

State of Florida



ORIGINAL

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION
CLERK

DATE: November 2, 2005

TO: Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

RE: **Docket No:** 050281-WS; **Company Name:** Plantation Bay Utility Company; **Audit Purpose:** Rate Case; **Audit Control No:** 05-255-2-1

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:sbj
Attachment

- C: Division of Regulatory Compliance and Consumer Assistance (Hoppe, Tampa District Office Supervisor, File Folder)
- Division of Competitive Markets and Enforcement (Harvey)
- Division of the Commission Clerk and Administrative Services (2)
- General Counsel
- Office of Public Counsel

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- SEC 1
- OTH _____

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FLORIDA PUBLIC SERVICE COMMISSION

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

Tampa District Office

PLANTATION BAY UTILITY COMPANY, INC.

FILE AND SUSPEND RATE CASE

VOLUSIA COUNTY

AS OF DECEMBER 31, 2004

**DOCKET NO. 050281-WS
AUDIT CONTROL NO. 05-255-2-1**

A handwritten signature in black ink, appearing to read "Jeffery A. Small", written over a horizontal line.

Jeffery A. Small, Audit Manager

A handwritten signature in black ink, appearing to read "Intesar Terkawi", written over a horizontal line.

Intesar Terkawi, Audit Staff

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher", written over a horizontal line.

Joseph W. Rohrbacher, District Audit Supervisor

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

OCTOBER 28, 2005

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 as of December 31, 2004, for Plantation Bay Utility Company, Inc.'s water and wastewater operations located in Volusia County, Florida. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 050281-WS.

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

SUMMARY OF SIGNIFICANT FINDINGS

The utility's water and wastewater utility-plant-in-service (UPIS) balances are overstated by \$6,350 and \$3,284, respectively, as of December 31, 2004, because of accounts payable (AP) recording errors and the misclassification of NARUC account additions in 2002 and 2004.

The utility's water and wastewater utility-plant-in-service (UPIS) balances are overstated by \$41,612 and understated by \$46,529, respectively, as of December 31, 2004, because of the misclassification of NARUC account additions for construction projects completed in 2002.

The utility's water and wastewater utility-plant-in-service (UPIS) balances are overstated by \$7,258 and understated by \$7,258, respectively, as of December 31, 2004, because of the misclassification of NARUC account additions for construction projects completed in 2003.

The utility's water and wastewater utility-plant-in-service (UPIS) balances are overstated by \$59,549 and \$331,347, respectively, as of December 31, 2004, because of the misclassification of NARUC account additions for construction projects completed in 2004.

The utility's wastewater depreciation expense and accumulated depreciation balances are overstated by \$2,637 and \$4,305, respectively, as of December 31, 2004, because it did not use Commission-authorized depreciation rates for three NARUC accounts.

The utility's water and wastewater contributions-in-aid-of-construction (CIAC) balances are overstated by \$87,991 and understated by \$89,259, respectively, as of December 31, 2004, because of the misclassification of CIAC additions collected in 2004.

The utility's water and wastewater accumulated amortization of CIAC balances are overstated by \$48,870 and \$260,174, respectively, as of December 31, 2004, because it did not use the Commission-authorized amortization rates established in its last rate proceeding.

The utility's capital structure presentation should include \$654,648 of accumulated deferred taxes reported in its filing as of December 31, 2004.

The utility's water and wastewater revenues are understated by \$1,815 and \$1,296, respectively, for the 12-month period ended December 31, 2004, because it billed three general service customers at rates lower than its authorized tariff.

The utility's water and wastewater operating and maintenance expense are overstated by \$14,659 and \$9,679, respectively, for the 12-month period ended December 31, 2004, because of accounts payable (AP) recording errors and the misclassification of NARUC account expenses in 2004.

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.

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

RATE BASE: Reviewed account balances for utility-plant-in-service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and deferred taxes for Plantation Bay Utility Company, Inc. as of December 31, 2004. Reconciled rate base balances authorized in Commission Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, to the utility's general ledger as of December 31, 2001. Verified sampled additions to UPIS and CIAC accounts using auditor judgment. Tested additions to accumulated depreciation and accumulated amortization of CIAC for proper rates and calculations. Recalculated working capital balance.

NET OPERATING INCOME: Compiled utility revenue and operating and maintenance accounts for the year ended December 31, 2004. Chose a judgmental sample of customer bills and recalculated using Commission-approved rates. Chose a judgmental sample of operation and maintenance expenses and verified the invoices and other supporting documentation. Tested the calculation of depreciation and amortization expense. Reviewed the support for taxes other than income and income taxes.

CAPITAL STRUCTURE: Compiled the components of the capital structure for the year ended December 31, 2004. Agreed interest expense to the terms of the notes.

OTHER: Audited the utility's regulatory assessment fees paid to the Commission in 2003.

Exception No. 1

Subject: Adjustments to Additions of Utility-Plant-in-Service (UPIS)

Statement of Facts: Utility records reflect invoiced additions of \$4,645 and \$2,989 to its water and wastewater UPIS, respectively, in 2002 and invoiced additions of \$12,622 and \$295 to its water and wastewater UPIS, respectively, in 2004.

Recommendation: The invoiced additions recorded in 2002 mentioned above should be removed because the amounts were recorded twice in the utility's general ledger, once in 2002 and again in 2003. The amount recorded in 2003 for \$7,634 (\$4,645 + \$2,989) is the correct entry to record the transaction. The audit staff's reductions of \$4,645 and \$2,989 to the utility's water and wastewater UPIS accounts require corresponding adjustments that reduce accumulated depreciation by \$422 and \$224, respectively, and additional adjustments that reduce depreciation expense by \$141 and \$75, respectively, as of December 31, 2004. See Schedule A that follows for additional details and calculations.

The invoiced additions recorded in 2004 mentioned above were misclassified by the utility to the incorrect NARUC accounts. The audit staff's reclassifications will require adjustments that reduce water and wastewater UPIS by \$1,705 and \$295, respectively, and increase wastewater Account No. 736, Contractual Services - Other by \$2,000 (\$1,705 + \$295) with corresponding adjustments that increase water and reduce wastewater accumulated depreciation and depreciation expense balances by \$11 and \$8 each, respectively, as of December 31, 2004. See Schedule B that follows for additional details and calculations.

The audit staff adjustments to the utility's accumulated depreciation and depreciation expense balances calculated above incorporate the methodology used to determine our recommended adjustments discussed in Exception No. 5 of this report.

Schedule A for Exception No. 1

Plantation Bay Utility Company
2002 UPIS Adjustments

Detail from General Ledger					Per Utility	
Acct#	Date	Invoice#	Vendor	Details	Amount	Per Audit Recommendation
3040	01/31/02	8964	Economy Electric	Double booking (See A#3100 in 2003.)	\$4,644.52	Remove double-booked invoice
3540	01/31/02	8964	Economy Electric	Double booking (See A#3100 in 2003.)	\$2,989.48	Remove double-booked invoice
Water Audit Adjustment					Dep Exp.	Per Audit Recommendation
Reduce	3040	(\$4,644.52)	Effect on Depreciation Expense & Acc/Dep Dep Rate of 3.03%		Adjustment (\$140.74)	Reduce Dep. Expense
Dep. Expense amount time 3 years of depreciation accruals					Acc/Dep Adjustment (\$422.23)	Reduce Acc. Depreciation
Wastewater Audit Adjustment					Dep Exp.	Per Audit Recommendation
Reduce	3540	(\$2,989.48)	Effect on Depreciation Expense & Acc/Dep Dep Rate of 2.50%		Adjustment (\$74.74)	Reduce Dep. Expense
Dep. Expense amount time 3 years of depreciation accruals					Acc/Dep Adjustment (\$224.21)	Reduce Acc. Depreciation

Schedule B for Exception No. 1

Plantation Bay Utility Company 2004 UPIS Adjustments

Detail from General Ledger					Per Utility	Per Audit Recommendation
Acct#	Date	Invoice#	Vendor	Details	Amount	
3200	02/17/04	1302004	Wetherell Treatment	3 gate valves for WTP pumps	\$2,508.94	Reclassify to Acct. No. 311 - Pumping Equip.
3200	05/26/04	7570	M&M Sales	Reuse pump repairs	1,705.00	Reclassify to Acct. No. 736 - Contract Serv. Other
3330	05/14/04	1193049	Reclass(National Water)	1" meter and fittings	127.80	Reclassify to Acct. No. 334 - Meters
3350	05/26/04	1235585	National Water Works	5ea 9700 Eclipse Hydrant Flusher	6,899.10	Reclassify to Acct. No. 339 - Other Plant
3470	05/14/04	1134676	Reclass(National Water)	1ea 9700 Eclipse Hydrant Flusher	1,381.31	Reclassify to Acct. No. 339 - Other Plant
					\$12,622.15	
3710	04/13/04	7546	M&M Sales	Reuse pump repairs	\$295.00	Reclassify to Acct. No. 736 - Contract Serv. Other
Water Audit Adjustment			Effect on Depreciation Expense & Acc/Dep		Adjustment	Per Audit Recommendation
Increase	3110	\$2,508.94	Dep Rate of 5.00%		\$62.72	Reclassify to Acct. No. 311 - Pumping Equip.
Reduce	3200	(2,508.94)	Dep Rate of 4.54%		(57.02)	Reclassify to Acct. No. 311 - Pumping Equip.
Reduce	3200	(1,705.00)	Dep Rate of 4.54%		(38.75)	Reclassify to Acct. No. 736 - Contract Serv. Other
Reduce	3330	(127.80)	Dep Rate of 2.50%		(1.60)	Reclassify to Acct. No. 334 - Meters
Increase	3340	127.80	Dep Rate of 5.00%		3.20	Reclassify to Acct. No. 334 - Meters
Reduce	3350	(6,899.10)	Dep Rate of 2.22%		(76.66)	Reclassify to Acct. No. 339 - Other Plant
Increase	3390	6,899.10	Dep Rate of 4.00%		137.98	Reclassify to Acct. No. 339 - Other Plant
Increase	3390	1,381.31	Dep Rate of 4.00%		27.63	Reclassify to Acct. No. 339 - Other Plant
Reduce	3470	(1,381.31)	Dep Rate of 6.66%		(46.04)	Reclassify to Acct. No. 339 - Other Plant
		(\$1,705.00)	Reduce UPIS, Increase Acc/Dep & Dep. Exp.		\$11.46	
Increase	7360	1,705.00	Transfer to O&M			Reclassify to Acct. No. 736 - Contract Serv. Other
		\$0.00				
Wastewater Audit Adjustment			Effect on Depreciation Expense & Acc/Dep		Adjustment	Per Audit Recommendation
Reduce	3710	(\$295.00)	Dep Rate of 5.55%		(\$8.19)	Reclassify to Acct. No. 736 - Contract Serv. Other
		(\$295.00)	Reduce UPIS, Acc/Dep & Dep. Exp.		(\$8.19)	
Increase	7360	295.00	Transfer to O&M			Reclassify to Acct. No. 736 - Contract Serv. Other
		\$0.00				

Dep. Expense and Acc/Dep adjustments are calculated using the half-year method.

