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37p

Public Service Commission

August 25, 1999

Mr. Brian Fannon
Water Oak Utilities Co., Inc.
31700 Middlebelt, #145
Farmington Hills, MI 48334

**Re: Docket No. 990243-WU; Water Oak Utilities Co., Inc.
Limited Proceeding - Potential Overearnings Audit Report
Period Ended December 31, 1998 - Audit Control No. 99-113-3-1**

Mr. Fannon:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

- AFA _____ DNV: sp
- APP _____
- CAF _____ cc: ✓
- CMU _____ Division of Records and Reporting
- CTR _____ Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
- EAG _____ Division of Water and Wastewater (Galloway)
- LEG _____ Orlando District Office (Winston)
- MAS _____ Division of Legal Services
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DOCUMENT NUMBER - DATE
10267 AUG 26 99
FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES*

Orlando District Office

WATER OAK UTILITIES, INCORPORATED

LIMITED PROCEEDING - POTENTIAL OVEREARNINGS

PERIOD ENDED DECEMBER 31, 1998

**DOCKET NO. 990243-WU
AUDIT CONTROL NO. 99-113-3-1**



Jeffery A. Small, Audit Manager



Charleston J. Winston, Audit Staff/District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	OPINION	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
1.	WATER UPIS AND ACCUMULATED DEPRECIATION OF WATER UPIS	4
2.	WASTEWATER UPIS AND ACCUMULATED DEPRECIATION OF WASTEWATER UPIS	7
3.	LAND AND LAND RIGHTS	10
4.	UPIS ACQUISITION ADJUSTMENT	12
5.	RESIDENTIAL UNBILLED REVENUES	13
6.	GENERAL SERVICE AND MODEL UNBILLED REVENUES	14
7.	WASTEWATER BILLING REVENUES	18
8.	OPERATIONS & MAINTENANCE EXPENSES - WATER	19
9.	OPERATIONS & MAINTENANCE EXPENSES - WASTEWATER	21
10.	TAXES OTHER THAN INCOME	23
III.	DISCLOSURES	
1.	PRO FORMA ADDITIONS TO WASTEWATER UPIS	24
2.	CONTRIBUTIONS-IN-AID-OF-CONTRIBUTIONS	25
3.	PRO FORMA OPERATIONS & MAINTENANCE EXPENSES	28
4.	RATE CASE EXPENSE	29
IV.	EXHIBITS	
1.	WATER RATE BASE	30
2.	WASTEWATER RATE BASE	31
3.	WATER NET OPERATING INCOME	32
4.	WASTEWATER NET OPERATING INCOME	33
5.	CAPITAL STRUCTURE	34

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

AUGUST 18, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 1998, for Water Oak Utilities, Inc. These schedules were prepared by audit staff as part of the utility's application for a Limited Proceeding in Docket No. 981198-WS. There is confidential information associated with this audit.

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

SUMMARY OF SIGNIFICANT FINDINGS

Water utility-plant-in-service (UPIS) and water accumulated depreciation of UPIS are overstated by \$86,530 and \$22,735, respectively.

Wastewater UPIS and wastewater accumulated depreciation of UPIS are understated by \$32,541 and \$19,164, respectively.

The utility recorded an unauthorized UPIS acquisition adjustment of \$496,526 and has amortized it for \$23,997. The utility's Commission-ordered acquisition adjustments of (\$282,678) and (\$305,692) for water and wastewater UPIS should be reversed and reexamined as required in prior Order No. 18255, issued on October 6, 1987.

Wastewater land and land rights are understated by \$89,920.

Unbilled residential revenues of \$30,785 for water and \$46,923 for wastewater were not recorded by the utility.

Unbilled general service and model revenues of \$24,698 for water and \$36,165 for wastewater were not recorded by the utility.

Revenues recorded in the utility's billing registers were \$4,297 more than the amount recorded in its general ledger.

Taxes other than income were understated \$7,464 for water and \$5,227 for wastewater.

Water operations and maintenance (O&M) expenses are understated by \$17,819. Working capital calculated on water O&M expenses is \$6,542.

Wastewater O&M expenses are understated by \$21,945. Working capital calculated on water O&M expenses is \$9,058.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining the utility's books and records since its last proceeding before the Commission, Docket No. PSC-97-0034-FOF-WS, which we believe are sufficient to base our opinion. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Assembled - Presented in Commission-required format financial information that was provided to audit staff and is the representation of utility management.

RATE BASE: Scanned and reconciled 100 percent of utility-provided documents used to compile water and wastewater account balances for utility-plant-in-service (UPIS), land and land rights, accumulated depreciation, and working capital for the period ended December 31, 1998.

NET OPERATING INCOME: Scanned and reconciled 100 percent of utility-provided documents used to compile water and wastewater account balances for utility revenues, operations and maintenance expenses, depreciation expenses, amortization expenses, and taxes other than income for the test period ended December 31, 1998. Recomputed an audit-determined sample of utility billing records to verify the existing rates, miscellaneous service charges, and service availability charges charged by the utility. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Verified support for taxes other than income.

CAPITAL STRUCTURE: Compiled the capital structure for the period ended December 31, 1998.

OTHER: Audited the utility's 1998 Regulatory Assessment Fee return filed with the Commission.

Audit Exception No. 1

Subject: Water Utility-Plant-In-Service (UPIS) and Accumulated Depreciation of UPIS

Statement of Facts: Utility records indicate balances of \$367,846 and (\$142,320) for water UPIS and accumulated depreciation of UPIS at period ended December 31, 1998.

Prior Order PSC-97-0034-FOF-WS issued January 7, 1997, reduced the utility's UPIS and accumulated depreciation of UPIS by \$13,189 and \$3,369 at period ended November 30, 1993.

Rule 25-30.115, F.A.C, requires utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts.

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

NARUC, Class C, Accounting Instruction 2., General - Records B., requires that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.

Opinion/Recommendation: The utility's water UPIS is overstated by \$86,530 because of the following auditor-determined errors and Commission Rule violations.

- 1) The utility did not record the prior Order adjustments of (\$13,189) and \$3,369 discussed above.
- 2) The utility misclassified \$44,100 of capital additions within its water UPIS accounts.
- 3) The utility misclassified \$58,489 of capital additions to water UPIS accounts that should have been recorded in wastewater UPIS accounts.
- 4) The utility misclassified \$1,275 of capital additions to wastewater UPIS accounts that should have been recorded in water UPIS accounts.
- 5) The utility misclassified \$33,031 of non-recurring expenses as capital additions to water UPIS.
- 6) The utility could not provide adequate support for \$13,265 of capital additions to water UPIS. Additionally, the utility did not record a retirement amount for two hydrophenumatic tanks that were replaced in 1998. Commission engineer's estimate of original cost is \$10,000. ($\$13,265 + \$10,000 = \$23,265$)
- 7) The utility provided adequate support for \$40,169 of capital additions that are not included in water UPIS.

Accordingly, the utility's water accumulated depreciation of UPIS is overstated by \$22,735 because of the effects of the auditor-determined errors and Commission Rule violations listed above.

See Schedules A and B on the following pages for details and sub-account balances.

