

State of Florida



Public Service Commission

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

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

DATE: June 30, 2004
TO: Tracey Biggins/Shannon Hudson, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 040254-WU ; **Company Name:** Keen Sales, Rentals and
Utilities Inc. (Paradise Island) ; **Audit Purpose:** Staff Assisted Rate Case ;
Audit Control No. 04-114-3-1

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 Regulatory Compliance and Consumer Assistance (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

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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Orlando District Office

**KEEN SALES, RENTALS AND UTILITIES, INC.
PARADISE ISLAND WATER SYSTEM**

STAFF-ASSISTED RATE CASE

12 MONTHS ENDED DECEMBER 31, 2003

**DOCKET NO. 040254-WU
AUDIT CONTROL NO. 04-114-3-1**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

June 17, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules for Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 2003, for Keen Sales, Rentals and Utilities, Inc.'s Paradise Island Water System. The attached schedules were prepared by the audit staff as part of our work in the utility's application for a Staff-Assisted Rate Case in Docket No. 040254-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

A per audit balance for rate base could not be established as the original cost of the water system could not be documented by the utility.

Employee salaries and wages were overstated by \$3,745.20.

Insurance expense was overstated by \$1,050.75.

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 the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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

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

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

RATE BASE: Traced and verified all water plant additions from January 1, 2001 through December 31, 2003. Computed depreciation on all plant additions. Scanned the books and records for contributions-in-aid-of-construction. Computed the working capital allowance using 1/8 of operation and maintenance expenses.

NET OPERATING INCOME: Prepared Paradise Island's Net Operating Income schedule for the 12-month period ended December 31, 2003. Compiled balances in all operation and maintenance accounts and verified approximately 95 percent. Compiled revenues and verified taxes other than income. Selected a judgmental sample of customer bills for recalculation using FPSC-approved tariff rates.

CAPITAL STRUCTURE: Compiled components of the capital structure balance as of December 31, 2003. Agreed principal and interest expense to the terms of the notes.

Exception No. 1

Subject: Books and Records

Statement of Fact: Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the NARUC, National Association of Regulatory Commissioners Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, states,

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 facts relevant thereto.

NARUC, Class C, Accounting Instruction 4, states,

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

Recommendation: The utility is currently utilizing the NARUC System of Accounts applicable to descriptions and corresponding numbering.

Keen Sales, Rentals and Utilities, Inc., however, does not segregate monthly amounts applicable to the four utility systems it owns and operates per its general ledger (GL).

Since year-end 2001, its accountant prepares year-end spreadsheets to segregate financial data applicable to each system.

The journal entries per the GL are primarily system consolidated and lack descriptions. As a consequence, the audit trail is cumbersome and does not comply with the NARUC, Class C, Accounting Instruction regarding readily furnishing of full information.

The audit staff recommends that the said deficiencies be remedied by the utility.

Exception No. 2

Subject: Rate Base

Statement of Fact: Rate base could not be established by the Florida Public Service Commission for the Paradise Island Water System per Order No. PSC-00-0913-PAA-WU, issued May 8, 2000.

Recommendation: The utility was able to provide documentation for plant additions acquired from January 1, 2001 through December 31, 2003, but not prior to that time.

Due to these circumstances, a per audit balance could not be established for rate base. Therefore, the following utility balances have been excluded until such time that an original cost amount is derived.

Water utility-plant-in-service	\$31,177
Land	\$2,000
Accumulated depreciation	\$12,480

The schedule on the following page reflects the plant additions that the utility documented and the audit staff verified along with the related depreciation which should be considered for inclusion in utility-plant-in-service.

The FPSC engineer is performing an Original Cost Study.

