

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** September 17, 2015  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 150102-SU  
Company Name: Utilities, Inc. of Sandalhaven  
Company Code: SU959  
Audit Purpose: Rate Case (PAA)  
Audit Control No: 15-175-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There is no confidential work papers associated with this audit.

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Utilities, Inc. of Sandalhaven  
Rate Case (PAA)

**Twelve Months Ended December 31, 2014**

Docket No. 150102-SU  
Audit Control No. 15-175-1-1  
**August 31, 2015**

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Debra M. Dobiac  
Audit Manager

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George Simmons  
Audit Staff

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Lynn M. Deamer  
Reviewer

## Table of Contents

Purpose.....	1
Objectives and Procedures .....	2
Audit Findings	
1: Utility Plant in Service.....	7
2: Plant Reclassifications .....	9
3: Retirement of Wastewater Treatment Plant.....	11
4: Land .....	13
5: Deferred Income Taxes.....	14
6: Operating Revenue and Regulatory Assessment Fees.....	15
7: Purchased Wastewater Treatment.....	16
8: Operation and Maintenance Expense.....	17
9: Deferred Maintenance Projects.....	19
Exhibits	
1: Rate Base – Wastewater.....	21
2: Capital Structure .....	22
3: Net Operating Income - Wastewater.....	23

## 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 June 23, 2015. We have applied these procedures to the attached schedules prepared by Utilities, Inc. of Sandalhaven in support of its filing for rate relief in Docket No. 150102-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

### **General**

The test year is the historical twelve months ended December 31, 2014 unless otherwise specified.

Utilities, Inc. of Sandalhaven (Utility) is a Class B utility providing wastewater services in Charlotte County, Florida. The Utility is a wholly-owned subsidiary of Utilities, Inc. (Parent).

The Utility's last rate proceeding under the Florida Public Service Commission (Commission) was in Docket No. 060285-SU. Rate base was established by the Commission in this proceeding by Order No. PSC-07-0865-PAA-SU, issued October 29, 2007. In this instant audit, we will use the audited rate base balances as of December 31, 2005 for our beginning balances because it's the last historical approved balance, and we will test additions and retirements through December 31, 2014.

In 2007, the Board of County Commissioners of Charlotte County passed a resolution to rescind the Commission's jurisdiction over privately-owned water and wastewater utilities in the County. In 2013, The Board of County Commissioners of Charlotte County passed and adopted a resolution transferring regulation back to this Commission.

The Utility's general ledger consists of three sub-ledgers, the AA (direct ledger), the UA (allocation ledger), and the UR (Commission adjustment ledger). This audit pertains only to direct costs which are posted to the Utility's AA and UR ledgers. All allocated costs which are posted to the Utility's UA ledger were audited in the Audit of Affiliate Transactions, Docket No. 150102-SU, Audit Control Number (ACN) 15-175-1-2.

### **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 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 UPIS accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-07-0865-PAA-SU. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled plant additions and retirements since the last rate proceeding to determine the UPIS balance as of December 31, 2014. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the average balance for the filing. We traced a sample of additions and retirements from the AA and UR ledgers to source documentation and we verified that additions were recorded at original cost and that retirements were properly posted. We reviewed the supporting bids and schedules for the proforma additions. The UPIS

activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 1, 2, and 3 discuss our recommended adjustments to UPIS.

### 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 reconciled the land accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established in Order No. PSC-07-0865-PAA-SU. We scheduled utility land additions and retirements since the last rate proceeding to determine the land balance as of December 31, 2014. We recalculated the average balance for the filing. We searched the property records of the County Clerk's Office in Charlotte County, Florida for utility related activity. The land activity in the UA ledger was audited in the Audit of Affiliate Transactions. Finding 4 discusses our recommended adjustments to land.

### Contributions-in-Aid-of-Construction

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

**Procedures:** We reconciled the CIAC accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-07-0865-PAA-SU. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled CIAC additions and retirements since the last rate proceeding to determine the CIAC balance as of December 31, 2014. We recalculated the average balance for the filing. We traced the additions and retirements to source documents and the service availability charges to the Utility's Commission approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. Finding 3 discusses the CIAC balances.

### 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 accumulated depreciation accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established in Order No. PSC-07-0865-PAA-SU. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated depreciation balance as of December 31, 2014. We requested support for the Utility's adjustments and traced them to the filing. We recalculated the average balance for the filing. We calculated accumulated depreciation accruals from the AA

and UR ledgers using the rates authorized in Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.) and compared our balance to the balances in the AA ledger and the filing. The accumulated depreciation activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 1, 2, and 3 discuss our recommended adjustments to accumulated 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 accumulated amortization of CIAC accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-07-0865-PAA-SU. We verified that Commission ordered adjustments were posted to the general ledger. We scheduled utility accruals and retirements since the last rate proceeding to determine the accumulated amortization of CIAC balance as of December 31, 2014. We recalculated the average balance for the filing. We calculated accumulated amortization of CIAC accruals from the AA and UR ledgers using the rates authorized in Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.) and compared our balance to the balances in the AA ledger and the filing. Finding 3 discusses the accumulated amortization of CIAC balances.