Schedule A for Audit Exception No. 1

Acc.	Description	Per Company @12/31/98	Prior Order Adjustment	Reclassify within water UPIS	Reclassify to wastewater UPIS	Reclassify from wastewater UPIS	Reclassify as non-recurring expense	Unsupported additions to UPIS	Unrecorded additions to UPIS	Per Audit @12/31/98
301	Organization Cost	\$10,092	(\$8,742)							\$1,350
304	Structures & Improvements	4,457	(627)							3,830
307	Wells & Springs	41,407	(1,226)	(1,152)			(3,948)	(10,000)		25,081
309	Supply Mains	5,229	956	1,152				(4,390)		2,947
310	Power Generating Equipment	16,803	0							16,803
311	Pumping Equipment	38,560	(768)	(225)	(18,396)		(1,243)	(6,348)		11,580
320	Water Treatment Equipment	57,061	(5,009)		(34,564)					17,488
330	Distribution Reservoirs & Standpipes	0	0	42,723					38,430	81,153
331	Transmission & Distribution Mains	76,649	1,200	225	(5,529)	1,275	(6,637)	(1,052)		66,131
333	Services	0	0							0
334	Meters & Meter Installations	73,499	3,226	(22,723)			(21,203)		1,739	34,538
335	Hydrants	0	0							0
339	Other Plant & Miscellaneous	40,705	(1,643)	(20,000)				(1,475)		17,587
340	Office Furniture & Equipment	684	0							684
341	Transportation Equipment	800	(400)							400
343	Tools, Shop, and Garage Equipment	1,745	(1)							1,744
347	Miscellaneous Equipment	155	(155)							0
347	Other tangible plant	<u>0</u>	<u>0</u>							<u>0</u>
	Adjustments		(13,189)	0	(58,489)	1,275	(33,031)	(23,265)	40,169	
	Totals/Total Adjustment	\$367,846				(\$86,530)				\$281,316

Schedule B for Audit Exception No. 1

Acc.	Description	Per Company @12/31/98	Audit Adjustment	Per Audit @12/31/98
301	Organization Cost	\$0	(\$548)	(\$548)
304	Structures & Improvements	(1,980)	433	(1,547)
307	Wells & Springs	(27,324)	13,237	(14,087)
309	Supply Mains	(893)	258	(635)
310	Power Generating Equipment	(15,901)	5,296	(10,605)
311	Pumping Equipment	(10,286)	4,090	(6,196)
320	Water Treatment Equipment	(28,447)	10,959	(17,488)
330	Distribution Reservoirs & Standpipes	0	(1,230)	(1,230)
331	Transmission & Distribution Mains	(34,553)	16,588	(17,965)
333	Services	0	0	0
334	Meters & Meter Installations	(4,826)	924	(3,902)
335	Hydrants	0	0	0
339	Other Plant & Miscellaneous Equipment	(15,023)	6,012	(9,011)
340	Office Furniture & Equipment	(438)	(1)	(439)
341	Transportation Equipment	(800)	400	(400)
343	Tools, Shop, and Garage Equipment	(1,694)	426	(1,268)
347	Miscellaneous Equipment	(155)	155	0
348	Other Tangible Plant	0	0	0
	Composite Balance @ 12/31/87	<u>0</u>	<u>(34,264)</u>	<u>(34,264)</u>
		(\$142,320)	\$22,735	(\$119,585)

Audit Exception No. 2

Subject: Wastewater Utility-Plant-In-Service (UPIS) and Accumulated Depreciation of UPIS

Statement of Facts: Utility records indicate balances of \$352,266 and (\$256,165) for wastewater UPIS and accumulated depreciation of UPIS at period ended December 31, 1998.

Prior Order PSC-97-0034-FOF-WS reduced the utility's UPIS and accumulated depreciation of UPIS by \$21,748 and \$2,988 at period ended November 30, 1993.

Rule 25-30.115, F.A.C., requires utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts.

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

NARUC, Class C, Accounting Instruction 2., General - Records, B., requires that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.

Opinion/Recommendation: The utility's wastewater UPIS is understated by \$20,541 because of the following auditor-determined errors and Commission Rule violations.

- 1) The utility did not record the prior Order adjustments of (\$21,748) and \$2,988 discussed above.
- 2) The utility misclassified \$24,487 of capital additions within wastewater UPIS accounts.
- 3) The utility misclassified \$1,275 of capital additions to wastewater UPIS accounts that should have been recorded in water UPIS accounts.
- 4) The utility misclassified \$58,489 of capital additions to water UPIS accounts that should have been recorded in wastewater UPIS accounts.
- 5) The utility could not provide adequate support for \$2,925 of capital additions to wastewater UPIS. Additionally, the utility did not record a retirement amount for the equipment in Lift Station No. 1 that was replaced in 1995. Commission engineer's estimate of original cost is \$12,000. ($\$2,925 + \$12,000 = \$14,925$)

Accordingly, the utility's wastewater accumulated depreciation of UPIS is understated by (\$19,164) because of the effects of the auditor-determined errors and Commission Rule violations listed above.

See Schedules C and D on the following pages for details and sub-account balances.

Schedule C for Audit Exception No. 2

Acc.	Description	Per Company @12/31/98	Prior Order Adjustment	Reclassify within wastewater UPIS	Reclassify to water UPIS	Reclassify from water UPIS	Reclassify as non-recurring expense	Unsupported additions to UPIS	Unrecorded additions to UPIS	Per Audit @12/31/98
351	Organization Cost	\$9,342	(\$7,992)							\$1,350
354	Structures & Improvements	15,122	(3,971)							11,151
360	Collection Sewers - Forced	101,202	(568)	(1,051)				(12,000)		87,583
361	Collection Sewers - Gravity	61	(61)							0
362	Special Collecting Structures	3,578	0							3,578
363	Services to Customers	844	0							844
364	Flow Measuring Devices	65	0							65
365	Flow Measuring Installations	3,375	0	(3,375)						0
370	Receiving Wells	0	0	20,061		51,424				71,485
371	Pumping Equipment	16,998	(7,090)							9,908
380	Treatment & Disposal Equipment	126,735	(470)	3,375		7,065				136,705
381	Plant Sewers	0	0	1,051						1,051
382	Outfall Sewer Lines	451	(451)							0
389	Other Plant & Miscellaneous	70,656	(742)	(20,061)	(1,275)			(2,925)		45,653
390	Office Furniture & Equipment	684	0							684
391	Transportation Equipment	1,134	(400)							734
393	Tools, Shop, and Garage Equipment	1,745	0							1,745
394	Laboratory Equipment	274	0							274
397	Miscellaneous Equipment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Adjustments		(21,748)	0	(1,275)	58,489	0	(14,925)	0	
	Totals/Total Adjustment	\$352,266				\$20,541				\$372,808

