

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED JULY 31, 1996

Field Work Completed

November 20, 1996

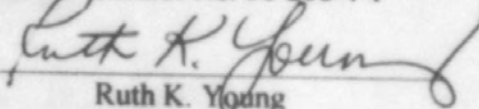
USEPPA ISLAND UTILITY, INC.

Lee County

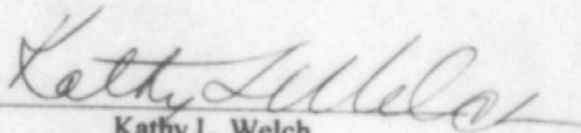
Staff Assisted Rate Case

Docket No. 960975-WS

AFAD Control No. 96-268-4-1



Ruth K. Young
Audit Manager



Kathy L. Welch
District Audit Supervisor
Miami

DOCUMENT NUMBER-DATE

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DIVISION OF WATER & WASTEWATER
CHARLES HILL
DIRECTOR
(904) 413-6900

Public Service Commission

September 25, 1996

RECEIVED

DEC 13 1996

Florida Public Service Commission
Division of Water and Wastewater

Mr. Vincent Formosa
Vice President & General Manager
Useppa Island Utilities, Inc.

10000 Florida 33922

Re: Useppa Island Utilities, Inc. application of Useppa Island Utilities, Inc. for a staff assisted rate case in Lee County.

Dear Mr. Formosa:

We have reviewed your request for staff assistance filed by Useppa Island Utilities, Inc. We find that the utility is eligible for the staff assisted rate case filing.

Since your request for staff assistance has been accepted, the utility should pay a filing fee as provided by Chapter 367.141 of the Florida Statutes. The filing fee is due on October 25, 1996, which will be the official filing date for this rate case. Delay in payment of the filing fee may result in a delay in the processing of your case.

Member of Commission Staff will contact you to schedule a meeting for the examination of the utility's books and records. If you have any questions regarding the rate proceeding, please call Bob Casey at this office.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC _____
- WAS _____
- OTH _____

Initials of person who forwarded check

[Handwritten initials]

Sincerely,

[Signature]
Charles H. Hill, Director
Division of Water and Wastewater

- cc: CHH
- Division of Records and Reporting
- Division of Legal Services (Vaccaro)
- Bureau of Special Assistance (Betha T. Davis)

consulting - waterside

~~DOCUMENT NUMBER-DATE~~
~~13320 DEC 12 96~~

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I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to prepare proposed schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending July 31, 1996 for Useppa Island Utility, Inc for staff assisted rate case, FPSC Docket No. 960975-WS.

Scope Limitation: There were no scope limitations.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: The schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending July 31, 1996 represent Useppa Island Utility, Inc. Books and records maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in section II of this report.

II. Audit Scope:

The opinions contained in this report are based on the audit work described below. When used in this report, the following definitions shall apply.

COMPILED - The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency, and, except as noted, performed no other audit work.

EXAMINED - The audit staff reconciled exhibit amounts with the general ledger, traced general ledger account balances to subsidiary ledgers, applied selective analytical review procedures, tested account balances to the extent further described, and disclosed any error, irregularity, or inconsistency observed.

RATE BASE: Reconciled prior audit rate base component balances to books. Compiled additions to Plant, Accumulated Depreciation, CIAC, and Accumulated Amortization of CIAC. Examined all invoices for additions to plant in service from September 30, 1992 through July 31, 1996. Recalculated accumulated depreciation balances for the same dates. Tested CIAC by reviewing deposit slips and determining new customers from September 30, 1992 forward. Reconciled plant in service at December 31, 1995 with the tax return. Recalculated accumulated amortization of CIAC. Calculated working capital.

NET OPERATING INCOME: Compiled revenue, operating and maintenance balances for the 12 month ended July 31, 1996. Recalculated revenue based on number of customers and tariff. Examined all invoices for operating and maintenance expense for the same time period. Recalculated depreciation and accumulated amortization of CIAC expense. Traced payroll dollars to payroll register. Determined reasonableness of any payroll allocations from affiliated companies. Inquired as to expenses incurred by the utility that were not on the books.

CAPITAL STRUCTURE: Reviewed the notes payable documentation.

AUDIT EXCEPTION 1

SUBJECT: PRIOR ORDER BALANCES NOT BOOKED

STATEMENT OF FACTS:

The Company did not book the Commission adjustments for Water and Wastewater for Plant, Accumulated Depreciation, CIAC, Accumulated Amortization of CIAC and Land from the last rate case order PSC-93-0930-FOF-WS.

The attached Exhibits 1 and 2 to this Exception detail the company booked amount at 9/30/92, the Commission amounts in the prior order and the difference to be booked by the Company.

All components of Rate Base were calculated by staff using the Commission amounts as a starting point. The amounts at 7/31/96 (test year) are included in Audit Exceptions 3, 5 and 6.

OPINION:

Adjust the Company books in the amounts for Water and Wastewater in the amounts detailed on Exhibits 1 and 2 to this Exception to bring the books to Commission balances.

EXHIBIT 1 TO EXCEPTION 1

RECONCILIATION OF PRIOR ORDER TO BOOKS
 USEPPA ISLAND UTILITY, INC.
 STAFF ASSISTED RATE CASE
 PLANT IN SERVICE
 TEST YEAR ENDED JULY 31, 1996

WATER PLANT IN SERVICE

DESCRIPTION	PER AUDIT	PER ANALYST	PER BOOKS	DIFFERENCE
	Wp % SEPT 30, 1992	WP 9/30/92 YEAR END		
304.2 STRUCT/IMPROV	32,516	32,516		
307.2 WELLS AND SPRINGS	51,199	51,199	95,886	(63,170)
311.2 PUMPING EQUIPMENT	13,108	13,108	34,957	16,242
320.2 WATER TREATMENT EQUIP	116,795	116,795	41,704	(28,596)
330.2 DISTR RESV/STDPPE	6,811	6,811		116,795
331.3 TRANS/DISTR MAINS	61,074	61,074		6,811
333.3 SERVICES	3,020	3,020		61,074
334.3 METERS & METR INSTALL	.960	15,960		3,020
		0		15,960
		0		0
** TOTAL AGREES WITH PRIOR ORDER	300,283	300,283	172,347	127,936
PER PRIOR ORDER 9/30/92 Avg				
Land per Commission Order	10,463	10,463	0	10,463
CIAC	(266,263)	(266,263)	(56,326)	(207,937)
*** includes land as CIAC per Commission order				
Accumulated Depreciation	(100,162)	(106,924)	(126,980)	22,056
Amortization of CIAC	63,716	89,117	0	89,117

The following adjustments need to be made to bring the books to the amounts ordered by the Commission.

	DEBIT	CREDIT
304.2 STRUCT/IMPROV - WATER SYSTEM		63,170
307.2 WELLS AND SPRINGS - WELL WATER		16,242
311.2 PUMPING EQUIPMENT - WATER EQUIP		28,596
320.2 WATER TREATMENT EQUIP	116,795	
330.2 DISTR RESV/STDPPE	6,811	
331.3 TRANS/DISTR MAINS	61,074	
333.3 SERVICES	3,020	
334.3 METERS & METR INSTALL	15,960	
CIAC		127,936
LAND		10,463
CIAC	10,463	
ACCUMULATED DEPRECIATION		22,056
RETAINED EARNINGS	22,056	
CIAC		22,056
DUE TO/FROM AFFILIATES	69,538	69,538
ACCUMULATED AMORTIZATION OF CIAC		89,117
RE	89,117	
		89,117

EXHIBIT 2 TO EXCEPTION 1

RECONCILIATION OF PRIOR ORDER TO BOOKS
 USEPPA ISLAND UTILITY, INC.
 STAFF ASSISTED RATE CASE
 PLANT IN SERVICE
 TEST YEAR ENDED JULY 31, 1986

WASTEWATER PLANT IN SERVICE

DESCRIPTION	PER AUDIT WP 9/30/82	PER ANALYST WP 9/30/82 YEAR END	PER BOOKS SEPT 30, 1982	DIFFERENCE
354.2 Structures and Improvements	13,354	13,354 Sewer System		
360.2 Collect sewers -force	118,785	118,785 Sewer Equip	210,812	(197,258)
370.3 Lift stations	80,242	80,242	5,733	114,062
380.3 Treatment disposal equip	40,984	40,984		80,242
				40,984
** Prior order average	234,345	234,345	216,345	18,000
	233,981			

PER PRIOR ORDER
 9/30/82 AVG

Land per Commission Order	3,487	3,487	0	3,487
CIAC				
*** includes land as CIAC per Commission order	(229,433)	(230,187)	(80,713)	(189,474)
Accumulated Depreciation	(90,387)	(95,394)	(18,657)	(76,737)
Amortization of CIAC	92,038	96,987	0	96,987

The following adjustments need to be made to bring the books to the amounts ordered by the Commission.

	DEBIT	CREDIT
354.2 Structures and Improvements/ SEWER SYSTEM		197,258
360.2 Collect sewers -force/SEWER EQUIP	114,052	
370.3 Lift stations	80,242	
380.3 Treatment disposal equip	40,984	
LAND	3,487	
CIAC		
DUE TO/FROM AFFILIATES	147,987	189,474
ACCUMULATED DEPRECIATION RE	76,737	76,737
ACCUMULATED AMORTIZATION OF CIAC RE	96,987	96,987

AUDIT EXCEPTION 2

SUBJECT: PLANT IN SERVICE

STATEMENT OF FACTS:

No Documentation:

The company booked two entries to plant in service for which there is not source documentation. These items are:

Wastewater Plant in 1/93	\$2,476.95
Wastewater Plant in 2/96	707.00

Incorrect Classification

The Company booked the purchase of Permeators to Wastewater in the amount of \$13,480 in January, 1993. Both the PSC engineer and the Company state this should be in the Water Equipment Account.

The Company incorrectly classified a retirement of permeators to wastewater instead of water.

Not Included on Books

The Company did not include on their books a golf cart used for transportation for both the water and wastewater plants. The cost of the golf cart on 7/31/96 was \$2,000.

OPINION:

1. Reverse the entries for which there is no documentation.

Dr. Due to/From Affiliates	\$3,184.95
Cr.. Wastewater Plant 370.3 (1/93)	2,476.95
Cr.. Wastewater Plant 370.3 (2/96)	707.00

2. Reclassify water plant from wastewater.

Dr. Water Plant 320.2 (1/93)	\$13,480.00	
Cr.. Wastewater Plant	354.2 (1/93)	\$13,480.00

Dr. Wastewater Plant (1/93)	\$4,850.00	
Cr.. Water Plant (1/93)		\$4,850.00
Dr. Accum Deprec Water Plant (1/93)	\$4,850.00	
Cr.. Accum Deprec WW (1/93)		\$4,850.00

3. Include the Cost of the Golf Cart in Plant in Service

Dr. Water Plant 341 (7/96)	\$ 800.00	
Dr. WW Plant 391 (7/96)	\$ 1,200.00	
Cr.. Due to/from Affiliates		\$2,000

The depreciation on these items is included in the computation in Exception no. 5.

