

State of Florida



Public Service Commission

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

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

DATE: January 10, 2012
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110282-WS
Company Name: Regency Utilities, Inc.
Company Code: WS919
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 11-304-1-1

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12 JAN 10 PM 3 35
COMMISSION
CLERK

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.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER - DATE

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FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Regency Utilities, Inc.
Staff-Assisted Rate Case

For the Period Ending September 30 , 2011

Docket No. 110282-WS
Audit Control No. 11-304-1-1
January 10, 2012

Donna D. Brown

Donna D. Brown
Audit Manager

Andrew Von Ew

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Audit Staff

Lynn M. Deamer

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Purpose

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 October 31, 2011. We have applied these procedures to prepare the accompanying schedules in support of Regency Utilities, Inc.'s request for a Staff Assisted Rate Case in Docket No.110282-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The audit period is for the twelve months ended September 30, 2011.

The Utility refers to Regency Utilities, Inc. (RUI) which operates on-site water delivery, and wastewater collection providing services to Regency Square Mall in Jacksonville, Florida. These services are purchased from Jacksonville Electric Authority (JEA).

History

Regency Utilities, Inc. was originally granted water and wastewater certificates to service the Mall in 1975¹. The Mall, which was constructed in 1975, is built out with approximately 189 water and 176 wastewater connections. The certificates were amended twice² to extend Regency's service territory to the area surrounding the Mall.

On April 10, 2001, Regency Utilities, Inc. and JEA closed on a transaction whereby the Utility transferred its water and wastewater plant to JEA. All of Regency's service territory was transferred in the transaction except for the Mall, which JEA declined to service directly. The Florida Public Service Commission approved the transfer in Order No. PSC-02-0060-WS³. Since Regency would thereafter be reselling water and wastewater services pursuant to a reseller exemption in Section 367.002(8), Florida Statutes (F.S.), the Order also cancelled Regency's water and wastewater certificates.

On February 26, 2008, Regency filed an application for water and wastewater certificates and authorization to charge rates in excess of the purchase price. As its reason, the Utility stated that it could no longer support its operations while billing customers at the same rates for water and wastewater services which it pays to purchase the services from JEA. The Florida Public Service Commission approved this application in Order PSC-08-0701-CO-WS⁴.

¹ Order No. 6448, issued January 9, 1975, in Docket Nos. 74425-W and 74426-S, In Re: Application of Regency Utilities, Inc., for certificates to operate a water and sewer utility in Duval County, Fla.

² Order No. 8045, issued November 16, 1977, in Docket No. 770504-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Water Certificate No. 197-W and Sewer Certificate No. 143-S in Duval County, Florida. Section 367.061, Florida Statutes and Order No. 9518, issued September 3, 1980, in Docket No. 800151-Ws (EX), In Re: Application of Regency Utilities, Inc. for amendment of Certificate Nos. 143-S and 143-W (stet) to include territory in Duval County, Florida.

³ Order No. PSC-02-0060-FOF-WS, issued January 8, 2002, in Docket No. 010986-WS, In Re: Notice of sale of assets of Regency Utilities, Inc. in Duval County to Jacksonville Electric Authority, and request for cancellation of Certificate Nos. 197-W and 143-S.

⁴ Order No. PSC-08-0701-CO-WS, in Docket No. 080113-WS, In Re: Application for certificates to provide water and wastewater service in Duval County by Regency Utilities, Inc.

Utility Books and Records

Objectives: The objective is to determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Commissioner's Uniform System of Account (NARUC USOA).

Procedures: We reviewed the Utility's accounting system and found it not in compliance with the NARUC USOA. Audit Finding 1 discusses our findings.

Rate Base

Utility Plant in Service

Objectives: The objectives are to determine plant-in-service for the period; to determine that additions are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the NARUC USOA; and to verify that proper retirements are made when a replacement item was put into service.

Procedures: Audit staff scheduled water and wastewater Utility Plant in Service (UPIS) for the audit period using the Utility's Annual Reports, the undocketed Overearnings Investigation Audit (Audit Control Number (ACN): 08-130-1-1), and the Commission Order PSC-08-0611-PAA-WS⁵. In 2008, we noted that the Utility did not include \$25,000 for Organization costs for both the water and wastewater system. We reconciled UPIS amounts for December 31, 2003 to September 30, 2011 to the general ledger when available. Audit Findings 2 and 3 discusses our findings.

Land & Land Rights

Objectives: The objectives are to determine utility land exists, is used for utility operations, and is owned by the Utility or is secured under a long-term lease; and to determine utility land is recorded at the original cost when the land was first dedicated to public service.

Procedures: Audit staff scheduled land using the Utility's Annual Reports and the undocketed Overearnings Investigation Audit (ACN: 08-130-1-1). We also reconciled land additions and retirement to the general ledger when available for December 31, 2003 to September 30, 2011.

Contributions-in-Aid-of-Construction

Objectives: The objectives are to determine that Utility Contributions in Aid of Construction (CIAC) balances are properly stated and are reflective of service availability charges authorized in the Utility's approved Commission tariff.

Procedures: We scheduled CIAC using the Utility's Annual Reports, the undocketed Overearnings Investigation Audit (ACN: 08-130-1-1) and the Commission Order PSC-08-0611-PAA-WS⁵. We reconciled CIAC amounts for December 31, 2003 to September 30, 2011 to the

⁵ Order No. PSC-08-0611-PAA-WS, in Docket No. 080113-WS, In Re: Application for certificates to provide water and wastewater services in Duval County by Regency Utilities, Inc.

general ledger. We requested CIAC special agreements and policies and procedures; there are none. We also verified the utility's collection of capacity charges per ERC and meter fees from the undocketed Overearnings Investigation Audit (ACN: 08-1301-1). Audit Findings 4 and 5 discusses our findings.

Accumulated Depreciation

Objectives: The objectives are to determine that the Utility's accumulated depreciation balances are properly stated and that annual accruals are reflective of depreciation rates authorized by Rule 25-30.140, Florida Administrative Code (F.A.C.).