Schedule for Exception No. 2

Account	Payee	Description	Date	Cost	Depreciation Rate	Years in Service	Accumulated Depreciation @ 12/31/03
304 - Structures & Improvements	Dunham Well Drilling, Inc.	Flow meter & accessories	08/21/01	\$2,072.20	0.0588	2.333	\$284.27
334 - Meters	Guardian Meter	Water meters (4)	11/06/02	84.08	0.0588	1.1667	5.77
343 - Tools, Shop & Garage Equipment	Home Depot	Miscellaneous tools	08/30/02	32.16	0.0667	1.333	2.86
347 - Miscellaneous Equipment	Gator Fence Company	Fence for Ford van	12/29/03	127.83	0.0667	0.000	0.00
				\$2,316.27			\$292.90

Exception No. 3

Subject: Salaries & Wages

Statement of Fact: The utility recorded \$7,893.52 in the Salaries & Wages Account 601 for the 12 months ended December 31, 2003.

Recommendation: The audit staff recommends that Account 601 be adjusted to reflect the termination of two employees who charged time in calendar year 2003 and for salaries erroneously charged to nonpayroll accounts. The audit staff reduction in salaries and wages is adjusted as follows.

Salaries & Wages per utility @ 12/31/03		\$7,893.52
Adjustments:		
Exclude salary of maintenance employee terminated 2/21/04.	(3,817.67)	
Add overtime pay for employee erroneously recorded in Account 604 - Employee Pensions and Benefits.	79.40	
Exclude salary for clerical employee who terminated in early 2003.	(20.32)	
Exclude insurance bill erroneously recorded in Account 601 - Salaries & Wages.	(81.89)	
Add employee salary erroneously recorded in Account 620 - Materials & Supplies. See Exception No. 15.	79.40	
Add employee bonus erroneously recorded in Account 656 - Payroll Expenses. See Exception No. 8.	15.88	<u>(\$3,745.20)</u>
Total Salaries & Wages per audit staff @ 12/31/03		<u>\$4,148.32</u>

Exception No. 4

Subject: Materials & Supplies

Statement of Fact: The utility recorded \$1,519.64 in the Materials & Supplies Account 620 for the 12 months ended December 31, 2003.

Recommendation: Chlorine purchases totaling \$763.20, monthly operations expense of \$300.00, and payroll of \$79.40 were included in the \$1,519.64 balance.

The audit staff recommends that the following correcting journal entry be recorded to reflect the NARUC-designated accounts for the noted expenditures.

Account 618 - Chemicals	\$763.20	
Account 636 - Contractual Services-Other	300.00	
Account 601 - Salaries & Wages	79.40	
Account 620 - Materials & Supplies		\$1,142.60

Exception No. 5

Subject: Contractual Services - Testing

Statement of Fact: Paradise Island recorded \$3,528.89 in Account 635, Contractual Services - Testing for the 12-month period ended December 31, 2003.

Recommendation: Monthly operations and maintenance costs of \$1,545.00 provided by Tri-Florida Water that were recorded in Account 635 should be booked in NARUC-designated 636. Additionally, the allocated cost of two chlorine feed pumps totaling \$100.66 that were installed at the Sunrise and Subdivision water plants should be excluded from the account balance and capitalized in the respective systems via Account 311, Pumping Equipment. The audit staff recommends that Account 635 be reduced by \$1,645.66.

Contractual Services - Testing (Account 635) for the 12-month period ended December 31, 2003, per utility		\$3,528.89
Tri-Florida Water monthly operations and maintenance costs that should be booked in NARUC-designated Account 636 - Contractual Services - Other See Exception No. 16.	(1,545.00)	
Exclude allocated portion of a chlorine pump that was installed at the Sunrise water plant.	(50.33)	
Exclude allocated portion of a chlorine pump that was installed at the Subdivision water plant.	(50.33)	<u>(1,645.66)</u>
Total Contractual Services - Testing (Account 635) for the 12-month period ended December 31, 2003, per audit staff		<u>\$1,883.23</u>

Exception No. 6

Subject: Transportation Expense

Statement of Fact: Paradise Island recorded \$760.89 in Account 650, Transportation Expenses for the 12-month period ended December 31, 2003.

Recommendation: Transportation expense consists primarily of fuel charges for the Ford van that was used by the former maintenance employee. The remaining costs are for maintenance and repairs of the vehicle. According to the president of the utility, the vehicle is still being utilized by the company and will be assigned to a full-time maintenance employee when one is hired. The audit staff recommends that the transportation expense be excluded from the test year operations and maintenance costs and reevaluated when a full-time maintenance employee is hired.

