

MEMORANDUM

July 19, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 960523-WS --(MEADOWS UTILITY COMPANY) J & J W & S CORP.
STAFF-ASSISTED RATE CASE AUDIT REPORT - PERIOD ENDED APRIL 30, 1996
AUDIT CONTROL NO. 96-162-3-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Meadows Utility Company
Richard W. Bowring
10374 North Natchez Loop
Dunnellon, FL 34423-3741

DNV/sp
Attachment

cc: Chairman Clark
Commissioner Deason
Commissioner Johnson
Commissioner Kiesling
Commissioner Garcia
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Casey)
Orlando District Office (Forbes)


Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE
07687 JUL 22 1996
FPSC-RECORDS/REPORTING

Florida Public Service Commission
Audit Report
For the Period Ending April 30, 1996
Field Work Completed
June 17, 1996


J & J W & S CORP.
(Meadows Utility Company, Inc.)
Dunnellon, Florida,
Citrus County

Staff-Assisted Rate Case Audit
Docket Number 960523-WS
Audit Control Number 96-162-3-1


Charleston J. Winston
Audit Manager

Audit Staff
Elbert Phillips

Minority Opinion
Yes ___ No EP


Ian J. Forbes
Regulatory Analyst Supervisor
Orlando District Office

DOCUMENT NUMBER-DATE
07687 JUL 22 86
FPSC-RECORDS/REPORTING

I N D E X

	Page
I. Executive Summary	
Audit Purpose	1
Scope Limitation	1
Disclaim Public Use	1
Opinion	1
Summary Findings	1
II. Audit Scope	
Rate Base	2
Net Operating Income	3
Cost of Capital	4
Other	4
III. Audit Exceptions	
1. Company's Books and Records	5
2. Tariffs	7
3. Salaries/Payroll Taxes	9
4. Property Taxes	11
5. O & M Expenses	14
6. Regulatory Assessment Fees	16
IV. Audit Disclosures	
1. Rate Bases at December 31, 1995	17
2. Insurance Expense	20
3. Bad Debt Expense	21
4. Projected Plant Additions	22
V. Exhibits	
1. Water Rate Base	23
2. Wastewater Rate Base	24
3. Water Net Operating Income	25
4. Wastewater Net Operating Income	26
5. Cost of Capital	27

I. Executive Summary

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to prepare the attached exhibits of Rate Base, Net Operating Income and Capital Structure for the twelve-month period ending April 30, 1996, in support of the Staff-Assisted Rate Case Docket Number 960523-WS. Also, the Company's books and records were examined to determine compliance with Commission directives and to disclose any transactions or events that may influence Commission decision.

SCOPE LIMITATION: The last day of field work was June 17, 1996. There are no confidential workpapers associated with this audit.

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

OPINION: The exhibits of Rate Base, Net Operating Income, and Capital Structure for the twelve-month period ending April 30, 1996, represent Meadows Utility Company, Inc.'s books and records that are not maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of the report.

SUMMARY FINDINGS:

Exceptions:

1. The Company's books and records were not maintained in compliance with NARUC or Commission's Rules.
2. Reduce revenues \$6,426 for noncompliance with Commission's tariffs.
3. Increase salary expenses for annualization \$3,126 for both Water and Wastewater. Correspondingly, increase payroll taxes \$433 for both Water and Wastewater.

4. Increase real estate taxes for annualization \$222.46 and \$257.19 for Water and Wastewater, respectively. Correspondingly, increase tangible taxes \$941.54 and \$2,060.27 for Water and Wastewater, respectively.
5. Increase Operation and Maintenance Expenses for annualization \$3,156.87 and \$3,408.94 for Water and Wastewater, respectively.
6. The Company has failed to pay its Regulatory Assessment Fees for 1994 and 1995.

Disclosures:

1. Established Rate Base for Water and Wastewater at December 31, 1995.
2. Record insurance expense to provide liability coverage for \$1,250 each to Water and Wastewater.
3. Record bad debt expense of \$204 for both Water and Wastewater if customer deposits are not allowed in the tariffs.
4. The Company projected plant additions of \$125,977 for Water and \$350,255 for Wastewater.

II. Audit Scope

The opinions contained in this report are based on the audit work described below.

RATE BASE

Established Rate Base as of April 30, 1996.