Procedures: We scheduled accumulated depreciation using the Utility's Annual Reports, the undocketed Overearnings Investigation Audit (ACN: 08-130-1-1) and the Commission Order PSC-08-0611-PAA-WS. In addition, we reviewed the Utility provided depreciation schedules for 2002 to 2010. Audit Findings 6 and 7 discusses our findings.

Accumulated Amortization of CIAC

Objectives: The objectives are to determine that CIAC has been amortized in accordance with Commission procedures and is consistent with the calculation of depreciation expense for the year ended September 30, 2011.

Procedures: We schedule accumulated amortization of CIAC using the Utility's Annual Reports, the undocketed Overearnings Investigation Audit (ACN: 08-130-1-1) and the Commission Order PSC-08-0611-PAA-WS. We reconciled accumulated amortization of CIAC amounts for December 31, 2003 to September 30, 2011 where available. We recalculated the amortization rate for both the water and wastewater system for December 31, 2008 through September 30, 2011 using the appropriate depreciation rate. Audit Findings 8 and 9 discusses our findings.

Working Capital

Objectives: The objective is to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the Utility's working capital balances as of September 30, 2011 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433(2), Florida Administrative Code.

Net Operating Income

Operating Revenue

Objectives: The objectives are to determine that utility revenues for the test year are properly stated and that rates for utility services, miscellaneous service charges and other charges imposed by the utility agree to the approved tariffs.

Procedures: Audit staff reviewed the Utility's Commission approved tariffs establishing rates and compiled water and wastewater utility revenue for the test year from the Utility's billing registers, including all miscellaneous service charges. We also recalculated a sample of customer bills. In addition, we also reviewed a summary of all customer accounts charged to Regency Square Properties. Audit Findings 11 and 12 discuss our findings.

Operation and Maintenance Expense

Objectives: The objectives are to determine that operation and maintenance (O&M) expenses are classified according to Commission Rules and the NARUC USOA and that expenditures are recorded in the proper period and are appropriate for regulatory policy.

Procedures: We compiled water and wastewater O&M expense schedules for the test year from the Utility's invoices, insurance policies, and cancelled checks. For those expenses that are not distinguishable between water and wastewater, we allocated expenses 63% to water and 37% to wastewater, per the Utility's allocation procedures. Audit Findings 13 and 14 discuss our findings.

Depreciation and Amortization of Contribution in Aid of Construction (CIAC)

Objectives: The objective is to determine depreciation and amortization of CIAC expense for the period ended September 30, 2011.

Procedures: We compiled a schedule from verified UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, Florida Administrative Code (F.A.C.) for calculating annual accumulated depreciation accrual as of September 30, 2011. We also recalculated amortization of CIAC using a Commission approved rate. Audit Findings 15 and 16 discuss our findings.

Taxes Other than Income

Objectives: The objectives are to determine the appropriate amounts for taxes other than income (TOTI) for the test year ended September 30, 2011; and to determine that the Utility has remitted the correct amount of RAF for the most recent calendar year.

Procedures: Audit staff scheduled TOTI for both water and wastewater Utilities based on documentation provided by the Utility. We verified property taxes and local business tax incurred for both water and wastewater Utilities for the test year. We calculated the Regulatory Assessment Fee (RAF) for both water and wastewater utilities using the FPSC RAF rate and the audited revenue balances. In addition we calculated payroll taxes based on salaries of Utility

employees using the Social Security rate and the Medicare rate from the Internal Revenue Services website. Audit Findings 17 and 18 discuss our findings.

Federal Income Tax Return

Objectives: The objectives are to review the Federal Income Tax returns since inception, to verify any amounts of water and/or wastewater plant capitalized or written off to cost of goods sold.

Procedures: Audit staff reviewed Federal Income Tax Returns from 1987 and from 2000 to 2010. The Utility stated that all pre 2000 Federal Income Tax Returns were unavailable. The 1987 Federal Tax Return was viewed via the undocketed Overearnings Investigation Audit (ACN: 08-130-1-1). In addition, we reviewed the 2001 returns and noted the sale to JEA of various plant items.

Capital Structure

Cost of Equity

Objectives: The objectives are to determine that capital structure represent utility debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations for the test year ended September 30, 2011.

Procedures: We reviewed the trial balance as of September 30, 2011 for the capital structure components of Regency Utility, Inc. The Utility has long-term debt of \$577,376 from The Regency Group (TRG), which makes the debt intercompany. Therefore, audit staff determined common equity to be 99.15% and found the cost of capital based on the leverage formula from Docket 110006-WS, FPSC Order No. PSC-11-0287-PAA-WS⁶, issued July 5, 2011.

Customer Deposits

Objectives: The objectives are to determine that the utility is collecting and accounting for customer deposits authorized in its Commission approved tariff for the test year ended September 30, 2011; and to determine that the utility is calculating and remitting interest on customer deposits per Rule 25-30.311, F.A.C.

Procedures: Audit staff reconciled customer deposits received and refunded to the general ledger. We also reviewed the Rule 25-30.311, F.A.C., concerning the calculating and remitting of interest and noted that the Utility does not calculate interest on customer deposits. Audit Finding 10 discusses our finding.

⁶ Order No. PSC-11-0287-PAA-WS, in Docket No. 110006-WS, In Re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Audit Findings

Finding 1: Books and Records

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

NARUC, Class C Accounting Instructions, state:

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

Regency Utilities, Inc.'s (Utility) books and records are not maintained in accordance with the NARUC USOA because the Utility does not list account numbers in accordance with NARUC. However, audit staff was able to differentiate the accounts based on the Utility's description of the respective accounts.

Effect on the General Ledger: This is for information purposes only.

Finding 2: Utility Plant in Service - Water

Audit Analysis: The Utility recorded \$1,131,494 for water plant in service on its trial balance as of September 30, 2011. The Utility was unable to provide documentation in support of water plant in service prior to 2002, therefore, audit staff utilized Commission Order PSC-08-0611-PAA-WS, to find the 2008 balances. After comparing the Commission Order balances plus the additions as per the annual report to the general ledger, we noted a difference of \$885,491. This difference is due in part, to the Utility's exclusion of \$25,000 for Organization costs associated with the original certificate. The remaining difference was the inclusion of \$910,493 for the fire asset system.

