



Public Service Commission

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

DATE: June 11, 2003
TO: Division of Economic Regulation (Moniz)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030250-WU; **Company Name:** Floralino Properties, Inc.; **Audit Purpose:** determine rate base, capital structure and net operating income using most recent 12 month period; **Audit Control No.** 03-108-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send 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
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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING***

Orlando District Office

FLORALINO PROPERTIES, INC.

STAFF-ASSISTED RATE CASE

HISTORICAL PERIOD ENDED DECEMBER 31, 2002

**DOCKET NO. 030250-WU
AUDIT CONTROL NO. 03-108-3-1**

Intesar Terkawi

Intesar Terkawi, Audit Manager

Charleston J. Winston

Charleston J. Winston, Audit Staff

Misty B. Shepherd

Misty B. Shepherd, Regulatory Analyst III

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

June 2, 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 Floralino Properties, Inc. The attached schedules were prepared by the audit staff as part of our work in the utility's Staff-Assisted Rate Case, Docket No. 030250-WU.

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 books and records of the utility are not in compliance with NARUC.

The utility's plant-in-service is overstated by \$8,854 as of December 31, 2002.

The utility's accumulated depreciation is overstated by \$18,119 as of December 31, 2002.

The utility's water revenue is understated by \$1,417 for the 12-month period ended December 31, 2002.

The utility's water operating and maintenance expenses are overstated by \$28,832, for the 12-month period ended December 31, 2002. Working capital balance was calculated to be \$11,323.

The utility's water taxes other than income balance is understated by \$939. The utility owes additional Regulatory Assessment Fees of \$64 for the 12-month period ended December 31, 2002.

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.

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

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

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

RATE BASE: Compiled and verified utility plant-in-service (UPIS) and accumulated depreciation (AD) additions as of December 31, 2002. Reconciled rate base balances authorized in Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, to the utility's general ledger. Compiled and verified contributions-in-aid-of-construction (CIAC) and accumulated amortization (AA) additions as of December 31, 2002. Scanned the utility's records for CIAC additions. Calculated a working capital allowance as of December 31, 2002, using one-eighth of operation and maintenance expenses. Prepared the rate base exhibit as of December 31, 2002.

NET OPERATING INCOME: Scanned and verified 100 percent of utility-provided documents used to prepare water account balances for the utility revenues, operating and maintenance expenses, depreciation expenses, and taxes other than income for the year ended December 31, 2002. Recomputed an audit-determined sample of utility billing records to verify the existing rates, miscellaneous service charges, and service availability fees charged by the utility.

CAPITAL STRUCTURE: Compiled and verified the components of the utility's capital structure as of December 31, 2002. Agreed interest rates to the terms of the notes. Prepared the capital structure exhibit as of December 31, 2002.

OTHER: Scanned the utility's income tax returns from 1994 to 2002 for items pertinent to this rate case.

Exception No. 1

Subject: Books and Records

Statement of Fact: The books and records of Floralino Properties, Inc. were not maintained in compliance with NARUC Uniform System of Accounts (USOA).

Per Water and Wastewater Class "C" Accounting Instruction 2.A., which states as follows:

The books of accounts of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

Per Water and Wastewater Class "C" Accounting Instruction 2.B., which states as follows:

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

Recommendation: The utility does not maintain continuing property records (CPRs) for its plant-in-service showing when plant is placed in service, retirements, salvage values, cost of removal, location, etc.

The utility does not maintain customer deposit ledgers showing names, addresses, dates of deposits, accrued interest, dates when deposits are returned, etc.

Supporting documentation for some of its plant-in-service could not be provided by the utility.

Reconciliation of plant-in-service and accumulated depreciation to the prior Commission Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, was not performed properly by the utility.

Supporting documentation for some of its operation and maintenance expenses could not be provided by the utility.

Revenues are recorded on the cash basis rather than the accrual basis as required.

The audit staff recommends that the utility be required to maintain its books and records in compliance with NARUC.