#### 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 verified the Utility’s calculation of working capital as of June 30, 2014 using one-eighth of operation and maintenance (O&M) expense as required by Commission Rule 30.433(2), F.A.C. Any adjustments to O&M expense recommended in the Audit of Affiliate Transactions will also affect working capital. Finding 8 discusses our recommended adjustment to working capital.

### **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:** We recalculated the cost rates and reconciled the components of the Utility’s capital structure presented in the filing to the general ledger. We recalculated the average component balances of the capital structure for the filing. We verified customer deposits by tracing additions and refunds to the general ledger and supporting schedules provided by the Utility. We recalculated a sample of interest expense paid on customer deposits. We verified that interest rates were in accordance with Rule 25-30.311 – Customer Deposits, F.A.C. We verified Deferred Income Tax Expense by tracing activity to the general ledger and supporting

schedules provided by the Utility. The equity and debt components of the capital structure presented in the filing were audited in the Audit of Affiliate Transactions. Finding 5 discusses accumulated deferred income taxes.

## **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 reconciled the wastewater revenue accounts presented in the filing to the general ledger. We reviewed a sample of customer accounts from the billing register for proper customer classification, use of approved tariffs, and miscellaneous service charges. We tested the reasonableness of the Utility's revenue by multiplying the average consumption by the tariff rate for each customer class in the billing register. We reconciled gallons sold and customer bill counts presented in the filing to the billing register. Finding 6 discusses our recommended adjustments to operating revenues.

### Operation and Maintenance Expense

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

**Procedures:** We reconciled the O&M expense accounts presented in the filing to the general ledger. We reviewed a sample of the O&M expense invoices from the AA ledger for proper amount, period, classification, recurring nature, and whether the expense was utility related. The O&M expense activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 7, 8, and 9 discuss our recommended adjustments to O&M 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 UPIS assets and the amortization of utility CIAC assets for ongoing utility operations.

**Procedures:** We reconciled the depreciation and amortization expense accounts presented in the filing to the general ledger. We calculated depreciation and amortization expense for the test year using the rates prescribed in Rule 25-30.140, F.A.C. and compared our amounts to the amounts reflected in the AA ledger and the filing. The depreciation expense activity in the UA ledger was audited in the Audit of Affiliate Transactions. Findings 1 and 2 discuss our recommended adjustments to depreciation.

## Taxes Other than Income

**Objectives:** The objective was to determine the appropriate amounts for taxes other than income tax (TOTI) for the test year ended December 31, 2014.

**Procedures:** We reconciled the components of the TOTI tax expense accounts presented in the filing to the general ledger. We recalculated regulatory assessment fees (RAF) based on audited revenues. We traced real estate and tangible property taxes to source documents, and ensured that these taxes included the maximum discount and are only for utility property. The TOTI expense activity in the UA ledger was audited in the Audit of Affiliate Transactions. Finding 6 discusses our recommended adjustments to TOTI.

## **Other**

### Analytical Review

**Objectives:** The objectives were to determine whether any account balances contained any information that could be deemed unusual, and to assist in assessing risk.

**Procedures:** Audit staff performed a cost comparison between 2005 to 2006 and 2013 to 2014 in order to compare percentage increases between the Utility's last rate case in Docket No. 060285-SU and its current filing. All anomalies were reviewed when detailed testing was performed.

## Audit Findings

### **Finding 1: Utility Plant in Service**

**Audit Analysis:** Audit staff made the following adjustments to UPIS, accumulated depreciation, and depreciation expense. The detail can be found on Table 1-1 following this finding.

1. The CPH Engineers, Inc. invoice for \$2,395 was included twice in the Capital Project (CP) 2003875, which was the Sandalhaven Lift Station and Force Main Interconnection project that went into service as of December 31, 2007. We removed one of the occurrences and adjusted accumulated depreciation and depreciation expense.
2. The ITT Water & Wastewater U.S.A. invoice for \$4,744 was for the purchase of a pump for the Skidaway Island Utilities division in Savannah, GA in 2008. We removed it and adjusted accumulated depreciation and depreciation expense.
3. The two Lehigh Environmental Service, Inc. invoices totaling \$7,815 (\$5,740 + \$2,075) were repairs to the digester, which were originally expensed. We noted that the Utility reclassified these expenses to plant twice in 2010. We removed one of each of the occurrences and adjusted accumulated depreciation (AD) and depreciation expense (DE).