The Utility stated that in 2001, they wrote off the pump house equipment as part of the sale to JEA, but found out that they actually still owned it and had a legal obligation to maintain and operate the utility infrastructure. Consequently, in 2007 the asset was re-recorded on Regency Utilities' books.

The Utility informed audit staff that invoices concerning this \$910,493 for the fire asset system are unavailable. Therefore, audit staff recommends the removal of the \$910,493.

Description	Acct. No.	Balance per Utility for the 12 Months ended September 30, 2011	Audit Adjustment	for the 12 Months ended September 30, 2011
Organization	301	\$ -	\$ 25,000	\$ 25,000
Franchises	302	\$ -	\$ -	\$ -
Land and Land Rights	303	\$ -	\$ -	\$ -
Structures and Improvements	304	\$ -	\$ -	\$ -
Collecting and Impounding Reservoirs	305	\$ -	\$ -	\$ -
Lake, River and Other Intakes	306	\$ -	\$ -	\$ -
Wells and Springs	307	\$ -	\$ -	\$ -
Infiltration Galleries and Tunnels	308	\$ -	\$ -	\$ -
Supply Mains	309	\$ -	\$ -	\$ -
Power Generation Equipment	310	\$ -	\$ -	\$ -
Pumping Equipment	311	\$ 910,493	\$ (910,493)	\$ -
Water Treatment Equipment	320	\$ -	\$ -	\$ -
Distribution Reservoirs and Standpipes	330	\$ -	\$ -	\$ -
Transmission and Distribution Mains	331	\$ 21,980	\$ -	\$ 21,980
Services	333	\$ 148,540	\$ -	\$ 148,540
Meters and Meter Installations	334	\$ 39,694	\$ 10,788	\$ 50,482
Hydrants	335	\$ 10,786	\$ (10,786)	\$ -
Backflow Prevention Devices	336	\$ -	\$ -	\$ -
Other Plant Miscellaneous Equipment	339	\$ -	\$ -	\$ -
Office Furniture and Equipment	340	\$ -	\$ -	\$ -
Transportation Equipment	341	\$ -	\$ -	\$ -
Stores Equipment	342	\$ -	\$ -	\$ -
Tools, Shop and Garage Equipment	343	\$ -	\$ -	\$ -
Laboratory Equipment	344	\$ -	\$ -	\$ -
Power Operated Equipment	345	\$ -	\$ -	\$ -
Communication Equipment	346	\$ -	\$ -	\$ -
Miscellaneous Equipment	347	\$ -	\$ -	\$ -
Other Tangible Plant	348	\$ -	\$ -	\$ -
Less: Land	303	\$ -	\$ -	\$ -
Total		\$ 1,131,493	\$ (885,491)	\$ 246,002

Effect on the General Ledger: The audit staff determined water plant in service to be \$246,002 for the test year ended September 30, 2011. Therefore, the balance in the water plant in service account should be decreased by \$885,491.

Finding 3: Utility Plant in Service - Wastewater

Audit Analysis: The Utility recorded \$36,942 for wastewater plant in service on its trial balance as of September 30, 2011. The Utility was unable to provide documentation in support of water plant in service prior to 2002, therefore, audit staff utilized Commission Order PSC-08-0611-PAA-WS, to find the 2008 balances. After comparing the Commission Order balances plus additions as per the annual reports to the general ledger, we noted a difference of \$25,000. This difference is due to the Utility's exclusion of \$25,000 for Organization costs associated with the original certificate.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Balance per Audit for the 12 months ended September 30, 2011
Organization	351	\$ -	\$ 25,000	\$ 25,000
Franchises	352	\$ -	\$ -	\$ -
Land and Land Rights	353	\$ -	\$ -	\$ -
Structures and Improvements	354	\$ -	\$ -	\$ -
Collecting and Impounding Reservoirs	355	\$ -	\$ -	\$ -
Collection Sewers - Force	360	\$ -	\$ -	\$ -
Collection Sewers - Gravity	361	\$ 30,260	\$ -	\$ 30,260
Special Collecting Structures	362	\$ -	\$ -	\$ -
Services to Customers	363	\$ 6,682	\$ -	\$ 6,682
Flow Measuring Devices	364	\$ -	\$ -	\$ -
Flow Measuring Installation	365	\$ -	\$ -	\$ -
Receiving Wells	370	\$ -	\$ -	\$ -
Pumping Equipment	371	\$ -	\$ -	\$ -
Treatment and Disposal Equipment	380	\$ -	\$ -	\$ -
Outfall Sewer Lines	382	\$ -	\$ -	\$ -
Other Plant Miscellaneous Equipment	389	\$ -	\$ -	\$ -
Office Furniture and Equipment	390	\$ -	\$ -	\$ -
Transportation Equipment	391	\$ -	\$ -	\$ -
Stores Equipment	392	\$ -	\$ -	\$ -
Tools, Shop and Garage Equipment	393	\$ -	\$ -	\$ -
Laboratory Equipment	394	\$ -	\$ -	\$ -
Power Operated Equipment	395	\$ -	\$ -	\$ -
Communication Equipment	396	\$ -	\$ -	\$ -
Miscellaneous Equipment	397	\$ -	\$ -	\$ -
Other Tangible Plant	398	\$ -	\$ -	\$ -
Less: Land	353	\$ -	\$ -	\$ -
Total		\$ 36,942	\$ 25,000	\$ 61,942

Effect on the General Ledger: The audit staff determined wastewater plant in service to be \$61,942, for the test year ended September 30, 2011. Therefore, the balance in the wastewater plant in service account should be increased by \$25,000.

Finding 4: Contributions-in-Aid-of-Construction (CIAC) - Water

Audit Analysis: The Utility recorded \$0 for water contributions in aid of construction (CIAC) on its trial balance as of September 30, 2011. Audit staff utilized Commission Order PSC-08-0611-PAA-WS, to find the 2008 balances. After comparing the Commission Order to the Utility's general ledger, audit staff noted a difference of \$21,980. We adjusted the balance to reflect the stated amount in the order because the potable water system is built out; there are no future collections.