Exception No. 2

Subject: Utility-Plant-in-Service (UPIS) - 2002 Project Additions

Statement of Facts: Utility records reflect the following capital project additions to UPIS in 2002.

Construction of Well No. 4 (water)	\$30,270
Construction of Phase 1 Pumping Station (water)	\$41,360
Construction of Phase 1 Pumping Station (wastewater)	\$58,540
Construction of Section 1EV - Unit 2 utility infrastructure (water)	\$86,797
Construction of Section 1EV - Unit 2 utility infrastructure (wastewater)	\$272,894

Recommendation: The capital project additions recorded in 2002 mentioned above were misclassified or allocated by the utility to the incorrect NARUC accounts. The audit staff's review of each capital project and its correct account classification is illustrated on Schedules C-E that follow.

The utility's water UPIS should be reduced by \$41,612 with corresponding adjustments that reduce depreciation expense and accumulated depreciation by \$1,223 and \$3,670, respectively, as of December 31, 2004, as shown below.

Adjustments to Water UPIS, Depreciation Expense and Accumulated Depreciation

Schedule	UPIS	Dep. Expense	Acc. Depreciation
C	\$0.00	\$160.90	\$482.71
D	(41,360.00)	(1,378.67)	(4,136.00)
E	<u>(252.00)</u>	<u>(5.61)</u>	<u>(16.83)</u>
Totals	(\$41,612.00)	(\$1,223.38)	(\$3,670.12)

The utility's wastewater UPIS should be increased by \$46,529 with corresponding adjustments that increase depreciation expense and accumulated depreciation by \$2,665 and \$8,204, respectively, as of December 31, 2004, as shown below.

Adjustments to Wastewater UPIS, Depreciation Expense and Accumulated Depreciation

Schedule	UPIS	Dep. Expense	Acc. Depreciation
C	\$0.00	\$0.00	\$0.00
D	41,360.00	2,528.89	7,795.56
E	<u>5,169.30</u>	<u>136.10</u>	<u>408.31</u>
Totals	\$46,529.30	\$2,664.99	\$8,203.87

The audit staff adjustments to the utility's accumulated depreciation and depreciation expense balances calculated above incorporate the methodology used to determine our recommended adjustments discussed in Exception No. 5 of this report.

Schedule C for Exception No. 2

Plantation Bay Utility Company
2002 UPIS Adjustments

Detail from General Ledger					Per Utility	Per Audit Recommendation
Acct#	Date	Invoice#	Vendor	Details	Amount	
3310	09/12/02	Application 1	Volusia Construction	PBUC Well #4	\$22,432.50	Reclassify
3310	10/08/02	Application 2	Volusia Construction	PBUC Well #4	7,837.50	Reclassify
					<u>\$30,270.00</u>	

Water Audit Adjustment				Effect on Depreciation Expense & Acc/Dep	Dep Exp. Adjustment	Per Audit Recommendation
Increase	3090	\$30,270.00		Dep Rate of 2.86%	\$864.86	Increase Dep. Expense
Reduce	3310	<u>(30,270.00)</u>		Dep Rate of 2.33%	<u>(703.95)</u>	Reduce Dep. Expense
		\$0.00			\$160.90	Increase Dep. Expense
					Acc/Dep Adjustment	
					<u>\$482.71</u>	Increase Acc. Depreciation

Acc/Dep adjustments are calculated for the three year period 2002-2004.

Schedule D for Exception No. 2

Plantation Bay Utility
2002 UPIS Adjustments

Phase 1 Pumping Station

Acct#	Account Description	Per Utility Total Cost		Per Audit Total Cost	Per Audit UPIS Adjust.
3070	Wells & Springs	<u>41,360.00</u>		<u>0.00</u>	<u>(41,360.00)</u>
	Total Water	41,360.00		0.00	(41,360.00)
3600	Collection - Sewers forced	19,400.00		16,950.00	(2,450.00)
3611	Collection - Sewers gravity	5,300.00		0.00	(5,300.00)
3710	Pumping Equipment(2002)	30,080.00		82,950.00	52,870.00
3710	Pumping Equipment(2003)	<u>3,760.00</u>		<u>0.00</u>	<u>(3,760.00)</u>
	Total Wastewater	58,540.00		99,900.00	41,360.00
	Total project cost	99,900.00		99,900.00	0.00

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp.	Per Utility Acc/Dep	Per Audit Dep. Exp.	Audit Adjust. to Dep. Exp.	Audit Adjust. To Acc/Dep
3070	Wells & Springs	<u>41,360.00</u>	3.33%	<u>1,378.67</u>	<u>4,136.00</u>	<u>0.00</u>	<u>(1,378.67)</u>	<u>(4,136.00)</u>
	Total Water	41,360.00		1,378.67	4,136.00	0.00	(1,378.67)	(4,136.00)
3600	Collection - Sewers forced	19,400.00	3.33%	646.67	1,940.00	565.00	(81.67)	(245.00)
3611	Collection - Sewers gravity	5,300.00	2.22%	117.78	353.33	0.00	(117.78)	(353.33)
3710	Pumping Equipment(2002)	30,080.00	5.56%	1,671.11	5,013.33	4,608.33	2,937.22	8,811.67
3710	Pumping Equipment(2003)	<u>3,760.00</u>	5.56%	<u>208.89</u>	<u>417.78</u>	<u>0.00</u>	<u>(208.89)</u>	<u>(417.78)</u>
	Total Wastewater	58,540.00		2,644.44	7,724.44	5,173.33	2,528.89	7,795.56

Audit Adjust. to Acc/Dep. = (Per Audit Dep. Exp. x 3 years) - Per Utility Acc/Dep

Schedule E for Exception No. 2

Plantation Bay Utility
2002 UPIS Additions

Section 1EV, Unit 2

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment	
3310	Transmission & Distribution Mains	\$64,760.65	\$62,058.90	17.52%	\$1,807.85	\$63,866.75	(\$893.90)	
3330	Services	11,296.00	11,296.00	3.19%	329.07	11,625.07	329.07	
3350	Hydrants	10,740.00	10,740.00	3.03%	312.87	11,052.87	312.87	
	Total Water	\$86,796.65	\$84,094.90		\$2,449.79	\$86,544.69	(\$251.96)	
3600	Collection - Sewers Forced	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00	
3611	Collection - Sewers Gravity	198,552.35	195,850.60	55.28%	5,705.37	201,555.97	3,003.62	
3612	Collection - Sewers Manholes	60,481.00	60,481.00	17.07%	1,761.89	62,242.89	1,761.89	
3630	Services to Customers	13,861.00	13,861.00	3.91%	403.79	14,264.79	403.79	
	Total Wastewater	\$272,894.35	\$270,192.60		\$7,871.05	\$278,063.65	\$5,169.30	
	Total Contract Cost	\$359,691.00	\$354,287.50	100.00%	\$10,320.84	\$364,608.34	\$4,917.34	
	Miscellaneous Cost		\$10,320.84					

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp.	Per Utility Acc/Dep	Per Audit Dep. Exp.	Audit Adjust. to Dep. Exp.	Audit Adjust. to Acc/Dep
3310	Transmission & Distribution Mains	\$64,760.65	2.33%	\$1,506.06	\$4,518.18	\$1,485.27	(\$20.79)	(\$62.36)
3330	Services	11,296.00	2.50%	282.40	847.20	290.63	8.23	24.68
3350	Hydrants	10,740.00	2.22%	238.67	716.00	245.62	6.95	20.86
	Total Water	\$86,796.65		\$2,027.13	\$6,081.38	\$2,021.52	(\$5.61)	(\$16.83)
3600	Collection - Sewers Forced	\$0.00	3.33%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	198,552.35	2.22%	4,412.27	13,236.82	4,479.02	66.75	200.24
3612	Collection - Sewers Manholes	60,481.00	3.33%	2,016.03	6,048.10	2,074.76	58.73	176.19
3630	Services to Customers	13,861.00	2.63%	364.76	1,094.29	375.39	10.63	31.88
	Total Wastewater	\$272,894.35		\$6,793.07	\$20,379.21	\$6,929.17	\$136.10	\$408.31

Audit Adjust. to Acc/Dep. = (Per Audit Dep. Exp. x 3 years) - Per Utility Acc/Dep

Per Audit Hard Costs are the actual project costs that are recorded specifically to the water or wastewater system.

Miscellaneous Costs are general project contract costs that are allocated between the water and wastewater systems.

Exception No. 3

Subject: Utility-Plant-In-Service (UPIS) - 2003 Project Additions

Statement of Facts: Utility records reflect the following capital project additions to UPIS in 2003.

