

State of Florida



Public Service Commission

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

Auditor's Report

Cypress Lakes Utilities, Inc.
Rate Case Audit (PAA)

Twelve Months Ended December 31, 2012

Docket No. 130212-WS
Audit Control No. 13-296-4-1
December 17, 2013

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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 October 23, 2013. We have applied these procedures to the attached schedules prepared by Cypress Lakes Utilities, Inc. in support of its filing for rate relief in Docket No. 130212-WS.

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

Objectives and Procedures

General

The test year is the historical year ended December 31, 2012 unless otherwise specified.

The Utility or Cypress Lakes Utilities, Inc. is a Class B utility providing water and wastewater service. Cypress Lakes Utilities, Inc. is a wholly-owned subsidiary of Utilities, Inc. (UI). Order No. PSC-07-0199-PAA-WS, issued March 5, 2007 in Docket No. 060257-WS set the Utility's rate base as of December 31, 2005. Order PSC-07-0912-AS-WS in this same docket, changed the rates established based on a settlement agreement but did not change the rate base. Order No. PSC-10-0682-PAA-WS, issued November 15, 2010 in Docket No. 090349-WS, a limited proceeding requested to include plant additions, also changed rates but did not establish rate base.

This audit pertains to direct costs only. All allocated costs were audited in the Utilities, Inc. - Audit of Affiliate Transactions, Docket No.130212-WS, Audit Control Number (ACN) 13-296-4-2.

Rate Base

Utility Plant in Service (UPIS)

Objectives: The objectives were to determine whether plant in service: 1) Consists of property that exists and is owned by the Utility, 2) Additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission rules and the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USoA), 3) Retirements are made when a replacement item is put into service, and 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the plant in service beginning balances, including ordered adjustments, in the general ledger to Order No. PSC-07-0199-PAA-WS. We compiled additions and retirements from the Utility's three ledgers, the AA (general ledger), the UA (allocation ledger), and the UR (commission adjustment ledger) from 2005 through 2012 to determine the UPIS historical test year ended December 31, 2012. We traced a judgmental sample of additions and retirements from the AA ledger since the last audit to source documentation and reconciled them to the general ledger to verify additions were recorded at original cost.

We requested support for the Utility's adjustments and proforma plant additions and traced them to the MFRs. We reconciled the UR ledger to the prior audits and orders.

Finding 1 discusses the proforma adjustment. Finding 2 discusses retirements not recorded. Finding 3 discusses an ordered adjustment not booked, and Finding 4 discusses plant additions that should have been expensed. Finding 5 discusses sludge equipment improperly recorded.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is recorded at original cost, is used for utility operation, and is owned or secured under a long-term lease.

Procedures: We noted that there were no new additions to land since the prior rate case. No further work performed and no exceptions were noted.

Contributions-in-Aid-of-Construction (CIAC)

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

Procedures: We reconciled the beginning CIAC balances to Order No. PSC-07-0199-PAA-WS. We reconciled additions to the utility CIAC Tap Fee schedules and verified service availability charges from the FPSC approved tariffs. We also reviewed CIAC agreements, and inquired if the Utility had any special agreements, developer agreements, and whether the Utility had received any donated property as CIAC. We also requested support for the Utility's adjustments and traced them to the MFRs. Finding 8 discusses CIAC recorded incorrectly.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USoA, 2) Depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded, and 3) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning accumulated depreciation balances, including ordered adjustments to Order No. PSC-07-0199-PAA-WS. We scheduled and recalculated accumulated depreciation accruals using audited plant balances from the AA and UR ledgers and the prescribed rates in Rule 25-30.140 and traced them to the MFRs. We reconciled the audited accumulated depreciation balances to the general ledger. We also requested support for the Utility's adjustments and proforma accumulated depreciation and traced them to the MFRs. Finding 1, 2, 3, 4, and 5 discuss the adjustments to accumulated depreciation related to plant findings. Finding 6 discusses the accumulated depreciation adjusted in the filing not being booked and not using average balances to adjust the filing. Finding 7 discusses incorrect rates used to calculate depreciation.

Accumulated Amortization of CIAC

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

Procedures: We reconciled the beginning accumulated amortization of CIAC balances, including ordered adjustments to Order No. PSC-07-0199-PAA-WS. We reconciled the audited accumulated amortization of CIAC balances to the general ledger. We recalculated accumulated amortization using Rule 25-30.140. Finding 8 and 9 discuss accumulated amortization of CIAC.

Working Capital

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

Procedures: We recalculated the working capital allowance using the 1/8 of operation and maintenance expense method. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether: 1) Utility charges were those approved by the Commission in the Utility's current authorized tariff for both water and wastewater and 2) Revenue earned from utility property during the test year was recorded and properly classified in compliance with Commission rules and the NARUC USoA.

Procedures: We reviewed the Utility's Commission approved tariffs establishing rates and compiled water and wastewater utility revenue for the 12-months ended December 31, 2012 from the Utility's billing register. We tested the reasonableness of the utility revenues by multiplying the average consumption by the tariff rate for each bill in the billing register. We sorted the billing register and compared consumption and number of bills to the E Schedules in the MFRs. We also reviewed adjustments and reconciled them to the Utility's supporting documentation. Finding 8 discusses CIAC misclassified as revenue.

Operation and Maintenance Expense (O&M)

Objectives: The objectives were to determine whether O&M expenses were properly recorded in compliance with Commission rules, and were reasonable and prudent for ongoing utility operations.

Procedures: We reviewed a sample of the Utility's invoices for proper amount, period, classification, recurring nature, and whether the invoice was utility related. We reviewed the Utility's methodology for proper allocation of expenses for water and wastewater operations.

We reconciled expenses from the general ledger to the MFRs. We reviewed the adjustments.

Findings 10 and 11 discuss adjustments to expenses.

Depreciation and Amortization

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

Procedures: We recalculated depreciation expense and amortization expense using the rates in Rule 25-30.140 and compared the balances to the ledger and MFRs. Findings 1, 2, 3, 4, and 5 discuss depreciation adjustments. Findings 8 and 9 discuss CIAC amortization.

Taxes Other than Income

Objectives: The objective was to determine the appropriate amounts for taxes other than income tax for the test year ended December 31, 2012.

Procedures: We recalculated regulatory assessment fees using staff's audited revenues. We traced real estate and tangible property taxes to source documents, and ensured that these taxes reflected the maximum discount available and are only for utility property. We reconciled the components of taxes other than income tax on the MFR to the general ledger. No exceptions were noted.

Capital Structure

Objectives: The objectives were to determine whether the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital were properly recorded in compliance with Commission rules and that it accurately represented the ongoing utility operations.

Procedures: The equity and debt components of capital structure were audited in the Utilities, Inc. - Audit of Affiliate Transactions.

We reconciled the customer deposit ending balances from the prior audit to the beginning balances in this audit. We reconciled deposits received and refunded from the MFR and company provided schedules to the general ledger. We reviewed Commission Rule 25-30.311 and determined that the Utility properly calculated and remitted interest.

We reconciled the 2012 Deferred Income Tax Expense on the MFR to the supporting Utility schedules, the annual report and the general ledger. No exceptions were noted.

Other

Analytical Review

Objectives: The objectives were to determine whether Revenues and O&M expenses contained information that could be deemed unusual and to assist in assessing risk.

Procedures: We performed a trend analysis on Utility revenues for the years 2005 to 2012. We performed a trend analysis on Utility O&M expense for the years 2006 to 2012. We requested explanations from the Utility for significant variances. Explanations provided were sufficient and no further work was required.

Audit Findings

Finding 1: Plant Proforma

Audit Analysis: The Utility included a proforma to wastewater plant for \$110,000 as shown on Schedule A-3 of the MFRs. We reviewed the bid amounts and the invoices to date. Based on the documentation provided, it appears that the total estimated amount will be \$92,000. The plant should be completed in December 2013 or early 2014.

