

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Crooked Lake Sewerage Company (SU785)  
Staff Assisted Rate Case

**Twelve Months Ended June 30, 2013**

Docket No. 130178-SU  
Audit Control No. 13-212-2-1  
**September 27, 2013**

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Jeffery A. Small  
Audit Manager

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Linda Hill-Slaughter  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated July 30, 2013. We have applied these procedures to the attached schedules prepared by the audit staff in support of Crooked Lake Park Sewerage Company's request for a Staff Assisted Rate Case in Docket No.130178-SU.

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

## Objectives and Procedures

### **Background**

#### Definitions

Utility refers to Crooked Lake Park Sewerage Company.

Test Year refers to the twelve months ended June 30, 2013.

NARUC refers to the National Association of Regulatory Commissioners.

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

#### Utility Information

Crooked Lake Park Sewerage Company is a Class C wastewater utility serving approximately 326 single family residential wastewater customers and one general service customer, Caloosa Park Mobile Home Park (CPMHP). CPMHP supplies wastewater service to approximately 100 mobile home rental lots in Polk County. The service territory is located in the Southwest Florida Water Management District. Water service is provided by Park Water Company, Inc. which is regulated by this Commission.

On December 13, 1957, Polk County granted Park Water Company, Inc. a franchise to operate a water and wastewater system. In 1978, the wastewater treatment plant and collection system was sold to Warner Southern College and the name was changed to Crooked Lake Park Sewer Company. In 1988, the Utility was sold again and the name was changed to Crooked Lake Park Sewerage Company. Polk County came under the Commission's jurisdiction on July 11, 1996, and the Commission subsequently granted grandfather wastewater Certificate No. 517-S to Crooked Lake in 1998. The current owner purchased 100 percent of the Utility's stock on September 26, 2012. The buyer obtained the sellers accounting records at that time. The Utility's rate base was last established in its 2006 staff-assisted rate case by Order No. PSC-07-0077-PAA-SU, issued January 29, 2007.

### **General**

**Objectives:** The objectives were to determine the Utility's Rate Base, Net Operating Income, and Capital Structure for the test year, and verify that the Utility's books and records are maintained in compliance with NARUC USOA.

**Procedures:** We performed the following specific objectives and procedures to satisfy the objectives identified above. We reviewed the Utility's accounting system and determined that they are in partial compliance with the NARUC USOA. Our discussion concerning the Utility's books and records can be found in Finding 1.

## **Rate Base**

### Utility Plant in Service

**Objectives:** The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 5) Recorded in compliance with the NARUC USOA.

**Procedures:** We reconciled the beginning balances for wastewater UPIS as of December 31, 2005, established in Docket No. 060406-SU, with the general ledger. We scheduled wastewater UPIS activity from January 1, 2006, through June 30, 2013. We traced asset additions and retirements to supporting documentation. We determined the year end and simple average UPIS balance as of June 30, 2013. Our recommended adjustments to UPIS are discussed in Finding 2.

### Land & Land Rights

**Objectives:** The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, that 3) Recorded in compliance with the NARUC USOA, and that 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

**Procedures:** We reconciled the beginning balances for wastewater land as of December 31, 2005, reaffirmed in Docket No. 060406-SU, with the general ledger. We searched the Polk County Clerk of the Courts' official records for any activity related to utility land and none was found. We determined the year end and simple average Land balance as of June 30, 2013. No exceptions were noted.

### Contributions in Aid of Construction

**Objectives:** The objectives were to determine whether Contributions in Aid of Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records, and is 5) Recorded in compliance with the NARUC USOA.

**Procedures:** We reconciled the beginning balances for wastewater CIAC as of December 31, 2005, established in Docket No. 060406-SU, with the general ledger. We scanned the Utility's records and inquired about cash and property contributions since the last rate proceeding. We determined the year-end and simple average CIAC balance as of June 30, 2013. Our recommended adjustments to CIAC are discussed in Finding 2.

### Accumulated Depreciation

**Objectives:** The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records, and is 4) Recorded in compliance with the NARUC USOA.

**Procedures:** We reconciled the beginning balance for wastewater Accumulated Depreciation as of December 31, 2005, established in Docket No. 060406-SU, with the general ledger. We recalculated depreciation accruals for each UPIS account to verify that the correct depreciation rates were used. We traced Accumulated Depreciation retirements to corresponding UPIS retirements and verified that retirements were made when a capital asset was removed or replaced. We determined the year-end and simple average Accumulated Depreciation balance as of June 30, 2013. Our recommended adjustment to Accumulated Depreciation is discussed in Finding 2.

### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records, and is 4) Recorded in compliance with the NARUC USOA.

**Procedures:** We reconciled the beginning balances for wastewater Accumulated Amortization of CIAC as of December 31, 2005, established in Docket No. 060406-SU, with the general ledger. We recalculated the amortization accrual for CIAC using the composite depreciation rate as required by Commission rule. We determined the year end and simple average Accumulated Amortization of CIAC balance as of June 30, 2013. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 2.

### Working Capital

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

**Procedure:** We calculated the working capital adjustment for the test year ended June 30, 2013, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission rule. Our recommended balance for Working Capital is discussed in Finding 2.

## **Capital Structure**

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

**Procedures:** We compiled the Utility's capital structure using information extracted from the Utility's federal tax returns, general ledger, and Commission filed annual reports. We determined that the Utility's capital structure is composed of equity and long-term debt. We determined the year-end and simple average Capital Structure balance and its weighted average cost as of June 30, 2013. Our recommended adjustment to Capital Structure and its corresponding cost rate are discussed in Finding 3.

## **Net Operating Income**

### Operating Revenue

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

**Procedures:** We compiled the Utility's revenues for the test year ended June 30, 2013, by obtaining the monthly customer billing records. We recalculated and tested the reasonableness of the Utility's 2012 calendar year revenues using billing information and its Commission approved tariff rates. Our recommended adjustment to Operating Revenue is discussed in Finding 4.

