

State of Florida



Public Service Commission

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

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

DATE: January 3, 2017

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 160195-WS
Company Name: Lakeside Waterworks, Inc.
Company Code: WS962
Audit Purpose: A1b – Staff Assisted Rate Case
Audit Control No.: 16-271-2-1

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

LMD/cmm

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
Tampa District Office

Auditor's Report

Lakeside Waterworks, Inc.
Staff Assisted Rate Case

Twelve Months Ended June 30, 2016

Docket No. 160195-WS
Audit Control No. 16-271-2-1
December 08, 2016

Handwritten signature of Intesar Terkawi in cursive script.

Intesar Terkawi
Audit Manager

Handwritten signature of Linda Hill in cursive script.

Linda Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated September 26, 2016. We have applied these procedures to the attached exhibits prepared by the audit staff in support of Lakeside Waterworks, Inc.'s request for a Staff Assisted Rate Case in Docket No. 160195-WS.

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

Objectives and Procedures

GENERAL

Definitions

Utility refers to the water and wastewater facilities owned and operated by Lakeside Waterworks, Inc.

Test year is the 12 months ended June 30, 2016.

Background

Lakeside Waterworks, Inc. is a Class C water and wastewater utility providing service in Lake County for 187 water, 176 wastewater, and 75 irrigation customers. The Utility began operations in 1983.

The Florida Public Service Commission issued Order No. PSC 13-0425-PAA-WS, on September 18, 2013, approving the transfer of Shangri-La by the Lake Utilities, Inc.'s water and wastewater systems, and Certificates Nos. 567-W and 494-S to Lakeside Waterworks, Inc. Rate base was last established for the Utility per Order No. PSC-15-0013-PAA-WS, issued January 2, 2015.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's books and records and determined that they are in compliance with NARUC USOA. No exceptions were noted.

Rate Base

Utility Plant in Service

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

Procedures: We obtained the beginning balances for water and wastewater UPIS as of June 30, 2013, per Commission Order No. PSC-15-0013-PAA-WS, issued January 2, 2015. We traced asset additions and retirements to supporting documentation and the general ledger. We determined the year-end and simple average UPIS balances as of June 30, 2016. Our recommended adjustments to UPIS are discussed in Finding 1.

Land and Land Rights

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

Procedures: We reconciled the Utility's Water and Wastewater Land balances for this proceeding to the balances established in Commission Order No. PSC-15-0013-PAA-WS. We verified that there were no changes to the Utility's land lease. The Utility has a lease with Werner and Werner, Incorporated for \$400 a month together with any sales or use tax imposed. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of Construction (CIAC): 1) Consists of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Adjustments required in the Utility's last rate proceedings were recorded to its books and records, and is 4) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for Water and Wastewater CIAC as of June 30, 2013, from Commission Order PSC-15-0013-PAA-WS, issued January 2, 2015. We requested supporting documentation from the Utility of CIAC additions since the Order issuance date. We reconciled all CIAC water and wastewater additions to the Utility's tariff. No exceptions were noted.

Accumulated Depreciation

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

Procedures: We obtained the beginning balances for Water and Wastewater Accumulated Depreciation balances as of June 30, 2013. We calculated depreciation accruals for each UPIS account to verify that the correct depreciation rates were used. We determined whether retirements were made when a capital asset was removed or replaced. We recalculated and determined the year-end and simple average Accumulated Depreciation balances as of June 30, 2016. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 2.

Accumulated Amortization of CIAC

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

Procedures: We obtained beginning balances for Water and Wastewater Accumulated Amortization of CIAC as of June 30, 2013. We calculated amortization accruals for each CIAC account to verify that the correct amortization rates were used. We recalculated and determined the year-end and simple average Accumulated Amortization balances as of June 30, 2016. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 3.

Working Capital

Objective: The objective was to determine the Working Capital adjustment to be included in Rate Base based on Rule 25-30.433 – Rate Case Proceedings, F.A.C.

Procedures: We calculated the Utility's Working Capital adjustment for the test year using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission Rule 30.433(2), FAC. Our recommended amount for the Working Capital adjustment is discussed in Finding 5.

