

State of Florida



Public Service Commission  
-M-E-M-O-R-A-N-D-U-M-

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**DATE:** April 25, 2003  
**TO:** Division of Economic Regulation (Merta)  
**FROM:** Division of Auditing and Safety (Vandiver) *W*  
**RE:** **Docket No.** 030106-SU; **Company Name:** Environmental Protection Systems of Pine Island; **Audit Purpose:** Staff Assisted Rate Case;  
**Audit Control No.** 03-055-4-1

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

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Martin Friedman, Esq.  
Rose Law Firm  
600 S. North Lake Blvd., Suite 160  
Altamonte Springs, FL 32701

Kevin J. Cherry, President  
Environmental Protection Systems of Pine Island  
3039 York Road  
St. James City, FL 33956

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*Miami District Office*

**ENVIRONMENTAL PROTECTION SYSTEMS  
OF PINE ISLAND, INC.  
STAFF ASSISTED RATE CASE**

**YEAR ENDED DECEMBER 31, 2002**

**DOCKET NO. 030106-SU**

**AUDIT CONTROL NO. 03-055-4-1**

  
\_\_\_\_\_  
*Kathy L. Welch, Audit Manager*

  
\_\_\_\_\_  
*Ruth K. Young  
Professional Accountant Specialist*

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**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**APRIL 23, 2003**

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

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure, for the historical 12-month period ended December 31, 2002 for Environmental Protection Systems of Pine Island, Inc.. These schedules were prepared as part of its staff assisted petition for rate relief in docket number 030106-SU.

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 PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. 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.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**Confirmed** - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

**Verified** - The item was tested for accuracy and compared to the substantiating documentation.

**RATE BASE:** Examined rate base. Performed a record search for all deeds related to the land sales. Tested plant additions to invoices. Recalculated Contributions in Aid of Construction. Recalculated Depreciation and Amortization. Determined the effect of the connection to the County and the associated extra-ordinary retirement. Determined the amount to be paid to the County for connection fees.

**COST OF CAPITAL:** Examined Cost of Capital. Recalculated cost of capital using an affiliate that has outside debt and a forecast for the utility using estimated rates.

**NET OPERATING INCOME:** Examined revenue. Obtained tax rolls and compared addresses to gallonage report from the water company. Recalculated billing analysis from billing summaries. Examined expenses. Determined costs that will increase and costs that will be eliminated after connection. Traced major amounts to invoices. Obtained supporting documentation for taxes other than income taxes.

## **AUDIT EXCEPTION NO. 1**

### **SUBJECT: LAND**

**STATEMENT OF FACT:** Order 8507 in October 1978 established a land value of \$2,000 for the utility. This was based on a staff engineer's report in August 1977. At the time of the order, Environmental Protection Systems (EPS) did not exist as a separate entity. Cherry Estates owned the land that was being sold for a manufactured home community, the utility with the land it sits on and the RV Park. The utility sits on .361 of an acre on York Road.

The land was part of a 138.67 acre parcel (per Lee County Mapping Department) transferred to Cherry Estates from Joseph and Rosalie Cherry for \$140,000 in 1969. The land was purchased by the Cherry's from St. Jude Harbors.

The Cherry's purchased the land in 1963 from St. Jude Harbors. According to the Clerk's office, the price was \$73,500 or \$530 an acre.

The Commission has consistently used the land value when the plant was put in service. Using the \$140,000 cost divided by the 138.67 acres, the land value was approximately \$1,010 an acre in 1969.

In 1991, the company re-organized. At that time, the land for the wastewater plant was left in the name of Cherry Estates and recorded in the books of that company. A lease was established giving EPS use of the land for \$10,000 a year. The company paid the rent each year but left the \$2,000 for the land in its ledger and in its annual report. The lease, operating agreement, and lease option agreement were found in the Commission files. The plan for re-organization was not. The land the utility sits on was sold by Cherry Estates to KRS Resort Development, Inc., another affiliate company, in April 2001 for \$72,000 and the lease was assigned to KRS. The utility officers have signed an affidavit that the utility leases the land.

Based on sales agreements to other customers, lots were selling for \$22,000 in 1988 and \$40,500 in 1994. According to Kevin Cherry, lots are currently selling for \$85,000. The utility land is approximately 3 lots.

According to Kevin Cherry, when the utility hooks up to the county, the land will no longer be needed. A master lift station will be constructed in a corner of the property. Lift stations are usually granted an easement.

**OPINION:** In 1991, when the lease was set up and the land kept in Cherry Estates, the \$72,000 sales price from Cherry to KRS Resorts was probably a reasonable price for the three lots based on an average of the \$22,000 1988 price and the \$40,500 1994 sales price. Using prices for 2003, the land would be worth approximately \$255,000.

Although the 1978 case established that the utility owned the land, the utility was not a separate organization but part of Cherry Estates. When the lease agreements were filed in 1991, no order was written to show that the lease was approved but at the same time, no rejection of the lease was provided.

However, if it is determined that the utility was the owner of the land and should offset the loss at retirement (shown in Disclosure 1) with the gain on the sale of the land, based on the \$2,000 cost determined in the order in 1978 and the sales price to KRS Resorts (an affiliate company) of \$72,000, the offset to the loss would be \$70,000.

The \$2,000 should be removed from plant even if the connection to the County does not take place.

**AUDIT EXCEPTION NO. 2**

**SUBJECT: LINES SECTION V**

**STATEMENT OF FACT:** In 1985, Cherry Estates laid lines in Island V. These costs were included as part of the total cost of the development and expensed as part of cost of goods sold. They were never transferred to the utility. Costs based on old company audit workpapers were \$8,836.62.

**OPINION:** Since the lines were expensed by Cherry Estates they should be considered to be contributed. Depreciation using the 2.5% rate for both the last rate order and Commission Rule 25-30.140, F.A.C., would have been \$220.92 a year or \$3,866.10 since 1985.

Therefore, the following entry is needed to record these lines:

Plant-Gravity Mains	\$ 8,836.62	
CIAC		\$ 8,836.62
Accumulated Amortization CIAC	\$ 3,866.10	
Depreciation Expense	220.92	
Accumulated Depreciation		\$ 3,866.10
Amortization Expense		220.92



**AUDIT EXCEPTION NO. 3**

**SUBJECT: LIFT STATION CONTROL PANEL 2002**

**STATEMENT OF FACT:** The company paid for a new control panel in 2002. They recorded the amount in repair and maintenance expense. The total cost for the panel and installation was \$5,746.00.

**OPINION:** The \$5,746 was for a major renovation of the lift station and the parts purchased will be used in the new master lift station that will be constructed.

The renovation should be capitalized and depreciation recorded using a proforma rate from rule 25-30.140 of 22 years.

The following entry should be made:

Plant-Lift Station	\$5,746.00	
Repair and Maintenance		\$5,746.00
Depreciation Expense	\$ 261.18	
Accumulated Depreciation		\$ 261.18

**AUDIT EXCEPTION NO. 4**

**SUBJECT: PLANT ACCOUNT CORRECTION**

**STATEMENT OF FACT:** The utility recorded prior Commission adjustments as Other Intangible Plant instead of to the appropriate plant account. It also capitalized several items related to a new plant the company had considered building but abandoned when the land it was going to put it on was sold to Lee County.

**OPINION:** The company retired most of the additions but \$5,992.43 of the total amount for the new plant was not retired. To determine plant by account, old workpapers were obtained. Details such as manholes and services could not be determined but general categories were found. The staff amount was compared to the company amounts in the ledger for 2002. A schedule showing the plant balances is attached. The following entry is needed to correct to these balances:

Due from Affiliate	\$ 5,992.43	
Ponds	27,425.44	
Gravity Mains	77,635.16	
Structures and Improvements	58,513.59	
Lift Stations	4,100.61	
Manholes	7,480.00	
Services	7,920.00	
Power Generation Eq.		\$28,486.00
T & D Equipment		59,699.00
Plant Sewers		19,511.00
Other Tangible Plant		81,371.23

Accumulated Depreciation at the 2.5% used in the last rate order would have been \$4,097.85 less using the amounts above.