Construction of Section 1DV - Unit 3B utility infrastructure (water)	\$34,451
Construction of Section 1DV - Unit 3B utility infrastructure (wastewater)	\$50,059
Construction of Section 1EV - Unit 3 utility infrastructure (water)	\$69,285
Construction of Section 1EV - Unit 3 utility infrastructure (wastewater)	\$100,912
Construction of Section 2AF - Unit 2 utility infrastructure (water)	\$104,649
Construction of Section 2AF - Unit 2 utility infrastructure (wastewater)	\$134,642

Recommendation: The capital project additions recorded in 2003 mentioned above were misclassified or allocated by the utility to the incorrect NARUC accounts. The audit staff's review of each capital project and its correct account classification is illustrated on Schedules F-H that follow.

The utility's water UPIS should be reduced by \$7,258 with corresponding adjustments that reduce depreciation expense and accumulated depreciation by \$566 and \$1,133, respectively, as of December 31, 2004, as shown below.

Adjustments to Water UPIS, Depreciation Expense and Accumulated Depreciation

Schedule	UPIS	Dep. Expense	Acc. Depreciation
F	(\$847.35)	(\$92.83)	(\$185.66)
G	(2,637.73)	(208.90)	(417.80)
H	<u>(3,773.03)</u>	<u>(264.75)</u>	<u>(529.50)</u>
Totals	(\$7,258.11)	(\$566.48)	(\$1,132.96)

The utility's wastewater UPIS should be increased by \$7,258 with corresponding adjustments that reduce depreciation expense and accumulated depreciation by \$1,989 and \$3,977, respectively, as of December 31, 2004, as shown below.

Adjustments to Wastewater UPIS, Depreciation Expense and Accumulated Depreciation

Schedule	UPIS	Dep. Expense	Acc. Depreciation
F	\$847.35	(\$396.42)	(\$792.84)
G	2,637.73	(711.54)	(1,423.07)
H	<u>3,773.03</u>	<u>(880.65)</u>	<u>(1,761.30)</u>
Totals	\$7,258.11	(\$1,988.61)	(\$3,977.21)

The audit staff adjustments to the utility's accumulated depreciation and depreciation expense balances calculated above incorporate the methodology used to determine our recommended adjustments discussed in Exception No. 5 of this report.

Schedule F for Exception No. 3

Plantation Bay Utility
2003 UPIS Additions

Section 1DV, Unit 3B

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment
3310	Transmission & Distribution Mains	\$22,232.06	\$24,129.60	29.72%	\$987.33	\$25,116.93	\$2,884.87
3330	Services	3,830.00	2,783.00	3.43%	113.87	2,896.87	(933.13)
3350	Hydrants	6,715.00	5,370.00	6.61%	219.73	5,589.73	(1,125.27)
3470	Miscellaneous Equipment	1,673.82	0.00	0.00%	0.00	0.00	(1,673.82)
	Total Water	\$34,450.88	\$32,282.60		\$1,320.93	\$33,603.53	(\$847.35)
3600	Collection - Sewers Forced	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	1,153.74	34,750.00	42.80%	1,421.89	36,171.89	35,018.15
3612	Collection - Sewers Manholes	48,905.00	9,285.00	11.44%	379.92	9,664.92	(39,240.08)
3630	Services to Customers	0.00	4,870.00	6.00%	199.27	5,069.27	5,069.27
3710	Pumping Equipment	0.00	0.00	0.00%	0.00	0.00	0.00
	Total Wastewater	\$50,058.74	\$48,905.00		\$2,001.09	\$50,906.09	\$847.35
	Total Contract Hard Cost	\$84,509.62	\$81,187.60	100.00%	\$3,322.02	\$84,509.62	\$0.00
	Miscellaneous Cost		\$3,322.02				

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp.	Per Utility Acc/Dep	Per Audit Dep. Exp.	Audit Adjust. to Dep. Exp.	Audit Adjust. to Acc/Dep
3310	Transmission & Distribution Mains	\$22,232.06	2.33%	\$517.02	\$1,034.05	\$584.11	\$67.09	\$134.18
3330	Services	3,830.00	2.50%	95.75	191.50	72.42	(23.33)	(46.66)
3350	Hydrants	6,715.00	2.22%	149.22	298.44	124.22	(25.01)	(50.01)
3470	Miscellaneous Equipment	1,673.82	6.67%	111.59	223.18	0.00	(111.59)	(223.18)
	Total Water	\$34,450.88		\$873.58	\$1,747.17	\$780.75	(\$92.83)	(\$185.66)
3600	Collection - Sewers Forced	\$0.00	3.33%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	1,153.74	2.22%	25.64	51.28	803.82	778.18	1,556.36
3612	Collection - Sewers Manholes	48,905.00	3.33%	1,630.17	3,260.33	322.16	(1,308.00)	(2,616.01)
3630	Services to Customers	0.00	2.63%	0.00	0.00	133.40	133.40	266.80
3710	Pumping Equipment	0.00	5.56%	0.00	0.00	0.00	0.00	0.00
	Total Wastewater	\$50,058.74		\$1,655.81	\$3,311.61	\$1,259.39	(\$396.42)	(\$792.84)

Audit adjustment to Acc/Dep = (Per Audit Dep. Exp. x 2 years) - Per Utility Acc/Dep

Schedule G for Exception No. 3

Plantation Bay Utility
2003 UPIS Additions

Section 1EV, Unit 3

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment
3310	Transmission & Distribution Mains	\$45,036.16	\$44,334.10	27.03%	\$1,674.06	\$46,008.16	\$972.00
3330	Services	11,931.00	10,938.00	6.67%	413.02	11,351.02	(579.98)
3350	Hydrants	8,950.00	8,950.00	5.46%	337.95	9,287.95	337.95
3470	Miscellaneous Equipment	<u>3,367.70</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>(3,367.70)</u>
Total Water		\$69,284.86	\$64,222.10		\$2,425.03	\$66,647.13	(\$2,637.73)
3600	Collection - Sewers Forced	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	1,130.04	62,511.90	38.12%	2,360.45	64,872.35	63,742.31
3612	Collection - Sewers Manholes	99,781.90	24,745.00	15.09%	934.37	25,679.37	(74,102.53)
3630	Services to Customers	0.00	12,525.00	7.64%	472.94	12,997.94	12,997.94
3710	Pumping Equipment	<u>0.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Wastewater		\$100,911.94	\$99,781.90		\$3,767.77	\$103,549.67	\$2,637.73
Total Contract Hard Cost		\$170,196.80	\$164,004.00	100.00%	\$6,192.80	\$170,196.80	\$0.00
Miscellaneous Cost			\$6,192.80				

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp.	Per Utility Acc/Dep	Per Audit Dep. Exp.	Audit Adjust. to Dep. Exp.	Audit Adjust. to Acc/Dep
3310	Transmission & Distribution Mains	\$45,036.16	2.33%	\$1,047.35	\$2,094.71	\$1,069.96	\$22.60	\$45.21
3330	Services	11,931.00	2.50%	298.28	596.55	283.78	(14.50)	(29.00)
3350	Hydrants	8,950.00	2.22%	198.89	397.78	206.40	7.51	15.02
3470	Miscellaneous Equipment	<u>3,367.70</u>	6.67%	<u>224.51</u>	<u>449.03</u>	<u>0.00</u>	<u>(224.51)</u>	<u>(449.03)</u>
Total Water		\$69,284.86		\$1,769.03	\$3,538.06	\$1,560.13	(\$208.90)	(\$417.80)
3600	Collection - Sewers Forced	\$0.00	3.33%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	1,130.04	2.22%	25.11	50.22	1,441.61	1,416.50	2,832.99
3612	Collection - Sewers Manholes	99,781.90	3.33%	3,326.06	6,652.13	855.98	(2,470.08)	(4,940.17)
3630	Services to Customers	0.00	2.63%	0.00	0.00	342.05	342.05	684.10
3710	Pumping Equipment	<u>0.00</u>	5.56%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Wastewater		\$100,911.94		\$3,351.18	\$6,702.35	\$2,639.64	(\$711.54)	(\$1,423.07)

Audit adjustment to Acc/Dep = (Per Audit Dep. Exp. x 2 years) - Per Utility Acc/Dep

Schedule H for Exception No. 3

Plantation Bay Utility
2003 UPIS Additions

Section 2AF, Unit 2

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment
3310	Transmission & Distribution Mains	\$100,614.18	\$74,400.00	32.37%	\$3,068.50	\$77,468.50	(\$23,145.68)
3330	Services	0.00	7,720.00	3.36%	318.40	8,038.40	8,038.40
3350	Hydrants	0.00	14,760.00	6.42%	608.75	15,368.75	15,368.75
3470	Miscellaneous Equipment	<u>4,034.49</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>(4,034.49)</u>
	Total Water	\$104,648.67	\$96,880.00		\$3,995.64	\$100,875.64	(\$3,773.03)
3600	Collection - Sewers Forced	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	1,709.55	88,373.30	38.45%	3,644.80	92,018.10	90,308.55
3612	Collection - Sewers Manholes	122,612.80	34,239.50	14.90%	1,412.15	35,651.65	(86,961.15)
3630	Services to Customers	10,320.00	10,320.00	4.49%	425.63	10,745.63	425.63
3710	Pumping Equipment	<u>0.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Wastewater	\$134,642.35	\$132,932.80		\$5,482.58	\$138,415.38	\$3,773.03
	Total Contract Hard Cost	\$239,291.02	\$229,812.80	100.00%	\$9,478.22	\$239,291.02	\$0.00
	Miscellaneous Cost		\$9,478.22				

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp.	Per Utility Acc/Dep	Per Audit Dep. Exp.	Audit Adjust. to Dep. Exp.	Audit Adjust. to Acc/Dep
3310	Transmission & Distribution Mains	\$100,614.18	2.33%	\$2,339.86	\$4,679.73	\$1,801.59	(\$538.27)	(\$1,076.54)
3330	Services	0.00	2.50%	0.00	0.00	200.96	200.96	401.92
3350	Hydrants	0.00	2.22%	0.00	0.00	341.53	341.53	683.06
3470	Miscellaneous Equipment	<u>4,034.49</u>	6.67%	<u>268.97</u>	<u>537.93</u>	<u>0.00</u>	<u>(268.97)</u>	<u>(537.93)</u>
	Total Water	\$104,648.67		\$2,608.83	\$5,217.66	\$2,344.08	(\$264.75)	(\$529.50)
3600	Collection - Sewers Forced	\$0.00	3.33%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	1,709.55	2.22%	37.99	75.98	2,044.85	2,006.86	4,013.71
3612	Collection - Sewers Manholes	122,612.80	3.33%	4,087.09	8,174.19	1,188.39	(2,898.71)	(5,797.41)
3630	Services to Customers	10,320.00	2.63%	271.58	543.16	282.78	11.20	22.40
3710	Pumping Equipment	<u>0.00</u>	5.56%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Wastewater	\$134,642.35		\$4,396.66	\$8,793.32	\$3,516.01	(\$880.65)	(\$1,761.30)

Audit adjustment to Acc/Dep = (Per Audit Dep. Exp. x 2 years) - Per Utility Acc/Dep

Exception No. 4

Subject: Utility-Plant-in-Service (UPIS) - 2004 Project Additions

Statement of Facts: Utility records reflect the following capital project additions to UPIS in 2004.

