

FLORIDA PUBLIC SERVICE COMMISSION

Audit Report

December 31, 1995

Field Work Completed

September 20, 1996

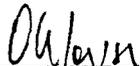
LAKE UTILITY SERVICES, INC.

Lake County Florida

Rate Case Audit

Docket Number 960444-WU

Audit Control Number 96-225-3-1



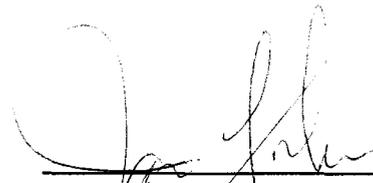
Orrett L. Douse
Audit Manager

Audit Staff

Charleston J. Winston
Elbert E. Phillips

Minority Opinion

Yes ___ No EP
Yes ___ No EP



Ian J. Forbes
Regulatory Analyst Supervisor
Orlando District Office

DOCUMENT NUMBER-DATE

10821 OCT-96

FPSC-RECORDS/REPORTING

I N D E X

	<u>Page</u>
I. Executive Summary	
Audit Purpose	1
Disclaim Public Use	1
Opinion	1
Summary Findings	1
II. Audit Scope	
Rate Base	4
Net Operating Income	4
Operation and Maintenance Expenses	5
Taxes Other Than Income	5
Cost of Capital	6
Other	6
III. Audit Exceptions	
1. Company's Books and Records	7
2. Land	9
3. Utility Plant-in-Service	10
4. Accumulated Depreciation/Depreciation Expense	12
5. Real Estate Taxes	14
6. Nonutility Insurance Premiums	16
7. Payroll Taxes	18
8. Refundable Security Deposit	20
9. Operation & Maintenance Expense.	21
10. Allowance for Funds Prudently Invested	22
11. Customer Deposit	23
12. CIAC/Amortization of CIAC	24
V. Exhibits	
1. Rate Base-1995	26
2. Net Operating Income-1995	27
3. Requested Cost of Capital-1995	28

I. Executive Summary

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to the appended exhibits as filed by Lake Utility Services, Inc. to support the Rate Case Docket Number 960444-WU for the twelve-month period ending December 31, 1995. 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.

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: Subject to the procedures described in Section II, the company's books and records for the twelve months ended December 31, 1995, have not been maintained in substantial compliance with Commission directives.

SUMMARY FINDINGS:

1. Utility plant-in-service is overstated by \$104,814 due to misclassifications and unsupported additions.
2. The utility failed to record land for all of its water treatment plants. Utility land should be increased by \$357.
3. The MFRs understated accumulated depreciation at December 31, 1994, by \$53,176. Depreciation expense for the twelve months ended December 31, 1995, is overstated by \$14,265.
4. The company recorded real estate tax for nonutility land, thereby requiring a reduction in real estate tax of \$1,481 for the twelve months ended December 31, 1995.
5. Operations and maintenance expense should be reduced by \$741 for officers' life insurance policy and \$275 for a refundable security deposit for electricity.

6. Taxes other than income (payroll taxes) should be reduced by \$1,532 due to the utility's failure to capitalize taxes associated with capitalized salaries.
7. The company recorded \$751 in unsupported operations and maintenance expenses for the twelve months ended December 31, 1995.
8. Revenues should be reduced by \$32,912 for the misclassification of AFPI.
9. In the MFRs a cost rate of eight percent was used for customer deposits. In the company's billing registers the interest paid on customer deposits was six percent. The rate used in the MFRs should be reduced to six percent.
10. Increase CIAC for \$188,478 due to improper recording. Increase advances for construction for \$405,520 due to improper recording. Increase CIAC accumulated amortization for \$8,673 and decrease CIAC amortization expense for \$6,258 due to the above adjustment.

II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report, the following definition shall apply.

COMPILED - means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and except as noted, performed no other audit work.

RATE BASE

UTILITY PLANT-IN-SERVICE: Compiled the company's plant-in-service. Reconciled plant-in-service to prior orders. Recalculated the company's schedules of plant additions from 1976 to December 31, 1995. Sampled actual amounts for \$1,510,815 of water plant additions. Samples were tested for proper amount, classification, period, support documentation, whether nonutility-related, nonrecurring, unreasonable and imprudent. Toured plant facilities with the utility engineer.