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance Per Audit for the 12 months ended September 30, 2011
CIAC	\$ -	\$ 21,980	\$ 21,980
Total CIAC	\$ -	\$ 21,980	\$ 21,980

Effect on the General Ledger: The audit staff determined water CIAC to be \$21,980 for the test year ended September 30, 2011. Therefore, the balance in the water CIAC account should be increased by \$21,980.

Finding 5: Contributions-in-Aid-of-Construction (CIAC) - Wastewater

Audit Analysis: The Utility recorded \$0 for wastewater contributions in aid of construction (CIAC) on its trial balance as of September 30, 2011. Audit staff utilized Commission Order PSC-08-0611-PAA-WS, to find the 2008 balances. After comparing the Commission Order to the Utility’s general ledger, audit staff noted a difference of \$30,260. We adjusted the balance to reflect the stated amount in the order because the wastewater system is built out; there are no future collections.

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit as for the 12 months ended September 30, 2011
CIAC	\$ -	\$ 30,260	\$ 30,260
Total CIAC	\$ -	\$ 30,260	\$ 30,260

Effect on the General Ledger: The audit staff determined wastewater CIAC to be \$30,260 for the test year ended September 30, 2011. Therefore, the balance in the CIAC account should be increased by \$30,260.

Finding 6: Accumulated Depreciation - Water

Audit Analysis: The Utility's balance for water accumulated depreciation was \$711,791. The audit staff utilized order PSC-08-0611-PAA-WS to find the 2008 balances. We recalculated accumulated depreciation to be \$133,100. The difference of \$578,691 is due to the exclusion of depreciation for Organization costs associated with the original certificate for \$2,500; the use of different rates for Transmission and Distribution Mains, Services and Meter and Meter Installations for \$6,663, \$48,599, and \$9,779, respectively. In addition, the Utility did include \$549,659 for the fire assets system, however audit staff disallowed the fire asset system due to non-support.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Organization	301	\$ -	\$ 2,500	\$ 2,500
Franchises	302	\$ -	\$ -	\$ -
Land and Land Rights	303	\$ -	\$ -	\$ -
Structures and Improvements Collecting and Impounding Reservoirs	304	\$ -	\$ -	\$ -
Lake, River and Other Intakes	305	\$ -	\$ -	\$ -
Wells and Springs	306	\$ -	\$ -	\$ -
Infiltration Galleries and Tunnels	307	\$ -	\$ -	\$ -
Supply Mains	308	\$ -	\$ -	\$ -
Power Generation Equipment	309	\$ -	\$ -	\$ -
Pumping Equipment	310	\$ 549,659	\$ (549,659)	\$ -
Water Treatment Equipment	311	\$ -	\$ -	\$ -
Distribution Reservoirs and Standpipes	320	\$ -	\$ -	\$ -
Transmission and Distribution Mains	330	\$ -	\$ -	\$ -
Services	331	\$ 14,218	\$ 6,663	\$ 20,881
Meters and Meter Installations	333	\$ 114,338	\$ (48,599)	\$ 65,739
Hydrants	334	\$ 33,576	\$ 9,779	\$ 43,355
Backflow Prevention Devices	335	\$ -	\$ -	\$ -
Other Plant Miscellaneous Equipment	336	\$ -	\$ -	\$ -
Office Furniture and Equipment	339	\$ -	\$ -	\$ -
Transportation Equipment	340	\$ -	\$ -	\$ -
Stores Equipment	341	\$ -	\$ -	\$ -
Tools, Shop and Garage Equipment	342	\$ -	\$ -	\$ -
Laboratory Equipment	343	\$ -	\$ -	\$ -
Power Operated Equipment	344	\$ -	\$ -	\$ -
Communication Equipment	345	\$ -	\$ -	\$ -
Miscellaneous Equipment	346	\$ -	\$ -	\$ -
Other Tangible Plant	347	\$ -	\$ -	\$ -
	348	\$ -	\$ -	\$ -
Total		\$ 711,791	\$ (579,316)	\$ 132,475

Effect on the General Ledger: The audit staff determined water accumulated depreciation to be \$132,475 for the test year ended September 30, 2011. Therefore, the balance in the water accumulated depreciation account should be decreased by \$579,316.

Finding 7: Accumulated Depreciation - Wastewater

Audit Analysis: The Utility's balance for wastewater accumulated depreciation was \$28,079. The audit staff utilized order PSC-08-0611-PAA to find the 2008 balances. We recalculated accumulated depreciation to be \$31,090. The difference of \$3,011 is due to the exclusion of depreciation for Organization costs associated with the original certificate for \$2,500; the use of different rates for Collection of Sewers – Gravity for \$5,153 and Services to Customers for \$1,274.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Organization	351	\$ -	\$ 2,500	\$ 2,500
Franchises	352	\$ -	\$ -	\$ -
Land and Land Rights	353	\$ -	\$ -	\$ -
Structures and Improvements Collecting and Impounding Reservoirs	354	\$ -	\$ -	\$ -
Reservoirs	355	\$ -	\$ -	\$ -
Collection Sewers - Force	360	\$ -	\$ -	\$ -
Collection Sewers - Gravity	361	\$ 24,707	\$ 1,785	\$ 26,492
Special Collecting Structures	362	\$ -	\$ -	\$ -
Services to Customers	363	\$ 3,372	\$ (1,274)	\$ 2,098
Flow Measuring Devices	364	\$ -	\$ -	\$ -
Flow Measuring Installation	365	\$ -	\$ -	\$ -
Receiving Wells	370	\$ -	\$ -	\$ -
Pumping Equipment	371	\$ -	\$ -	\$ -
Treatment and Disposal Equipment	380	\$ -	\$ -	\$ -
Outfall Sewer Lines	382	\$ -	\$ -	\$ -
Other Plant Miscellaneous Equipment	389	\$ -	\$ -	\$ -
Office Furniture and Equipment	390	\$ -	\$ -	\$ -
Transportation Equipment	391	\$ -	\$ -	\$ -
Stores Equipment	392	\$ -	\$ -	\$ -
Tools, Shop and Garage Equipment	393	\$ -	\$ -	\$ -
Laboratory Equipment	394	\$ -	\$ -	\$ -
Power Operated Equipment	395	\$ -	\$ -	\$ -
Communication Equipment	396	\$ -	\$ -	\$ -
Miscellaneous Equipment	397	\$ -	\$ -	\$ -
Other Tangible Plant	398	\$ -	\$ -	\$ -
Communication Equipment	346	\$ -	\$ -	\$ -
Miscellaneous Equipment	347	\$ -	\$ -	\$ -
Other Tangible Plant	348	\$ -	\$ -	\$ -
Total		\$ 28,079	\$ 3,011	\$ 31,090

Effect on the General Ledger: The audit staff determined wastewater Accumulated Depreciation to be \$31,090 for the test year ended September 30, 2011. Therefore, the balance in accumulated depreciation should be increased by \$3,011.