Adjustment on Schedule A-3	Per Filing	Per Estimate	Difference
Wastewater Plant In Service	\$ 110,000	\$ 92,000	\$ 18,000
Wastewater Accumulated Depreciation	\$ 1,719	\$ 1,438	\$ 281
Wastewater Depreciation Expense	\$ 3,438	\$ 2,875	\$ 563
Note: Depreciation was based on a 32 year life (3.125%) and a simple average used for rate base accounts.			

Effect on the General Ledger: There is no effect on the General Ledger because this adjustment relates to a proforma.

Effect on the Filing: If the utility cannot provide additional support, wastewater plant in service, average wastewater accumulated depreciation and wastewater depreciation expense should be decreased by \$18,000, \$281 and \$563, respectively.

Finding 2: Retirements Not Recorded

Audit Analysis: As a result of our sample of plant additions, we determined there were several retirements that were not recorded by the Utility. The Utility agreed that retirements should have been recorded when the new assets were installed. The amount of the retirements were calculated using 75% of the cost of the new addition in accordance with the Commission policy. The accumulated depreciation and depreciation expense related to these assets also need to be removed. The schedule following this finding details the accounts, the vendor for the new addition, and the amounts with the associated depreciation for each item.

Effect on the General Ledger: The following adjustment is needed to correct the general ledger at December 31, 2012. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

NARUC Account	Utility Account	Description	Debit	Credit
Water				
320	1055	Water Structures and Improvements		\$ 37,500.00
320	1115	Water Treatment Equipment		\$ 822.73
331	1125	Trans. & Dist. Mains		\$ 3,738.75
334	1135	Meters		\$ 2,401.24
334	1140	Pumping Equipment		\$ 660.00
108	1850	Acc. Depr. Water Structures and Improvements	\$ 37,597.66	
108	1910	Acc. Depr. Water Treatment Equip.	\$ 859.49	
108	1920	Acc. Depr. Trans. & Dist. Mains	\$ 3,746.00	
108	1930	Acc. Depr. Meters	\$ 2,423.52	
108	1900	Acc. Depr. Pumping Equipment	\$ 663.06	
215	4998	Retained Earnings		\$ 167.01
Wastewater				
354	1295	WWTP Structures and Improvements (Lift Station)		\$ 2,055.11
354	1300	WWTP Structures and Improvements (TP)		\$ 6,239.66
371	1380	Pumping Equipment		\$ 3,098.56
380	1395	Treat/Disp. Equip. Lagoon-Wastewater		\$ 298.77
380	1400	Treat/Disp Equip Treatment Plant		\$ 6,301.22
381	1410	Plant Sewers Treatment Equipment-Wastewater		\$ 879.10
394	1475	Laboratory Equipment-Wastewater		\$ 322.70
108	2050	Acc. Depr. WWTP Structures and Improvements (Lift St.)	\$ 2,555.19	
108	2050	Acc. Depr. WWTP Structures and Improvements (TP)	\$ 6,813.50	
108	1900	Acc. Depr. Pumping Equipment	\$ 3,140.91	
108	2155	Acc. Depr. Treat/Disp Equip Trt. Plant	\$ 8,410.77	
108	2160	Acc. Depr. Treat/Disp. Equipment Lagoon-Wastewater	\$ 300.15	
108	2170	Acc. Depr. Plant Sewers Treatm. Equip. Wastewater	\$ 898.48	
108	1990	Acc. Depr. Laboratory Equipment -Wastewater	\$ 331.66	
215	4998	Retained Earnings		\$ 3,255.54

Effect on the Filing: Average water plant should be reduced (credited) by \$22,731.63. Average water accumulated depreciation should be reduced (debited) by \$22,820.29. Water depreciation expense should be reduced (credited) by \$156.68. Average wastewater plant should be reduced (credited) by \$16,895.54. Average accumulated depreciation should be reduced (debited) by \$19,801.41. Wastewater depreciation expense should be reduced (credited) by \$699.33.

Water

NARUC Account	Utility Account	Vendor	Date	New Plant Invoice	Plant Adjustment (75%)	Retirement Accumulated Depreciation	Acc. Dep. Acct.	Year Life	Monthly Dep. Exp.	Dep. Expense 2012	Months	Change in A/D to Plant Removal
320	1055	Env. Eq. Sales	11/12/2012	\$ 50,000.00	\$ (37,500.00)	\$ 37,500.00	1850.00	32	\$ 97.66	\$ (97.66)	1	\$ 97.66
320	1115	SERVICES, INC.	4/16/2011	\$ 454.07	\$ (340.55)	\$ 340.55	1910.00	22	\$ (1.29)	\$ (15.48)	20	\$ 25.80
320	1115	USA Bluebook/Utility Supply of	6/28/2012	\$ 642.90	\$ (482.18)	\$ 482.18	1910.00	22	\$ (1.83)	\$ (10.96)	6	\$ 10.96
331	1125	LLC.	11/12/2012	\$ 4,985.00	\$ (3,738.75)	\$ 3,738.75	1920.00	43	\$ (7.25)	\$ (7.25)	1	\$ 7.25
334	1135	Innovative Meter Solutions, Inc.	11/21/2012	\$ 1,891.97	\$ (1,418.98)	\$ 1,418.98	1930.00	20	\$ (5.91)	\$ (5.91)	1	\$ 5.91
334	1135	Innovative Meter Solutions, Inc.	8/24/2012	\$ 1,309.68	\$ (982.26)	\$ 982.26	1930.00	20	\$ (4.09)	\$ (16.37)	4	\$ 16.37
334	1140	Utilequip Services, Inc.	11/1/2012	\$ 880.00	\$ (660.00)	\$ 660.00	1900.00	18	\$ (3.06)	\$ (3.06)	1	\$ 3.06
				\$ 60,163.62	\$ (45,122.72)	\$ 45,122.72			\$ 74.23	\$ (156.68)		\$ 167.00

	Plant	Accumulated Depreciation
Beginning Balance	\$ (340.55)	\$ 350.87
Ending Balance	\$ (45,122.72)	\$ 45,289.71
Average	\$ (22,731.63)	\$ 22,820.29