LAND: Obtained supporting documentation for all utility land to determine the original cost.

ACCUMULATED DEPRECIATION: Reviewed prior orders and workpapers to establish proper beginning amounts. Scheduled and calculated accumulated depreciation from 1976 to December 31, 1994, using a 2.5 percent depreciation rate. For the twelve months ended December 31, 1995, depreciation rates are per Rule 25-30.140, F.A.C.

CIAC (CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION) AND AMORTIZATION: Reviewed prior orders and workpapers to establish proper beginning amounts. Recalculated and scheduled CIAC Amortization. Reviewed the company's CIAC ledgers and developer/purchase agreements for CIAC additions.

WORKING CAPITAL ALLOWANCE: Recomputed Working Capital Allowance using the 1/8 of Operation and Maintenance Expenses method for 1995.

NET OPERATING INCOME

REVENUES: Recalculated revenues for the twelve months ended December 31, 1995. Reviewed and recomputed a sample of customer charges using approved tariffs.

OPERATIONS AND MAINTENANCE EXPENSES:

- 1) Compiled and determined that operation and maintenance expenses are classified in compliance with Commission Rules and the Uniform System of Accounts.
- 2) Determined that disbursements are only for authorized expenditures incurred and are properly recorded in the correct account and dollar amount.
- 3) Determined that allocated costs are consistent with prior periods, and that the basis and methodology are reasonable.
- 4) Determined that the filed exhibits of historical data agree to the company's books.
- 5) Determined the existence of related party transactions, and that they appear prudent and competitive with nonaffiliated transactions.
- 6) Judgmentally sampled 62% of O & M Expenses for the twelve months ended December 31, 1995. Items were tested for the proper period, amount classification, support documentation and whether nonutility-related, nonrecurring, unreasonable or imprudent.

TAXES OTHER THAN INCOME: Compiled taxes other than income. Judgmentally sampled approximately 53% of taxes other than income for the twelve months ended December 31, 1995. Items were tested for the proper period, amount classification, support documentation and whether nonutility-related, nonrecurring, unreasonable or imprudent.

COST OF CAPITAL

Traced debt components to the debt agreements to determine the proper rates and amounts for the twelve months ended December 31, 1995. Reviewed customer deposits for the proper amount received and returned.

OTHER

OUTSIDE AUDITORS' REPORT: The company's external auditors' report for 1995 was reviewed for items pertinent to this rate proceeding.

BOARD OF DIRECTORS' MINUTES: The company's Board of Directors' Minutes were reviewed for items pertinent to this audit from 1984 to May 1996.

TAX RETURNS: The company's tax returns were reviewed for 1994 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 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.

Per Commission Rule 25-30.450,

The work sheets, etc. supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time.

OPINION AND RECOMMENDATION: Lake Utility Services, Inc.'s books and records are in violation of the above NARUC and Commission Rule. The books, records, and MFRs of the company did not enable Commission personnel to verify the schedules in an expedient manner and with the minimum amount of time. The following specific items were found to be in violation of the above rules:

1. Accumulated depreciation at December 31, 1994, Schedule A-9 of the MFRs, is not in agreement with the general ledger.
2. Some plant-in-service are not supported by proper documentation, invoices, cancelled checks, etc.
3. The company is not properly recording its CIAC and advances for construction. There are no ledgers for advances other than the developer/purchase agreements. See Audit Exception Number 12.

AUDIT EXCEPTION NUMBER 1 (cont'd.)

4. Revenues were misstated in the MFRs due to misclassifications. See Audit Exception Number 10.

The Commission should require the company to maintain its books and records per NARUC and Commission Rules.

AUDIT EXCEPTION NUMBER 2

SUBJECT: LAND

FACTS: The company's MFRs indicate an amount of \$3,730 for land and land rights. The utility recorded land for only one of its twelve water treatment plants.