Exception No. 7

Subject: Insurance Expense

Statement of Fact: Paradise Island recorded \$2,709.09 in Account 655, Insurance Expense for the 12-month period ended December 31, 2003.

Recommendation: Keen Sales, Rentals and Utilities, Inc. currently does not have a full-time maintenance employee to maintain the four water systems. The former maintenance person terminated on February 21, 2004.

The following schedule reflects the insurance premiums paid on behalf of the former maintenance employee who terminated on February 21, 2004. The audit staff recommends that Account 655 be reduced by \$1,050.75 to reflect these nonrecurring costs until such time that this position is refilled.

Health Insurance Blue Cross	Auto Insurance Progressive	Worker's Compensation Bridgefield	Total
\$107.67	\$45.89	\$272.77	\$426.33
115.61	46.37		161.98
115.61			115.61
115.61			115.61
115.61			115.61
115.61			115.61
\$685.72	\$92.26	\$272.77	\$1,050.75

Exception No. 8

Subject: Payroll Expenses

Statement of Fact: Paradise Island recorded \$639.72 in Account 656, Payroll Expenses for the 12-month period ended December 31, 2003.

Recommendation: All payroll taxes in accordance with NARUC Water Class "C" Instructions should be charged to Account 408, Taxes Other Than Income. The audit staff recommends that the account be adjusted as follows to exclude payroll taxes for the terminated maintenance and clerical employees, along with the allocated portion of an employee gift certificate given as a Christmas bonus.

Account 656, Payroll Expenses, per utility for the 12 months ended December 31, 2003	\$639.72
Audit staff adjustments:	
Exclude payroll taxes on maintenance employee \$3,817.67 x .0765	(292.05)
Exclude payroll taxes on clerical employee \$20.32 x .0765	(1.55)
Reclassify employee bonus to Account 601, Salaries & Wages See Exception No. 3.	(15.88)
Reclassify to Account No. 408, Taxes Other Than Income	<u>(330.24)</u>
Balance	<u>\$0.00</u>

The audit staff recommends that the account balance of \$639.72 be zeroed to reflect the exclusion of the nonrecurring payroll taxes (\$293.60) and the reclassification of the employee bonus (\$15.88) and remaining payroll taxes (\$330.24) to Accounts Nos. 601, Employee Salaries & Wages and 408, Taxes Other Than Income, respectively.

Exception No. 9

Subject: Regulatory Assessment Fees

Statement of Fact: Paradise Island recorded \$1,197.43 in Account 408.10, Regulatory Assessment Fees (RAFs) for the 12-month period ended December 31, 2003.

Recommendation: The above account balance consists of the 2002 RAF payment of \$1,078.34 and associated penalty of \$64.70, along with the 2002 RAF reversal of (\$887.14) and the 2003 RAF accrual of \$941.53. The 2003 RAF accrual was based on taxable water operating revenues of \$20,922.89. However, the utility's books and records reflect operating revenues of \$22,668.97 for a difference of \$1,746.08. This difference would account for an additional \$78.57 in RAF fees. The difference between the spreadsheet revenues supporting the RAF return and those recorded per the utility's general ledger and subsidiary records could not be accounted for. However, the utility president informed the audit staff that it was just an inadvertent error.

Unrelated to this rate proceeding, the other three water systems (Alturas, Subdivision, and Sunrise) water revenues were understated by \$9,412.04 which would result in additional fees of \$423.54 (\$9,412.04 x 4.5%).

The audit staff recommends that Account 408.10 be reduced by \$255.90 to exclude the 2002 payments and reversal and increased by \$78.57 to reflect the underpayment of RAFs for a balance of \$1,020.10. It is additionally recommended that the utility contact the Florida Public Service Commission in Tallahassee regarding the underpayment along with any interest and/or penalties as soon as possible to insure expeditious resolution.

