

State of Florida



Public Service Commission

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

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**DATE:** January 9, 2001  
**TO:** Division of Regulatory Oversight (Brady)  
**FROM:** Division of Regulatory Oversight (Vandiver) *ON*  
**RE:** Docket No. 001122-WS; Spruce Creek South Utilities, Inc.  
Audit Report; Transfer  
Audit Control No. 00-279-3-1

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

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)  
Orlando District Office (Winston)  
Division of Records and Reporting  
Division of Legal Services

Jay A. Thompson  
Spruce Creek South Utilities, Inc.  
8501 S. E. 140th Lane Road  
Summerfield, FL 34491-7944

Rutledge Law Firm  
Kenneth Hoffman  
P. O. Box 551  
Tallahassee, FL 32302

DOCUMENT NUMBER-DATE

00702 JAN 17 05

FPSC-RECORDS/REPORTING

AUDIT CRITIQUE AND EVALUATION (ACE) FORM  
 DIVISION OF REGULATORY OVERSIGHT ♦ BUREAU OF AUDITING  
 RETURN TO RGO BEFORE: March 10, 2001

Company Name: Spruce Creek South Utilities, Inc.

Docket No.: 001122-WS

Audit Control No.: 00-279-3-1 (Small)

Analyst Assigned: Brady

| Excellent<br>3 | Satisfactory<br>2 | Unsatisfactory<br>1 | Not Applicable<br>0 |
|----------------|-------------------|---------------------|---------------------|
|----------------|-------------------|---------------------|---------------------|

**AUDIT REPORT**

|  | Excellent<br>3 | Satisfactory<br>2 | Unsatisfactory<br>1 | Not Applicable<br>0 |
|--|----------------|-------------------|---------------------|---------------------|
| <i>Accuracy of the report</i>              | 3              | 2                 | 1                   | 0                   |
| <i>Clarity of the report</i>               | 3              | 2                 | 1                   | 0                   |
| <i>Usefulness of information in report</i> | 3              | 2                 | 1                   | 0                   |
| <i>Conclusions in report are supported</i> | 3              | 2                 | 1                   | 0                   |

This audit report included unique features that I would like to see in future audit reports. These features were as follows:

I would have liked to have seen the following in the audit report:

**AUDIT WORK PAPERS**

|  | Excellent<br>3 | Satisfactory<br>2 | Unsatisfactory<br>1 | Not Applicable<br>0 |
|--|----------------|-------------------|---------------------|---------------------|
| <i>The work papers supported the audit conclusions</i> | 3              | 2                 | 1                   | 0                   |
| <i>The work papers included accurate information</i>   | 3              | 2                 | 1                   | 0                   |
| <i>Cross references allowed tracing of audit work</i>  | 3              | 2                 | 1                   | 0                   |
| <i>Indexing assisted in locating information</i>       | 3              | 2                 | 1                   | 0                   |

These audit work papers included unique features that I would like to see in future work papers. These features were as follows:

In support of items in the Audit Service Request and the Audit Manual audit guide, I would have liked to have seen the following in the audit work papers:

**AUDIT CRITIQUE AND EVALUATION (ACE) FORM**  
**DIVISION OF REGULATORY OVERSIGHT ♦ BUREAU OF AUDITING**  
 RETURN TO RGO BEFORE: March 10, 2001

Company Name: Spruce Creek South Utilities, Inc.

Docket No.: 001122-WS

Audit Control No.: 00-279-3-1 (Small)

Analyst Assigned: Brady

|   | Excellent<br>3 | Satisfactory<br>2 | Unsatisfactory<br>1 | Poor<br>0 |
|---|----------------|-------------------|---------------------|-----------|
| <b>COMMUNICATION AND CONDUCT</b>  |                |                   |                     |           |
| <i>I was satisfied with how often the auditor communicated with me.</i>             | 3              | 2                 | 1                   | 0         |
| <i>The information provided by the auditor during the audit process was useful.</i> | 3              | 2                 | 1                   | 0         |
| <i>Conduct &amp; general helpfulness of auditor(s)</i>                              | 3              | 2                 | 1                   | 0         |

I appreciated the auditor(s) letting me know the following before the audit was complete:

While reviewing the audit work papers, I discovered the following information which I would have liked to have known about earlier:

| <b>OVERALL AUDIT PROCESS</b>                   | 3 | 2 | 1 | 0 |
|--|---|---|---|---|
| <i>Extent to which this audit met my needs</i> | 3 | 2 | 1 | 0 |
| <i>Fulfillment of scope and objectives</i>     | 3 | 2 | 1 | 0 |

**OTHER COMMENTS BENEFICIAL TO IMPROVING FUTURE AUDITS OR AUDITOR PERFORMANCE:**  
*Please comment specifically on any unsatisfactory work indicated above.*



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Orlando District Office*

**SPRUCE CREEK SOUTH UTILITIES, INC.**

**CERTIFICATE OF TRANSFER**

**HISTORICAL YEAR ENDED JUNE 30, 2000**

**DOCKET NO. 001122-WS  
AUDIT CONTROL NO. 00-279-3-1**

*Jeffrey A. Small, Audit Manager*

*Charleston J. Winston, District Audit Supervisor*

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**DIVISION OF REGULATORY OVERSIGHT  
AUDITOR'S REPORT**

**JANUARY 2, 2001**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the financial records for the historical 12-month period ended June 30, 2000, for Spruce Creek South Utilities, Inc. The attached Rate Base schedules were prepared by the audit staff as part of our work in the utility's application for a Certificate of Transfer in Docket No. 001122-WS.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The utility's balances for water and wastewater land are overstated by \$107,421 and understated by \$86,110, respectively.

The utility's balances for water and wastewater utility-plant-in-service (UPIS) are overstated by \$674,346 and \$97,780, respectively.

The utility's balances for water and wastewater accumulated depreciation (AD) are overstated by \$196,994 and \$40,961, respectively.

The utility's balances for water and wastewater contributions-in-aid-of-construction (CIAC) are understated by \$522,620 and \$76,600, respectively.