Accounting Instruction No. 13a,

All amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service.

OPINION/RECOMMENDATION: Field audit staff has determined that the correct amount to be recorded to land and land rights should be \$4,087. (See attached schedule.) Staff has determined the amount of land for each of the twelve water treatment plants.

Staff recommends that the land be increased by \$357.

AUDIT EXCEPTION NUMBER 2 SCHEDULE

SYSTEM NAME	O.R. BOOK/PAGE # [A]	LAND PER AUDIT	LAND PER MFRs	AUDIT ADJUS	COMMENTS
AMBER HILL	892/1981	100.00			Doc. Stamps 1986 \$.50
CLERMONT I	624/1925	257.50			See Note [B]
CLERMONT II	758/1736	100.00			Doc. Stamps 1982 - \$. 45
CRESCENT BAY	987/2442	100.00			Doc. Stamps 1986 - \$. 55
CRESCENT BAY	1233/1372	100.00			Doc. Stamps 1993 - \$. 70. Easement
CRESCENT WEST	1342/2420	100.00			Purchased in 1989, Recorded in 1995
LK. CRESCENT HILLS	1164/0371	100.00			Doc. Stamps 1992 - \$. 60
HIGHLAND POINT	906/1289	1,000.00			Doc. Stamps 1986 - \$5.00
FOUR LAKES	867/1350	100.00			Doc. Stamps 1986 - \$. 50
LAKE RIDGE CLUB	1082/2042	100.00			Doc. Stamps 1990 - \$. 55
LAKE SAUNDERS	352/903	929.44			
THE ORANGES	916/1489	1,000.00			Doc. Stamps 1987 - \$5.00
THE VISTAS	1423/893	100.00			Doc. Stamps 1995 - \$. 70
TOTAL LAND		4,086.94	3,730.00	356.94	

AUDIT EXCEPTION NUMBER 3

SUBJECT: UTILITY PLANT-IN-SERVICE

FACTS: The company's filing indicates an amount of \$1,979,991 for utility plant-in-service.

OPINION AND RECOMMENDATION: Some of the above plant were misclassified and some lacked support. The following adjustment is recommended:

Plant-in-Service:

<u>Per Audit</u> <u>12/31/95</u>	<u>Per MFR</u> <u>12/31/95</u>	<u>Audit</u> <u>Adjustment</u>
\$1,875,777	\$1,979,991	(\$104,814)

See attached Schedule A for a breakdown of the \$104,814.

Included in the recommended adjustment amount of \$104,814 is an amount of \$57,369. The utility incurred these charges in successfully defending its certificated territory from the City of Clermont in 1992. The utility had incorrectly capitalized these charges as organization costs.

Field audit staff recommends that the \$57,369 be treated as a nonrecurring expense and be amortized over five years.

See attached Schedule B for breakdown of \$57,369.

UTILITY PLANT IN SERVICE - ADJUSTMENTS

AUDIT EXCEPTION NUMBER 3 SCHEDULE A

Acct. No.	DESCRIPTION	UPIS PER AUDIT	UPIS PER MFR's	AUDIT ADJUSTMENT
301	ORGANIZATION	16,558	96,200	(79,642)
304	STRUCTURES & IMPROVE	45,014	345,916	(300,902)
307	WELLS & SPRINGS	179,043	13,934	165,109
311	PUMPING EQUIPMENT	110,957	19,912	91,045
320	WATER TREAT. EQUIP.	101,674	75,381	26,293
330	DISTRIBUTION RESERV.	79,017	108,993	(29,976)
331	TRANS. & DISTRIB. MAINS	1,153,588	1,240,526	(86,938)
333	SERVICES	97,482	20,597	76,885
334	METERS & METER INSTA.	23,273	0	23,273
335	HYDRANTS	32,933	22,894	10,039
343	TOOLS/SHOP/GARAGE	7,075	7,075	0
344	LABORATORY EQUIPMENT	261	261	0
346	COMMUNICATION EQUIP.	2,000	2,000	0
347	MISC. PLANT(COMP. ALLO)	4,188	4,188	0
348	OTHER PLNT (WSC R/B)	22,114	22,114	0
TOTAL		1,875,177	1,979,991	(104,814)

AUDIT EXCEPTION NUMBER 3 SCHEDULE B

The Utility recorded the following charges as Organization Costs. These costs were incurred by the Utility defending its certificated territory from The City of Clermont.