Schedule D for Audit Exception No. 2

Acc.	Description	Per Company @12/31/98	Audit Adjustment	Per Audit @12/31/98
351	Organization Cost	\$0	(\$669)	(\$669)
354	Structures & Improvements	(8,865)	4,254	(4,611)
360	Collection Sewers - Forced	(64,963)	27,103	(37,860)
361	Collection Sewers - Gravity	(16)	16	0
362	Special Collecting Structures	(1,127)	34	(1,093)
363	Services to Customers	(216)	8	(208)
364	Flow Measuring Devices	(65)	0	(65)
365	Flow Measuring Installations	(337)	337	0
370	Receiving Wells	0	(5,952)	(5,952)
371	Pumping Equipment	(10,064)	4,158	(5,906)
380	Treatment & Disposal Equipment	(123,146)	31,475	(91,671)
381	Plant Sewers	0	(82)	(82)
382	Outfall Sewer Lines	(131)	131	0
389	Other Plant & Miscellaneous Equipment	(43,802)	11,432	(32,370)
390	Office Furniture & Equipment	(436)	(1)	(437)
391	Transportation Equipment	(1,134)	400	(734)
393	Tools, Shop, and Garage Equipment	(1,691)	428	(1,263)
394	Laboratory Equipment	(172)	(4)	(176)
397	Miscellaneous Equipment	0	0	0
	Composite balance @ 12/31/87	<u>0</u>	<u>(92,232)</u>	<u>(92,232)</u>
		(\$256,165)	(\$19,164)	(\$275,329)

Audit Exception No. 3

Subject: UPIS Acquisition Adjustments

Statement of Facts: Utility records indicate balances of \$496,755 and (\$120,526) for utility plant acquisition adjustments and accumulated amortization of plant adjustments, respectively, at period ended December 31, 1998.

Order No. PSC-97-0034-FOF-WS recognized corrected acquisition adjustments of (\$282,678) and (\$305,692) for water and wastewater UPIS along with equal amounts of projected UPIS. These acquisition adjustments and projected UPIS amounts were previously determined in Order No. 18255.

Order No. 18255 states the following:

We therefore accept and approve the proposed settlement offered by Water Oak. By approving this settlement we do not change our policy regarding acquisition adjustments. It is only due to the extraordinary circumstances of this case that we approve this acquisition adjustment. However, any change in the circumstances, as set forth herein, could have a drastic impact on this utility's rate base and rates. Therefore we hereby caution Water Oak that any change in circumstances will result in a full investigation into its rate base and CIAC policy.

Opinion/Recommendation: The utility did not record the acquisition adjustments and projected UPIS as required in Order No. PSC-97-0034-FOF-WS cited above.

The acquisition adjustment that the utility did record as cited above was determined as follows:

Purchase price in 1993	\$ 750,000
Plus FPSC transfer filing fee	3,000
Less Doc Stamps on transaction	(5,110)
Less net book value of water assets purchased as recorded in 1993 FPSC Annual Report	(99,573)
Less net book value of w/water assets purchased as recorded in 1993 FPSC Annual Report	<u>(151,562)</u>
Equals utility acquisition adjustment	\$ 496,755

The utility amortized its recorded acquisition adjustment at an average rate of 4.8 percent for years 1994-1998 totaling (\$120,526).

The Commission should require the utility to remove the acquisition adjustment of \$496,755 and associated amortization balance of (\$120,755) from its books and records because it was not approved by any proceeding before the Commission.

Audit Exception No. 3 continued,

The Commission should determine that the circumstances as set forth in Order No. 18255 cited above have significantly changed as described below and that the utility's rate base should be determined without the effect of an acquisition adjustment or projected UPIS.

Circumstantial Changes:

- 1) The utility's former owners and the original developer who were parties to the stipulated agreement are no longer involved in the operations of the utility or mobile home community.
- 2) The stipulated agreement as approved was based on a projected construction cost of \$1,075,565 for 2000 Equivalent Residential Connections (ERCs) at completion with \$345,592 of that cost allocated as gross utility investment. Audit staff has calculated a \$687,674 gross utility investment as of period ended December 31, 1998, for approximately 760 ERCs per the utility's 1998 FPSC Annual Report.
- 3) The stipulated agreement as approved was designed to protect the interest of Water Oaks customers in absence of the protection afforded by Rule 25-30.580, Guidelines for Designing Service Availability Policy, F.A.C. Audit staff feels that this situation no longer exists.

Because of the change in circumstances as presented above, the Commission should reverse its former decisions in Orders Nos. 18255 and PSC-97-0034-FOF-WS and eliminate the projected plant additions and acquisition adjustments established in Order No. PSC-97-0034-FOF-WS.

Audit Exception No. 4

Subject: Land and Land Rights

Statement of Facts: Exception No. 1 of audit staff's report for Docket No. 960040-WS included an adjustment that reduced the utility's balance for wastewater land by \$80 to the amount established by Order No. 18255.

Disclosure No. 1 of audit staff's report for Docket No. 960040-WS identified a 30-acre parcel of land that the utility uses as an effluent sprayfield in the wastewater treatment system.

Order No. PSC-97-0034-FOF-WS issued for the above-docketed proceeding inadvertently did not address the two issues stated above.

Opinion/Recommendation: Audit staff's adjustment in Exception No. 1 above removed an \$80 addition that was recorded on the former utility owner's books in 1988. The utility could not provide adequate documentation to support the addition.

Audit staff determined in Audit Disclosure No. 1 that the former developer purchased the land for \$90,000 and donated it to the utility by means of a Warranty Deed dated July 8, 1987, for use as a wastewater sprayfield.

The Commission should reexamine the two issues discussed above and require the utility to increase wastewater Account 303, Land by \$89,920 which is the net amount of removing \$80 of unsupported additions and adding \$90,000 for the 30-acre sprayfield.

Additionally, the Commission should require the utility to record \$90,000 in Account 271, Contributions-In-Aid-of-Construction - Donated Land to properly reflect that the land for the 30-acre sprayfield was donated to the utility.

Audit Exception No. 5

Subject: Residential Unbilled Revenues

Statement of Fact: The utility has two hundred customers that are not billed for water and wastewater usage as stated in its prospectus. A portion of its prospectus is quoted below:

Water is provided by Water Oak Estate's private well, and is included with the rental fee at this time.

Sewage disposal is provided by Water Oak Estate's private sewage treatment plant, and is included with the rental fee at this time.

In prior Order No. 16528 (page 1), issued August 27, 1986, the Commission addressed the charges for the above customers as stated below:

It should be noted that only future customers will be subject to the rates and charges determined herein; present customers are under long-term leases which include the provision of water and sewer service without compensation.

In prior Order No. PSC-94-0569-FOF-SU (page 1), issued May 13, 1994, the Commission addressed the issue of preexisting contracts as quoted below:

The Commission has been presented with this issue in the past and has taken the position that it does have the statutory authority to alter the provisions of preexisting contracts establishing rates and charges. Pursuant to Chapter 367, Florida Statutes, the Commission has exclusive jurisdiction to regulate the provision of water and wastewater service by utilities, which of course, includes the establishment of rates and charges.

Opinion/Recommendation: The above two hundred customers should be billed for their water and wastewater usage. The audit staff has calculated the amount of residential unbilled revenues based on their average monthly consumption to be \$30,785.29 for water and \$46,923.20 for wastewater.

