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DATE: September 1, 2010

TO: Avy Smith, Regulatory Analyst II, Division of Economic Regulation CP

FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 100326-SU
Company Name: Commercial Utilities, A Division of Grace and Company, Inc.
Company Code: WS090
Audit Purpose: Staff Assisted Rate Case
Audit Control No: 10-197-2-1

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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CP/ip
Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE
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STATE OF FLORIDA

FLORIDA PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Tampa District Office

COMMERCIAL UTILITIES,
DIVISION OF GRACE & COMPANY, INC.

STAFF ASSISTED RATE CASE

AS OF JUNE 30, 2010

DOCKET NO. 100326-SU
AUDIT CONTROL NO. 10-197-2-1

Jeffery A. Small, Audit Manager

Linda Hill-Slaughter
Tampa District Supervisor

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OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT

August 24, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 16, 2010. We have applied these procedures to the attached exhibits prepared by the audit staff in support of Commercial Utilities, Division of Grace & Company, Inc.'s request for a Staff Assisted Rate Case in Docket No. 100326-SU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES

GENERAL

Definitions

The term "Utility", when used within this report refers to Commercial Utilities, Division of Grace & Company, Inc. The term "Company" refers to Grace & Company, Inc. the Utility's "parent" or holding company.

Utility Books and Records

Objective: To determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's accounting systems. Audit Finding No. 1 discusses our findings and recommendations for the Utility's accounting system.

RATE BASE

Utility Plant in Service (UPIS)

Objectives: To determine that property exists and is owned by the Utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

Procedures: We determined the Utility's UPIS balances that were established in Docket No. 910766-WS.[1] We reviewed utility documentation for UPIS additions during the period July 1, 1992, through June 30, 2010, to determine the UPIS balance for this proceeding. We included retirements to UPIS when a capital item was removed or replaced. We toured the Utility service area to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 discusses our findings and recommended UPIS balance as of June 30, 2010. Audit Finding No. 10 provides information on the Utility's request for pro forma plant additions that were incurred and planned subsequent to June 30, 2010.

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

Objectives: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA. To verify and insure that all donated property is properly accounted for and recorded as CIAC.

Procedures: We determined the Utility's CIAC balance that was established in Docket No. 910766-WS. We reviewed utility documentation for CIAC additions

[1] See Order No. PSC-93-0233-PAA-WS, issued February 12, 1993, Docket No. 910766-WS, , In Re: Application for staff assisted rate case in Duval County by Commercial Utilities, Division of Grace & Company, Inc.

during the period July 1, 1992, through June 30, 2010, to determine the CIAC balance for this proceeding. We searched the Company's 1992 through 2009 Federal Income Tax Returns for unrecorded cash and property contributions. Audit Finding No. 3 discusses our findings and the CIAC balance as of June 30, 2010.

Accumulated Depreciation

Objectives: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA. To verify that depreciation expense accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

Procedures: We determined the Utility's accumulated depreciation balances that were established in Docket No. 910766-WS. We compiled accumulated depreciation accruals for the period July 1, 1992, through June 30, 2010, to determine the Utility's accumulated depreciation balance for this proceeding. We included retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding No. 2 discusses our findings and recommended balance for accumulated depreciation as of June 30, 2010.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.

Procedures: We determined the Utility's accumulated amortization of CIAC balance that was established in Docket No. 910766-WS. Audit Finding No. 3 discusses our findings and the balance for accumulated amortization of CIAC as of June 30, 2010.

Intangible Plant

Objective: To determine that the intangible plant balance is properly recorded in compliance with Commission rules and the NARUC USOA.

Procedures: We determined the Utility's intangible plant that was established in Docket No. 910766-WS. Audit Finding No. 4 discusses our findings and the balance for intangible plant and its associated accrual amount as of June 30, 2010.

Working Capital

Objective: To determine that the Utility's working capital allowance is properly calculated in compliance with Commission rules.

Procedures: We calculated the Utility's working capital allowance for rate base purposes using one-eighth of operation and maintenance expense as required by Commission rule.[2] Audit Finding No. 6 discusses our recommended working capital allowance as of June 30, 2010.

[2] See Rule 25-30.433 (2), Florida Administrative Code.

NET OPERATING INCOME

Revenues

Objectives: To determine that revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We compiled utility revenues for the 12-month period ending June 30, 2010, from the Utility's billing register records. Audit Finding No. 5 discusses our findings and recommended revenue amount for the 12-month period ending June 30, 2010.

Operation and Maintenance Expense

Objectives: To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We compiled operation and maintenance expense items for the 12-month period ending June 30, 2010, from utility documentation and vendor invoices. We reviewed all the invoices provided for the proper amount, period, classification, NARUC account and its recurring nature. Audit Finding No. 6 discusses our findings and recommended operation and maintenance expense amount for the 12-month period ending June 30, 2010.

Taxes-Other-Than-Income (TOTI)

Objectives: To determine that TOTI tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

Procedures: We compiled TOTI items for the 12-month period ending June 30, 2010, from utility documentation and vendor invoices. We reviewed all utility tax invoices provided for the proper amount, period, classification, NARUC account and its recurring nature. Audit Findings Nos. 5 and 6 discuss our findings and recommended TOTI expense amount for the 12-month period ending June 30, 2010.

Depreciation and Amortization Expense

Objectives: To determine that depreciation and amortization expenses are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of utility plant in service assets, the amortization of utility contributions-in-aid-of-construction assets and the amortization of intangible plant assets from ongoing utility operations.

Procedures: We calculated depreciation and amortization expense amounts using the UPIS, CIAC and Intangible plant balances determined above. Audit Findings Nos. 2, 3 and 4 discuss our findings and recommended depreciation and amortization expense amounts for the 12-month period ending June 30, 2010.

CAPITAL STRUCTURE

General

Objective: To determine that the components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules.

Procedures: We reviewed and reconciled the Company's 2009 Federal Income Tax Returns to its general ledger balance sheet accounts and assessed its impact on the Utility's capital structure. We determined the Company's capital structure and reconciled that balance to the net rate base balance we determined in our procedures listed above. Audit Finding No. 7 discusses our findings and recommended capital structure balance as of June 30, 2010.