10/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	2,554.47
09/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	5,828.72
08/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	85.00
07/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	8,339.30
06/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	966.01
05/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	101.14
04/92	MGMT. & REGULAT. CON.	LUSI vs CLERMONT	5,788.04
02/92	BEN E. GIRTMAN	LUSI vs CLERMONT	2,950.21
03/92	BEN E. GIRTMAN	LUSI vs CLERMONT	8,251.69
04/92	BEN E. GIRTMAN	LUSI vs CLERMONT	3,072.23
05/92	BEN E. GIRTMAN	LUSI vs CLERMONT	3,011.56
07/92	BEN E. GIRTMAN	LUSI vs CLERMONT	1,527.99
08/92	BEN E. GIRTMAN	LUSI vs CLERMONT	4,609.28
09/92	BEN E. GIRTMAN	LUSI vs CLERMONT	5,631.36
10/92	BEN E. GIRTMAN	LUSI vs CLERMONT	1,878.22
11/92	BEN E. GIRTMAN	LUSI vs CLERMONT	157.57
06/92	BEN E. GIRTMAN	LUSI vs CLERMONT	2,615.82
%% AUDIT ADJUSTMENT REQUIRED		1992 SAMPLE TOTAL	57,368.61

AUDIT EXCEPTION NUMBER 4

SUBJECT: ACCUMULATED DEPRECIATION/DEPRECIATION EXPENSE

FACTS: The company's filing included \$157,183 for accumulated depreciation at December 31, 1995, and \$64,177 for depreciation expense for the twelve months ended December 31, 1995.

OPINION AND RECOMMENDATION: Field audit staff calculated accumulated depreciation at December 31, 1995, to be \$209,413. Depreciation expense for the test was calculated to be \$49,912.

The following adjustments are recommended:

	<u>Per Audit</u> <u>12/31/95</u>	<u>Per MFR</u> <u>12/31/95</u>	<u>Audit</u> <u>Adjustment</u>
Accumulated depreciation	\$209,413	\$157,183	\$52,230
Depreciation expense	\$ 49,912	\$ 64,177	(\$14,765)

For a breakdown of the above amounts refer to attached schedule.

AUDIT EXCEPTION NUMBER 4 SCHEDULE

Acct. No.	DESCRIPTION	DEPR. RATE	UPIS @ 12/31/94	ADD	RETIRE	UPIS @ 12/31/95	DEPR. EXP. PER AUDIT	DEPR. EXP. PER MFR's	AUDIT ADJUSTMENT
301	ORGANIZATION	2.50%	16,558.23			16,558.23	413.96	2,982.00	(2,568.04)
304	STRUCTURES & IMPROV	3.03%	42,380.46	2,633.31		45,013.77	1,324.02	5,630.00	(4,305.98)
307	WELLS & SPRINGS	3.33%	155,822.14	27,720.69	(4,500.00)	179,042.83	3,400.43	0.00	3,400.43
311	PUMPING EQUIPMENT	5.00%	93,562.21	21,656.39	(4,262.00)	110,956.60	3,088.52	3,195.00	(106.48)
320	WTR. TREAT. EQUIP	10.00%	98,164.00	5,236.21	(2,140.00)	101,260.21	9,008.21	2,248.00	6,760.21
330	DISTRIBUTION RESER.	2.86%	73,804.41	9,055.28	(309.00)	82,550.69	2,085.80	2,316.00	(230.20)
331	TRANS. & DISTRIB. MAIN	2.32%	1,138,515.18	15,073.18	(3,120.00)	1,150,468.36	25,028.40	38,961.00	(13,932.60)
333	SERVICES	2.50%	78,055.52	19,426.76		97,482.28	2,194.22	2,872.00	(677.78)
334	METERS & METER INSTA	5.00%	18,654.00	7,314.28	(2,695.77)	23,272.51	(232.33)	629.00	(861.33)
335	HYDRANTS	2.22%	31,861.15	1,072.33		32,933.48	719.22	710.00	9.22
340	OFFICE FURNITURE	6.67%	0.00			0.00	0.00	517.00	(517.00)
341	TRANSPORTATION	16.67%	0.00			0.00	0.00	2,310.00	(2,310.00)
343	TOOLS/SHOP/GARAGE	6.25%	5,742.14	1,332.75		7,074.89	400.53	564.00	(163.47)
344	LABORATORY EQUIP.	6.67%	0.00	261.45		261.45	8.72	0.00	8.72
346	COMMUNICATION EQUIP	10.00%	2,000.00			2,000.00	200.00	194.00	6.00
347	MISC. PLANT	6.67%	4,188.00			4,188.00	279.34	1,049.00	(769.66)
348	OTHER TANG. PLANT	10.00%	17,752.00	4,362.00		22,114.00	1,993.30	0.00	1,993.30
DEPR. EXPENSE - 1995			1,777,059.44	115,144.63	(17,026.77)	1,875,177.30	49,912.34	64,177.00	(14,264.66)