The utility's balances for water and wastewater amortization of CIAC are understated by \$2,801 and \$82,968, respectively.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining the utility's books and records since its original water and wastewater certificates were approved in FPSC Orders Nos. 21340, issued June 6, 1989, and 25331, issued November 13, 1991, which we believe are sufficient to base our opinion. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

**Scanned** - The documents or accounts were read quickly looking for obvious errors.

**Verified** - The items were tested for accuracy, and substantiating documentation was examined.

**Assembled** - Presented in Commission-required format financial information that was provided to the audit staff and is the representation of utility management.

**RATE BASE:** Scanned and verified 100 percent of utility-provided documents used to identify additions to utility-plant-in-service (UPIS) and accumulated depreciation as of June 30, 2000. Identified and established the original cost for the land that is occupied by the water and wastewater systems. Recalculated contributions-in-aid-of-construction (CIAC) and associated amortization of CIAC as of June 30, 2000.

## Audit Exception No. 1

### Subject: Land and Land Rights

**Statement of Facts:** Utility records indicate balances of \$114,327 and \$7,600 for water and wastewater land as of June 30, 2000.

NARUC, Class B, Accounting Instruction 13 A, requires all amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service.

**Recommendation:** The audit staff has calculated balances of \$6,907 and \$86,590 for water and wastewater land as of June 30, 2000, respectively, based on the calculations below and the details that follow.

#### Water Plant Sites:

|                                  |              |
|----------------------------------|--------------|
| Spruce Creek South               | \$1,790      |
| Spruce Creek Preserve            | 4,040        |
| Spruce Creek Golf & Country Club | <u>1,077</u> |
| Total                            | \$6,907      |

#### Wastewater Plant Sites:

|                                  |               |
|----------------------------------|---------------|
| Spruce Creek South               | \$38,657      |
| Spruce Creek Preserve            | 38,000        |
| Spruce Creek Golf & Country Club | <u>17,053</u> |
| Total                            | \$93,710      |

#### Spruce Creek South - Water Plant Sites

FPSC Order No. 881597-WU, issued June 6, 1989, established a value of \$17,438 for the land occupied by the water treatment facilities at Spruce Creek South. The value was determined using the seller's closing statement for the purchase of 210 acres of land for \$787,500 by Spruce Creek Development Corp. of Ocala, Inc. (SCDC) and an engineering survey that sets aside 4.65 acres as the utility water plant site.  $\{(\$787,500/210) \times 4.65 \text{ acres} = \$17,438\}$

On January 24, 1996, SCDC executed a Warranty Deed that transferred 0.0574 of an acre of land with a non-exclusive easement for ingress and egress to Spruce Creek South Utilities, Inc. (SCSU) as a second water plant site.  $\{(50 \text{ ft.} \times 50 \text{ ft.})/43,560 = 0.0574\}$

On February 14, 1996, SCDC executed a Warranty Deed that transferred 0.420 of an acre of the 4.65 acres described above to SCSU as the water utility plant site.



### **Exception No. 1, continued**

The audit staff has determined a value of \$1,790 for water rate base transfer purposes for the two sites discussed above.  $\{(\$787,500/210) \times 0.0574 \text{ of an acre} = \$215\}$  and  $\{(\$787,500/210) \times 0.420 \text{ of an acre} = \$1,575\}$  equals  $\{\$215 + \$1,575 = \$1,790\}$

#### **Spruce Creek South - Wastewater Plant Site**

On June 26, 1990, Thomas C. Bowling executed a Warranty Deed that transferred 104.86 acres to SCDC for \$322,500.

On May 24, 1991, Dominic Marino executed a Warranty Deed that transferred 1.0 acre of land for \$6,600 to SCSU as an additional wastewater treatment facility site.

On June 22, 2000, SCDC executed a Quitclaim Deed that transferred approximately 12 acres to SCSU for the wastewater treatment facility site. This included approximately 0.510 of an acre of the 1.0 acre parcel discussed above.

On June 29, 2000, SCSU executed a Warranty Deed that transferred the 12 acres described above and 0.90 of an acre of the 1.0 acre described above to Florida Water Services Corporation (FWSC) as the wastewater and percolation pond utility plant site. The audit staff has determined a value of \$38,657 for wastewater rate base transfer purposes. Percolation ponds  $\{(\$322,500/105) \times 11.49 \text{ acres} = \$35,291\}$ , A wastewater plant site  $\{\$6,600 \times 0.510 \text{ of an acre} = \$3,366\}$ , Total  $\{\$35,291 + \$3,366 = \$38,657\}$

#### **Spruce Creek Preserve - Water Plant Site**

On January 12, 1996, J&J Morgan Partnership, LTD executed a Warranty Deed that transferred approximately 416 acres to Spruce Creek Golf & County Club (SCGCC) for \$1,664,000. SCGCC subsequently developed the land into what is now the Spruce Creek Preserve Community.

On January 16, 1998, SCGCC assets were purchased by Del Webb's Spruce Creek Communities, Inc. (DWSCC). All real property was transferred by a Warranty Deed from SCGCC to DWSCC which is recorded in Original Records (OR) Book 2453/0119 of the Marion County Clerk of the Court records.

On July 19, 1999, DWSCC executed a Warranty Deed that transferred Tracts A and B of the Spruce Creek Preserve I to SCSU. Tract A contains a lift station, and Tract B contains the water plant site. The water plant site encompasses 1.01 acres.

On June 29, 2000, SCSU executed a Warranty Deed that transferred Tracts A and B of Spruce Creek Preserve I to FWSC. The audit staff has determined a value of \$9,337 for water rate base transfer purposes.  $\{(\$1,664,000/416) \times 1.01 \text{ acres} = \$4,040\}$

**Exception No. 1, continued**

**Spruce Creek Preserve - Wastewater Plant Site**

On June 22, 2000, SCGCC executed a Quitclaim Deed that transferred certain properties located in Section 9, Township 17, Range 20 to SCSU. More specifically, the properties transferred included the wastewater plant and effluent sprayfield sites.