Capital Structure

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

Procedures: We reviewed the Utility's cost of capital components. We determined that the Utility's Capital Structure is composed of Long Term Debt, Common Equity, and Customer Deposits. We recalculated the components and cost rates using end of the year balances. No exceptions were noted.

Net Operating Income

Revenues

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

Procedures: We determined the Utility revenues for the 12-months ended June 30, 2016, by tracing revenues to the Utility's general ledger and billing reports. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year. We prepared a billing analysis of the consumption from the billing reports. Our recommended adjustments to Revenues are discussed in Finding 4.

Operation and Maintenance Expense

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

Procedures: We reviewed O&M Expense for the test year. We reviewed invoices for proper amount, period, classification, support, recurring, and whether utility related. We compiled a schedule of all invoices per the NARUC accounts. We determined the percentage allocation between water and wastewater. We also determined if any additional expenses are required and obtained estimates from the Utility for these items. Our recommended adjustments are discussed in Finding 5.

Depreciation Expense and CIAC Amortization Expense

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

Procedures: We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year ended June 30, 2016, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments are discussed in Findings 2 and 3.

Taxes Other than Income

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

Procedures: We verified water and wastewater TOTI for the 12 months ended June 30, 2016, by tracing to the original source documentation. We reviewed the 2015 Regulatory Assessment Fee returns. Our recommended adjustments are discussed in Finding 6.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: The Utility's water and wastewater UPIS balances are \$263,806 and \$153,449 respectively, as of June 30, 2016. Order No. PSC-15-0013-PAA-WS established water and wastewater balances of \$138,048 and \$145,816, respectively as of June 30, 2013.

We compiled water and wastewater UPIS additions from June 30, 2013, through June 30, 2016, used the UPIS balances established in the Utility's last rate case proceeding and added the additions and retirements to succeeding years. We toured the Utility's water and wastewater plant sites and lift stations to observe and ascertain the condition and existence of the Utility's assets.

Per audit staff's calculation, the Utility's UPIS are \$250,398 for water and \$153,071 for wastewater, as of June 30, 2016. The simple average water and wastewater UPIS balances for the test year are \$237,529 and \$153,071, respectively. Audit staff's adjustments are summarized in Tables 1-1 and 1-2.

**Table 1-1
Water Plant**

Acct. No.	Description	PerUtility 6/30/2016	Audit Adjs.	Per Audit 06/30/2016	Simple Average
301	Organization	\$1,473	(\$463)	\$1,010	
304	Struct. and Improv.	10,296	0	10,296	
307	Wells & Springs	132,172	(15,955)	116,217	
309	Supply Mains	300	0	300	
310	Power Generation Equip.	603	(603)	0	
311	Pumping Equipment	7,693	1,324	9,017	
320	Water Treatment Equip.	10,671	1,435	12,106	
330	Distrib. Reserv. & Standpipes	5,829	0	5,829	
331	Trans. & Distrib. Mains	54,604	994	55,598	
333	Services	7,675	0	7,675	
334	Meters and Meter Installations	28,989	(140)	28,849	
339	Backflow Prevention Devices	3,501	0	3,501	
		\$263,806	(\$13,408)	\$250,398	\$237,529

Finding 1 (Continued)

Account 301 – Organization is decreased by \$463 for lack of support.

Account 307 – Wells & Springs is decreased by \$15,955 which represents the retirement of a well that is not recorded by the Utility.

Account 310 – Power Generation Equipment is decreased by \$603 as the Utility did not adjust correctly to the last Commission Order.

Account 311 – Pumping Equipment is increased by \$1,324 as the Utility did not adjust correctly to the last Commission Order.

Account 320 – Pumping Equipment is increased by \$1,435 as the Utility did not adjust correctly to the last Commission Order.

Account 331 – Transmission & Distribution Mains should be increased by \$994 as the Utility did not adjust correctly to the last Commission Order.

Account 334 – Meter & Meter Installation should be decreased by \$140 for lack of support.