Exception No. 2

Subject: Utility-Plant-in-Service

Statement of Fact: Per the utility’s general ledger, the amount of plant-in-service is \$326,635 as of December 31, 2002.

Per NARUC Water and Wastewater Class “C” Accounting Instruction 2.B., which states as follows:

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

Recommendation: The utility could not provide supporting documentation for some of its plant additions. The company does not maintain continuing property records (CPRs) for its plant-in-service. Properly maintained CPRs should reflect the following items:

| NARUC | | | | | | |
|-------------|-------------|-------------------|-----------------|-----------------|---------------|----------|
| Account No. | | Asset Description | Date in Service | Model No. | Serial No. | Location |
| Vendor | Invoice No. | Asset Cost | Date Retired | Cost of Removal | Salvage Value | |

The audit staff determined plant-in-service to be \$317,781 as of December 31, 2002. The Commission should reduce the utility’s plant-in-service by \$8,854 (\$326,635 - \$317,781). See attached Schedules A and B on the following pages for further details.

The Commission should require the utility to record the above adjustments.

Schedule A - Exception No. 2

| Date | Per Company | Adjustment | Per Order | Explanation |
|------------------|-------------------|-------------------|-------------------|---|
| 4/30/94 | \$ 291,799 | \$ 935 | \$ 292,734 | Per Order No. PSC-95-0142-FOF-WU |
| | Per Company | Adjustment | Per Audit | |
| 1994 Additions | 532 | (532) | 0 | Non-supporting documentation |
| 1995 Additions | 6,273 | (4,187) | 2,086 | Non-supporting documentation |
| 1995 Retirements | (2,159) | 0 | (2,159) | |
| 1996 Additions | 22,583 | 6,424 | 29,007 | Per supporting documentation |
| 1996 Retirements | (12,342) | (1) | (12,343) | Per Order No. PSC-95-0142-FOF-WU |
| 1997 Additions | 3,603 | (2,999) | 604 | Non-supporting documentation |
| 1998 Additions | 3,684 | (3,244) | 440 | Non-supporting documentation |
| 1999 Additions | 9,063 | (8,342) | 721 | \$9,063 a lawnmower that was stolen in 1999 \$721 per supporting documentation. |
| 2000 Additions | 4,742 | 0 | 4,742 | |
| 2000 Retirements | (9,063) | 7,072 | (1,991) | \$9,063 a lawnmower that was stolen in 1999 \$1,991 retirement of plant @75% of purchase |
| 2001 Additions | 29,541 | (506) | 29,035 | Per supporting documentation |
| 2001 Retirements | (22,583) | (5,067) | (27,650) | Retirement of vehicle added in 1996 Per supporting documentation |
| 2002 Additions | 962 | 1,593 | 2,555 | Per supporting documentation |
| Total: | \$ 326,635 | \$ (8,854) | \$ 317,781 | |

See Schedule B on the following page for details for the per audit amounts.