AUDIT EXCEPTION 3

SUBJECT: Expense items that should be capitalized

STATEMENT OF FACTS:

The Company included \$1,148 in water expense account 615.01 for a Suitor Built Blower and \$357.65 in wastewater expense account 635.02 for an aluminum fence.

OPINION: According to NARUC Chart of Accounts, and the PSC staff engineer, these items should be capitalized.

The following adjusting entries need to made:

Dr. Account 380	Wastewater Plant	\$1.148
Cr. Account 615.01	Water Expense	\$1,148
Dr. Account 354.02	Wastewater Plant	517
Cr. Account 635.02	Wastewater Exp	517

Also, the averaging effect of Exceptions 2 and 3 is as follows:

Cr.. Plant - Water	\$4,612
Cr.. Plant - Wastewater	1,433

AUDIT EXCEPTION 4

SUBJECT: REVENUE

STATEMENT OF FACTS:

Per the Company general ledger, \$12,899.46 was billed for wastewater consumption charges.

The tariff states that commercial wastewater gallonage charge is \$3.90 per 1,000 gallons with no minimum.

The Company did not bill all commercial customers at \$3.90 per 1,000 gallons in all months. One commercial customer with a 2" meter was billed \$3.25 per thousand for 7 months and then a flat rate of \$19.50 per month for five months.

Another commercial customer with a 2" meter was billed \$3.90 per thousand for 10 months and for two months billed a flat 19.50.

OPINION:

PSC staff recalculated wastewater consumption revenue and compared the company's actual billing. The company was under billing in the total amount of \$1,065.35 for the 12 months ended 7/31/96. The exhibit following this exception details the staff calculation.

RECOMMENDATION:

Increase wastewater consumption revenue in the amount of \$1,065.35 for rate case purposes.

Dr. Retained Earnings

\$1,065.35

Cr. Wastewater Revenues

\$1,065.35

COMPANY: USEPPA ISLAND
 USEPPA ISLAND
 COMMERCIAL CUSTOMERS RECALCULATED PER BILLING FOR GALLONAGE

DATE	(000) TRAPON BAR	RATE	AMOUNT BILLED	(000) COLLIER INN	RATE	AMOUNT BILLED
8/95	12	3.90	46.80	51		
9/95	12	3.90	46.80	54	3.25	165.75
10/95	14	3.90	54.60	60	3.25	175.50
11/95	11	3.90	42.90	128	3.25	195.00
12/95	19	3.90	74.10	38	3.25	416.00
1/96	18	3.90	70.20	110	3.25	123.50
2/96	21	3.90	81.90	4	3.25	357.50
3/96	24	3.90	93.60	17 MIN		13.00
4/96	15	3.90	58.50	73 MIN		19.50
5/96	13	3.90	50.70	48 MIN		19.50
6/96	12 MIN		19.50	51 MIN		19.50
7/96	13 MIN		19.50	22 MIN		19.50

ACTUAL BILLED	184		659.10	654		1,543.75
------------------	-----	--	--------	-----	--	----------

CALCULATION
PER TARIFF

	184	3.9	717.60	654	3.9	2,550.60
DIFFERENCE			(58.50)			(1,006.85)
		Tarpon Bar				(58.50)
AMOUNT UNDERBILLED BY COMPANY						(1,065.35)

AUDIT EXCEPTION 5

SUBJECT: ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

STATEMENT OF FACTS:

The Company did not calculate depreciation expense and accumulated depreciation from the last rate case (9/30/92) according to Rule 25-30.140.

PSC staff recalculated depreciation expense and accumulated depreciation according to the rule including the adjustments to plant in service in audit exceptions 1, 2 and 3 from 9/30/92 through 7/31/96.

OPINION:

PSC staff recalculation follows this exception.

RECOMMENDATION: The following journal entries should be made to calculate depreciation according to Rule 25-30.

	Dr.	Cr.
Depreciation Exp - Water	\$29,106	
Depreciation Exp - WW	5,794	
Accum Deprec - Water		\$84,744
Accum Deprec - WW		9,683
Retained Earnings	59,527	

An adjustment needs to be booked for rate case purposes to average the accumulated depreciation at 7/31/96 as follows:

	Dr.	Cr.
Accum Deprec - Water	\$18,363	
Accum Deprec - WW	6,707	

COMPANY:
TITLE:

USEPPA ISLAND
CALCULATION OF ACCUMULATED DEP RE AND
DEPREC EXP

PERIOD:
DATE:

TYE 7/31/96
NOV 5, 1996

Page 1 of Exhibit to Exception 5

	WATER	WW
=====		
ACCUMULATED DEPRECIATION ADJ.		
Accumulated Deprec Per Books 7/31/96	(178,191)	(60,034)
Prior Commision Adjustment - Exception 1	22,056	(76,737)
Per Books 7/31/96 with Comm Adj.	(156,135)	(136,771)
PSC staff calculation @ 7/31/96	(240,879)	(146,454)
Difference - Adj to Accumulated Deprec at 7/31/96	(84,744)	(9,683)
	=====	=====
13 MONTH AVERAGE ADJUSTMENT		
PSC staff adjusted year end 7/31/96	(240,879)	(146,454)
PSC staff calculated average	(222,516)	(139,747)
Difference - Adj for Average	18,363	6,707
	=====	=====
DEPRECIATION EXPENSE ADJUSTMENT		
Deprec Expense per books 7/31/96	7,620	7,620
Depreciation Expense calculated by Staff	36,726	13,414
Difference - Adj to Rule 25-30.140.	29,106	5,794
	=====	=====

COMPANY:
TITLE:

USEPPA ISLAND
CALCULATION OF ACCUMULATED DEP RE AND
DEPREC EXP
TYE 7/31/96
NOV 5, 1996

PERIOD:
DATE:

Page 2 of Exhibit to Exception 5

	WATER	SEWER
ACCUM DEPREC @9/30/92 PER BOOKS	(128,980.00)	(18,657.00)
PRIOR ORDER COMMISSION ADJ AUDIT EXCEPTION 1	22,056.00	(76,737.00)
Accum Deprec per Commission 9/30/92 EXP FOR 3 MOS 92	(106,924.00) 7,546.00	(95,394.00) 3,298.00
Accumulated Deprec @ 12/31/92	(114,470.00)	(98,692.00)
Expense for 93	32,993.00	13,192.00
Accumulated Deprec @ 12/31/93	(147,463.00)	(111,884.00)
Expense for 94	35,804.00	13,191.00
Accumulated Deprec @ 12/31/94	(183,267.00)	(125,075.00)
Expense 1/1/95 to 7/31/95	20,886.00	7,965.00
Accumulated Deprec @ 7/31/95	(204,153.00)	(133,040.00)
Expense 8/1/95 to 12/31/95	14,918.00	5,506.00
Accumulated Deprec @ 12/31/95	(219,071.00)	(138,546.00)
Expense 1/1/96 to 7/31/96	21,808.00	7,908.00
Accumulated Deprec @ 7/31/96	(240,879.00)	(146,454.00)
Average 7/31/95 and 7/31/96	(222,516.00)	(139,747.00)
Depreciation Exp 8/1/95-7/31/96	36,726.00	13,414.00
Additions water	133,955.00	
Additions WW	51,060.00	

USEPPA ISLAND UTILITY INC
 STAFF ASSISTED RATE CASE
 PLANT IN SERVICE
 TEST YEAR ENDED JULY 31, 1988

EXHIBIT TO EXCEPTION 5
 NOTE A: RATES PER RULE 25.30 AND PER PSC ENGINEER WITHIN
 CATEGORY
 WATER PLANT IN SERVICE

DESCRIPTION	DEPRECIATION RATE		PER ALLOT WB Y SEPT 30 1982	PER ANALYST AP 00002 YEAR END	ADDITIONS A 0 RETIRE 12/31/82 (3 MOS)	BALANCE 12/31/82	DEPRECIATION EXP 82 1 MOS	ADDITIONS AND RETIRE 12/31/83	Pwr BALANCE 12/31/83	DEPRECIATION EXP 83 - 12 MOS PLUS 12 YR	ADDITIONS AND RETIRE 12/31/84	Pwr BALANCE 12/31/84	
	PER 25-30 YEARS	NOTE A %											
304.2 STRUCT IMPROV	25	4.0000%		32,516	32,516	0	32,516	525		32,516	1,301	32,516	
307.2 WELLS AND SPRINGS	27	3.7037%		51,198	51,198	0	51,198	474		51,198	1,888	51,198	
311.2 PUMPING EQUIPMENT	15	6.6667%		13,108	13,108	0	13,108	218		13,108	874	13,108	
326.2 WATER TREATMENT EQUIP	5	20.0000%		146,790	146,790	0	146,790	1,840	28,110	144,950	38,170	144,950	
336.2 OSTR RESURTOPPING	33	3.0303%		6,811	6,811	0	6,811	50		6,811	200	6,811	
331.3 TRANSDISTR MAINS	40	2.5000%		81,074	81,074	0	81,074	382		81,074	1,527	81,074	
333.3 SERVICES	35	2.8571%		3,020	3,020	0	3,020	22		3,020	86	3,020	
334.3 METERS & MTR INSTAL	17	5.8824%		15,880	15,880	0	15,880	230		15,880	516	15,880	
341. TRANSF EQUIP	5	20.0000%		0	0	0	0	0		0	0	0	
** TOTAL AGREES WITH PRIOR ORDER				306,280	306,280	0	306,280	7,546		328,362	52,883	0	328,363