AUDIT FINDING NO. 1

SUBJECT: UTILITY BOOKS AND RECORDS

AUDIT ANALYSIS: Order No. PSC-00-1508-PAA-SU[3] put the Utility on notice that it would be required to maintain its books in accordance with the NARUC USOA as required by Commission rules.[4]

The Utility and its parent, Grace & Company, Inc. (Company), use a cash basis accounting method that is maintained by an outside accounting firm. The accounting firm, with the help of Company officials, compiles separate general ledgers and financial statements for the Utility and the Company on a quarterly basis. Additionally, the accounting firm prepares the Company's consolidated federal and state tax returns on a calendar year basis. The same firm also prepares the Utility's annual reports to be filed with the Commission.

The Utility's current accounting system is not in full compliance with the Commission Order referenced above and was not conducive for our requirements or needs for this rate proceeding. The fact that the Utility's records are maintained on a cash basis rather then an accrual basis and that the test year we chose does not equate to a calendar year made it difficult for us to use the information compiled in the Utility's general ledger. Additionally, the Utility's rate base accounts and a segment of its operating accounts are maintained on the Company's general ledger. They are only combined with the Utility's general ledger accounts for annual reporting purposes.

Our review of the Utility's annual reports and the Company's general ledgers for the time periods we reviewed indicated that there was considerable rate base activity since the Utility's last rate proceeding. The impact of the Utility's and the Company's accounting method on our findings, however, was considered minimal because the Utility's underlying records were made fully accessible and deemed sufficient for us to substantially complete our assigned objectives in this proceeding.

We recommend that the Company maintain the Utility's books in accordance with the NARUC USOA and be required to convert the Utility's present cash basis method of accounting to an accrual basis method of accounting for all future reporting periods.

EFFECT ON THE EXHIBITS: None.

EFFECT ON THE GENERAL LEDGER: None

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[3] See Order No. PSC-00-1508-PAA-SU, issued August 18, 2000, Docket No. 991902-SU, In Re: Investigation into the wastewater rates of Commercial Utilities, Division of Grace & Company, Inc., in Duval County.
[4] See Rule 25-30.115, Florida Administrative Code.

AUDIT FINDING NO. 2

SUBJECT: UTILITY PLANT IN SERVICE AND ACCUMULATED DEPRECIATION

AUDIT ANALYSIS: The Utility's 2009 annual report reflects an ending balance of $524,655 and $346,472 for Utility Plant in Service (UPIS) and accumulated depreciation, respectively.

Order No. PSC-93-0233-FOF-WS[5] established UPIS and accumulated depreciation balances of $54,068 and $15,596, respectively, as of June 30, 1992, in the Utility's last rate proceeding.

Order No. PSC-00-1508-PAA-SU[6] required the Utility to implement Class B depreciation rates established by Commission rule[7] as of January 1, 2001.

We reviewed the Utility's annual reports, general ledgers and other Company documentation for the period July 1, 1992, through June 30, 2010, to verify additions or retirements to UPIS and to test the Utility's depreciation accruals and accumulated depreciation account balances. We determined that the Utility did not record the prescribed balances for UPIS and accumulated depreciation that were required in Order No. PSC-93-0233-FOF-WS referenced above. We further determined that the Utility did not use the proper depreciation rates as prescribed by the Commission to depreciate its UPIS assets.

Based on our review we have included the following net additions to UPIS which are described further on the following page.

As of	Net Addition	As of	Net Addition
Dec 1992	$240,069	Dec 2006	$41,085
Dec 1999	$30,489	Dec 2007	$9,280
Dec 2000	$7,545	Dec 2008	$4,625
Dec 2002	$86,811	Jun 2010	$43,176
Dec 2004	$12,861	Total Net Additions	$475,941

(Rounded to the nearest whole dollar)

We calculated test year depreciation expense using the depreciation rates prescribed by Commission rules and the order cited above. We compiled accumulated depreciation accruals and determined the Utility's accumulated depreciation balance as of June 30, 2010.

Based on our work above, we have determined balances of $530,007, $211,477 and $16,011 for UPIS, accumulated depreciation, and depreciation expense, respectively.

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[5] See Order No. PSC-93-0233-PAA-WS, issued February 12, 1993, Docket No. 910766-WS, In Re: Application for staff assisted rate case in Duval County by Commercial Utilities, Division of Grace & Company, Inc.

[6] See Order No. PSC-00-1508-PAA-SU, issued August 18, 2000, Docket No. 991902-SU, In Re: Investigation into the wastewater rates of Commercial Utilities, Division of Grace & Company, Inc., in Duval County

[7] See Rule 25-30.140 (1), Florida Administrative Code.

EFFECT ON THE EXHIBITS: Based on our findings above, the Utility's UPIS and accumulated depreciation balances are $530,007 and $211,477, respectively, as of June 30, 2010, and the depreciation expense amount is $16,011 for the 12-month test year ending June 30, 2010.

EFFECT ON THE GENERAL LEDGER: The Utility should adjust its general ledger and annual report to the balances determined above. The detail for the UPIS adjustment described above is presented below and the effects on individual plant sub-account balances are displayed in the schedule that follows.

Period Additions	Per Company	Per Audit	Adjustment	Details
1992	240,069	240,069		
1993	0	0		
1994	0	0		
1995	0	0		
1996	0	0		
1997	0	0		
1998	0	0		
1999	30,489	30,489		
2000	310,652	7,545	($303,107)	See discussion on intangible plant below.
2001	0	0		
2002	86,810	86,810		
2003	0	0		
2004	(197,431)	12,861	210,292	Reclassify capital additions of $12,861in 2004. See discussion on intangiible plant below.
2005	0	0		
2006	0	41,085	41,085	Reclassify capital additions of $41,085, $9,280 and $4,625 for years 2006-2008, respectively.
2007	0	9,280	9,280	
2008	0	4,625	4,625	
2009	0	0		Reclassify capital additions of $36,930 for the test year from O&M expense and $6,246 of additions included in 2009 O&M before the test year.
Test Year	0	43,176	43,176	
Net Additions	$470,589	$475,941	$5,352	

(All amounts are rounded to the nearest whole dollar)

Intangible Plant: The utility posted $303,107 of an ordered $343,080 intangible plant balance to utility Account No. 389 - Other Plant and Miscellaneous Equipment. We removed this balance and the utility's adjusting entry of $197,431 in 2004 because intangible plant was recorded as a separate rate base item in its last rate proceeding. See Audit Finding No. 4 of this report for further information and discussion on this issue.