**Environmental Protection Systems of Pine Island  
 Analysis of Old Orders and Workpapers to Determine Plant Balances  
 Test Year Ended December 31, 2002**

	<b>COLLECTION LINES GRAVITY</b>	<b>COLLECTION LINES FORCE</b>	<b>SERVICES</b>	<b>MANHOLES</b>	<b>SEWER PLANT</b>	<b>LIFT STATION</b>	<b>LAND</b>	<b>POND</b>	<b>INTANGIBLE COUNTY CON. FEE</b>	<b>TOTAL</b>
PLANT PER BOOKS 12/78 PER ORDER 8507	37,051.74				83,422.34	4,100.61				124,574.69
ORDER ADJUSTMENTS FROM 8507:										0.00
Contributed Lines-credit CIAC(Ledo Lines)	6,041.00	46,324.00								52,365.00
Collection System Adjustments mostly										0.00
AJ Plumbing	16,787.00									16,787.00
Collection System Adjustments	932.00									932.00
Land							2,000.00			2,000.00
Chlorinator					334.00					334.00
Fence					522.00					522.00
Remove Invoices not for Utility	(14,247.00)				(5,133.00)					(19,380.00)
<b>AMOUNT PER ORDER 8507</b>	<b>46,584.74</b>	<b>46,324.00</b>	<b>0.00</b>	<b>0.00</b>	<b>79,145.34</b>	<b>4,100.61</b>	<b>2,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>178,134.69</b>
1978 BLOWERS INSTALLED					1,582.10					1,582.10
										0.00
1979 ADDITIONS	18,472.54									18,472.54
										0.00
1981 LINES CONTRIBUTED	16,971.00									16,971.00
1981 PONDS CONTRIBUTED								1,640.00		1,640.00
1981 POND CONSTRUCTION								25,785.44		25,785.44
<b>AMOUNT PER 1983 ORDER</b>	<b>82,008.28</b>	<b>46,324.00</b>	<b>0.00</b>	<b>0.00</b>	<b>80,727.44</b>	<b>4,100.61</b>	<b>2,000.00</b>	<b>27,425.44</b>	<b>0.00</b>	<b>242,585.77</b>
										0.00
LINES ADDED (NOT CONTRIBUTED) IN 1991	11,026.88									11,026.88
SURGE TANK INSTALLED 1995					10,300.00					10,300.00
SURGE TANKS 1995					1,500.00					1,500.00
ELECTRIC SURGE TANKS 1995					800.61					800.61
PUMPS 1995					551.20					551.20
PERMIT NOTICE 1995					192.34					192.34
LINES CONTRIBUTED IN 2000	21,093.00		7,920.00	7,480.00						36,493.00
										0.00
<b>BALANCES PER STAFF BEFORE SEPARATE ADJ.'S</b>	<b>114,128.16</b>	<b>46,324.00</b>	<b>7,920.00</b>	<b>7,480.00</b>	<b>94,071.59</b>	<b>4,100.61</b>	<b>2,000.00</b>	<b>27,425.44</b>	<b>0.00</b>	<b>303,449.80</b>
PLANT PER BOOKS										309,442.25
NET DIFFERENCE										(5,992.45)
LINES SECTION V	8,836.62									8,836.62
LIFT STATION REPAIRS 2002 EXCEPTION 3						5,746.00				5,746.00
<b>TOTAL ADJUSTED PLANT</b>	<b>122,964.78</b>	<b>46,324.00</b>	<b>7,920.00</b>	<b>7,480.00</b>	<b>94,071.59</b>	<b>9,846.61</b>	<b>2,000.00</b>	<b>27,425.44</b>	<b>0.00</b>	<b>318,032.42</b>
PROFORMA PLANT DISCLOSURE NO. 1						86,625.00				86,625.00
INTANGIBLE PLANT CONNECTION FEES COUNTY DISC. 1									823,431.00	823,431.00
RETIRE PLANT DISCLOSURE NO. 1					(94,071.59)		(2,000.00)	(27,425.44)		(123,497.03)
<b>TOTAL WITH PROFORMA</b>	<b>122,964.78</b>	<b>46,324.00</b>	<b>7,920.00</b>	<b>7,480.00</b>	<b>0.00</b>	<b>96,471.61</b>	<b>0.00</b>	<b>0.00</b>	<b>823,431.00</b>	<b>1,104,591.39</b>

**Environmental Protection Systems of Pine Island  
Adjustments to End of Year Amounts by Account  
Test Year Ended December 31, 2002**

	<b>Per Company</b>	<b>Per Staff</b>	<b>DIFFERENCE</b>
LAND	2,000.00	2,000.00	0.00
STRUCTURES AND IMPROV.	35,558.00	94,071.59	58,513.59
POWER GENERATION EQUIP.	28,486.00		(28,486.00)
FORCE MAINS	46,324.00	46,324.00	0.00
GRAVITY MAINS	36,493.00	114,128.16	77,635.16
T & D EQUIPMENT	59,699.00		(59,699.00)
PLANT SEWERS	19,511.00		(19,511.00)
OTHER TANGIBLE PLANT	81,371.23		(81,371.23)
LIFT STATION		4,100.61	4,100.61
MANHOLES		7,480.00	7,480.00
SERVICES		7,920.00	7,920.00
PONDS		27,425.44	27,425.44
	<u>309,442.23</u>	<u>303,449.80</u>	<u>(5,992.43)</u>

COMPANY COULD NOT PROVIDE SUPPORT FOR THE ALLOCATION TO NARUC ACCOUNTS.  
USED OLD WORKPAPERS AND INVOICES TO DETERMINE COSTS USING BROAD CATAGORIES.

**AUDIT EXCEPTION NO. 5**

**SUBJECT: Contributions in Aid of Construction (CIAC)**

**STATEMENT OF FACT:** The tariff required an \$110 plant capacity fee. Several entries were found transferring these fees from Cherry Estates, the developer, to the utility. However, using the new connections since the 1983 case, it was determined that not all of the fees were transferred to the utility. When the fees were transferred, the utility recorded them as revenue instead of Contributions in Aid of Construction.

**OPINION:** The \$110 fee was multiplied by the new connections each year since 1983. This amounted to \$10,560. Of this amount, \$5,743.85 was found to be transferred from Cherry Estates to the utility. The other \$4,816.15 could not be found as being transferred.

Based on the attached schedule, accumulated amortization using the 2.5% rate from the last order, increases Accumulated Amortization by \$218.61.