WATER PLANT IN SERVICE

DESCRIPTION	DEPRECIATION RATE		DEPRECIATION EXP 84 - 12 MOS PLUS 12 YR	ADDITION AND RETIRE 7 MOS 1/1/85 TO 7/31/85	BALANCE 7/31/85	DEPRECIATION EXP 85 - 7 MOS PLUS 12 YR	ADDITION AND RETIRE (BALANCE 8/1/85 TO 12/31/12/1/85)	DEPRECIATION EXP 85 - 6 MOS PLUS 12 YR	ADDITION AN YR END RETIRE BALANCE 1/1/86 TO 12/31/12/1/86	DEPRECIATION EXP 86 7 MOS PLUS 12 YR	DEPRECIATION EXP AVERAGE PLANT TEST YEAR TEST YEAR			
	PER 25-30 YEARS	NOTE A %									TEST YEAR 8/1/85 TO 7/31/85	TEST YEAR 8/1/86 TO 7/31/86		
304.2 STRUCT IMPROV	25	4.0000%	1,301	0	32,516	750	0	32,516	542		32,516	750	1,301	32,516
307.2 WELLS AND SPRINGS	27	3.7037%	1,888	0	51,198	1,108	0	51,198	790		51,198	1,108	1,888	51,198
311.2 PUMPING EQUIPMENT	15	6.6667%	874	0	13,108	510	0	13,108	384		13,108	510	874	13,108
326.2 WATER TREATMENT EQUIP	5	20.0000%	28,891	0	144,950	18,899	0	144,950	12,075	6,424	153,325	17,748	28,822	148,117
336.2 OSTR RESURTOPPING	33	3.0303%	200	0	6,811	117	0	6,811	83		6,811	117	200	6,811
331.3 TRANSDISTR MAINS	40	2.5000%	1,527	0	81,074	891	0	81,074	638		81,074	891	1,527	81,074
333.3 SERVICES	35	2.8571%	86	0	3,020	50	0	3,020	36		3,020	50	86	3,020
334.3 METERS & MTR INSTAL	17	5.8824%	516	0	15,880	548	0	15,880	391		15,880	548	516	15,880
341. TRANSF EQUIP	5	20.0000%	0	0	0	0	0	0	0	800	800	80	80	800
			38,894	0	328,363	20,886	0	328,363	14,918		337,817	21,888	38,728	331,888

USEPPA ISLAND UTILITY, INC
 STAFF ASSISTED RATE CASE
 PLANT IN SERVICE
 TEST YEAR ENDED JULY 31, 1996
 RKY OCT 11, 1996

EXHIBIT TO EXCEPTION 5

WASTEWATER PLANT IN SERVICE

DESCRIPTION	DEPREC RATE PER 25-30 YEARS %	PER AUDIT WP 9/30/92	PER ANALYST WP 9/30/92 YEAR END	ADDITIONS AND RETIRE 12/31/92 (3 MOS)	BALANCE 12/31/92	DEPREC EXP 92 3 MOS	ADDITIONS AND RETIRE 12/31/93	ADJUSTMENTS	ADJUSTED ADDS AND RETIRE	BALANCE 12/31/93
354.2 Structures and Improvements	27 3.7037%	13,354	13,354	0	13,354	124	-460	4,850	0	13,354
380.2 Collect sewers -force	27 3.7037%	119,785	119,785	0	119,785	1,109	13,034	(13,480)	(446)	119,339
370.3 Lift stations	25 4.0000%	60,242	60,242	0	60,242	602	2854.15	(2,477)	377	60,619
380.3 Treatment disposal equip	7 14.2857%	40,964	40,964	0	40,964	1,463			0	40,964
391 Transp Equipment	5 20.0000%	0	0	0	0	0			0	0
		234,345	234,345	0	234,345	3,298	11,039	(11,107)		234,277

WASTEWATER PLANT IN SERVICE

DESCRIPTION	DEPREC RATE PER 25-30 YEARS %	DEPREC EXP 93 - 12 MOS PLUS 1/2 YR	ADDITIONS AND RETIRE 12/31/94	BALANCE 12/31/94	DEPREC EXP 94 - 12 MOS PLUS 1/2 YR	ADDITION AND RETIRE BALANCE 1/1/95 TO 7/31/95	DEPREC EXP 95 - 7 MOS PLUS 1/2 YR	ADDITION AND RETIRE BALANCE 8/1/95 TO 12/31/95	BALANCE
354.2 Structures and Improvements	27 3.7037%	495		13,354	495			13,354	289 517 13,871
380.2 Collect sewers -force	27 3.7037%	4,428		119,339	4,420			119,339	2,578 119,339
370.3 Lift stations	25 4.0000%	2,417		60,619	2,425			60,619	1,414 60,619
380.3 Treatment disposal equip	7 14.2857%	5,852		40,964	5,852			40,964	3,414 40,964
391 Transp Equipment	5 20.0000%	0		0	0			0	0 0
		13,192	0	234,277	13,191	0	234,277	7,896 517 234,794	

WASTEWATER PLANT IN SERVICE

DESCRIPTION	DEPREC RATE PER 25-30 YEARS %	DEPREC EXP 95-5 MOS PLUS 1/2 YR	ADDITION AND RETIRE 1/1/96 TO 7/31/96	BALANCE 7/31/96	DEPREC EXP 96 7 MOS PLUS 1/2 YR	DEPREC EXP AVERAGE PLANT TEST YEAR TEST YEAR 8/1/96 TO 7/31/96
354.2 Structures and Improvements	27 3.7037%	216		13,871	300	515 13,812
380.2 Collect sewers -force	27 3.7037%	1,842		119,339	2,578	4,420 119,339
370.3 Lift stations	25 4.0000%	1,010	0	60,619	1,414	2,425 60,619
380.3 Treatment disposal equip	7 14.2857%	2,438	1,148	42,112	3,486	5,934 41,538
391 Transp Equipment	5 20.0000%	0	1,200	1,200	120	120 800
		5,506	2,348	237,142	7,908	13,414 235,709

AUDIT EXCEPTION 6

SUBJECT: ACCUMULATED AMORTIZATION OF CIAC AND AMORTIZATION OF CIAC

STATEMENT OF FACTS:

The Company did not calculate amortization of CIAC or accumulated amortization of CIAC from the last rate case (9/30/92) according to the PSC rules and regulations.

PSC staff recalculated amortization expense and accumulated amortization of CIAC using a composite rate of depreciation expense divided by plant in service for the appropriate year. This recalculation includes the adjustment in Exception 1.

OPINION:

PSC staff recalculation follows this exception.

RECOMMENDATION: The following journal entries should be made to calculate amortization expense and accumulated amortization of CIAC for 9/31/92 through 7/31/96.

	Dr.	Cr.
Amortization of CIAC -- Water		\$29,220.15
Amortization of CIAC -- WW		12,959.53
Accum Amortization - Water	\$108,664.15	
Accum Amortization - WW	49,517.06	
Retained Earnings		116,001.53

An adjustment needs to be booked for rate case purposes to average the accumulated amortization of CIAC as follows:

	Dr.	Cr.
Accum Amortization - Water		\$14,610.07
Accum Amortization -- WW		6,479.76

COMPANY:
 TITLE:
 PERIOD:
 DATE:
 AUDITOR:

USEPPA ISLAND
 CALCULATION OF AMORTIZATION OF CIAC
 TYE 7/31/96
 NOV 5, 1996
 RKY

	WATER	SEWER
ACCUMULATED AMORTIZATION OF CIAC 9/30/92 PER BOOKS	0.00	0.00
PRIOR COMMISSION ADJ ORDER	89,117.00	96,987.00
AT 9/30/92 PER COMMISSION	89,117.00	96,987.00
ADDITIONS TO ACCUMULATED AMORTIZATION OF CIAC	108,664.15	49,517.06
TOTAL	197,781.15	146,504.06
ADJUSTMENT NECESSARY AFTER COMMISSION ADJUSTMENT FROM PRIOR ORDER	108,664.15	49,517.06

CALCULATION OF AVERAGE ADJUSTMENT AT 7/31/96		
AVERAGE PER STAFF	183,171.08	140,024.30
YEAR END PER STAFF	197,781.15	146,504.06
ADJUSTMENT FOR AVERAGE	(14,610.07)	(6,479.76)

CALCULATION OF EXPENSE ADJ FOR TYE 7/31/96		
PER G/L AMORTIZATION EXP	0.00	0.00
PER PSC STAFF CALCULATION	29,220.15	12,959.53
	(29,220.15)	(12,959.53)

COMPANY:
 TITLE:
 PERIOD:
 DATE:
 AUDITOR:

USEPPA ISLAND
 CALCULATION OF AMORTIZATION OF CIAC
 TYE 7/31/96
 NOV 5, 1996
 RKY

		WATER	SEWER
CIAC BALANCE PER COMMISSION ORDER AT 9/30/92 - NO ADDITIONS THRU 7/96		266263	230187
ACCUMULATED AMORTIZATION OF CIAC PER COMMISSION ORDER 9/30/93		89,117.00	96,987.00
Amortization for 3 months 92	0.1005 0.0563	6,689.86	3,239.88
Accumulated Amort @ 12/31/92		95,806.86	100,226.88
Amortization for 93	0.1005 0.0556	26,759.43	12,798.40
Accumulated Amort @ 12/31/93		122,566.29	113,025.28
Amortization for 94	0.1091 0.0563	29,049.29	12,959.53
Accumulated Amort @ 12/31/94		151,615.58	125,984.81
Amortization 1/1/95 - 7/31/95	0.1091 0.0563	16,945.42	7,559.72
Accumulated Amort @ 7/31/95		168,561.00	133,544.53
Amortization 8/1/95-12/31/95	0.1091 0.0563	12,103.87	5,399.80
Accumulated Amort @ 12/31/95		180,664.88	138,944.34
Amortization 1/1/96-7/31/96	0.1102 0.0563	17,116.27	7,559.72
Accumulated Amort @ 7/31/96		197,781.15	146,504.06
Average 7/31/95 and 7/31/96		183,171.08	140,024.30
Amortization Exp 8/1/95-7/31/96		29,220.15	12,959.53
Sum of A =	108,664.15		
Sum of B =	49,517.06		

AUDIT EXCEPTION 7

SUBJECT: RENEWAL OF WATER PERMIT

STATEMENT OF FACTS:

The company incurred charges for renewal of the Brine Discharge Permit (Water) in the test year end 7/31/96, the year prior and the year after.

The charges follow:

Johnson Engineering expenses in test year	\$13,672.45
Johnson Engineering expenses in prior year	5,259.85
Johnson Engineering expenses in test year plus one	2,200.25
Legal fees associated with permit renewal in test year	3,964.76

Total	25,097.31

Two of the charges included above from Johnson Engineering were booked to wastewater in the test year instead of water in the amounts of \$2,139.38 and \$831.00 (\$2,970.38).

The details are on the Exhibit following this Exception.

The company also included in expenses in the test year \$4,800 for an environmental impact study in connection with this permit renewal. This amount was paid to Bio Aquatics.

Both the PSC staff engineer and the Company stated that this permit renewal process was done every five years.

OPINION:

The two charges should be credited to wastewater and debited to water.

The expenses for the water permit renewal should be amortized over a five year period.

RECOMMENDATION:

Make the following adjustment to the books to account for the water permit charges correctly.

615.01 Consulting Exp - Water	\$2,970.38	
615.02 Consulting Exp --WW		\$2,970.38

Amortize the actual expenses incurred by the company in the test year over five years and amortize the prior years and future years expenses over five years for rate case purposes.

The total Johnson Engineering expense and legal fees in the test year are \$17,637.21. The amount of \$3,527.44 should be charged in the test year. The remainder of \$14,109.77 included in a deferred account.