#### **Effect on the General Ledger:**

OBJ	NARUC	Description	Debit	Credit
1345	101	360 Sewer Force Main		\$ 2,395
1380	101	371 Pumping Equipment Plant		\$ 4,744
1400	101	380 Treat/Disposal Equipment Plant		\$ 7,815
2105	108	360 AD-Sewer Force Main	\$ 558	
2140	108	371 AD-Pumping Equipment Plant	\$ 1,583	
2160	108	380 AD-Treat/Disposal Equipment Plant	\$ 1,955	
6710	403	360 DE-Sewer Force Main		\$ 80
6745	403	371 DE-Pumping Equipment Plant		\$ 264
1400	101	380 DE-Treat/Disposal Equipment Plant		\$ 434
TBD	TBD	Equity	\$ 11,636	

**Effect on the Filing:** Account 101 – Wastewater Plant in Service simple average balance should be decreased by \$14,954, Account 108 – Wastewater Accumulated Depreciation simple average balance should be decreased by \$3,707, and Account 403 – Wastewater Depreciation expense should be decreased by \$778. These amounts are shown in detail on Table 1-1.



## Finding 2: Plant Reclassifications

**Audit Analysis:** The Utility adjusted the general ledger in 2012 for the Commission Ordered Adjustments (COA) noted in Order No. PSC-07-0865-PAA-SU. Audit staff reconciled the adjustments to the Order without any exceptions. However, the Utility made two additional adjustments in the general ledger, which are included in the Minimum Filing Requirements (MFR) balances, but were not in the Order as shown in Table 2-1.

**Table 2-1**

	OBJ	NARUC	Description	Debit	Credit
(1)	1290	354.2	S&I Collection Plant		\$ 3,292,964
	1320	355	Power Generation Equip Coll Plant	\$ 96,319	
	1345	360	Sewer Force Main	\$ 2,391,794	
	1360	363	Services to Customrs	\$ 126,031	
	1375	370	Receiving Wells	\$ 432,924	
	1380	371	Pumping Equipment Pump Plt	\$ 103,569	
	2985	186.2	Deferred Charges - Other	\$ 99,884	
	7750	420	Interest During Construction	\$ 42,439	
(2)	1295	354.3	S&I Pump Plt Lift Stations		\$ 2,258,114
	1400	380	Treat/Disposal Equipment Plant	\$ 2,032,534	
	3000	186.2	Deferred Charges-Other Wtr & Swr	\$ 227,056	
	7750	420	Interest During Construction		\$ 1,472

1. This Utility adjustment reclassified the Lift Station and Force Main Project that went into service on December 31, 2007 from Account 354.2 - Structures and Improvements (S&I)-Collection Plant to Account 355 - Power Generation Equipment, Account 360 - Sewer Force Mains, Account 363 - Services to Customer, Account 370 - Receiving Wells, and Account 371 - Pumping Equipment. When the Utility recorded the adjustment in 2012, accumulated depreciation and depreciation expense were also adjusted. In Order No. PSC-07-0865-PAA-SU, this project was classified in Account 354.2 - S&I Collection Plant and Account 360 - Force Mains. Audit staff reviewed the supporting documentation for this project, which included invoices, capitalized time, and AFUDC calculations, but was not able to determine if the reclassifications were appropriate.
2. This Utility adjustment reclassified the payments to Englewood Water District (EWD) in 2006 for the purchase of Bulk Wastewater Treatment from Account 354.3 - Structures and Improvements Pumping Plant to Account 380 - Treatment and Disposal Equipment. When the adjustment was recorded in 2012, accumulated depreciation and depreciation expense was also adjusted. In addition, on the MFR Schedule A-3, the Utility is reclassifying these payments from Account 380.4 - Treatment and Disposal Equipment to Account 389.1 - Intangible Plant. In Order No. PSC-07-0865-PAA-SU, these payments were also included in Account 354.2 - S&I Collection Plant.

Audit staff noted that the NARUC accounts that plant in service is recorded does result in different depreciation rates used in calculating depreciation expense.

Audit staff also noted that the Utility reclassified the plant in service balances in its filing before the Board of County Commissioners of Charlotte County. This may have resulted in the

customer rates set by the County allowing the Utility to recover UPIS through depreciation at a different rate from the time the rates set by the County went into effect (approximately January 1, 2013) until the rates set by this Commission in this Docket go into effect.

All Parent level allocated COA, which are posted to the Utility's UA ledger were audited in the Audit of Affiliate Transactions in Docket No. 150102-SU, ACN 15-175-1-2.