### Operation and Maintenance Expense

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

**Procedures:** We compiled the Utility's O&M Expenses for the test year ended June 30, 2013. We included vendor invoices for the test year period, confirmed their utility classification, verified their recurring nature and traced them to original source documentation. We reviewed and annualized operating expenses that were supported by an executed contract using the current agreed upon rates in the contract. Our recommended adjustments to O&M Expense are discussed in Finding 5.

### Depreciation and CIAC Amortization Expense

**Objective:** The objective was to determine whether Depreciation and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

**Procedure:** We calculated the Utility's Depreciation and CIAC Amortization Expense for the test year ended June 30, 2013, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments to Depreciation and CIAC Amortization Expense are discussed in Finding 6.

## Taxes Other than Income

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

**Procedures:** We compiled the Utility's TOTI Expenses for the test year ended June 30, 2013. We included property taxes and operating license fees for the test year, confirmed their utility classification, verified their recurring nature and traced them to original source documentation. We calculated and included regulatory assessment fees (RAF) based on the test year revenues determined in Finding 4. Our recommended adjustment to TOTI Expense is discussed in Finding 7.

## Income Taxes

**Objective:** The objective was to determine whether the Utility's income tax calculation is accurate.

**Procedures:** We obtained copies of the Utility's 2011 federal and state income tax returns to verify its filing status and to determine the existence of net income loss carryovers. Our recommended adjustment to Income Tax Expense is discussed in Finding 8.

## **Other**

### 2012 Regulatory Assessment Fee

**Objectives:** The objectives were to determine whether the Utility's 2012 RAF was properly calculated and based on revenues generated from utility operations in 2012.

**Procedures:** We recalculated and estimated the Utility's 2012 revenues using billing records and the Utility's authorized tariff rates. We recomputed the Utility's 2012 RAF. No exceptions were noted.

## Audit Findings

### **Finding 1: Utility Books and Records**

**Audit Analysis:** The Utility uses a cash basis accounting method that is maintained by the office manager using QuickBooks™. The office manager posts transactions as they occur to the general ledger. At the end of the year the general ledger is changed to an accrual basis by the Utility's outside accountant through a series of journal entry adjustments. The accountant also prepares the Utility's Federal and State Tax Returns and its Annual Report filed with the Commission.

NARUC USOA Accounting Instruction 2 – General Records requires a utility to keep its books and records on an accrual and monthly basis. The Utility's current accounting system is not in full compliance with the NARUC requirement. The differences between a cash basis and accrual basis of accounting and the fact that the test year did not equate to a calendar year complicated our effort to adapt the information we extracted from the Utility's accounting system for this proceeding.

Some of the more significant differences encountered are illustrated below. Other issues with the Utility's books and records are discussed within the specific findings in this report.

#### Split General Ledger

The Utility's general ledger is a combination of two different accounting periods. The Utility was sold on September 26, 2012, for \$35,000 by means of a common stock transfer. The seller transferred the QuickBooks accounting records to the current owner. The test year for this proceeding includes a period where the former owner posted transactions to the general ledger. Some of those transactions may no longer be appropriate or recurring based on the current owner's operating methods.

#### Balance Sheet Accounts

Reserve accounts such as Accumulated Depreciation and Accumulated Amortization of CIAC reflect the same balance on December 31, 2012, and June 30, 2013, because depreciation and amortization expenses are calculated and posted annually at the end of the calendar year.

Capital accounts, such as debt and equity, reflect the same balance on December 31, 2012, and June 30, 2013, because they are trued-up and adjusted at the end of the calendar year.

Adjusting journal entries recorded at year end in 2012 to adjust or correct the balance sheet accounts may not be appropriate or representative of utility operations in the test year.

Income Statement Accounts

Revenue and expenses recorded in the first half of the test year in July through December 2012 are recorded on an accrual basis while the revenues and expenses recorded in the second half of the test year in January through June of 2013 are recorded on a cash basis.

Depreciation and CIAC Amortization expenses are the same amounts as recorded in December 2012 because they are only calculated annually at the end of the calendar year.

We compiled the Utility's test year general ledger account activity and trial balance using the account balances for the two six-month periods ending December 31, 2012, and June 30, 2013, respectively. The general ledger balances we use in this report do not reflect a comprehensive or accurate representation of the Utility's results from operations for the test year and are used for comparison purposes only.

**Effect on the General Ledger: None**

**Effect on the Filing: None**

## Finding 2: Rate Base Accounts

**Audit Analysis:** The Utility's rate base was last established in its 2006 staff-assisted rate case by Order No. PSC-07-0077-PAA-SU.

Description	Per Utility	Adjustments		Per Order
	At 12/31/05	Year End	Average	At 12/31/05
Utility Plant in Service	\$379,267	(\$29,494)	(\$3,615)	\$346,158
Land	6,197	0	0	6,197
Contributions in Aid of Construction	(126,736)	0	300	(126,436)
Accumulated Depreciation	(215,026)	3,024	(3,529)	(215,531)
Accumulated Amortization of CIAC	109,872	(6,213)	(460)	103,199
<b>Total</b>	<b>\$153,574</b>	<b>(\$32,683)</b>	<b>(\$7,304)</b>	<b>\$113,587</b>

The Utility's general ledger reflects the following rate base account balances as of June 30, 2013.

Description	Per Utility	Net Change	Per Utility
	At 12/31/05		At 06/30/13
Utility Plant in Service	\$379,267	\$72,995	\$452,262
Land	6,197	0	6,197
Contributions in Aid of Construction	(126,736)	(900)	(127,636)
Accumulated Depreciation	(215,026)	(45,631)	(260,657) (a)
Accumulated Amortization of CIAC	109,872	7,910	117,782 (a)
<b>Total</b>	<b>\$153,574</b>	<b>\$34,374</b>	<b>\$187,948</b>

(a) We included one-half of the actual 2012 accrual for the six-month period ending June 30, 2013.

A summary of the net activity of each component and the recommended adjustments follow.

**UPIS:** The Utility's records reflect a UPIS balance of \$452,262 as of June 30, 2013. We reduced UPIS by \$99,891 to \$352,371 based on the four audit adjustments described below (\$3,615-\$8,530+\$5,312-\$100,288). Our overall adjustment by individual NARUC subaccount is detailed in Table 2-1.