On June 29, 2000, SCSU executed a Warranty Deed that transferred approximately 9.5 acres of land that contains the wastewater plant and percolation pond sites. The audit staff has determined a value of \$38,000 for wastewater rate base transfer purposes.  $\{(\$1,664,000/416) \times 9.5 \text{ acres} = \$38,000\}$

**Spruce Creek Golf & County Club - Water Plant Site**

On January 10, 1997, First Fiscal Fund Corporation executed a Warranty Deed that transferred approximately 925 acres of land to SCGCC for \$3,000,000. SCGCC subsequently developed the land into what is now the Spruce Creek Golf & Country Club Community.

On January 16, 1998, SCGCC assets were purchased by Del Webb's Spruce Creek Communities, Inc. (DWSCC). All real property was transferred by Warranty Deed from SCGCC to DWSCC which is recorded in OR Book 2453/0119 of the Marion County Clerk of the Court records.

On June 29, 2000, DWSCC executed a Warranty Deed that transferred approximately 0.332 of an acre to FWSC as the water plant site. The audit staff has determined a value of \$1,077 for water rate base transfer purposes.  $\{(\$3,000,000/925) \times 0.332 \text{ of an acre} = \$1,077\}$

**Spruce Creek Golf & County Club - Wastewater Plant Site**

On June 29, 2000, DWSCC executed a Warranty Deed that transferred approximately 5.258 acres to FWSC as the wastewater plant site. The audit staff has determined a value of \$17,053 for wastewater rate base transfer purposes.  $\{(\$3,000,000/925) \times 5.258 \text{ acres} = \$17,053\}$

## Audit Exception No. 2

### Subject: Utility-Plant-In-Service (UPIS)

**Statement of Facts:** Utility records indicate balances of \$4,320,205 and \$4,855,140 for water and wastewater UPIS as of June 30, 2000, respectively.

NARUC, Class B, Accounting Instruction 2 A, requires that each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all the facts relevant thereto.

**Recommendation:** The audit staff has calculated balances of \$3,645,859 and \$4,757,360 for water and wastewater UPIS as of June 30, 2000, respectively, based on the calculations below and the details that follow.

|   |             |
|---|-------------|
| Water UPIS per Company                      | \$4,320,205 |
| a) Remove irrigation well.                  | (5,540)     |
| b) Retire replaced well pumps.              | (26,710)    |
| c) Retire propane gas tank.                 | (608)       |
| d) Retire abandoned 10-inch well.           | (10,504)    |
| e) Reclassify additions to wastewater UPIS. | (375,175)   |
| f) Remove unsupported capitalized labor.    | (255,810)   |
| Water UPIS per Audit                        | \$3,645,859 |
|   |             |
| Wastewater UPIS per Company                 | \$4,855,140 |
| g) Remove unsupported CWIP adjustment.      | (330,977)   |
| e) Reclassify additions to wastewater UPIS. | 375,175     |
| f) Remove unsupported capitalized labor.    | (141,979)   |
| Wastewater UPIS per Audit                   | \$4,757,360 |

The utility's water and wastewater UPIS are overstated by \$674,346 (\$4,320,205-\$3,645,859) and \$97,780 (\$4,855,140-\$4,757,360), respectively, as of June 30, 2000.

**Exception No. 2, continued**

Details of the audit staff adjustments:

- a) This adjustment removes the cost of a 4-inch irrigation well that was recorded to UPIS in 1989 that is nonutility.
- b) This adjustment removes the cost of two 40-hp pumps that were first installed in 1989 and 1990 at the Spruce Creek South water system. One pump was first replaced in 1992. Both pumps were replaced in 1993 with two 60-hp pumps when the system was upgraded.
- c) This adjustment retires the cost of a propane gas tank that was originally installed in 1990 to power an auxiliary generator at the Spruce Creek South water plant site. It was replaced by a diesel fuel system in 2000.
- d) This adjustment retires a 10-inch well at the Spruce Creek Golf & Country Club that has been abandoned and replaced by a new 12-inch well installed in 2000.
- e) This adjustment reclassifies wastewater UPIS additions that were incorrectly booked to water UPIS.
- f) This adjustment removes unsupported capitalized labor additions to water and wastewater UPIS from 1990 through 1994.
- g) This adjustment removes unsupported CWIP adjustment to wastewater UPIS in 1996.

See the audit staff's calculations in Schedule A following Audit Exception No. 3 on page 10.

**Audit Exception No. 3**

**Subject: Accumulated Depreciation (AD)**

**Statement of Facts:** Utility records indicate balances of \$635,155 and \$497,045 for water and wastewater AD as of June 30, 2000, respectively.

FPSC Orders Nos. 21340 and 25331 used specific depreciation rates for water and wastewater UPIS in establishing initial rates of service for the utility's original certificates, issued on June 6, 1989, and November 13, 1991, respectively.

Rule 25-30.140 (2), Florida Administrative Code (F.A.C.), establishes an average service life and corresponding depreciation rates for UPIS asset additions.

**Recommendation:** The audit staff has calculated balances of \$438,161 and \$456,084 for water and wastewater AD as of June 30, 2000, respectively, based on the calculations below and the details that follow.

|   |                 |
|---|-----------------|
| Water AD per Company                        | \$635,155       |
| a) Remove irrigation well.                  | (3,047)         |
| b) Retire replaced well pumps.              | (13,153)        |
| c) Retire propane gas tank.                 | (608)           |
| d) Retire abandoned 10-inch well.           | (10,504)        |
| e) Reclassify additions to wastewater UPIS. | (51,160)        |
| f) Remove unsupported capitalized labor.    | (56,581)        |
| h) Correct errors in depreciation rates.    | <u>(61,942)</u> |
| Water AD per Audit                          | \$438,161       |
|   |                 |
| Wastewater AD per Company                   | \$497,045       |
| g) Remove unsupported CWIP adjustment.      | (39,974)        |
| e) Reclassify additions to wastewater UPIS. | 32,158          |
| f) Remove unsupported capitalized labor.    | (28,025)        |
| h) Correct errors in depreciation rates.    | <u>(5,120)</u>  |
| Wastewater AD per Audit                     | \$456,084       |

### **Audit Exception No. 3, continued**

The utility's water and wastewater accumulated depreciation are overstated by \$196,994 (\$635,155-\$438,161) and \$40,961 (\$497,045-\$456,084), respectively, as of June 30, 2000.