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

**Effect on the Filing:** We defer these issues to the analyst/engineer.

### Finding 3: Retirement of Wastewater Treatment Plant

**Audit Analysis:** The Utility plans to retire the wastewater treatment plant by the end of 2015. Audit staff requested support for the net loss amortization calculation related to the decommissioning of the wastewater treatment plant as reflected in the MFR Schedule B-3. The Utility provided a schedule as shown in Table 3-1.

**Table 3-1**

Account No. and Name	UTILITY CALCULATION		AUDIT CALCULATION	
	Test Year 12/31/14		Test Year 12/31/14	
	ASSET	DEPR EXP	ASSET	DEPR EXP
<b>PRO FORMA PLANT RETIREMENTS</b>				
<b>ORIGINAL COST OF PLANT</b>				
354.4 Structures & Improvement	\$ 623,976	\$ 19,588	\$ 623,976	\$ 19,588
355.4 Power Generation Equipment Treatment Plant	170	9	170	9
375.6 Reuse Transmission & Distribution System	3,164	72	3,164	72
380.4 Treatment & Disposal Equipment	404,329	22,635	404,329	22,635
380.5 Treatment & Disposal Equipment Reuse Treatment Plant	1,110	62	1,110	62
381.4 Plant Sewers	28,342	810	28,342	810
<b>ACCUMULATED DEPRECIATION</b>				
354.4 Structures & Improvement	(360,792)		(350,998)	
355.4 Power Generation Equipment Treatment Plant	(83)		(79)	
375.6 Reuse Transmission & Distribution System	(439)		(403)	
380.4 Treatment & Disposal Equipment	(475,083)		(433,289)	
380.5 Treatment & Disposal Equipment Reuse Treatment Plant	(410)		(379)	
381.4 Plant Sewers	(2,510)		(2,105)	
<b>CIAC</b>				
Plant Capacity	(1,310,499)		(1,310,499)	
<b>ACCUMULATED AMORT CIAC</b>				
Plant Capacity	1,082,963	(32,763)	1,071,361	(25,074)
Sub Total	(5,763)		34,700	
<b>COST TO REMOVE</b>				
389.4 Other Plant & Misc. Equipment	4,000			
355.2 Power Generation Equipment	52,000			
380.4 Treatment & Disposal Equipment	100,000			
Net Loss	150,237		34,700	
Amortization Expense		\$ 10,412 (A)		\$ 18,102

(A) This is the amount for Amortization Expense on the MFR Schedule B-3.

Audit staff noted several problems with the Utility's calculation.

1. The accumulated depreciation and accumulated amortization of CIAC balances provided in the Schedule shown in Table 3-1 do not agree with the adjustments noted in the MFR Schedule A-3. Audit staff recalculated the net invested plant using the MFR adjustments and determined the net loss to be \$34,700. The Utility calculated it to be (\$5,763) before the cost of removal as shown in Table 3-1. We did not take into account any adjustments based on the audit adjustments discussed in Findings 1.

2. The Utility included \$156,000 of costs to remove the plant assets, but did not provide any supporting documentation for these estimates.

3. The amortization amount of \$10,412 is calculated as net depreciation expense. However, the amortization expense is calculated by amortizing the CIAC balance of \$1,310,499 over 40 years at a rate of 2.50 percent. The amount of \$32,763 ( $\$1,310,499 \times 2.50\%$ ) does not agree with the adjustment of \$25,074 noted in the MFR Schedule B-3. Audit staff calculated net depreciation expense from the adjustments in the MFR Schedule B-3 to be \$18,102.

4. The Utility did not provide a justification for why more CIAC is being retired than plant.

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

**Effect on the Filing:** We defer this issue to the analyst.

## **Finding 4: Land**

**Audit Analysis:** Audit staff recalculated the land balance based on actual costs and compared it to the MFR Schedule A-6 in this docket and noted that land is understated by \$10,000. We traced the \$10,000 to be an adjustment discussed in Finding 2 of the auditor's report issued in 2006 from Docket No. 060285-SU. Audit staff stated that the \$93,588 addition included some legal costs but did not include a \$10,000 deposit reflected in the closing statement. When Order No. PSC-07-0865-PAA-SU was issued, the Schedule of Rate Base inadvertently did not include the adjustment of \$10,000, although it was included in the written discussion on land.

The Utility did not make any adjustments to land in its current filing related to the decommissioning of the wastewater treatment plant. Typically, when a plant is shutdown, the disposition of the land should be evaluated for ratemaking purposes.

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

**Effect on the Filing:** Land should be increased by \$10,000, but the analyst should determine the final land balance based on the decommissioning of the wastewater treatment plant.