The associated RAFs (regulatory assessment fees) for water are \$1,385.34 ($30,785.29 \times 4.5\%$).
The associated RAFs for wastewater are \$2,111.54 ($46,923.20 \times 4.5\%$).

The Commission should require the utility to increase its revenues and RAFs by the above amounts.

Due to time constraint, the audit staff could not determine prior years' residential unbilled revenues and the associated RAFs. The Commission should open a separate docket to determine the additional amounts.

Audit Exception No. 6

Subject: General Service and Model Unbilled Revenues

Statement of Fact: The company that owns the utility also owns the development. There are 14 general service customers inside the development that are not billed.

Whenever the development connects a model to the utility system for advertisement, it is not billed for utility services.

Opinion/Recommendation: The general service customers and the models should be billed for the usage of utility services. Their revenues should be included for rate making purposes. Based on the average gallons used reported in the utility's billing registers, the audit staff has determined a reasonable estimate of the increase in revenues below:

Item	Water	Wastewater	
General Services	\$23,930.60	\$35,651.37	See Schedules E and F on p. 15.
Models	<u>767.13</u>	<u>513.54</u>	See Schedules G and H on pp. 16 and 17.
Total	<u>\$24,697.73</u>	<u>\$36,164.91</u>	

The associated RAFs (regulatory assessment fees) for water are \$1,111.40 (24,697.73 x 4.5%). The associated RAFs for wastewater are \$1,627.42 (36,164.91 x 4.5%).

The Commission should require the utility to increase revenues and RAFs by the above amounts.

Schedule E for Audit Exception No. 6

Water									
Lot #	Avg Use Gallons Monthly	Rate	Avg Monthly Amount	Times Unbilled Months	Yearly Amount	BFC	Time Unbilled Months	Yearly Amount	Total Unbilled Revenues
1 Front Entrance	1,113,273	\$0.51	\$567.77	12	\$6,813.23	\$31.89	12	\$382.68	\$7,195.91
2 Front Entrance	156,173	0.51	79.65	12	955.78	31.89	12	382.68	1,338.46
3 Pro Shop	58,807	0.51	29.99	12	359.90	102.08	12	1,224.96	1,584.86
4 Social Club	827,033	0.51	421.79	12	5,061.44	51.05	12	612.60	5,674.04
5 Main Club House	159,567	0.51	81.38	12	976.55	102.08	12	1,224.96	2,201.51
5 M. C. House Pool	45,373	0.51	23.14	12	277.68	102.08	12	1,224.96	1,502.64
7 W. O. Blvd Irr.	21,087	0.51	10.75	12	129.05	51.05	12	612.60	741.65
7 W. O. Blvd Irr.	97,560	0.51	49.76	12	597.07	51.05	12	612.60	1,209.67
9 Ball Field Irr.	44,080	0.51	22.48	12	269.77	51.05	12	612.60	882.37
10 Rehab	7,243	0.51	3.69	12	44.33	6.37	12	76.44	120.77
11 Office	7,277	0.51	3.71	12	44.54	6.37	12	76.44	120.98
12 Front Entrance Irr.	62,600	0.51	31.93	12	383.11	51.05	12	612.60	995.71
11 Backgate East Irr.	12,881	0.51	6.57	12	78.83	6.37	12	76.44	155.27
14 Backgate West Irr.	21,295	0.51	10.86	12	<u>130.33</u>	6.37	12	<u>76.44</u>	<u>206.77</u>
Total:					\$16,121.60			\$7,809.00	\$23,930.60

Schedule F for Audit Exception No. 6

Wastewater									
Lot #	Avg Use Monthly	Rate	Avg Monthly Amount	Times Unbilled Months	Yearly Amount	BFC	Times Unbilled Months	Yearly Amount	Total Unbilled Revenues
3 Pro Shop	58,807	\$2.50	\$147.02	12	\$1,764.21	\$122.40	12	\$1,468.80	\$3,233.01
4 Social Club	827,033	2.50	2,067.58	12	24,810.99	61.21	12	734.52	25,545.51
5 Main Club House	159,567	2.50	398.92	12	4,787.01	122.40	12	1,468.80	6,255.81
10 Rehab	7,243	2.50	18.11	12	217.29	7.56	12	90.72	308.01
11 Office	7,277	2.50	18.19	12	<u>218.31</u>	7.56	12	<u>90.72</u>	<u>309.03</u>
Total:					\$31,797.81			\$3,853.56	\$35,651.37

Schedule G for Audit Exception No. 6

Water						
Lot #	Date	Gallons Used	Rate	Amount Per 1000	BFC	Total Amount
2569	Nov 98	684	\$0.51	\$0.35	\$6.37	\$6.72
2569	Dec 98	1,210	0.51	0.62	6.37	6.99
2611	Nov 98	0	0.51	0.00	6.37	6.37
2611	Dec 98	1,330	0.51	0.68	6.37	7.05
2716	Oct 98	12,910	0.51	6.58	6.37	12.95
2733	Oct 98	6,987	0.51	3.56	6.37	9.93
2742	Sep 98	130,410	0.51	66.51	6.37	72.88
2770	Nov 98	10	0.51	0.01	6.37	6.38
2770	Dec 98	740	0.51	0.38	6.37	6.75
2771	Nov 98	60	0.51	0.03	6.37	6.40
2771	Dec 98	100	0.51	0.05	6.37	6.42
2788	Sep 98	72,390	0.51	36.92	6.37	43.29
2788	Oct 98	0	0.51	0.00	6.37	6.37
2790	Nov 98	13,030	0.51	6.65	6.37	13.02
2790	Dec 98	12,620	0.51	6.44	6.37	12.81
2801	Nov 98	0	0.51	0.00	6.37	6.37
2801	Dec 98	17,600	0.51	8.98	6.37	15.35
2824	Oct 98	69,720	0.51	35.56	6.37	41.93
2824	Nov 98	16,670	0.51	8.50	6.37	14.87
2824	Dec 98	17,880	0.51	9.12	6.37	15.49
2825	Sep 98	131,020	0.51	66.82	6.37	73.19
2825	Oct 98	19,960	0.51	10.18	6.37	16.55
2826	Sep 98	80,720	0.51	41.17	6.37	47.54
2826	Oct 98	10,680	0.51	5.45	6.37	11.82
2888	Sep 98	183,220	0.51	93.44	6.37	99.81
2888	Oct 98	29,570	0.51	15.08	6.37	21.45
2889	Sep 98	120,320	0.51	61.36	6.37	67.73
2889	Oct 98	3,890	0.51	1.98	6.37	8.35
2889	Nov 98	16,230	0.51	8.28	6.37	14.65
2889	Dec 98	16,910	0.51	8.62	6.37	14.99
2894	Sep 98	115,820	0.51	59.07	6.37	65.44
2896	Dec 98	1,800	0.51	<u>0.92</u>	6.37	<u>7.29</u>
Total:				\$563.29		\$767.13