UTILITY PLANT-IN-SERVICE: Reconciled plant-in-service to the prior order. Determined and scheduled plant additions from May 1, 1982 to April 30 1996. Tested 100% of the plant additions for proper amount, classification, period, support documentation, whether non-utility related, unreasonable and imprudent. Toured plant facilities. Obtained estimates of future plant additions from the Company.

LAND: Reviewed the Company's records for any new plant additions since the prior order. Obtained the Company's Warranty Deed for the Land.

ACCUMULATED DEPRECIATION: Reviewed prior orders and workpapers to establish proper beginning amounts. Calculated and scheduled accumulated depreciation from May 1, 1982 to April 30, 1996.

CIAC (CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION) AND AMORTIZATION: Reviewed prior orders and workpapers to establish proper beginning amounts. Calculated and scheduled CIAC Amortization from May 1, 1982 to April 30, 1996. Reviewed the Company's records for CIAC addition.

WORKING CAPITAL ALLOWANCE: Calculated Working Capital Allowance using the 1/8 of Operation and Maintenance Expenses method.

NET OPERATING INCOME

REVENUES: Scheduled revenues for the test year ended April 30, 1996. Recomputed a sample of customer charges using approved tariffs.

OPERATIONS AND MAINTENANCE EXPENSES: Determined the Company's expenses for the twelve-month period ending April 30, 1996. Tested 100% of the Company's expenses for proper amount, classification, period, support documentation, whether non-utility related, non-recurring, unreasonable and imprudent. Annualized expenses for the test period. Obtained support documentation for pro forma expenses.

TAXES OTHER THAN INCOME: Determined the Company's taxes other than income for the twelve-month period ending April 30, 1996. Tested 100% of the Company's taxes other than income for the proper period, proper discount, amount and classification.

COST OF CAPITAL

Traced debt components to the debt agreements to determine the proper rates and amounts for the test period.

OTHER

TAX RETURNS: The Company's tax returns were reviewed from 1992 to 1995 for items pertinent to this audit.

AUDIT EXCEPTION NUMBER 1 *

SUBJECT: COMPANY'S BOOKS AND RECORDS

FACTS: Per NARUC, National Association of Regulatory Utility Commissioners, Accounting Instructions Number 2,

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

The present owners of the Company acquired it on November 15, 1995.

Prior to the present owners acquiring the Company the records were virtually nonexistent. Only partial records could be located for the period April 30, 1982 through April 30, 1996. There are no formal books or records, e.g., general ledgers, continuing property records, billing records, etc., for this Company.

OPINION AND RECOMMENDATION: Due to incomplete and missing records the audit staff established Rate Base, Net Operating Income and Cost of Capital, at April 30, 1996 and December 31, 1995, from the Company's invoices and checks that could be located. See Audit Disclosure Number 1 for Rate Bases at December 31, 1995.

Plant-in-Service

	<u>@ 4/30/96</u>	<u>@12/31/95</u>
Water -	\$ 72,262	\$ 72,262
Wastewater -	161,519	161,519
	Land	
Water -	2,739	2,739
Wastewater -	3,539	3,539

Audit Exception No. 1 cont'd.

Accumulated Depreciation and Expense

Water - Accumulated Depreciation -	25,674	24,691
Water - Depreciation Expense -	2,951	N/A
Wastewater - Accumulated Depreciation -	59,576	56,450
Wastewater - Depreciation Expense -	9,379	N/A

CIAC

Water -	39,656	39,656
Wastewater -	101,980	101,980

Accumulated CIAC Amortization and Expense

Water - Accumulated Amortization -	14,506	13,967
Water - Amortization Expense -	1,618	N/A
Wastewater - Accumulated Amortization -	39,069	37,090
Wastewater - Amortization Expense -	5,925	N/A

Working Capital Allowance

Water -	2,033	N/A
Wastewater -	2,806	N/A

Capital Structure

Water and Wastewater -	37,227	N/A
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The Commission should require the Company to establish formal books of records and maintain them in accordance with NARUC and Commission's Rules.

AUDIT EXCEPTION NUMBER 2

SUBJECT: TARIFFS

FACTS: Per Commission Rule 25-30.135,

No utility may modify or revise its rules or regulations of rates and charges until the utility files and receives approval from the Commission for any such modification or revision.