Finding 8: Accumulated Amortization of CIAC - Water

Audit Analysis: The Utility recorded \$0 for water accumulated amortization of CIAC on its trial balance as of September 30, 2011. Audit staff utilized Commission Order PSC-08-0611-PAA-WS, to find the 2008 balances. After comparing the Commission Order plus the calculated accruals, to the Utility's general ledger, audit staff noted a difference of \$20,881. Audit staff adjusted the balance to reflect the stated amount in the order because the water system is built out; there are no future collections.

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
AA of CIAC	\$ -	\$ 20,881	\$ 20,881
Total AA of CIAC	\$ -	\$ 20,881	\$ 20,881

Effect on the General Ledger: The audit staff determined water accumulated amortization of CIAC to be \$20,881 for the test year ended September 30, 2011. Therefore, the balance in the water accumulated amortization of CIAC account should be increased by \$20,881.

Finding 9: Accumulated Amortization of CIAC - Wastewater

Audit Analysis: The Utility recorded \$0 for wastewater accumulated amortization of CIAC on its trial balance as of September 30, 2011. Audit staff utilized Commission Order PSC-08-0611-PAA-WS, to find the 2008 balances. After comparing the Commission Order plus the calculated accruals, to the Utility’s general ledger, audit staff noted a difference of \$26,492. Audit staff adjusted the balance to reflect the stated amount in the order because the wastewater system is built out; there are no future collections.

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months September 30, 2011
AA of CIAC	\$ -	\$ 26,492	\$ 26,492
Total AA of CIAC	\$ -	\$ 26,492	\$ 26,492

Effect on the General Ledger: The audit staff determined wastewater accumulated amortization of CIAC to be \$26,492 for the test year ended September 30, 2011. Therefore, the general ledger should be increased by \$26,492.

Finding 10: Customer Deposits

Audit Analysis: The utility's balance for customer deposits was \$5,400. Audit staff noted that the Utility does not collect or pay interest on the customer deposits it collects. In addition, we noted that the current tariff does not authorize the collection of customer deposits.

Effect on the General Ledger: This is for informational purposes only.

Finding 11: Operating Revenue - Water

Audit Analysis: The Utility only serves commercial customers, and customer meters are read and billed monthly. We tested a judgmental sample of customer bills and recalculated the amount due using the Commission approved tariffs. The utility billed eleven 2" irrigation meters during the months of October and November of 2010, and ten 2" irrigation meters from December 2010 through September 2011. Irrigation meters are read in cubic feet, therefore readings must be multiplied by 7.48 to convert to gallons. These irrigation systems are used to maintain the grounds at Regency Square Mall.

The Utility records water and wastewater revenue in the same account, including Public Service taxes for water, which are equal to 10% of all water sales. The auditor recalculated water revenue amounts using the billing register. The schedule below shows the revenue for water adjusted to exclude Public Service tax and wastewater revenue (also see Finding 12). Miscellaneous Service Fees for the year were \$45. The utility charged \$40 for after-hours reconnection fees, and a \$5 late fee.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Metered Sales - Commercial	461.2	\$ 265,347	\$ (148,226)	\$ 117,121
Sales to Irrigation Customers	465.0	\$ -	\$ 41,014	\$ 41,014
Other Water Revenues	474.0	\$ -	\$ 45	\$ 45
Total Water Revenues		\$ 265,347	\$ (107,167)	\$ 158,180

Effect on the General Ledger: The auditor determined water revenues to be \$158,180 for the test year ended September 30, 2011. Therefore, the balance in the water revenues account should be decreased by \$107,167.

Finding 12: Operating Revenue - Wastewater

Audit Analysis: The Utility records water and wastewater revenue in the same account. The auditor recalculated wastewater revenue amounts using the billing register. The schedule below shows the revenue for wastewater that was reclassified from water revenue.

Miscellaneous Service Fees for the year were \$45. The Utility charged \$40 to two customers for after-hours reconnection fees, and a \$5 late fee to both customers.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Balance per Audit for the 12 months ended September 30, 2011
Commercial Revenues	522.2	\$ -	\$ 90,006	\$ 90,006
Other Wastewater Revenues	536.0	\$ -	\$ 45	\$ 45
Total Wastewater Revenues		\$ -	\$ 90,051	\$ 90,051

Effect on the General Ledger: The auditor determined wastewater revenues to be \$90,051 for the test year ended September 30, 2011. Therefore, the balance in the wastewater revenues account should be increased by \$90,051.

Finding 13: Operations and Maintenance Expense - Water

Audit Analysis: The Utility's test year balances for water O&M expenses and working capital were \$277,925 and \$34,741, respectively. Audit staff reviewed the supporting documentation and determined that water O&M expenses should be decreased by \$78,264 and water working capital should be decreased by \$9,783 per the following net adjustments:

