated Deferred Income Tax	- \$	%	0.00 %	%
8	Other (Explain)	-			
9	Total	<u>7,745,806</u>	<u>100.00 %</u>		<u>5.96 %</u>

Note: Cost of Equity based on Order No. PSC-11-0287-PAA-WS: 7.13% + 1.610/Equity Ratio, where
Equity ratio = Common Equity/(Common Equity + Preferred + Long & Short Term Debt) = 0.00 %