The Company used a flat rate of \$34 for water and wastewater service. The total annual revenue was \$20,400. This rate was used by the previous owner before the acquisition by Meadows Utility Company in December 1995.

The approved tariff, Docket #810482-WS, is as follows:

Water	<u>BFC</u>	<u>GALLONAGE CHARGE</u>
	\$5.27	\$.46 per 1,000 gals
Wastewater	\$2.50	\$1.00 per 1,000 (max. 10,000)

OPINION/RECOMMENDATION: The Company is in violation of the above Commission Rule. The audit staff recommends that the Commission require the Company to comply with its current approved tariffs for water and wastewater.

The staff also recommends the following adjustments as listed below:

Total Revenue (per Audit)	\$13,974
Total revenue (per Company)	<u>\$20,400</u>
Total Adjustment	(\$6,426)

The allocation of the adjustment between water and wastewater is (\$2,975) and (\$3,451), respectively. For further analysis, see attached schedule.

AUDIT EXCEPTION NO. 2 - SCHEDULE A

TEST PERIOD	REVENUE PER COMPANY	AUDITED REVENUE WATER	AUDITED REVENUE WWATER	ADJUST. WATER	ADJUST. WWATER
May 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
June 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
July 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
Aug. 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
Sept. 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
Oct. 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
Nov. 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
Dec. 1995	1,700.00	539.50	625.00	(247.94)	(287.56)
Jan. 1996	1,700.00	539.50	625.00	(247.94)	(287.56)
Feb. 1996	1,700.00	539.50	625.00	(247.94)	(287.56)
Mar. 1996	1,700.00	539.50	625.00	(247.94)	(287.56)
Apr. 1996	1,700.00	539.50	625.00	(247.94)	(287.56)
	<u>20,400.00</u> *	<u>6,474.00</u> (1)	<u>7,500.00</u> (1)	<u>(2,975.28)</u> (2)	<u>(3,450.72)</u> (2)

* The company uses a flat rate for water and sewer of \$34.

(1) The revenues were calculated using the most recent approved tariffs.

WATER		WASTEWATER	
12,000	Avg. flow	10,000	Avg. flow(max. 10K gals)
x .00046		x 1.00	
5.52		10.00	
+ 5.27	BFC	+ 2.50	BFC
10.79		12.50	
x 50	# customers	x 50	# customers
539.50		625.00	

(2) The percentage allocated to water and wastewater respectively is 46.3% and 53.7%.
 (Water - 6,474/13,974, Wastewater - 7,500/13,974)

AUDIT EXCEPTION NUMBER 3

SUBJECT: SALARIES/PAYROLL TAXES

FACTS: The Company recorded the following amounts for salaries for the test year ended April 30, 1996:

	(For a five-month period)	
	<u>WATER</u>	<u>WASTEWATER</u>
Salaries	\$2,232.50	\$2,232.50

The Company did not have any payroll records from May 1, 1995 through November 30, 1995, of the test year.

The Company recorded the following amounts for payroll taxes for the test year ended April 30, 1996:

	(For a five-month period)	
	<u>WATER</u>	<u>WASTEWATER</u>
Payroll Taxes	\$309.14	\$309.14

OPINION/RECOMMENDATION: The audit staff recommends the following adjustments to Company's salaries and payroll taxes as listed below:

	<u>WATER</u>	<u>WASTEWATER</u>
Salaries (per audit)	\$5,358	\$5,358
Salaries (per Company)	<u>\$2,232</u>	<u>\$2,232</u>
Total Adjustment	\$3,126	\$3,126

Payroll Taxes (per audit)	\$742	\$742
Payroll Taxes (per Company)	<u>\$309</u>	<u>\$309</u>
Total Adjustment	\$433	\$433

See attached Schedules A and B for further analysis.