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Ref.	Balance per Audit for the 12 months ended September 30, 2011
Salaries and Wages- Employees	601	\$ 17,484	\$ (4,265)	A	\$ 13,219
Salaries and Wages- Off., Dir. and Majority Stkhldrs.	603	\$ -	\$ 12,203	B	\$ 12,203
Employee Pensions and Benefits	604	\$ 7,428	\$ 2,939	C	\$ 10,367
Purchased Water	610	\$ 182,610	\$ (80,561)	D	\$ 102,049
Purchased Power	615	\$ -	\$ 281	E	\$ 281
Fuel for Power Production	616	\$ -	\$ -		\$ -
Chemicals	618	\$ -	\$ -		\$ -
Materials and Supplies	620	\$ 5,525	\$ (1,417)	F	\$ 4,108
Contractual Services - Billing	630	\$ -	\$ -		\$ -
Contractual Services- Professional	631	\$ 2,834	\$ (33)	G	\$ 2,801
Contractual Services- Testing	635	\$ 1,213	\$ -		\$ 1,213
Contractual Services- Other	636	\$ 32,705	\$ (7,938)	H	\$ 24,767
Rents	640	\$ 9,412	\$ -		\$ 9,412
Transportation Expenses	650	\$ -	\$ -		\$ -
Insurance Expense	655	\$ 12,884	\$ -		\$ 12,884
Regulatory Commission Expenses	665	\$ -	\$ -		\$ -
Bad Debt Expense	670	\$ 1,304	\$ 1,517	I	\$ 2,821
Miscellaneous Expenses	675	\$ 4,525	\$ (990)	J	\$ 3,535
Total		\$ 277,924	\$ (78,264)		\$ 199,660
Working Capital	1/8	\$ 34,741	\$ (9,783)		\$ 24,958

- A. Account 601 should be decreased by \$4,265 to reclassify Alexa Daniels' salary (she is the CFO as well as the Secretary of the Board of Directors) to Account 603.
- B. Account 603 should be increased by \$4,265 to reclassify Alexa Daniels' salary from Account 601, and increased by \$7,938 to reclassify R L Stein's salary from Account 636. The net adjustment is \$12,203.
- C. Account 604 should be increased by \$2,939 to include Pensions and Benefits costs for R L Stein.
- D. Account 610 should be decreased by \$20,723 to remove out of period expense, decreased by \$23,660 to include expenses not booked from September 2011, decreased by \$281 to reclassify Purchased Power costs to Account 615, decreased by \$81,502 to reclassify Purchased Wastewater costs to Account 710, and decreased by \$1,715 to reclassify Purchased Power costs to Account 715. The net adjustment is a decrease of \$80,561.
- E. Account 615 should be increased by \$281 to reclassify Purchased Power costs from Account 610.

- F. Account 620 should be decreased by \$1,417 to remove expenses without supporting documentation.
- G. Account 631 should be decreased by \$33 to remove expenses without supporting documentation.
- H. Account 636 should be decreased by \$7,938 to reclassify R L Stein's salary to Account 603.
- I. Account 670 should be increased by \$1,517 to include bad debt expenses that were in the test period but had not been included in the general ledger.
- J. Account 675 should be decreased by \$990 to remove non-utility expenses.

Effect on the General Ledger: The auditor determined water O&M expense and working capital to be \$199,660 and \$24,958 for the test year ended September 30, 2011. Therefore, the balance in the water O&M expenses should be decreased by \$78,264.

Finding 14: Operations and Maintenance Expense - Wastewater

Audit Analysis: The Utility's test year balances for wastewater O&M expenses and Working Capital were \$48,268 and \$16,709, respectively. Audit staff reviewed the supporting documentation and determined that wastewater O&M expenses should be increased by \$84,400 and wastewater working capital should be decreased by \$10,550 per the following net adjustments:

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Ref.	Balance per Audit for the 12 months ended September 30, 2011
Salaries and Wages- Employees	701	\$ 10,269	\$ (2,505)	A	\$ 7,764
Salaries and Wages- Officers, Directors and Majority	703	\$ -	\$ 7,167	B	\$ 7,167
Employee Pensions and Benefits	704	\$ 4,363	\$ 1,726	C	\$ 6,089
Purchased Wastewater Treatment	710	\$ -	\$ 81,502	D	\$ 81,502
Sludge Removal Expense	711	\$ -	\$ -		\$ -
Purchased Power	715	\$ -	\$ 1,715	E	\$ 1,715
Fuel for Power Production	716	\$ -	\$ -		\$ -
Chemicals	718	\$ -	\$ -		\$ -
Materials and Supplies	720	\$ 3,245	\$ (833)	F	\$ 2,412
Contractual Services - Billing	730	\$ -	\$ -		\$ -
Contractual Services - Professional	731	\$ 1,665	\$ (20)	G	\$ 1,645
Contractual Services - Testing	735	\$ -	\$ -		\$ -
Contractual Services - Other	736	\$ 13,209	\$ (4,662)	H	\$ 8,547
Rents	740	\$ 5,527	\$ -		\$ 5,527
Transportation Expenses	750	\$ -	\$ -		\$ -
Insurances Expense	755	\$ 7,567	\$ -		\$ 7,567
Regulatory Commission Expense	765	\$ -	\$ -		\$ -
Bad Debt Expense	770	\$ 766	\$ 891	I	\$ 1,657
Miscellaneous Expense	775	\$ 2,657	\$ (581)	J	\$ 2,076
Total		\$ 49,268	\$ 84,400		\$ 133,668
Working Capital	1/8	\$ 6,158	\$ 10,551		\$ 16,709

- A. Account 701 should be decreased by \$2,505 to reclassify Alexa Daniels' salary to Account 703.
- B. Account 703 should be increased by \$2,505 to reclassify Alexa Daniels' salary from Account 701, and increased by \$4,662 to reclassify R L Stein's salary from Account 736. The net adjustment is an increase of \$7,167.
- C. Account 704 should be increased by \$1,726 to include Pensions and Benefits Costs for R L Stein.
- D. Account 710 should be increased by \$81,502 to reclassify Purchased Wastewater Treatment costs from Account 610.
- E. Account 715 should be increased by \$1,715 to reclassify Purchased Power costs from Account 610.
- F. Account 720 should be decreased by \$833 to remove expenses without supporting documentation.

- G. Account 731 should be decreased by \$20 to remove expenses without supporting documentation.
- H. Account 736 should be decreased by \$4,662 to reclassify R L Stein's salary to Account 703.
- I. Account 770 should be increased by \$891 to include bad debt expenses that were in the test period but had not been included in the general ledger.
- J. Account 775 should be decreased by \$581 to remove non-utility expenses.

Effect on the General Ledger: The auditor determined wastewater O&M expense and Working Capital to be \$133,668 and \$16,709 for the test year ended September 30, 2011. Therefore, the wastewater O&M expenses should be increased by \$84,400.