In 2006 the Utility reduced UPIS by \$33,109 to record a Commission ordered adjustment in its last rate proceeding. The adjustment included a \$3,615 averaging adjustment used for rate setting purposes that should not be included for rate base purposes. We have increased UPIS by \$3,615 to remove the averaging adjustment booked by the Utility.

Utility records reflect net additions of \$8,530 for the period January 1, 2006, through December 31, 2011. No supporting documentation was provided for any of the utility additions and retirements listed below. Based on the above information we have reduced UPIS by \$8,530 to remove the unsupported activity through year-end 2011.

Period	Additions	Retirements	Net Change
Jan-Dec 2006	\$3,769	(\$2,559)	\$1,210
Jan-Dec 2007	34,080	(24,984)	9,096
Jan-Dec 2008	3,826	(10,649)	(6,823)
Jan-Dec 2009	5,553	(5,363)	190
Jan-Dec 2010	7,011	(2,782)	4,229
Jan-Dec 2011	12,912	(12,284)	628
<b>Total</b>	<b>\$67,151</b>	<b>(\$58,621)</b>	<b>\$8,530</b>

Utility records reflect a net reduction of \$4,658 for the six-month period ended June 30, 2012. No supporting documentation was provided for the addition and retirement. We discovered an invoice for \$2,618 that was charged to O&M expense outside the test year that should have been capitalized. We included a retirement of \$1,964 which is calculated as 75 percent of the costs for the asset addition. Based on the above information we have increased UPIS by \$5,312 as of June 30, 2012, as detailed below.

<b>Per Audit</b>	<b>Additions</b>	<b>Retirements</b>	<b>Net Change</b>
Remove unsupported activity.	(\$24,370)	\$29,028	\$4,658
Reclassify from prior period.	2,618	(1,964)	654
<b>Adjustment</b>	<b>(\$21,752)</b>	<b>\$27,064</b>	<b>\$5,312</b>

Utility records reflect net additions of \$102,232 for the test year ended June 30, 2013.

<b>Per Utility</b>	<b>Additions</b>	<b>Retirements</b>	<b>Net Change</b>
Structures and Improvements	\$77,500	\$0	\$77,500
Transportation	24,732	0	24,732
<b>Net Additions</b>	<b>\$102,232</b>	<b>\$0</b>	<b>\$102,232</b>

We removed the \$77,500 addition because there was no supporting documentation provided. We reduced the transportation account by \$362 to correct the booked cost of \$24,732 for a new truck purchased by the current owner to the actual invoiced cost of \$24,370. We removed \$24,984 from the transportation account because it represented a truck, owned by the prior owner, that was not transferred when the utility was sold. We transferred \$10,229 (\$8,024+\$2,205) from O&M expense in Finding 5 to UPIS for invoices that should have been capitalized. We included retirements of \$7,671 which is calculated as 75 percent of the costs for the asset additions. Based on the above information we have reduced UPIS by \$100,288 for the test year as detailed below.

<b>Per Audit</b>	<b>Additions</b>	<b>Retirements</b>	<b>Net Change</b>
Remove unsupported activity	(\$77,500)	\$0	(\$77,500)
Correct truck invoice amount	(362)	0	(362)
Retire old truck on books	0	(24,984)	(24,984)
Reclassify from O&M Expense	10,229	(7,671)	2,558
<b>Adjustment</b>	<b>(\$67,633)</b>	<b>(\$32,655)</b>	<b>(\$100,288)</b>

**Contributions in Aid of Construction CIAC:** The Utility's records reflect a balance of \$127,636 for CIAC as of June 30, 2013. We increased CIAC by \$300 to \$127,936 based on the following adjustment described below.

In 2006 the Utility reduced CIAC by \$300 to record a Commission ordered adjustment in its last rate proceeding. The adjustment was a \$300 averaging adjustment used for rate setting purposes that should not be included for rate base purposes.

**Accumulated Depreciation:** The Utility's records reflect an estimated balance of \$260,657 for Accumulated Depreciation as of June 30, 2013. We increased Accumulated Depreciation by \$3,499 to \$264,156 based on the two adjustments described below. Our overall adjustment by individual NARUC subaccount is detailed in Table 2-2.

In 2006, the Utility reduced Accumulated Depreciation by \$505 to record a Commission ordered adjustment in its last rate proceeding. The adjustment included a \$3,529 averaging adjustment used for rate setting purposes that should not be included for rate base purposes. We increased Accumulated Depreciation by \$3,529 to remove the averaging adjustment booked by the Utility.

We increased the beginning account balances for Accumulated Depreciation by \$3,529. We calculated annual depreciation accruals since January 2006, using the prescribed rates set forth in Rule 25-30.140 – Depreciation, F.A.C., based on the adjusted UPIS account balances described above. We determined that the Accumulated Depreciation balance is \$264,156 as of June 30, 2013.

Accumulated Amortization of CIAC: The Utility reflected an estimated balance of \$117,285 for Accumulated Amortization of CIAC as of December 31, 2012. We increased Accumulated Amortization of CIAC by \$9,258 to \$127,040 based on the following adjustment described below.

In 2006 the Utility reduced Accumulated Amortization of CIAC by \$6,673 to record a Commission ordered adjustment in its last rate proceeding. The adjustment included a \$460 averaging adjustment used for rate setting purposes that should not be included for rate base purposes. We have increased Accumulated Amortization of CIAC by \$460 to remove the averaging adjustment booked by the Utility.

We increased the beginning balance for Accumulated Amortization of CIAC by \$460, calculated the annual CIAC amortization accruals since January 2006, using the prescribed CIAC composite depreciation rate set forth in Rule 25-30.140 – Depreciation, F.A.C., based on the adjusted CIAC account balance described above. We determined that the Accumulated Amortization of CIAC balance is \$126,443, as of June 30, 2013.