Wastewater

NARUC Acc.	Utility Acc.	Vendor	Date	New Plant Invoice	Plant Adjustment (75%)	Retirement Acc. Dep.	Acc. Dep. Acct.	Year Life	Monthly Dep. Exp.	Dep. Expense 2012	Months	Change in A/D for Plant Removal
354	1295	35373*14878*KENS BU	11/12/2006	\$ 2,740.14	\$ (2,055.11)	\$ 2,055.11	2050	25	\$ (6.85)	\$ (82.20)	73	\$ 500.08
354	1300	AABOT FENCE INC	4/26/2009	\$ 3,276.00	\$ (2,457.00)	\$ 2,457.00	2050	32	\$ (6.40)	\$ (76.78)	44	\$ 281.53
354	1300	KEN'S BUSH HOG SERVICE	1/5/2010	\$ 3,253.00	\$ (2,439.75)	\$ 2,439.75	2050	32	\$ (6.35)	\$ (76.24)	35	\$ 222.37
354	1300	UTILEQUIP SERVICES, INC.	4/24/2011	\$ 1,790.54	\$ (1,342.91)	\$ 1,342.91	2050	32	\$ (3.50)	\$ (41.97)	20	\$ 69.94
371	1380	Utilequip Services, Inc.	11/1/2012	\$ 385.00	\$ (288.75)	\$ 288.75	1900	18	\$ (1.34)	\$ (1.34)	1	\$ 1.34
371	1380	USA Bluebook/Utility Supply of	10/10/2012	\$ 2,666.90	\$ (2,000.18)	\$ 2,000.18	1900	18	\$ (9.26)	\$ (18.52)	2	\$ 18.52
371	1380	Rexel Mader Dept.	6/6/2012	\$ 1,079.51	\$ (809.63)	\$ 809.63	1900	18	\$ (3.75)	\$ (22.49)	6	\$ 22.49
380	1400	5055*06808*UTILITY S	12/27/2006	\$ 1,959.85	\$ (1,469.89)	\$ 1,469.89	2160	18	\$ (6.81)	\$ (81.66)	72	\$ 489.96
380	1400	35981*19410*UTILEQUI	11/5/2006	\$ 2,633.20	\$ (1,974.90)	\$ 1,974.90	2160	18	\$ (9.14)	\$ (109.72)	73	\$ 667.44
380	1400	R37412*19410*UTILEQU	12/11/2006	\$ 1,187.06	\$ (890.30)	\$ 890.30	2160	18	\$ (4.12)	\$ (49.46)	72	\$ 296.77
380	1400	RPT-CP.TO.GL, LN-0730, CLC-25	12/20/2006	\$ 2,621.50	\$ (1,966.13)	\$ 1,966.13	2160	18	\$ (9.10)	\$ (109.23)	72	\$ 655.38
380	1395	Grainger	11/9/2012	\$ 398.36	\$ (298.77)	\$ 298.77	2155	18	\$ (1.38)	\$ (1.38)	1	\$ 1.38
381	1410	Utilequip Services, Inc.	4/3/2012	\$ 435.12	\$ (326.34)	\$ 326.34	2170	35	\$ (0.78)	\$ (6.22)	8	\$ 6.22
381	1410	Utilequip Services, Inc.	2/21/2012	\$ 737.01	\$ (552.76)	\$ 552.76	2170	35	\$ (1.32)	\$ (13.16)	10	\$ 13.16
394	1475	Hach Company	7/17/2012	\$ 430.27	\$ (322.70)	\$ 322.70	1990	15	\$ (1.79)	\$ (8.96)	5	\$ 8.96
				\$ 25,593.46	\$ (19,195.10)	\$ 19,195.10			\$ (71.89)	\$ (699.33)		\$ 3,255.54

	Plant	Accumulated Depreciation
Beginning Balance	\$ (14,595.97)	\$ 17,152.18
Ending Balance	\$ (19,195.10)	\$ 22,450.63
Average	\$ (16,895.54)	\$ 19,801.41

Finding 3: Adjustment From Order Incorrectly Booked

Audit Analysis: The Utility's wastewater plant is understated in the general ledger by \$200,004 because they did not record an adjustment made in PSC Order No. 07-0199-PAA-WS in Docket No. 060257-WS. This adjustment was to correct a prior adjustment the Utility had made to the books to credit plant in service for a non-used and useful adjustment from Docket No. 020407-WS. The Utility correctly increased plant, accumulated depreciation and depreciation expense in the filing for this error, however, the ledger needs to be corrected.

Used and useful adjustments are made for rate case purposes and should not have been recorded in the utility's books. An adjustment should be made to include the erroneous credit to plant for the non-used and useful plant and to record the accumulated depreciation for 12 years using an 18 year life.

Effect on the General Ledger: The following adjustment should be made to the general ledger as of December 31, 2012. Since the 2012 ledger will be closed when this order is issued, expense entries will be shown as an adjustment to retained earnings instead of depreciation expense.

Utility	NARUC			
Account	Account	Account Name	Debit	Credit
1810	103	Plant Held For Future Use		\$ 200,004
2400	108	Accumulated Depreciation		\$ 133,336
4998	215	Retained Earnings	\$ 133,336	
1400	380	Wastewater Treatment Plant	\$ 200,004	

Effect on the Filing: There is no effect on the filing because the utility adjusted the filing.

Finding 4: Expense Recorded As Plant

Audit Analysis: Rule 25-30.140 (1) (g), F.A.C., states that the cost of incidental repairs that neither materially add to the value of the property nor appreciably prolong its life and that were made to keep the property in an ordinary efficient operating condition shall be accounted for as a maintenance expense. We tested prior year’s plant additions to determine if the Utility followed this rule and found several maintenance expenses included in plant. The Utility agrees that the following transactions were incorrectly classified. The schedule on the next page details the expenses and the corresponding adjustments to plant and accumulated depreciation.

Effect on the General Ledger: The following adjustment should be made to the general ledger as of December 31, 2012:

NARUC Account	Utility Account	Account Description	Debit	Credit
304.3	1055	Struct. & Imprv. Wtr. Trt. Plt.		\$ 104.51
311.3	1105	Electric. Pump. Equip. Wtp.		\$ 247.30
320.3	1115	Water Treatment Eqpt.		\$ 1,158.67
343.5	1985	Tool Shop & Misc. Eqpt.		\$ 549.00
354.4	1300	Struct/Imprv Treat. Plt.		\$ 315.63
380.4	1400	Treat./Disp. Equip. Trt. Plt.		\$ 958.82
108.1	1850	Acc. Depr.-Struct. & Imprv. Wtp.	\$ 21.36	
108.1	1900	Acc. Depr.-Elect. Pump. Equip. Wtp.	\$ 31.43	
108.1	1910	Acc. Depr.-Water Treatment Eqpt.	\$ 136.79	
108.1	2060	Acc. Depr.-Struct./Imprv. Treat. Plt.	\$ 16.03	
108.1	2160	Acc. Depr.-Treat./Disp Eqp Trt. Pl.	\$ 74.27	
108.1	2230	Acc. Depr.-Tool Shop & Misc. Eqpt.	\$ 204.45	
215.0	4998	Retained Earn-Prior Years	\$ 2,849.60	

Effect on the Filing: Average water and wastewater plant should be reduced by \$ 1,510 and \$1,823, respectively. Average water and wastewater accumulated depreciation should be reduced by \$155 and \$246, respectively. Depreciation Expense should be reduced by \$68 for water and \$97 for wastewater.

Capitalized Maintenance Expense Adjustments

NARUC	Co. Acct.	Vendor	Date	Credit Plant Account	Debit Retained Earnings	Description	Mos. Dep.	Mo. Dep. Rate	Debit Acc. Dep.	Acc. Dep. Acct.	Credit Dep. Exp.	Dep. Exp. Acct.	Credit Retained Earnings
Water Plant													
304.3	1055	Engineering Unlimited, Inc.	6/14/2006	\$ (104.51)	\$ 104.51	(12) Senoir brass padlocks and (10) Brass keys	78.5	0.26%	\$ 21.36	1850	\$ (3.27)	6460	\$ (18.10)
311.3	1105	Home Depot	6/10/2010	\$ (247.30)	\$ 247.30	Flotec 3/4 HP Thermoplastic Shallow-Well Jet Pump, 1-1/4 Elbow, and 1-1/4 F A adaptor	30.5	0.42%	\$ 31.43	1900	\$ (12.37)	6510	\$ (19.06)
320.3	1115	USA Bluebook	12/13/2011	\$ (248.42)	\$ 248.42	(1) 30 GPD; 100 PSI Pump - diaphragm metering pumps	12.5	0.38%	\$ 11.76	1910	\$ (11.29)	6520	\$ (0.47)
320.3	1115	USA Bluebook	6/21/2010	\$ (255.44)	\$ 255.44	(1) 30 GPD; 100 PSI Pump - diaphragm metering pumps	30.5	0.38%	\$ 29.51	1910	\$ (11.61)	6520	\$ (17.90)
320.3	1115	The Dumont Company Inc	5/12/2010	\$ (519.84)	\$ 519.84	(2) Quill	31.5	0.38%	\$ 62.03	1910	\$ (23.63)	6520	\$ (38.40)
320.3	1115	USA Bluebook	7/3/2007	\$ (134.97)	\$ 134.97	(3) Total Chlorine Reagent Set for CL17 analyzer	65.5	0.38%	\$ 33.49	1910	\$ (6.14)	6520	\$ (27.35)
Water Plant Total				\$ (1,510.48)	\$ 1,510.48				\$ 189.58		\$ (68.30)		\$ (121.28)
Wastewater Plant													
343.5	1470	USA Bluebook	1/31/2007	\$ (549.00)	\$ 549.00	Misc tools for new employee's truck	71.5	0.52%	\$ 204.45	2230	\$ (34.31)	6595	\$ (170.13)
354.4	1300	Bob Dean Supply, Inc.	5/31/2011	\$ (315.63)	\$ 315.63	(6) Texcel Elephant Trunk Hose - 16.0 Hose	19.5	0.26%	\$ 16.03	2060	\$ (9.86)	6665	\$ (6.16)
380.4	1400	Utilequip Services, Inc.	5/4/2011	\$ (330.00)	\$ 330.00	Replaced Trolley Key on clarifier's - Not working b/c of key wedged in gearbox key slot.	19.5	0.46%	\$ 29.79	2160	\$ (18.33)	6765	\$ (11.46)
380.4	1400	Home Depot	8/11/2011	\$ (245.03)	\$ 245.03	Flotec 3/4 HP Thermoplastic Shallow-Well Jet Pump	16.5	0.46%	\$ 18.72	2160	\$ (13.61)	6765	\$ (5.10)
380.4	1400	USA Bluebook	10/27/2011	\$ (383.79)	\$ 383.79	(1) Suction PVC valve and (1) Discharge PVC valve	14.5	0.46%	\$ 25.76	2160	\$ (21.32)	6765	\$ (4.44)
Wastewater Plant Total				\$ (1,823.45)	\$ 1,823.45				\$ 294.75		\$ (97.44)		\$ (197.30)