Details of audit staff adjustments:

- a) This adjustment removes the AD associated with a 4-inch irrigation well discussed in Audit Exception No. 2.
- b) This adjustment removes the AD associated with the 40-hp pumps discussed in Audit Exception No. 2.
- c) This adjustment removes the AD associated with the propane gas tank discussed in Audit Exception No. 2.
- d) This adjustment removes the AD associated with the 10-inch well discussed in Audit Exception No. 2.
- e) This adjustment removes the AD associated with the reclassified wastewater additions discussed in Audit Exception No. 2.
- f) This adjustment removes the AD associated with the unsupported capitalized labor additions discussed in Audit Exception No. 2.
- g) This adjustment removes the AD associated with the unsupported CWIP adjustment discussed in Audit Exception No. 2.

The audit staff's adjustments to AD were calculated using the utility's methodology displayed in its FPSC Annual Reports. See the audit staff's calculations in Schedule A for Audit Exceptions 2 and 3 on page 10.

- h) This adjustment corrects the utility balance for AD to Commission-authorized rates. The company used differing service lives to depreciate some of its utility subaccounts. The audit staff recalculated the utility's AD using Commission-authorized service lives in the Orders and rule cited above. This adjustment corrects the utility's AD balances before any of the audit staff's adjustments to UPIS and AD indicated in Audit Exception No. 2 and above.

See the audit staff's calculations in Schedule B for Audit Exception No. 3 on page 11.

**Schedule A for Audit Exceptions Nos. 2 and 3**

| Adj | Year | Acc.# | Amount           | Life | 1989     | 1990     | 1991     | 1992     | 1993     | 1994     | 1995     | 1996     | 1997     | 1998      | 1999      | 2000     | TOTAL            |
|-----|------|-------|------------------|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|----------|------------------|
| a)  | 1989 | 311   | \$5,540.00       | 20   | \$138.50 | \$277.00 | \$277.00 | \$277.00 | \$277.00 | \$277.00 | \$277.00 | \$277.00 | \$277.00 | \$277.00  | \$277.00  | \$138.50 | \$3,047.00       |
|     | 1989 | 311   | 9,691.80         | 20   | 242.30   | 484.59   | 484.59   | 484.59   | 484.59   | 484.59   | 484.59   | 484.59   | 484.59   | 484.59    | 484.59    | 242.30   | 5,330.49         |
|     | 1990 | 311   | 10,150.22        | 20   |          | 253.76   | 507.51   | 507.51   | 507.51   | 507.51   | 507.51   | 507.51   | 507.51   | 507.51    | 507.51    | 253.76   | 5,075.11         |
|     | 1992 | 311   | <u>6,868.10</u>  | 20   |          |          |          | 171.70   | 343.41   | 343.41   | 343.41   | 343.41   | 343.41   | 343.41    | 343.41    | 171.70   | <u>2,747.24</u>  |
| b)  |      |       | 26,710.12        |      |          |          |          |          |          |          |          |          |          |           |           |          | 13,152.84        |
| c)  | 1990 | 311   | 607.69           | 20   |          |          |          |          |          |          |          |          |          |           |           |          | 607.69           |
| d)  | 2000 | 307   | 10,503.65        | 30   |          |          |          |          |          |          |          |          |          |           |           |          | 10,503.65        |
| e)  | 1997 | 320   | 375,174.50       | 22   |          |          |          |          |          |          |          |          | 8,526.69 | 17,053.39 | 17,053.39 | 8,526.69 | 51,160.16        |
| e)  |      | 381   | 375,174.50       | 35   |          |          |          |          |          |          |          |          | 5,359.64 | 10,719.27 | 10,719.27 | 5,359.64 | 32,157.82        |
|     | 1990 | 309   | 33,118.50        | 35   |          | 473.11   | 946.23   | 946.23   | 946.23   | 946.23   | 946.23   | 946.23   | 946.23   | 946.23    | 946.23    | 473.11   | 9,462.29         |
|     | 1991 | 309   | 50,158.00        | 35   |          |          | 716.54   | 1,433.09 | 1,433.09 | 1,433.09 | 1,433.09 | 1,433.09 | 1,433.09 | 1,433.09  | 1,433.09  | 716.54   | 12,897.77        |
|     | 1992 | 309   | 11,104.00        | 35   |          |          |          | 158.63   | 317.26   | 317.26   | 317.26   | 317.26   | 317.26   | 317.26    | 317.26    | 158.63   | 2,538.06         |
|     | 1993 | 309   | 30,627.93        | 35   |          |          |          |          | 437.54   | 875.08   | 875.08   | 875.08   | 875.08   | 875.08    | 875.08    | 437.54   | 6,125.59         |
|     | 1994 | 309   | 71,474.39        | 35   |          |          |          |          |          | 1,021.06 | 2,042.13 | 2,042.13 | 2,042.13 | 2,042.13  | 2,042.13  | 1,021.06 | 12,252.75        |
|     | 1990 | 331   | 38,149.00        | 43   |          | 443.59   | 887.19   | 887.19   | 887.19   | 887.19   | 887.19   | 887.19   | 887.19   | 887.19    | 887.19    | 443.59   | 8,871.86         |
|     | 1991 | 331   | <u>21,178.00</u> | 43   |          |          | 246.26   | 492.51   | 492.51   | 492.51   | 492.51   | 492.51   | 492.51   | 492.51    | 492.51    | 246.26   | <u>4,432.60</u>  |
| f)  |      |       | 255,809.82       |      |          |          |          |          |          |          |          |          |          |           |           |          | 56,580.93        |
|     | 1991 | 381   | 13,779.00        | 35   |          |          | 196.84   | 393.69   | 393.69   | 393.69   | 393.69   | 393.69   | 393.69   | 393.69    | 393.69    | 196.84   | 3,543.17         |
|     | 1992 | 381   | 13,702.00        | 35   |          |          |          | 195.74   | 391.49   | 391.49   | 391.49   | 391.49   | 391.49   | 391.49    | 391.49    | 195.74   | 3,131.89         |
|     | 1993 | 381   | 60,272.07        | 35   |          |          |          |          | 861.03   | 1,722.06 | 1,722.06 | 1,722.06 | 1,722.06 | 1,722.06  | 1,722.06  | 861.03   | 12,054.41        |
|     | 1994 | 381   | <u>54,225.61</u> | 35   |          |          |          |          |          | 774.65   | 1,549.30 | 1,549.30 | 1,549.30 | 1,549.30  | 1,549.30  | 774.65   | <u>9,295.82</u>  |
| f)  |      |       | 141,978.68       |      |          |          |          |          |          |          |          |          |          |           |           |          | 28,025.29        |
|     | 1996 | 354   | 46,673.89        | 32   |          |          |          |          |          |          |          | 729.28   | 1,458.56 | 1,458.56  | 1,458.56  | 729.28   | 5,834.24         |
|     |      | 360   | 3,239.37         | 30   |          |          |          |          |          |          |          | 53.99    | 107.98   | 107.98    | 107.98    | 53.99    | 431.92           |
|     |      | 361   | 90,007.23        | 45   |          |          |          |          |          |          |          | 1,000.08 | 2,000.16 | 2,000.16  | 2,000.16  | 1,000.08 | 8,000.64         |
|     |      | 362   | 130,571.36       | 40   |          |          |          |          |          |          |          | 1,632.14 | 3,264.28 | 3,264.28  | 3,264.28  | 1,632.14 | 13,057.13        |
|     |      | 382   | 8,896.17         | 30   |          |          |          |          |          |          |          | 148.27   | 296.54   | 296.54    | 296.54    | 148.27   | 1,186.16         |
|     |      | 389   | <u>51,587.64</u> | 18   |          |          |          |          |          |          |          | 1,432.99 | 2,865.98 | 2,865.98  | 2,865.98  | 1,432.99 | <u>11,463.92</u> |
| g)  |      |       | \$330,975.66     |      |          |          |          |          |          |          |          |          |          |           |           |          | \$39,974.00      |