**Table 2-1**

**Utility Plant in Service**

<u>Acct No.</u>	<u>Account Description</u>	<u>Per Utility</u>	<u>Adjustments</u>	<u>Per Audit</u>
351.00	Organization	\$9,549	\$0	\$9,549
354.00	Structures & Improvements	84,429	(76,949)	7,480
360.00	Collection Sewers - Force	57,023	0	57,023
361.00	Collection Sewers - Gravity	109,881	(1)	109,880
363.00	Services	24,448	0	24,448
364.00	Flow Measuring Devices	5,287	0	5,287
370.00	Receiving Wells	23,922	(6,588)	17,334
370.00	Receiving Wells	0	9,054	9,054
380.00	Treatment & Disposal Equipment	64,428	(12,825)	51,603
380.00	Treatment & Disposal Equipment	0	14,628	14,628
380.00	Treatment & Disposal Equipment	0	2,008	2,008
389.00	Other Plant & Misc Equipment	22,945	(4,486)	18,459
390.00	Office Furniture & Equipment	150	0	150
391.00	Transportation Equipment	49,102	(24,732)	24,370
393.00	Tools, Shop, & Garage Equipment	749	0	749
398.00	Other Tangible Plant	349	0	349
	<b>Total</b>	<b>\$452,262</b>	<b>(\$99,891)</b>	<b>\$352,371</b>

**Table 2-2**

**Accumulated Depreciation**

<u>Acct No.</u>	<u>Account Description</u>	<u>Per Utility</u>	<u>Adjustments</u>	<u>Per Audit</u>
351.00	Organization	(\$3,701)	\$21	(3,680)
354.00	Structures & Improvements	(7,527)	1,984	(5,542)
360.00	Collection Sewers - Force	(35,778)	841	(34,937)
361.00	Collection Sewers - Gravity	(87,358)	(2,375)	(89,732)
363.00	Services	(24,448)	0	(24,448)
364.00	Flow Measuring Devices	(2,884)	12	(2,871)
370.00	Receiving Wells	(17,333)	625	(16,708)
370.00	Receiving Wells	(6,588)	5,130	(1,458)
380.00	Treatment & Disposal Equipment	(51,603)	0	(51,603)
380.00	Treatment & Disposal Equipment	(6,324)	(8,304)	(14,628)
380.00	Treatment & Disposal Equipment	(1,272)	(318)	(1,590)
380.00	Treatment & Disposal Equipment	(3,979)	3,979	0
389.00	Other Plant & Misc Equipment	(5,342)	(6,425)	(11,767)
390.00	Office Furniture & Equipment	(134)	4	(130)
391.00	Transportation Equipment	(5,422)	1,309	(4,113)
393.00	Tools, Shop, & Garage Equipment	(617)	18	(599)
398.00	Other Tangible Plant	(349)	0	(349)
	<b>Total</b>	<b>(\$260,657)</b>	<b>(\$3,499)</b>	<b>(\$264,156)</b>

**Effect on the General Ledger:** The following adjustment is needed to correct the general ledger as of June 30, 2013.

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debits</u>	<u>Credits</u>
101.00	Utility Plant in Service		\$99,891
108.00	Accumulated Depreciation		\$3,499
272.00	Contributions in Aid of Construction		\$300
273.00	Accumulated Amortization of CIAC	\$9,258	
	Equity/Expense/Other Account(s)	\$94,432	

**Effect on the Filing:** The year-end and average rate base balances for the 12-months ended June 30, 2013, are displayed below. We have included \$13,834 for working capital which represents one-eighth of the O&M expense displayed in Finding 5.

<u>Rate Base Item</u>	<u>Per Utility</u>	<u>Adjustments</u>	<u>Per Audit</u>	<u>Avg. Balance</u>
	<u>06/30/13</u>		<u>06/30/13</u>	<u>06/30/13</u>
UPIS	\$452,262	(\$99,891)	\$352,371	\$351,399
Land	6,197	0	6,197	6,197
CIAC	(127,636)	(300)	(127,936)	(127,936)
Acc. Dep.	(260,657)	(3,499)	(264,156)	(273,874)
Acc. Amortz. Of CIAC	117,782	9,258	127,040	125,262
Working Capital	0	13,896	13,896	13,896
<b>Total</b>	<b>\$187,948</b>	<b>(\$80,536)</b>	<b>\$107,412</b>	<b>\$94,944</b>

### Finding 3: Capital Structure

**Audit Analysis:** The Utility's records reflect the following debt and equity balances as of December 31, 2012, and June 30, 2013, respectively.

<b>Description and Capital Class</b>		<b>Balance at 12/31/12</b>	<b>Balance at 06/30/13</b>
<b>Long-Term Debt</b>			
224.15	Note Payable Ally	\$0	(\$22,552)
224.16	Note Payable Ally	(23,698)	(23,698)
224.17	Note Payable Mainstay	<u>(95,000)</u>	<u>(95,000)</u>
	<b>Total Debt</b>	<b>(\$118,698)</b>	<b>(\$141,249)</b>
<b>Equity</b>			
201.00	Common Stock	(\$3,000)	(\$3,000)
211.00	Paid in Capital	(125,520)	(125,520)
215.00	Retained Earnings	<u>50,262</u>	<u>49,430</u>
	<b>Total Equity</b>	<b>(\$78,258)</b>	<b>(\$79,091)</b>
	<b>Total Capital</b>	<b><u>(\$196,956)</u></b>	<b><u>(\$220,340)</u></b>

All of the account balances for June 30, 2013, except Retained Earnings, were carried over from December 31, 2012, because they do not include the recurring general ledger adjusting and closing entries prepared by the Utility's accountant at year end. The Retained Earnings balance differs because we adjusted the amount to compile the June 30, 2013, Trial Balance.

The Utility provided an executed loan agreement for a \$24,370 note payable to Ally Bank. The balances displayed in Account Nos. 224.15 and 224.16 represent the same outstanding debt obligation. The outstanding balance for the note payable was \$23,698 on December 31, 2012. The Utility reposted the note payable to Acct. No. 224.15 for \$22,552 on January 1, 2013, with out removing the existing balance recorded in Acct. No. 224.16. This balance was carried forward in our trial balance compilation to June 30, 2013.