Utility Plant in Service

Acc#	Account Description	Per Order@ 06/30/92	1992 Net Additions	1999 Net Additions	2000 Net Additions	2002 Net Additions	2004 Net Additions
354.00	Structures & Improvements	$0	$0	$0	$0	$0	$0
360.00	Collection Sewers - Force	9,670	240,069	5,921	7,545	10,897	12,861
361.00	Collection Sewers - Gravity	9,458	0	2,768	0	75,914	0
363.00	Services to Customers	2,492	0	0	0	0	0
370.00	Receiving Wells	32,446	0	21,800	0	0	0
389.00	Other Plant & Misc. Equipment	0	0	0	0	0	0
	Total	$54,068	$240,069	$30,489	$7,545	$86,811	$12,861

Acc#	Account Description	2006 Net Additions	2007 Net Additions	2008 Net Additions	Test Year Net Additions	Sum of All Net Additions	Per Audit@ 06/30/10
354.00	Structures & Improvements	$0	$0	$0	$1,410	$1,410	$1,410
360.00	Collection Sewers - Force	41,085	9,280	4,625	36,309	368,592	378,262
361.00	Collection Sewers - Gravity	0	0	0	0	78,682	88,140
363.00	Services to Customers	0	0	0	0	0	2,492
370.00	Receiving Wells	0	0	0	0	21,800	54,246
389.00	Other Plant & Misc. Equipment	0	0	0	5,457	5,457	5,457
	Total	$41,085	$9,280	$4,625	$43,176	$475,941	$530,007

(All amounts are rounded to the nearest whole dollar)

AUDIT FINDING NO. 3

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION AND ACCUMULATED AMORTIZATION OF CIAC

AUDIT ANALYSIS: The Utility's annual report does not include any balances for Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC.

Order No. PSC-93-0233-FOF-WS established CIAC and accumulated amortization of CIAC balances of $15,440 and $571, respectively, as of June 30, 1992, in its last rate proceeding.

The Utility initially posted the ordered balances and correctly calculated and accrued the accumulated amortization amount. In 2004 the Utility reversed and wrote off the CIAC and accumulated amortization balances of $15,440 and $7,138, respectively. No explanation was provided for the journal entry.

We have calculated balances of $15,440 and $10,849 for the Utility's CIAC and accumulated amortization of CIAC balance based on the order balances referenced above.

Period Accruals	CIAC	Accrual (a)	Accumulated Amortz. Of CIAC
Beginning Balance @ 06/30/1992	$15,440		($571)
6-month accrual		(286)	
Balance @ 12/31/92			(857)
1993 to 2008 (16 years accrual)		(9,133)	
Balance @ 12/31/08			(9,993)
6-month accrual to 06/30/2009		(286)	
Balance @ 06/30/09			(10,278)
12-month test year accrual		(571)	
Balance @ 06/30/10	$15,440		($10,849)

(a) Accruals are calculated using a 27 year service life.

(All amounts are rounded to the nearest whole dollar.)

EFFECT ON THE EXHIBITS: Based on our findings above, the Utility's CIAC and accumulated amortization of CIAC balances are $15,440 and $10,849, respectively, as of June 30, 2010, and the test year amortization expense is $571 for the 12-month period ending June 30, 2010.

EFFECT ON THE GENERAL LEDGER: The Utility should adjust its general ledger and annual report to the balances determined above.

AUDIT FINDING NO. 4

SUBJECT: INTANGIBLE PLANT

AUDIT ANALYSIS: Order No. 93-0223-PAA-WS[8] established balances of $343,080 and $12,694 for intangible plant and accumulated amortization of intangible plant, respectively, as of June 30, 1992.

Order No. 93-0223-PAA-WS states:

> Intangible Plant
> We transferred into this category all costs related to the wastewater interconnection that cannot be considered tangible plant, but does represent investment by the Utility. This includes a $50,000 fee to hook into the City's lift stations, a $287,204 impact fee charged by the city at the time of the interconnection, and $5,876 in street repairs associated with construction of the force main.

The $55,876 in hook-up and street repair costs were actual costs incurred and paid by the Utility during its last rate proceeding.

The $287,204 impact fee was a negotiated fee between Jacksonville Electric Authority (JEA) and the Utility that was never finalized in a written contract.[9] The Utility commenced making monthly payments of $4,121 to JEA in September 1992 that it identified as a "monthly capacity fee". No asset or a corresponding debt/equity balance was ever recorded by the Utility on its books and records for the impact fee balance.

On June 22, 1993, the Utility was presented with a deferred payment agreement and amortization schedule prepared by JEA to finalize the agreement for the wastewater interconnection. The Utility maintains that the agreement presented did not accurately reflect the terms agreed upon during its negotiations with JEA for the interconnection and refused to sign the document. The Utility, however, continued to make the monthly payments of $4,121 to JEA that started in September 1992.

On July 11, 1997, the Utility notified JEA that its pending connection with a new wastewater customer violated the existing verbal agreement between the Utility and JEA. Subsequent negotiations with JEA failed to resolve the issue. In August 1997 the Utility unilaterally voided its obligations under the agreement and ceased making the monthly capacity fee payments to JEA as of September 1997.

On January 12, 2000, the unresolved capacity fee dispute arose again when the City of Jacksonville, on behalf of JEA, threatened to withhold its approval of building permits for the construction of a new Home Depot that was to be connected to the Utility's wastewater system. The issue was abated on June 2, 2000, when the Utility agreed to place $25,000 into an interest bearing escrow account pending the final resolution of its

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[8] See Order No. PSC-93-0233-PAA-WS, issued February 12, 1993, Docket No. 910766-WS, In Re: Application for staff assisted rate case in Duval County by Commercial Utilities, Division of Grace & Company, Inc.