## Finding 5: Deferred Income Taxes

**Audit Analysis:** The Utility paid taxes on plant capacity fees received from developers as shown in Table 5-1.

**Table 5-1**

	<b>Booked State 5.5%</b>	<b>Booked Federal 34.0%</b>	<b>Booked Gross Tap Fees</b>	<b>Computed State 5.5%</b>	<b>Computed Federal 34.0%</b>
2001					
2002					
2003					
2004					
2005	\$ 36,288	\$ 211,987	\$ (688,576)	\$ 37,872	\$ 221,239
2006	49,225	287,564	(895,000)	49,225	287,564
2007	550	3,213	(10,000)	550	3,213
2008	3,744	21,873	68,075	3,744	21,872
2009	540	3,154	(9,815)	540	3,154
2010	-	-	-	-	-
2011	-	-	-	-	-
2012	-	-	-	-	-
2013	-	-	-	-	-
2014	-	-	-	-	-
	<b>\$ 90,347</b>	<b>\$ 527,791</b>	<b>\$ (1,535,316)</b>	<b>\$ 91,931</b>	<b>\$ 537,042</b>

Audit staff was able to trace the booked gross tap fees to the tax returns for the years from 2006 through 2009, the MFR Schedule A-11 – CIAC Annual Balances, and the MFR Schedule C-6 – Accumulated Deferred Income Taxes.

Due to these balances, the Utility has a simple average debit balance of \$540,800 noted on the MFR Schedule A-2 for deferred taxes.

In the Utility’s last rate case, Docket No. 060285-SU, the Commission found that paragraph (b) (4)(ii) of IRS Treasury Regulation 1.118-2 clearly demonstrated that Sandalhaven’s plant capacity charges are non-taxable CIAC, if the charges were approved within 8½ months from the in-service date of the wastewater treatment plant. The debit accumulated deferred income taxes paid on the plant capacity charges were disallowed for ratemaking purposes.

We asked the Utility to provide the detail calculation for the total depreciation expense claimed on the tax return in 2012 and 2013 including the difference between the book and tax depreciable assets and how the related deferred income tax adjustments were calculated. At the time of writing this report, no response has been provided.

In addition, we asked why the debit balances for the deferred taxes pertaining to the plant capacity fees were not declining as the CIAC is amortized annually. We were told that the decrease was posted to the deferred tax – depreciation account. We were unable to verify this.

**Effect on the General:** There is no effect on the General Ledger.

**Effect on the Filing:** We defer this issue to the analyst.

## Finding 6: Operating Revenue and Regulatory Assessment Fees

**Audit Analysis:** In the revised MFR Schedule B-1 filed July 6, 2015, the Utility had an adjusted balance of \$681,236 for wastewater operating revenue. However, audit staff reviewed the number of bills and consumption based on the billing register and noted the following discrepancies.

1. The MFR Schedule E-2 showed 9,309 bills for the Residential-5/8" meter rate class, and we determined that there were 9,251 bills. In addition, the schedule did not reflect the consumption cap at 8,000 gallons as noted in the Commission approved tariff for all of the residential customers.
2. The MFR Schedule E-2 showed 252 bills for the Commercial-5/8" meter rate class and we determined that there were 240 bills
3. The MFR Schedule E-2 showed 876 bills for the Reserved Capacity rate class and we determined that there were 729 bills.

We recalculated revenue and the associated Regulatory Assessment Fees as shown in Table 6-1.

**Table 6-1**

OBJ	NARUC	Description	Test Yr Balance	Adjusted Test Yr Balance	Utility Adj Bal	Audit Adjustment	Audit Balance
5110	521.2	Flat Rate - Commercial	\$ 22,324	\$ 2,572	\$ 24,896	\$ (4,178)	\$ 20,718
5105	521.6	Flat Rate - Other	2,298	(2,298)	-	-	-
5140	522.1	Sewer Revenues-Residential	389,053	11,068	400,121	(12,964)	387,157
5155	522.2	Sewer Revenues-Commercial	140,942	872	141,814	(797)	141,017
5170	522.5	Sewer Revenues-Multi-Family	112,292	265	112,557	-	112,557
			<u>\$ 666,909</u>	<u>\$ 12,479</u>	<u>\$ 679,388</u>	<u>\$ (17,939)</u>	<u>\$ 661,449</u>
5285	536	Other W/S Revneues	1,848	-	1,848	-	1,848
			<u>\$ 1,848</u>	<u>\$ -</u>	<u>\$ 1,848</u>	<u>\$ -</u>	<u>\$ 1,848</u>
<b>TOTAL OPERATING REVENUE</b>			<u>\$ 668,757</u>	<u>\$ 12,479</u>	<u>\$ 681,236</u>	<u>\$ (17,939)</u>	<u>\$ 663,297</u>
Regulatory Assessment Rate			0.045		0.045		0.045
<b>Regulatory Assessment Fees</b>			<u>\$ 30,094</u>	<u>\$ 562</u>	<u>\$ 30,656</u>	<u>\$ (807)</u>	<u>\$ 29,848</u>

**Effect on the General Ledger:** There is no effect on the General Ledger.

**Effect on the Filing:** Wastewater operating revenue should be reduced by \$17,939 and TOTI should be reduced by \$807.