Schedule H for Audit Exception No. 6

Wastewater						
Lot #	Date	Gallons Used	Rate	Amount Per 1000	BFC	Total Amount
2569	Nov 98	684	\$2.07	\$1.42	\$7.65	\$9.07
2569	Dec 98	1,210	2.07	2.50	7.65	10.15
2611	Nov 98	0	2.07	0.00	7.65	7.65
2611	Dec 98	1,330	2.07	2.75	7.65	10.40
2716	Oct 98	6,000	2.07	12.42	7.65	20.07
2733	Oct 98	6,000	2.07	12.42	7.65	20.07
2742	Sep 98	6,000	2.07	12.42	7.65	20.07
2770	Nov 98	10	2.07	0.02	7.65	7.67
2770	Dec 98	740	2.07	1.53	7.65	9.18
2771	Nov 98	60	2.07	0.12	7.65	7.77
2771	Dec 98	100	2.07	0.21	7.65	7.86
2788	Sep 98	6,000	2.07	12.42	7.65	20.07
2788	Oct 98	0	2.07	0.00	7.65	7.65
2790	Nov 98	6,000	2.07	12.42	7.65	20.07
2790	Dec 98	6,000	2.07	12.42	7.65	20.07
2801	Nov 98	0	2.07	0.00	7.65	7.65
2801	Dec 98	6,000	2.07	12.42	7.65	20.07
2824	Oct 98	6,000	2.07	12.42	7.65	20.07
2824	Nov 98	6,000	2.07	12.42	7.65	20.07
2824	Dec 98	6,000	2.07	12.42	7.65	20.07
2825	Sep 98	6,000	2.07	12.42	7.65	20.07
2825	Oct 98	6,000	2.07	12.42	7.65	20.07
2826	Sep 98	6,000	2.07	12.42	7.65	20.07
2826	Oct 98	6,000	2.07	12.42	7.65	20.07
2888	Sep 98	6,000	2.07	12.42	7.65	20.07
2888	Oct 98	6,000	2.07	12.42	7.65	20.07
2889	Sep 98	6,000	2.07	12.42	7.65	20.07
2889	Oct 98	3,890	2.07	8.05	7.65	15.70
2889	Nov 98	6,000	2.07	12.42	7.65	20.07
2889	Dec 98	6,000	2.07	12.42	7.65	20.07
2894	Sep 98	6,000	2.07	12.42	7.65	20.07
2896	Dec 98	1,800	2.07	<u>3.73</u>	7.65	<u>11.38</u>
Total:				\$268.74		\$513.54

Audit Exception No. 7

Subject: Wastewater Billing Register Revenues

Statement of Fact: The utility's general ledger and wastewater billing registers were not in agreement before adjustments. The amount of wastewater revenues recorded in the general ledger for 1998 was \$109,704.48. The amount of wastewater revenues recorded in the billing registers for 1998 was \$114,001.33 before adjustments. After adjustments were made to the billing registers, they were in agreement with the general ledger.

Opinion/Recommendation: Wastewater revenues recorded in the general ledger should be increased by \$4,296.85 to agree with the billing registers before adjustments. The utility personnel could not provide documentation for the adjustments that were made to the billing registers. See staff's calculated adjustments below.

Wastewater			
Month	Revenues per Billing Register before Adj.	Revenues per G/L	Recommended Adjustment
January	\$8,327.08	\$8,160.66	\$166.42
February	8,940.14	7,089.31	1,850.83
March	7,597.29	7,973.25	(375.96)
April	9,611.17	8,422.75	1,188.42
May	9,805.44	9,442.31	363.13
June	9,824.74	9,916.39	(91.65)
July	9,936.12	10,009.48	(73.36)
August	9,952.93	9,258.84	694.09
September	9,727.77	9,828.83	(101.06)
October	9,453.39	8,845.81	607.58
November	10,282.90	10,356.30	(73.40)
December	<u>10,542.36</u>	<u>10,400.55</u>	<u>141.81</u>
Totals	\$114,001.33	\$109,704.48	\$4,296.85

The associated RAFs (regulatory assessment fees) should be increased by \$193.36 (4,296.85 x 4.5%).

Audit Exception No. 8

Subject: Operations and Maintenance Expenses - Water

Statement of Facts: Utility records indicate balances of \$34,515 for water operations and maintenance (O&M) expenses at test period ended December 31, 1998.

Rule 25-30.115, F.A.C., requires utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts.

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

NARUC, Class C, Accounting Instruction 2. General - Records, B., requires that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.

Opinion/Recommendation: The utility's water O&M expenses are understated by \$17,818 because of the following auditor-determined errors and Commission Rule violations.

- 1) The utility misclassified \$4,961 of expenses within its water O&M accounts.
- 2) The utility misclassified \$10,658 of expenses to water O&M accounts that should have been recorded in wastewater O&M accounts.
- 3) The utility misclassified \$1,037 of expenses to water O&M accounts that should have been recorded in Account No. 408, Taxes Other Than Income.
- 4) The utility misclassified \$1,739 of expenses to water O&M accounts that should have been capitalized to Account No. 334, Meters & Meter Installations.
- 5) The utility classified \$5,415 of non-recurring expenses as O&M expenses inappropriately.
- 6) The utility provided adequate support for \$31,838 of expenses that are not included in water O&M.
- 7) The utility included \$6,001 of expenses in water O&M that were not adequately supported by company-provided documentation.

See Schedule I on the following page for details and sub-account balances.

Additionally, per Rule 25-30.433 (4), F.A.C., the utility's working capital balance for rate base purposes was calculated as one-eighth of the audit-determined O&M expenses which amounts to \$6,542 for water operations.

Schedule I for Audit Exception No. 8

Acc.	Description	Per Company @12/31/98	Reclassify within water O&M	Reclassify (to) from wastewater O&M	Reclassify (to) from Acc. No 408	Reclassify (to) from UPIS	Reclassify as non-recurring expense	Unrecorded additions to O&M	Unsupported to UPIS	Per Audit @12/31/98
601	Salaries & Wages - Employees	\$6,151		(\$1,389)				\$12,061		\$16,823
603	Salaries & Wages - Officers	0								0
604	Employee Pension & Benefits	0								0
610	Purchased Water	0								0
615	Purchased Power	12,292		(6,362)				16,986	(5,532)	17,384
616	Fuel for Power Production	0								0
618	Chemicals	2,603	(33)	(965)						1,605
620	Materials & Supplies	2,291	(108)						(360)	1,823
630	Contractual Services - Billing	11,117	(4,820)	(1,907)	(1,469)	(1,739)	(1,072)	2,791	(109)	2,791
631	Contractual Services - Professional	0	75							75
635	Contractual Services - Testing	0	960							960
636	Contractual Services - Other	0	3,902				6,487			10,388
640	Rents	0								0
650	Transportation Expenses	0								0
665	Regulatory Commission Expense	0								0
655	Insurance Expense	0			432					432
670	Bad Debt Expense	0								0
675	Miscellaneous Expense	<u>61</u>	<u>24</u>	<u>(34)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>51</u>
	Adjustments		0	(10,658)	(1,037)	(1,739)	5,415	31,838	(6,001)	
	Totals/Total Adjustment	\$34,514				\$17,818				\$52,333

Audit Exception No. 9

Subject: Operations and Maintenance Expenses - Wastewater

Statement of Facts: Utility records indicate balances of \$50,971 for wastewater operations and maintenance (O&M) expenses at test period ended December 31, 1998.