The following entries should be made:

Due from Cherry Estates	\$4,816.15	
Retained Earnings	5,743.85	
CIAC		\$10,560.00
Accumulated Amortization CIAC	\$ 218.61	
Retained Earnings		\$ 218.61

ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND  
 ANALYSIS OF CIAC  
 TEST YEAR ENDED DECEMBER 31, 2002

	DOLLARS FOUND	INCREASE IN CUSTOMERS ANNUAL REP.
2002	220.00	2
2001	880.00	10
2000		7
1999	550.00	6
1998	660.00	12
1997	1,271.70	12
1996	220.00	6
1995	732.15	7
1994	770.00	34 FROM 1983-1994 SPREAD
1993	220.00	EVENLY FROM 1983-1994
1992		FOR THIS SCHEDULE
1991	220.00	
	<b>5,743.85</b>	

Based on the increase in the number of customers, the CIAC should have been:

	note a IMPUTED PLANT CAPACITY CHARGE	CONTRIBUTED LINES	MANHOLES	SERVICES	CONTRIBUTED PONDS	TOTAL CIAC BY YEAR	CUMULATIVE CIAC	AMORTIZATION USING 2.5%	CUMULATIVE AMORTIZATION
11	2002	220.00				220.00	127,229.00	3,177.98	63,542.61
	2001	1,100.00				1,100.00	127,009.00	3,161.48	60,364.64
	2000	770.00	21,093.00	7,480.00	7,920.00	37,263.00	125,909.00	2,881.94	57,203.16
	1999	660.00				660.00	88,646.00	2,207.90	54,521.23
	1998	1,320.00				1,320.00	87,986.00	2,183.15	52,313.33
	1997	1,320.00				1,320.00	86,666.00	2,150.15	50,130.18
	1996	660.00				660.00	85,346.00	2,125.40	47,980.03
	1995	770.00				770.00	84,686.00	2,107.53	45,854.63
	1994	440.00				440.00	83,916.00	2,092.40	43,747.10
	1993	330.00				330.00	83,478.00	2,082.78	41,654.70
	1992	330.00				330.00	83,146.00	2,074.53	39,571.93
	1991	330.00				330.00	82,816.00	2,066.28	37,497.40
	1990	330.00				330.00	82,486.00	2,058.03	35,431.13
	1989	330.00				330.00	82,156.00	2,049.78	33,373.10
	1988	330.00				330.00	81,826.00	2,041.53	31,323.33
	1987	330.00				330.00	81,496.00	2,033.28	29,281.80
	1986	330.00				330.00	81,166.00	2,025.03	27,248.53
	1985	330.00				330.00	80,836.00	2,016.78	25,223.50
	1984	330.00				330.00	80,506.00	2,008.53	23,206.73
	1/2 YEAR 1983						80,176.00	1,002.20	21,198.20
	6/1983		78,536.00		1,640.00	80,176.00	80,176.00	20,196.00	20,196.00
	<b>TOTAL</b>	<b>10,560.00</b>	<b>99,629.00</b>	<b>7,480.00</b>	<b>7,920.00</b>	<b>1,640.00</b>	<b>127,229.00</b>	<b>63,542.61</b>	
	PER LEDGER						<b>116,669.00</b>	<b>63,324.00</b>	
	ADJUSTMENT NEEDED						<b>10,560.00</b>	<b>218.61</b>	

note a: number of customer increase times \$110

**AUDIT EXCEPTION NO. 6**

**SUBJECT: REVENUE**

**STATEMENT OF FACT:** The utility has not billed KRS Resorts for wastewater. KRS has a 2" water meter which serves 65 recreational vehicles, a laundry room and a bathhouse. The general service tariff required a base facility charge and a gallonage charge. In determining actual test year revenues, the 441 customers in service were multiplied by the residential rate and the amount due for the RV Park was calculated using the general service rate.

**OPINION:** Using the above computation, revenue is understated by \$2,727.81, most of which relates to KRS Resorts.

The computation can be found on the next page.

**CURRENT REVENUE PROFORMA:**

<b>CUSTOMERS</b>	<b>METER SIZE</b>	<b>FLAT RATE</b>	<b>RATE FOR GALLONAGE</b>	<b>REVENUE</b>
441 CUSTOMERS	5/8 X 3/4	12.79		67,684.68
1 CUSTOMER	2"	46.76	3.26	2,223.72
<b>REVENUE THAT SHOULD HAVE BEEN RECORDED</b>				<b>69,908.40</b>
<b>REVENUE BOOKED</b>				<b>67,180.79</b>
<b>INCREASE FOR PROFORMA REVENUE</b>				<b>2,727.61</b>



## **AUDIT DISCLOSURE NO. 1**

### **SUBJECT: COUNTY HOOKUP**

**STATEMENT OF FACT:** The utility has entered into an agreement with the county to connect to the county facility. The agreement requires the company to build a master lift station to connect to a county line that will be run down York Road to the site of the existing treatment plant. The plant and ponds will be retired. The company will have to pay to remove the plant from the existing land and to return the pond to safe conditions. The utility will maintain the lines, the lift station on Bowspirit, and the new master lift station.

The company has obtained an estimate from its engineer for the new master lift station of \$86,625.00. Annual depreciation on the lift station using Commission rule 25-30.140 would be \$3,937.50.

The company will be required to pay connection fees for the customers connected at the time of transfer to the County. These will be payable over 20 years at a fixed interest rate of 4.5%. The company will also have to pay one half of the connection fees for future connections at the time of hookup. The company will pay \$3.36 per thousand gallons for usage.

A summary of the amounts due follows this disclosure. Based on this worksheet, the company will pay \$38,310.72 for usage using 2002 water consumption.

It will pay \$684,978 for connection fees for the 441 homes and 65 RV sites currently connected and 16 home sites expected to be completed before the County transfer takes place.

It will also have to pay \$138,453 for 143 lots not currently connected and 65 future lots. The remaining \$138,453 will be paid as each lot is connected.

**OPINION:** The rate base schedule includes an intangible asset for both the \$684,978 and the \$138,453 that the company will be paying the county. The cost of capital schedule includes the \$684,978 as a loan at 4.5%. The yearly amortization of the \$684,978 over 20 years of \$34,248.90 is included as an expense on the net operating income statement. Other than including the \$138,453 as an intangible asset in rate base, no further work was done. The Tallahassee analyst will be determining the appropriate treatment in the tariff so that the company can collect these fees when they connect a new customer, and whether the company is entitled to include any of these costs in cost of capital or expenses.

A schedule was also prepared to determine the loss at retirement. This schedule is also attached and shows an \$85,749.73 extra-ordinary property loss. Using Commission

rule 25-30.433(9), F.A.C., the retirement should be amortized over 7 years, or \$12,249.96 a year. The rule uses depreciation expense net of CIAC amortization before the retirement takes place plus a return on the net investment. The company annual report numbers were multiplied by the KRS Resorts cost of capital rate to arrive at the return on investment. The total of these two items is then divided by the estimated loss to determine the years the loss should be retired. The calculation is on the same schedule that determines the loss.

The company also accrued legal fees for work done in preparing the agreement with the County for the last three years in a deferred account. At December 31, 2002, \$28,864.90 was in the deferred account. Amortization over five years charges \$5,772.98 to expense each year.

Journal entries to record the above can be found in the proforma adjusting entries attached to the staff prepared exhibits at the end of this report. Entries 1 through 5 all relate to the retirement and county fees.

The hookup will also require the company to prepare monthly usage based bills and will eliminate several expenses associated with the plant. These will be discussed in separate disclosures.

Actual costs should be audited after completion of the connection.

**ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND  
 PROFORMA COSTS TO BE PAID TO COUNTY  
 TEST YEAR ENDED DECEMBER 31, 2002**

**COST FOR COUNTY AGREEMENT USING GALLONAGE**

GALLONS RESIDENTIAL	10,892,000.00
GALLONS RV PARK	<u>510,000.00</u>
TOTAL GALLONS 2002	11,402,000.00

RATES PER RESOLUTION 02-07-44 DATED 7/9/02	3.36 PER THOUSAND
COUNTY BILLING USING WHOLESALE RATES	38,310.72

EPS will also have to pay 1388 for each current mobile home connection and 694 for the recreational vehicle connections amortized over 20 years.

They will have to pay one half of all future connections up front. The company will need a place in the tariff to allow them to pass these fees on to the customers.