**Table 1-2
Wastewater Plant**

Acct. No.	Description	Per Utility 6/30/2016	Audit Adjs.	Per Audit 6/30/2016	Simple Average
351	Organization	\$1,408	(\$398)	\$1,010	
354	Structions and Improvements	6,080	0	6,080	
360	Collection Sewer-Force	3,138	0	3,138	
361	Collection Sewer-Gravity	73,983	0	73,983	
362	Special Collecting Structures	200	0	200	
363	Services to Customers	5,145	0	5,145	
364	Flow Measuring Devices	2,474	0	2,474	
365	Flow Measuring Installations	2,540	0	2,540	
370	Receiving Wells	16,000	0	16,000	
371	Pumping Equipment	2,640	(902)	1,738	
380	Treatment & Disposal Equip.	36,689	922	37,611	
389	Other Plant & Misc. Equip.	2,949	0	2,949	
393	Tools,Shop,&Garage Equip.	203	0	203	
		\$153,449	(\$378)	\$153,071	\$153,071

Finding 1 (Continued)

Account 351 – Organization: is reduced by \$398 for lack of support.

Account 371 – Pumping Equipment: is reduced by \$902 because the Utility did not adjust correctly to the last Commission Order.

Account 380 – Treatment & Disposal Equipment - Other: is increased by \$922 because the Utility did not adjust correctly to the last Commission Order.

Effect on the General Ledger: The Utility should decrease UPIS for water and wastewater to \$250,398, and \$153,071, respectively as of June 30, 2016.

Effect on the Staff Prepared Exhibits: Decrease UPIS balances for water and wastewater by \$13,408 and \$379, respectively as June 30, 2016. Reflect the simple average balances for water of \$237,529 and wastewater of \$153,071.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: The Utility's general ledger reflects Accumulated Depreciation balances of \$118,074 and \$103,870 for water and wastewater, respectively as of June 30, 2016.

Order No. PSC-15-0013-PAA-WS, issued January 2, 2015, established water and wastewater Accumulated Depreciation balances of \$98,944 and \$87,403 as of June 30, 2013.

Audit staff calculated Depreciation Expense for the test year using the depreciation rates prescribed in Commission Rule 25-30-140 F.A.C. to be \$7,762 and \$4,913 for water and wastewater, respectively. Audit staff calculated Accumulated Depreciation to be \$98,632 for water and \$101,694 for wastewater, as of June 30, 2016. Audit staff calculated average accumulated depreciation to be \$94,768 and \$99,238 for water and wastewater, respectively. The \$13,650 adjustment in Account 307 – Wells & Springs, is due largely to the retirement of a well in 2015 of \$17,520. This has an effect on water depreciation expense adjustment of \$2,691 as well.

**Table 2-1
Water Accumulated Depreciation**

Acct. No.	Description	Per Utility 06/30/2016	Audit Adjs.	Per Audit 6/30/2016	Simple Average
301	Organization	\$477	(\$41)	\$436	
304	Structions and Improvements	3,825	(140)	3,685	
307	Wells & Springs	28,053	(13,650)	14,403	
309	Supply Mains	215	(4)	211	
310	Power Generation Equioment	107	377	484	
311	Pumping Equipment	7,183	(3,518)	3,665	
320	Water Treatment Equipment	10,213	1,257	11,470	
330	Distrib.Reserv. & Standpipes	1,515	107	1,622	
331	Trans. & Distrib. Mains	27,802	(3,495)	24,307	
333	Services	7,678	(143)	7,535	
334	Meters and Meter Installations	28,946	(108)	28,838	
339	Backflow Prevention Devices	2,062	(87)	1,975	
		<u>\$118,076</u>	<u>(\$19,445)</u>	<u>\$98,631</u>	<u>\$94,768</u>

Finding 2 (Continued)