## **Finding 7: Purchased Wastewater Treatment**

**Audit Analysis:** In the MFR Schedule B-3, the Utility made an adjustment of \$169,597 to increase purchased wastewater treatment. This amount reflects the additional expense for wastewater treatment paid to the Englewood Water District (EWD) once the Wastewater Treatment Plant is shutdown.

The Utility's support for this adjustment noted that the amount in the MFR was calculated incorrectly. The Utility provided us with the correct adjustment, which would increase the MFR adjustment by \$38,664 to a total purchased wastewater treatment of \$208,262 (\$169,597 + \$38,664).

Audit staff requests that the analyst and/or engineer review the Utility's corrected adjustment.

**Effect on the General Ledger:** There is no effect on the General Ledger.

**Effect on the Filing:** The analyst and/or engineer should determine the appropriate cost for purchased wastewater treatment.

## Finding 8: Operation and Maintenance Expense

**Audit Analysis:** In the MFR Schedule B-6, the Utility had a total amount of \$89,594 in Account 720 – Materials and Supplies and a total amount of \$21,994 for Contractual Services - Other. In the MFR Schedule B-3, the Utility made an adjustment to decrease Materials & Supplies by \$69,473, Miscellaneous Expense by \$3,626, and no adjustment to Contractual Services – Other. These adjustments reflect the amount of expense incurred during the test year that is associated with the wastewater treatment plant, which will not continue when the plant is decommissioned. We found that \$1,500 was removed from Materials and Supplies when it should have been removed from Contractual Services – Other. In addition, we noted that two invoices from CPH Engineering in the amount of \$3,226 should be removed from Contractual Services – Other and reclassified to the CWIP project for the Utility’s force main relocations project.

Included in materials and supplies is the deferred maintenance projects’ amortization expense, which consisted of five different projects. The Utility removed three of these projects in the MFR Schedule B-3 because they are related to the wastewater treatment plant, which will be decommissioned. However, the Utility should continue the expense until the projects are fully amortized. See Finding 9 for additional details. Audit staff increased expense to add back in the correct amortization expense as determined in Order No. PSC-07-0865-PAA-SU. The Commission removed the deep well injection project of \$99,884 and the wastewater treatment plant expansion project of \$227,056 from plant in service because the projects had been abandoned. These projects for a total of \$326,940 (\$99,884 + \$227,056) were then considered a non-recurring expense, and it was ordered to be amortized over 15 years. Audit staff noted that the Utility was amortizing these projects over five years in 2014, which was an amortization expense of \$65,388 (\$326,940/5) when it should have been \$21,796 (\$326,940/15). In addition, one project was based on an invoice for \$5,741 that was included in another project, so we removed it. We determined that O&M expense is understated by \$21,499 as shown in Table 8-1.

**Table 8-1**

OBJ	NARUC	Description	12/31/2014	Utility Adj	Utility Balance	Audit Adj	Audit Balance
5860	775	CLEANING SUPPLIES	\$ 506		\$ 506	\$ -	\$ 506
6270	735	TEST-SEWER	3,626	(3,626)	-	-	-
6320	720	SEWER-MAINT SUPPLIES	1,305	(305)	1,000	-	1,000
6325	720	SEWER-MAINT REPAIRS	5,747	(1,500)	4,247	1,500	5,747
6335	720	SEWER-ELEC EQUIPT REPAIR	1,837		1,837	-	1,837
6340	775	SEWER-PERMITS	100		100	-	100
6345	775	SEWER-OTHER MAINT EXP	6,665		6,665	-	6,665
6355	775	DEFERRED MAINT EXPENSE	69,771	(67,668)	2,103	24,725	26,828
		allocated costs	37		37	-	37
			<u>\$ 89,594</u>	<u>\$ (73,099)</u>	<u>\$ 16,495</u>	<u>\$ 26,225</u>	<u>\$ 42,720</u>
6050	736	CONTRACTUAL SERVICES - OTHER	16,501	-	16,501	(4,726)	11,775
		allocated costs	5,493	(44)	5,449	-	5,449
			<u>\$ 21,994</u>	<u>\$ (44)</u>	<u>\$ 21,950</u>	<u>\$ (4,726)</u>	<u>\$ 17,224</u>
<b>Total:</b>			<u>\$ 111,588</u>	<u>\$ (73,143)</u>	<u>\$ 38,445</u>	<u>\$ 21,499</u>	<u>\$ 59,944</u>

This adjustment will increase Working Capital by \$2,687. ( $\$21,499 \times 1/8 = \$2,687$ ).