Accumulated Depreciation adjustment was calculated as follows using the half-year convention. (Amount x (1/Life))

### Schedule B for Audit Exception No. 3

#### Water Accumulated Depreciation

| Account Number | Description                        | Per Company @06/30/00 | Audit Adjustments | Per Audit @06/30/00 |
|----------------|------------------------------------|-----------------------|-------------------|---------------------|
| 302.00         | Franchises                         | \$0                   | \$1,234           | \$1,234             |
| 304.00         | Structures & Improvements          | 0                     | 26,059            | 26,059              |
| 305.00         | Collecting & Impounding Reservoirs | 0                     | 4,747             | 4,747               |
| 307.00         | Wells & Springs                    | 0                     | 16,741            | 16,741              |
| 309.00         | Supply Mains                       | 0                     | 124,101           | 124,101             |
| 310.00         | Power Generation Equipment         | 0                     | 5,540             | 5,540               |
| 311.00         | Pumping Equipment                  | 0                     | 81,470            | 81,470              |
| 320.10         | Water Treatment Equipment          | 0                     | 94,705            | 94,705              |
| 331.00         | Transmission & Distribution Mains  | 0                     | 159,399           | 159,399             |
| 334.00         | Meters & Meter Installations       | 0                     | 36,230            | 36,230              |
| 335.00         | Hydrants                           | 0                     | 16,584            | 16,584              |
| 340.10         | Office Furniture & Equipment       | 0                     | 2,661             | 2,661               |
| 343.00         | Tools, Shop, & Garage Equipment    | 0                     | 1,588             | 1,588               |
| 344.00         | Laboratory Equipment               | 0                     | 1,450             | 1,450               |
| 347.00         | Miscellaneous Equipment            | 0                     | 703               | 703                 |
|                | Other                              | <u>635,155</u>        | <u>(635,155)</u>  | <u>0</u>            |
| h)             | Totals                             | \$635,155             | (\$61,942)        | \$573,213           |

#### Wastewater Accumulated Depreciation

| Account Number | Description                           | Per Company @06/30/00 | Audit Adjustments | Per Audit @06/30/00 |
|----------------|---------------------------------------|-----------------------|-------------------|---------------------|
| 354.00         | Structures & Improvements             | \$0                   | \$46,074          | \$46,074            |
| 360.00         | Collection - Sewers forced            | 0                     | 28,691            | 28,691              |
| 361.00         | Collection - Sewers gravity           | 0                     | 184,599           | 184,599             |
| 362.00         | Special Collecting Structures         | 0                     | 61,524            | 61,524              |
| 364.00         | Flow Measuring Devices                | 0                     | 1,570             | 1,570               |
| 371.00         | Pumping Equipment                     | 0                     | 23,971            | 23,971              |
| 381.00         | Plant Sewers                          | 0                     | 132,424           | 132,424             |
| 382.00         | Outfall Sewer Lines                   | 0                     | 1,186             | 1,186               |
| 389.00         | Other Plant & Miscellaneous Equipment | 0                     | 11,464            | 11,464              |
| 390.00         | Office Furniture & Equipment          | 0                     | 422               | 422                 |
|                | Other                                 | <u>497,045</u>        | <u>(497,045)</u>  | <u>0</u>            |
| h)             | Totals                                | \$497,045             | (\$5,120)         | \$491,925           |



#### Audit Exception No. 4

#### Subject: Contributions-in-Aid-of-Construction (CIAC) and Amortization of CIAC

**Statement of Facts:** Utility records indicate balances of \$2,969,890 and \$2,579,500 for water and wastewater CIAC as of June 30, 2000, respectively.

Additionally, utility records indicate balances of \$468,110 and \$244,646 for water and wastewater amortization of CIAC as of June 30, 2000, respectively.

Rule 25-30.140 (4), F.A.C., requires all Class A and B utilities to maintain depreciation rates and reserve activity by account as prescribed by the Commission.

FPSC Orders Nos. 21340 and 25331 established the following service availability fees (SAFs) and charges. Additionally, the Orders indicated previously incorporated specific amortization rates for each component of the SAFs collected.

|                        | <u>SAFs</u> | <u>Amortization Rate</u> |
|------------------------|-------------|--------------------------|
| Water Service:         |             |                          |
| Main Extension Charge  | \$800       | 2.70%                    |
| Plant Capacity Charge  | \$135       | 2.70%                    |
| Meter Installation Fee | \$75        | 5.00%                    |
| Wastewater Service:    |             |                          |
| Plant Capacity Charge  | \$375       | 5.29%                    |
| Line Extension Charge  | \$725       | 2.44%                    |

The utility's FPSC Annual Reports and other records indicate a total of 2,899 water and 2,345 wastewater customers as of June 30, 2000.