Deferred Expense	\$14,109.77	
Consult Exp - Water 615.01		\$14,109.77

The total Johnson Engineering expense in the prior and future years is \$7,460.10. Dividing by five years, the amount of \$1,492.02 should be charged in the test year.

Consult Exp - Water 615.01	1,492.02	
Deferred Credit		1,492.02

This has the effect of including \$5,019.46 in test year expense. The calculation of this adjustment is on the exhibits following this exception.

The total paid to Bio Aquatic for the study during the test year was \$4,800. The amount of \$960 should be charged in expense during the test year.

Amortize the expense for Bio-Aquatics over five years.

Deferred Expense 186	\$3,840	
Water Maint Exp -635.01		3,840

The effect of the above three adjustments is to include \$5,979.46 in the test year.

SUMMARY PER EXHIBITS

Johnson Engineering in Test Period for Water		\$11,533.07
Legal fees in Test Period for Water		3,133.76
Johnson Engineering in Test Period -WW		
Should be Water	\$2,139.38	
Legal fees in Test Period - WW		
Should be Water	831.00	

		2,970.38

		17,637.21

Johnson Engineering Expenses in prior periods		\$ 5,259.85
Johnson Engineering Expenses in future period		\$ 2,200.25

		\$ 7,460.01

Bio Aquatic Expenses in Test Year		\$4,800

Total		\$29,897.22
divide by 5 years		5

		\$5,979.44

TEST YEAR EXPENSE RECONCILIATION:

	Water	WW
Per Books Engineering	\$11,533.07	\$2,139.38
Per Books Legal	3,133.76	831.00
Per Books Bio	4,800.00	
	-----	-----
	\$19,466.83	\$2,970.38
First Staff Adj	2,970.38	(2,970.38)
	-----	-----
	\$22,437.21	\$ 00.00
Second Staff Adj	(14,109.77)	
Third Staff Adj	1,492.02	
Fourth Staff Adj	(3,840.00)	

	\$5,979.46	

COMPANY
TITLE

USEPPA ISLAND CO
ANALYSIS OF INVOICES FOR PERMIT
RENEWALS
TYE 7/31/96
OCT 3, 1996

PERIOD
DATE

SOURCE INVOICES

INVOICE DATE	ACCT NO	GAL EXP DATE	PAYEE	DESCRIPTION	IN TEST PERIOD AMOUNT		OUT OF TEST PERIOD AMOUNT	
					WATER	WASTEWATER	WATER	WASTEWATER
WATER BRINE DISCHARGE RENEWAL PERMIT								
3/24/95	615.01	4/95	JOHNSON	SERVICES THRU MARCH 15			375.00	
4/26/95	615.01	6/95	JOHNSON	SERVICES THRU APRIL 19, 1995			785.35	
5/30/95	615.01	6/95	JOHNSON	SERVICES THRU MAY 17, 1995			337.00	
6/21/95	615.01	6/95	JOHNSON	SERVICES RENEWED THROUGH JUNE 14			2,801.50	
7/31/95	not on books		JOHNSON	SERVICES THRU JULY 19			980.00	
8/25/95	615.01	10/31/95	JOHNSON	SERVICES THRU AUG 16	325.50			
10/31/95	615.01	10/31/95	JOHNSON	SERVICES THRU OCT 18	715.50			
1/26/96	615.01	1/31/96	JOHNSON	SERVICES THRU JAN 17	620.90			
2/26/96	615.01	4/30/96	JOHNSON	SERVICES THRU FEB 21	367.00			
3/31/96	615.02	4/30/96	JOHNSON	SERVICES THRU MARCH 20			148.50	
4/25/96	615.01	5/31/96	JOHNSON	SERVICES THROUGH MARCH 20	3,337.00			
5/26/96	615.01	5/31/96	JOHNSON	SERVICES THRU MAY 15	4,307.75			
7/1/96	615.01	7/31/96	JOHNSON	SERVICES THRU JUNE 19	1,639.42			
12/31/96	615.02	1/31/96	JOHNSON	SERVICES THRU NOV 15			1900.88	
					11,533.07	2,139.38	5,259.85	0.00
					2,139.38	(2,139.38)		
					13,672.45	0.00		

Reclassify amounts booked to Wastewater that should be Water

Dr Water Expense 615.01
Cr WW Exp 615.02

2139.38
(2,139.38)

COMPANY
TITLE

USEPPA ISLAND CO
ANALYSIS OF INVOICES FOR PERMIT
RENEWALS
TYE 7/31/96
OCT 3, 1996

PERIOD
DATE

SOURCE: INVOICES

DATE	ACCT NO	GL EXP DATE	PAYEE	DESCRIPTION	IN TEST PERIOD AMOUNT		OUT OF TEST PERIOD AMOUNT	
					Water	WW	Water	WW
WATER								
BRINE DISCHARGE RENEWAL PERMIT								
EXPENSES AFTER TEST YEAR FOR PERMIT RENEWAL								
8/29/96			JOHNSON ENGINEERING	BRINE DISCHARGE RENEWAL PERMIT SERVICE THRU AUG 22	0.00		1,545.75	
9/30/96			JOHNSON ENGINEERING	BRINE DISCHARGE RENEWAL PERMIT SERVICE THRU SEPT 18	0.00		654.50	
					0.00		2,200.25	
					-----		-----	

INVOICE DATE	ACCT NO	GL EXP DATE	PAYEE	DESCRIPTION	IN TEST PERIOD AMOUNT		OUT OF TEST PERIOD AMOUNT	
					Water	WW	Water	WW
BRINE DISCHARGE RENEWAL PERMIT								
LEGAL FEES FOR DISCHARGE RENEWAL PERMIT								
9/30/95	615.01		ORTEL, HOFFMAN	LEGAL SERVICE RE PERMIT FOR WATER	831.00			
9/30/95	615.02		ORTEL, HOFFMAN	LEGAL SERVICE RE PERMIT FOR SEWER			831.00	
8/15/96	615.01		ORTEL, HOFFMAN	LEGAL SERVICE RE PERMIT FOR WATER	122.50			
11/30/95	615.01		ORTEL, HOFFMAN	LEGAL SERVICE RE PERMIT FOR WATER	1,471.77			
11/30/95	615.01		ORTEL, HOFFMAN	LEGAL SERVICE RE PERMIT FOR WATER	320.96			
8/31/95	615.01		ORTEL, HOFFMAN	LEGAL SERVICE RE PERMIT FOR WATER	367.50			
					3,133.76		831.00	
					831.00		(831.00)	
					3,964.76		0.00	
					-----		-----	

Reclassify amounts booked to Wastewater that should be Water

Dr. Water Exp. 615.01
Cr. WW Exp. 615.02

831.00
(831.00)

AUDIT EXCEPTION 8

SUBJECT: MAINTENANCE EXPENSE

STATEMENT OF FACTS:

Included in account 635.01, maintenance expense-water, is a charge of \$2,035.64 for a pump repair paid to Bob Dean.

The PSC staff engineer states that this pump repair is not an every year event and should be amortized over five years.

OPINION:

The pump repair expense should be amortized over five years.
($\$2,035.64/5 = \407.12)

RECOMMENDATION:

Make the following adjustment for rate case purposes.

Dr. Deferred Expenses 186	\$1,682.52
Cr. Water Maint Exp 635.01	\$1,682.52

This has the effect of including \$407.12 in expense in the test year.

AUDIT EXCEPTION 9

SUBJECT: MISCLASSIFICATION OF EXPENSES

STATEMENT OF FACTS:

The Company made the following entries during the test year.

Account	Payee	Amount
504.02	Dumont	357.65

Charge WW with Chemical Expense. Per the Company this should be in Water (Sulfuric Acid).

635.01	Useppa Inn and Dock Co.	213.95
--------	----------------------------	--------

Charge water maint exp for transportation of chemicals. Per the Company all of these charges are in the chemical account 504.

OPINION:

Adjust the company books to reflect the correct entry for these charges.

Dr. 504.01 Water Chemicals	357.65	
Cr. 504.02 WW Chemicals		357.65
Dr. 504.01 Water Chemicals	213.95	
Cr. 635.01 Maint Water		213.95

AUDIT EXCEPTION 10

SUBJECT: ELECTRIC CHARGES

STATEMENT OF FACTS:

The company recorded electric expense for test period end 7/31/96 in the General Ledger in account 623.01 for water and 623.02 for WW in the amounts of \$15,553.83 and \$10,476.57 respectively.

PSC staff recalculated the electric expense based on actual bills for the 12 months ended 7/31/96.

OPINION:

	Water	WW
Amount per G/L	15,553.83	10,476.57
Amount per PSC staff	17,798.57	9,970.67
Difference	2,262.74	(505.91)

RECOMMENDATION:

Make the following adjustment to reflect actual electric expenses.

Dr. 623.01 Electric Water	2262.74	
Cr. 623.02 Electric WW		505.91
Cr. Retained Earnings		1,756.83

AUDIT EXCEPTION 11

SUBJECT: BARGE COSTS FOR TRANSPORTING CHEMICALS TO ISLAND

STATEMENT OF FACTS:

Included in accounts 504.01, chemical and supplies - water, and account 504.02, chemical and supplies - Wastewater, are costs for transporting chemicals to the island in the amounts of \$765.71 and \$670.76 respectively. Barge costs are paid to Useppa Inn and Dock Company, an affiliate company.

In order to determine if these costs are reasonable, staff calculated barge costs using Useppa Inn and Dock Financial statements at 7/31/96. Staff calculations follow this Exception.

OPINION:

Decrease both water and wastewater barge transportation costs. Details are on the Exhibit following this Exception.

RECOMMENDATION:

Dr. Retained Earnings	451.36	
Cr.. 504.01 Chemicals & Supplies		26.88
Cr. 504.02 Chemicals & Supplies		424.48

COMPANY:
TITLE:
PERIOD:

USEPPA ISLAND
CALCULATION OF BARGE COSTS
TEST YEAR END 7/31/96

EXHIBIT TO EXCEPTION 11

PER 7/31/ 96 FINANCIAL STATEMENTS (7 months)
Useppa Inn and Dock Company

Transportation Wages	6,805.00
Fuel	958.00
Uniforms	1,171.00
Workers Comp	2,071.00
Payroll tax at 7.65	520.58
Health Insurance (14%)	176.26

11,701.84

Divided by
Times

7
12

Annualized Cost of Barge

20,060.30

Average Utility Trips (per Utility Manager)
Average Trips Total

4 times a month = 9%
45

Average
Per Utility Manager, utility uses approximately 1/4 of
barge space for each trip. Divide by

1,805.43
4.00

Utility cost

451.36

WATER WW

Per G/L 1996 Barge
Per G/L 1995 Barge

615.71 620.76
150.00 50.00

765.71 670.76 1436.47

Difference

(985.11)

According to the Company Barge Charges should be allocated 75/25 between Water
and Wastewater.