The Utility provided an executed loan agreement for a \$100,000 note payable to Mainstay Financial Services. The outstanding balance for the note was \$95,000 on December 31, 2012.

We scheduled and amortized the two note payables based on the terms of each loan document. The test year end balance, cost rates and weighted costs for the Utility's long term debt, as of June 30, 2013, is displayed below. In this instance, we used the year ending balance rather than the simple average balance which is typically used in rate case proceedings. We believe, since the test year crosses two periods of ownership interest, using an average long-term debt balance of \$56,740 (\$113,479/2) would materially understate the current owner's debt position.

<b>Long Term Debt Lender</b>	<b>Balance at</b>			<b>Cost Rate</b>	<b>Weighted Cost</b>
	<b>6/30/2012</b>	<b>6/30/2013</b>	<b>Ratio</b>		
Ally Bank	\$0	\$21,132	18.62%	5.00%	0.93%
Mainstay Financial	0	92,347	81.38%	10.00%	8.14%
<b>Total</b>	<b>\$0</b>	<b>\$113,479</b>	<b>100.00%</b>		<b>9.07%</b>

Differences between the calculated balance and the Utility's general ledger balance are explained above and exclude the \$23,698 balance in Acct. No. 224.16.

**Effect on the General Ledger:** The following adjustment is needed to correct the general ledger as of June 30, 2013.

<b>Acct. No.</b>	<b>Acct. Description</b>	<b>Debit</b>	<b>Credit</b>
224.16	Note Payable Ally Equity/Other Account(s)	\$23,698	\$23,698

**Effect on the Filing:** The Utility's capital structure has been reconciled with the average rate base determined in Finding 2. The average capital structure consists of long term debt of \$38,994, common equity of \$55,283 with an average weighted cost of 9.88 percent for the 12-months ended June 30, 2013. The average Cost of Capital and corresponding cost rates are included in Exhibit 2.

Our use of the year end balance instead of the simple average balance for long term debt should be re-evaluated by the analyst for its appropriateness in this proceeding.

#### **Finding 4: Operating Revenue**

**Audit Analysis:** The Utility's records reflect test year Revenues of \$117,975 for wastewater services. The Utility contracts with Park Water Company, the water service provider for the Utility's service territory, to bill and collect the applicable wastewater service fees. Park Water sends the Utility a check for the wastewater fees collected each month which the Utility records as revenue. At year end, the Utility's accountant adjusts the revenue balance to equal the actual wastewater service billed based on the monthly billing registers provided by Park Water.

The \$117,975 revenue balance above does not accurately reflect the test year operations for reasons we disclosed in Finding 1. Additionally, we determined that revenues are also understated because it does not include several months of wastewater service fees generated by CPMHP.

Using the water consumption information from the monthly billing registers and the Utility's Commission approved tariffs we calculated and imputed the missing revenue amounts and restated the 2013 monthly revenue amounts that were recorded on a cash basis to actual wastewater service fees billed. Our calculations increase revenues by \$8,196 to \$126,171 for the test year.

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

**Effect on the Filing:** The Utility's revenues are \$126,171 for the 12-months ended June 30, 2013.

## **Finding 5: Operations and Maintenance Expense**

**Audit Analysis:** The Utility’s records reflect test year O&M of \$132,836. The O&M expense amount does not accurately reflect test year operations for reasons disclosed in Finding 1 and based on our review of invoices, contracts and other supporting documentation. We have made several adjustments that reduce the Utility’s overall O&M expense by \$21,670 to \$111,166 for the test year as summarized below.

**NARUC Account No. 701 - Salaries and Wages:** The Utility’s general ledger includes \$13,991 in this account. The amount does not accurately reflect current operations because the Utility experienced multiple employee turnovers and months that do not include salary expense. Currently, the Utility has two employees: a maintenance employee that works approximately 15 hours per week, and an office manager that works approximately 20 hours per week, with salaries of \$7,800 and \$13,000, respectively. The Utility uses a third party vendor to lease these employees. The vendor provides the associated employee payroll benefits, expenses and workman’s compensation insurance coverage for a contract rate. We have increased salary expense by \$12,807 to \$26,798 for the test year which represents the annualized salary plus a contract rate for the two utility employees based on the most recent payroll receipts dated June 17, 2013.

**Utility Account No. 702:** The Utility’s general ledger includes \$2,591 in this account. Our review indicates that it includes five transactions for employee salary expense which we address above. We have reduced this account by \$2,591 to \$0.

**Utility Account No. 703:** The Utility’s general ledger includes \$1,422 in this account. Our review indicates that it includes three transactions for employee salary expense which we address above. We have reduced this account by \$1,422 to \$0.

**NARUC Account No. 711 - Sludge Hauling:** The Utility’s general ledger includes \$2,460 in this account. We have reduced sludge hauling by \$240 to \$2,220 for the test year as detailed below.

<u>Acct.</u>	<u>Description</u>	<u>Amount</u>	<u>Action</u>
711	Sludge Hauling	(\$980)	Transfer one invoice to Acct. No 736
720	Materials & Supplies	740	Add one invoice transfered from Acct. No. 720.
		<u>(\$240)</u>	Audit Adjustment.

**NARUC Account No. 715 - Purchased Power:** The Utility’s general ledger includes \$8,935 in this account. The amount does not accurately reflect current operations because some of the power bills include late fees and penalties which are not recoverable in a rate proceeding, and it does not include five power bills for the test year. We compiled the purchased power amount by scheduling the actual cost, less late fees and penalties, for thirty-one power bills available and imputing the remaining five power bills, based on the average cost for each individual meter, that were missing. Based on our calculation, we have increased purchased power by \$132 to \$9,067 for the test year.

NARUC Account No. 718 – Chemicals: The Utility’s general ledger includes \$2,391 in this account. We have increased chemicals by \$1,252 to \$3,643 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
718 Chemicals	(\$610)	Remove two invoices with no support.
720 Materials & Supplies	310	Add one invoice transferred from Acct. 720.
741 Utility Account	683	Add two invoices transferred from Acct. 741.
780 Utility Account	599	Add one invoice transferred from Acct. 780.
	270	Add transfer from contract operator schedule.
	<u>\$1,252</u>	Audit adjustment.