Construction of Section 2AF - Unit 3 utility infrastructure (water)	\$75,955
Construction of Section 2AF - Unit 3 utility infrastructure (wastewater)	\$176,460
Construction of Section 1EV - Unit 1 utility infrastructure (water)	\$53,326
Construction of Section 1EV - Unit 1 utility infrastructure (wastewater)	\$508,637
Construction of Section 2AF - Unit 4 utility infrastructure (partial-water)	\$127,276
Construction of Section 2AF - Unit 4 utility infrastructure (partial-wastewater)	\$251,864

Recommendation: Two of the capital project additions recorded in 2004 mentioned above were misclassified or allocated by the utility to the incorrect NARUC accounts. The audit staff's review of each capital project and its correct account classification is illustrated on Schedules I and J that follow. The third capital project addition was only partially completed as of December 31, 2004, and should be recorded in Account No. 105, Construction Work-in-Progress until it is ready to be placed in service. The audit staff's adjustments are illustrated in Schedule K that follows.

The utility's water UPIS should be reduced by \$59,549 with corresponding adjustments that reduce depreciation expense and accumulated depreciation by \$4,326 each, respectively, as of December 31, 2004, as shown below.

Adjustments to Water UPIS, Depreciation Expense and Accumulated Depreciation

Schedule	UPIS	Dep. Expense	Acc. Depreciation
I	\$10,099.05	(\$879.75)	(\$879.75)
J	57,627.99	44.50	44.50
K	<u>(127,276.40)</u>	<u>(3,491.18)</u>	<u>(3,491.18)</u>
Totals	(\$59,549.36)	(\$4,326.43)	(\$4,326.43)

The utility's wastewater UPIS should be increased by \$331,347 with corresponding adjustments that reduce depreciation expense and accumulated depreciation by \$17,521 and \$19,852, respectively, as of December 31, 2004, as shown below.

Adjustments to Wastewater UPIS, Depreciation Expense and Accumulated Depreciation

Schedule	UPIS	Dep. Expense	Acc. Depreciation
I	(\$10,099.05)	(\$2,506.96)	(\$4,837.64)
J	(69,383.79)	(8,442.31)	(8,442.31)
K	<u>(251,864.25)</u>	<u>(6,572.11)</u>	<u>(6,572.11)</u>
Totals	(\$331,347.09)	(\$17,521.38)	(\$19,852.06)

The audit staff adjustments to the utility's accumulated depreciation and depreciation expense balances calculated above incorporate the methodology used to determine our recommended adjustments discussed in Exception No. 5 of this report.

Schedule I for Exception No. 4

Plantation Bay Utility

Section 2AF, Unit 3

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Per Audit Adjustment
3310	Transmission & Distribution Mains	\$6,435.25	\$68,917.50	28.20%	\$2,274.69	\$71,192.19	\$64,756.94
3330	Services	67,599.75	6,707.00	2.74%	221.37	6,928.37	(60,671.38)
3350	Hydrants	<u>1,920.00</u>	<u>7,680.00</u>	3.14%	<u>253.49</u>	<u>7,933.49</u>	<u>6,013.49</u>
	Total Water	\$75,955.00	\$83,304.50		\$2,749.55	\$86,054.05	\$10,099.05
3600	Collection - Sewers Forced	\$23,545.00	\$14,925.00	6.11%	\$492.61	\$15,417.61	(\$8,127.39)
3611	Collection - Sewers Gravity	8,179.50	43,895.20	17.96%	1,448.80	45,344.00	37,164.50
3612	Collection - Sewers Manholes (2003)	68,828.00	0.00				(68,828.00)
3612	Collection - Sewers Manholes (2004)	71,322.20	23,575.00	9.65%	778.12	24,353.12	(46,969.08)
3630	Services to Customers	3,492.50	10,850.00	4.44%	358.11	11,208.11	7,715.61
3710	Pumping Equipment	0.00	67,800.00	27.75%	2,237.81	70,037.81	70,037.81
3810	Plant Sewers (2003)	<u>1,092.50</u>	0.00	0.00%	<u>0.00</u>	<u>0.00</u>	<u>(1,092.50)</u>
	Total Wastewater	\$176,459.70	\$161,045.20		\$5,315.45	\$166,360.65	(\$10,099.05)
	Total Contract Hard Cost	\$252,414.70	\$244,349.70	100.00%	\$8,065.00	\$252,414.70	(\$0.00)
	Miscellaneous Cost		\$8,065.00				

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp.	Per Utility Acc/Dep	Per Audit Dep. Exp. & Acc/Dep	Per Audit Adjustment to Dep. Exp.	Per Audit Adjustment to Acc/Dep
3310	Transmission & Distribution Mains	\$6,435.25	2.33%	\$149.66	\$149.66	\$827.82	\$678.16	\$678.16
3330	Services	67,599.75	2.50%	1,689.99	1,689.99	86.60	(1,603.39)	(1,603.39)
3350	Hydrants	<u>1,920.00</u>	2.22%	<u>42.67</u>	<u>42.67</u>	<u>88.15</u>	<u>45.48</u>	<u>45.48</u>
	Total Water	\$75,955.00		\$1,882.32	\$1,882.32	\$1,002.57	(\$879.75)	(\$879.75)
3600	Collection - Sewers Forced	\$23,545.00	3.33%	\$784.83	\$784.83	\$256.96	(\$527.87)	(\$527.87)
3611	Collection - Sewers Gravity	8,179.50	2.22%	181.77	181.77	503.82	322.06	322.06
3612	Collection - Sewers Manholes (2003)	68,828.00	3.33%	2,294.27	4,588.53	0.00	(2,294.27)	(4,588.53)
3612	Collection - Sewers Manholes (2004)	71,322.20	3.33%	2,377.41	2,377.41	405.89	(1,971.52)	(1,971.52)
3630	Services to Customers	3,492.50	2.63%	91.91	91.91	147.48	55.57	55.57
3710	Pumping Equipment	0.00	5.56%	0.00	0.00	1,945.49	1,945.49	1,945.49
3810	Plant Sewers (2003)	<u>1,092.50</u>	3.33%	<u>36.42</u>	<u>72.83</u>	<u>0.00</u>	<u>(36.42)</u>	<u>(72.83)</u>
	Total Wastewater	\$176,459.70		\$5,766.60	\$8,097.28	\$3,259.64	(\$2,506.96)	(\$4,837.64)

Dep. Expense and Acc/Dep adjustments are calculated using the half-year method.

Schedule J for Exception No. 4

Plantation Bay Utility
2004 UPIS Additions

Section 2EV, Unit 1

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Per Audit Adjustment
3310	Transmission & Distribution Mains	\$40,247.69	\$79,096.00	14.86%	\$2,659.78	\$81,755.78	\$41,508.09
3330	Services	8,086.00	12,888.00	2.42%	433.39	13,321.39	5,235.39
3350	Hydrants	<u>4,992.00</u>	<u>15,360.00</u>	2.89%	<u>516.51</u>	<u>15,876.51</u>	<u>10,884.51</u>
	Total Water	\$53,325.69	\$107,344.00		\$3,609.68	\$110,953.68	\$57,627.99
3600	Collection - Sewers Forced	\$14,240.00	\$11,040.00	2.07%	\$371.24	\$11,411.24	(\$2,828.76)
3611	Collection - Sewers Gravity	287,088.91	210,522.60	39.55%	7,079.29	217,601.89	(69,487.02)
3612	Collection - Sewers Manholes	84,306.80	79,050.00	14.85%	2,658.23	81,708.23	(2,598.57)
3630	Services to Customers	3,629.00	20,650.00	3.88%	694.40	21,344.40	17,715.40
3710	Pumping Equipment	86,902.00	103,700.00	19.48%	3,487.14	107,187.14	20,285.14
3820	Outfall Sewer Lines	<u>32,470.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>(32,470.00)</u>
	Total Wastewater	\$508,636.71	\$424,962.60		\$14,290.32	\$439,252.92	(\$69,383.79)
	Total Contract Hard Cost	\$561,962.40	\$532,306.60	100.00%	\$17,900.00	\$550,206.60	(\$11,755.80)
	Miscellaneous Cost		\$17,900.00				

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp. & Acc/Dep	Per Audit Dep. Exp. & Acc/Dep	Per Audit Adjustment
3310	Transmission & Distribution Mains	\$40,247.69	2.33%	\$935.99	\$950.65	\$14.66
3330	Services	8,086.00	2.50%	202.15	166.52	(35.63)
3350	Hydrants	<u>4,992.00</u>	2.22%	<u>110.93</u>	<u>176.41</u>	<u>65.47</u>
	Total Water	\$53,325.69		\$1,249.08	\$1,293.57	\$44.50
3600	Collection - Sewers Forced	\$14,240.00	3.33%	\$474.67	\$190.19	(\$284.48)
3611	Collection - Sewers Gravity	287,088.91	2.22%	6,379.75	2,417.80	(3,961.95)
3612	Collection - Sewers Manholes	84,306.80	3.33%	2,810.23	1,361.80	(1,448.42)
3630	Services to Customers	3,629.00	2.63%	95.50	280.85	185.35
3710	Pumping Equipment	86,902.00	5.56%	4,827.89	2,977.42	(1,850.47)
3820	Outfall Sewer Lines	<u>32,470.00</u>	3.33%	<u>1,082.33</u>	<u>0.00</u>	<u>(1,082.33)</u>
	Total Wastewater	\$508,636.71		\$15,670.37	\$7,228.06	(\$8,442.31)

Dep. Expense and Acc/Dep adjustments are calculated using the half-year method.