Rule 25-30.115, F.A.C., requires utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts.

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

NARUC, Class C, Accounting Instruction 2. General - Records, B., requires that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.

Opinion/Recommendation: The utility's wastewater O&M expenses are understated by \$21,945 because of the following auditor-determined errors and Commission Rule violations.

- 1) The utility misclassified \$15,787 of expenses within its wastewater O&M accounts.
- 2) The utility misclassified \$10,658 of expenses to wastewater O&M accounts that should have been recorded in water O&M accounts.
- 3) The utility misclassified \$908 of expenses to wastewater O&M accounts that should have been recorded in Account No. 408, Taxes Other Than Income.
- 4) The utility classified \$970 of non-recurring expenses as wastewater O&M expenses inappropriately.
- 6) The utility provided adequate support for \$16,223 of expenses that are not included in wastewater O&M.
- 7) The utility included \$3,510 of expenses in wastewater O&M that were not adequately supported by company-provided documentation.

See Schedule J on the following page for details and sub-account balances.

Additionally, per Rule 25-30.433 (4), F.A.C., the utility's working capital balance for rate base purposes was calculated as one-eighth of the audit-determined O&M expenses which amounts to \$9,058 for wastewater operations.

Schedule J for Audit Exception No. 9

Acc.	Description	Per Company @12/31/98	Reclassify within water O&M	Reclassify (to) from wastewater O&M	Reclassify (to) from Acc. No 408	Reclassify (to) from UPIS	Reclassify as non-recurring expense	Unrecorded additions to O&M	Unsupported to UPIS	Per Audit @12/31/98
701	Salaries & Wages - Employees	\$5,771		\$1,389				\$12,061		\$19,221
703	Salaries & Wages - Officers	0								0
704	Employee Pension & Benefits	0								0
710	Purchased Wastewater Treatment	0								0
711	Sludge Hauling	12,906	(840)							12,066
715	Purchased Power	13,016		6,362				1,371	(3,261)	17,488
716	Fuel for Power Production	0								0
718	Chemicals	613	178	965						1,755
720	Materials & Supplies	975	702	34					(133)	1,577
730	Contractual Services - Billing	17,498	(14,854)	942	(1,556)		(1,915)	2,791	(116)	2,791
731	Contractual Services - Professional	0	1,057	923						1,980
735	Contractual Services - Testing	0	6,404							6,404
736	Contractual Services - Other	0	7,447				946			8,393
740	Rents	0								0
750	Transportation Expenses	0								0
755	Insurance Expense	0			648					648
765	Regulatory Commission Expense	0								0
770	Bad Debt Expense	0								0
775	Miscellaneous Expense	<u>193</u>	<u>(93)</u>	<u>43</u>						<u>143</u>
	Adjustments		0	10,658	(908)	0	(970)	16,223	(3,510)	
	Totals/Total Adjustment	\$50,971				\$21,495				\$72,466

Audit Exception No. 10

Subject: Taxes Other Than Income

Statement of Fact: The utility recorded \$10,560 for water and \$12,759 for wastewater in taxes other than income 1998.

Opinion/Recommendation: The audit staff has determined that the following adjustments should be made to the utility's taxes other than income for 1998:

Item	Water Per Utility	Audit Amount	Recomm. Adj.	Wastewater per Utility	Audit Amount	Recomm. Adj.	See
Tangible Taxes	\$6,411.00	\$6,798.42	\$387.42	\$6,789.00	\$7,666.31	\$877.31	1
R/E Taxes	0.00	299.22	299.22	0.00	540.77	540.77	2
RAFTs	3,211.91	3,405.20	193.29	4,817.99	4,936.70	118.71	3
Payroll Taxes	412.00	1,533.00	1,121.00	597.00	1,717.00	1,120.00	4
Water Use Tax	0.00	5,863.33	5,863.33	0.00	0.00	0.00	5
FL Emerg Tax	0.00	12.50	12.50	0.00	12.50	12.50	6
Occ. License	0.00	112.50	112.50	0.00	112.50	112.50	7
DEP Permit	0.00	0.00	0.00	0.00	3,000.00	3,000.00	8
Work Comp.	<u>525.00</u>	<u>0.00</u>	<u>(525.00)</u>	<u>555.00</u>	<u>0.00</u>	<u>(555.00)</u>	9
Total:	\$ 10,559.91	\$ 18,024.17	\$7,464.26	\$12,758.99	\$17,985.78	\$5,226.79	

- 1) The utility recorded its tangible personal property on an accrual basis but never recorded the actual amount of \$14,464.73. Based on Lake County Property Appraiser Office's assessed value, this amount should be allocated 47 percent to water and 53 percent to wastewater as shown above.
- 2) The utility did not record any real estate taxes on its books.
- 3) The per utility amounts shown above are for 1997 but were recorded in 1998.
- 4) Some of the utility's employees payroll taxes, \$2,241, were not recorded. The amount was divided evenly between water and wastewater as shown above.
- 5) Water use taxes paid to the Town of Lady Lake were not recorded.
- 6) The Florida State Emergency Response Commission tax of \$25.00 was misclassified to O & M. See Audit Exceptions Nos. 8 and 9.
- 7) Lake County Occupational License tax of \$225.00 was not recorded.
- 8) The Department of Environmental Protection permit fee for wastewater was misclassified to O&M. See Audit Exceptions Nos. 8 and 9.
- 9) Workers' Compensation expenses of \$1,080 were misclassified to taxes other than income. See Audit Exceptions Nos. 8 and 9.

Audit Disclosure No. 1

Subject: Pro Forma Additions to Wastewater UPIS

Statement of Facts: On July 7, 1999, the utility received a Limited Wastewater Reuse Feasibility Study report from the engineering firm of Excel Engineering Consultants, Inc.

Opinion/Recommendation: The report was prepared as part of the utility's ongoing efforts to satisfy the requirements for its recently issued consumptive use permit.

The report identifies wastewater treatment plant modifications needed to bring the utility's treated effluent to a level that can be used to irrigate the adjoining golf course.

The golf course is owned and managed by the same parent group that owns and manages the utility and mobile home community.

Excel Engineering Consultants, Inc. estimates that the wastewater treatment plant modifications will cost approximately \$350,000 and be completed in three phases by March 2002.

Audit staff forwards this information to the analysts and engineers in Tallahassee for their consideration in this proceeding.

Audit Disclosure No. 2

Subject: Contributions-In-Aid-of-Construction

Statement of Facts: Prior Order No. 16528 issued August 27, 1986, established the following service availability charges for the utility to bring it into compliance with the minimum levels of CIAC required pursuant to the guidelines set forth in Rule 25-30.570 (1), F.A.C.

Meter Installation Fee	\$ 100
System Capacity Charge - Water	200
System Capacity Charge - Wastewater	<u>200</u>
Total charge per ERC	\$ 500

Prior Order No. 18255 waived the above charges and CIAC requirements as part of a stipulated agreement between the utility's former owners and original developer.

The utility was serving 245 Equivalent Residential Connections at the time Order No. 16528 was issued on August 27, 1986.