NARUC Account No. 720 – Materials and Supplies: The Utility’s general ledger includes \$1,927 in this account. We have increased materials and supplies by \$324 to \$2,251 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
720 Materials and Supplies	(\$31)	Transfer one invoice to Acct. No. 750
720 Materials and Supplies	(310)	Transfer one invoice to Acct. No. 718
720 Materials and Supplies	(717)	Transfer one invoice to Acct. No. 736
720 Materials and Supplies	(740)	Transfer one invoice to Acct. No. 711
736 Contract Services - Other	1,147	Add four invoices transferred from Acct. 736.
741 Utility Account	739	Add two invoices transferred from Acct. 741.
	237	Add transfer from contract operator schedule.
	<u>\$324</u>	Audit adjustment.

NARUC Account No. 730 – Contract Services Billing: The Utility’s general ledger includes \$2,879 in this account. The Utility contracts with Park Water Company, Inc. to bill and collect the applicable wastewater service fees. We annualized the monthly billing service fee charged by Park Water based on the current contract rate. We have increased billing services by \$4,030 to \$6,909 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
731 Contract Services - Professional	\$2,878	Add five invoices transferred from Acct. 731.
	576	Add one invoice not included in the test year.
	576	Add one month to annualize the billing services fee
	<u>\$4,030</u>	Audit adjustment.

(Annualized Billing Service - \$575.75 x 12 months = \$6,909)

NARUC Account No. 731 – Contract Services Professional: The Utility’s general ledger includes \$13,886 in this account. We accrued an invoice for the 2012 accounting services which was not received until after the test year. We have reduced professional services by \$6,606 to \$7,280 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
731 Contract Services - Professional	(\$2,879)	Transfer five invoices to Acct. 730.
731 Contract Services - Professional	(10,377)	Transfer seven invoices to Acct. 736.
	6,650	Add accrual for 2012 accounting services.
	<u>(\$6,606)</u>	Audit adjustment.

NARUC Account No. 735 – Contract Services Testing: The Utility’s general ledger includes \$0 in this account. We have increased testing services by \$490 to \$490 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
735 Contract Services Testing	\$490	Add transfer from contract operator schedule.
	\$490	Audit adjustment.

NARUC Account No. 736 – Contract Services Other: The Utility’s general ledger includes \$10,412 in this account. We have increased contract services by \$26,906 to \$37,318 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
711 Sludge Removal Expense	\$980	Add one invoice transferred from Acct. 711.
720 Material and Supplies	717	Add one invoice transferred from Acct. 720.
736 Contract Services Other	(1,147)	Transfer four invoices to Acct. No. 720
736 Contract Services Other	(3,778)	Remove ten invoices with no support.
741 Utility Account	5,450	Add fifteen invoices transferred from Acct. 741.
	(2,444)	Transfer to contract operator schedule
	27,127	Add transfer from contract operator schedule.
	\$26,906	Audit adjustment.

We prepared an invoice schedule of the Utility’s three primary vendors who provided contract operator services, major equipment repairs and recurring maintenance of the wastewater treatment system for the test year. We annualized the monthly operator service fee based on the current contract rate. We reclassified and capitalized expenditures that replaced the systems lift station pumps. We removed unsupported transactions and a 2012 general ledger adjusting journal entry. Based on the contract operator schedule we compiled, we have redistributed the total O&M expense incurred for these services to the five utility accounts detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
736 Contract Services Other	\$2,444	Transferred from Acct. No. 736
741 Utility Account	30,784	Transferred from Acct. No. 741
780 Utility Account	7,024	Transferred from Acct. No. 780
	(7,930)	Remove unsupported transaction amounts.
	3,825	Annualize the WWTP operator service fee.
<b>Total Vendor Services to Allocate</b>	<b>\$36,147</b>	

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
370 Receiving Wells	(\$8,024)	Audit transfer (capitalize)
718 Chemicals	(270)	Audit transfer
720 Materials and Supplies	(237)	Audit transfer
735 Contract Services Testing	(490)	Audit transfer
736 Contract Services Other	(27,127)	Audit transfer
<b>Total Vendor Services Allocated</b>	<b>(\$36,147)</b>	

Utility Account No. 741: The Utility's general ledger includes \$7,490 in this account. We have reduced this account by \$7,490 to \$0 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
741 Utility Account	(\$5,450)	Transfer sixteen invoices to Acct. 736.
741 Utility Account	(739)	Transfer two invoices to Acct. 720.
741 Utility Account	(683)	Transfer two invoices to Acct. 718.
741 Utility Account	(150)	Transfer one invoice to Acct. 750.
741 Utility Account	(469)	Remove salary that's accounted for in Acct. 701.
741 Utility Account	(2,205)	Transfer to Acct. 354-Structures (capitalize).
741 Utility Account	(30,784)	Transfer to contract operator schedule.
741 Utility Account	(2,163)	Remove two invoices with no support.
741 Utility Account	35,151	Remove one 2012 adjusting journal entry.
	<u>(\$7,490)</u>	Audit adjustment.

NARUC Account No. 750 – Transportation Expense: The Utility's general ledger includes \$5,228 in this account. We removed four 2012 adjusting journal entries that lacked sufficient supporting documentation or were for unknown or nonrecurring services incurred by the Utility's prior owner. We have reduced this account by \$4,191 to \$1,037 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
741 Utility Account	\$150	Add one invoice transferred from Acct. 741.
720 Material and Supplies	31	Add one invoice transferred from Acct. 720.
750 Transportation	(3,250)	Remove two invoices with no support.
750 Transportation	(1,122)	Remove four 2012 adjusting journal entries
	<u>(\$4,191)</u>	Audit adjustment.

Utility Account No. 751: The Utility's general ledger includes \$342 in this account. Our review indicates that an invoice for garbage disposal should be posted to Acct. No. 775 – Miscellaneous Expense. We have reduced this account by \$342 to \$0.