A/D Average Adjustment		
Description	Water Plant	Wastewater Plant
A/D Adjustment Beginning Balance	\$ 121.28	\$ 197.30
A/D Adjustment Ending Balance	\$ 189.58	\$ 294.75
Average Adjustment	\$ 155.43	\$ 246.02

Finding 5: Sludge Equipment

Audit Analysis: In 2009, Bio-Tech, Inc., a subsidiary of Utilities, Inc. purchased and installed five "Sludge Mate Roll Offs" (Sludge Box) which cost \$187,028. Capitalized labor associated with the pilot study of this equipment was \$2,579 making the total cost \$189,607. The cost was not transferred to the individual utilities until July 2010. Based on the invoices and capitalized labor, the cost of each box was \$37,921. Cypress Lakes shares a sludge box with Labrador Utilities, Inc. Each company was charged \$21,296, or \$2,335 more than the cost. On the following page, we computed depreciation recorded on this additional amount.

Effect on the General Ledger: The following adjustment should be made to the general ledger as of December 31, 2012.

NARUC Account	Utility Account	Account Description	Debit	Credit
380.4	1400	Treatment & Disposal Equipment		\$ 2,335.00
108.1	2160	Acc. Dep.-Treatment & Disposal Equipment	\$ 318.90	
215.0	4998	Retained Earnings		\$ 318.90
146.0	2710	Accounts Receivable Associated Co.	\$ 2,335.00	

Effect on the Filing: Average wastewater plant and average wastewater accumulated depreciation should be reduced by \$2,335 and \$254, respectively. Wastewater depreciation expense should be reduced by \$130.

Sludge Box Adjustment

NARUC	Co. Acct.	Description	Date	Credit to Plant	Transfer to A/R Assoc. Companies	Months Depreciated	Mo. Dep. Rate	Acc. Dep.	Acc. Dep. Acct.	Dep. Exp.	Dep. Exp. Acct.	Transfer to Retained Earnings Acct. 4998
Wastewater Plant												
380.4	1400	Sludge Box - shared with Labrador	7/1/2010	\$ (2,335.00)	\$ 2,335.00	29.5	0.46%	\$ 318.90	1910	\$ (129.72)	6765	\$ (189.18)

A/D Average Adjustment

Description	Wastewater Plant
A/D Adjustment Beginning Balance	\$ 189.18
A/D Adjustment Ending Balance	\$ 318.90
Average Adjustment	\$ 254.04

Finding 6: Misclassification of Wastewater Treatment Additions

Audit Analysis: In 2008 and 2009, the Utility made modifications to its wastewater plant and requested a limited rate proceeding to increase rates for the additions made in Docket No. 090349-WS. These additions were for wastewater treatment plant equipment and should have been booked in Account 380-Wastewater Treatment Plant Equipment except for a generator which cost \$80,000 and should have been recorded in Account 355-Power Generating Equipment. The Utility booked these additions in Account 354-Structures and Improvements and depreciated them at 32 years in accordance with Rule 25-30.140, F.A.C. The rule also requires Account 380 to be depreciated at 18 years, and Account 355 to be depreciated at 20 years. The schedule following this finding shows the difference in accumulated depreciation and depreciation expense.

Order No. PSC-10-0682-PAA-WS, issued November 15, 2010 in Docket No. 090349-WS, required the Utility to record a retirement for a generator for \$16,639. The Utility has not booked this adjustment. Depreciation has been taken on this retirement since December 2008 and needs to be removed. The depreciation was booked using a 32 year life. Therefore \$2,080 should be removed from accumulated depreciation and \$520 from depreciation expense.

Effect on the General Ledger: The following adjustment should be made to the Utility’s general ledger as of December 31, 2012. Since the 2012 ledger will be closed when this order is issued, expense entries will be shown as an adjustment to retained earnings instead of depreciation expense.

NARUC Account	Utility Account	Description	Debit	Credit
380	1400	Treatment and Disposal Equip.	\$ 955,517.95	
355	1330	Power Generation Equipment	\$ 80,000.00	
354	1315	Structures and Improvements		\$ 1,035,517.95
108	2060	Acc. Dep. Structures and Imp.	\$ 135,753.50	
108	2090	Acc. Dep. Power Generation		\$ 16,333.33
108	2160	Acc. Dep. Treatment and Disp.		\$ 223,191.40
215	4998	Retained Earnings	\$ 103,771.23	
380	1400	Treatment and Disposal Equip.		\$ 16,639.00
108	2060	Acc. Dep. Structures and Imp.	\$ 18,719.00	
215	4998	Retained Earnings		\$ 2,080.00

Effect on the Filing: Average wastewater plant should be reduced by \$16,639. Average wastewater accumulated depreciation should be increased by \$72,950. Wastewater depreciation expense should be increased by \$24,204.39.