[9] Official position of the Utility provided in response to inquires in our audit investigation in Docket No. 991902-SU, and reaffirmed in the instant proceeding.

dispute with JEA. The capacity fee dispute has remained unchanged since that time.

The Utility's initial accounting treatment of the monthly capacity fee payments, for annual reporting purposes, was to record the principal portion of the payment in Acct. No. 389 - Other Plant and Miscellaneous Equipment and then depreciate the annual balance over 27 years. The corresponding depreciation expense was charged against income in the current year. The interest portion was properly charged to an interest expense account below the line. The annual report balances for years 1992 through 1999 are displayed below. The Utility charged the entire capacity payment to operating expense in the year incurred for federal income tax purposes.

Intangible Plant per Annual Report

A/R	Asset Account				Contra Account			
Year	Beg Balance	Additions	Retirements	End Balance	Beg Balance	Additions	Retirements	End Balance
1992		$60,945	$0	$60,945	$0	($1,127)	$0	($1,127)
1993	$60,945	$0	$0	$60,945	$0	($2,255)	$0	($3,382)
1994	$60,945	$35,044	$0	$95,989	$0	($3,208)	($2,560)	($9,150)
1995	$95,989	$20,921	$0	$116,910	($9,150)	($3,938)	$2,255	($10,833)
1996	$116,910	$23,575	$0	$140,485	($10,833)	($4,763)	$0	($15,596)
1997	$140,485	$14,960	$0	$155,445	($15,596)	($5,474)	$0	($21,070)
1998	$155,445	$0	($1,953)	$153,492	($21,070)	($5,715)	$0	($26,785)
1999	$153,492	$0	$0	$153,492	($26,785)	($5,680)	$0	($32,465)
2000	$303,108	-	-	$303,108	($95,402)	($11,226)	-	($106,628)
2001	$303,108	-	-	$303,108	($106,649)	($11,226)	-	($117,875)
2002	$303,108	-	-	$303,108	($117,875)	($11,226)	-	($129,101)
2003	$303,108	-	-	$303,108	($129,101)	($11,226)	-	($140,327)
2004	$303,108	-	($197,431)	$105,677	($140,328)	($3,436)	$88,159	($55,605)
2005	$105,677	-	-	$105,677	($55,605)	($3,914)	$2,767	($56,752)
2006	$105,677	-	-	$105,677	($56,752)	($3,914)	-	($60,666)
2007	$105,677	-	-	$105,677	($60,666)	($3,914)	-	($64,580)
2008	$105,677	-	-	$105,677	($64,580)	($3,914)	-	($68,494)
2009	$105,677	-	-	$105,677	($68,494)	($3,914)	-	($72,408)
					Total amortization recovered	($100,070)		

In 2000 the annual report balances were restated as evidenced above. We have determined that the balances of $303,108 for intangible plant and $95,402 for accumulated amortization of intangible plant were restated by the Utility in 2000 as a result of an overearnings investigation that was initiated by the Commission in Docket No. 991902-SU. That investigation was dismissed without action in Order No. PSC-00-1508-PAA-SU.[10] However, the audit report for that proceeding contained a finding that discussed this issue and recommended the above balances for intangible plant and accumulated amortization of intangible plant as of December 31, 1999.[11]

[10] See Order No. PSC-00-1508-PAA-SU, issued August 18, 2000, Docket No. 991902-SU, In Re: Investigation into the wastewater rates of Commercial Utilities, Division of Grace & Company, Inc., in Duval County

[11] See Division of Auditing and Financial Analysis, Auditor's Report, issued May 3, 2000, Docket No. 991902-SU, In Re: Earnings Investigation Audit for the Historical Year Ended December 31, 1999, Commercial Utilities, Division of Grace & Company, Inc., Audit Control No. 00-033-1-1.

We surmise that the Utility and its accounting consultant at the time erroneously inferred that the intangible plant balances contained in the audit report were or would be confirmed by the Commission in that proceeding. However, this was not the case and no determination for intangible plant balances was codified in the final order referenced above. Therefore, we have removed all the balances from Acct. No. 389 - Other Plant and Miscellaneous Equipment and its corresponding accumulated depreciation account as discussed in Audit Finding No. 2 of this report.

The balances reflected in Order No. 93-0223-PAA-WS were accurate given the facts that were available at the time. However, we believe that the Utility's initial accounting treatment of the impact fees were appropriate based on the circumstances presented above. Additionally, we believe that the following facts and the accounting principles of conservatism support our position that the actual capacity payments should be recorded as they occurred.

1. Had the impact fee from the order been recorded the Utility would have earned a return on a net asset value (impact fee less depreciation accrual) that the Utility never completely purchased or recognized as an obligation. Additionally, the Utility would have recovered the depreciation expense from subsequent current year's earnings.
2. The impact fee of $287,204 was never formalized in an executed contract between the Utility and JEA and remains in dispute.
3. The Utility never recorded an outstanding debt on its books for an impact fee obligation.
4. Although the initial impact fee agreement is in dispute the Utility did make timely payments towards the outstanding balance until it unilaterally voided the agreement in 1997.
5. An outstanding principal balance of $187,495 remains based on the Utility's actual payments of $99,709 to date. See the schedule that follows. ($287,204 original obligation less $99,709 of actual payments) The outstanding principal balance remains in dispute between the Utility and JEA and the outcome is unknown at this time.

Based on the above discussions and our calculations on the following page, we have determined that the Utility should record the actual intangible plant additions and capacity fee payment balance of $155,585 and our calculated accumulated amortization accruals of $95,144 for intangible plant and accumulated amortization of intangible plant for this rate proceeding. Additionally, we have calculated $5,762 of amortization expense for the test year. These amounts are based on the actual capacity fee transaction activity posted to the Utility's general ledger and the 27 year service life contained in the prior order mentioned above.

EFFECT ON THE EXHIBITS: Based on our findings above, the Utility's Intangible Plant and accumulated amortization of intangible plant balances are $155,585 and $95,144, respectively, and the test year amortization expense is $5,762 as of June 30, 2010.

EFFECT ON THE GENERAL LEDGER: The Utility should adjust its general ledger and annual report to the balances determined above.