NARUC Account No. 755 – Insurance Expense: The Utility's general ledger includes \$14,747 in this account. We have reduced this account by \$5,249 to \$9,498 for the test year. Our adjustment accounts for the current annual costs for automobile insurance on the Utility's truck and commercial general liability insurance for utility operations. We removed the costs for these insurance products paid for by the Utility's prior owner at the end of 2012.

Utility Account No. 760: The Utility's general ledger includes \$66 in this account. Our review indicates that it includes one invoice with no supporting documentation. We have reduced this account by \$66 to \$0.

NARUC Account No. 765 – Regulatory Commission Expense: The Utility's general ledger includes \$6,132 in this account. We have reduced this account by \$5,882 to \$250 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
765 Regulatory Commission Expense	(\$6,132)	Remove 2012 RAF payment
	250	Add one-fourth of \$1,000 SARC filing fee.
	<u>(\$5,882)</u>	Audit adjustment.

NARUC Account No. 770 – Bad Debt Expense: The Utility’s general ledger includes \$22,710 in this account. We have reduced this account by \$18,976 to \$3,734 for the test year. The bad debt expense is the difference between the Utility’s customer accounts receivable balance of \$34,539, as of December 31, 2012, and an aged customer accounts receivable report that reflects an outstanding customer accounts receivable balance of \$11,840, for accounts that are outstanding six months or less. The difference, \$22,710, was written off at the end of 2012 as bad debt expense and is included in the test year.

We reviewed the Utility’s annual reports and determined that the Utility has never included bad debt expense in O&M expense since its last rate proceeding. We do not believe that the \$22,710 charge to bad debt expense is a recurring or reasonable amount.

We prepared a schedule of the Utility’s annual billed revenues, cash collections and the change in its customer accounts receivable balance for the three year period 2010 through 2012. Based on our schedule, we determined that the Utility’s outstanding customer accounts receivable balance increased at a rate of 2.82 percent annually. We believe that the annual increase in the customer accounts receivable balance represents the rate that utility customers’ default on their wastewater service bills. The Utility’s billed revenues averaged \$132,412 during the three year period.

Based on the information above, we calculated a test year bad debt expense of \$3,734 (2.82% x \$132,412) which represents our estimate for uncollectable revenues based on the Utility’s historical operations.

NARUC Account 775 – Miscellaneous Expense: The Utility’s general ledger includes \$7,605 in this account. We removed invoices for personal expenses incurred by the prior owner. We removed and deferred engineering fees related to the Utility’s current application process to renew its wastewater permit with the Department of Environmental Regulation. We have reduced this account by \$6,934 to \$671 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
751 Utility Account	\$341	Add one invoice transferred from Acct. 751.
775 Misc./Communication Expense	(543)	Remove three personal invoices for prior owner.
775 Misc./Communication Expense	(165)	Remove two invoices with no support.
775 Misc./Communication Expense	(1,268)	Remove salary that's accounted for in Acct. 701.
775 Misc./Communication Expense	(5,300)	Remove and defer WWTP application fee.
	<u>(\$6,934)</u>	Audit adjustment.

Utility Account No. 780: The Utility’s general ledger includes \$7,623 in this account. We have reduced this account by \$7,623 to \$0 for the test year as detailed below.

<u>Acct. Description</u>	<u>Amount</u>	<u>Action</u>
780 Utility Account	(\$599)	Transfer to Acct. No. 718
780 Utility Account	(7,024)	Transfer to contract operator schedule
	<u>(\$7,623)</u>	Audit adjustment.

**Table 5****Operation and Maintenance Expense**

<b>Acct. No.</b>	<b>Account Description</b>	<b>Per Utility</b>	<b>Adjustments</b>	<b>Per Audit</b>
701.00	Salaries and Wages	\$13,991	\$12,807	\$26,798
702.00	Utility Account	2,591	(2,591)	0
704.00	Utility Account	1,422	(1,422)	0
711.00	Sludge Removal Expense	2,460	(240)	2,220
715.00	Purchased Power	8,935	132	9,067
718.00	Chemicals	2,391	1,252	3,643
720.00	Materials and Supplies	1,927	324	2,251
730.00	Contractural Services Billing	2,879	4,030	6,909
731.00	Contractural Services Professional	13,886	(6,606)	7,280
735.00	Contractural Services Testing	0	490	490
736.00	Contractural Services Other	10,412	26,906	37,318
741.00	Utility Account	7,490	(7,490)	0
750.00	Transportation Expense	5,228	(4,191)	1,037
751.00	Utility Account	342	(342)	0
755.00	Insurance Expense	14,747	(5,249)	9,498
760.00	Utility Account	66	(66)	0
765.00	Regulatory Commission Expense	6,132	(5,882)	250
770.00	Bad Debt Expense	22,710	(18,976)	3,734
775.00	Miscellaneous Expense	7,605	(6,934)	671
780.00	Utility Account	7,623	(7,623)	0
	<b>Total</b>	<b>\$132,836</b>	<b>(\$21,670)</b>	<b>\$111,166</b>

**Effect on the General Ledger:** The adjustment to capitalize the two items totaling \$10,229 (\$2,205+\$8,024) that were expensed by the Utility, is included in the recommended adjustment to the general ledger in Finding 2. The effect on the general ledger of the remaining O&M expense adjustments should be determined by the Utility

**Effect on the Filing:** The Utility's O&M Expense is \$111,166, for the test year.

## Finding 6: Depreciation and Amortization

**Audit Analysis:** The Utility's records reflect test year Depreciation and CIAC Amortization Expenses of \$14,724 and \$994 (\$13,730 net) for the test year. The Utility's net depreciation expense amount does not accurately reflect test year operations for reasons we disclosed in Finding 1. Based on the information below, we have reduced test year Depreciation Expense by \$4,066 to \$9,664, as detailed below.

<b>Acct. No.</b>	<b>Acct. Description</b>	<b>Debit</b>	<b>Credit</b>
403.00	Depreciation Expense		\$9,964
	Equity/Other Account(s)	\$9,964	

In Finding 2, we calculated the annual accrual to Accumulated Depreciation for UPIS using the prescribed rates set forth in Rule 25-30.140 – Depreciation, F.A.C. We determined that test year Depreciation Expense is \$13,220.