AUDIT EXCEPTION NO. 3-SCHEDULE A

WATER

Position	Actual Gross Salary	Gross Proforma Salary	Difference	FICA Taxes @7.65%	SUTA Taxes @5.4%	FUTA Taxes @.8%	Total Taxes
Office Manager	732.50	1,758.00	1,025.50	78.45	55.38	8.20	142.03
President/Utility Manager	1,500.00	3,600.00	2,100.00	160.65	113.40	16.80	290.85
Total:	2,232.50	5,358.00	3,125.50	239.10	168.78	25.00	432.88

AUDIT EXCEPTION NO. 3-SCHEDULE B

WASTEWATER

Position	Actual Gross Salary	Gross Proforma Salary	Difference	FICA Taxes @7.65%	SUTA Taxes @5.4%	FUTA Taxes @.8%	Total Taxes
Office Manager	732.50	1,758.00	1,025.50	78.45	55.38	8.20	142.03
President/Utility Manager	1,500.00	3,600.00	2,100.00	160.65	113.40	16.80	290.85
Total:	2,232.50	5,358.00	3,125.50	239.10	168.78	25.00	432.88

AUDIT EXCEPTION NUMBER 4

SUBJECT: PROPERTY TAXES

FACTS: The Company recorded the following amounts for property taxes for the test year ended April 30, 1996:

	(For a five-month period)	
	<u>WATER</u>	<u>WASTEWATER</u>
Real Estate	\$52.38	\$52.38
Tangible	\$0.00	\$0.00

The Company did not have any property tax records from the previous owner for the tax year 1995.

Per NARUC, National Association of Regulatory Utility Commissioners, Accounting Instructions 2.A.,

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.

OPINION/RECOMMENDATION: The Company is in violation of the above rule. The audit staff recommends that the Commission should require the Company to maintain its books per NARUC.

Audit Exception No. 4 cont'd.

The audit staff would also recommend the following adjustments listed below:

Real Estate - Personal Property Taxes:

	<u>WATER</u>	<u>WASTEWATER</u>
Amount per Company	\$52.38	\$52.38
Amount per Audit	<u>\$274.84</u>	<u>\$309.81</u>
Adjustment	\$222.46	\$257.43

Real Estate - Tangible Taxes:

	<u>WATER</u>	<u>WASTEWATER</u>
Amount per Company	\$0.00	\$0.00
Amount per Audit	<u>\$941.54</u>	<u>\$2,060.27</u>
Adjustment	\$941.54	\$2,060.27

For further analysis, see attached schedule.

AUDIT EXCEPTION NUMBER 4 - SCHEDULE

Real Estate Tax:

<u>Property Tax Liability</u>		<u>Total # of Acres</u>		<u>Tax Liability Per Acre</u>
3,970.24		15.89		249.85

<u>Total Acres Water</u>	X	<u>Tax Liability Per Acre</u>	=	<u>Allocated Tax Liability</u>
1.10		249.85		274.84

<u>Total Acres Wastewater</u>	X	<u>Tax Liability Per Acre</u>	=	<u>Allocated Tax Liability</u>
1.24		249.85		309.81

<u>(2) Plant Per Audit Water</u>	X	<u>(1) Tax Rate</u>		<u>Tax Liability Per Audit</u>
46,588.00		20.21		941.54

Real Estate:
Tangible

<u>(2) Plant Per Audit W/Water</u>	X	<u>(1) Tax Rate</u>		<u>Tax Liability Per Audit</u>
101,943.00		20.21		2,060.27

(1) Tax rate used per Citrus Co. Tax Collector's Office. Rate shown is per thousands.

(2) Plant values are net of depreciation. (Water = 72,262-25,674 Wastewater 161,519-59,576)

AUDIT EXCEPTION NUMBER 5

SUBJECT: O & M EXPENSES

FACTS: The Company has recorded the following amounts for the test year ended April 30, 1996:

	(For a five-month period)	
	<u>WATER</u>	<u>WASTEWATER</u>
Purchased Power	\$450.23	\$680.29
Rents	\$229.15	\$229.15
Transportation	\$1,365.00	\$1,365.00
	(For a six-month period)	
Miscellaneous	\$294.71	\$224.71

Company did not have complete records from the previous owner for the entire test year period.

OPINION/RECOMMENDATION: In order to annualize the expenses the audit staff recommends the following increases as listed below:

	<u>WATER</u>	<u>WASTEWATER</u>
Purchased Power	\$630.35	\$952.42
Rents	\$320.81	\$320.81
Transportation	\$1,911.00	\$1,911.00
Miscellaneous	<u>\$294.71</u>	<u>\$224.71</u>
Total Adjust.	\$3,156.87	\$3,408.94

For further analysis, see attached schedule.