The allocated costs are tested in the Audit of Affiliate Transactions, ACN 15-175-1-2.

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

**Effect on the Filing:** Operation and Maintenance Expense should be increased by \$21,499.  
Working Capital should be increased by \$2,687.

## **Finding 9: Deferred Maintenance Projects**

**Audit Analysis:** In the MFR Schedule B-11, lines 7 and 8 show two projects for a total of \$326,940 (\$99,884 + \$227,056) for abandoned projects relating to a deep well injection project and the wastewater treatment plant expansion as we discussed in Finding 8. Order No. PSC-07-0865-PAA-AU was issued in October 2007 for the projected test year ended December 31, 2007 and the amortization expense of \$21,796 ( $\$326,940/15$ ) was included in O&M Expenses for recovery. However, the MFR Schedule B-11 also indicates the in-service date of December 31, 2012.

Audit staff noted that these projects were first recorded in plant in service as of December 28, 2006. In 2012, the Utility recorded a transaction to remove the projects from plant in service to deferred charges. The Utility used an in-service date of July 1, 2006 when they recorded the following adjustments.

- The Utility recorded amortization expense of \$29,965 ( $\$99,884/15 \times 4.5$  years) for the deep well injection project from July 1, 2006 through December 31, 2010.
- The Utility did not record amortization expense of \$13,318 ( $\$99,884/15 \times 2$  years) for the deep well injection project from January 1, 2011 through December 31, 2012.
- The Utility also recorded amortization expense of \$68,117 ( $\$227,056/15 \times 4.5$  years) for the wastewater treatment plant expansion from July 1, 2006 through December 31, 2010.
- The Utility also recorded amortization expense of \$30,274 ( $\$227,056/15 \times 2$  years) for the wastewater treatment plant expansion from January 1, 2011 through December 31, 2012.

Due to a change in personnel in 2013, the Utility began to record amortization expense in the amount of \$54,490 ( $\$326,940/5/12 \times 10$  months) using a five year life instead of 15 years.

In 2014, the Utility recorded amortization expense of \$65,388 ( $\$326,940/5$ ) using a five year life instead of 15 years. Audit staff reduced this amount to \$21,796 as noted in Finding 8.

Audit staff calculated an unamortized balance of \$141,674 ( $\$326,940 - \$185,266$  ( $\$21,796 \times 8.5$  years)) as of December 31, 2014. However, the Utility has recorded amortization expense of \$248,234 ( $\$29,965 + \$68,117 + \$30,274 + \$54,490 + \$65,388$ ) in the general ledger as of December 31, 2014 as shown in Table 9-1 following this finding.

In 2011, the Utility filed for a rate increase while under the jurisdiction of the Board of County Commissioners of Charlotte County. Audit staff found that the plant in service, the accumulated depreciation, and the depreciation expense balances had been adjusted to remove the projects from Rate Base and Net Operating Income. However, the Utility did not adjust O&M expenses to record amortization expense. In addition, it wasn't included in the December 31, 2010 general ledger O&M balance since the Utility didn't record amortization expense until 2012.

Audit staff requests the analyst to determine the unamortized balance and the remaining life.

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

**Effect on the Filing:** The adjustment to O&M Expense is included as part of Finding 8. The remaining regulatory impact should be determined by the analyst.

**Table 9-1**

<b>OBJ</b>	<b>NARUC</b>	<b>Description</b>	<b>Date</b>	<b>Debit</b>	<b>Credit</b>
2985	186.2	Deferred Charges - Other	12/31/2012	\$ 99,884	
1295	354.3	S&I Pump Plt Lift Stations	12/31/2012		\$ 99,884
3000	186.2	Deferred Charges-Other Wtr & Swr	12/31/2012	\$ 227,056	
1400	380	Treat/Disposal Equipment Plant	12/31/2012		\$ 227,056
3140	186.2	Amort-Other	12/31/2012		\$ 29,965
3155	186.2	Amort-Other Water and Sewer	12/31/2012		\$ 68,117
3155	186.2	Amort-Other Water and Sewer	12/31/2012		\$ 30,274
6355	775	Deferred Maintenance Expense	12/31/2012	\$ 29,965	
6355	775	Deferred Maintenance Expense	12/31/2012	\$ 68,117	
6355	775	Deferred Maintenance Expense	12/31/2012	\$ 30,274	
3140	186.2	Amort-Other	12/31/2013		\$ 54,490
6355	775	Deferred Maintenance Expense	12/31/2013	\$ 54,490	
3140	186.2	Amort-Other	12/31/2014		\$ 65,388
6355	775	Deferred Maintenance Expense	12/31/2014	\$ 65,388	