Schedule B - Exception No. 2

| Date | Acct. | Item | Amount | Vendor | Comments |
|---------------------|-------|------------------------|---------------------|--------------------------------|---------------------|
| 08/01/1995 | 330 | Slab for Water Tank | \$ 1,125.00 | Pasco Concrete Construction | |
| 11/06/1995 | 331 | Turbine Meter | 961.40 | Davis Meter & Supply | |
| Total: | | | 2,086.40 | | |
| 03/08/1996 | 334 | Meters | 264.70 | Floyd S. Salsler, Jr. & Assoc. | |
| 04/18/1996 | 341 | 1996 Isuzu Rodeo | 27,650.09 | Lokey Honda-Isuzu | Retired Old Vehicle |
| 07/09/1996 | 320 | Chemical Feeder Pump | 561.69 | H20 | |
| 10/06/1996 | 334 | Meters | 530.95 | Floyd S. Salsler, Jr. & Assoc. | |
| Total: | | | 29,007.43 | | |
| 05/18/1997 | 334 | Meters | 403.00 | H20 | |
| 07/28/1997 | 320 | Pressure Switch | 200.82 | H20 | |
| Total: | | | 603.82 | | |
| 03/05/1998 | 311 | Submersible Pump | 440.00 | Crum Pump & Supply Co. Inc. | |
| 01/05/1999 | 345 | Turf Tiger Mower | 9,063.00 | Unknown | (1) |
| 01/05/1999 | 320 | Chemical Pump | 267.50 | FWT Wholesale | (3) |
| 08/17/1999 | 311 | Starter, Coil, Heaters | 453.58 | Crum Pump & Supply Co. Inc. | (3) |
| Total: | | | 9,784.08 | | |
| 05/30/2000 | 311 | Replace Pump | 2,654.80 | Crum Pump & Supply Co. Inc. | (2) |
| 08/07/2000 | 311 | Starter, Heater | 2,087.21 | Crum Pump & Supply Co. Inc. | |
| Total: | | | 4,742.01 | | |
| 02/15/2001 | 311 | Pump | 2,894.52 | Crum Pump & Supply Co. Inc. | |
| 04/09/2001 | 320 | Chemical Feeder | 384.18 | Gorman | |
| 07/14/2001 | 341 | 2002 Ford Explorer | 25,756.73 | Walker Ford Co. Inc. | |
| Total: | | | 29,035.43 | | |
| 02/01/2002 | 311 | Pump | 2,555.44 | Crum Pump & Supply Co. Inc. | |
| Grand Total: | | | \$ 78,254.61 | | |

(2) $\$2,654.80 \times .75\% = \$ 1,991.10$

(3) $\$267.50 + \$453.58 = \$721.08$

(1) This item was not recorded in plant-in-service by the staff auditor because it had been stolen in 1999, the same year of purchase. The company recorded it in 1999 and retired it in 2000.

(2) The old pump was retired at 75 percent of the new pump purchased price per Commission Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, where no original cost documentation is available.

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: Per the utility's general ledger the amount of accumulated depreciation was \$287,992 as of December 31, 2002. The amount recorded for depreciation expense was \$10,367.

Per NARUC Water and Wastewater Class "C" Account No. 108, Accumulated Depreciation and Amortization of Utility Plant in Service states:

- A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service.
- B. This account shall be credited with:
 - 4. Salvage value, sales price, insurance settlements and other amounts recovered from plant retired.
- C. This account shall be charged with:
 - 1. Original cost of depreciable utility plant retired.

Recommendation: As shown in Exception No. 2, the utility did not properly record and retire some of its plant-in-service. The audit staff, based on the adjustments in Exception No. 2, determined accumulated depreciation of \$269,873 as of December 31, 2002. The audit staff determined the amount for depreciation expense of \$10,014 for the year ended December 31, 2002.

The adjustment to accumulated depreciation is a reduction of \$18,119 (\$287,992 - \$269,873) as of December 31, 2002. The adjustment to depreciation expense is a reduction of \$353 (\$10,014 - \$10,367) for the year ended December 31, 2002.

The Commission should require the utility to record the above adjustments.

Exception No. 4

Subject: Revenue

Statement of Fact: The utility recorded total utility revenue of \$133,873. This amount includes residential water revenue of \$130,511, commercial water revenue of \$1,879, and other water revenue of \$1,483 in its general ledger for the 12-month period ended 2002.

Per NARUC, Account 461, Metered Water Revenue, shall include:

- A. This account shall include the net billing for measured water supplied for residential, commercial, or industrial (except irrigation) purposes where the total charge is, or may be, in any way dependent on the quantity of water delivered.
- B. Records shall be maintained so that the quantity of water sold and the amount of revenue under each rate schedule shall be readily available.

Recommendation: The audit staff determined that the residential water revenue should be increased by \$184, and the commercial water revenue should be increased by \$1,233. The total adjustment is \$1,417 (\$1,233 + \$184). The utility water residential revenue should be \$130,695. The utility water commercial revenue should be \$3,112. The total utility revenue should be \$135,290 (\$130,695 + \$3,112 + \$1,483). The amount of \$1,483 is other water revenue.