CONNECTION FEE PER RESOLUTION	NUMBER OF CONNECTIONS	DOLLARS	
1,388.00	441.00	612,108.00	Due for the 441 current connections over 20 years
694.00	65.00	<u>45,110.00</u>	Due for the 65 RV sites currently connected- should Cherry have to pay these?
Total for current customers		657,218.00	
1,735.00	16.00	<u>27,760.00</u>	16 will be done by fall so that will be before the county hooks up. These are homes
		684,978.00	The county will be amortizing these over 20 years.
			Based on e-mail in 5-1 will probably be recorded as an intangible asset.
		34,248.90	Amortization each year for 20 years
Future Connections:			
1,735.00	68.00	117,980.00	Homes on island where pond is
1,735.00	28.00	48,580.00	Island 7 that are 2-3 years out
1,388.00	47.00	65,236.00	Vacant lots scattered throughout
694.00	65.00	<u>45,110.00</u>	Future RV lots
		276,906.00	
		138,453.00	Company has to pay 1/2 up front

**ENVIRONMENTAL PROTECTION SERVICES OF PINE ISLAND  
RETIREMENT  
TEST YEAR ENDED 12/31/2002**

PLANT	94,071.59
PONDS	27,425.44
<b>TOTAL PLANT</b>	<b>121,497.03</b>
ACCUMULATED DEPRECIATION PLANT	(63,479.85)
ACCUMULATED DEPRECIATION POND	(14,765.47)
COST OF REMOVAL PLANT	19,607.50 ESTIMATE
COST OF REMOVAL PONDS	10,628.75 REVISED ESTIMATE
COST OF REMOVAL DRYING PIT	2,175.00 ACTUAL
<b>TOTAL ACCUMULATED DEP.</b>	<b>(45,834.07)</b>
CIAC-PLANT CAPACITY CHARGE	(10,560.00)
CIAC-PONDS	(1,640.00)
<b>TOTAL CIAC</b>	<b>(12,200.00)</b>
<b>ACCUMULATED AMORTIZATION CIAC</b>	<b>2,820.50</b>
<b>DEFERRED PERMIT COSTS</b>	<b>19,466.27</b>
<b>NET RETIREMENT</b>	<b>85,749.73</b>
<b>SALVAGE ESTIMATED BY ENGINEER</b>	<b>0.00</b>
<b>NET AFTER SALVAGE</b>	<b>85,749.73</b>
<b>CALCULATION OF YEARS TO AMORTIZE PER THE RULE:</b>	
DEPRECIATION EXPENSE NET OF CIAC AMORT.	4,769.00
RETURN ON NET INV (WP 7) TIMES 10.32 KRS COC	7,716.26
TOTAL	12,485.26
NET RETIREMENT	85,749.73
YEARS THE ABANDONMENT SHOULD BE RETIRED	6.87
PER RULE 25-30.433(9)	
WILL USE 7 YEARS	
AMORTIZATION EXPENSE EACH YEAR	12,249.96

The company also capitalized the following costs as a deferred expense:

Legal	23,895.56
Engineering paid through the legal bills	4,519.34
	28,414.90
Engineering fees for bulk agreement	450.00
Total legal and engineering relating to county hookup	28,864.90
averaged over 5 years	5,772.98

## **AUDIT DISCLOSURE NO. 2**

### **SUBJECT: SALARIES**

**STATEMENT OF FACT:** The company has been charging the payroll they thought they were allowed to charge from the last case. They have not determined the actual hours spent.

Prior to hooking up to the county, Sue Cherry Hopper stated that she was spending 100% of her time during the two months a year that the company billed customers and several hours a week during the rest of the year .

She estimates that once she has to do monthly billing she will be spending 30 hours a week for all her duties. Based on her salary of \$44,031.21, the allocated amount would be \$33,023.41.

Kevin Cherry is paid \$46.08 an hour. He has spent many hours working on the agreement with the county but should not have to spend as many when the agreement is concluded. He estimates he will spend 15 hours a week.

The attached schedule shows the allocation of benefits related to these payroll costs. Using the company estimates increase payroll by \$44,640.95 and benefits and taxes by \$19,934.24.

**OPINION:** Some of the duties provided by both Sue Hopper and Kevin Cherry appear to relate to the start up time to establish standards and billing systems for changing from a treatment and distribution business to a distribution business and from a twice a year flat fee billing to a monthly usage based billing. The hours may reduce to an average of 20 hours a week for Sue and 8 hours for Kevin after the first year. The rates and hours will be reviewed by the Tallahassee staff for reasonableness.

Time sheets should be kept the first year to determine the actual time spent. Actual costs should be audited after the first year.

**ENVIRONMENTAL PROTECTION SERVICES OF PINE ISLAND  
ANALYSIS OF PAYROLL  
TEST YEAR ENDED DECEMBER 31, 2002**

	<b>HOURLY RATE</b>	<b>HOURS</b>	<b>ACTUAL WAGES</b>	<b>BOOKED</b>	<b>DIFFERENCE</b>
SUE CHERRY HOPPER	21.17	30.00	33,023.41	4,684.92	28,338.49
					0.00
KEVIN CHERRY	46.08	15.00	35,939.52	19,637.06	16,302.46
<b>TOTAL SALARIES</b>			<b>68,962.93</b>	<b>24,321.98</b>	<b>44,640.95</b>

**COMPUTATION OF BENEFITS:**

	<b>TOTAL ALL COMPANY'S</b>			<b>HEALTH INSURANCE</b>	<b>TOTAL BENEFITS</b>	<b>% OF SALARY</b>	<b>ALLOCATED BENEFITS</b>
	<b>PENSION</b>	<b>FICA</b>	<b>UNEMP.</b>				
Sue	11,000.00	3,411.94	57.24		14,469.18	75.00%	10,851.89
Kevin	11,000.00	5,263.81	124.59	7,831.20	24,219.60	37.50%	9,082.35
							19,934.24

19

<b>% OF SALARY ALLOCATED:</b>	<b>TOTAL ALL COMPANIES</b>	<b>ALLOCATED</b>	<b>% OF SALARY</b>
KEVIN	95,839.00	35,939.52	37.50%
SUE	44,031.00	33,023.41	75.00%
<b>TOTAL</b>	<b>139,870.00</b>	<b>68,962.93</b>	<b>49.31%</b>

### **AUDIT DISCLOSURE NO. 3**

#### **SUBJECT: DEPRECIATION AND AMORTIZATION EXPENSE**

**STATEMENT OF FACT:** The company has used 2.5% depreciation since it has not had a rate case since Commission Rule 25-30.140, F.A.C. went into effect. Amortization of CIAC was computed the same way.

**OPINION:** The attached schedule shows depreciation using the rule to be \$5,258.62 instead of the amount recorded by the company of \$8,123.00 or a difference of \$2,864.38. Part of the difference is due to using different rates and part due to not depreciating the retired assets. Four other adjustments are also shown on the schedule. These adjustments are made in other exceptions in this report and are only shown here to be able to agree total depreciation expense to the net operating income schedule.

Amortization expense is shown on the second schedule attached to this disclosure and shows amortization being \$359.95 lower than that recorded by the company. Again, part of the difference is due to using different rates and part due to not amortizing the retired CIAC.

Amortization of Section V lines is shown here to tie to the total amortization expense number but has already been discussed in another exception in this report.





**ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND  
ANALYSIS OF ACCUMULATED DEPRECIATION  
TEST YEAR ENDED DECEMBER 31, 2002**

The company has not had a rate case since the 1984 commission rates went into effect. Therefore, the last ordered rates of 2.5% apply until computing depreciation for the test year.

For proforma purposes, depreciation needs to be computed using rule 25-30.140.