In Finding 2, we calculated the annual accrual to Accumulated Amortization for CIAC using the CIAC composite depreciation rate set forth in Rule 25-30.140 – Depreciation, F.A.C. We determined that test year CIAC Amortization Expense is \$3,556.

Based on the information above, we have reduced test year Depreciation Expense by \$4,066 to \$9,664, as detailed below.

<b>Acct. No.</b>	<b>Acct. Description</b>	<b>Per Utility</b>	<b>Adjustments</b>	<b>Per Audit</b>
403.00	Depreciation Expense - UPIS	\$14,724	(\$1,504)	\$13,220
403.00	Depreciation Expense - CIAC	(994)	(2,562)	(3,556)
<b>Total</b>		<b>\$13,730</b>	<b>(\$4,066)</b>	<b>\$9,664</b>

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

**Effect on the Filing:** The Utility's Net Depreciation Expense is \$9,664, for the 12-months ended June 30, 2013.

## **Finding 7: Taxes Other Than Income**

**Audit Analysis:** The Utility's records reflect test year Taxes Other Than Income Expense (TOTI) of \$4,315 for the test year. The TOTI expense amount does not accurately reflect test year operations for reasons we disclosed in Finding 1, and based on our review of current property tax bills and other supporting documentation. We have made several adjustments that increase the Utility's TOTI expense by \$4,926 to \$9,241 for the test year as summarized below.

<b>Acct. Description</b>	<b>Amount</b>	<b>Action</b>
408 Taxes Other Than Income	(\$4,226)	Remove and zero out utility tax bills.
Caloosa lift station property tax	7	Add actual 2012 tax bill (net of discount).
Canal Drive lift station property tax	121	Add actual 2012 tax bill (net of discount).
WWTP site property tax	126	Add actual 2012 tax bill (net of discount).
WWTP tangible property tax	3,220	Add actual 2012 tax bill (net of discount).
Revenues of \$126,171 x 4.5%	5,678	Add test year regulatory assessment fee.
	<u>\$4,926</u>	Audit adjustment.

**Effect on the General Ledger:** The effect on the general ledger should be determined by the Utility

**Effect on the Filing:** The Utility's TOTI Expense is \$9,241, for the 12-months ended June 30, 2013.

## **Finding 8: Income Taxes**

**Audit Analysis:** The Utility's 2012 Federal Tax return reflects a Net Operating Loss (NOL) carry forward balance of \$40,639. Prior years Federal tax returns and annual reports filed with the Commission indicate that the Utility has never incurred federal income tax expense since its last rate proceeding.

Based on the information above we have set the Utility's Federal Income Tax Expense to \$0 for the test year.

**Effect on the General Ledger:** None

**Effect on the Filing:** The Utility's Income Tax Expense is \$0, for the test year.

## Exhibits

### **Exhibit 1: Rate Base**

**Crooked Lake Park Sewerage Company  
Twelve Months Ended June 30, 2013  
Docket No. 130178-SU**

<u>Description</u>	<u>Per Utility</u>	<u>Audit Adjustments</u>	<u>Per Audit</u>	<u>Simple Average</u>
Plant in Service	\$452,262	(\$99,891)	\$352,371	\$351,399
Land & Land Rights	6,197	0	6,197	6,197
Contributions in Aid of Construction	(127,636)	(300)	(127,936)	(127,936)
Accumulated Depreciation	(260,657)	(3,499)	(264,156)	(273,874)
Accumulated Amortization of CIAC	117,782	9,258	127,040	125,262
Working Capital	0	13,896	13,896	13,896
<b>Total</b>	<b>\$187,948</b>	<b>(\$80,536)</b>	<b>\$107,412</b>	<b>\$94,944</b>

(Small differences due to rounding)

## Exhibit 2: Capital Structure

**Crooked Lake Park Sewerage Company**  
**Twelve Months Ended June 30, 2013**  
**Docket No. 130178-SU**

<b>Capital Component</b>	<b>Per Utility</b>	<b>Adjustment</b>	<b>Per Audit</b>	<b>Pro Rate</b>			<b>Ratio</b>	<b>Cost</b>	<b>Weighted Cost</b>
				<b>Adjustment</b>	<b>Ratio</b>	<b>Avg. Balance</b>			
Long Term Debt	\$141,249	(\$27,770)	\$113,479	(\$57,529)	58.93%	\$55,950	58.93%	9.07%	5.34%
Common Equity	79,090	0	79,090	(40,096)	41.07%	38,994	41.07%	11.05%	4.54%
Customer Deposits	0	0	0	0	0.00%	0	0.00%	0.00%	0.00%
<b>Total Capital</b>	<b>\$220,339</b>	<b>(\$27,770)</b>	<b>\$192,569</b>	<b>(\$97,625)</b>	<b>100.00%</b>	<b>\$94,944</b>	<b>100.00%</b>		<b>9.88%</b>

The cost rate for equity is 11.05 percent based on the Commission latest leverage graph calculation approved in Order No. PSC-12-0339-FOF-WS, issued June 3, 2013.  
 (Small differences due to rounding)

### Exhibit 3: Net Operating Income

**Crooked Lake Park Sewerage Company**  
**Twelve Months Ended June 30, 2013**  
**Docket No. 130178-SU**

<b>Description</b>	<b>Per Utility</b>	<b>Audit Adjustments</b>	<b>Per Audit</b>
Operating Revenues	\$117,975	\$8,196	\$126,171
Operating Expenses:			
Operation & Maintenance	132,836	(\$21,670)	111,166
Depreciation (Net)	13,730	(\$4,066)	9,664
Taxes Other Than Income	4,315	\$4,926	9,241
Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	\$150,881	(\$20,809)	\$130,071
<b>Operating Income(Loss)</b>	<b><u>(\$32,906)</u></b>	<b><u>\$29,005</u></b>	<b><u>(\$3,901)</u></b>

(Small differences due to rounding)