PLANT ADDITIONS AND RETIREMENTS ARE SUBJECT TO HALF (1/2) YEAR CONVENTION
 DEPRECIATION RATES ARE PER RULE 25-30.140 F.A.C.

AUDIT EXCEPTION NUMBER 5

SUBJECT: REAL ESTATE TAXES

FACTS: The utility recorded \$1,481 for real estate taxes for the twelve months ended December 31, 1995.

The tax bill submitted by the company did not match the legal description of the property on file with the Lake County Tax Collector's office.

OPINION/RECOMMENDATION: The company did not provide any further evidence to substantiate the entry made in its books for the property taxes. Staff recommends that the Commission reduce Taxes Other than Income by \$1,481 to remove the entry made on its books.

AUDIT EXCEPTION NUMBER 6

SUBJECT: NONUTILITY INSURANCE PREMIUMS

FACTS: The company recorded \$7,651 as insurance expense for the twelve months ended December 31, 1995.

The company purchased life insurance policies for various employees and officers of the company. The beneficiary on the policies is the utility itself.

The company purchased fiduciary liability insurance policies for its directors and pension fund.

Per NARUC, Class A, Account Number 426,

This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are: . . .

7. Life insurance on officers and employees where utility is beneficiary . . .

OPINION/RECOMMENDATION: The liability policies were purchased to protect the utility and present no clear benefit to the ratepayers. Since the beneficiaries of the life insurance policies is the utility, then the cost of the premiums should have recorded to the account referenced above.

The staff recommends to the Commission that Water Operations & Maintenance be reduced by \$741. See attached schedule for details.

AUDIT EXCEPTION NO. 6

<u>POLICY TYPE</u>	<u>AMOUNT* EXPENSED 1995</u>	x	<u>ALLOCATED % TO UTILITY</u>	<u>PROPOSED ADJUSTMENT</u>
DIRECTOR'S LIABILTY	37,756.00		1.21%	456.09
PENSION FIDUCIARY LIABILTY	4,320.00		1.21%	52.19
LIFE - KEY EMPLOYEES	<u>19,305.00</u>		1.21%	<u>233.20</u>
	<u>61,381.00</u>			<u>741.48</u>

* Amounts represent the premiums paid by the parent company.

AUDIT EXCEPTION NUMBER 7

SUBJECT: PAYROLL TAXES

FACTS: The company records indicate that \$8,988 was recorded for payroll taxes for the twelve months ended December 31, 1995.

OPINION/RECOMMENDATION: The company also capitalized a portion of salaries to plant; however, the associated payroll taxes were not. The audit staff recommends to the Commission that payroll taxes be reduced by \$1,532.

See schedule for analysis of the above adjustment.