**Table 2-2
Wastewater Accumulated Depreciation**

Acct. No.	Description	Per Utility 06/30/2016	Audit Adj.	Per Audit 6/30/2016	Simple Average
351	Organization	\$473	(\$42)	\$431	
354	Structions and Improvements	6,080	0	6,080	
360	Collection Sewer-Force	3,138	0	3,138	
361	Collection Sewer-Gravity	28,774	56	28,830	
362	Special Collecting Structures	121	0	121	
363	Services to Customers	5,061	0	5,061	
364	Flow Measuring Devices	2,474	0	2,474	
365	Flow Measuring Installations	1,634	0	1,634	
370	Receiving Wells	16,000	0	16,000	
371	Pumping Equipment	2,136	(967)	1,169	
380	Treatment & Disposal Equip.	35,469	(1,222)	34,247	
389	Other Plant & Misc. Equip.	2,307	0	2,307	
393	Tools,Shop,&Garage Equip.	203	0	203	
		<u>\$103,870</u>	<u>(\$2,175)</u>	<u>\$101,695</u>	<u>\$99,238</u>

Effect on the General Ledger: The Utility should adjust the Accumulated Depreciation accounts for water and wastewater to \$98,632 and \$101,694, respectively as of June 30, 2016.

Effect on Staff Prepared Exhibits: Decrease Accumulated Depreciation by \$19,445 and \$2,175 for water, and wastewater, respectively, as of June 30, 2016. Reflect the simple average for water of \$94,768 and wastewater of \$99,238. Increase water Depreciation Expense by \$2,691 and decrease wastewater Depreciation expense by \$6 for the test year.

Finding 3: Accumulated Amortization of CIAC

Audit Analysis: The Utility's water and wastewater Accumulated Amortization of CIAC balances are \$7,379 and \$7,517, respectively as of June 30, 2016. The Utility's CIAC Amortization Expenses are \$415 and \$589 for water and wastewater, respectively, for the test year.

Commission Order PSC-15-0013-PAA-WS issued January 2, 2015, established water and wastewater Accumulated Amortization of CIAC balances of \$5,830 and \$6,099, respectively as of June 30, 2013.

Audit staff calculated Accumulated Amortization of CIAC for water and wastewater as of June 30, 2016, using the Order balances and applicable amortization rates to be \$7,204 and \$7,832, respectively as of June 30, 2016. CIAC Amortization Expense for water and wastewater are \$452 and \$592, respectively for the test year.

Effect on the General Ledger: The Utility should adjust Accumulated Amortization of CIAC for water and wastewater to \$7,204 and \$7,832, respectively as of June 30, 2016.

Effect on the Staff Prepared Exhibits: Decrease Accumulated Amortization of CIAC by \$175 for water and increase wastewater by \$315, as of June 30, 2016. Reflect the simple average for water of \$6,977 and wastewater \$7,536. Increase CIAC Amortization Expenses by \$37 and \$3 for water and wastewater, respectively.

Finding 4: Operating Revenue

Audit Analysis: The Utility reported Revenues for water of \$59,676 and wastewater of \$54,216 for the test year. Tables 4-1 and 4-2 summarize audit adjustments.

**Table 4-1
Water**

Customer Class	Meter Size	Per Utility	Per Audit	Audit Adjustments
Residential	5/8" Meter	\$47,843	\$51,480	\$3,637 (A)
Residential	1" Meter	6,430	6,497	67
General				
Service	5/8" Meter	322	169	-153 (A)
Irrigation				
Residential	5/8" Meter	2,670	3,023	353 (A)
Irrigation				
General	5/8" Meter	1,615	1,835	220 (A)
Misc Rev		796	774	-22 (B)
Total		\$59,676	\$63,778	\$4,102

**Table 4-2
Wastewater**

Customer Class	Meter Size	Per Utility	Per Audit	Audit Adjustments
Residential	5/8" Meter	\$54,209	\$54,871	\$662 (A)
General				
Service	5/8" Meter	7	181	174 (A)
Total		\$54,216	\$55,052	\$836

Finding 4 (Continued)

- A) These adjustments resulted from audit staff's calculation of the billing registers for those customers for the test year using the latest tariff issued on January 28, 2016.
- B) The miscellaneous charges consists of card processing fees of \$541, late fees of \$165 and Reconnect Fees of \$88. The Utility charged \$22 per customer for reconnection fees instead of the authorized tariff rate of \$15. The Utility indicated that each affected customer would receive a refund for the difference of \$7 (\$15 - \$22).

We calculated RAFs for water and wastewater to be \$2,870 ($\$63,778 * 4.5\%$) and \$2,477 ($\$55,052 * 4.5\%$), respectively.