Finding 15: Depreciation and Amortization Expense - Water

Audit Analysis: The Utility's test year balance for depreciation expense and CIAC amortization expense was \$35,183 and \$0 respectively. Audit staff recalculated the depreciation expense based on verified UPIS items. In addition, we recalculated the CIAC amortization expense using the rate established in Commission Order PSC-08-0611-PAA-WS. We determined that water depreciation expense should be decreased by \$26,675 and CIAC amortization expense should be increased by \$666 per the following adjustments.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Organization	301	\$ -	\$ 625	\$ 625
Franchises	302	\$ -	\$ -	\$ -
Land and Land Rights	303	\$ -	\$ -	\$ -
Structures and Improvements	304	\$ -	\$ -	\$ -
Collecting and Impounding Reservoirs	305	\$ -	\$ -	\$ -
Lake, River and Other Intakes	306	\$ -	\$ -	\$ -
Wells and Springs	307	\$ -	\$ -	\$ -
Supply Mains	309	\$ -	\$ -	\$ -
Power Generation Equipment	310	\$ -	\$ -	\$ -
Pumping Equipment	311	\$ 30,350	\$ (30,350)	\$ -
Water Treatment Equipment	320	\$ -	\$ -	\$ -
Distribution Reservoirs and Standpipes	330	\$ -	\$ -	\$ -
Transmission and Distribution Mains	331	\$ 440	\$ 226	\$ 666
Services	333	\$ 3,258	\$ 990	\$ 4,248
Meters and Meter Installations	334	\$ 1,135	\$ 1,833	\$ 2,968
Hydrants	335	\$ -	\$ -	\$ -
Backflow Prevention Devices	336	\$ -	\$ -	\$ -
Other Plant Miscellaneous Equipment	339	\$ -	\$ -	\$ -
Office Furniture and Equipment	340	\$ -	\$ -	\$ -
Transportation Equipment	341	\$ -	\$ -	\$ -
Tools, Shop and Garage Equipment	343	\$ -	\$ -	\$ -
Power Operated Equipment	345	\$ -	\$ -	\$ -
Other Tangible Plant	348	\$ -	\$ -	\$ -
Total		\$ 35,183	\$ (26,676)	\$ 8,507

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Amortization Expense	\$ -	\$ 666	\$ 666
Total	\$ -	\$ 666	\$ 666

Effect on the General Ledger: The auditor determined water depreciation expense and water CIAC amortization expense to be \$8,507 and \$666, respectively for the test year ended

September 30, 2011. Therefore, the balance in the depreciation expense and CIAC amortization expense account should be decreased by \$26,676 and increased by \$666, respectively.

Finding 16: Depreciation and Amortization Expense - Wastewater

Audit Analysis: The Utility's test year balance for depreciation expense and CIAC amortization expense was \$885 and \$0 respectively. Audit staff recalculated the depreciation expense based on verified UPIS items. In addition, we recalculated the CIAC amortization expense using the rate established in Commission Order PSC-08-0611-PAA-WS. We determined that wastewater depreciation expense should be increased by \$441 and CIAC amortization expense should be increased by \$504 per the following adjustments.

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Organization	351	\$ -	\$ 625	\$ 625
Franchises	352	\$ -	\$ -	\$ -
Land and Land Rights	353	\$ -	\$ -	\$ -
Structures and Improvements	354	\$ -	\$ -	\$ -
Collecting and Impounding Reservoirs	355	\$ -	\$ -	\$ -
Collection Sewers - Force	360	\$ 618	\$ 139	\$ 757
Collection Sewers - Gravity	361	\$ -	\$ -	\$ -
Special Collecting Structures	362	\$ -	\$ -	\$ -
Services to Customers	363	\$ 267	\$ (76)	\$ 191
Flow Measuring Devices	364	\$ -	\$ -	\$ -
Flow Measuring Installation	365	\$ -	\$ -	\$ -
Receiving Wells	370	\$ -	\$ -	\$ -
Pumping Equipment	371	\$ -	\$ -	\$ -
Treatment and Disposal Equipment	380	\$ -	\$ -	\$ -
Outfall Sewer Lines	382	\$ -	\$ -	\$ -
Other Plant Miscellaneous Equipment	389	\$ -	\$ -	\$ -
Office Furniture and Equipment	390	\$ -	\$ -	\$ -
Transportation Equipment	391	\$ -	\$ -	\$ -
Stores Equipment	392	\$ -	\$ -	\$ -
Tools, Shop and Garage Equipment	393	\$ -	\$ -	\$ -
Laboratory Equipment	394	\$ -	\$ -	\$ -
Power Operated Equipment	395	\$ -	\$ -	\$ -
Communication Equipment	396	\$ -	\$ -	\$ -
Miscellaneous Equipment	397	\$ -	\$ -	\$ -
Other Tangible Plant	398	\$ -	\$ -	\$ -

Total	\$ 885	\$ 688	\$ 1,573
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	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Amortization Expense	\$ -	\$ 757	\$ 757

Total	\$ -	\$ 757	\$ 757
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Effect on the General Ledger: The auditor determined wastewater depreciation expense and CIAC amortization expense to be \$1,573 and \$757, respectively for the test year ended September 30, 2011. Therefore, the balance in the wastewater depreciation expense and CIAC amortization expense should be increased by \$688 for wastewater depreciation expense and increased by \$757 for wastewater amortization expense of CIAC.

Finding 17: Taxes Other than Income (TOTI) - Water

Audit Analysis: The Utility’s test year balance for water TOTI was \$12,406. We calculated the Regulatory Assessment Fee (RAF) expense to be \$7,118. We also reviewed the property tax and payroll taxes and found the test year balances to be \$1,831 and \$1,643, respectively. All TOTI except RAF are allocated 63% to water as per the Utility’s allocation method. We made these adjustments to the Utility’s balances to arrive at the audited test year balance:

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Balance per Audit for the 12 months ended September 30, 2011
Property Tax	408	\$ 4,577	\$ (2,746)	\$ 1,831
Payroll Tax	408	\$ -	\$ 1,643	\$ 1,643
Local Business Tax	408	\$ 496	\$ -	\$ 496
Annual Report Filing Fee	408	\$ 95	\$ -	\$ 95
Regulatory Assessment Fee	408	\$ 7,239	\$ (121)	\$ 7,118
Total		\$ 12,406	\$ (1,224)	\$ 11,182

Effect on the General Ledger: The auditor determined water TOTI to be \$11,182 for the test year ended September 30, 2011. Therefore, the balance in the water TOTI account should be decreased by \$1,224.