Commercial Utilities, Division of Grace & Company, Inc.
Intangible Plant

Adjusted Order Balance Intangible Plant	Balance	Annual Amortz.
Hook-up fee	$50,000	($1,850)
Impact fee	0	0
Street repairs	5,876	(217)
Totals	$55,876	($2,067)

Balance @	Actual Capacity Fee Payments	Intangible Plant Balance	Annual Accrual (a)	Amortization Balance	
6/30/1992		$55,876		($2,067)	
12/31/1992	$5,069	$60,945	($1,082)	($3,149)	6-months activity
12/31/1993	$16,477	$77,422	($2,562)	($5,711)	
12/31/1994	$18,567	$95,989	($3,211)	($8,922)	
12/31/1995	$20,921	$116,910	($3,943)	($12,865)	
12/31/1996	$23,575	$140,485	($4,767)	($17,631)	
12/31/1997	$15,100	$155,585	($5,483)	($23,114)	
12/31/1998		$155,585	($5,762)	($28,877)	
12/31/1999		$155,585	($5,762)	($34,639)	
12/31/2000		$155,585	($5,762)	($40,401)	
12/31/2001		$155,585	($5,762)	($46,164)	
12/31/2002		$155,585	($5,762)	($51,926)	
12/31/2003		$155,585	($5,762)	($57,689)	
12/31/2004		$155,585	($5,762)	($63,451)	
12/31/2005		$155,585	($5,762)	($69,214)	
12/31/2006		$155,585	($5,762)	($74,976)	
12/31/2007		$155,585	($5,762)	($80,738)	
12/31/2008		$155,585	($5,762)	($86,501)	
6/30/2009		$155,585	($2,881)	($89,382)	6-months activity
6/30/2010		$155,585	($5,762)	($95,144)	Test Year
	$99,709	Total Capacity Fee Payments (b)			

(a) Accruals are calculated as 1/27 of the simple average intangible plant balance.

(b) Total payments are $243,112 and include $143,403 for interest expense which is treated as a non-utility expense and recorded below the line for rate setting purposes. ($243,112 - $143,403 = $99,709)

(All amounts are rounded to the nearest whole dollar.)

AUDIT FINDING NO. 5

SUBJECT: REVENUES

AUDIT ANALYSIS: The Utility's billing register indicates that it has the potential to provide wastewater service to forty-three customer accounts as of June 30, 2010. This customer base has been consistent since its last rate proceeding. All of the customers are commercial accounts that are subject to the Utility's general service tariff. The Utility's customer base consists of the following wastewater service connections:

- Seven connections served by 3/4 inch meters.
- Twelve connections served by 1 inch meters.
- Nine connections served by 1-1/2 inch meters
- Twelve connections served by 2 inch meters
- One connection served by 3 inch meter
- Two connections served by 4 inch meters

The Utility calculates and bills its customers for wastewater service based on monthly water consumption billing reports provided by Jacksonville Electric Authority (JEA).

We calculated revenues of $244,798 for the 12-month period ending June 30, 2010, using the consumption billing reports provided by JEA and the Utility's authorized tariff. Our calculations are provided below.

Estimated utility revenues based on monthly consumption reports.
For the 12-month test year period ending June 30, 2010

A	B	C	D	E	F	G	H	I
Meter Count	Meter Size	Base Facility Fee	Consumption charge per CCF	Months of Service	Consumption in CCF	Test Year Base Facility Fee	Test Year Annual Consumption Fee	Test Year Revenues
						(C x E)	(D x F)	(G + H)
7	3/4"	$27.54	$3.71	82	769	$2,258.28	$2,852.99	$5,111.27
12	1"	$71.49	$3.71	132	3,605	9,436.68	13,374.55	22,811.23
9	1-1/2"	$143.02	$3.71	108	8,059	15,446.16	29,898.89	45,345.05
12	2"	$228.81	$3.71	142	12,580	32,491.02	46,671.80	79,162.82
1	3"	$457.61	$3.71	12	4,444	5,491.32	16,487.24	21,978.56
2	4"	$715.05	$3.71	24	14,347	17,161.20	53,227.37	70,388.57
43		Calculated Test Year Consumption			43,804			
		Calculated Test Year Revenues				$82,284.66	$162,512.84	$244,797.50
		Estimated Regulatory Assessment Fee (4.50% of revenues)						$11,015.89

(CCF is 100 cubic feet in volume or approximately 748 gallons.)

EFFECT ON THE EXHIBITS: Based on our findings above, the Utility's revenues are $244,798 for the 12-month period ending June 30, 2010. Additionally, the regulatory assessment fees (RAF) associated with the revenue amount is $11,016 and should be included as Taxes Other Than Income for this proceeding.

EFFECT ON THE GENERAL LEDGER: None

AUDIT FINDING NO. 6

SUBJECT: OPERATION AND MAINTENANCE EXPENSE

AUDIT ANALYSIS: The Utility's 2009 annual report reflects a balance of $280,961 for operation and maintenance expense. Our selected test year includes six-months of utility operations from 2009 and 2010. Therefore, we compiled a test year operation and maintenance expense amount of $298,871 for utility operations.

We included all transaction activity that was recorded in a general ledger expense account for the 12-month period ending June 30, 2010. This step was included in our audit procedures to insure that we would capture and review all recorded utility expenses incurred for the test year period. Included in our compilation were the following accounts and amounts.

		12-month period ending June 30, 2010		
Acct. No.	Account Title	Per Utility	Adjustment	Per Audit
354	Structures & Improvements	$1,410	($1,410)	$0
361	Collection - Sewers Forced	3,538	(3,538)	0
371	Collection - Sewers Gravity	31,982	(31,982)	0
408	Taxes Other Than Income	12,238	(12,238)	0
710	Purchased Sewage Treatment	98,214	14,471	112,685
715	Purchased Power	849	0	849
732	Contractural Services - Accounting	600	2,500	3,100
734	Contractural Services - Management	130,655	(46,655)	84,000
736	Contractural Services - Other	15,156	1,912	17,068
766	Regulatory Commission Expense	2,377	(1,533)	844
775	Miscellaneous Expense	1,851	18	1,868
	Total	$298,871	($78,457)	$220,414

(All amounts are rounded to the nearest whole dollar.)