Schedule K for Exception No. 4

Plantation Bay Utility
Section 2AF, Unit 4

Acct#	Account Description	Per Utility Total Cost	Dep. Rate	Per Utility Dep. Exp. & Acc/Dep	Per Audit Dep. Exp. & Acc/Dep	Audit Adjustment
3310	Transmission & Distribution Mains	\$101,466.40	2.33%	\$2,359.68	\$0.00	(\$2,359.68)
3350	Hydrants	14,140.00	2.50%	353.50	0.00	(353.50)
3470	Services	<u>11,670.00</u>	6.67%	<u>778.00</u>	<u>0.00</u>	<u>(778.00)</u>
	Total Water	\$127,276.40		\$3,491.18	\$0.00	(\$3,491.18)
3600	Collection - Sewers Forced	\$29,083.75	3.33%	\$969.46	\$0.00	(\$969.46)
3612	Collection - Sewers Manholes	213,501.60	2.50%	5,337.54	0.00	(5,337.54)
3810	Plant Sewers	<u>9,278.90</u>	2.86%	<u>265.11</u>	<u>0.00</u>	<u>(265.11)</u>
	Total Wastewater	\$251,864.25		\$6,572.11	\$0.00	(\$6,572.11)
Total Contract Cost as of 12/31/2004		\$379,140.65				

Exception No. 5

Subject: Depreciation Expense and Accumulated Depreciation

Statement of Facts: The utility's filing reflects water and wastewater depreciation expenses and accumulated depreciation balances of \$117,749, \$156,885, \$1,576,306, and \$1,457,019, respectively, as of December 31, 2004.

Rule 25-30.140, Florida Administrative Code, requires the use of prescribed service lives to depreciate water and wastewater utility-plant-in-service accounts.

The utility calculated its depreciation expense and its annual accruals to accumulated depreciation based on the year-end balance of its UPIS.

Recommendation: The utility's 2004 year-end balances for wastewater depreciation expense and accumulated depreciation are overstated by \$2,637 and \$4,305, respectively, as of December 31, 2004, based on the following audit staff determinations. See Schedule L that follows for the audit staff's calculations.

1. The utility depreciated Account No. 363, Services to Customers using a service life of 25 years instead of 38 years as required in the rule mentioned above.
2. The utility did not record any depreciation to Account No. 364, Flow Measuring Devices in 2004.
3. The utility depreciated Account No. 381, Plant Sewers using a service life of 15 years instead of 35 years as required in the rule mentioned above.
4. Additionally, the utility was upgraded from a Class C to a Class B size utility based on its revenues in 2004 which required a corresponding change in service lives. The audit staff incorporated the change for the 12-month period ended December 31, 2004.

Additionally, the utility's filing is presented using the average balance for its rate base components as required in Rule 25-30.433(4), F.A.C. As mentioned above, the utility calculates its depreciation expense and its annual accruals to accumulated depreciation based on the year-end balance of its UPIS. Therefore, for purposes of this filing the audit staff has recalculated the average water and wastewater depreciation expense to be \$112,615 and \$128,620 for the 12-month period ended December 31, 2004. See Schedule M that follows for the audit staff's calculations and recommended adjustments.

Schedule L for Exception No. 5

Acct. No. & Name	Year	UPIS Balance	Dep. Rate	Dep Expense	Acc/Dep
363.2 Services to Customers					
Beg. Balance @ 01/01/2002					\$36,621
	2002	\$176,602	2.86%	\$5,046	\$41,667
	2003	\$186,922	2.86%	\$5,341	\$47,007
	2004	\$194,044	2.63%	\$5,106	\$52,114
		Per Utility		<u>\$7,762</u>	<u>\$56,076</u>
		Adjustment		(\$2,656)	(\$3,962)
364.2 Flow Measuring Devices					
Beg. Balance @ 01/01/2004					\$4,535
	2004	\$5,210	20.00%	\$675	\$5,210
		Per Utility		<u>\$0</u>	<u>\$4,535</u>
		Adjustment		\$675	\$675
381.4 Plant Sewers					
Beg. Balance @ 01/01/2002					\$849
	2002	\$5,374	3.13%	\$168	\$1,017
	2003	\$7,945	3.13%	\$248	\$1,265
	2004	\$17,224	2.86%	\$492	\$1,757
		Per Utility		<u>\$1,149</u>	<u>\$2,775</u>
		Adjustment		(\$657)	(\$1,018)
		Total Adjustment		(\$2,637)	(\$4,305)

Schedule M for Exception No. 5

Water Acct. No. & Name	Per Utility Dep Exp.	Per Audit Dep Exp.	Adjust. To Dep Exp.
301.1 Organization	\$421	\$420	(\$1)
304.3 Structures & Improvements	5,253	5,118	(135)
307.2 Wells & Springs	7,564	7,563	(1)
310.2 Power Generation Equip	5,152	4,381	(771)
311.2 Pumping Equipment	10,089	10,089	(0)
320.3 Water Treatment Equip.	29,321	29,225	(96)
330.4 Distr. Reservoirs & Standpipes	8,030	7,127	(903)
331.4 Transm. & Dist. Mains	34,434	32,708	(1,726)
333.4 Services	4,361	4,242	(119)
334.4 Meter & Meter Installation	5,995	5,358	(637)
335.4 Hydrants	5,074	4,764	(310)
340.5 Office Furniture	0	0	0
344.5 Laboratory Equip	56	56	0
346.5 Communication Equip.	0	0	0
347.5 Miscellaneous Equipment	<u>1,997</u>	<u>1,562</u>	<u>(435)</u>
Totals	\$117,747	\$112,615	(\$5,132)

Wastewater Acct. No. & Name	Per Utility Dep Exp.	Per Audit Dep Exp.	Adjust. To Dep Exp.
351.1 Organization	\$420	\$420	\$0
354.4 Structures & Improvements	4,734	4,680	(54)
360.2 Collection Sewers - Force	12,111	11,009	(1,102)
361.2 Collection Sewers - Gravity	36,898	21,748	(15,150)
361.3 Collection Sewers - Manholes	39,619	33,507	(6,113)
363.2 Services to Customers	7,762	5,013	(2,749)
364.2 Flow Measuring Devices	0	675	675
371.3 Pumping Equipment	18,385	15,948	(2,437)
380.4 Treatment and Disposal Equipment	33,783	33,756	(27)
381.4 Plant Sewers	1,149	379	(770)
382.0 Outfall Sewer Lines	2,025	1,486	(539)
390.7 Office Furniture & Equipment	<u>0</u>	<u>0</u>	<u>0</u>
Totals	\$156,886	\$128,620	(\$28,266)

The per audit depreciation balances displayed above calculates the utility's average depreciation expense balance based on the utility's filing and does not incorporate any of the adjustments recommended in other sections of this report. Each individual recommendation calculates the required corresponding adjustment to the utility's depreciation expense and accumulated depreciation.

Exception No. 6

Subject: Contributions-in-Aid-of-Construction (CIAC)

Statement of Facts: The utility's filing reflects water and wastewater CIAC balances of \$1,888,804 and \$2,282,398, respectively, as of December 31, 2004.

Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, established water and wastewater CIAC balances of \$1,487,264 and \$2,146,102, respectively, as of December 31, 2001.

The utility's general ledger reflects water and wastewater CIAC beginning balances of \$1,486,098 and \$2,146,002, respectively, as of January 1, 2002.

Recommendation: The utility's water and wastewater CIAC balances are overstated by \$87,991 and understated by \$89,259, respectively, as of December 31, 2004, because of the following audit staff determinations. See audit staff calculations below.

- 1) The utility's general ledger does not properly reflect the CIAC balances in the above-mentioned Order. An adjustment that increases water CIAC by \$1,166 (\$1,487,264 - \$1,486,098), and an adjustment that reduces wastewater CIAC by \$100 (\$2,146,102 - \$2,246,002) are required.
- 2) The utility improperly recorded \$6,899 of wastewater capacity fees as water meter installation fees in December 2002.
- 3) The utility improperly recorded \$1,300 of water meter installation fees as wastewater capacity fees in December 2002.
- 4) The utility improperly recorded \$102,960 of wastewater capacity fees as water meter installation fees in December 2004.
- 5) The utility improperly recorded \$19,400 of water meter installation fees as wastewater capacity fees in December 2004.

System Information	Per Utility Additions			Per Audit Additions			Audit Staff Adjustment
	2002	2004	Total	Reclass	Reclass	Correct	
Water - Meter Installation	\$6,899	\$102,960	\$109,859	(\$109,859)	\$20,700	\$531	(\$88,628)
Water - System Capacity	0	0	0	0	0	637	637
						\$1,168 *	(\$87,991)
W/Water System Capacity	\$1,300	\$19,400	\$20,700	(\$20,700)	\$109,859	\$100	\$89,259

* Difference of \$2 is due to rounding error. (\$1,168 -vs- \$1,166)

Additionally, the audit staff adjustments above will require corresponding adjustments to CIAC amortization expense and accumulated amortization of CIAC balances which are calculated in Exception No. 7 that follows.