AUDIT EXCEPTION NUMBER 5 - SCHEDULE

DESCRIPTION	WATER PER COMPANY	WWATER PER COMPANY
Purchased Power	450.23 *	680.29 *
Rents	229.15 *	229.15 *
Transportation	1,365.00 *	1,365.00 *
Miscellaneous	294.71 **	224.71 **
	<u>2,339.09</u>	<u>2,499.15</u>

WATER AVERAGE MONTHLY AMOUNT	REMAINING PORTION OF TEST YEAR	AUDIT ADJUSTMENT
90.05	7MONTHS	630.35
45.83	7MONTHS	320.81
273.00	7MONTHS	1,911.00
49.12	6 MONTHS	294.71
		<u>3,156.87</u>

WWATER AVERAGE MONTHLY AMOUNT	REMAINING PORTION OF TEST YEAR	AUDIT ADJUSTMENT
136.06	7MONTHS	952.42
45.83	7MONTHS	320.81
273.00	7MONTHS	1,911.00
37.45	6 MONTHS	224.71
		<u>3,408.94</u>

* Company amounts are for a five month period.
 ** Company amounts are for a six month period.

AUDIT EXCEPTION NUMBER 6

SUBJECT: REGULATORY ASSESSMENT FEES

FACTS: The Company is not current in its Regulatory Assessment Fees. The last known payment was for 1993 revenues, \$381.32 and \$381.12 for Water and Wastewater, respectively. Per Commission Rule 25-30.120(1),

. . . each utility shall remit a fee based upon its gross operating revenue. This fee shall be referred to as a regulatory assessment fee. . . . beginning January 1, 1991 each utility shall pay a regulatory assessment fee in the amount of four and one-half percent for the entire year.

OPINION AND RECOMMENDATION: Based on the Company's revenues, see Audit Exception Number 2, its Regulatory Assessment Fees would have been \$425 and \$493 for 1994 and 1995 as shown below:

	Water	Wastewater	Total
Revenues:	\$ 9,449	\$ 10,951	\$ 20,400
Fee Rate:	4.5%	4.5%	4.5%
	-----	-----	-----
Amount:	\$ 425	493	\$ 918
	=====	=====	=====

The above \$425 and \$493 amounts are included in Exhibits III and IV.

The audit staff defers to the Tallahassee Analyst to determine the appropriate Regulatory Assessment Fees to be included for this rate proceeding.

AUDIT DISCLOSURE NUMBER 1

SUBJECT: RATE BASES AT DECEMBER 31, 1995

FACTS: Meadows Utility Company, Inc. originally requested a Certificate of Transfer at December 31, 1995, and was assigned Docket Number 951026-WS. Subsequently, the Company requested a Staff-Assisted Rate Case (SARC) and was assigned Docket Number 960523-WS. Docket Number 951026-WS was canceled; however, Rate Base at December 31, 1995 was still requested to be established.

OPINION AND RECOMMENDATION: Schedules A and B on the following pages are Rate Bases for water and wastewater at December 31, 1995, as determined by the audit staff.

DISCLOSURE NUMBER 1 - SCHEDULE A

WATER

DESCRIPTION	BALANCE PER BOOKS @ 12/31/95	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 12/31/95
UTILITY PLANT IN SERVICE	70,500	1,762	E-1	72,262
LAND/NON DEPRECIABLE ASSETS	0	2,739	E-1	2,739
PLANT HELD FOR FUTURE USE	0	0		0
C. I. A. C.	0	(39,656)	E-1	(39,656)
C. W. I. P.	0	0		0
ACCUMULATED DEPRECIATION	(49,663)	24,972	E-1	(24,691)
AMORTIZATION - C. I. A. C.	0	13,967	E-1	13,967
WORKING CAPITAL (1)	0	0		0
TOTALS	\$20,837	\$3,784		\$24,621

FOOTNOTES:

1. Working Capital will be considered at 4/30/96
2. Audit adjustments do not include audit disclosures.

DISCLOSURE NUMBER 1 - SCHEDULE B

WASTERWATER

DESCRIPTION	BALANCE PER BOOKS @ 12/31/95	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 12/31/95
UTILITY PLANT IN SERVICE	70,501	91,018	E-1	161,519
LAND/NON DEPRECIABLE ASSETS	0	3,539	E-1	3,539
PLANT HELD FOR FUTURE USE	0	0		0
C. I. A. C.	0	(101,980)	E-1	(101,980)
C. W. I. P.	0	0		0
ACCUMULATED DEPRECIATION	(49,665)	(6,785)	E-1	(56,450)
AMORTIZATION - C. I. A. C.	0	37,090	E-1	37,090
WORKING CAPITAL (1)	0	0		0
TOTALS	\$20,836	\$22,882		\$43,718

FOOTNOTES:

1. Working Capital will be considered at 4/30/96
2. Audit adjustments do not include audit disclosures.

AUDIT DISCLOSURE NUMBER 2

SUBJECT: INSURANCE EXPENSE

FACTS: The Company did not record any liability insurance expense for the test period ended April 30, 1996.

The Company has received various quotes on future annual premiums ranging from \$2,500 to \$7,500.

OPINION/RECOMMENDATION: The quote for \$2,500 includes general liability for both water and wastewater facilities. The allocation between water and wastewater is divided evenly. The audit staff recommends an adjustment to water and wastewater of \$1,250 each.

AUDIT DISCLOSURE NUMBER 3

SUBJECT: BAD DEBT EXPENSE

FACTS: The most current approved tariff sheets do not allow a customer deposit to be charged.

The Company has made allowances of \$17 per month for bad debt expense for water and wastewater, respectively.

OPINION/RECOMMENDATION: Since the approved tariffs do not allow a deposit to be imposed on water and wastewater customers, the audit staff recommends that an allowance be made for the bad debt risk that the Company is exposed to. The audit staff further recommends that bad debt expense be in the amount \$204 ($\17×12 months = \$204) for water and wastewater, respectively.

However, if a deposit charge is included in the new tariffs then the audit staff recommends to the Commission that no allowance be made for any bad debt expense for water and wastewater.

AUDIT DISCLOSURE NUMBER 4

SUBJECT: PROJECTED PLANT ADDITIONS

FACTS: The Company submitted the following items that are estimates for future plant additions:

WATER

<u>Item</u>	<u>Amount</u>
1. Water Distribution System	\$ 63,776
2. Water Plant Improvements	24,445

	88,221
3. Bonds @ 2%	1,764
4. Contingency @ 10%	8,822
5. Engineering and Construction	16,470
6. Surveys Water System	2,100
7. Water Plant Design and Permitting	8,600

Total Water:	\$ 125,977
	=====

WASTEWATER

8. Wastewater Collection System	\$ 97,647
9. Wastewater Plant improvements	158,500
10. Effluent Disposal System Improvements	40,000

	296,147
11. Bonds @ 2%	5,923
12. Contingency @ 10%	29,615
13. Engineering and Construction	16,470
14. Surveys Wastewater System	2,100

Total Wastewater:	\$ 350,255
	=====

OPINION AND RECOMMENDATION: The estimates submitted by the Company should be reviewed by Commission's engineering staff.

If approved, the above amounts should be included in Plant-in-Service.

MEADOWS UTILITIES, INC
 STAFF-ASSISTED RATE CASE
 RATE BASE BALANCES - WATER
 TEST YEAR ENDED 4/30/96

EXHIBIT I

DESCRIPTION	BALANCE	AUDIT	Refer to	BALANCE	AVERAGE
	PER BOOKS			PER AUDIT	BALANCE
	@ 4/30/96	EXCEPTIONS		@ 4/30/96	@ 4/30/96
UTILITY PLANT IN SERVICE	70,500	1,762	E-1	72,262	72,262
LAND/NON DEPRECIABLE ASSETS	0	2,739	E-1	2,739	2,739
PLANT HELD FOR FUTURE USE	0	0		0	0
C. I. A. C.	0	(39,656)	E-1	(39,656)	(39,656)
C. W. I. P.	0	0		0	0
ACCUMULATED DEPRECIATION	(49,663)	23,989	E-1	(25,674)	(24,199)
AMORTIZATION - C. I. A. C.	0	14,506	E-1	14,506	13,697
WORKING CAPITAL (1)	0	2,033	E-1	2,033	2,033
TOTALS	\$20,837	\$5,373		\$26,210	\$26,876

FOOTNOTES:

1. 1/8 of Operation and Maintenance Expenses
2. Audit adjustments do not include audit disclosures.