The audit staff recalculated the revenues based on the meter reading date and adjusted any incorrect readings of the utility billing analysis based on both the gallonage usage and the billing amounts.

The utility billed a 1" meter size at the 5/8" x 3/4" meter size rate.

The utility derived the above-mentioned amounts based on the actual amount deposited in the bank account, not on the records of the billing analysis. The utility followed the cash basis, not the accrual basis of accounting, in recording the revenues.

The audit staff reviewed the billing records and found numerous inconsistencies. Further, the audit staff noticed that there are some meter readings that are not billed for a month or more. With a bimonthly billing, this could be three to four months after the consumption begins. There are double or triple readings for the same customer during a one-month period.

There are neither meter numbers nor meter sizes stated in the billing analysis. The utility estimated the billings of certain customers when it could not read the meter due to different circumstances.

The Commission should require the utility to change to a monthly billing cycle and to bill its customers monthly on the accrual basis.

Exception No. 4, continued

The regulatory assessment fees (RAFs) should be increased by \$64 for the 12-month period ended December 31, 2002, according to the following calculation.

Water RAFs Adjustments:

| | | |
|----------------------|------|--------------|
| \$135,290 | 4.5% | \$6,088 |
| RAFs per utility G/L | | <u>6,024</u> |
| Difference | | \$64 |

Exception No. 5

Subject: Operation and Maintenance (O&M) Expense

Statement of Fact: The utility reported an operation and maintenance expense balance of \$119,418 for the 12-month period ended December 31, 2002.

Rule 25-30.115(1), Florida Administrative Code, (F.A.C.), requires water utilities to maintain their accounts and records in conformity with NARUC Uniform System of Accounts (USOA).

Recommendation: The audit staff recommends that the Commission should require the utility to reduce its operation and maintenance expense by \$28,832. The total operation and maintenance expense per audit is \$90,586 for the period ended December 31, 2002.

The audit staff calculated the water working capital balances using one-eighth of O&M of \$11,323 ($\$90,586 \times 1/8$), as of December 31, 2002.

See Schedule A on the following page for more details.

Schedule A of Exception No. 5

| | Per Company | Adjustment | Per Audit |
|---|-------------|------------|-----------|
| 601 - Salaries & Wages-Employees | \$6,836 | (\$6,836) | \$0 |
| 610 - Purchased Water | 2,949 | (455) | 2,494 |
| 615 - Purchased Power | 5,228 | 722 | 5,950 |
| 618 - Chemicals | 1,660 | 5,061 | 6,722 |
| 620 - Materials & Supplies | 4,026 | 4,009 | 8,034 |
| 630 - Contractual Services-Billing | 24,553 | 0 | 24,553 |
| 631 - Contractual Services - Professional | 3,652 | 633 | 4,285 |
| 635 - Contractual Services - Testing | 10,915 | (3,056) | 7,860 |
| 636 - Contractual Services - Other | 8,801 | 6,490 | 15,291 |
| 640 - Rents | 2,400 | 0 | 2,400 |
| 645 - Rent Other | 325 | 0 | 325 |
| 650 - Transportation Expenses | 10,374 | (431) | 9,942 |
| 655 - Insurance Expense | 2,046 | 233 | 2,279 |
| 675 - Miscellaneous Expenses | 3,096 | (2,645) | 451 |
| 680 - Refund Customer Deposit | 50 | (50) | 0 |
| 810 - Advertising | 142 | (142) | 0 |
| 815 - Bank Service Charges | 982 | (982) | 0 |
| 825 - Charitable Contributions | 100 | (100) | 0 |
| 835 - Dues & Subscriptions | 84 | (84) | 0 |
| 845 - Insurance - Health | 2,610 | (2,610) | 0 |
| 855 - Interest Expense | 1,053 | (1,053) | 0 |
| 860 - Consumer Confidence Report | 225 | (225) | 0 |
| 863 - License & Fees | 997 | (997) | 0 |
| 870 - Office Expense & Supplies | 3,060 | (3,060) | 0 |
| 872 - Payroll Taxes | 557 | (557) | 0 |
| 878 - Repair & Maintenance | 9,094 | (9,094) | 0 |
| 885 - Taxes | 1,732 | (1,732) | 0 |
| 886 - Gross Receipts Tax | 6,024 | (6,024) | 0 |
| 887 - Telephone | 2,670 | (2,670) | 0 |
| 892 - Utilities | 722 | (722) | 0 |
| 895 - Miscellaneous Expense | 2,455 | (2,455) | 0 |
| Total | \$119,418 | (\$28,832) | \$90,586 |