The calculation follows:

	<b>Dollars</b>	<b>Years</b>	<b>Yearly Depreciation</b>	<b>Per Company</b>	<b>Difference</b>
Force mains	46,324.00	27	1,715.70		
Gravity mains	114,128.16	40	2,853.20		
Lift stations	4,100.61	22	186.39		
Manholes	7,480.00	27	277.04		
Services	7,920.00	35	226.29		
	<u>179,952.77</u>		<u>5,258.62</u>	8,123.00	(2,864.38)
Proforma Depreciation for Lift Station					
New Lift Station	86,625.00	22.00	3,937.50		
Lines Section 5 Gravity	8,836.62	40.00	220.92		
Transfer Control Panel	5,746.00	22.00	261.18		
New Office Equipment	SEE CALCULATION DISC. 4		683.77		
			<u>10,361.99</u>		

## **AUDIT DISCLOSURE NO. 4**

### **SUBJECT: COSTS RELATED TO BILLING AND ALLOCATED COSTS**

**STATEMENT OF FACT:** The utility has been billing flat rates twice a year. The agreement with the County requires them to pay the County based on water usage monthly. Therefore, the company will need to use monthly usage based rates to generate the cash flow to pay the County.

The company paid common bills such as electric, telephone, and insurance from other affiliated companies and often did not allocate to the utility.

**OPINION:** The attached schedule shows the estimated costs for several items. The first is for the cost for meter readings, postage, billing cards and envelopes for doing monthly billing and totals \$4,664.44 a year based on the current customer count.

The second section are costs that are common to all affiliate companies owned by the Cherry's related mainly to the office on York Road. These costs total \$12,713.71 and were allocated using the payroll allocation since Sue Hopper and Kevin Cherry are the only ones using the office. Allocated costs using the 49.31% are \$6,268.50. If the payroll allocation is changed, this allocation also needs to change.

The third section are direct office supplies, postage, the cost of a phone line, post office box, tangible tax and maintenance contracts. The total for these expenses is \$2,771.32.

Since the company is going to have to perform monthly billings, it plans to set up a separate office in the trailer specifically for the utility and are requesting a desk, chair, file cabinet, copy machine, computer, printer and a software program to generate the bills. The total cost is estimated to be \$4,774 which has been added to proforma plant. The depreciation on these items is \$683.77 and is shown in the depreciation disclosure as part of the \$10,361.99 of depreciation expense.

**ENVIRONMENTAL PROTECTION SYSTEM OF PINE ISLAND  
ANALYSIS OF PROFORMA COSTS:  
TEST YEAR ENDED DECEMBER 31, 2002**

**CHARGES TO DO MONTHLY BILLING:**

	PER BILL	BILLS	COST	
BILL FROM WATER CO. FOR METER READINGS	0.35	441	1,852.20	Per water co.
POSTAGE	0.37	431	1,913.64	
POSTAGE CANADIAN	0.65	10	78.00	
CARDS 139 FOR 2000/ 75 USUALLY LATE		4	556.00	Per brochure from Billing Software
ENVELOPES \$25 FOR 500 (441 cust. x 12/500 x \$25)			264.60	Per brochure from Billing Software
			<u>4,664.44</u>	

**YEARLY**

**OFFICE COSTS TO BE ALLOCATED:**

ACTUARIAL REPORT FOR PENSION	1,732.50	Per last year bill
INTERNET	286.80	Per last year bill
STORAGE UNIT	1,440.00	Estimate from storage co.
KEVIN'S CELL PHONE	661.32	Actual bill
WATER FOR OFFICE	116.76	Based on test year
ELECTRIC FOR OFFICE	1,472.56	Based on test year
RE TAX FOR OFFICE	2,298.94	Based on test year
INSURANCE OFFICE PHYSICAL	913.00	Based on test year
INSURANCE COMMERCIAL	833.83	Based on test year
INSURANCE OFFICE WIND	726.00	Based on test year
INSURANCE OFFICE FLOOD	867.00	Based on test year
LAWN CUTTING OFFICE	1,365.00	Based on test year
	<u>12,713.71</u>	
ALLOCATED BASED ON PAYROLL	49.31%	
	<u>6,268.50</u>	

**OFFICE COSTS DIRECT:**

**YEARLY**

SUPPLIES BASED ON DETAIL LIST SUE PROVIDED	360.00	
LAZER JET REPLACEMENT 2YR	130.00	
1 CASE COPY PAPER	25.09	
POSTAGE TO MAIL CHECKS, EXPRESS, ETC.	240.00	
PHONE LINE DIRECT UTILITY	407.40	Obtained estimate telco
TANGIBLE TAX .2% OF ASSETS	550.83	
PO BOX	528.00	Obtained estimate post office
MAINTENANCE COPY MACHINE	135.00	Office Depot Estimate
MAINTENANCE SOFTWARE	395.00	Per Brochure
	<u>2,771.32</u>	

**CAPITALIZED OFFICE COSTS NEEDED:**

		Lives per rule	Depreciation
CHAIR	Office Depot Est.	100.00	15 6.67
DESK	Office Depot Est.	409.00	15 27.27
2 FILE CABINETS	Office Depot Est.	160.00	15 10.67
COPY MACHINE	Office Depot Est.	450.00	15 30.00
CABLE	Office Depot Est.	60.00	6 10.00
LAZER PRINTER	Office Depot Est.	400.00	6 66.67
COMPUTER WITH MORE MEMORY	Dell Website	700.00	6 116.67
SOFTWARE PROGRAM	Per brochure	2,495.00	6 415.83
		<u>4,774.00</u>	<u>683.77</u>

**AUDIT DISCLOSURE NO. 5**

**SUBJECT: BANK CHARGES**

**STATEMENT OF FACT:** The company estimated bank charges at \$288 a month. The company's estimate is based on the bank fee of \$1.10 per every \$1,000 over \$10,000 in deposits.

**OPINION:** Since the company only collects revenue two times a year, the deposits collected in those two months are higher than what will normally be collected in a month. Therefore, depending on the revenue rates set, they will probably not have more than 12,000 to 18,000 each month which is not that high over the maximum of \$10,000 which is free or as high as what they estimated. Based on the rate schedule provided by the company from the bank, the bank fees will probably be closer to \$30 a month or \$360 a year or an addition of \$285.45 to the test year expenses recorded of \$74.55.

**AUDIT DISCLOSURE NO. 6**

**SUBJECT: REGULATORY ASSESSMENT FEE**

**STATEMENT OF FACT:** Adjusted revenues were multiplied by the 4.5% regulatory assessment fee rate to determine taxes for the test year. Based on \$69,908.40 of revenue, the tax would be \$3,145.88 or an increase of \$122.74.

**AUDIT DISCLOSURE NO. 7**

**SUBJECT: INSURANCE ON PLANT**

**STATEMENT OF FACT:** The company provided an estimate from the insurance company for only the lift stations. The estimate is \$150. Insurance for the office is included in allocated expenses. Payroll related insurance is included in the payroll disclosure. Therefore all but the \$150 was removed from the company insurance account or \$1,876.85.

**AUDIT DISCLOSURE NO. 8**

**SUBJECT: MAINTENANCE EXPENSE AND OPERATION EXPENSE**

**STATEMENT OF FACT:** The company will no longer have a contractor to maintain the plant or any other plant related expenses. The company received an estimate from its operator for lift station inspections. Test year operator expense for the plant and lift stations was \$6,240. The estimate for lift station inspections was \$3,120.

The company has also provided an estimate from its engineer to clean, video, and rehabilitate the collection system. The estimate totals \$350,740.60. This amount has been broken down into a six year plan. The estimates per year are:

Year 1	\$23,770.00
Year 2	36,000.00
Year 3	66,220.00
Year 4	77,100.00
Year 5	61,040.00
Year 6	86,610.00

The company also had \$17,013.38 in maintenance expense recorded in the test year. Audit exception three reduced this account by \$5,746.

**OPINION:** Review of the test year expenses for the maintenance account found that only \$811.33 of these expenses related to lift station repair, line repair or office repairs. Therefore, all other repair and maintenance was removed or \$10,456.05.