Exception No. 7

Subject: Accumulated Amortization of CIAC

Statement of Facts: The utility's filing reflects water and wastewater CIAC amortization expense and accumulated amortization of CIAC balances of \$68,016, \$66,931, \$575,508, and \$815,816, respectively, as of December 31, 2004.

Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, required the utility to calculate the CIAC amortization rates as prescribed by Rule 25-30.140, F.A.C.

The utility calculated its CIAC amortization expense and its annual accruals to accumulated amortization of CIAC based on the year-end balance of its CIAC.

Recommendation: The utility's balances for water and wastewater accumulated amortization of CIAC balance are overstated by \$48,870 and understated by \$260,174, respectively, and its amortization of CIAC expenses are overstated by \$21,839 and understated by \$18,924, respectively, as of December 31, 2004, based on the following audit staff determinations. See Schedules N and O that follow for the audit staff's calculations.

1. The utility did not use the rule rates that were established in the Order mentioned above.
2. The audit staff recalculated water and wastewater CIAC amortization expenses to be \$46,177 and \$85,855, respectively, for the 12-month period ended December 31, 2004, using the prescribed rates established in the above-mentioned Order.
3. The audit staff recalculated water and wastewater accumulated amortization of CIAC balances of \$526,638 and \$1,075,990, respectively, as of December 31, 2004, based on its adjustments to CIAC in Exception No. 7 of this report and the use of amortization rates prescribed by Rule 25-30.140, F.A.C.

<u>Account</u>	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>
Water - CIAC Amortization Expense	\$68,016	(\$21,839)	\$46,177
Water - Accumulated Amortization of CIAC	\$575,508	(\$48,870)	\$526,638
W/Water - CIAC Amortization Expense	\$66,931	\$18,924	\$85,855
W/Water - Accumulated Amortization of CIAC	\$815,816	\$260,174	\$1,075,990

Schedule N for Exception No. 7

CIAC Water Acct. No.	Per Order @12/31/2001	Additions	Audit Bal @12/31/2002	Additions	@12/31/2003	Additions	@12/31/2004	Audit Adjustment	Utility Bal. @12/31/2004
331	\$650,223	\$0	\$650,223	\$0	\$650,223	\$0	\$650,223	\$0	\$650,223
333	101,061	0	101,061	0	101,061	0	101,061	0	101,061
335	140,418	0	140,418	0	140,418	0	140,418	0	140,418
Meter Installation	76,650	11,000	87,650	12,900	100,550	19,400	119,950	(88,628)	208,578
System Capacity	<u>518,912</u>	<u>69,947</u>	<u>588,859</u>	<u>82,027</u>	<u>670,886</u>	<u>118,274</u>	<u>789,160</u>	<u>637</u>	<u>788,523</u>
Totals	\$1,487,264	\$80,947	\$1,568,211	\$94,927	\$1,663,138	\$137,674	\$1,800,812	(\$87,991)	\$1,888,803

								\$637	G/L to Filing
Booked by utility to G/L water meter installation				\$18,499		\$102,960		(5,599)	
Booked by utility to G/L water meter installation audit staff reclass to w/water cap:				(6,899)		(102,960)		(83,560)	
Booked by utility to G/L w/water capacity, audit staff reclass to meter installation				<u>1,300</u>		<u>19,400</u>		<u>531</u>	G/L to Filing
Per Audit amount for water meter installation				\$12,900		\$19,400		(\$87,991)	

Amortz. Of CIAC Water Acct. No.	2002-03 Amortz. Rate	2004 Amortz. Rate	Per Order @12/31/2001	Accruals	Audit Balance @12/31/2002	Accruals	Audit Balance @12/31/2003	Accruals	Audit Balance @12/31/2004	Audit Adjustment	Utility Balance @12/31/2004
331	2.63%	2.33%	\$144,759	\$17,111	\$161,870	\$17,111	\$178,981	\$15,121	\$194,103	(\$12,513)	\$206,616
333	2.86%	2.50%	26,901	2,887	29,788	2,887	32,676	2,527	35,202	(1,313)	36,515
335	2.50%	2.22%	27,036	3,510	30,546	3,510	34,057	3,120	37,177	(3,217)	40,394
Meter Installation	5.88%	5.88%	95,637	5,156	100,793	5,915	106,708	7,056	113,763	(1,718)	115,481
System Capacity	2.63%	2.33%	<u>94,888</u>	<u>15,496</u>	<u>110,384</u>	<u>17,655</u>	<u>128,039</u>	<u>18,353</u>	<u>146,392</u>	<u>(30,110)</u>	<u>176,502</u>
Totals			\$389,221	\$44,161	\$433,382	\$47,079	\$480,461	\$46,177	\$526,638	(\$48,870)	\$575,508

2004 Water Amortz. Exp. Acct. No.	Per Utility	Audit Adjustment	Per Audit
331	\$20,373	(\$5,252)	\$15,121
333	3,166	(639)	2,527
335	4,400	(1,280)	3,120
Meter Installation	10,429	(3,373)	7,056
System Capacity	<u>29,648</u>	<u>(11,295)</u>	<u>18,353</u>
Totals	\$68,016	(\$21,839)	\$46,177

Schedule O for Exception No. 7

CIAC Wastewater Acct. No.	Per Order @12/31/2001	Additions	Audit Bal @12/31/2002	Additions	@12/31/2003	Additions	@12/31/2004	Audit Adjustment	Utility Bal. @12/31/2004
360	\$124,989	\$0	\$124,989	\$0	\$124,989	\$0	\$124,989	\$0	\$124,989
361	948,849	0	948,849	0	948,849	0	948,849	0	948,849
362	330,495	0	330,495	0	330,495	0	330,495	0	330,495
363	142,042	0	142,042	0	142,042	0	142,042	0	142,042
371	170,776	0	170,776	0	170,776	0	170,776	0	170,776
System Capacity	<u>428,951</u>	<u>58,379</u>	<u>487,331</u>	<u>68,463</u>	<u>555,794</u>	<u>98,714</u>	<u>654,507</u>	<u>89,259</u>	<u>565,248</u>
Totals	\$2,146,102	\$58,379	\$2,204,482	\$68,463	\$2,272,945	\$98,714	\$2,371,658	\$89,259	\$2,282,399

Booked by utility to w/water capacity				\$62,864		\$15,154		\$5,599	
Booked by utility to w/water capacity, audit staff reclass to water meter installation				(1,300)		(19,400)		83,560	
Booked by utility to G/L water meter installation audit staff reclass to w/water capacity				<u>6,899</u>		<u>102,960</u>		<u>100</u>	G/L to Filing
Per Audit amount for w/water system capacity				\$68,463		\$98,714		\$89,259	

Amortz. Of CIAC Wastewater Acct. No.	2002-2003 Amortz. Rate	2004 Amortz. Rate	Per Order @12/31/2001	Accruals	Audit Balance @12/31/2002	Accruals	Audit Balance @12/31/2003	Accruals	Audit Balance @12/31/2004	Audit Adjustment	Utility Balance @12/31/2004
360	3.70%	3.33%	\$39,340	\$4,629	\$43,969	\$4,629	\$48,598	\$4,166	\$52,765	\$1,991	\$50,774
361	2.50%	2.22%	175,736	23,721	199,457	23,721	223,178	21,086	244,264	(18,278)	262,542
362	3.70%	3.33%	97,187	12,241	109,428	12,241	121,668	11,017	132,685	5,263	127,422
363	2.86%	2.63%	37,081	4,058	41,139	4,058	45,198	3,738	48,936	(1,109)	50,045
371	6.67%	5.56%	30,229	11,385	41,614	11,385	52,999	9,488	62,487	16,603	45,884
System Capacity	6.67%	5.56%	<u>428,951</u>	<u>32,489</u>	<u>461,440</u>	<u>37,053</u>	<u>498,493</u>	<u>36,362</u>	<u>534,854</u>	<u>255,705</u>	<u>279,149</u>
Totals			\$808,524	\$88,523	\$897,047	\$93,087	\$990,134	\$85,855	\$1,075,990	\$260,174	\$815,816

2004 W/Water Amortz. Exp. Acct. No.	Per Utility	Audit Adjustment	Per Audit
360	\$3,810	\$356	\$4,166
361	28,926	(7,840)	21,086
362	10,075	942	11,017
363	4,300	(562)	3,738
371	5,237	4,251	9,488
System Capacity	<u>14,583</u>	<u>21,779</u>	<u>36,362</u>
Totals	\$66,931	\$18,924	\$85,855

Exception No. 8

Subject: Capital Structure - Accumulated Deferred Income Tax

Statement of Facts: The utility's filing reflects balances of \$204,498 and \$450,150 for water and wastewater accumulated deferred income taxes, respectively, as of December 31, 2004.

The above balances were included as components of the utility's requested rate base for this rate proceeding

Rule 25-30.437, F.A.C., establishes minimum filing requirements that include the balance for accumulated deferred income tax as a component in calculating a utility's capital structure.

Recommendation: The Commission should reclassify the utility's accumulated deferred income tax balance of \$654,648 (\$204,498 + \$450,150) referenced above to the utility's capital structure presentation for this rate proceeding.

Exception No. 9

Subject: Utility Water and Wastewater Revenues

Statement of Facts: The utility's filing reflects water and wastewater revenues of \$346,238 and \$224,920, respectively, for the 12-month period ended December 31, 2004.

The utility's billing analysis prepared for its filing indicates that it serves the following customer classes.

- Water Residential Service - 5/8 meter and 1 inch meter
- Water General Service - 5/8 inch and 1 1/2-inch meter
- Wastewater Residential Service - 5/8 meter and 1 inch meter
- Wastewater General Service - 5/8 inch and 1 1/2-inch meter

Recommendation: The utility's water and wastewater revenues are understated by \$1,815 and \$1,296, respectively, for the 12-month period ended December 31, 2004.