	Amount	Months	Accumulated at 32 Years	Accumulated at 18 years	Acc. Dep. Understated	Depreciation Exp. At 32	Depreciation Exp. At 18	Depreciation Exp. Understated
1/31/2008	\$ 129,723.77	60	\$ (20,269.34)	\$ (36,034.38)	\$ (15,765.04)	\$ 4,053.87	\$ 7,206.88	\$ 3,153.01
10/1/2008	\$ 962.48	51	\$ (127.83)	\$ (227.25)	\$ (99.42)	\$ 30.08	\$ 53.47	\$ 23.39
11/30/2008	\$ 150,785.92	50	\$ (19,633.58)	\$ (34,904.15)	\$ (15,270.56)	\$ 4,712.06	\$ 8,377.00	\$ 3,664.94
12/31/2008	\$ 652,830.75	49	\$ (83,303.92)	\$ (148,095.86)	\$ (64,791.94)	\$ 20,400.96	\$ 36,268.38	\$ 15,867.41
3/31/2009	\$ 67.84	46	\$ (8.13)	\$ (14.45)	\$ (6.32)	\$ 2.12	\$ 3.77	\$ 1.65
4/30/2009	\$ 3,276.00	45	\$ (383.91)	\$ (682.50)	\$ (298.59)	\$ 102.38	\$ 182.00	\$ 79.63
6/31/09	\$ 66.38	43	\$ (7.43)	\$ (13.21)	\$ (5.78)	\$ 2.07	\$ 3.69	\$ 1.61
8/31/2009	\$ 872.39	41	\$ (93.15)	\$ (165.59)	\$ (72.45)	\$ 27.26	\$ 48.47	\$ 21.20
9/30/2009	\$ 455.16	40	\$ (47.41)	\$ (84.29)	\$ (36.88)	\$ 14.22	\$ 25.29	\$ 11.06
10/30/2009	\$ 15,823.74	39	\$ (1,607.10)	\$ (2,857.06)	\$ (1,249.97)	\$ 494.49	\$ 879.10	\$ 384.60
11/30/2009	\$ 151.72	38	\$ (15.01)	\$ (26.69)	\$ (11.68)	\$ 4.74	\$ 8.43	\$ 3.69
12/31/2009	\$ 501.80	37	\$ (48.35)	\$ (85.96)	\$ (37.61)	\$ 15.68	\$ 27.88	\$ 12.20
	\$ 955,517.95		\$ (125,545.16)	\$ (223,191.40)	\$ (97,646.24)	\$ 29,859.94	\$ 53,084.33	\$ 23,224.39
Generator at 20 years	\$ 80,000.00	49	\$ (10,208.33)	\$ (16,333.33)	\$ (6,125.00)	\$ 2,500.00	\$ 4,000.00	\$ 1,500.00
	\$ 1,035,517.95		\$ (135,753.50)	\$ (239,524.73)	\$ (103,771.24)	\$ 32,359.94	\$ 57,084.33	\$ 24,724.39
Less Retirement					\$ 18,719.00			\$ (520.00)
Net Adjustment					\$ (85,052.24)			\$ 24,204.39
Average Calculation:			Beginning Accumulated Depreciation	\$ (60,847.84)				
			Ending Accumulated Depreciation	\$ (85,052.24)				
			Total	\$ (145,900.08)				
			Simple Average	\$ (72,950.04)				

Finding 7: Rollforward Accumulated Depreciation Adjustment

Audit Analysis: The Utility did not record various accumulated depreciation balances on the books. These pertain to plant balances that are recorded in a separate ledger (UR) and were not depreciated in the Utility’s ledger. The accumulated depreciation and depreciation expense were included in the filing adjustments but the Utility used year end and not simple average for its adjustment to accumulated depreciation. If simple average were used, accumulated depreciation would be reduced (debited) by \$3,028. The calculation follows on the next page.

Effect on the General Ledger: The following adjustment should be made to the Utility’s general ledger as of December 31, 2012. Since the 2012 ledger will be closed when this order is issued, expense entries will be shown as an adjustment to retained earnings instead of depreciation expense.

NARUC Utility

Account	Account	Account Name	Debit	Credit
215	4998	Retained Earnings		\$ 42,398.98
108	1835	Acc. Depr. - Organization Water	\$ 14,096.43	
108	1900	Acc. Depr. - Electric Pump Equipment	\$ 83.03	
108	1990	Acc. Depr. - Laboratory Equipment	\$ 141.40	
108	2030	Acc. Depr. - Organization Sewer	\$ 1,770.13	
108	2040	Acc. Depr. - Franchises Sewer	\$ 3,186.23	
108	2110	Acc. Depr. - Gravity Mains		\$ 156.33
108	2160	Acc. Depr. - Sewer Treatment & Disposal	\$ 23,278.11	

Effect on the Filing: Average accumulated depreciation should be increased (credit) by \$3,028 to reflect average instead of year end.

	UR Ledger			2011	2012	Beginning	
	Plant			Accumulated	Accumulated	and Ending	
Account	Balance	Life	Yearly	Depreciaton	Depreciation	Average	Difference
301.1	\$ (80,551.00)	40	\$ 2,013.78	\$ 12,082.65	\$ 14,096.43	\$ 13,089.54	\$ (1,007)
311.3	\$ (237.22)	20	\$ 11.86	\$ 71.17	\$ 83.03	\$ 77.10	\$ (6)
344.5/394.5	\$ (303.00)	15	\$ 20.20	\$ 121.20	\$ 141.40	\$ 131.30	\$ (10)
351.1	\$ (10,115.00)	40	\$ 252.88	\$ 1,517.25	\$ 1,770.13	\$ 1,643.69	\$ (126)
352.1	\$ (18,207.00)	40	\$ 455.18	\$ 2,731.05	\$ 3,186.23	\$ 2,958.64	\$ (228)
361.2	\$ 1,005.00	45	\$ (22.33)	\$ (134.00)	\$ (156.33)	\$ (145.17)	\$ 11
380.4	\$ (59,858.00)	18	\$ 3,325.44	\$ 19,952.67	\$ 23,278.11	\$ 21,615.39	\$ (1,663)
Total	\$ (168,266.22)		\$ 6,057.00	\$ 36,341.98	\$ 42,398.98	\$ 39,370.48	\$ (3,028)
Note: Life agrees to Rule 25-30.140, F.A.C.							

Finding 8: Accumulated Depreciation Understatement

Audit Analysis: The Utility’s wastewater accumulated depreciation is understated because the incorrect depreciation rate was used from 2007 – 2009 for account 380.4. The utility used a service life of 33 years for some additions to Account 380.4 – Wastewater Treatment and Disposal Equipment. The average service life prescribed in Rule 25-30.140, F.A.C. is 18 years. The Utility used the correct rate from 2010 – 2012, therefore, depreciation expense is correct for account 380.4. The detail for the adjustment follows on the next page.

In addition, the Utility’s wastewater accumulated depreciation and wastewater depreciation expense are understated for Account 361.2- Manholes. The utility used a service life of 45 years. The average service life prescribed in Rule 25-30.140, F.A.C. is 30 years. The detail of the adjustment follows on the next page. Because this error effects 2012, this adjustment does change depreciation expense.

Effect on the General Ledger: The following adjustment should be made to the general ledger as of December 31, 2012. Since the 2012 ledger will be closed when this order is issued, expense entries will be shown as an adjustment to retained earnings instead of depreciation expense.

NARUC	Utility			
Account	Account	Account Name	Debit	Credit
215	4998	Retained Earnings	\$ 88,345	
108	2160	Acc. Dep. - Treatment and Disposal		\$ 1,068
108	2113	Acc. Dep. - Manholes		\$ 87,277

Effect on the Filing: Average wastewater accumulated depreciation should be increased by \$86,626 and wastewater depreciation expense should be increased by \$3,438.