See details of the above-mentioned adjustments on the following page.

Exception No. 5, continued

- 1) Account No. 601, Salaries and Wages - Employees, should be reduced to zero. The listed employees are no longer employed by the utility. See Disclosure No. 3.
- 2) Account No. 610, Purchased Water, should be reduced by \$455. The invoice amount belongs to the year 2001.
- 3) Account No. 615, Purchased Power, should be increased by \$722. The said amount should be reclassified from Account No.892 to Account No. 615.
- 4) Account No. 618, Chemicals, should be increased by \$5,062 (\$4,390 + \$672). The amount of \$4,390 is reclassified from Account No. 635; \$672 is reclassified from Account No. 878 as it represents chemical expenses.
- 5) Account 620, Materials and Supplies, should be increased by \$4,009 (\$2,344 +\$1,665). The amount of \$2,344 (\$3,060 - \$716) represents the reclassification of Account No. 870. The total amount is \$3,060, reduced by \$716 due to the lack of support. The amount of \$1,665 (\$2,670 - \$1,004) is reclassified from Account No. 887. The total amount is \$2,670, reduced by \$1,004 that was removed due to the personal usage of the cellular phone.
- 6) Account No. 631, Contractual Services, Professional, should be increased by \$633 (\$464 + \$169). The \$464 is reclassified from Account No. 636, as it represents contractual services with Azurix. The amount of \$169 (1/5 of \$847 nonrecurring attorney's fees expense) is reclassified from Account No. 863.
- 7) Account No. 635, Contractual Services-Testing, should be reduced by \$3,056 (\$4,390 - \$1,334). The \$4,390 was reclassified to Account No.618 as it represents chemical expenses; \$1,334 is reclassified from Account No. 878.
- 8) Account No. 636, Contractual Services-Other, should be increased by \$6,490 (\$6,954 - \$464). The \$464 was reclassified to Account No. 631; \$6,954 is reclassified from Account No. 878. The total amount of Account No. 878 is \$9,094, reduced by the following amounts: \$134, due to the lack of support; \$1,334 is reclassified to Account No. 635; and \$672 is reclassified to Account No. 618.
- 9) Account No.650, Transportation Expenses, should be reduced by \$431 (\$135+ \$63 + \$233). The \$135 is removed due to the lack of support; \$63 belongs to the year 2001. The \$233 should be reclassified to Account No. 655, as it represents auto insurance expense.
- 10) Account No.655, Insurance Expense, should be increased by \$233 (\$233 + \$2,610 -\$2,610). The \$233 is reclassified from Account No. 650. The \$2,610 is reclassified from Account No. 845 and is removed from Account No. 655, as it represents the health insurance for the owner's son. The owner's son is not on the payroll of the utility, and he is the only one with health insurance through the utility.