The audit staff conducted a field inspection of the utility's general service meters and determined that it was billing incorrect base facility rates for the three customers identified below.

Water Adjustment Meter Service ID#	Utility Meter Billing Size	Utility Base Facility Charge	Actual Meter Size	Actual Base Facility Charge	Base Facility Difference
00-0010-2	1 1/2 inch	\$88.96	2 inch	\$142.34	\$53.38
00-0020-2	5/8 inch	\$17.79	1 inch	\$44.49	26.70
15-0190-1	5/8 inch	\$17.79	1 1/2 inch	\$88.96	<u>71.17</u>
					\$151.25
				Months Adjustment	<u>12</u> \$1,815
Wastewater Adjustment Meter Service ID#	Utility Meter Billing Size	Utility Base Facility Charge	Actual Meter Size	Actual Base Facility Charge	Base Facility Difference
00-0010-2	1 1/2 inch	\$63.02	2 inch	\$101.61	\$38.59
00-0020-2	5/8 inch	\$12.70	1 inch	\$31.76	19.06
15-0190-1	5/8 inch	\$12.70	1 1/2 inch	\$63.02	<u>50.32</u>
					\$107.97
				Months Adjustment	<u>12</u> \$1,296

Exception No. 9, continued

The audit staff's field inspection identified the following residential and general service meters.

<u>Meter Service ID#</u>	<u>Service Type</u>	<u>Meter Size</u>
00-0010-2	General	2 inch
00-0020-2	General	1 inch
00-0030-2	General	1 inch
00-0040-2	General	5/8 inch
00-0050-1	General	5/8 inch
00-0051-1	General	5/8 inch
00-0060-2	General	5/8 inch
00-0070-2	General	5/8 inch
15-0190-1	General	1 1/2 inch
15-0200-1	General	1 1/2 inch
15-0210-1	General	1 1/2 inch
15-0030-2	Residential	1 1/2 inch
16-2140-2	Residential	1 1/2 inch

The utility's billing analysis does not accurately reflect the proper customer class or meter sizes that are identified above. The audit staff defers this issue to the analyst in Tallahassee for further review.

Exception No. 10

Subject: Water and Wastewater Operation and Maintenance Expense (O&M)

Statement of Facts: The utility's filing reflects water and wastewater O&M expenses of \$190,567 and 192,469, respectively, for the 12-month period ended December 31, 2004. The sub-account balances for the above-mentioned balances are indicated below.

Water O&M Expense			Wastewater O&M Expense		
Acct. No.	Account Description	Amount	Acct. No.	Account Description	Amount
615	Purchased Power	\$23,691	711	Sludge Removal	\$54,154
618	Chemicals	22,617	715	Purchased Power	21,208
620	Materials & Supplies	8,701	720	Materials & Supplies	1,902
631	Contractual Services - Engineering	10,209	731	Contractual Services - Engineering	4,216
632	Contractual Services - Accounting	2,002	732	Contractual Services - Accounting	1,335
633	Contractual Services - Legal	467	733	Contractual Services - Legal	231
634	Contractual Services - Mgmt. Fees	38,880	734	Contractual Services - Mgmt. Fees	25,920
635	Contractual Services - Testing	3,664	735	Contractual Services - Testing	175
636	Contract Services - Other	57,308	736	Contract Services - Other	64,655
657	Insurance - General Liability	7,853	757	Insurance - General Liability	5,236
666	Rate Case Expense	1,904	766	Rate Case Expense	1,905
675	Miscellaneous Expense	<u>13,273</u>	775	Miscellaneous Expense	<u>11,532</u>
		\$190,569			\$192,469

Recommendation: The utility's water and wastewater O&M expenses are overstated by \$14,659 and \$9,679, respectively, for the 12-month period ended December 31, 2004, based on the following audit staff determinations. See audit staff calculations below.

1. Account No. 711, Sludge Removal is understated by \$1,878 based on the audit staff's review of all vendor invoices for the year 2004.
2. Accounts Nos. 615 and 715, Purchased Power are understated by \$94 and overstated by \$1,038 based on the audit staff's review of all vendor invoices for the year 2004.
3. Account No. 620, Materials and Supplies is overstated by \$7,046, because it includes three journal entries that were posted to its accounts payable system to correct prior period errors that should have been posted to its retained earnings. (\$91 - \$6,279 + \$13,234)
4. Accounts Nos. 636 and 736, Contractual Services - Other are overstated by \$1,151 and \$7,348, respectively, based on the audit staff's review described in Notes A-C that follow.
5. Accounts Nos. 675 and 775, Miscellaneous Expense are overstated by \$6,556 and \$3,171, respectively, based on the audit staff's review described in Note D that follows.

Item No.	Water	W/Water
1	\$0	\$1,878
2	94	(1,038)
3	(7,046)	0
4	(1,151)	(7,348)
5	<u>(6,556)</u>	<u>(3,171)</u>
Total Adjustment	(\$14,659)	(\$9,679)

Exception No. 10, continued

Notes to Audit Staff's Recommendation

- A. The audit staff reviewed all vendor invoices from The Sky's the Limit, Inc. and determined that the utility's water and wastewater balances are understated by \$835 and \$60, respectively, based on unrecorded invoices and a reallocation of costs between water and wastewater services.
- B. The audit staff reviewed all vendor invoices from Wetherell Treatment Systems, Inc. It was determined that the utility's water and wastewater balances are overstated by \$1,986 and \$7,408, respectively, based on the removal of \$8,855 (\$4,892 + \$3,963) for hurricane costs incurred in 2004 that are considered nonrecurring, the removal of \$540 in costs not supported by vendor invoices, and the reallocation of costs between water and wastewater services. See the calculations below.

<u>Accts. Nos. 636 and 736</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Remove Aug. 2004 Hurricane Costs	\$0.00	(\$4,892.13)	(\$4,892.13)
Remove Sep. 2004 Hurricane Costs	0.00	(3,961.69)	(3,961.69)
Reallocate and correct actual invoiced amount	<u>(1,985.93)</u>	<u>1,445.90</u>	<u>(540.03)</u>
	(\$1,985.93)	(\$7,407.92)	(\$9,393.85)

- C. The \$8,855 of hurricane-related costs mentioned above is discussed in Exception No. 11 of this report.
- D. The audit staff's review of all vendor invoices has determined that \$1,800 of costs recorded for an air conditioner installed at the water plant office should have been recorded in Account No. 304, Structures and Improvements as a capital asset addition. It was also determined that \$4,800 of costs recorded for professional engineering services related to the future reuse of wastewater effluent should have been recorded in Account No. 186, Miscellaneous Deferred Debits until such a system is placed in service, and that \$3,127 of journal entries recorded as adjustments to correct the utility's accounts receivable and customer deposits accounts were incorrectly posted to the O&M expense account. See calculations below.

<u>Accts. Nos. 675 and 775</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Remove air conditioner invoice	(\$1,800.00)	\$0.00	(\$1,800.00)
Remove reuse invoice	(2,880.00)	(1,920.00)	(4,800.00)
Remove account receivable journal entry	(1,396.43)	(930.95)	(2,327.38)
Remove customer deposit journal entry	<u>(480.00)</u>	<u>(320.00)</u>	<u>(800.00)</u>
	(\$6,556.43)	(\$3,170.95)	(\$9,727.38)

Exception No. 11

Subject: Deferred Maintenance

Statement of Facts: Exception No. 10 of this report removed \$8,855 of wastewater expense from Account No. 736 because of its nonrecurring nature.

Rule 25-30.433 (8), F.A.C., requires non-recurring expenses to be amortized over a 5-year period unless a shorter or longer period can be justified.

Recommendation: The \$8,855 of expenses identified above was incurred by the utility to repair its wastewater system as the result of the hurricanes that struck Florida in 2004. Such events should be considered as nonrecurring in nature and all costs associated with them should be recorded in Account No. 186, Miscellaneous Deferred Debits and amortized over 5 years as prescribed in the rule cited above.

The proper accounting treatment is to increase Account No. 186 by \$7,084 (\$8,855 - \$1,771) and to increase Account No. 736, Contractual Services - Other by \$1,771, which is the annual amortization of the original balance of \$8,855 over a 5-year period. See the journal entries below.

	Debit	Credit
Acct. No. 186	\$8,855	
Acct. No. 736		\$8,855
To remove nonrecurring hurricane costs in 2004 from O&M expense and record as a miscellaneous deferred debit.		
Acct. No. 736	\$1,771	
Acct. No. 186		\$1,771
To record one year of amortization expense for deferred hurricane costs incurred in 2004 (\$8,855 / 5 years = \$1,771 per year)		

Disclosure No. 1

Subject : **Land and Land Rights**

Statement of Facts: The utility purchased an easement from Intervest at Plantation Bay Partnership, a Florida General Partnership, for \$25,000 on March 15, 2002.

The above-mentioned document was executed by the president of PlanMor, Inc., the partnership's Managing General Partner, and subsequently recorded in Original Record Book 4865, Page 947 of the Volusia County records.

The easement provided the utility additional access to its water well pumping sites located on the grantor's property.

Recommendation: The above utility easement was purchased from a related party by the utility. The president of PlanMor, Inc. also serves as the president of Plantation Bay Utility Company, Inc., based on the official records of the Florida Department of State, Division of Corporations.

The purchase price for the above utility easement should be examined further to insure that it represents an actual market-based cost.

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 2

Subject: Construction-Work-In-Progress (CWIP)

Statement of Facts: The utility's current accounting policy for capital projects is to record the invoiced cost for capital projects to UPIS as they are incurred.

Exception No. 4 of this report reclassified \$127,276 and \$251,869 of water and wastewater capital project additions to Account No. 105, Construction-Work-in-Progress because it represents a partial payment for a utility infrastructure construction project that was not completed as of December 31, 2004.

Recommendation: The utility should be required to change its accounting policy and record all future capital projects in Account No. 105, CWIP until the utility infrastructure is ready to be placed in service to its customers.