**Recommendation:** The audit staff has calculated balances of \$3,492,510 and \$2,656,100 for water and wastewater CIAC and \$470,911 and 327,614 for water and wastewater amortization of CIAC as of June 30, 2000, respectively.

The utility's water and wastewater CIAC are understated by \$522,620 (\$2,969,890-\$3,492,510) and \$76,600 (\$2,579,500-\$2,656,100), respectively, as of June 30, 2000, because it charged incorrect water SAFs from 1989 through 1994 and incorrect wastewater SAFs from 1992 through 1994.

The utility's water and wastewater amortization of CIAC are understated by \$2,801 (\$468,110-\$470,911) and \$82,968 (\$244,646-\$327,614), respectively, as of June 30, 2000, because of the above error in recording SAFs and because it did not use the correct amortization rates as stated above.

See the audit staff's calculations in Schedules C, D, and E on pages 13, 14, and 15.

### Schedule C for Audit Exception 4

#### Water CIAC and Amortization of CIAC

| <u>Year</u> | <u>Beg. CIAC</u> | <u>Beg. Amtz.</u> | <u>Cash Additions</u>  | <u>Adjustments</u> | <u>End CIAC</u> | <u>Amtz. Rate</u> | <u>Amtz. Amount</u> | <u>End Amtz.</u> |
|-------------|------------------|-------------------|------------------------|--------------------|-----------------|-------------------|---------------------|------------------|
| 1989        |                  |                   | \$35,530.00            |                    | \$35,530.00     | 2.70%             | \$479.66            | \$479.66         |
| 1990        | 35,530.00        | 479.66            | 209,440.00             |                    | 244,970.00      | 2.70%             | 3,786.75            | 4,266.41         |
| 1991        | 244,970.00       | 4,266.41          | 173,910.00             |                    | 418,880.00      | 2.70%             | 8,961.98            | 13,228.38        |
| 1992        | 418,880.00       | 13,228.38         | 138,380.00             |                    | 557,260.00      | 2.70%             | 13,177.89           | 26,406.27        |
| 1993        | 557,260.00       | 26,406.27         | 278,630.00             |                    | 835,890.00      | 2.70%             | 18,807.53           | 45,213.80        |
| 1994        | 835,890.00       | 45,213.80         | 396,095.00             |                    | 1,231,985.00    | 2.70%             | 27,916.31           | 73,130.11        |
| 1995        | 1,231,985.00     | 73,130.11         | 773,105.00             |                    | 2,005,090.00    | 2.70%             | 43,700.51           | 116,830.62       |
| 1996        | 2,005,090.00     | 116,830.62        | 92,565.00              |                    | 2,097,655.00    | 2.70%             | 55,387.06           | 172,217.68       |
| 1997        | 2,097,655.00     | 172,217.68        | 215,985.00             |                    | 2,313,640.00    | 2.70%             | 59,552.48           | 231,770.16       |
| 1998        | 2,313,640.00     | 231,770.16        | 393,635.00             |                    | 2,707,275.00    | 2.70%             | 67,782.35           | 299,552.51       |
| 1999        | 2,707,275.00     | 299,552.51        | 327,250.00             |                    | 3,034,525.00    | 2.70%             | 77,514.30           | 377,066.81       |
| 2000        | 3,034,525.00     | 377,066.81        | 239,360.00             |                    | 3,273,885.00    | 2.70%             | 42,581.77           | 419,648.58       |
| <u>Year</u> | <u>Beg. CIAC</u> | <u>Beg. Amtz.</u> | <u>Meter Additions</u> | <u>Adjustments</u> | <u>End CIAC</u> | <u>Amtz. Rate</u> | <u>Amtz. Amount</u> | <u>End Amtz.</u> |
| 1989        |                  |                   | 2,850.00               |                    | 2,850.00        | 5.00%             | 71.25               | 71.25            |
| 1990        | 2,850.00         | 71.25             | 16,800.00              |                    | 19,650.00       | 5.00%             | 562.50              | 633.75           |
| 1991        | 19,650.00        | 633.75            | 13,950.00              |                    | 33,600.00       | 5.00%             | 1,331.25            | 1,965.00         |
| 1992        | 33,600.00        | 1,965.00          | 11,100.00              |                    | 44,700.00       | 5.00%             | 1,957.50            | 3,922.50         |
| 1993        | 44,700.00        | 3,922.50          | 22,350.00              |                    | 67,050.00       | 5.00%             | 2,793.75            | 6,716.25         |
| 1994        | 67,050.00        | 6,716.25          | 31,425.00              |                    | 98,475.00       | 5.00%             | 4,138.13            | 10,854.38        |
| 1995        | 98,475.00        | 10,854.38         | 17,175.00              |                    | 115,650.00      | 5.00%             | 5,353.13            | 16,207.50        |
| 1996        | 115,650.00       | 16,207.50         | 8,625.00               |                    | 124,275.00      | 5.00%             | 5,998.13            | 22,205.63        |
| 1997        | 124,275.00       | 22,205.63         | 17,325.00              |                    | 141,600.00      | 5.00%             | 6,646.88            | 28,852.50        |
| 1998        | 141,600.00       | 28,852.50         | 31,575.00              |                    | 173,175.00      | 5.00%             | 7,869.38            | 36,721.88        |
| 1999        | 173,175.00       | 36,721.88         | 26,250.00              |                    | 199,425.00      | 5.00%             | 9,315.00            | 46,036.88        |
| 2000        | 199,425.00       | 46,036.88         | 19,200.00              |                    | 218,625.00      | 5.00%             | 5,225.63            | 51,262.50        |
|             |                  |                   |                        |                    | <u>End CIAC</u> |                   |                     | <u>End Amtz.</u> |
| 2000        |                  |                   |                        |                    | \$3,492,510.00  |                   |                     | \$470,911.08     |