Exception No. 6, continued

- 11) Account No. 675, Miscellaneous Expenses, should be reduced by \$2,645 (\$3,096 - \$142 - \$84 - \$225). The \$3,096 is removed due to the lack of support. Account No. 675 should be increased by \$142, reclassified from Account No. 810, as it represents an advertising expense. It should also be increased by \$84 that represents the *Kiplinger Newsletter* subscription, reclassified from Account No. 810. It should also be increased by \$225 that represents the consumer confidence report expense, reclassified from Account No. 860.
- 12) Account No. 825, of \$100, a donation to Pasco County Sheriff, should be reclassified to Account No. 426.
- 13) The total amount of \$8,463 (\$150 + \$557 + \$1,732 + \$6,024) should be reclassified to Account No. 408, Taxes Other Than Income. The \$150, a Florida state tax, is reclassified from Account No. 863; \$557, payroll taxes, is reclassified from Account No. 872; and \$1,732, real estate taxes, is reclassified from Account No. 885. The amount of \$6,024, the FPSC regulatory assessment fee, is reclassified from Account No. 886.
- 14) The total amount of \$3,057 (\$50 + \$982 + \$2,455) should be reclassified to Account No. 237, Accrued Interest. The \$50 that represents refund customer deposit interest is reclassified from Account No. 680. The \$982 and \$2,455 represent bank service interest charges. The \$982 is reclassified from Account No. 815, and \$2,455 is reclassified from Account No. 895.

Exception No. 6

Subject: Taxes Other Than Income (TOTI)

Statement of Fact: The utility recorded taxes other than income of \$8,463 in its operation and maintenance account for the 12-month period ended December 31, 2002. These balances included \$557 for payroll taxes, \$6,024 for regulatory assessment fees (RAFs), \$150 for Florida state taxes, and \$1,732 for property taxes.

Recommendation: The taxes other than income balance should be moved from the operation and maintenance account. Taxes other than income should be reduced by \$939, according to the following schedule:

| Description | Balance Per Company | Audit Adjustments | Balance Per Audit |
|---------------------------------------|------------------------|----------------------|----------------------|
| Payroll Taxes (1) | \$557 | (\$557) | \$0 |
| Florida Secretary of State | 150 | 0 | 150 |
| Florida Public Service Commission (2) | 6,024 | 64 | 6,088 |
| Real Estate Taxes (3) | 1,732 | (981) | 751 |
| Tangible Personal Property Taxes (4) | 0 | 535 | 535 |
| Total TOTI | \$8,463 | (\$939) | \$7,524 |

- (1) The employees no longer work for the utility.
- (2) See Exception No.1
- (3) \$981 belongs to taxes paid in 2001.
- (4) Utility did not record tangible personal property taxes for 2002.

Disclosure No. 1

Subject: Rental Truck

Statement of Fact: The utility included \$6,000 in its operating and maintenance expense account as an expense for a rental truck, leased from the owner's management company, ITM Investments, Inc. The utility purchased a 2002 Ford Explorer that it is still financing.

Recommendation: The audit staff forwards this information for the Commission to consider whether such a small utility is in need for a truck and a van to run its operations.

Disclosure No. 2

Subject: Pro Forma Salary

Statement of Fact: The utility hired a new staff assistant as a contractor, who will pay her own taxes. The staff assistant will work about 30 hours a week. The average annual salary will be approximately \$14,040. There will be no payroll taxes. The utility reported employee wages of \$6,836 and associated payroll taxes of \$557 for the year ended December 31, 2002.

Recommendation: The audit staff removed the employee wages from O&M and removed the payroll taxes from Taxes Other Than Income, due to the fact that those employees no longer work for the utility. See Exceptions Nos. 2 and 3, respectively.

The audit staff forwards the information regarding the new staff assistant who was employed in 2003 for consideration in this rate case.

Disclosure No. 3

Subject: Revenue and Regulatory Assessment Fee (RAF)

Statement of Fact: The tariff rate changed effective August 31, 2002. For the year 2002, the utility recorded residential revenue of \$130,511 and commercial revenue of \$1,879.

Recommendation: The audit staff calculated the utility's revenue based on the new tariff. The estimated residential revenue for the annual future period, based on the new tariff rate, is \$154,633. The estimated commercial revenue for the annual future period, based on the new tariff, is \$3,140. The total revenue is \$157,773 ($\$154,633 + \$3,140$). The RAF amount, based on the estimated future revenue, is \$7,100 ($\$157,773 \times 4.5\%$).