2007 - 2009						2007	2007	2008	2008	2009	Per Staff 2009	Per Utility 2009	
Asset #	Cost	Acc. Dep. Acct.	Start Dep.	Life	Rate	Per Staff Total	Acc. Dep.	Per Staff Total	Acc. Dep.	Per Staff Total	Acc. Dep.	Acc. Dep.	Inc. to Acc. Dep.
159170	\$ 33.92	2160	9/25/2007	18	5.556%	\$ (0.94)	\$ (0.94)	\$ (1.88)	\$ (2.83)	\$ (1.88)	\$ (4.71)	\$ (2.24)	
159171	\$ 59.00	2160	10/28/2007	18	5.556%	\$ (1.64)	\$ (1.64)	\$ (3.28)	\$ (4.92)	\$ (3.28)	\$ (8.19)	\$ (3.78)	
159172	\$ 257.17	2160	8/23/2007	18	5.556%	\$ (7.14)	\$ (7.14)	\$ (14.29)	\$ (21.43)	\$ (14.29)	\$ (35.72)	\$ (17.72)	
159173	\$ 288.85	2160	8/23/2007	18	5.556%	\$ (8.02)	\$ (8.02)	\$ (16.05)	\$ (24.07)	\$ (16.05)	\$ (40.12)	\$ (20.02)	
159174	\$ 292.76	2160	6/28/2007	18	5.556%	\$ (8.13)	\$ (8.13)	\$ (16.26)	\$ (24.40)	\$ (16.26)	\$ (40.66)	\$ (21.70)	
159175	\$ 332.15	2160	6/28/2007	18	5.556%	\$ (9.23)	\$ (9.23)	\$ (18.45)	\$ (27.68)	\$ (18.45)	\$ (46.13)	\$ (24.52)	
159176	\$ 332.36	2160	4/28/2007	18	5.556%	\$ (9.23)	\$ (9.23)	\$ (18.46)	\$ (27.70)	\$ (18.46)	\$ (46.16)	\$ (26.11)	
159177	\$ 343.75	2160	3/28/2007	18	5.556%	\$ (9.55)	\$ (9.55)	\$ (19.10)	\$ (28.65)	\$ (19.10)	\$ (47.74)	\$ (27.91)	
159178	\$ 504.66	2160	2/28/2007	18	5.556%	\$ (14.02)	\$ (14.02)	\$ (28.04)	\$ (42.06)	\$ (28.04)	\$ (70.09)	\$ (41.99)	
159179	\$ 756.50	2160	9/25/2007	18	5.556%	\$ (21.01)	\$ (21.01)	\$ (42.03)	\$ (63.04)	\$ (42.03)	\$ (105.07)	\$ (50.42)	
159180	\$ 813.71	2160	7/23/2007	18	5.556%	\$ (22.60)	\$ (22.60)	\$ (45.21)	\$ (67.81)	\$ (45.21)	\$ (113.02)	\$ (58.28)	
159181	\$ 960.22	2160	1/28/2007	18	5.556%	\$ (26.67)	\$ (26.67)	\$ (53.35)	\$ (80.02)	\$ (53.35)	\$ (133.36)	\$ (82.39)	
159182	\$ 2,621.50	2160	10/28/2007	18	5.556%	\$ (72.82)	\$ (72.82)	\$ (145.64)	\$ (218.46)	\$ (145.64)	\$ (364.10)	\$ (168.64)	
159183	\$ 3,381.20	2160	1/28/2007	18	5.556%	\$ (93.92)	\$ (93.92)	\$ (187.84)	\$ (281.77)	\$ (187.84)	\$ (469.61)	\$ (289.81)	
159184	\$ 4,009.00	2160	1/28/2007	18	5.556%	\$ (111.36)	\$ (111.36)	\$ (222.72)	\$ (334.08)	\$ (222.72)	\$ (556.81)	\$ (343.74)	
1000211	\$ 2,291.54	2160	3/28/2008	18	5.556%			\$ (63.65)	\$ (63.65)	\$ (127.31)	\$ (190.96)	\$ (120.12)	
2003015	\$ 890.85	2160	12/21/2006	18	5.556%	\$ (49.49)	\$ (74.23)	\$ (49.49)	\$ (123.72)	\$ (49.49)	\$ (173.22)	\$ (78.49)	
Total	\$ 18,169.14										\$ (2,445.67)	\$ (1,377.88)	\$ (1,067.79)
Note: Used 1/2 year convention to compute accumulated depreciation for additions.													
												Simple Average Acc Depr Treatment and Disposal	\$ (1,067.79)
												Simple Average Acc Depr Manholes (next page)	\$ (85,557.72)
												Total Accumulated Depreciation - Average	\$ (86,625.51)

Asset Number	Utility Account Number	Cost	Acc. Dep. Acc.	Dep. Exp. Acc.	Start Dep.	Life	Rate	Expense 1986	Expense 1987 -2011	Acc. Dep. 2011	Expense 2012	Acc. Dep. 2012
101132	1353	\$308,270.51	2113	6717	3/29/1986	30	3%	\$ 5,137.84	\$ 256,892.09	\$ (262,029.93)	\$ 10,275.68	\$ (272,305.62)
Per Utility										\$ (178,191.14)	\$ 6,837.84	\$ (185,028.98)
Understatement										\$ (83,838.79)	\$ 3,437.84	\$ (87,276.64)
Beginning and Ending Average												\$ (85,557.72)
Note: Used 1/2 year convention to compute depreciation for additions.												

Finding 9: Contributions In Aid of Construction (CIAC)

Audit Analysis: The first tariff for Service Availability Fees had an effective date of July 21, 2007 and was for \$1,500 per ERC for each water and wastewater. Commission Order No. PSC-07-912-AS-WS, issued November 9, 2007 in Docket 060257-WS, approved a settlement agreement and revised the capacity charges as follows:

“The Parties have also agreed that CLA (Cypress Lakes Associates, Ltd.) should be credited with having satisfied its obligation to fully contribute the water distribution and wastewater collection plant in service associated with the remaining 93 lots in Cypress Lakes’ existing service territory and the additional 120 lots located in Phase 12. Also, CLA should be credited with having previously paid \$920 per lot of the \$1,275 per lot wastewater capacity charge for the 213 lots (120 + 93). As a result, CLA will be required to pay the \$750 per lot water capacity charge and \$355 (\$1,275-920) per lot of the wastewater capacity charge.”

As a result of the order, a tariff for wastewater was approved effective December 10, 2007, but no signed tariff for water could be located in the Utility or the Commission files. The Utility’s attorney provided his unsigned copy of the water tariff (second revised sheet number 24). It included the \$750 capacity fees and meter installation fees of \$125 for 5/8” x 3/4” meter and increasing costs for larger meters.

In addition to the lack of an approved tariff, three errors were found with CIAC.

First, from 2008 to 2012, the Utility recorded 29 of the \$125 meter fees in a revenue account (General Ledger account 5285, NARUC 474) when they should have been recorded in CIAC. Revenues in the test year are overstated by the \$1,000 in 2012. The following schedule computes the CIAC, accumulated amortization, and amortization expense.

Year	Meters In Revenue	CIAC	Depreciation Rate	Amortization Expense	Years	Accumulated Amortization
2008	9	\$ (1,125)	5%	\$ (56)	4.5	\$ 253
2009	5	\$ (625)	5%	\$ (31)	3.5	\$ 109
2010	4	\$ (500)	5%	\$ (25)	2.5	\$ 63
2011	3	\$ (375)	5%	\$ (19)	1.5	\$ 28
2012	8	\$ (1,000)	5%	\$ (50)	0.5	\$ 25
		\$ (3,625)		\$ (181)		\$ 478
Average Adjustment		\$ (3,125)				\$ 388

Second, in 2008, six wastewater capacity fees totaling \$2,130 and one in 2009 of \$355 were recorded in water CIAC. Therefore, \$2,485 needs to be removed from water and transferred to wastewater CIAC. The accumulated amortization should be adjusted as follows:

	2008	2009	Total
	Addition	Addition	
CIAC Fees Water (debit to decrease)	\$ 2,130	\$ 355	\$ 2,485
Water Amortization Rate	2.98%	2.98%	2.98%
Water Amortization Expense	\$ 63	\$ 11	\$ 74
Years In Service	4.50	3.50	
Accumulated Amort. Removed From Water	\$ (286)	\$ (37)	\$ (323)
Average Accumulated Depreciation			\$ (286)
CIAC Fees Wastewater (credit to increase)	\$ (2,130)	\$ (355)	\$ (2,485)
Wastewater Amortization Rate	2.86%	2.86%	2.86%
Wastewater Amortization Expense	\$ (61)	\$ (10)	\$ (71)
Years In Service	4.5	3.5	
Accumulated Amort. Increase for Wastewater	\$ 274	\$ 36	\$ 310
Average Accumulated Depreciation			\$ 274

The third error was that Cypress Lakes Associates, Ltd. contributed property that was never recorded. Water distribution plant of \$199,550 and wastewater collection and transmission plant of \$463,551 was contributed on October 31, 2007. This plant should have been debited to plant and credited to CIAC even though there is no net effect on rate base. The schedule at the end of this finding details the accounts and the associated accumulated depreciation and amortization.