## Exhibits

### Exhibit 1: Rate Base – Wastewater

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Utilities, Inc. of Sandalhaven  
 Docket No.: 150102-SU  
 Test Year Ended: December 31, 2014  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: A-2 (Revised)  
 Page 1 of 1  
 Preparer: Christie Kincaid

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	\$ 8,571,371	\$ (181,463) (A)	\$ 8,389,908	A-3, A-6
2	Utility Land & Land Rights	157,487	209	157,696	A-6
3	Less: Non-Used & Useful Plant		(73,089) (B)	(73,089)	A-7
4	Construction Work in Progress	134,200	(134,200) (C)	-	A-3
5	Less: Accumulated Depreciation	(3,712,738)	773,864 (D)	(2,938,874)	A-3, A-10
6	Less: CIAC	(3,276,640)	1,310,499 (E)	(1,966,141)	A-3, A-12
7	Accumulated Amortization of CIAC	1,595,021	(1,071,361) (F)	523,660	A-3, A-14
8	Acquisition Adjustments	-			-
9	Accum. Amort. of Acq. Adjustments	-			-
10	Advances For Construction	-			A-16
11	Working Capital Allowance		87,257 (G)	87,257	A-3, A-17
12	Deferred Taxes		540,800 (H)	540,800	
13	Total Rate Base	\$ 3,468,701	\$ 1,252,515	\$ 4,721,216	

## Exhibit 2: Capital Structure

Schedule of Requested Cost of Capital  
Simple Average Balance

Florida Public Service Commission

Company: Utilities, Inc. of Sandalhaven  
Docket No.: 150102-SU  
Schedule Year Ended: December 31, 2014

Schedule: D-1 (Revised)  
Page 1 of 1  
Preparer: Darrien Pitts

Historic  or Projected

Subsidiary  or Consolidated

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

Line No.		(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	2,316,006	49.06 %	6.64 %	3.26 %
2	Short-Term Debt	51,467	1.09 %	7.77 %	0.08 %
3	Preferred Stock	-			
4	Customer Deposits	6,591	0.14 %	2.00 %	0.00 %
5	Common Equity	2,346,301	49.70 %	10.37 %	5.16 %
6	Tax Credits - Zero Cost	-			
7	Accumulated Deferred Income Tax	852	0.02 %	0.00 %	%
8	Other (Explain)	-			
9	<b>Total</b>	<b>4,721,216</b>	<b>100.00 %</b>		<b>8.50 %</b>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-11-0287-PAA-WS.

Return on Common Equity = 7.13% + 1.610/Equity Ratio

where Equity ratio = Equity/(Equity + Preferred + Long & Short Term Debt) 49.78 %

Note: Long term debt, short term debt, preferred stock, and common equity are actual for Utilities, Inc. of Sandalhaven's parent company, Utilities, Inc.

Supporting Schedules: D-2

Recap Schedules: A-2

### Exhibit 3: Net Operating Income - Wastewater

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Utilities, Inc. of Sandalhaven  
 Docket No.: 150102-SU  
 Schedule Year Ended: December 31, 2014  
 Interim [ ] Final [X]  
 Historic [X] or Projected [ ]

Schedule: B-2 (Revised)  
 Page 1 of 1  
 Preparer: Christie Kincaid

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) Test Year 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	\$ 668,757	\$ 12,479 (A)	\$ 681,236	\$ 939,514 (G)	\$ 1,620,750	B-4, B-3
2	Operation & Maintenance	581,100	116,957 (B)	698,057		698,057	B-6, B-3
3	Depreciation, net of CIAC Amort.	264,739	(71,698) (C)	193,041	-	193,041	B-14, B-3
4	Amortization		10,412 (D)	10,412	-	10,412	
5	Taxes Other Than Income	113,952	14,734 (E)	128,687	42,278 (H)	170,964	B-15, B-3
6	Provision for Income Taxes	(118,083)	(72,575) (F)	(190,658)	337,630 (I)	146,972	C-1, B-3
7	OPERATING EXPENSES	841,708	(2,170)	839,538	379,908	1,219,446	
8	NET OPERATING INCOME	\$ (172,951)	\$ 14,648	\$ (158,303)	\$ 559,606	\$ 401,303	
9	RATE BASE, Average	\$ 3,468,701		\$ 4,721,216		\$ 4,721,216	
10	RATE OF RETURN	(4.99) %		(3.35) %		8.50 %	