The utility's Annual Reports filed with the Commission indicate an addition of 515 water and wastewater customers from the time Order No. 16528 was issued until period ended December 31, 1998.

Opinion/Recommendation: Audit Exception No. 3 of this report requests the Commission to reverse its ruling in prior Order No. 18255 because of the change in circumstances that effectively negate the intent of the settlement order. Should the Commission accept audit staff's recommendation, the precepts of prior Order No. 16528 concerning CIAC, had they been implemented, would require the utility to book the following auditor-imputed amounts of CIAC and amortization of CIAC based on the service availability charges established in prior Order No. 16528.

CIAC - Water UPIS	(\$154,500)
Amortization of CIAC - Water UPIS	\$36,627
CIAC - Wastewater UPIS	(\$103,000)
Amortization of CIAC - Wastewater UPIS	\$31,251

See Schedules K and L on the following pages for details.

Schedule K for Audit Disclosure No. 2

CIAC -Water UPIS							
Audit Period Ended	Beginning CIAC	Beginning Amort. of CIAC	Period Additions	Ending CIAC	CIAC Amortz. Rate	CIAC Amortz. Expense	Ending CIAC Amortz.
12/31/85				\$0	3.10%	\$0	\$0
12/31/86	0	0	(12,000)	(12,000)	3.10%	186	186
12/31/87	(12,000)	186	(29,700)	(41,700)	3.10%	832	1,018
12/31/88	(41,700)	1,018	(23,100)	(64,800)	3.10%	1,651	2,669
12/31/89	(64,800)	2,669	(12,100)	(77,100)	3.10%	2,199	4,869
12/31/90	(77,100)	4,869	(10,800)	(87,900)	3.10%	2,558	7,426
12/31/91	(87,900)	7,426	(6,100)	(94,200)	3.10%	2,823	10,249
12/31/92	(94,200)	10,249	(5,100)	(99,300)	3.10%	2,999	13,248
12/31/93	(99,300)	13,248	(6,100)	(105,600)	3.10%	3,176	16,424
12/31/94	(105,600)	16,424	(10,800)	(116,400)	3.10%	3,441	19,865
12/31/95	(116,400)	19,865	(9,100)	(125,700)	3.10%	3,753	23,617
12/31/96	(125,700)	23,617	(8,100)	(133,800)	3.10%	4,022	27,640
12/31/97	(133,800)	27,640	(7,200)	(141,000)	3.10%	4,259	31,899
12/31/98	(\$141,000)	\$31,899	(\$13,500)	(\$154,500)	3.20%	\$4,728	\$36,627

Auditor Notes to Schedules:

- 1) The above additions to CIAC were calculated using customer additions reported in its utility's filed FPSC Annual Report for the years 1986-98 and the service availability charges approved in prior Order No. 16528.
- 2) The CIAC amortization rate of 3.10 percent was the composite depreciation rate for UPIS used in the utility's last rate proceeding for Docket No. 850517-WS.
- 3) The CIAC amortization rate of 3.20 percent was the composite depreciation rate for UPIS for the test period ended 12/31/98.
- 4) Audit staff used half-year convention to calculate CIAC amortization expense.

Schedule L for Audit Disclosure No. 2

CIAC - Wastewater UPIS							
Audit Period Ended	Beginning CIAC	Beginning Amort. of CIAC	Period Additions	Ending CIAC	CIAC Amortz. Rate	CIAC Amortz. Expense	Ending CIAC Amortz.
12/31/85				\$0	3.80%	\$0	\$0
12/31/86	0	0	(8,000)	(8,000)	3.80%	152	152
12/31/87	(8,000)	152	(19,800)	(27,800)	3.80%	680	832
12/31/88	(27,800)	832	(15,400)	(43,200)	3.80%	1,349	2,181
12/31/89	(43,200)	2,181	(7,200)	(50,400)	3.80%	1,778	3,960
12/31/90	(50,400)	3,960	(8,200)	(58,600)	3.80%	2,071	6,031
12/31/91	(58,600)	6,031	(4,200)	(62,800)	3.80%	2,307	8,337
12/31/92	(62,800)	8,337	(3,400)	(66,200)	3.80%	2,451	10,788
12/31/93	(66,200)	10,788	(4,200)	(70,400)	3.80%	2,595	13,384
12/31/94	(70,400)	13,384	(7,200)	(77,600)	3.80%	2,812	16,196
12/31/95	(77,600)	16,196	(6,200)	(83,800)	3.80%	3,067	19,262
12/31/96	(83,800)	19,262	(5,400)	(89,200)	3.80%	3,287	22,549
12/31/97	(89,200)	22,549	(4,800)	(94,000)	3.80%	3,481	26,030
12/31/98	(\$94,000)	\$26,030	(\$9,000)	(\$103,000)	5.30%	\$5,221	\$31,250

Auditor Notes to Schedules:

- 1) The above additions to CIAC were calculated using customer additions reported in its utility's filed FPSC Annual Report for the years 1986-98 and the service availability charges approved in prior Order No. 16528.
- 2) The CIAC amortization rate of 3.80 percent was the composite depreciation rate for UPIS used in the utility's last rate proceeding for Docket No. 850517-WS.
- 3) The CIAC amortization rate of 5.3 percent was the composite depreciation rate for UPIS for the test period ended 12/31/98.
- 4) Audit staff used half-year convention to calculate CIAC amortization expense.

Audit Disclosure No. 3

Subject: Pro Forma Operations and Maintenance Expenses

Statement of Facts: On March 24, 1999, the utility received notification from the State Department of Environmental Protection (DEP) of all known future water and wastewater testing and reporting requirements.

Currently, all water and wastewater testing requirements are performed by Midstate Utilities, Inc. for the utility.

Opinion/Recommendation: The effects of the above information on the utility's water and wastewater test expense in 1999 and beyond could not be determined by audit staff.

Auditor forwards this information to the analysts and engineers in Tallahassee for their consideration in this rate proceeding.

Audit Disclosure No. 4

Subject: Rate Case Expense

Statement of Facts: Chapter 367.0816, Florida Statutes, requires the Commission to determine the amount of rate case expense allowable pursuant to the provisions of Chapter 367 to be recovered over a period of four years.

Opinion/Recommendation: Audit staff has compiled the following engineering and filing expenses that the utility has incurred for this proceeding.

Audit Acc#	Company Acc#	Date	Invoice#	Vendor	Amount
* 186	334	10/23/98	2134	Excel Engineering Consultants, Inc.	\$123.81
* 186	334	10/23/98	2132	Excel Engineering Consultants, Inc.	2,124.48
186	none	11/30/98	2153	Excel Engineering Consultants, Inc.	447.40
186	none	1/11/99	2164	Excel Engineering Consultants, Inc.	873.53
186	none	1/20/99	2197	Excel Engineering Consultants, Inc.	2,555.00
186	none	2/26/99	2217	Excel Engineering Consultants, Inc.	297.50
186	none	3/1/99	2235	Excel Engineering Consultants, Inc.	453.50
186	none	3/23/99	2250	Excel Engineering Consultants, Inc.	2,732.70
186	none	4/1/99	2272	Excel Engineering Consultants, Inc.	21.50
186	none	4/26/99	2291	Excel Engineering Consultants, Inc.	1,369.92
186	none	5/7/99	2300	Excel Engineering Consultants, Inc.	139.61
186	none	6/9/99	2326	Excel Engineering Consultants, Inc.	323.50
186	none			FPSC filing fee for Limited Proceeding	<u>1,000.00</u>
Totals					\$12,462.45

* The utility capitalized these costs in 1998. Audit Exception No. 1 of this report reclassifies these costs to Acc. No. 186.