We reviewed all of the Utility's transactions totaling $298,871 displayed above. We verified the amounts for each transaction by using invoices, bank statements and canceled checks provided by the Utility. The individual account amounts were determined by us based on our review. The results of our work are described in further detail below.

Account Nos. 354, 361 and 371- Utility Plant in Service Accounts
The Utility's test year expense amount included $36,930 ($1,410+$3,538+$31,982) for costs related to the design, permitting, purchase and installation of a new lift station that was placed in service in September 2009. These costs should be capitalized and reclassified to the NARUC accounts as indicated. We included these amounts as UPIS additions as discussed in Audit Finding No. 2 of this report.

Account No. 408 – Taxes Other Than Income
The Utility's test year expense amount of $12,238 includes $11,084 for its 2009 regulatory assessment fee (RAF) payment to the Commission and $1,154 for real property taxes on land owned by Grace & Company, Inc. We did not include these

costs in our O&M expense amount. The RAFs are addressed in Audit Finding No. 5 of this report. The property taxes are included in the office allocation that is discussed below.

Account No. 710 – Purchased Sewage Treatment

The Utility's test year expense reflects an amount of $98,214 for this account. The city purchases bulk wastewater treatment from Jacksonville Electric Authority. (JEA) On October 2009 JEA increased the bulk sewage wastewater service rates it charges. We, therefore, have increased the Utility's sewage treatment expense amount by $14,471 to reflect the annualized effect of the increased rates on the actual amount of wastewater treatment volume processed during the test year.

Account No. 734 – Contractual Services - Accounting

The Utility's test year expense reflects an amount of $600 and includes four invoices totaling $150 for its accounting firm to prepare and compile its quarterly financial statements. We have increased this account by $2,500 for an invoice from the same accounting firm for the preparation of the Utility's 2009 Annual Report. It was inadvertently charged to Grace & Company, Inc. the Utility's parent company.

Account No. 734 – Contractual Services - Management

The Utility's test year expense reflects an amount of $130,655 for this account. This amount includes overhead allocations from Grace & Company Inc. and interest payments for an outstanding account payable balance on the Utility's general ledger to Grace & Company Inc. We have reduced this account by a net $46,655 to remove the $130,655 existing balance and to include an annual overhead allocation of $84,000. ($7,000 per month) The annual overhead allocation includes $5,000 per month for the payroll and benefits of two Grace & Company, Inc. employees and $2,000 per month for the Utility's office space (including property taxes) and office supplies in a building owned by Grace & Company, Inc. The accounts payable balance we removed is discussed further in Audit Finding No. 7 of this report.

Account No. 736 - Contractual Services - Other

The Utility's test year expense reflects an amount of $15,156 for this account. We have increased this account by $1,912 to include the following transaction and audit adjustments. ($435+$675+$802)

1. We increased this account by $435 to annualize the costs to provide monthly maintenance services to the Utility's three lift stations. The annual cost is $5,220 and the O&M transactions compiled above only include $4,785 for this service.
2. We included $675 for sewer line repairs that were incurred during the test year but not included in the O&M transactions compiled above.
3. We increased this account by $802 to annualize the costs to monitor the Utility's three lift stations. The annual cost is $1,924 and the O&M transactions compiled above only include $1,122 for this service.

Account No. 766 - Regulatory Commission Expenses
The Utility's test year expense reflects an amount of $2,377 and includes three invoices for consulting and legal services to prepare for this rate case proceeding. We have reduced this account by $1,533 to reflect the following audit adjustments. The adjustments include one-fourth of the Utility's projected rate case expense per Commission rules for this rate proceeding[12]. ($250-$1,783)

1. We reduced the account by $1,783 to remove three-fourths of the consulting and legal fees identified above.
2. We increased the account by $250 which is one-fourth of the Utility's filing fee of $1,000.

Account No. 775 - Miscellaneous Expenses
The Utility's test year expense reflects an amount of $1,851 for this account. We increased this account by $18 to include an invoiced amount for office services that were incurred during the test year but not included in the O&M transactions compiled above.

The Utility's operation and maintenance expense amount is $220,414 based on our findings and its working capital allowance for rate base purposes is $27,552. The working capital is calculated as one-eighth of the audit determined operation and maintenance expense amount for the test year per Commission rule.[13]

EFFECT ON THE EXHIBITS: Based on our findings above, the Utility's operation and maintenance expense amount is $220,414 for the 12-month period ending June 30, 2010. Additionally, the Utility's working capital allowance for rate base purpose in this proceeding is $27,552.

EFFECT ON THE GENERAL LEDGER: None

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[12] See 367.0816 Florida Statutes, Recovery of Rate Case Expense.
[13] See Rule 25-30.433 (2), Florida Administrative Code.

AUDIT FINDING NO. 7

SUBJECT: CAPITAL STRUCTURE

AUDIT ANALYSIS: The Utility's 2009 annual report and its 2009 general ledger reflect the following balance sheet accounts.

Acct. No.	Account Description	Annual Report	Difference	General Ledger
101	Utility Plant	$524,655	($524,655)	$0
108	Accumulated Depreciation	(346,472)	346,472	0
131	Cash	96,288	0	96,288
Total Assets		$274,471	($178,183)	$96,288
214	Retained Earnings	($182,826)	$58,274	($124,552)
233	Acc/Pay Associated Companies	456,782	(236,457)	220,325
235	Customer Deposits	515	0	515
Total Liabilities & Equity Capital		$274,471	($178,183)	$96,288

(All amounts are rounded to the nearest whole dollar.)

The difference between the two presentations is the Utility's general ledger does not include rate base balances or the corresponding equity amount of $178,183 associated with those balances. Rate base accounts are included in the Company's general ledger and are extracted for annual report presentation purposes. The Utility's net assets and operations are included in the Company's federal tax returns. The Company's 2009 general ledger and 2009 Federal Tax Return reflect the following summary balance sheet accounts.