Account 408.10, RAFs, per utility for the twelve months ended 12/31/03		\$1,197.43
Deduct:		
2002 RAF payment	(1,078.34)	
2002 RAF penalty	(64.70)	
2002 RAF reversal	887.14	
Add:		
Additional 2003 RAF	78.57	<u>(177.30)</u>
Account 408.10, RAFs per audit staff for the 12 months ended 12/31/03		<u>\$1,020.13</u>

Reconciliation:

2003 RAF accrual & payment	\$941.53
Additional RAF to be paid	<u>78.57</u>
Total adjusted 2003 RAF	<u>\$1,020.10</u>

Exception No. 10

Subject: Contractual Services - Professional

Statement of Fact: The utility recorded \$162.22 in Account 631, Contractual Services - Professional for the 12-month period ended December 31, 2003.

Recommendation: Legal expenses totaling \$48.68 applicable to meter damage at Alturas are included in the \$162.22 balance. The audit staff recommends that the Alturas Water System Account 631 be increased and Paradise Island's be reduced by \$48.68.

Exception No. 11

Subject: Computer Expense

Statement of Fact: Paradise Island recorded \$140.22 in Account 675.4, Computer Expense for the 12-month period ended December 31, 2003.

Recommendation: In accordance with NARUC Water Class "C" Instructions per Account 636, Contractual Services - Other, all expenditures applicable to computer consulting should be recorded therein. The audit staff recommends that the 675.4 account balance be transferred to Account 636.

Exception No. 12

Subject: Repairs

Statement of Fact: The utility recorded \$350 in Account 675.9, Repairs for the 12-month period ended December 31, 2003.

Recommendation: The \$350 charged to the account was applicable to the annual fee paid for maintaining the lawn at the Paradise Island water plant. The audit staff recommends that the balance in Account 675.9 be transferred to 636, the NARUC-designated account for the contract labor.

Exception No. 13

Subject: Customer Deposits

Statement of Fact: Paradise Island has no recorded balance in Account 235, Customer Deposits per the general ledger for the 12-month period ended December 31, 2003.

Recommendation: According to the utility's customer records, Paradise Island has retained deposits of \$650 from its customers. Thirteen customers have deposits of \$50 each with the utility.

Prior Commission Orders applicable to the utility have not addressed this matter.

The audit staff recommends that Account 235, Customer Deposits reflect a balance of \$650 as of December 31, 2003.

Exception No. 14

Subject: Depreciation

Statement of Fact: Paradise Island recorded \$2,063.24 in Account 403, Depreciation Expense for the 12-month period ended December 31, 2003.

Recommendation: The \$2,063.24 is primarily depreciation on undocumented plant-in-service. See Exception No. 2. The audit staff recommends that the amount be excluded until such time that an original cost amount is derived.

Exception No. 15

Subject: Employee Pensions & Benefits

Statement of Fact: The utility recorded \$79.40 in the Employee Pensions and Benefits Account 604 for the twelve months ended December 31, 2003.

Recommendation: The amount booked in the account was applicable to the water manager's overtime pay and should be recorded in Account 601, Salaries & Wages. See Exception No. 3.

Exception No. 16

Subject: Contractual Services - Other

Statement of Fact: Paradise Island recorded \$55 in Account 636, Contractual Services - Other for the 12-month period ended December 31, 2003.

Recommendation: The audit staff recommends that the account be increased by \$1,545 for an adjusted balance of \$1,600 to reflect monthly operation and maintenance expense that was erroneously charged to Account No. 635, Contractual Services - Testing. See Exception No. 5.

Disclosure No. 1

Subject: Utility Transfers

Statement of Fact: Keen Sales, Rentals and Utilities, Inc. is currently in the process of transferring the Alturas and Sunrise Water Systems in Dockets Nos. 040160-WU and 040159-WU, respectively, into one company, Sunrise Utilities, LLC.

Recommendation: Should the Florida Public Service Commission approve the sale, the allocated common costs would be distributed between two water systems (Paradise Island and Keen Subdivisions Water System) as opposed to the current four.

Based on the allocation percentages, per Disclosure No. 3, Paradise Island’s distribution of total common costs would increase from 15.88 percent to 40.28 percent.