Effect on the General Ledger: None.

Effect on the Staff Prepared Exhibits: Increase revenue by \$4,102 and \$836 for water and wastewater, respectively.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility reported O&M balances for the test year of \$52,577 and \$51,515 for water and wastewater, respectively. Audit staff calculated the O & M expenses to be \$48,054 and \$47,408 for water and wastewater, respectively. Audit adjustments are summarized in Tables 5-1 and 5-2.

**Table 5-1
Water Expenses**

Acct. No.	Description	Per Utility	Audit Adjs.	Per Audit
603	Salaries & Wages- Officers	\$3,000	(\$3,000)	\$0
615	Purchased Power	2,737	131	2,868
618	Chemicals	1,319	0	1,319
633	Contractual Services - Legal	491	0	491
636	Contractual Services - Other	39,390	0	39,390
640	Rents	2,463	0	2,463
655	Insurance Expense	563	0	563
670	Bad Debt Expense	414	0	414
675	Miscellaneous Expense	2,201	(1,655)	546
		<u>\$52,578</u>	<u>(\$4,524)</u>	<u>\$48,054</u>

Account 603 – Salaries & Wages: Decreased by \$3,000 as Officer's salaries were not paid. The last Order approved officer's salary of \$2,500. .

Account 615 – Purchased Power: is understated by \$131 (\$2,868 - \$2,737). We compiled all applicable electric bills of the water system for the test year to be \$2,868.

Account 675 – Miscellaneous Expense: is overstated by \$1,655 (\$546- \$2,201). The Utility recorded the adjustment to RAF of \$1,655 to the miscellaneous expense account.

**Table 5-2
Wastewater Expenses**

Acct. No.	Description	Per Utility	Audit Adjs.	Per Audit
703	Salaries & Wages-Officers	\$3,000	(\$3,000)	\$0
711	Sludge Removal Expense	2,275	0	2,275
715	Purchased Power	3,479	60	3,539
718	Chemicals	416	0	416
733	Contractual Services-Legal	491	0	491
736	Contractual Services-Other	38,452	(1,166)	37,286
740	Rents	2,463	0	2,463
755	Insurance Expense	563	0	563
770	Bad Debt Expense	375	0	375
		<u>\$51,514</u>	<u>(\$4,106)</u>	<u>\$47,408</u>

Finding 5 (Continued)

Account 703 – Salaries & Wages: is overstated by \$3,000 as the Utility did not pay a salary to its officers. The last Order approved \$2,500 for each officer.

Account 715 – Purchased Power: is understated by \$60 (\$3,539 - \$3,479). We compiled all applicable electric bills of the wastewater system for the test year to be \$3,539.

Account 736 – Contractual Services – Other: is overstated by \$1,166 (\$37,286 - \$38,452). The Utility included an invoice for a plant addition of \$1,165 in account 736 – Contractual Services – Other. The plant addition of \$1,165 was also capitalized by the Utility in Account 331, therefore audit staff did not need to increase PIS, accumulated depreciation or depreciation expense.

Working Capital for water and wastewater are \$6,007 and \$5,926, respectively.

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Decrease O&M by \$4,523 and \$5,926 for water and wastewater, respectively.

Finding 6: Taxes Other than Income

Audit Analysis: The Utility reported property taxes of \$684 and \$684 for water and wastewater, respectively. Regulatory Assessment Fees of \$2,686 and \$2,440 were reported for water and wastewater, respectively for the test year.

Based on Finding 5, the audit staff calculated water and wastewater Regulatory Assessment Fees to be \$2,870 and \$2,477, respectively.

Our calculation of Property Taxes and Regulatory Assessment Fees are summarized in Table 6-1.

**Table 6-1
Water**

Tax Description	TOTI Per Utility	Audit Adjustments	TOTI Per Audit
Property Taxes	\$684	(\$8)	\$676
Regulatory Assessment Fees	2,686	184	2,870
	<u>\$3,370</u>	<u>\$176</u>	<u>\$3,546</u>

**Table 6-2
Wastewater**

Tax Description	TOTI Per Utility	Audit Adjustments	TOTI Per Audit
Property Taxes	\$684	(\$8)	\$676
Regulatory Assessment Fees	2,440	37	2,477
	<u>\$3,124</u>	<u>\$29</u>	<u>\$3,153</u>

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Taxes Other Than Income was increased by \$176 and \$29 for water and wastewater, respectively.