MEADOWS UTILITIES, INC
 STAFF-ASSISTED RATE CASE
 NET OPERATING INCOME - WATER
 TEST YEAR ENDED 4/30/96

EXHIBIT III

DESCRIPTION	BALANCE PER BOOKS @ 4/30/96	AUDIT EXCEPTIONS	Refer To:	BALANCE PER AUDIT @ 4/30/96
OPERATING REVENUES	9,449	(2,975)	E-2	6,474
OPERATING EXPENSES:				
O & M EXPENSE	9,979	6,283	(4)	16,262
DEPRECIATION EXPENSE	0	2,951	E-1	2,951
TAXES OTHER THAN INCOME	361	2,022	(3)	2,383
INCOME TAX EXPENSE (1)	0	0		0
AMORTIZATION EXPENSE - CIAC	0	1,618	E-1	1,618
NET OPERATING PROFIT (LOSS)	(\$891)	(\$12,613)		(\$13,504)

FOOTNOTES:

- (1) - Sub-Chapter S Corporation
- (2) - Audit Adjustments do not include Audit Disclosures.
- (3) - See Audit Exceptions 3, 4, and 6
- (4) - See Audit Exceptions 3 and 5

MEADOWS UTILITIES, INC
 STAFF-ASSISTED RATE CASE
 NET OPERATING INCOME - WASTEWATER
 TEST YEAR ENDED 4/30/96

EXHIBIT IV

DESCRIPTION	BALANCE PER BOOKS @ 4/30/96	AUDIT EXCEPTIONS	Refer To:	BALANCE PER AUDIT @ 4/30/96
OPERATING REVENUES	10,951	(3,451)	E-2	7,500
OPERATING EXPENSES:				
O & M EXPENSE	15,909	6,535	(4)	22,444
DEPRECIATION EXPENSE	0	9,379	E-1	9,379
TAXES OTHER THAN INCOME	361	3,244	(3)	3,605
INCOME TAX EXPENSE (1)	0	0		0
AMORTIZATION EXPENSE - CIAC	0	5,925	E-1	5,925
NET OPERATING PROFIT (LOSS)	(55,319)	(516,584)		(522,003)

FOOTNOTES:

- (1) - Sub-Chapter S Corporation
- (2) - Audit Adjustments do not include Audit Disclosures.
- (3) - See Audit Exceptions 3, 4 and 6
- (4) - See Audit Exceptions 3 and 5

MEADOWS UTILITIES, INC
 STAFF-ASSISTED RATE CASE
 CAPITAL STRUCTURE - WATER AND WASTEWATER
 TEST YEAR ENDED 4/30/96

EXHIBIT V

DESCRIPTION	PER BOOKS @ 04/30/96	AUDIT EXCEPTIONS	Refer to:	PER AUDIT @ 04/30/96	RATIO	COST RATE	WEIGHTED AVERAGE COST OF CAPITAL
Retained Earnings	0	(2,313)	E-1	(2,313)	-6.21%	11.88%	-0.74%
Notes Payable	0	7,008	E-1	7,008	18.82%	10.00%	1.88%
Notes Payable	0	22,303	E-1	22,303	59.91%	10.00%	5.99%
Notes Payable	0	944	E-1	944	2.33%	10.00%	0.23%
Notes Payable	0	480	E-1	480	1.29%	10.00%	0.13%
Notes Payable	0	1,922	E-1	1,922	5.10%	10.00%	0.51%
Notes Payable	0	1,948	E-1	1,948	5.23%	10.00%	0.52%
Notes Payable	0	4,933	E-1	4,933	13.20%	10.00%	1.32%
Customer Deposits	0	0	E-1	0	0.00%	6.00%	0.00%
TOTALS	0	37,227		37,227	100.00%		9.89%

FOOTNOTES:

COST RATE BASED ON FPSC ORDER PSC-96-0729-FOF-WS ISSUED 5/31/96

Return on Common Equity = 9.05% + 1.131/40% = 11.88%

Equity Ratio = $\frac{-2313}{(-2313+7008+22303+944+480+1922+1948+4933)}$ = -6.21% Minimum allowed is 9.40%