Total at 75/25
Per G/L

738.83 246.28 985.11
765.71 670.76 1436.47

Adjustment

(26.88) (424.48) (451.36)

AUDIT EXCEPTION 12

SUBJECT: TRANSPORTATION FOR EMPLOYEES FROM SHORE TO ISLAND

STATEMENT OF FACTS:

The only way to get to Useppa Island by the employees is by boat. The cost of this is paid for by Useppa Inn and Dock Company, an affiliate company. The utility does not include these costs on their books.

PSC staff estimated the annual cost of transportation for the Useppa Inn and Dock Company and determined the amount to allocate to the utility based on total payroll to utility payroll.

The details are included in the exhibit following this exception.

OPINION:

As the cost of transportation employees to and from the island is a cost of doing business for the utility, the amounts should be included in the rate case.

RECOMMENDATION:

Dr. 606.01 Adm and Other Sal - Water	\$5,327.81
Dr. 606.02 Adm and Other Sal - WW	2,534.43
Cr.. Due to/from affiliate	\$7,772.24

COMPANY:
TITLE:
PERIOD:

USEPPA ISLAND
CALCULATION OF TRANSPORTATION COSTS
TEST YEAR END 7/31/96

EXHIBIT TO EXCEPTION 12

PER 7/31/ 96 FINANCIAL STATEMENTS (7 months)
Useppa Inn and Dock Company

Boat Transportation Income
at 7/31/96

Expenses	33,250.45
Boat Transportation (GAS)	<u>20,680.03</u>
Boat Repairs	28,607.00
Marina Wages	50,701.00
Payroll Taxes	5,235.00
Health Ins	1,081.85
Equipment	1,565.81
Workmens Comp	1,825.00
FI Submerged Land Lease - Rent Docks	412.86
Total 9889.26 (2 spaces/45 = 4-1/2%)	<u>110,108.55</u>

Net Expense

Divided by
Times

76,858.10
7
12

Annualized Cost of Transp Expense

131,756.74
=====

Utility Payroll Adjusted
Total Useppa Payroll
% of Total Useppa Payroll
Net Costs
Increase Expense for Transp

	Water	WW
	<u>41,278.50</u>	<u>19,973.50</u>
	1,038,358.00	1,038,358.00
	<u>3.98%</u>	<u>1.92%</u>
	131,756.74	131,756.74
	<u>5,237.81</u>	<u>2,534.43</u>
	=====	

AUDIT EXCEPTION 13

SUBJECT: PAYROLL

STATEMENT OF FACTS:

There are five employees at the utility. All employee salaries are paid by Useppa Inn and Dock Company and allocated to the utility. Two employees are allocated at 100%. These are Wilmer Hopp, maintenance, and Scott Stewart, the utility manager. The other three are allocated to the utility based on the approximate amount of time spent on utility business. They are Vince Formosa, General Manager, Diane Glidden, Secretary, and Lou Ann Cristensen, Accounting Supervisor.

Each employee signed a statement stating the number of hours a week spent on utility business. PSC staff recalculated the payroll based upon these statements and the weekly salary of each employee at 10/6/96.

Payroll taxes were also recalculated at 7.65%.

OPINION:

Water payroll should be increased in the amount of \$22,405.53 and Wastewater payroll in the amount of \$322.98.

Water payroll taxes should be increased in the amount of 1,067.51 and decrease Wastewater payroll taxes in the amount of \$510.16.

Details are included in the Exhibit to this Exception.

RECOMMENDATION:

Dr. 606.01 Labor - Water	\$22,405.53	
Dr. 606.02 Labor - WW	322.98	
Cr. Retained Earnings		\$22,728.51
Dr. 623.01 Payroll taxes - Water	1,067.51	
Cr. Payroll taxes - WW		510.16
Cr. Retained Earnings		557.35

COMPANY USEPPA ISLAND
 TITLE ANALYSIS OF PAYROLL
 TEST YEAR JULY 31, 1996

EXHIBIT TO EXCEPTION 13

NAME	TITLE	WEEKLY SALARY	UTILITY % OF TIME	UTILITY WEEKLY SALARY	YEARLY UTILITY SALARY	WATER	WASTEWATER	
VINCE FORMOSA	GENERAL MANAGER	1,250.00	20.00%	250.00	13,000.00			
WILMER HOPF	MAINTENANCE	155.25	100.00%	155.25	6,210.00 A	6,500.00	6,500.00	
DIANE GLIDDEN	SECRETARY	420.00	22.50%	94.50	4,914.00	4,657.50	1,552.50	
M. SCOTT STEWART	UTILITY MANAGER	700.00	100.00%	700.00	36,400.00	2,457.00	2,457.00	
LOU ANN CRISTENSEN	ACCOUNTING SUPERVISOR	640.00	10.00%	64.00	3,328.00	27,300.00	9,100.00	
TOTAL UTILITY PAYROLL						63,852.00	1,664.00	1,664.00
						42,578.50	21,273.50	
						PER GL	20,172.97	20,950.52
						INCREASE - ADJUST	22,405.53	322.98
						PAYROLL TAX AT 7.65%	3,257.26	1,627.42
						PAYROLL TAX RECORDED GL	2,189.75	2,137.58
						DIFFERENCE - ADJUST	1,067.51	(510.16)
STEVE ASSELIN	UTILITY MANAGER							
IRIK SAUER	MAINTENANCE							
				GONE				
				GONE				

A - Taken three months a year off.

AUDIT EXCEPTION 14

SUBJECT: ACCOUNTS PAYABLE

STATEMENT OF FACTS:

The utility did not accrue for certain chemical expenses incurred as of July 31, 1996.

A list of these expenses is included in the exhibit following this exception.

OPINION:

Include these chemical expenses in the test period. Increase Water chemicals in the amount of \$1,380.05 and Wastewater chemicals in the amount of \$125.10.

RECOMMENDATION:

Dr. 504.01 Chemicals- Water	\$1,380.05	
Dr. 504.02 Chemicals - WW	125.10	
Cr. Accounts Payable		\$1,505.15

COMPANY:
 TITLE:
 PERIOD:
 DATE:

USEPPA ISLAND
 ACCOUNTS PAYABLE
 TYE 12/31/96
 NOV 3, 1996

EXHIBIT TO EXCEPTION 14

The Company did not accrue for expenses incurred as of July 31, 1996 as follows:

INVOICE DATE	PAYEE	DESCRIPTION	WATER	WW
5/24/96	DUMONT	CHLORINE SULPHURIC ACID	41.70 189.00	
6/19/96	DUMONT	SULPHURIC ACID	47.25	
7/11/96	DUMONT	SIPHON PUMP ACID	27.25	
7/8/96	DUMONT	CHLORINE SULPHURIC ACID	189.00	41.70
6/24/96	DUMONT	SULHURIC ACID CAUSTIC SODA	189.00 72.00	
7/29/96	DUMONT	CHLORINE SULPHURIC ACID	41.70 189.00	41.70
7/22/96	DUMONT	SIPHON PUMP ACID	27.25	
7/22/96	DUMONT	CHLORINE SULPHURIC ACID	41.70 94.50	41.70
7/15/96	DUMONT	CHLORINE SULPHURIC ACID	41.70 189.00	
			1,380.05	125.10
Account 504.01		Chemicals - Water	1380.05	
Account 504.02		Chemicals - Sewer	125.10	
		Accounts Payable		1505.15

AUDIT EXCEPTION 15

SUBJECT: INTEREST COLLECTED ON UNPAID BILLS

STATEMENT OF FACTS:

Included on the utility general ledger is \$1,185.36 in Other Water Income. The utility explained that as of January 1, 1996 they started to collect 1-1/2% interest on all unpaid balances.

The tariff does not include interest for unpaid balances.

OPINION: The utility is not following their tariff.

RECOMMENDATION:

Dr. Other Water Income	\$1,185.36
Cr. Retained Earnings	\$1,185.36

The Staff analyst in Tallahassee will recommend alternatives for the disposition of these funds.

AUDIT EXCEPTION 16

SUBJECT: INSURANCE EXPENSE

STATEMENT OF FACTS:

Included in expenses in the general ledger in accounts 627.01, insurance expense - water and 627.02, insurance expense -WW is \$266 and \$266 respectively.

The utility provided us with an invoice dated October 4, 1996 from Oswald Trippe and Company showing that the total insurance for 7/1/96 through 7/1/97 will be \$254.00. Company personnel stated that this is all for water.

OPINION:

Insurance expense should be as follows:

	WATER	WW
Per G/L	266.00	266.00
Per Invoice	254.00	0.00
Difference to adjust	<u>16.00</u>	<u>266.00</u>

RECOMMENDATION:

Cr. Insurance Exp 627.01 Water	\$ 16.00
Cr. Insurance Exp 627.02 WW	266.00
Dr. Retained Earnings	\$282.00

AUDIT DISCLOSURE 1

SUBJECT: PURCHASE OF NEW REVERSE OSMOSIS (R/O) PLANT

STATEMENT OF FACTS:

The utility plans to purchase and install a new reverse osmosis water plant within the next year. The utility supplied us with two estimates for the cost of this.

Date of Estimate	Company	Amount
10/11/96	Harn R/O Systems	\$95,000
9/12/96	Hydropro, Inc. (Without clean Skid)	61,705
	Optional Skid	4,470

The estimates are included in this report for the PSC engineer to review.

The reverse osmosis plant on the books now per the company depreciation schedule is \$41,183 acquired in December, 1990.

OPINION:

Should the Commission decide to include this new reverse osmosis plant, the old one would have to be retired.

HYDROPRO, INC. 1346 South Killian Drive. Lake Park, Florida USA 33403

FAX TRANSMITTAL · Total Pages (including this page): 2

To:

Mr. Scott Stewart
System Operator
Useppa Island Club
PO Box 640
Bokeelia, FL 33922
Tel: 941-283-1061 Ext 126 Fax: 941-283-6079

From:

Ben Mohlenhoff, VP
Hydropro, Inc.
1346 S. Killian Dr.
Lake Park, FL 33403
Tel: 561-848-6788 Fax: 561-881-0315

RE: 60,000 GPD Spiral RO Unit

HYD 09/96-06

Dear Scott:

Mark has requested that we quote you on a new 60,000 GPD spiral RO system. This system will operate at 60% recovery at a pressure of approximately 270 psig. Using 10,000 TDS for a raw water supply we project a permeate quality of 375 TDS after three years of service.

I have been instructed to reuse the existing chemical feeds, all other components are new. The skid will be made of FRP. We will use four (4) three element pressure vessels to keep the skid as compact as possible.