The operator cost for inspecting the lift stations appears high compared to the cost that the company was paying for the plant and the lift station. Our engineer suggested that the lift station inspections should not be more that one third of the original operator cost or \$2,080. Therefore, operator costs were reduced by \$4,160.

The plan for rehabilitation of the lines has not been included in the attached schedules. The staff engineer will review them to determine the reasonableness of the costs.

**AUDIT DISCLOSURE NO. 9**

**SUBJECT: REMOVE DUPLICATE OR EXPENSES RELATED TO RETIRED ASSETS**

**STATEMENT OF FACT:** Several expenses are no longer going to be incurred once the company no longer treats the wastewater and several have been re-allocated in Disclosure 5. Therefore, several accounts were removed from net operating income:

**Already in Disclosure 5:**

Health Insurance	\$ 503.33
Worker's Comp	469.32
Umbrella Insurance	98.00
Office Costs	877.24
Phone	283.04
Water	2.82
Taxes	209.00

**Related to Retired Plant:**

Land Rent	\$9,999.96
Operator Repairs	983.65
Lab	1,227.00
Engineering	350.00
Chemicals	5,105.51
Sludge Removal	3,585.00



**AUDIT DISCLOSURE NO. 10**

**SUBJECT: ELECTRIC EXPENSE**

**STATEMENT OF FACT:** The company will no longer have electric expense for the plant or the York Road lift station but will have additional expense for the new master lift station. Electric expense estimated by the company engineer for the new lift station was \$1,200. The cost of electric for the Bowspirit lift station was \$207.44.

**OPINION:** The electric expense included in net operating income was \$1,407.44.

**AUDIT DISCLOSURE NO. 11**

**SUBJECT: LATE PAYMENTS**

**STATEMENT OF FACT:** As of December 31, 2002, the company had \$3,496.27 in receivables that were more than 90 days past due. The company has provided a letter outlining the concerns it has that need to be addressed in a tariff.

**OPINION:** No provision for an allowance for uncollectibles has been included in the attached schedules since some tariff remedies such as late fees, disconnect charges, and customer deposits may reduce the amount. However, some allowance is probably still necessary and will be addressed by Tallahassee staff.



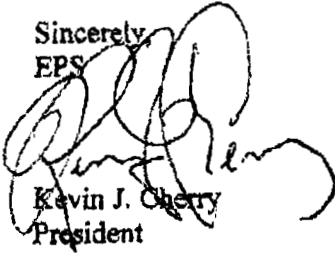
Page 2  
EPS

him again. A penalty charge should also be levied.

Another problem we have experienced is when tree roots enter where EPS's lateral and the house service line meet. EPS has in the past corrected this problem at no charge to the customer. This has cost thousands of dollars. I would like language in the tariff describing both EPS's and the customer's responsibility for lateral blockages and who should bear the costs if it is determined that the problem is caused by the customer.

Thank you for taking the time to review my requests. We would appreciate the PSC's cooperation in helping us prevent delinquent payments. I will be happy to respond to any questions or comments.

Sincerely  
EPS



Kevin J. Cherry  
President

KJC/kc

## **STAFF PREPARED EXHIBITS**

- 1. Rate Base**
- 2. Cost of Capital**
- 3. Net Operating Income**
- 4. Adjusting Journal Entries to Actual**
- 5. Adjusting Entries Proforma**

ENVIRONMENTAL PROTECTION SERVICES OF PINE ISLAND  
 RATE BASE  
 TEST YEAR ENDED DECEMBER 31, 2002

ACCOUNT	BALANCE PER CO. 12/31/02	ADJUSTMENTS TO ACTUAL	NET	PROFORMA ADJUSTMENTS	PROFORMA BALANCE
LAND	2,000.00	(2,000.00) ADJ 3	0.00		0.00
STRUCTURES AND IMPROVEMENTS	35,558.00	58,513.59 ADJ 6	94,071.59	(94,071.59) PROFORMA 4	0.00
POWER GENERATION EQUIP.	28,486.00	(28,486.00) ADJ 6	0.00		0.00
COLLECTION FORCE	46,324.00		46,324.00		46,324.00
COLLECTION GRAVITY	36,493.00	86,471.78 ADJ 2, 6	122,964.78		122,964.78
TREATMENT AND DISP. EQUIP.	59,699.00	(59,699.00) ADJ 6	0.00		0.00
PLANT SEWERS	19,511.00	(19,511.00) ADJ 6	0.00		0.00
OTHER TANGIBLE PLANT	81,371.23	(81,371.23) ADJ 6	0.00		0.00
LIFT STATIONS		9,846.61 ADJ 5, 6	9,846.61	86,625.00 PROFORMA 3	96,471.61
SERVICES		7,920.00 ADJ 6	7,920.00		7,920.00
PONDS		27,425.44 ADJ 6	27,425.44	(27,425.44) PROFORMA 4	0.00
MANHOLES		7,480.00 ADJ 6	7,480.00		7,480.00
INTANGIBLE PLANT				823,431.00 PROFORMA 1	823,431.00
OFFICE EQUIPMENT				4,774.00 PROFORMA 7	4,774.00
TOTAL PLANT	309,442.23	6,590.19	316,032.42	793,332.97	1,109,365.39
ACCUMULATED DEPRECIATION	(181,326.65)	(39.43) ADJ 2,5,6	(181,366.08)	74,307.82 PROFORMA 3,4	(107,058.26)
CIAC	(116,669.00)	(19,396.62) ADJ 2, 4	(136,065.62)	12,200.00 PROFORMA 4	(123,865.62)
ACCUMULATED AMORTIZATION CIAC	63,324.00	4,084.71 ADJ 2, 4	67,408.71	(2,820.50) PROFORMA 4	64,588.21
ACCUMULATED AMORTIZATION INTANGIBLE PLANT				(34,248.90) PROFORMA 1	(34,248.90)
WORKING CAPITAL			0.00	21,114.00 1/8 OF O & M	21,114.00
TOTAL RATE BASE	74,770.58	(8,761.15)	66,009.43	863,885.39	929,894.82

**ENVIRONMENTAL PROTECTION SERVICE OF PINE ISLAND  
 COST OF CAPITAL CALCULATION  
 TEST PERIOD ENDED DECEMBER 31, 2002**

NOTE: USED YEAR END SINCE EVERYTHING IS BASED ON FUTURE CONNECTION

EPS has obtained its capital from affiliate companies in the past. The only affiliate to have outside debt is KRS Land Development. Cost of Capital was prepared for KRS using year end December 31, 2002. It was also prepared for EPS using estimated future debt with the county and with SunTrust for the new lift station, cost of removal of retired assets, and the one-half of hookup fees that the company will have to pay the county at the time of connection.