Effect on the General Ledger: The following entry should be made to correct the meter fees as of December 31, 2012. Since the 2012 ledger will be closed when this order is issued, expense entries will be shown as an adjustment to retained earnings instead of revenue and amortization expense.

NARUC	Utility		Debit	Credit
Account	Account	Title		
272	3895	Accumulated Amortization of CIAC	\$ 478	
215	4998	Retained Earnings	\$ 3,147	
271	3350	CIAC		\$ 3,625

The following entry should be made to the ledger for the misclassification between water and wastewater as of December 31, 2012:

NARUC	Utility		Debit	Credit
Account	Account	Title		
271	3455	CIAC Water	\$ 2,485	
271	3705	CIAC Wastewater		\$ 2,485
215	4998	Retained Earnings	\$ 13	
272	4265	Accumulated Amortization Wastewater	\$ 310	
272	4005	Accumulated Amortization Water		\$ 323

The entry to record the contributed assets follows:

NARUC Account	Utility Account	Account Title	Debit	Credit
331	1125	Trans. & Dist. Mains	\$ 140,954	
333	1130	Services	\$ 46,958	
335	1145	Hydrants	\$ 11,638	
361	1350	Gravity Mains	\$ 169,633	
363	1345	Services	\$ 56,334	
363	1353	Manholes	\$ 88,618	
360	1345	Force Mains	\$ 10,629	
354	1380	Lift Station	\$ 138,337	
271	3340	CIAC Trans. & Dist. Mains		\$ 140,954
271	3345	CIAC Services		\$ 46,958
271	3360	CIAC Hydrants		\$ 11,638
271	3555	CIAC Gravity Mains		\$ 169,633
271	3550	CIAC Services		\$ 56,334
271	3555	CIAC Manholes		\$ 88,618
271	3550	CIAC Force Mains		\$ 10,629
271	3500	CIAC Lift Station		\$ 138,337
108	1920	Acc. Dep. Trans. & Dist. Mains		\$ 18,063
108	1925	Acc. Dep. Services		\$ 6,457
108	1940	Acc. Dep. Hydrants		\$ 1,421
108	2110	Acc. Dep. Gravity Mains		\$ 20,712
108	2105	Acc. Dep. Services		\$ 8,149
108	2110	Acc. Dep. Manholes		\$ 16,230
108	2105	Acc. Dep. Force Mains		\$ 1,947
108	2055	Acc. Dep. Lift Station		\$ 30,434
272	3885	Acc. Amt. Trans. & Dist. Mains	\$ 18,063	
272	3890	Acc. Amt. Services	\$ 6,457	
272	3905	Acc. Amt. Hydrants	\$ 1,421	
272	4105	Acc. Amt. Gravity Mains	\$ 20,712	
272	4100	Acc. Amt. Services	\$ 8,149	
272	4105	Acc. Amt. Manholes	\$ 16,230	
272	4100	Acc. Amt. Force Mains	\$ 1,947	
272	4050	Acc. Amt. Lift Station	\$ 30,434	

Effect on the Filing: For the meter fees recorded as revenue, average CIAC should be increased by \$3,125 (credit), average accumulated amortization should be increased by \$388 (debit), and depreciation expense decreased by \$181 (credit).

For the second error, average water CIAC should be reduced (debited) by \$2,485 and wastewater CIAC increased (credited) by \$2,485. Average water accumulated amortization should be reduced by \$286 (credited) and wastewater increased by \$274 (debited). Water depreciation expense should be increased by \$74 (debited) and wastewater decreased (credited) by \$71.

For the unrecorded CIAC, there is no net effect on the filing, however, Water plant (debit) and water CIAC (credit) should be increased by \$199,550 and Wastewater plant (debit) and wastewater CIAC (credit) should be increased by \$463,551. Average water accumulated depreciation (credit) and water accumulated amortization (debit) should be increased by \$23,583 and wastewater accumulated depreciation (credit) and wastewater accumulated amortization (debit) increased by \$70,429. Water depreciation expense (debit) and water amortization expense (credit) should be increased by \$4,717 and wastewater depreciation expense (debit) and wastewater amortization expense (credit) should be increased by \$14,086.

Water Plant		Plant	CIAC	Deprec.	Deprec.	Amort.	Acc. Dep.	Acc. Amort.
Account #	Account Title			Rates	Expense	Expense	5.5 Years	5.5 Years
331	Trans. & Dist.	\$ 140,954	\$ (140,954)	2.33%	\$ 3,284	\$ (3,284)	\$ (18,063)	\$ 18,063
333	Services	\$ 46,958	\$ (46,958)	2.50%	\$ 1,174	\$ (1,174)	\$ (6,457)	\$ 6,457
335	Hydrants	\$ 11,638	\$ (11,638)	2.22%	\$ 258	\$ (258)	\$ (1,421)	\$ 1,421
Total Water Plant		\$ 199,550	\$ (199,550)		\$ 4,717	\$ (4,717)	\$ (25,941)	\$ 25,941
Average Accumulated Depreciation/Amortization							\$ (23,583)	\$ 23,583
Wastewater Plant		Plant	CIAC	Deprec.	Deprec.	Amort.	Acc. Dep.	Acc. Amort.
Account #	Account Title			Rates	Expense	Expense	5.5 Years	5.5 Years
361	Gravity Mains	\$ 169,633	\$ (169,633)	2.22%	\$ 3,766	\$ (3,766)	\$ (20,712)	\$ 20,712
363	Services	\$ 56,334	\$ (56,334)	2.63%	\$ 1,482	\$ (1,482)	\$ (8,149)	\$ 8,149
361	Manholes	\$ 88,618	\$ (88,618)	3.33%	\$ 2,951	\$ (2,951)	\$ (16,230)	\$ 16,230
360	Force Mains	\$ 10,629	\$ (10,629)	3.33%	\$ 354	\$ (354)	\$ (1,947)	\$ 1,947
354	Lift Station	\$ 138,337	\$ (138,337)	4.00%	\$ 5,533	\$ (5,533)	\$ (30,434)	\$ 30,434
		\$ 463,551	\$ (463,551)		\$ 14,086	\$ (14,086)	\$ (77,472)	\$ 77,472
Average Accumulated Depreciation/Amortization							\$ (70,429)	\$ 70,429

Finding 10: Accumulated Amortization of CIAC

Audit Analysis: Commission Order PSC-0300647-PAA-WS in Docket 020407-WS, required the Utility to increase CIAC by \$18,100 for unrecorded cash contributions. In the 2005, the actual test year in Docket 060257-WS, the Utility booked this adjustment to CIAC in its ledger. However, the ledger system which calculates amortization on the CIAC did not record amortization on this entry for the years 2006 to 2012. In its filing, the Utility included an adjustment of a debit to water accumulated amortization of CIAC and a reduction to depreciation expense of \$1,810 for an increase in CIAC amortization. This was based on seven years of amortization at 10% which is the depreciation rate for intangible plant in Rule 25-30.140, F.A.C. In recording this adjustment, the Utility recorded the year end amount to rate base instead of the average amount.

However, the Commission has usually required cash contributions to be amortized using a composite depreciation rate calculated excluding intangible and general plant assets. The rule requires that this rate be computed yearly. Staff computed the yearly amounts which were not materially different. Therefore, for the purposes of this finding, we used the seven year average of 2.98%.

If the composite rate is used, the adjustment is computed as follows:

Year End	Amortization Rate	CIAC (Recorded)	Accumulated Amortization of CIAC (Unrecorded)	Amortization Expense (Unrecorded)
Per Filing	10.00%	\$ (18,100)	\$ 12,670	\$ (1,810)
Per Audit Staff	2.98%	\$ (18,100)	\$ 3,776	\$ (539)
Difference		\$ -	\$ 8,894	\$ (1,271)

Average	Amortization Rate	CIAC (Recorded)	Accumulated Amortization of CIAC (Unrecorded)	Amortization Expense (Unrecorded)
Per Filing	10.00%	\$ (18,100)	\$ 12,670	\$ (1,810)
Per Audit Staff	2.98%	\$ (18,100)	\$ 3,507	\$ (539)
Difference		\$ -	\$ 9,164	\$ (1,271)

Effect on the General Ledger: Since the Utility hasn't booked the amount in the filing, the ledger should be adjusted for the revised staff amount. The following adjustment needs to be made to the general ledger as of December 31, 2012.