Finding 18: Taxes Other than Income (TOTI) - Wastewater

Audit Analysis: The Utility’s test year balance for wastewater TOTI was \$7,286. We calculated the Regulatory Assessment Fee (RAF) expense to be \$4,052. We also reviewed property taxes and payroll taxes and found the test year balances to be \$1,075 and \$965 respectively. All TOTI except RAF are allocated 37% to wastewater as per the Utility’s allocation method. We made these adjustments to the Utility’s balances to arrive at the audited test year balance:

Description	Acct. No.	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Balance per Audit for the 12 months ended September 30, 2011
Property Tax	408	\$ 2,688	\$ (1,613)	\$ 1,075
Payroll Tax	408	\$ -	\$ 965	\$ 965
Local Business Tax	408	\$ 291	\$ -	\$ 291
Annual Report Filing Fee	408	\$ 56	\$ -	\$ 56
Regulatory Assessment Fee	408	\$ 4,251	\$ (199)	\$ 4,052
Total		\$ 7,286	\$ (847)	\$ 6,439

Effect on the General Ledger: The auditor determined wastewater TOTI to be \$6,439 for the test year ended September 30, 2011. Therefore, the balance in the wastewater TOTI account should be decreased by \$847.

Exhibits

Exhibit 1: Water Rate Base

Regency Utilities, Inc.
Staff Assisted Rate Case
As of September 30, 2011
Dkt 110282-WS ACN 11-304-1-1
Rate Base - Water

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Utility Plant in Service	\$ 1,131,493	\$ (885,491)	\$ 246,002
Land & Land Rights	\$ -	\$ -	\$ -
Accumulated Depreciation	\$ (711,791)	\$ 579,316	\$ (132,475)
Contributions in Aid of Construction	\$ -	\$ (21,980)	\$ (21,980)
Accumulated Amortization of CIAC	\$ -	\$ 20,881	\$ 20,881
Working Capital Allowance	\$ 34,741	\$ (9,783)	\$ 24,958
Total Rate Base	\$ 454,443	\$ (317,057)	\$ 137,386

Exhibit 2: Wastewater Rate Base

Regency Utilities, Inc.
 Staff Assisted Rate Case
 As of September 30, 2011
 Dkt 110282-WS ACN 11-304-1-1
 Rate Base - Wastewater

	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Utility Plant in Service	\$ 36,942	\$ 25,000	\$ 61,942
Land & Land Rights	\$ -	\$ -	\$ -
Accumulated Depreciation	\$ (28,079)	\$ (3,011)	\$ (31,090)
Contributions in Aid of Construction	\$ -	\$ (30,260)	\$ (30,260)
Accumulated Amortization of CIAC	\$ -	\$ 26,492	\$ 26,492
Working Capital Allowance	\$ 6,158	\$ 10,551	\$ 16,709
Total Rate Base	\$ 15,021	\$ 28,772	\$ 43,793

Exhibit 3: Water Net Operating Income

Regency Utilities, Inc.
 Staff Assisted Rate Case
 As of September 30, 2011
 Dkt 110282-WS ACN 11-304-1-1
 Net Operating Income - Water

Description	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustment	Balance per Audit for the 12 months ended September 30, 2011
Operating Revenues	\$ 265,347	\$ (107,167)	\$ 158,180
Operation & Maintenance Expenses	277,924	(78,264)	199,660
Depreciation Expense	35,183	(26,676)	8,507
Amortization Expense	-	666	666
Taxes Other Than Income	12,406	(1,224)	11,182
Total Operating Expenses:	325,513	(105,498)	220,015
Net Operating Income (Loss)	\$ (60,167)	\$ (1,668)	\$ (61,835)

Exhibit 4: Wastewater Net Operating Income

Regency Utilities, Inc.
 Staff Assisted Rate Case
 As of September 30, 2011
 Dkt 110282-WS ACN 11-304-1-1
 Net Operating Income - Wastewater

Description	Balance per Utility as of September 30, 2011	Audit Adjustment	Balance per Audit as of September 30, 2011
Operating Revenues	\$ -	\$ 90,051	\$ 90,051
Operation & Maintenance Expense	49,268	84,400	133,668
Depreciation Expense	885	688	1,573
Amortization Expense	-	757	757
Taxes Other Than Income	7,286	(847)	6,439
Total Operating Expenses:	57,439	84,998	142,437
Net Operating Income (Loss)	\$ (57,439)	\$ 5,053	\$ (52,386)

Exhibit 5: Capital Structure

Regency Utilities, Inc.
 Staff Assisted Rate Case
 As of September 30, 2011
 Dkt 110282-WS ACN 11-304-1-1
 Capital Structure

Description	Balance per Utility for the 12 months ended September 30, 2011	Audit Adjustments	Balance per Audit for the 12 months ended September 30, 2011	Ratio	Cost Rate	Weighted Cost
Common Equity	\$ 627,318	\$ (451,539)	\$ 175,779	97.02%	11.16%	10.83%
Customer Deposits (1)	\$ 5,400	\$ -	\$ 5,400	2.98%	6.00%	0.18%
Total Capital	\$ 632,718	\$ (451,539)	\$ 181,179	100.00%		11.01%

As per order PSC-11-0287-PAA-WS, issued July 5, 2011:

Leverage Formula: $\text{Return on Common Equity} = 7.13\% + 1.610/\text{Equity Ratio}$
 Where $\text{Equity Ratio} = \text{Common Equity} / (\text{Common Equity} + \text{Preferred Equity} + \text{Long-term and Short-term Debt})$
 Range: 8.74% @ 100% equity to 11.16 @ 40% equity

(1). Note: See Audit Finding 10

The adjustment for common equity is for the reconciliation of the common equity total to the water and wastewater rate base balances.