EXHIBIT I**FLORALINO PROPERTIES, INC.
WATER RATE BASE
DOCKET NO. 030250-WU
RATE BASE
AS OF DECEMBER 31, 2002**

| DESCRIPTION | PER UTILITY | AUDIT EXCEPTION | REFER TO | PER AUDIT |
|---|----------------|--------------------|-------------|--------------|
| UTILITY PLANT-IN-SERVICE | \$326,635 | (\$8,854) | E2 | \$317,781 |
| LAND | 16,272 | 0 | | 16,272 |
| ACCUMULATED DEPRECIATION | (287,992) | 18,119 | E3 | (269,873) |
| CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC) | (173,559) | 0 | | (173,559) |
| ACCUMULATED AMORTIZATION OF CIAC | 173,559 | 0 | | 173,559 |
| WORKING CAPITAL ALLOWANCE | | 11,323 | E5 | 11,323 |
| TOTAL | \$54,915 | \$20,588 | | \$75,503 |

EXHIBIT II

**FLORALINO PROPERTIES, INC.
WATER NET OPERATING INCOME
DOCKET NO. 030250-WU
STAFF-ASSISTED RATE CASE
HISTORICAL PERIOD ENDED DECEMBER 31, 2002**

| DESCRIPTION | PER UTILITY(1) | AUDIT EXCEPTION(1) | REFER TO | PER AUDIT(1) |
|----------------------------|-------------------|-----------------------|-------------|-----------------|
| REVENUES: | | | | |
| OPERATING REVENUES | \$133,873 | \$1,417 | E4 | \$135,290 |
| EXPENSES: | | | | |
| O&M EXPENSE | 119,418 | (28,832) | E5 | 90,586 |
| DEPRECIATION EXPENSE | 10,367 | (353) | E3 | 10,014 |
| AMORTIZATION EXPENSE | 0 | 0 | | 0 |
| TAXES OTHER THAN INCOME | 8,463 | (939) | E6 | 7,524 |
| TOTAL | \$138,248 | (\$30,124) | | \$108,124 |
| NET OPERATING INCOME | (\$4,375) | \$31,541 | | \$27,166 |

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.

EXHIBIT III

**FLORALINO PROPERTIES, INC.
DOCKET NO. 030250-WU
CAPITAL STRUCTURE
AS OF DECEMBER 31, 2002**

| DESCRIPTION | PER COMPANY | AUDIT EXCEPTION | REFER TO(1) | PER AUDIT | RATIO | COST RATE(2) | WEIGHTED COST OF CAPITAL |
|------------------------|-------------|-----------------|-------------|------------|----------|--------------|--------------------------|
| COMMON EQUITY | \$600 | \$0 | | \$600 | 1.18% | 11.10% | 0.001% |
| PAID IN CAPITAL | \$12,400 | \$0 | | \$12,400 | 24.36% | 11.10% | 2.704% |
| RETAINED EARNINGS | \$8,668 | \$0 | | \$8,668 | 17.03% | 11.10% | 1.890% |
| TREASURY STOCK | (\$15,996) | \$0 | | (\$15,996) | (31.42)% | 11.10% | (3.488)% |
| LONG-TERM DEBT | \$13,740 | \$0 | | \$13,740 | 26.99% | 6.00% | 1.619% |
| LONG-TERM DEBT (TRUCK) | \$15,492 | \$0 | | \$15,492 | 30.43% | 5.90% | 1.795% |
| LONG-TERM DEBT (ITM) | \$229 | \$0 | | \$229 | 0.45% | 0.00% | 0.000% |
| CUSTOMER DEPOSITS | \$15,777 | \$0 | | \$15,777 | 30.99% | 6.00% | 1.859% |
| | ===== | ===== | | ===== | ===== | | ===== |
| TOTAL | \$50,910 | \$0 | | \$50,910 | 100.00% | | 6.380% |

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) Cost rate for common equity established in Order No. PSC-02-1252-CO-WS, issued September 11, 2002.