AUDIT EXCEPTION NO. 7

	TOTAL PAYROLL TAX PER AUDIT	TOTAL PAYROLL TAX PER COMPANY	DIFFERENCE
FL OPERATORS	7,630.80	7,512.00	118.80
FL OFFICE - SUPPORT	512.83	503.00	9.83
PARENT ALLOCATION	973.00	973.00	0.00
	<u>9,116.63</u>	<u>8,988.00</u>	<u>128.63</u>

	CAPITALIZED SALARIES PER AUDIT		SALARIES PER AUDIT	=	% DIFFERENCE	X	PAYROLL TAXES PER AUDIT	CAPITALIZED PAYROLL TAXES PER AUDIT
FL OPERATORS	(18,955.00)	/	87,067.00	=	-21.77%	X	7,630.80	(1,661.27)

	ADJUSTMENTS
CALCULATION DIFFERENCE	128.63
CAPITALIZED TAXES	(1,661.27)
TOTAL ADJUSTMENT	<u>(1,532.64)</u>

AUDIT EXCEPTION NUMBER 8

SUBJECT: MISCLASSIFIED O & M EXPENSE

FACTS: The utility recorded \$275 as purchased power expense for the twelve months ended December 31, 1995.

The \$275 charge was for a refundable security deposit for electrical service.

OPINION/RECOMMENDATION: The item is not an expense and will be returned to the utility at some point in the future. The staff recommends to the Commission that operation and maintenance expense be reduced by \$275 to remove the deposit.

AUDIT EXCEPTION NUMBER 9

SUBJECT: UNSUPPORTED O & M EXPENSES

FACTS: The company recorded \$705 in purchased power expense and \$46 in materials and supplies expense for the twelve months ended December 31, 1995.

OPINION/RECOMMENDATION: The company recorded various entries on its books without any supporting documentation. The company did not provide any additional evidence to support the entries. The audit staff recommends to the Commission that operations and maintenance expense be reduced by the following:

<u>Invoice #</u>	<u>Amount</u>
JE029	\$115.62
JE0130	417.39
JE0128	172.12
7336	<u>46.00</u>
Total Adj.	\$751.13

AUDIT EXCEPTION NUMBER 10

SUBJECT: AFPI

FACTS: The company included \$32,912 in its MFRs as a portion of the miscellaneous revenues. A breakdown of the above amount by system is shown below:

<u>System Number</u>	<u>System Name</u>	<u>Amount</u>
0661	Crescent Bay	\$ 1,839
0666	Preston Cove	12,800
0667	South Clermont Region	18,273

	Total:	<u>\$ 32,912</u>

OPINION AND RECOMMENDATION: The above amounts are for AFPI, Allowance for Funds Prudently Invested; therefore, they should not be recorded in revenues for ratemaking purposes. However, they are used to determined Regulatory Assessment Fees.

The company's miscellaneous revenues for the year ended 1995 should be reduced by \$32,912.

AUDIT EXCEPTION NUMBER 11

SUBJECT: DEPOSIT INTEREST

FACTS: Per the MFRs Cost of Capital Schedule a cost rate of eight percent was used for customer deposits.

In the company's billing registers the interest paid on customer deposits was six percent.

OPINION AND RECOMMENDATION: The customer deposits' rate used in the MFRs should be reduced to six percent.

AUDIT EXCEPTION NUMBER 12

SUBJECT: CIAC AND ADVANCES

FACTS: The company's MFRs included the following amounts for 1995:

CIAC	\$ 1,058,113
CIAC Accumulated Amortization	\$ 126,729
CIAC Expense	34,599
Advances	-0-

The company used a composite amortization rate of 3.1%.

OPINION AND RECOMMENDATION: Due to various recording errors, misclassifications, and unrecorded advances made by developers, the audit staff is recommending the following adjustments to the above amounts:

	<u>Per Audit</u> <u>12/31/95</u>	<u>Per MFR</u> <u>12/31/95</u>	<u>Audit</u> <u>Adjustment</u>
CIAC	\$ 1,246,591	\$ 1,058,113	\$ 188,478
CIAC Acc. Amtz.	135,402	126,729	8,673
CIAC Expense	28,341	34,599	(6,258)
Advances	405,520	-0-	405,520

For a breakdown of the above amounts refer to the attached schedule.