<b>KRS LAND DEVELOPMENT:</b>				
	<b>BALANCE</b>	<b>% OF TOTAL</b>	<b>RATE</b>	<b>WEIGHTED COST</b>
EQUITY	975,646.35	70.73%	11.64%	8.23%
DEBT-HUNTINGTON BANK	403,826.08	29.27%	7.13%	2.09%
	<u>1,379,472.43</u>	<u>100.00%</u>		<u>10.32%</u>

CALCULATION OF EQUITY RATE PER ORDER PSC-02-1252-CO-WS	9.650%
0.00582/EQUITY RATIO	1.988%
	<b>11.638%</b>

<b>ENVIRONMENTAL PROTECTION SERVICE OF PINE ISLAND:</b>				
	<b>BALANCE</b>	<b>% OF TOTAL</b>	<b>RATE</b>	<b>WEIGHTED COST</b>
COMMON STOCK	500.00			
PAID IN CAPITAL	111,864.00			
RETAINED EARNINGS	(51,351.29)			
CONTRIBUTED CAPITAL-KEVIN	20,430.00			
CONTRIBUTED CAPITAL-SUE	16,580.00			
CONTRIBUTED CAPITAL-RICHARD	12,990.00			
TOTAL EQUITY	<u>111,012.71</u>	<u>9.38%</u>	<u>10.29%</u>	<u>0.97%</u>
NOTES PAYABE CHERRY EST.	15,316.39	1.29%	8.00%	0.10%
NOTES PAYABE KRS LAND DEV.	55,436.03	4.68%	8.00%	0.37%
NOTES PAYABE KRS RESORT	7,499.97	0.63%	8.00%	0.05%
NOTES PAYABE CHERRY BUILDERS	24,438.56	2.06%	8.00%	0.17%
LINE OF CREDIT SUNTRUST	285,260.50	24.09%	8.00%	1.93%
COUNTY LOAN WP 41-4	684,978.00	57.86%	4.50%	2.60%
TOTAL DEBT	<u>1,072,929.45</u>	<u>90.62%</u>		
TOTAL DEBT AND EQUITY	<u>1,183,942.16</u>	<u>100.00%</u>		<u>6.19%</u>

<b>LINE OF CREDIT ESTIMATED:</b>	
DUE TO COUNTY FOR 1/2 OF HOOKUPS	138,453.00
NEW LIFT STATION	86,625.00
COST OF REMOVAL PLANT	19,607.50
COST OF REMOVAL PONDS	40,575.00
	<u>285,260.50</u>

CALCULATION OF EQUITY RATE PER ORDER PSC-02-1252-CO-WS	9.650%
0.00582/EQUITY RATIO	0.642%
	<b>10.292%</b>

**ENVIRONMENTAL PROTECTION SERVICES OF PINE ISLAND  
ANALYSIS OF NET OPERATING INCOME  
TEST YEAR ENDED DECEMBER 31, 2002**

	PER G/L	PROFORMA ADJUSTMENT	WORKPAPER REFERENCE	ADJUSTED TEST YEAR	
REVENUES	67,180.79	2,727.61	ADJ 1	69,908.40	EXC. 6
<b>OPERATING EXPENSES:</b>					
PAYROLL	4,684.92	28,338.49	PROFORMA 6	33,023.41	DISC 2
PAYROLL OFFICERS	19,637.06	16,302.46	PROFORMA 6	35,939.52	DISC 2
OPERATION OF PLANT	6,240.00	(4,160.00)	PROFORMA 6	2,080.00	DISC 8
BANK CHARGES	74.55	285.45	PROFORMA 6	360.00	DISC 5
ACCOUNTING	4,800.00			4,800.00	
CHECK CHARGE	114.85			114.85	
INSURANCE	2,026.85	(1,876.85)	PROFORMA 6	150.00	DISC 7
HEALTH INSURANCE KEVIN	503.33	(503.33)	PROFORMA 6	0.00	DISC 9
WORKERS COMP INSURANCE	469.32	(469.32)	PROFORMA 6	0.00	DISC 9
UMBRELLA POLICY	98.00	(98.00)	PROFORMA 6	0.00	DISC 9
LEGAL	157.50			157.50	DISC 9
RATE CASE	0.00			0.00	DISC 9
OFFICE COSTS	877.24	(877.24)	PROFORMA 6	0.00	DISC 9
RENT SEWER PLANT	9,999.96	(9,999.96)	PROFORMA 6	0.00	DISC 9
REPAIR AND MTC.	17,013.38	(16,202.05)	PROFORMA 6 & ADJ 5	811.33	EXC 3, DISC 9
OPERATOR REPAIRS	983.65	(983.65)	PROFORMA 6	0.00	DISC 9
LAB WORK	1,227.00	(1,227.00)	PROFORMA 6	0.00	DISC 9
ENGINEERING FOR PERMIT	350.00	(350.00)	PROFORMA 6	0.00	DISC 9
CHEMICALS	5,205.51	(5,105.51)	PROFORMA 6	100.00	DISC 9
SLUDGE REMOVAL	3,585.00	(3,585.00)	PROFORMA 6	0.00	DISC 9
PHONE	283.04	(283.04)	PROFORMA 6	0.00	DISC 9
ELECTRICITY	6,864.17	(5,456.73)	PROFORMA 6	1,407.44	DISC 10
WATER USE	2.82	(2.82)	PROFORMA 6	0.00	DISC 9
ALLOCATION OF FICA, PENSION, HEALTH INS.		19,934.24	PROFORMA 6	19,934.24	DISC. 2
NEW DIRECT COSTS BILLING		4,664.44	PROFORMA 6	4,664.44	DISC. 4
ALLOCATION OF OFFICE EXPENSES		6,268.50	PROFORMA 6	6,268.50	DISC. 4
DIRECT COSTS OFFICE EXPENSES		2,771.32	PROFORMA 6	2,771.32	DISC. 4
GALLONAGE RATE TO COUNTY FOR WW TREATMENT		38,310.72	PROFORMA 2	38,310.72	DISC. 1
AMORTIZATION OF EXTRAORDINARY LOSS		12,249.96	PROFORMA 4	12,249.96	DISC. 1
AMORTIZATION OF LEGAL & ENG. COUNTY DISCOUNTS	(1.46)	5,772.98	PROFORMA 5	5,772.98	DISC. 1
NET OPERATING EXPENSE	85,196.69	83,718.05		168,914.74	
<b>AMORTIZATION OF INTANGIBLE PLANT</b>					
AMORTIZATION CIAC	(3,354.00)	34,248.90	PROFORMA 1	34,248.90	DISC. 1
DEPRECIATION EXPENSE	8,123.00	139.03	PROFORMA 7, ADJ 2	(3,214.97)	EXC. 2,5
NET DEPRECIATION	4,769.00	2,238.99	ADJ 2,5,PROFORMA 3,6,	10,361.99	EXC. 2,3, DISC. 3,4
		36,626.92		41,366.92	
<b>TAXES</b>					
REGULATORY ASSESSMENT FEE	209.00	(209.00)	see new allocation	0.00	DISC 9
TOTAL TAXES	3,023.14	122.74	recalc. on above	3,145.88	DISC 6
	3,232.14	(86.26)		3,145.88	
<b>TOTAL EXPENSES</b>	<b>93,197.83</b>	<b>120,258.70</b>		<b>213,456.53</b>	<b>40.34</b>
<b>NET OPERATING INCOME</b>	<b>(26,017.04)</b>	<b>(117,531.09)</b>		<b>(143,548.13)</b>	
<b>BELOW THE LINE :</b>					
PENALTY	400.00			400.00	
INTEREST EARNED	(32.78)			(32.78)	
<b>NET INCOME</b>	<b>(26,384.26)</b>	<b>(117,531.09)</b>		<b>(143,915.35)</b>	

Once the company connects to the county, it will be a distribution only company which will decrease several expenses. However, monthly billing and gallonage billing will increase the time spent and some office expenses. In addition, the company will have to pay connection fees to the county which have to be amortized. It will have fees due to the county for monthly service and an extra-ordinary loss to amortize. There is also legal and accounting related to the county hookup to be amortized.



**ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND  
 ADJUSTING JOURNAL ENTRIES  
 TEST YEAR ENDED DECEMBER 31, 2002**

**TO ACTUAL:**

	1		
ACCOUNTS RECEIVABLE KRS		2,727.61	
REVENUE FLAT FEE WASTEWATER			2,727.61
TO INCREASE REVENUE TO AMOUNT DETERMINED USING ACTUAL NUMBER OF CUSTOMERS TIMES THE RATE AND GENERAL SERVICE RATES FOR THE RV PARK. MOST OF THE DIFFERENCE IS DUE TO THE COMPANY NOT BILLING THE RV PARK.			
EXCEPTION 6			
	2		
PLANT-GRAVITY MAINS		8,836.62	
CIAC FOR CONTRIBUTED LINES			8,836.62
LINES WER DONE IN 1985 FOR SECTION V THAT WERE WRITTEN OFF BY CHERRY ESTATES AND THEREFORE, CONTRIBUTED.			
ACCUMULATED AMORTIZATION CIAC		3,866.10	
DEPRECIATION EXPENSE		220.92	
ACCUMULATED DEPRECIATION			3,866.10
AMORTIZATION EXPENSE			220.92
EXCEPTION 2			
	3		
EQUITY		2,000.00	
LAND			2,000.00
TO REMOVE LAND IN THE LAST ORDER THAT THE COMPANY SAYS WAS NEVER OWNED BY THE UTILITY.			
EXCEPTION 1			
	4		
DUE FROM CHERRY ESTATES		4,816.15	
RETAINED EARNINGS		5,743.85	
CIAC			10,560.00
TO RECORD CIAC RECORDED AS REVENUE OR NEVER TRANSFERRED FROM CHERRY ESTATES.			
EXCEPTION 5			
ACCUMULATED AMORTIZATION CIAC		218.61	
RETAINED EARNINGS			218.61
EXCEPTION 5			
	5		
PLANT-LIFT STATION		5,746.00	
REPAIR AND MAINTENANCE			5,746.00
DEPRECIATION EXPENSE		261.18	
ACCUMULATED DEPRECIATION			261.18
TO RECORD THE NEW CONTROL PANEL FOR THE YORK ROAD LIFT STATION IN PLANT SINCE IT WILL BE USED IN THE NEW MASTER LIFT STATION.			
EXCEPTION 3			
	6		
DUE FROM AFFILIATE		5,992.43	
PONDS		27,425.44	
GRAVITY MAINS		77,635.16	
STRUCTURES AND IMPROVEMENTS		58,513.59	
LIFT STATION		4,100.61	
MANHOLES		7,480.00	
SERVICES		7,920.00	
POWER GENERATION EQUIPMENT			28,486.00
T & D EQUIPMENT			59,699.00
PLANT SEWERS			19,511.00
OTHER TANGIBLE PLANT			81,371.23
TO REMOVE PIPE ABANDONED AS PART OF SALE OF LAND TO THE COUNTY BY AN AFFILIATE. ADJUST COMPANY'S ENTRY TO POST PSC ADJUSTMENTS FROM OTHER TANGIBLE TO THE APPROPRIATE ACCOUNT.			
ACCUMULATED DEPRECIATION		4,087.85	
RETAINED EARNINGS			4,087.85
ADJUST ACCUMULATED DEPRECIATION TO 2.5% OF THE APPROPRIATE BALANCES			
EXCEPTION 4			

**PROFORMA ADJUSTMENTS FOR TRANSFER TO COUNTY:**

1

INTANGIBLE PLANT	684,978.00	
LOAN TO COUNTY		684,978.00
TO RECORD PAYABLE TO COUNTY FOR CURRENT CONNECTIONS. IT WILL BE PAID OVER 20 YEARS.		
INTANGIBLE PLANT	138,453.00	
ACCOUNTS RECEIVABLE-FUTURE CUSTOMERS		138,453.00
TO RECORD AMOUNT DUE AT SIGNING EQUAL TO 1/2 OF FUTURE CONNECTIONS. THIS HAS NOT BEEN AMORTIZED. ANALYST NEEDS TO DETERMINE TREATMENT.		
AMORTIZATION OF INTANGIBLE PLANT	34,248.90	
INTANGIBLE PLANT CURRENT CUSTOMERS		34,248.90
AMORTIZATION OF THE AMOUNT DUE TO THE COUNTY OVER THE 20 YEAR PAYOUT. DISCLOSURE 1		

2

PURCHASED WASTEWATER TREATMENT	38,810.72	
PAYABLE TO COUNTY		38,810.72
TO RECORD EXPENSE BASED ON \$3.36 PER THOUSAND GALLONS USING BILLING ANALYSIS. DISCLOSURE 1		

3

PLANT-LIFT STATION	86,625.00	
PAYABLE		86,625.00
DEPRECIATION EXPENSE	3,937.50	
ACCUMULATED DEPRECIATION		3,937.50
TO RECORD ENGINEERS ESTIMATE FOR THE COST OF THE NEW MASTER LIFT STATION AND TO RECORD DEPRECIATION USING THE NEW RULE ON IT. DISCLOSURE 1		

4

EXTRA-ORDINARY PROPERTY LOSS	85,749.73	
ACCUMULATED DEPRECIATION	78,245.32	
CIAC PLANT CAPACITY	10,560.00	
CIAC PONDS	1,640.00	
PAYABLE FOR COST OF REMOVAL		30,236.25
PLANT		94,071.59
PONDS		27,425.44
ACCUMULATED AMORTIZATION CIAC		2,820.50
DEFERRED PERMIT COSTS		19,466.27
AMORTIZATION OF EXTRA-ORDINARY PROPERTY LOSS	12,249.96	
EXTRA-ORDINARY PROPERTY LOSS		12,249.96

ENTRY TO RETIRE PLANT AND RECORD ESTIMATED COST OF REMOVAL. LOSS SHOULD BE AMORTIZED OVER 9 YEARS BASED ON RULE. THE LOSS WILL CHANGE IF THE ESTIMATE COST OF REMOVAL IS DIFFERENT THAN ACTUAL. DISCLOSURE 1

5

AMORTIZATION OF DEFERRED LEGAL FOR COUNTY HOOKUP	5,772.98	
DEFERRED COUNTY HOOKUP COSTS		5,772.98
TO AMORTIZE DEFERRED LEGAL RELATED TO HOOKUP TO COUNTY.		

AMORTIZATION EXPENSE	DISC. 3	359.95	
PAYROLL	DISC. 2	28,338.49	
PAYROLL OFFICERS	DISC. 2	16,302.46	
BANK CHARGES	DISC. 6	285.45	
EMPLOYEE PENSION, TAXES AND BENEFITS	DISC. 2	19,934.24	
BILLING COSTS	DISC. 4	4,664.44	
OFFICE EXPENSE ALLOCATION	DISC. 4	6,268.50	
OFFICE EXPENSES DIRECT	DISC. 4	2,771.32	
REGULATORY ASSESSMENT FEE	DISC. 6	122.74	
DEPRECIATION EXPENSE	DISC. 3		2,864.38
OPERATION OF PLANT	DISC. 8		4,160.00
INSURANCE	DISC. 7		1,876.85
HEALTH INSURANCE KEVIN	DISC. 9		503.33
WORKER'S COMP INSURANCE	DISC. 9		469.32
UMBRELLA POLICY	DISC. 9		98.00
OFFICE COSTS	DISC. 9		877.24
RENT LAND	DISC. 9		9,999.96
REPAIR AND MAINTENANCE	DISC. 8		10,456.05
OPERATOR REPAIRS	DISC. 9		983.65
LAB WORK	DISC. 9		1,227.00
ENGINEERING FOR PERMIT	DISC. 9		350.00
CHEMICALS	DISC. 9		5,105.51
SLUDGE REMOVAL	DISC. 9		3,585.00
PHONE	DISC. 9		283.04
ELECTRICITY	DISC. 9		5,456.73
WATER USE	DISC. 9		2.82
TAXES	DISC. 9		209.00
FUTURE PAYABLE			30,539.71
TO ADJUST EXPENSES TO DETAIL PROVIDED BY CO. FOR FUTURE EXPENSES			

7

OFFICE EQUIPMENT	DISC. 4	4,774.00	
DEPRECIATION	DISC. 4	683.77	
TO ADJUST FOR OFFICE FURNITURE AND EQUIPMENT CO. NEEDS TO DO MONTHLY BILLING			