	Average Customers	Percentage Allocation
Subdivision	129	59.72%
Paradise Island	87	40.28%
	216	100.00%

Disclosure No. 2

Subject: Salaries & Wages - Officers

Statement of Fact: Paradise Island recorded \$1,905.60 in Account 603, Salaries & Wages - Officers for the 12-month period ended December 31, 2003.

Recommendation: The \$1,905.60 is the portion distributed to Paradise Island (15.88%) which is based on an unallocated total of \$12,000.00 per annum.

Order PSC-01-0323-PAA-WU, issued February 5, 2001, the most current applicable to Keen Sales Rentals and Utilities, Inc., establishes president and vice president annual salaries of \$31,200.00 and \$18,200.00, respectively.

The former president of the company is deceased, and the former vice president now occupies that position. According to the current president, she has assumed the responsibilities of both positions.

The president has requested via a May 18, 2004, letter to the audit staff that her salary be established at \$600.00 per week or \$31,200.00 annually which is the same previously compensated for that position.

Disclosure No. 3

Subject: Allocations

Statement of Fact: The utility distributes common costs based on the percentages established per Order No. PSC-01-0323-PAA-WU, issued February 5, 2001. The allocation percentages, per the Order, were based on customers and are as follows.

System	Average Customers	Percentage Allocation
Alturas	64	11.68%
Sunrise	268	48.90%
Subdivision	129	23.54%
Paradise Island	87	15.88%
	548	100.00%

Recommendation: The audit staff recommends that the utility review the distribution of common costs each accounting period for any material variance.

Disclosure No. 4

Subject: Utility Requests

Statement of Fact: On May 18, 2004, the utility president submitted a letter to the audit staff requesting that the following information be incorporated in the current rate proceeding:

*

Fees

1. Disconnect fee	\$25.00
Reconnect fee	<u>\$25.00</u>
Total disconnect & reconnect fee	\$50.00
2. Late payment fee	\$10.00
3. Removal of meter due to customer cutting of lock and/or direct piping	\$100.00
4. Re-reading of meter at customer's request and utility reading is correct	\$30.00
5. Tap-in	\$400.00

Expenses

6. Meter reading charges (2 Readers @ \$250 each)	\$500.00	(monthly)
7. Water Manager's salary	\$500.00	(weekly)
8. Officer's salary	\$600.00	(weekly)
9. Estimated weekly wages for maintenance man @ 40 hours a week plus social security and health insurance - (\$500 to \$700 a month)	\$450.00	
10. Rent on building (This should not change.)	Current	
11. Using an outside contractor until a full-time maintenance person is located.	\$425.00	(averaging this figure as a weekly figure)

Disclosure No. 4, continued

On May 31, 2004, the following two additional requests were presented to the audit staff.

1. Deposits for new service	\$125.00
Administration fee to be deducted from above The administration fee is non-refundable.	\$25.00
2. After hours/weekend reconnect fee	\$50.00
This brings the total for an after hours/weekend reconnect to:	\$100.00

Recommendation: The audit staff defers to the FPSC analyst and engineer for disposition.

Disclosure No. 5

Subject: Water Manager Salary

Statement of Fact: Gross payroll for the water manager of \$3,820.74 was recorded in Account 601, Salaries & Wages for the 12-month period ended December 31, 2003.

Recommendation: The water manager's salary increased from \$350 to \$500 weekly as of April 11, 2003. According to the utility president, the manager, prior to the increase, was responsible for various nonutility functions in addition to managing water operations. The manager's salary charged to water operations was increased to reflect her reassignment to perform utility functions solely and exclusively. Should the staff analyst elect to annualize the differential in salary for the period, the pro forma increase would be based on the following.

Water manager's annualized salary \$500 x 52 weeks x .1588	\$4,128.80	
Water manager's salary per Account 601 - Salaries & Wages for the 12-month period ended 12/31/03	(3,820.74)	
Water manager's salary erroneously recorded in Account 602 -Materials & Supplies	<u>(79.40)</u>	
Adjustment		<u>\$228.66</u>

Disclosure No. 6

Subject: Health Insurance

Statement of Fact: Paradise Island recorded \$223.40 of health insurance (Blue Cross) premiums for the water manager for the twelve months ended December 31, 2003.