Schedule D for Audit Exception No. 4

Wastewater CIAC and Amortization of CIAC

| <u>Year</u> | <u>Beg. CIAC</u> | <u>Beg. Amtz.</u> | <u>Plant Additions</u>      | <u>Adjustments</u> | <u>End CIAC</u> | <u>Amtz. Rate</u> | <u>Amtz. Amount</u> | <u>End Amtz.</u> |
|-------------|------------------|-------------------|-----------------------------|--------------------|-----------------|-------------------|---------------------|------------------|
| 1992        | \$0.00           | \$0.00            | \$26,250.00                 |                    | \$26,250.00     | 5.29%             | \$694.81            | \$694.81         |
| 1993        | 26,250.00        | 694.81            | 107,250.00                  |                    | 133,500.00      | 5.29%             | 4,228.42            | 4,923.23         |
| 1994        | 133,500.00       | 4,923.23          | 153,750.00                  |                    | 287,250.00      | 5.29%             | 11,136.83           | 16,060.07        |
| 1995        | 287,250.00       | 16,060.07         | 85,875.00                   |                    | 373,125.00      | 5.29%             | 17,479.47           | 33,539.53        |
| 1996        | 373,125.00       | 33,539.53         | 34,500.00                   |                    | 407,625.00      | 5.29%             | 20,665.67           | 54,205.20        |
| 1997        | 407,625.00       | 54,205.20         | 86,625.00                   |                    | 494,250.00      | 5.29%             | 23,871.73           | 78,076.93        |
| 1998        | 494,250.00       | 78,076.93         | 157,875.00                  |                    | 652,125.00      | 5.29%             | 30,343.40           | 108,420.33       |
| 1999        | 652,125.00       | 108,420.33        | 131,250.00                  |                    | 783,375.00      | 5.29%             | 37,996.25           | 146,416.58       |
| 2000        | 783,375.00       | 146,416.58        | 96,000.00                   |                    | 879,375.00      | 5.29%             | 22,005.66           | 168,422.25       |
|             |                  |                   |                             |                    |                 |                   |                     |                  |
| <u>Year</u> | <u>Beg CIAC</u>  | <u>Beg. Amtz.</u> | <u>Collection Additions</u> | <u>Adjustments</u> | <u>End CIAC</u> | <u>Amtz. Rate</u> | <u>Amtz. Amount</u> | <u>End Amtz.</u> |
| 1992        | 0.00             | 0.00              | 50,750.00                   |                    | 50,750.00       | 2.44%             | 618.24              | 618.24           |
| 1993        | 50,750.00        | 618.24            | 207,350.00                  |                    | 258,100.00      | 2.44%             | 3,762.41            | 4,380.65         |
| 1994        | 258,100.00       | 4,380.65          | 297,250.00                  |                    | 555,350.00      | 2.44%             | 9,909.45            | 14,290.10        |
| 1995        | 555,350.00       | 14,290.10         | 242,625.00                  |                    | 797,975.00      | 2.44%             | 16,486.21           | 30,776.30        |
| 1996        | 797,975.00       | 30,776.30         | 66,700.00                   |                    | 864,675.00      | 2.44%             | 20,254.40           | 51,030.70        |
| 1997        | 864,675.00       | 51,030.70         | 167,475.00                  |                    | 1,032,150.00    | 2.44%             | 23,107.12           | 74,137.82        |
| 1998        | 1,032,150.00     | 74,137.82         | 305,225.00                  |                    | 1,337,375.00    | 2.44%             | 28,865.55           | 103,003.38       |
| 1999        | 1,337,375.00     | 103,003.38        | 253,750.00                  |                    | 1,591,125.00    | 2.44%             | 35,674.99           | 138,678.37       |
| 2000        | 1,591,125.00     | 138,678.37        | 185,600.00                  |                    | 1,776,725.00    | 2.44%             | 20,513.57           | 159,191.94       |
|             |                  |                   |                             |                    |                 |                   |                     |                  |
|             |                  |                   |                             |                    | <u>End CIAC</u> |                   |                     | <u>End Amtz.</u> |
| 2000        |                  |                   |                             |                    | \$2,656,100.00  |                   |                     | \$327,614.19     |

**Schedule E for Audit Exception No. 4**

**Water Customer Additions**

| <u>Year</u> | <u>Customers</u> | <u>SAF of \$935</u> | <u>Other SAFs</u> | <u>Meter Fee of \$75</u> | <u>Other Meter Fees</u> | <u>Total CIAC</u> |
|-------------|------------------|---------------------|-------------------|--------------------------|-------------------------|-------------------|
| 1989        | 38               | \$35,530            | \$0               | \$2,850                  | \$0                     | \$38,380          |
| 1990        | 224              | 209,440             | 0                 | 16,800                   | 0                       | 226,240           |
| 1991        | 186              | 173,910             | 0                 | 13,950                   | 0                       | 187,860           |
| 1992        | 148              | 138,380             | 0                 | 11,100                   | 0                       | 149,480           |
| 1993        | 298              | 278,630             | 0                 | 22,350                   | 0                       | 300,980           |
| 1994        | 419              | 391,765             | 4,330             | 31,425                   | 0                       | 427,520           |
| 1995        | 229              | 214,115             | 558,990           | 17,175                   | 0                       | 790,280           |
| 1996        | 99               | 92,565              | 0                 | 7,125                    | 1,500                   | 101,190           |
| 1997        | 231              | 215,985             | 0                 | 17,325                   | 0                       | 233,310           |
| 1998        | 421              | 393,635             | 0                 | 31,575                   | 0                       | 425,210           |
| 1999        | 350              | 327,250             | 0                 | 26,250                   | 0                       | 353,500           |
| 2000        | <u>256</u>       | <u>239,360</u>      | <u>0</u>          | <u>19,200</u>            | <u>0</u>                | <u>258,560</u>    |
|             | 2,899            | \$2,710,565         | \$563,320         | \$217,125                | \$1,500                 | \$3,492,510       |

Notes:

- 1) In 1994 and 1995, the utility recorded cash payments of \$4,330 and \$558,990 from developer(s) as CIAC.
- 2) In 1996, the utility recorded a cash payment of \$1,500 for the installation of four 2-inch meters.