Account Description	General Ledger	Difference	Fed Tax Return
Cash	$508,188	$96,288	$604,476
Acc/Rec Commercial Utilities	200,901	19,424	220,325
Non-utility assets	884,846	0	884,846
Utility Assets	537,844	0	537,844
Acc/Dep (combined)	(474,109)	0	(474,109)
Total Assets	$1,657,670	$115,712	$1,773,382
Acc/Pay Current	$4,025	$0	$4,025
Acc/Pay Commercial Utilities	(19,424)	239,749	220,325
Acc/Pay Grace Brothers	430,500	0	430,500
Deposits	5,000	515	5,515
Equity	1,237,569	(124,552)	1,113,017
Total Liabilities & Equity Capital	$1,657,670	$115,712	$1,773,382

(All amounts are rounded to the nearest whole dollar.)

Based on the above information we believe that the capital structure of Grace & Company, Inc., the Utility's parent and its consolidating entity, should be used in determining the Utility's weighted average cost of capital. We used the balances from the Company's 2009 Federal Tax Return because it represents the combined operations of both the Utility and Grace & Company, Inc.

We reviewed the year end balance for each liability and equity account that is presented above. The results of our work are described in further detail below.

Accounts Payable

The balance of $4,025 for Acc/Pay Current is not included in the capital structure presentation for rate setting purposes. The Company's other account payable balances of $220,325 and $430,500 for Acc/Pay Grace Brothers and Acc/Pay Commercial Utilities, respectively, are based on cash flow exchanges between related parties and its shareholders. There are no documents to support the liability that describe the terms, obligations or repayment of the debt. Under this scenario, the Commission has treated such amounts as contributed capital in prior rate cases and included them as equity for capital structure presentation purposes.[14]

Customer Deposits

Our review of the Utility's customer deposit ledger indicates that it currently is retaining three customers' deposits totaling $7,050. Therefore, we have incorporated the correct balance in our calculation instead of the $5,515 indicated above.

The Company's capital structure balance, before rate base reconciliation, is displayed below.

Class of Capital	Balance at 12/31/08
Equity (See calculation below)	$1,763,842
Customer Deposits	7,050
Total	$1,770,892

Account Description	Fed Tax Return
Acc/Pay Commercial Utilities	220,325
Acc/Pay Grace Brothers	430,500
Equity	1,113,017
Total Equity	$1,763,842

EFFECT ON THE EXHIBITS: Based on our findings above, the Utility's capital structure balance, after rate base reconciliation, is $401,932, as of June 30, 2010, and the corresponding rate for the weighted average cost of capital is 8.79 percent. Our calculations are displayed in Exhibit 3 of this report.

EFFECT ON THE GENERAL LEDGER: The Utility should increase its balance for customer deposits to $7,050 in its general ledger and annual report.

[14] See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In Re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

AUDIT FINDING NO. 8

SUBJECT: INFORMATION ON UTILITY TARIFFS

AUDIT ANALYSIS: The Utility has the following Commission authorized tariffs.

Sheet No.	Description	Effective Date
Original 20.0	Customer Deposits	March 5, 1993
Original 21.0	Miscellaneous Service Charges	March 5, 1993
Original 28.0	Service Availability Policy	March 5, 1993

On July 29, 2010, the Utility provided us with a request for the Commission to revise the Utility's Customer Deposit and Miscellaneous Service Charges' Tariff's in the current rate proceeding. We forwarded the request to the analyst in Tallahassee the following day.

The Utility's letter requested that a rate be determined for the amount of customer deposits that the Utility can collect and that its miscellaneous service charges' be revised to be consistent pursuant to Section 832.08(5), Florida Statutes.

Additionally, during our work we discovered that the Utility's authorized Service Availability Policy tariff for new wastewater connections does not accurately reflect the current fees charged by the Jacksonville Electric Authority (JEA) for new wastewater connections. The Utility's current tariff was determined based on the JEA wastewater connection fees in effect during its last rate proceeding. The current fees, as of July 31, 2010, are listed below.

Commercial TAP/Service and Capacity Application

Meter Size	3/4"	1"	1-1/2"	2"
Sewer Tap Fee	$1,853.00	$1,853.00	$1,853.00	$1,853.00
Sewer Capacity Fee	1,554.02	1,618.98	3,737.71	7,192.01
Sewer Growth Capacity Fee	778.00	1,148.00	1,148.00	1,148.00
Total	$4,185.02	$4,619.98	$6,738.71	$10,193.01

Meter Size	3"	4"	6"	8"	10"
Sewer Capacity Fee		$3.64 per based on average daily flow (GPD)			
Sewer Growth Capacity Fee	2,295.00	2,295.00	2,295.00	2,295.00	4,590.00
Total	$TBD	$TBD	$TBD	$TBD	$TBD

$TBD - To be determined

EFFECT ON THE EXHIBITS: None. We are providing this as additional information for the Commission's staff to consider.

EFFECT ON THE GENERAL LEDGER: None

AUDIT FINDING NO. 9

SUBJECT: INFORMATION ON 2009 REGULATORY ASSESSMENT FEES (RAF)

AUDIT ANALYSIS: The Utility's 2009 annual report reflects a balance of $246,308 for wastewater revenues for the 12-month period ending December 31, 2009. The Utility filed and paid the following amounts for its 2009 RAF obligation.

Date	Revenues	RAF Fee Paid
07/23/2009	$138,694	$6,241
01/22/2010	107,614	4,843
	$246,308	$11,084

As discussed in Audit Finding No. 1 of this report the Utility compiles its books and records on a cash basis method of account for federal income tax purposes. Under this methodology, revenues are reported based on cash receipts. The cash basis method used by the Utility does not accurately reflect its customer bills for wastewater services.

We calculated revenues of $249,173 for the 12-month period ending December 31, 2009, using the consumption billing reports provided by JEA and the Utility's authorized tariff. Our calculations are provided below.