Auditor forwards this information to the analysts in Tallahassee for their consideration in this proceeding.

EXHIBIT I

**WATER OAK UTILITIES, INC.
DOCKET NO. 990243-WU
WATER RATE BASE
PERIOD ENDED DECEMBER 31, 1998**

DESCRIPTION	PER COMPANY(1)	AUDIT ADJUSTMENT(2)	REFER TO	PER AUDIT	AVERAGE
UTILITY PLANT IN SERVICE	\$367,846	(\$86,530)	E1	\$281,316	\$243,764
LAND & LAND RIGHTS	\$3,050	\$0		\$3,050	\$3,050
CIAC	\$0	\$0		\$0	\$0
ACCUMULATED DEPRECIATION	(\$142,320)	\$22,735	E1	(\$119,585)	(\$120,093)
AMORTIZATION OF CIAC	\$0	\$0		\$0	\$0
WORKING CAPITAL (3)	\$0	\$6,542	E8	\$6,542	\$6,542
	=====	=====		=====	=====
TOTAL	\$228,576	(\$57,253)		\$171,323	\$133,263

REQUIRED FOOTNOTES:

- 1) Rate base calculation does not include water UPIS allocated portion of \$496,755 acquisition adjustment and (\$23,997) amortization of acquisition adjustment recorded on company books at 12/31/98. See Audit Exception No. 3 for details.
- 2) Audit adjustments do not include audit disclosures.
- 3) Working capital was calculated at 1/8 O&M expense per Rule 25-30.433 (2), F.A.C.
- 4) Small differences are due to rounding errors.

EXHIBIT II

**WATER OAK UTILITIES, INC.
DOCKET NO. 990243-WU
WASTEWATER RATE BASE
PERIOD ENDED DECEMBER 31, 1998**

DESCRIPTION	PER COMPANY ⁽¹⁾	AUDIT ADJUSTMENT ⁽²⁾	REFER TO	PER AUDIT	AVERAGE
UTILITY PLANT IN SERVICE	\$352,266	\$20,542	E2	\$372,808	\$372,808
LAND & LAND RIGHTS	\$30,580	\$89,920	E3	\$120,500	\$120,500
CIAC - LAND	\$0	(\$90,000)	E3	(\$90,000)	(\$90,000)
ACCUMULATED DEPRECIATION	(\$256,165)	(\$19,161)	E1	(\$275,326)	(\$265,519)
AMORTIZATION OF CIAC	\$0	\$0		\$0	\$0
WORKING CAPITAL (3)	\$0	\$9,058	E9	\$9,058	\$9,058
	=====	=====		=====	=====
TOTAL	\$126,681	\$10,359		\$137,040	\$146,847

REQUIRED FOOTNOTES:

- 1) Rate base calculation does not include wastewater UPIS allocated portion of \$496,755 acquisition adjustment and (\$23,997) amortization of acquisition adjustment recorded on company books at 12/31/98. See Audit Exception No. 3 for details.
- 2) Audit adjustments do not include audit disclosures.
- 3) Working capital was calculated at 1/8 O&M expense per Rule 25-30.433 (2), F.A.C.
- 4) Small differences are due to rounding errors.

EXHIBIT III

**WATER OAK UTILITIES, INC.
DOCKET NO. 990243-WU
WATER NET OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998**

DESCRIPTION	PER COMPANY 12/31/98	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT 12/31/98
OPERATING REVENUES	\$75,671	\$55,483	E5-7	\$131,154
OPERATING EXPENSES:	-----	-----		-----
O&M EXPENSE	(\$34,514)	(\$17,820)	E8	(\$52,334)
DEPRECIATION EXPENSE	(\$13,507)	\$4,522	E1	(\$8,985)
AMORTIZATION	\$0	\$0		\$0
TAXES OTHER THAN INCOME	(\$10,560)	(\$9,960)	E5-7,10	(\$20,520)
INCOME TAX EXPENSE(3)	\$0	\$0		\$0
	-----	-----		-----
TOTAL OPERATING EXPENSE	(\$58,581)	(\$23,258)		(\$81,839)
	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$17,090	\$32,225		\$49,315

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) Small differences are due to rounding errors.
- 3) Utility is a subsidiary of a Limited Liability Partnership.
Income taxes are reported on partners individual tax returns.

EXHIBIT IV

**WATER OAK UTILITIES, INC.
DOCKET NO. 990243-WU
WASTEWATER NET OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998**

DESCRIPTION	PER COMPANY 12/31/98	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT 12/31/98
OPERATING REVENUES	\$109,704	\$87,385	E5-7	\$197,089
OPERATING EXPENSES:	-----	-----		-----
O&M EXPENSE	(\$50,971)	(\$21,495)	E8	(\$72,466)
DEPRECIATION EXPENSE	(\$9,769)	(\$9,844)	E1	(\$19,613)
AMORTIZATION	\$0	\$0		\$0
TAXES OTHER THAN INCOME	(\$12,759)	(\$9,159)	E5-7,10	(\$21,918)
INCOME TAX EXPENSE(3)	\$0	\$0		\$0
	-----	-----		-----
TOTAL OPERATING EXPENSE	(\$73,499)	(\$26,818)		(\$101,065)
	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$36,205	\$60,567		\$96,024

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) Small differences are due to rounding errors.
- 3) Utility is a subsidiary of a Limited Liability Partnership.
Income taxes are reported on partners individual tax returns.

EXHIBIT V

**WATER OAK UTILITIES, INC.
DOCKET NO. 990243-WU
CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1998**

DESCRIPTION	PER COMPANY @12/31/98	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT @06/30/98	RATIO	COST RATE(2)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$94,123	\$0		\$94,123	13.12%	10.129%	1.313%
PREFERRED STOCK	\$0	\$0		\$0	0.00%	0.000%	0.000%
LONG-TERM DEBT(3)	\$623,155	\$0		\$623,155	86.88%	0.000%	0.000%
SHORT-TERM DEBT	\$0	\$0		\$0	0.00%	0.000%	0.000%
CUSTOMER DEPOSITS(4)	\$0	\$0		\$0	0.00%	6.000%	0.000%
ITC	\$0	\$0		\$0	0.00%	0.000%	0.000%
TOTAL	\$717,278	\$0		\$717,278	100.00%		1.313%

REQUIRED FOOTNOTES:

- | | |
|---|---|
| <p>1) Audit adjustments do not include audit disclosures.</p> <p>2) Cost rate for common equity established in Order No. PSC-99-1224-PAA-WS issued June 21, 1999.</p> | <p>3) Inter-company payable due to Sun Communities, Inc.</p> <p>4) The utility does not collect a customer deposit for service connections.</p> |
|---|---|