**Wastewater Customer Additions**

| <u>Year</u> | <u>Customers</u> | <u>Capacity Fee of \$375</u> | <u>Collection Fee of \$725</u> | <u>Other Fees</u> | <u>Total CIAC</u> |
|-------------|------------------|------------------------------|--------------------------------|-------------------|-------------------|
| 1992        | 70               | \$26,250                     | \$50,750                       | \$0               | \$77,000          |
| 1993        | 286              | 107,250                      | 207,350                        | 0                 | 314,600           |
| 1994        | 410              | 153,750                      | 297,250                        | 0                 | 451,000           |
| 1995        | 229              | 85,875                       | 166,025                        | 76,600            | 328,500           |
| 1996        | 92               | 34,500                       | 66,700                         | 0                 | 101,200           |
| 1997        | 231              | 86,625                       | 167,475                        | 0                 | 254,100           |
| 1998        | 421              | 157,875                      | 305,225                        | 0                 | 463,100           |
| 1999        | 350              | 131,250                      | 253,750                        | 0                 | 385,000           |
| 2000        | <u>256</u>       | <u>96,000</u>                | <u>185,600</u>                 | <u>0</u>          | <u>281,600</u>    |
|             | 2,345            | \$879,375                    | \$1,700,125                    | \$76,600          | \$2,656,100       |

Notes:

- 1) In 1995, the utility recorded cash payments of \$76,600 from a developer as CIAC.

**Audit Disclosure No. 1**

**Subject: Unsupported UPIS**

**Statement of Facts:** Utility records indicate the following balances in the indicated accounts as of June 30, 2000.

| <u>Account Number</u> | <u>Account Description</u>        | <u>Balance</u>     |
|-----------------------|-----------------------------------|--------------------|
| 331                   | Transmission & Distribution Mains | \$1,973,472        |
| 361                   | Collection Sewers-Gravity         | <u>\$2,504,468</u> |
|                       |                                   | \$4,477,940        |

The following UPIS additions are included in the account balances indicated above which account for 62.6 percent of the account balances as of June 30, 2000. (\$2,805,590/\$4,477,940)

| <u>Account Number</u> | <u>1997</u>    | <u>1998</u>    | <u>1999</u>    | <u>2000</u> | <u>Total</u>     |
|-----------------------|----------------|----------------|----------------|-------------|------------------|
| 331                   | \$468,086      | \$409,200      | \$183,977      | \$136,875   | \$1,198,138      |
| 361                   | <u>702,129</u> | <u>613,800</u> | <u>291,523</u> | <u>0</u>    | <u>1,607,452</u> |
| Total                 | \$1,170,215    | \$1,023,000    | \$475,500      | \$136,875   | \$2,805,590      |

**Recommendation:** The utility could not provide the audit staff with any supporting documentation for the above UPIS additions.

The above UPIS additions represent the utility's accounting treatment for utility infrastructure that is constructed by a related development company and sold to the utility based on the number of single family residential lots (SFRLs) developed in each phase of construction when completed. During the period 1997 through 2000, the number of SFRLs developed totaled 1,248. The infrastructure cost based on a per lot bases equals \$2,248. (\$2,805,590/1,248)

FWSC provided audit staff with an engineering study performed by PBS&J, Inc. that calculated an infrastructure cost of \$3,421 per SFRL based on construction documents.

Audit staff defers this issue to the analyst in Tallahassee.

**EXHIBIT I**

**SPRUCE CREEK SOUTH UTILITIES, INC.**  
**WATER RATE BASE**  
**DOCKET NUMBER 001122-WS**  
**CERTIFICATE OF TRANSFER**  
**HISTORICAL PERIOD ENDED JUNE 30, 2000**

| (a)  | (b)            | (c)                | (d)            | (e)          |
|--|----------------|--------------------|----------------|--------------|
| DESCRIPTION                                      | PER<br>UTILITY | AUDIT<br>EXCEPTION | REFER<br>TO(1) | PER<br>AUDIT |
| UTILITY PLANT-IN-SERVICE                         | \$4,320,205    | (\$674,346)        | E-2            | \$3,645,859  |
| LAND & LAND RIGHTS                               | 114,328        | (107,421)          | E-1            | 6,907        |
| CONTRIBUTIONS-IN-AID- OF-<br>CONSTRUCTION (CIAC) | (2,969,890)    | (522,620)          | E-4            | (3,492,510)  |
| ACCUMULATED<br>DEPRECIATION                      | (635,155)      | 196,994            | E-3            | (438,161)    |
| AMORTIZATION OF CIAC                             | 468,110        | 2,801              | E-4            | 470,911      |
| TOTAL  | \$1,297,598    | (\$1,104,592)      |                | \$193,006    |

**REQUIRED FOOTNOTES:**

(1) Audit adjustments do not include audit disclosures.

**EXHIBIT II**

**SPRUCE CREEK SOUTH UTILITIES, INC.  
WASTEWATER RATE BASE  
DOCKET NUMBER 001122-WS  
CERTIFICATE OF TRANSFER  
HISTORICAL PERIOD ENDED JUNE 30, 2000**

| (a)   | (b)                | (c)                | (d)            | (e)                |
|---|--------------------|--------------------|----------------|--------------------|
| DESCRIPTION                                       | PER<br>UTILITY     | AUDIT<br>EXCEPTION | REFER<br>TO(1) | PER<br>AUDIT       |
| UTILITY PLANT IN SERVICE                          | \$4,855,140        | (\$97,780)         | E-2            | \$4,757,360        |
| LAND & LAND RIGHTS                                | 7,600              | 86,110             | E-1            | 93,710             |
| CONTRIBUTIONS- IN-AID- OF-<br>CONSTRUCTION (CIAC) | (2,579,500)        | (76,600)           | E-4            | (2,656,100)        |
| ACCUMULATED<br>DEPRECIATION                       | (497,045)          | 40,961             | E-3            | (456,084)          |
| AMORTIZATION OF CIAC                              | 244,646            | 82,968             | E-4            | 327,614            |
| TOTAL   | <u>\$2,030,841</u> | <u>\$35,659</u>    |                | <u>\$2,066,500</u> |

**REQUIRED FOOTNOTES:**

(1) Audit adjustments do not include audit disclosures.