Estimated utility revenues based on monthly consumption reports.
For the 12-month test year period ending December 31, 2009

A	B	C	D	E	F	G	H	I
Meter Count	Meter Size	Base Facility Fee	Consumption charge per CCF	Months of Service	Consumption in CCF	Calculated Base Facility Fee	Calculated Annual Consumption Fee	Calculated Revenues
						(C x E)	(D x F)	(G + H)
7	3/4"	$27.54	$3.71	75	17,733	$2,065.50	$65,789.43	$67,854.93
12	1"	$71.49	$3.71	132	8,137	9,436.68	30,188.27	39,624.95
9	1-1/2"	$143.02	$3.71	108	3,472	15,446.16	12,881.12	28,327.28
12	2"	$228.81	$3.71	135	15,735	30,889.35	58,376.85	89,266.20
1	3"	$457.61	$3.71	12	18	5,491.32	66.78	5,558.10
2	4"	$715.05	$3.71	24	372	17,161.20	1,380.12	18,541.32
43			Total Consumption for 2009		45,467			
			Estimated Revenues for 2009			$80,490.21	$168,682.57	$249,172.78
			Estimated Regulatory Assessment Fee		(4.50% of revenues)			$11,212.78
			Actual Regulatory Assessment Fee Paid					11,084.00
			Additional Regulatory Assessment Fee Due					$128.78

(CCF is 100 cubic feet in volume or approximately 748 gallons.)

The Utility's 2009 revenues are understated by $2,865 ($249,173-$246,308) and it owes an additional $129 in RAFs plus penalties and interest.

EFFECT ON THE EXHIBITS: None. We are providing this as additional information for the Commission's staff to consider.

EFFECT ON THE GENERAL LEDGER: None

AUDIT FINDING NO. 10

SUBJECT: INFORMATION ON PRO-FORMA CAPITAL EXPENDITURES

AUDIT ANALYSIS: The Utility incurred $4,487 of costs in July 2010, outside our test year, to upgrade a wastewater service line and to abandon an older vitrified clay line.

Additionally, the Utility has provided an estimate for wastewater service line upgrades and manhole rehabilitation improvements to be considered in this proceeding. The details are provided below.

Item	Description	Estimated Cost
1	Wastewater service line upgrade - July 2010	$4,487
2	Replace 434 linial feet of 8 inch sewer main and install 3 new manholes	$40,131
3	Rehabilitate 10 existing manholes	21,335
	Total Bid Cost	$61,466
	Total Pro-Forma Expenditure Request	$65,953

EFFECT ON THE EXHIBITS: None. We are providing this as additional information for the Commission staff to consider.

EFFECT ON THE GENERAL LEDGER: None

EXHIBIT 1

COMMERCIAL UTILITIES,
DIVISION OF GRACE & COMPANY, INC.
RATE BASE
AS OF JUNE 30, 2010
DOCKET NO. 100326-SU

DESCRIPTION	PER UTILITY @12/31/09 (a)	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @06/30/2010
UTILITY PLANT IN SERVICE	$524,655	$5,352	AF-2	$530,007
LAND AND LAND RIGHTS	$0	$0		$0
CONTRIBUTIONS IN AID OF CONSTRUCTION	$0	($15,440)	AF-3	($15,440)
INTANGIBLE PLANT	$0	$155,585	AF-4	$155,585
ACCUMULATED AMORTIZATION OF CIAC	$0	$10,849	AF-3	$10,849
ACCUMULATED DEPRECIATION	($346,472)	$134,995	AF-2	($211,477)
AMORTIZATION OF INTANGIBLE PLANT	$0	($95,144)	AF-4	($95,144)
WORKING CAPITAL (b)	$0	$27,552	AF-6	$27,552
		----------------		----------------
NET RATE BASE (c)	$178,183	$223,749		$401,932

Notes to above schedule:

a) The utility's books are maintained on a cash basis for income tax purposes. Amounts posted in the general ledger are not comparable to the audited test year. We have included the 2009 Annual Report balances for comparative purposes. See Audit Finding No. 1 of this report for additional information on this issue.

b) Working Capital is calculated as 1/8th of the test year operation and maintenance expense balance displayed in Exhibit 2 of this report.

c) All amounts are rounded to the nearest whole dollar.

EXHIBIT 2

COMMERCIAL UTILITIES,
DIVISION OF GRACE & COMPANY, INC.
NET OPERATING INCOME
12-MONTH PERIOD ENDING JUNE 30, 2010
DOCKET NO. 100326-SU

DESCRIPTION	PER UTILITY @12/31/2009 (a)	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @06/30/2010
REVENUES	$246,308	($1,510)	AF-5	$244,798
OPERATION AND MAINTENANCE EXPENSE	$280,961	($60,547)	AF-6	$220,414
DEPRECIATION EXPENSE	$19,425	($3,414)	AF-2	$16,011
CIAC AMORTIZATION EXPENSE	$0	($571)	AF-3	($571)
INTANGIBLE PLANT AMORTIZATION EXPENSE	$0	$5,762	AF-4	$5,762
TAXES OTHER THAN INCOME TAX EXPENSE	$11,555	($539)	AF-5	$11,016
PROVISION FOR INCOME TAX EXPENSE (b)	$0	$0		$0
OPERATING EXPENSE	$311,941	($59,309)		$252,632
NET OPERATING INCOME (c)	($65,633)	$57,799		($7,834)

Notes to above schedule:

a) The company's books are maintained on a cash basis for income tax purposes. Amounts posted in the general ledger are not comparable to the audited test year. We have included the 2009 Annual Report balances for comparative purposes. See Audit Finding No. 1 of this report for additional information on this issue.

b) The company's 2009 Federal tax return reflects a net operation loss carry forward of $198,973. This loss will offset any federal income tax liability for the 12-month test year and future tax liabilities in subsequent years.

c) All amounts are rounded to the nearest whole dollar.

EXHIBIT 3

COMMERCIAL UTILITIES,
DIVISION OF GRACE & COMPANY, INC.
CAPITAL STRUCTURE
AS OF JUNE 30, 2010
DOCKET NO. 100326-SU

CLASS OF CAPITAL	BALANCE	RECONCILING ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY(a)	$1,763,842	(1,368,960)	394,882	98.25%	8.82%	8.67%
CUSTOMER DEPOSITS	7,050	0	7,050	1.75%	7.00%	0.12%
TOTALS(c)	$1,770,892	($1,368,960)	$401,932	100.00%		8.79%

Notes to above schedule:

a) Common Equity is reduced by $1,368,960 so that the utility's capital structure reconciles to the utility's net rate base balance.
Common Equity cost rate set at 8.82% for 100% equity per Order No. PSC-10-0401-PAA-WS, issued June 18, 2010.

c) All amounts are rounded to the nearest whole dollar.