The audit staff used a composite amortization rate of 2.7% for 1995 and 2.5% for all other years.

Included in the above advances amount is \$35,000 that was misclassified as miscellaneous revenues in the MFRs. The above adjustments reclassified this amount to advances.

However, miscellaneous revenues should be reduced by \$35,000 and Regulatory Assessment Fees reduced by \$1,575 (35,000 x 4.5%). The company should file a Notice of Regulatory Assessment Fee Adjustment form with the Commission.

AUDIT EXCEPTION NUMBER 12 SCHEDULE

System & Number	CIAC Per Audit 1994	CIAC Per Audit 1995	CIAC Average Balance	CIAC Expense Per Audit 1995	Advances Per Audit 1994	Advances Per Audit 1995	Advances Average Balance	Acc Amtz Per Audit 1994	Acc Amtz Per Audit 1995	Acc Amtz Average Balance
Clermont #0628	71,663	75,013	73,338	1,980	5,320	3,520	4,420	34,266	36,246	35,256
Amber Hill #0631	78,641	79,586	79,114	2,136				16,336	18,472	17,404
Highland Point #0632	61,150	61,850	61,500	1,661	11,850	11,750	11,800	12,251	13,911	13,081
The Oranges #0633	36,350	37,850	37,100	1,002	16,850	15,950	16,400	3,674	4,676	4,175
Lake Ridge Club #0634	16,250	22,350	19,300	521	65,200	61,600	63,400	704	1,225	965
The Vistas #0636	27,150	36,900	32,025	865		35,000	17,500	831	1,695	1,263
Crescent Bay #0661	53,515	58,115	55,815	1,507	125,350	121,050	123,200	5,190	6,697	5,944
Crescent West #0662	90,920	94,420	92,670	2,502				11,066	13,568	12,317
Four Lakes #0663	26,770	14,390	20,580	556				10,953	11,509	11,231
Lake Saunders #0664	50,213	50,913	50,563	1,365				6,712	8,077	7,395
Crescent Hills #0665	23,750	27,600	25,675	693				943	1,636	1,290
Preston Cove #0666	23,081	70,551	46,816	1,264	15,369		7,685	295	1,559	927
South Clermont #0667	293,260	617,053	455,157	12,289	107,050	156,650	131,850	3,842	16,131	9,987
Total:	852,713	1,246,591	1,049,652	28,341	346,989	405,520	376,255	107,063	135,402	121,233
Per Company:	704,294	1,058,113	881,203	34,599	0	0	0	92,130	126,729	109,430
Difference:	148,419	188,478	168,449	(6,258)	346,989	405,520	376,255	14,933	8,673	11,803

Schedule of Water Rate Base

Florida Public Service Commission

EXHIBIT I

Company: Lake Utility Services, Inc.
 Docket No.: 960444-WU
 Schedule Year Ended: 12/31/95
 Interim Final
 Historic Projected

Schedule: A-1
 Page 1 of 1
 Preparer: MFK

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

Line No.	(1) Description	(2) Balance Per Books YE 12/31/95	(3) Utility Adjustments	(4) Adjusted Utility Balance YE 12/31/95	(5) Year End 12/31/94	(6) Test Year Average 12/31/95	(7) Supporting Schedule(s)
1	Utility Plant in Service	\$1,979,991	0	\$1,979,991	\$1,912,124	\$1,946,058	A-5
2	Utility Land & Land Rights	3,730	0	3,730	3,730	3,730	A-5
3	Less: Non-Used & Useful Plant	0	(49,361)	(49,361)	0	(49,361)	A-7
4	Construction Work in Progress	0	0	0	0	0	-
5	Less: Accumulated Depreciation	(157,183)	0	(157,183)	(106,325)	(131,754)	A-9
6	Less: CIAC	(1,058,113)	0	(1,058,113)	(704,294)	(881,203)	A-12
7	Accumulated Amortization of CIAC	126,729	0	126,729	92,130	109,430	A-14
8	Acquisition Adjustments	(70,169)	0	(70,169)	(70,169)	(70,169)	-
9	Accum. Amort. of Acq. Adjustments	8,182	0	8,182	6,007	7,095	-
10	Advances For Construction	0	0	0	0	0	A-16
11	Positive Accumulated Deferred Income Taxes	250,916	0	250,916	(17,833)	116,542	C-6
12	Working Capital Allowance	27,371	3,471	30,841	24,815	27,828	A-17
13	Total Rate Base	\$1,111,454	(\$45,890)	\$1,065,564	\$1,140,185	\$1,078,194	