Exhibits

Exhibit 1: Rate Base

Lakeside Waterworks, Inc.
Rate Base
As of June 30 2016

Water

<u>Description</u>	<u>Balance Per Utility @6/30/2016</u>	<u>Audit Adjustments</u>	<u>Balance Per Audit @6/30/2016</u>	<u>Simple Average Per Audit</u>
Utility Plant In Service	\$263,806	(\$13,408)	\$250,398	\$237,529
Land and Land Rights	0	\$0	0	0
Contribution in-Aid-of-Constr. (CIAC)	(14,586)	\$0	(14,586)	(14,251)
Accumulated Depreciation	(118,076)	\$19,445	(98,631)	(94,768)
Accumulated Amortization of CIAC	7,379	(\$175)	7,204	6,977
Working Capital	0	\$6,007	6,007	6,007
TOTAL	\$138,523	\$11,869	\$150,392	\$141,494

Differences Due to roundings

Wastewater

<u>Description</u>	<u>Balance Per Utility @6/30/2016</u>	<u>Adjustments</u>	<u>Balance Per Audit @6/30/2016</u>	<u>Simple Average Per Audit</u>
Utility Plant In Service	\$153,450	(379)	\$153,071	\$153,071
Land and Land Rights	0	0	0	0
Contribution in-aid-of-Constr. (CIAC)	(18,388)	0	(18,388)	(18,323)
Accumulated Depreciation	(103,870)	2,175	(101,695)	(99,238)
Accumulated Amortization of CIAC	7,517	315	7,832	7,536
Working Capital	0	5,926	5,926	5,926
TOTAL	\$38,709	\$8,037	\$46,746	\$48,972

Exhibit 2: Capital Structure

**Lakeside Waterworks, Inc.
Capital Structure
As of June 30, 2016**

Water and Wastewater

Capital Component	Utility June 30, 2016	Audit Adjustments	Audit Average June 30, 2016	Ratio	Balance	Cost	Weighted Cost
Long Term Debt	\$19,566	\$2,429	\$21,995	16.27%	\$12,335	4.00%	0.65%
Common Equity	158,808	(47,642)	111,166	82.21%	62,343	9.06%	7.45%
Customer Deposits	3,430	(1,370)	2,060	1.52%	1,155	2.00%	0.03%
Total Capital	\$181,804	(46,583)	\$135,221	100.00%	\$75,833		8.13%

Equity cost based on FPSC Order No. 16-0259-PAA-WS issued 6/29/2016.

Exhibit 3: Net Operating Income

Lakeside Waterworks, Inc.
Net Operating Income
Year Ended June 30, 2016

Water

<u>Description</u>	<u>Per Utility</u>	<u>Audit Adjustments</u>	<u>Per Audit</u>
Operating Revenue	\$59,676	\$4,102	\$63,778
Operating Expenses			
O&M Expense	\$52,577	(\$4,523)	\$48,054
Depreciation Expense	5,071	2,691	7,762
Amortization Expense - CIAC	(415)	(37)	(452)
Taxes Other Than Income	3,370	176	3,546
Total Operating Expenses	\$60,603	(\$1,693)	\$58,910
Net Operating Income	(\$927)	\$5,795	\$4,868

Wastewater

<u>Description</u>	<u>Per Utility</u>	<u>Audit Adjustments</u>	<u>Per Audit</u>
Operating Revenues	\$54,216	\$837	\$55,053
Operating Expenses			
O & M Expenses	\$51,515	(\$4,105)	\$47,410
Depreciation Expense	4,919	(6)	4,913
Amortization Expense - CIAC	(589)	(3)	(592)
Taxes Other Than Income	3,124	29	3,153
Total Operating Expenses	\$58,969	(\$4,085)	\$54,884
Net Operating Income (Loss)	(\$4,753)	\$4,922	\$169