Additionally, the Commission should consider establishing an allowance-for-funds-used-during-construction (AFUDC) rate for the utility to allow it to earn a reasonable return on its capital project investments prior to them being placed in service.

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 3

Subject: Interest Rate on Long-Term Debt

Statement of Facts: The utility's filing reflects an average long-term debt balance of \$762,721 with a cost rate of 10 percent as of December 31, 2004.

The long-term debt consists of two note payables due in four years identified as the following.

<u>Note Payable</u>	<u>Cost Rate</u>	<u>Issue Date</u>	<u>Due Date</u>	<u>Amount</u>
PPB Senior Debt	10%	June 2003	June 2007	\$644,691
IPB Senior Debt	10%	June 2003	June 2007	\$880,751

Recommendation: The audit staff has determined that the principal holders of the two notes listed above are related parties to the utility.

The PPB Senior Debt note is held by Prestwick at Plantation Bay, a Florida General Partnership.

The IPB Senior Debt note is held by Intervest at Plantation Bay Partnership, a Florida General Partnership.

The president of Plantation Bay Utility Company, Inc. also serves as an officer of MHK Volusia County, Inc. and PlanMore, Inc. which are the managing general partners for the two general partnerships listed above based on a document recorded in Original Record Book 5560, Page 3791 of the Volusia County records.

The cost rate for the above two note payables should be examined further to insure that it represents an actual market-based rate.

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 4

Subject: Purchased Power Expense

Statement of Facts: The utility's filing reflects water and wastewater purchased power expenses of \$23,691 and \$21,208, respectively, as of December 31, 2004.

Included in the above amounts is \$35,957 for Florida Power and Light Meter Account No. 14110-06974 that is allocated 60 percent water and 40 percent wastewater or approximately \$21,574 and \$13,383, respectively. This meter accounts for 80 percent of the utility's combined purchase power expense. ($\$35,957 / (\$23,691 + \$21,208)$)

The above meter is located at the combined water and wastewater plant facilities site.

Recommendation: The Commission staff engineer should determine if this is the proper allocation for the utility's purchased power expense.

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 5

Subject: Management Fee Expense

Statement of Facts: The utility's filing reflects water and wastewater management fees of \$38,880 and \$25,920, respectively, as of December 31, 2004.

The above management fees, totaling \$64,800, are allocated 60 percent water and 40 percent wastewater based on the utility 2004 revenues. The management services are provided by Intervest Construction, Inc., a related party.

The Commission last reviewed and accepted \$50,000 for the utility's management fees in Docket No. 011451-WS in its last rate proceeding.

The utility's 2002 and 2003 Annual Reports reflect management fees of \$62,400 and \$70,200, respectively, which were included for its water and wastewater operations.

Recommendation: The \$64,800 of management fees charged in 2004 represents a 30 percent increase over the utility's \$50,000 of management fees approved in the above-mentioned docket. $((\$64,800 - \$50,000) / \$50,000)$

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 6

Subject: Rate Case Expense

Statement of Facts: The utility's filing reflects balances of \$1,904 and \$1,905 recorded in Accounts Nos. 666 and 766, Rate Case Expense.

Utility records indicate that the above balances represent the annual amortization of \$15,236 of rate case expense that was incurred by the utility in its previous rate proceeding in Docket No. 011451-WS.

The utility is allocating the above balance equally between its water and wastewater operations over the four-year period of 2002 - 2005.

Recommendation: Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, for the above-mentioned docket was silent on the issue of the utility's treatment of any rate case expense it incurred for the prior rate proceeding.

The utility has already amortized three years of rate case expense as of December 31, 2004, with one year of rate case amortization expense in the same amounts listed above remaining for the year 2005.

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 7

Subject: Allocation of O&M Expense

Statement of Facts: The utility allocated its common O&M expenses based on its revenues and used a 60 percent water and 40 percent wastewater calculation.

Recommendation: The audit staff believes that the utility should have allocated its common O&M expenses based on the number of customers because it is a better indicator of what drives the utility's costs to provide service.

The utility's customer base is basically 50 percent water and 50 percent wastewater with a few water irrigation only customers.

The audit staff calculates that an adjustment that reduces water and increases wastewater O&M expense by \$11,123, respectively, would be required if a 50 percent water and 50 percent wastewater allocation of O&M expense was used.

The audit staff defers this issue to the analyst in Tallahassee for further review.

Exhibit 1

Schedule of Water Rate Base

Florida Public Service Commission

Company: Plantation Bay Utility Company
 Docket No.: 050281-WS
 Schedule Year Ended: December 31, 2004
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-1
 Page 1 of 1
 Preparer: CJN&W

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 3,530,574		\$ 3,530,574	A-5
2	Utility Land & Land Rights	58,949		58,949	A-5
3	Less: Non-Used & Useful Plant	(21,859)		(21,859)	A-7
4	Construction Work in Progress	-		-	-
5	Less: Accumulated Depreciation	(1,517,433)	380 (A)	(1,517,053)	A-9
6	Less: CIAC	(1,778,771)		(1,778,771)	A-12
7	Accumulated Amortization of CIAC	541,501	(5,914) (B)	535,587	A-14
8	Acquisition Adjustments				-
9	Accum. Amort. of Acq. Adjustments				-
10	Advances For Construction				A-16
11	Deferred Taxes - Net		242,729 (C)	242,729	
12	Working Capital Allowance	<u>23,821</u>	<u>1,557</u> (D)	<u>25,378</u>	A-17
13	Total Rate Base	\$ <u>836,782</u>	\$ <u>238,752</u>	\$ <u>1,075,534</u>	

Exhibit 2

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Plantation Bay Utility Company
 Docket No.: 050281-WS
 Schedule Year Ended: December 31, 2004
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-2
 Page 1 of 1
 Preparer: CJN&W

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 4,163,818		\$ 4,163,818	A-5
2	Utility Land & Land Rights	50,631		50,631	A-6
3	Less: Non-Used & Useful Plant	-		-	A-7
4	Construction Work in Progress	-		-	-
5	Less: Accumulated Depreciation	(1,378,580)	7,166 (A)	(1,371,414)	A-10
6	Less: CIAC	(2,274,871)		(2,274,871)	A-12
7	Accumulated Amortization of CIAC	782,352	188,024 (B)	970,376	A-14
8	Acquisition Adjustments				-
9	Accum. Amort. of Acq. Adjustments				-
10	Advances For Construction				A-16
11	Deferred Taxes - Net		455,267 (C)	455,267	
12	Working Capital Allowance	24,059	2,310 (D)	26,369	A-17
13	Total Rate Base	\$ 1,367,409	\$ 652,767	\$ 2,020,176	

Exhibit 3

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Plantation Bay Utility Company
 Docket No.: 050281-WS
 Schedule Year Ended: December 31, 2004
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: B-1
 Page 1 of 1
 Preparer: CJN&W

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 346,238		\$ 346,238	\$ 107,153 (D)	\$ 453,391	B-4, E-13
2	Operation & Maintenance	190,567	12,458 (A)	203,025		203,025	B-5, B-3
3	Depreciation, net of CIAC Amort.	49,731	(1,261) (B)	48,470		48,470	B-13, B-3
4	Amortization					-	B-3
5	Taxes Other Than Income	50,399	(404) (C)	49,995	4,822 (E)	54,817	B-15, B-3
6	Provision for Income Taxes (1)		-	-	37,375 (F)	37,375	C-1, B-3
7	OPERATING EXPENSES	<u>290,697</u>	<u>10,793</u>	<u>301,490</u>	<u>42,197</u>	<u>343,687</u>	
8	NET OPERATING INCOME	\$ <u>55,541</u>	\$ <u>(10,793)</u>	\$ <u>44,748</u>	\$ <u>64,956</u>	\$ <u>109,704</u>	
9	RATE BASE	\$ <u>836,782</u>		\$ <u>1,075,534</u>		\$ <u>1,075,534</u>	
10	RATE OF RETURN	<u>6.64</u> %		<u>4.16</u> %		<u>10.20</u> %	

Exhibit 4

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Plantation Bay Utility Company
 Docket No.: 050281-VWS
 Schedule Year Ended: December 31, 2004
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: CJN&W

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 224,920		\$ 224,920	\$ 403,749 (D)	\$ 528,658	B-4, E-13
2	Operation & Maintenance	192,459	18,483 (A)	210,952		210,952	B-6, B-3
3	Depreciation, net of CIAC Amort.	89,955	-	89,955		89,955	B-14, B-3
4	Amortization						B-3
5	Taxes Other Than Income	33,334	-	33,334	18,169 (E)	51,503	B-15, B-3
6	Provision for Income Taxes				70,201 (F)	70,201	C-1, B-3
7	OPERATING EXPENSES	315,758	18,483	334,241	88,370	422,611	
8	NET OPERATING INCOME	\$ (90,838)	\$ (18,483)	\$ (109,321)	\$ 315,379	\$ 206,058	
9	RATE BASE	\$ 1,367,409		\$ 2,020,176		\$ 2,020,176	
10	RATE OF RETURN	-	%	-	%	10.20	%

Exhibit 5

Schedule of Requested Cost of Capital (Final Rates)
Beginning and End of Year Average

Florida Public Service Commission

Company: Plantation Bay Utility Company
Docket No.: 050281-WS
Schedule Year Ended: December 31, 2004
Interim Final
Historic Projected

Schedule: D-1
Page 1 of 1
Preparer: CJN&W

Subsidiary or Consolidated

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1) Total Capital	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	1,355,111	43.77 %	10.00 %	4.38 %
2	Short-Term Debt				
3	Preferred Stock				
4	Customer Deposits	28,460	0.92	6.00	0.06
5	Common Equity	1,712,139	55.31	10.41	5.76
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax				
8	Other (Explain)				
9	Total	<u>3,095,710</u>	<u>100.00 %</u>		<u>10.20 %</u>