Micron Filter/Pretreatment

one- Eden EFC18 Micron filter Housing. Wetted material FRP & PVC

RO Unit

one - Low pressure switch for pump suction - BARKSDALE D2AH

one - Conductivity meter and sensor, MYRON L 758

two - Pressure Gauges, liquid filled, 316 SS, 4" dial mounted on instrument panel each with 5-way WHITEY valves

one - RO Pump GRUNDFOS pump model CRN 16-120 with 25HP, 60 Hz motor, C.O.S. are 70 GPM VS. 300psi. Wetted materials of construction are FRP and Stainless Steel.

four - HYDRACODE 80300.3 pressure vessels. FRP construction - three -8" RO elements per shell.

two - GREAT LAKES 675 flow meter, or equal

Lot of headers, 316 SS and PVC for feed and concentrate, PVC for the permeate

NEMA 4 control panel FRP construction with relay logic and lights

Lot of VICTAULIC galvanized couplings - Style 77 with SS bolts

Lot of FRP structural shapes for skids

The following terms and conditions shall govern this proposal:

Shipment Date

10-12 weeks ARO and Deposit

Proposal Validity

Open for acceptance till Oct.15, 1996.

Terms of Payment

40% Deposit with order.

Balance of payment is to be made within 30 days of shipment or ten days after start-up, whichever occurs first.

Taxes are not included in our price and must be added if applicable.

F.O.B. Point

Lake Park, Florida

Prices

Firm through scheduled shipment of equipment.

A B₂FSTM-60 unit *without* cleaning skid is -- \$ 561,705.00
Optional cleaning skid is -- \$ 4,470.00

Price does not include any permits or fees that may be required by governmental authorities. These are the responsibility of the owner to obtain.

Price does not include installation. Hydropro technical service is available if required. Separate quote for installation can be provided upon clarification of scope of help desired.

If you have any questions or require additional information, please call or fax

Best Regards,

Ben

10/11/96 15:56

1 813 488 9400 X

2 01

HARN R/O SYSTEMS, INC.

185 S. JACKSON ROAD
VENICE, FLORIDA 34292

TEL (941) 488-9671
FAX (941) 488-9400

FACSIMILE SHEET

DATE: 10/11/96

COMPANY: Useppa Island Club

ATTENTION: Vince / Scott Stewart

FAX: 941-283-6079

FROM: Jim Harn

REFERENCE: Expansion Proposal

TOTAL NUMBER OF PAGES INCLUDING THIS COVER SHEET: 4

MESSAGE:

DESIGN * MANUFACTURING * INSTALLATION * MAINTENANCE
OF
COMPLETE REVERSE OSMOSIS WATER TREATMENT SYSTEMS
40

**HARN R/O SYSTEMS INC.**REVERSE OSMOSIS WATER TREATMENT SYSTEMS

Vince / Scott Stewart
Useppa Island Club
P. O. Box 640
Bokeelia, Florida 33922

October 11, 1996

Reverse Osmosis Expansion Proposal - 60,000 GPD

Dear Mr. Stewart:

Harn R/O Systems, Inc. proposes to provide the following equipment for a 60,000 gallon per day (GPD) reverse osmosis system. The proposed system will consist of the following equipment and services:

1.1 Provide one (1) fiberglass R/O skid assembly to support pressure vessels, control panel, instruments, pressure gauges, pressure switches, low pressure pvc piping, high pressure stainless steel piping and associated equipment. Skid assembly will be constructed of fiberglass structural shapes, assembled into a frame assembly and fastened using epoxy glue and aluminum pop rivets. Skid assembly will be primed with an epoxy primer and finish coated with a polyurethane two part finish coat. All bolts, nuts and washers used in the fabrication and installation will be of 304 stainless steel construction. All clamps, pipe supports and hangers used in the construction or installation shall be stainless steel, aluminum or plastic. Skid assembly will be sized for one, 2/1 array for a production rate of 60,000 GPD. Overall skid dimensions for the system will be approximately 22' long, 3' wide, and 6' high.

1.2 Provide three (3) Advance Structures model E8L-6 fiberglass brackish water pressure vessels. Pressure vessels are rated for a working pressure of 400 PSI and are code designed. Vessels will be painted white and will come with end plugs retaining sets, straps and saddles.

1.3 Provide eighteen (18) composite type membrane elements arranged in a 2/1 array for 75% recovery and a production rate of 42 GPM at a feed water temperature of 25 degrees Celsius. R/O elements will be rated for a nominal rejection based on standard test conditions. Average system flux rate shall not exceed 15 gallons per day per square foot of membrane area (GFD).

1.4 Provide all 316, schedule 10 stainless steel pump discharge, feed, interstage and concentrate piping. Fabricated or pulled tees will be used on the manifolds for connection of the "J" tubes. Feed and concentrate vessel connections will be made by using 316 stainless steel "J" tubes bent on an 8", 180 degree center line for connection to stainless manifolds by victaulic couplings. Victaulic couplings will be galvanized with plated bolts and nuts. Provide 316

ss pump discharge swing check valve, feed control valve and concentrate control valve. Feed control valve will be Ozurik V-Port and concentrate control valve will be globe type and shall be manufactured by Kitz or Jamesbury. Feed and concentrate valves will be designed for feed flow and concentrate flow regulation without cavitation. Cleaning connections will be provided on the feed, interstage and concentrate piping. Cleaning connections will incorporate stainless steel victaulic plugs and victaulic couplings. Stainless piping will be designed to a maximum hydraulic loading of 8' per second velocity. Stainless steel piping will be bead blasted with glass beads, passivated and electropolished.

1.5 Provide schedule 80 pvc cartridge filter inlet/outlet piping, elevated chemical injection piping, pump suction piping, product and concentrate low pressure piping and fittings. Drilling and tapping of the PVC will be limited to 1/4" connections. Sample valves will be installed on skid assembly wet panel for monitoring each vessels permeate quality, total permeate, feed, interstage and concentrate. Vessel permeate water connections will be made using 1", three way "L" port ball valves. An electric actuated PVC butterfly valve will be supplied on cartridge filter inlet line for isolating well feed. Inlet valve will be controlled by R/O control panel.

1.6 Provide one (1) Grundfos model CRN30-110/9 multi-staged, centrifugal high pressure feed pump. High pressure feed pump will be fitted with a 25 HP, 230/460 volt, 3 phase TEFC motor. Pump wetted end will be constructed of 316 stainless with victaulic type suction and discharge connections. Pump will be rated for 60 GPM at 273 PSI not including suction pressure. Pump will be mounted on an isolated skid assembly within the confines of the R/O skid assembly.

1.7 Provide one acid injection system to include one 150 gallon high density polyethylene day tank with 8" screwed manway as manufactured by Terracon Corporation. Provide one LMI A371-152S chemical injection pump fitted with foot valve assembly, suction/discharge tubing, suction strainer and chemical injector. Chemical injector assembly will incorporate an injection quill on discharge for injection of chemical into center of feed line. Acid system will be designed for 66 baume, 93% sulfuric acid. Acid pump will be installed on a fiberglass pump shelf that is primed with epoxy primer and finish coated with a polyurethane finish coat.

1.8 Provide one antiscalant injection system to include one 55 gallon, open top polyethylene day tank with shoe box cover, one LMI A371-152S chemical injection pump equipped with foot valve assembly, suction/discharge tubing, suction strainer calibration column fitted to suction of pump and chemical injector. Chemical injector assembly will incorporate an injection quill on discharge for injection of chemical into center of feed line. Day tank will incorporate a low level switch to shut down the R/O on low antiscalant level. Antiscalant pump will be installed on a fiberglass pump shelf that is primed with epoxy primer and finish coated with a polyurethane finish coat.

1.9 Provide one (1) Commercial model MP12-3-3FK1 cartridge filter housing. Cartridge filter housing will be constructed of 316 stainless steel and will contain twelve, 30" filter cartridges. Filter housing will be sized for 2.7 GPM per 10" equivalent filter length at design

flow. Housing will be fitted with isolation valves, 2" influent/effluent drains and inlet/outlet pressure gauges. Pressure gauges will be all stainless steel, liquid filled. One set of filters, with a nominal 5 micron rating will be provided as spares. Filter will be bead blasted and passivated to remove free carbon. Filter design will utilize side entry inlet/outlet flanges and a conical bottom clean water chamber for complete removal of contaminants.

1.10 Provide one complete instrumentation package to include one Rosemount model Solu-Comp SCL-C-112-M2 dual channel conductivity meter with two 443 conductivity probes for monitoring feed and permeate conductivity, one Solu-Comp SCL-P-014-M2 pH meter with 202 sensor to monitor feed pH, one Signet Model 3-8510 permeate flow meter with PV8T020 installation fitting and one Signet Model 3-8510 concentrate flowmeter with PV8T012 installation fitting. Installation fittings for flow meters to be designed for a maximum velocity of 5' per second. An instrument enclosure will be provided to house all meters. Enclosure will be fiberglass in construction and will be molded into fiberglass skid assemble.

1.11 Provide a wet panel on skid assembly to include one 4 inch stainless steel liquid filled pressure gauge with 5-way selection valve for monitoring pump, feed, interstage, concentrate pressures, one stainless steel liquid filled pressure gauge for monitoring permeate pressure, one Ashcroft model B424B stainless steel low pressure cut out switch and one Ashcroft model B424B stainless steel high pressure cut out switch. Sample valves will be provided on wet panel to monitor feed conductivity, permeate conductivity of each pressure vessel, total permeate conductivity and total concentrate conductivity. Low pressure sample lines will be 1/4" OD black nylon 11 tubing. High pressure sample and pressure lines will be 1/4" OD, 316 stainless steel tubing. All tubing connections will be made with 316 stainless steel tube connectors as manufactured by Swagelok or Parker. A plastic trough will be provided under the sample valves to collect and carry off to a drain the sampled water.

1.12 Provide one (1) control panel for automatic operation of the R/O system. The control panel shall contain all the control logic circuitry for the automatic operation of the R/O system. Control panel will be located on the R/O skid assembly. Control system will utilize an Allen Bradley model SLC 502 programmable logic controller (PLC) with all necessary inputs/outputs. Control panel will be equipped with control on/off switch, system H/O/A switch, pump Off/Auto switch, inlet valve hand/auto switch and hour meter. Indicator lights will be provided for low pH fault, high pH fault, low pressure fault, high pressure fault, control power on, pump on, inlet valve open, inlet valve in auto, scale inhibitor low, sonic horn, reset button, alarm silence button, emergency stop button and reset button. Control panel will be constructed of PVC or fiberglass and molded into fiberglass skid assembly. Control panel will be painted to match the R/O skid assembly. Controls will shut down the system on low suction pressure, high pump discharge pressure, low and high pH level, and low scale inhibitor level. Control panel will automatically start and stop the system on storage tank level (level sensor by others).