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Lake Utility Services, Inc.
 Docket No.: 960444-WU
 Schedule Year Ended: 12/31/95
 Interim Final
 Historic Projected

Schedule: B-1
 Page 1 of 1
 Preparer: MFK

EXHIBIT II

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

Line No.	(1) Description	(2) Utility Test Year 12/31/95	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year 12/31/95	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	Supporting Schedule(s)
1	OPERATING REVENUES	\$339,294	(\$25,348)	\$313,946	\$133,236	\$447,182	B-3 & B-4
2	Operation & Maintenance	218,965	27,767	246,732	0	246,732	B-3 & B-5
3	Depreciation	64,177	(1,724)	62,453	0	62,453	B-3 & B-13
4	Acq. Adj. Amortization	(2,175)	0	(2,175)	0	(2,175)	
5	CIAC Amortization	(34,599)	0	(34,599)	0	(34,599)	B-3
6	Taxes Other Than Income	35,332	2,256	37,588	5,996	43,583	B-3 & B-15
7	Provision for Income Taxes	9,066	(7,645)	1,421	19,353	20,774	B-3 & C-1
8	OPERATING EXPENSES	290,766	20,653	311,419	25,348	336,768	
9	NET OPERATING INCOME	\$48,528	(\$46,001)	\$2,527	\$107,888	\$110,414	
13	RATE BASE	\$1,078,194		\$1,078,194		\$1,078,194	
14	RATE OF RETURN	4.50%		0.23%		10.24%	

Schedule of Requested Cost of Capital
Beginning and End of Year Average

Florida Public Service Commission

EXHIBIT III

Schedule: Utilities, Inc. (Parent Company)
Company: Lake Utility Services, Inc.
Docket No.: 960444-WU
Test Year Ended: 12/31/95
Schedule Year Ended: 12/31/95
Historic [X] Projected []

Schedule: D-1
Page 1 of 2
Preparer: MFK

Subsidiary [X] or Consolidated []

Simple average capital structure.

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

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base AYE 12/31/95	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	\$503,195	46.67%	9.19%	4.29%
2	Short-Term Debt	91,427	8.48%	9.12%	0.77%
3	Preferred Stock	0	0.00%	0.00%	0.00%
4	Customer Deposits	14,518	1.35%	8.00%	0.11%
5	Common Equity	469,055	43.50%	11.65%	5.07%
6	Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
7	Tax Credits - Wtd. Cost	0	0.00%	0.00%	0.00%
8	Accum. Deferred Income Taxes	0	0.00%	0.00%	0.00%
9	Other (Explain)	0	0.00%	0.00%	0.00%
10	Total	<u>\$1,078,194</u>	<u>100.00%</u>		<u>10.24%</u>

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

Note: Leverage Formula: $9.05 + (1.131 / 43.5\%)$

State of Florida

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

October 10, 1996

Mr. Don Rasmussen, Regional Director
Lake Utility Services, Inc.
200 Weathersfield Avenue
Altamonte Springs, Florida 32714-4027

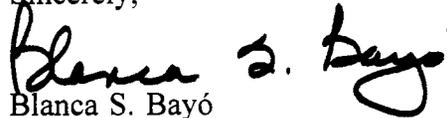
RE: Docket No. 960444-WU -- Lake Utility Services, Inc.
Rate Case Audit Report - Period Ended December 31, 1995
Audit Control # 96-225-3-1

Dear Mr. Rasmussen:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayo

BSB/cls
Enclosure
cc: Public Counsel
Hopping Law Firm