Recommendation: The utility paid three monthly health insurance premiums (\$72.16 + \$75.62 + \$75.62) totaling \$223.40. The premiums for the remaining nine months were charged to Keen Sales, Rentals and Utilities, Inc.'s nonutility operations. According to the utility president, Paradise Islands did not have the funds to pay the premium. The utility is requesting that a pro forma be included for the current rate proceeding to reflect the water manager's annual cost of health insurance.

Should the Tallahassee analyst elect to include this cost, insurance expense would increase by \$684.03 based on the following computation.

Annual Blue Cross Health Insurance premium (\$476.19/monthly x 12 x .1588/PI allocation)	\$907.43	
Health insurance premiums for the 12-month period ended December 31, 2003.	<u>(223.40)</u>	
Pro forma amount		<u>\$684.03</u>

EXHIBIT I

**PARADISE ISLAND WATER SYSTEM
WATER RATE BASE
DOCKET NO. 040254-WU
STAFF-ASSISTED RATE CASE
AS OF DECEMBER 31, 2003**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$31,177	(\$31,177)	E2	\$0
LAND	2,000	(2,000)	E2	0
ACCUMULATED DEPRECIATION	(12,480)	12,480	E2	0
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	0	0		0
ACCUMULATED AMORTIZATION OF CIAC	0	0		0
WORKING CAPITAL ALLOWANCE (1)	0	2,213		2,213
TOTAL	\$20,697	(\$18,484)		\$2,213

FOOTNOTE:

(1) Computed using one-eighth of operation and maintenance expense.

EXHIBIT II

**PARADISE ISLAND WATER SYSTEM
WATER NET OPERATING INCOME
DOCKET NO. 040254-WU
STAFF-ASSISTED RATE CASE
PERIOD ENDED DECEMBER 31, 2003**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO	PER AUDIT
OPERATING REVENUES	\$22,669	\$0		\$22,669
<hr/>				
OPERATING EXPENSES:				
O&M EXPENSE	23,780	(3,745)	E3	17,354
		(1,646)	E5	
		(761)	E6	
		(1,051)	E7	
		(640)	E8	
		(49)	E10	
		(79)	E15	
		1,545	E16	
DEPRECIATION EXPENSE (1)	2,063	(2,063)	E14	0
CIAC AMORTIZATION EXPENSE (1)	0	0		0
TAXES OTHER THAN INCOME	1,803	330	E8	1,956
		(177)	E9	
INCOME TAX EXPENSE	0	0		0
<hr/>				
TOTAL EXPENSES:	\$27,646	(\$8,336)		\$19,310
<hr/>				
NET OPERATING INCOME (LOSS)	(\$4,977)	\$8,336		\$3,359

FOOTNOTE:

(1) To be determined in the Original Cost Study.

EXHIBIT III

**PARADISE ISLAND WATER SYSTEM
CAPITAL STRUCTURE
DOCKET NO. 040254-WU
STAFF-ASSISTED RATE CASE
AS OF DECEMBER 31, 2003**

Account Description	Per Utility	Audit Adjustment	Refer To	Per Audit	Ratio	Cost Rate	Weighted Cost Rate
Common Equity (1)	(\$28,244)	\$28,244		\$0			
Customer Deposits	0	650	E13	650	0.66%	6.00%	0.04%
Keen Sales, Utils. & Rentals, Inc. (Subdivision note)	48,787	0		48,787	49.93%	7.00%	3.50%
Keen Sales, Utils. & Rentals, Inc. (Sunrise note)	31,000	0		31,000	31.73%	7.00%	2.22%
Keen Sales, Utils. & Rentals, Inc. (Paradise Island note)	11,000	0		11,000	11.26%	7.00%	0.79%
Keen Sales, Utils. & Rentals, Inc. (Alturas note)	6,270	0		6,270	6.42%	7.00%	0.45%
Total Debt and Equity	\$68,813	\$28,894		\$97,707	100.00%		7.00%

FOOTNOTE:

(1) Equity is not included as it is negative.