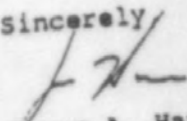
1.13 Provide one (1) combination starter/disconnect for high pressure feed pump motor. Starter/disconnect shall be the magnetic nonreversing type, with thermal overload trips rated for 25 HP at 230/480 volt, 3 ph. Starter/disconnect will be housed in a NEMA 12 enclosure. Starter/disconnect will be located on skid assembly.

We propose to furnish material and labor complete in accordance with above specifications for the sum of \$95,000 (ninety-five thousand and 00/100), including installation. Freight from Venice, Florida to Useppa is not included. The payment shall be made as monthly percentage of completion draws.

Finished building, raw water supply, feed, permeate, and concentrate connections, electrical service, degasifier, and any other services required shall be provided by others.

Thank you for considering us for this project.

Sincerely


James A. Harn
President

JAH/amc

AUDIT DISCLOSURE 2

SUBJECT: NOTES PAYABLE

STATEMENT OF FACTS:

The total notes payable on the general ledger as of 7/31/96 are \$277,387. All the notes detailed below are payable to Useppa Inn and Dock Company, an affiliated company.

<u>Date</u>	<u>Amount</u>	<u>Interest Rate</u>
12/31/84	\$60,000	10%
12/31/85	15,000	10%
12/31/86	15,000	10%
12/31/87	20,000	10%
12/31/89	30,000	10%
12/31/91	10,000	10%
8/1/95	127,387	10%
	<u>277,387</u>	

USEPPA ISLAND UTILITY INC
 STAFF ASSISTED RATE CASE
 RATE BASE
 TEST YEAR ENDED JULY 31, 1996

DESCRIPTION	PER BOOKS 7/31/96	AUDIT EXCEPTIONS	A/E NO	YEAR END 07/31/96	AVERAGING ADJUSTMENTS	AVERAGE 7/31/96	
UTILITY PLANT IN SERVICE	200,251		137,366	1,355.6	337,617	(4,912)	333,006
ACCUMULATED DEOPREC	(178,191)		82,689	1.7	(240,879)	18,363	(222,516)
LAND/NON-DEPRECIABLE ASSETS	0		10,463	1	10,463		10,463
PLANT HELD FOR FUTURE	0				0		0
CIAC	(58,326)		(207,937)	1	(266,263)		(266,263)
ACCUM AMORT OF CIAC	0		197,781	1.8	197,781	(14,610)	183,171
WORKING CAPITAL ALLOW	0		12,822		12,822		12,822
TOTAL	(26,266)		87,807		51,541	(959)	50,682

FOOTNOTES:

- (1) WORKING CAPITAL FORMULA 1/8 OPERATING AND MAINTENANCE EXPENSE
 (2) AUDIT ADJUSTMENTS DO NOT INCLUDE AUDIT DISCLOSURES

DESCRIPTION	PER BOOKS 7/31/96	AUDIT EXCEPTIONS	A/E NO	YEAR END 7/31/96	AVERAGING ADJ	AVERAGE 7/31/96	
UTILITY PLANT IN SERVICE	228,091		9,051	2,3,4,5,6,9	237,142	(1,433)	236,709
ACCUMULATED DEOPREC	(60,034)		86,420	12.7	(146,454)	6,707	(139,747)
LAND/NON-DEPRECIABLE ASSETS	0		3,487	2	3,487		3,487
PLANT HELD FOR FUTURE	0						
CIAC	(80,713)		(189,474)	2	(230,187)		(230,187)
ACCUM AMORT CIAC	0		146,504	2.8	146,504	(6,480)	140,024
WORKING CAPITAL ALLOW	0		5,295		5,295		5,295
TOTAL	107,344		(91,557)		15,768	(1,206)	14,562

FOOTNOTES:

- (1) WORKING CAPITAL FORMULA 1/8 OPERATING AND MAINTENANCE EXPENSE
 (2) AUDIT ADJUSTMENTS DO NOT INCLUDE AUDIT DISCLOSURES

USEPPA ISLAND UTILITY, INC.
 STAFF ASSISTED RATE CASE
 NET OPERATING INCOME
 TEST YEAR ENDED JULY 31, 1996

WATER NET OPERATING INCOME - per trial balance 7/31/96 (7 mos)
 per gl 12/31/95 and gl 7/31/96

DESCRIPTION	12 MONTHS END DECEMBER 95	LESS 7 MONTHS END JULY 95	5 MOS AUG 95 THRU DEC 95	7 MOS ENDING 7/31/96	TOTAL 12 MOS ENDING	AUDIT 07/31/96 EXCEPTIONS	AJE NO	PER AUDIT 7/31/96
					31,915.58			31,915.58
DEMAND INCOME	31,874.92	18,506.62	13,366.30	18,547.28	39,533.87			39,536.87
CONSUMPTION INCOME	39,488.60	22,173.95	17,294.65	22,242.22	1,185.36	(1,185.36)24		0.00
OTHER INCOME WATER	0.00	0.00	0.00	1,185.36				0.00
TOTAL INCOME	71,343.52	40,680.57	30,662.95	41,974.83	72,637.81	(1,185.36)		71,452.45
EXPENSES								
504-CHEMICALS & SUPP	7,114.84	3,749.08	3,366.76	4,396.07	7,761.83		1,961.85	9,713.48
601-ACCOUNTING	625.00	625.00	0.00	625.00	625.00			625.00
906-LABOR	16,636.12	10,000.80	8,635.32	10,737.65	17,372.97	27,643.34	12.20	45,016.31
908-ADM AND OTHER SAL	2,600.00	1,500.00	1,100.00	1,700.00	2,800.00			2,800.00
610-BANK AND SERV CHGS	46.51	22.72	23.79	137.69	161.48			161.48
615-CONSULTANTS	17,361.72	9,750.46	7,611.26	18,490.15	26,101.41	(14,635.37)	9.10,18,19,23	11,466.04
623-ELECTRICITY	13,925.57	6,139.20	5,786.37	9,749.46	15,535.83	2,262.74	14	17,796.57
617-OPERAT INSURANCE	286.00	0.00	286.00	0.00	286.00	(16.00)	25	250.00
630-OFFICE SUPPLIES	291.81	291.81	0.00	0.00	0.00			0.00
635-REPAIRS & MAINT	4,521.17	2,664.92	1,856.25	14,048.81	15,905.06	(1,869.35)	11,15,16	14,035.71
649-PERMIT COMPLIANCE	1,533.00	1,533.00	0.00	0	0.00			0.00
650-CAPITAL EXPENDITURE	9,130.94	8,424.00	706.94	0	706.94			706.94
	74,052.68	46,700.99	27,351.69	59,884.83	87,236.52		15,337.01	102,573.53
620-DEPRECIATION EXP	7,620.00	4,445.00	3,175.00	4,445.00	7,620.00	(114.15)	7.8	7,505.85
645-TAXES AND LICENSES	3,586.89	3,586.89	0.00	3,589.15	3,589.15			3,589.15
623-PAYROLL TAXES	1,953.01	1,147.46	805.53	1,384.22	2,189.75		1,067.51	3,257.26
	13,159.90	9,179.37	3,980.53	9,398.37	13,378.90		953.36	14,332.26
TOTAL EXPENSES	87,212.58	55,880.36	31,332.22	69,283.20	100,615.42	(27,977.61)	16,290.37	116,905.79
NET INCOME (LOSS)	(15,869.06)	(15,199.79)	(669.27)	(27,308.34)	(27,977.61)		(17,475.73)	(46,453.34)

USEPPA ISLAND UTILITY, INC.
 STAFF ASSISTED RATE CASE
 NET OPERATING INCOME
 TEST YEAR ENDED JULY 31, 1996

WASTEWATER OPERATING INCOME
 SOURCE: T/B 7 MOS ENDING 7/31/96
 G/L ENDING 12/96

87

DESCRIPTION	LESS				TOTAL 12 MOS ENDING 7/31/96	AUDIT EXCEPTIONS	AJE NO	PER AUDIT 7/31/96
	12 MONTHS END DECEMBER 95	7 MONTHS END JULY 95	5 MOS AUG 95 THRU DEC 95	7 MOS ENDING 7/31/96				
DEMAND INCOME	20,723.20	11,881.72	8,841.48	11,784.28	20,825.76			20,825.76
COMMODITY INCOME	13,736.04	8,987.14	4,788.90	8,130.56	12,869.46	1,085.35	21	13,954.81
TOTAL INCOME	34,459.24	20,868.86	13,610.38	19,914.84	33,525.22	1,085.35		34,560.57
EXPENSES								
504-CHEMICALS & SUPP	1,883.43	638.03	847.40	844.40	1,891.80	(232.55)	12.22	1,459.25
601-ACCOUNTING	625.00	625.00	0.00	625.00	625.00			625.00
606-LABOR	16,485.15	10,000.80	6,484.35	11,515.17	18,009.52	2,857.41	17.20	20,866.93
608-ADM AND OTHER SAL	2,741.00	1,500.00	1,241.00	1,700.00	2,941.00			2,941.00
610-BANK AND SERV CHGS	46.51	22.73	23.78	47.70	71.48			71.48
615-CONSULTANTS	6,830.21	3,538.58	3,291.63	2,212.25	5,503.88	(2,970.38)	18	2,533.50
623-ELECTRICITY	9,303.78	5,331.32	3,972.44	6,504.13	10,478.57	(505.91)	14	9,970.86
617-OPERAT INSURANCE	281.63	15.63	266.00	0.00	266.00	(266.00)	25	0.00
630-OFFICE SUPPLIES	267.71	267.71	0.00	0.00	0.00			0.00
635-REPAIRS & MAINT	5,716.81	2,920.18	2,796.63	2,039.35	4,835.98	(941.45)	13.16	3,894.53
649 PERMIT COMPLIANCE	0.00	0.00	0.00	0.00	0.00			0.00
650-CAPITAL EXPENDITURE	722.50	722.50	0.00	0.00	0.00			0.00
	44,713.71	25,780.48	18,933.23	25,468.00	44,421.23	(2,058.88)		42,362.35
620-DEPRECIATION EXP	7,620.00	4,445.00	3,175.00	4,445.00	7,620.00	(7,185.53)	7.8	454.47
645-TAXES AND LICENSES	3,016.40	3,016.40	0.00	2,008.37	2,008.37			2,008.37
623-PAYROLL TAXES	1,953.07	1,147.52	806.55	1,332.03	2,137.58	(510.16)	17	1,627.42
	12,589.47	8,608.92	3,980.55	7,786.40	11,766.95	(7,675.89)		4,091.26
TOTAL EXPENSES	57,303.18	34,389.40	22,913.78	33,274.40	56,188.18	(9,734.57)		46,453.61
NET INCOME (LOSS)	(22,843.94)	(13,540.54)	(9,303.40)	(13,359.56)	(22,662.96)	10,799.92		(11,863.04)

COMPANY: JOSEPPA ISLAND CO
 TITLE: ADJUSTMENTS TO BOOKS
 AS OF 7/31/96
 PERIOD: TEST YEST END 7/31/96
 DATE: OCTOBER 6, 1996
 AUDITOR: RKY

ACCT.	DESCRIPTION	DR	CR
RECONCILIATION OF PRIOR ORDER TO BOOKS			
304.2	STRUCT/IMPROV -- WATER SYSTEM		63,170.00
307.2	WELLS AND SPRINGS--WELL WATER	16,242.00	
311.2	PUMPING EQUIPMENT -- WATER EQUIP		28,596.00
320.2	WATER TREATMENT EQUIP	116,795.00	
330.2	DISTR RESV/STDPIPE	6,611.00	
331.3	TRANS/DISTR MAINS	61,074.00	
333.3	SERVICES	3,020.00	
334.3	METERS & METR INSTALL	15,960.00	
CIAC			207,937.00
LAND		10,463.00	
ACCUMULATED DEPRECIATION		22,056.00	
RETAINED EARNINGS			22,056.00
DUE TO/FROM AFFILIATES		69,538.00	
ACCUMULATED AMORTIZATION OF CIAC		89,117.00	
RE			89,117.00

The ABOVE adjustments need to be made to bring the books to the amounts ordered by the Commissior FOR WATER.