NARUC Account	Utility Account	Account Title	Debit	Credit
272	4005	Accumulated Amortization Water	\$ 3,776	
215	4998	Retained Earnings		\$ 3,776

Effect on the Filing: Average water accumulated amortization of CIAC should be reduced (credit) by \$9,164 and depreciation expense decreased (debited) by \$1,271.

Finding 11: Other Miscellaneous Expense Non-Recurring

Audit Analysis: Schedule B-5 of the MFR's included \$9,950.66 in account 667 for water and \$9,136.81 in account 767 for wastewater . These costs were for the preparation of MFR filing using a 2011 test year. However, the filing was never completed and the costs were expensed. This is a non-recurring expense and should be removed from operation and maintenance expenses.

Effect on the General Ledger: There is no effect on the general ledger because the 2012 ledger is already closed.

Effect on the Filing: Operation and maintenance expenses should be reduced by \$9,950.66 for water and \$9,136.81 for wastewater.

Exhibits

Exhibit 1: Rate Base-Water

Schedule of Water Rate Base

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.
Docket No.: 130212-WS
Schedule Year Ended: December 31, 2012
 Interim Final
 Historic Projected

Schedule: A-1
Page 1 of 1
Preparer: F. Seidman

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.

(1) Line No.	(2) Description	(3) Simple Average Per Books	(4) A-3 Utility Adjustments	(5) Adjusted Utility Balance	(6) Supporting Schedule(s)
1	Utility Plant in Service	\$ 1,738,817	(23,430) A	\$ 1,715,386	A-3, A-5
2	Utility Land & Land Rights	1,365	A	1,365	A-3, A-5
3	Less: Non-Used & Useful Plant		B	-	A-3, A-7
4	Construction Work in Progress	-	C	-	B-3, A-18
5	Less: Accumulated Depreciation	(870,888)	37,154 D	(833,734)	A-3, A-9
6	Less: CIAC	(347,273)	-	(347,273) E	A-3, A-12
7	Accumulated Amortization of CIAC	140,254	12,670 F	152,924	A-3, A-14
8	Acquisition Adjustments		-	-	A-3, A-18
9	Accum. Amort. of Acq. Adjustments			-	A-18
10	Advances For Construction			-	A-16
11	Working Capital Allowance	<u>26,891</u>	<u>2,161</u> H	<u>29,052</u>	A-3, A-17
12	Total Rate Base	\$ <u>689,166</u>	\$ <u>28,555</u>	\$ <u>717,721</u>	

Exhibit 2: Rate Base-Wastewater

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.
 Docket No.: 130212-WS
 Schedule Year Ended: December 31, 2012
 Interim | Final
 Historic Projected

Schedule: A-2
 Page 1 of 1
 Preparer: F. Seidman

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) Simple Average Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 3,760,608	\$ 288,493	A \$ 4,049,102	A-3, A-6
2	Utility Land & Land Rights	2,610		A 2,610	A-3, A-6
3	Less: Non-Used & Useful Plant		-	B -	A-3, A-7
4	Construction Work in Progress	-	-	C -	A-3, A-18
5	Less: Accumulated Depreciation	(1,524,841)	(85,602)	D (1,610,442)	A-3, A-10
6	Less: CIAC	(846,329)	-	E (846,329)	A-12
7	Accumulated Amortization of CIAC	319,476	-	F 319,476	A-3, A-14
8	Acquisition Adjustments			G -	A-3, A-18
9	Accum. Amort. of Acq. Adjustments			-	A-18
10	Advances For Construction			-	A-16
11	Working Capital Allowance	<u>35,411</u>	<u>1,986</u>	H <u>37,396</u>	A-3, A-17
12	Total Rate Base	<u>\$ 1,746,935</u>	<u>\$ 204,877</u>	<u>\$ 1,951,812</u>	

Exhibit 3: Net Operating Income-Water

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.
 Docket No.: 130212-WS
 Test Year Ended: December 31, 2012
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-1
 Page 1 of 1
 Preparer: F. Seidman

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	\$ 317,304	\$ - (A)	\$ 317,304	\$ 100,603 (F)	\$ 417,907	B-4, B-3, E-2
2	Operation & Maintenance	215,132	2,724 (B)	217,856	14,560 (G)	232,416	B-5, B-3
3	Depreciation, net of CIAC Amort.	61,810	(3,846) (C)	57,964	-	57,964	B-13, B-3
4	Amortization						
5	Taxes Other Than Income	50,038	(8,521) (D)	41,518	5,231 (H)	46,749	B-15, B-3
6	Provision for Income Taxes	22,510	(22,510) (E)	-	21,455 (I)	21,455	C-1, B-3
7	OPERATING EXPENSES	349,490	(32,153)	317,337	41,246	358,583	
8	NET OPERATING INCOME	\$ (32,187)	\$ 32,153	\$ (33)	\$ 59,388	\$ 59,355	
9	RATE BASE	\$ 689,166		\$ 717,721		\$ 717,721	
10	RATE OF RETURN	- %		- %		8.27 %	

Exhibit 4: Net Operating Income-Wastewater

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.
 Docket No.: 130212-WS
 Test Year Ended: December 31, 2012
 Interim Final
 Historic or Projected

Schedule: B-2
 Page 1 of 1
 Preparer: F. Seidman

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	\$ 667,852	\$ - (A)	\$ 667,852	\$ 26,350 (F)	\$ 694,202	B-4, B-3, E-2
2	Operation & Maintenance	283,285	2,503 (B)	285,788	13,381 (G)	299,170	B-6, B-3
3	Depreciation, net of CIAC Amort.	117,729	(628) (C)	117,101	-	117,101	B-14, B-3
4	Amortization			-	-	-	B-3
5	Taxes Other Than Income	45,987	9,100 (D)	55,087	3,109 (H)	58,197	B-15, B-3
6	Provision for Income Taxes	20,688	(20,688) (E)	-	58,346 (I)	58,346	C-1, B-3
7	OPERATING EXPENSES	467,689	(9,713)	457,977	74,837	532,813	
8	NET OPERATING INCOME	\$ 200,162	\$ 9,713	\$ 209,875	\$ (48,460)	\$ 161,415	
9	RATE BASE	\$ 1,746,935		\$ 1,951,812		\$ 1,951,812	
10	RATE OF RETURN	11.46 %		10.75 %		8.27 %	

Exhibit 5: Capital Structure

Schedule of Requested Cost of Capital
Simple Average

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.
Docket No.: 130212-VS

Schedule: D-1 (Final)
Page 1 of 1

Test Year Ended: December 31, 2012

Preparer: F. Seidman

Schedule Year Ended: December 31, 2012

Historic [X] or Projected []

Utility [] Parent [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) Total Capital Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost	
1	Long-Term Debt	1,327,122	49.71 %	6.64 %	3.30 %
2	Short-Term Debt	1,843	0.07 %	%	%
3	Preferred Stock	-			
4	Customer Deposits	13,366	0.50 %	3.00 %	0.02 %
5	Common Equity	1,292,670	48.42 %	10.22 %	4.95 %
6	Tax Credits - Zero Cost	-			
7	Accumulated Deferred Income Tax	34,531	1.29 %	0.00 %	%
8	Other (Explain)	-			
9	Total	<u>2,669,534</u>	<u>100.00 %</u>		<u>8.27 %</u>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-13-0241-PAA-WS.

Equity Ratio (from D-2): 49.31 %