AJE NO 1.

	DEBIT	CREDIT
354.2 Structures and improvements/ SEWER SYSTEM		197,258.00
360.2 Collect sewers -forca/SEWER EQUIP	114,052.00	
370.3 Lift stations	60,242.00	
380.3 Treatment disposal equip	40,964.00	
LAND	3,487.00	
CIAC		189,474.00
DUE TO/FROM AFFILIATES	147,987.00	
ACCUMULATED DEPRECIATION		76,737.00
RE	76,737.00	
ACCUMULATED AMORTIZATION OF CIAC	96,987.00	
RE		96,987.00

The ABOVE adjustments need to be made to bring the books to the amounts ordered by the Commissior for wastewater

AJE NO 2.

COMPANY
TITLE
PERIOD
DATE
AUDITOR

LEWIS & CLARK ISLAND CO
ADJUSTMENTS TO BOOKS
AS OF 7/31/96
TEST YEST END 7/31/96
OCTOBER 8, 1996
RKY

ACCT.	DESCRIPTION	DR	CR
320.2	Water Plant (1/93 addition)	13,480.00	
380.2	WW Plant (1/93)		13,480.00
To reclassify Water Plant (Permeators) mistakenly charged to wastewater AJE NO 3.			
370.3	Due to/from Affiliates	3,183.95	
370.3	Wastewater Plant (1/93)		2,476.95
370.3	Wastewater Plant (4/96)		707.00
To remove plant in service for which there is no documentation. AJE NO 4			
354.2	Wastewater Plant (1/93)	4,850.00	
320.2	Water Plant		4,850.00
To reclassify retirement of Permeators from Wastewater to Water AJE NO 5			
341	Water Plant (7/96)	800.00	
391	Wastewater Plant (7/96)	1,200.00	
Due to/from affiliates			
To account for Golf Cart used by the utility AJE NO 6.			
	Depreciation Exp - Water	29,106.00	
	Depreciation Exp - WW	5,794.00	
	Accum Deprec - Water		84,744.00
	Accum Deprec - WW		9,683.00
	Retained Earnings	59,527.00	
To bring books up to PSC staff calculated Accumulated Depreciation and Depreciation Expense AJE NO. 7			
	Amortization of CIAC - Water		29,220.15
	Amortization of CIAC - WW		12,959.53
	Accum Amort CIAC - Water	106,964.15	
	Accum Amort CIAC - WW	49,517.06	
	Retained Earnings		116,001.53
To bring books up to PSC staff calculated Amortization of CIAC and Accumulated Amortization of CIAC AJE NO 8			
380.2	WASTEWATER PLANT IN SERVICE	1,148.00	
615.W	WATER EXPENSE		1,148.00
REMOVE CAPITAL ITEM FROM EXPENSE PER ENGINEER THIS IS A WASTEWATER CAPITAL ITEM , NOT A WATER EXPENSE			
AJE NO 9			
185	DEFERRED ACCOUNT	3,840.00	
615 W	WATER CONSULTANT EXP ACCOUNT		3,840.00
THIS CHARGE WAS 4800 WAS A STUDY PERFORMED IN CONJUNCTION WITH THE RENEWAL OF THE WATER PERMIT. THIS PERMIT PER ENGINEER AND COMPANY IS RENEWED EVERY 5 YEARS. PER ENGINEER AMORTIZE OVER FIVE YEARS. Effect of leaving 960 in expense AJE NO 10			

COMPANY: PPA ISLAND CO
 TITLE: ADJUSTMENTS TO BOOKS
 AS OF 7/31/96
 PERIOD: TEST YEST END 7/31/96
 DATE: OCTOBER 6, 1996
 AUDITOR: RKY

ACC'T	DESCRIPTION	DR	CR
186	DEFERRED ACCOUNT	1,628.52	
635W	WATER MAINTENANCE EXPENSE		1,628.52
<p>THE TOTAL CHARGE OF \$2035.64 WAS FOR A PUMP REPAIR. THE ENGINEER, TED DAVIS SAID THE PUMPS GET REPAIRED EVERY FIVE YEARS AND TO AMORTIZE THIS EXPENSE OVER FIVE YEARS. Effect of leaving 407.12 in test year. AJE NO 11</p>			
504.01	Water Chemical & Supply	357.65	
504.02	WW Chemical and Supply		357.65
<p>To reclassify miscoded chemical invoice from WW to Water (sulfuric Acid) AJE NO 12</p>			
354.2	WW Plant in service	516.97	
635.02	WW Repairs and Maint		516.97
<p>To reclassify aluminum fence from expense item to capital item at 7/31/96. AJE NO 13</p>			
623.01	Electricity Water	2,262.74	
623.02	Electricity - Wastewater		505.91
	Retained Earnings		1,756.83
<p>To adjust electric expense per the G/L to agree with the actual electric bills incurred in the 12 months end 7/31/96. AJE NO 14</p>			
635.01	Repairs and maint - water		213.95
504.01	Chemicals - Water	213.95	
<p>To reclassify Barge expense to the correct account. AJE NO 15</p>			
635.01	Chemical Exp - Water		26.88
635.02	Chemical Exp WW		424.48
	Retained Earnings	451.36	
<p>To account for PSC staff recalculation of Barge Expense for Chemicals AJE NO 16</p>			
606.01	Labor - Water	22,405.53	
606.02	Labor - Sewer	322.98	
	Retained Earnings		22,728.51
623.01	Payroll Taxes - Water	1,067.51	
623.02	Payroll Taxes - WW		510.16
	Retained Earnings		557.35

To account for PSC staff recalculation of Payroll Expense and Payroll Tax Expenses for the test year end 7/31/96.
 AJE NO 17

COMPANY: SEPPA ISLAND CO
 TITLE: ADJUSTMENTS TO BOOKS
 AS OF 7/31/96
 PERIOD: TEST YEST END 7/31/96
 DATE: OCTOBER 6, 1996
 AUDITOR: RKY

ACCT.	DESCRIPTION	DR	CR
615.01	Consulting Exp - Water	2,970.38	
615.02	Consulting Exp- WW		2,970.38
To reclassify Water Permit renewal expenses from WW to Water. AJE NO 18			
186	Deferred Expense	14,109.77	
615.01	Consulting Exp - Water		14,109.77
To amortize all renewal of water permit expenses over five years. Per utility and per engineer, this is done every five years. AJE 19			
606.01	Water - Exp Adm and other Sal	5,237.81	
606.02	WW -Exp Due to / from Affiliate	2,534.43	7,772.24
To add the cost of transporting utility personnel to and from the island everyday. Recalculated by PSC Staff. AJE NO 20			
	Retained Earnings	1,065.35	
	WW Consumption Revenue		1,065.35
To record revenue not billed that should have been billed for rate case purposes. AJE NO 21			
504.1	Chemicals - Water	1,380.05	
504.2	Chemicals - WW RE	125.10	1,505.15
To account for chemical costs incurred in the test period but not accrued. AJE NO 22			
615.01	Water Exp - Consultant	1,492.02	
186	Deferred Credit		1,492.02
Amortize prior and future year water permit expenses over five years and include 1/5 in test year for rate case purposes. AJE NO 23			
	Revenue Water - Other	1,185.36	
	Retained Earnings		1,185.36
To account for interest collected on delinquent accounts not in the tariff. AJE NO 24			
617.01	Insurance - Water		16.00
617.02	Insurance- WW Retained Earnings		266.00
		282.00	
AJE no 25			

COMPANY:
TITLE:

USEPPA ISLAND CO
ADJUSTMENTS TO BOOKS
AS OF 7/31/96
TEST YEST END 7/31/96
OCTOBER 6, 1996
RKY

PERIOD:
DATE:
AUDITOR:

ACCT.	DESCRIPTION	DR	CR
AVERAGING ADJUSTMENTS			
	ACCUMULATED DEPRECIATION WATER	18,363 00	
	ACCUMULATED DEPRECIATION WW	6,707 00	
	PLANT - WATER		4,612 00
	PLANT - WW		1,433 00
	Accum Amort of CIAC - water		14,610 07
	Accum Amort of CIAC - WW		6,479 76

USEPPA ISLAND UTILITY, INC
 STAFF ASSISTED RATE CASE
 CAPITAL STRUCTURE
 TEST YEAR ENDED JULY 31, 1996

DESCRIPTION	PER BOOKS 7/31/96	PER BOOKS 7/31/96	AVERAGE	AUDIT EXCEPTIONS	PER AUDIT 7/31/96	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
COMMON EQUITY	Note A	0	0	0		0	0.00%	0.00%
PREFERRED STOCK							0.00%	0.00%
LONG TERM DEBT		239,224	277,366	258,306	258,306		100.00%	10.00%
SHORT TERM DEBT							0.00%	0.00%
CUSTOMER DEPOSITS							0.00%	0.00%
ITC							0.00%	0.00%
TOTALS		239,224	277,366	258,306	0	258,306	100.00%	10.00%

Note A = The utility has negative equity, therefore, per PSC Order 93-0930-W/S, not included in Cost of Capital

Cost of Capital based on utility debt.
 Audit adjustments do not include disclosures.

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State of Florida

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

December 9, 1996

Mr. Vincent Formosa
Useppa Island Utility, Inc..
Post Office Box 640
Bokeelia, Florida 33922-0640

RE: Docket No. 960975-WS -- Useppa Island Utility, Inc.
Staff-Assisted Rate Case Audit Report - Period Ended July 31, 1996
Audit Control # 96-268-4-1

Dear Mr. Formosa:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

KF/cls
Enclosure
cc: Public Counsel