

State of Florida



Public Service Commission

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

DATE: August 7, 2000
 TO: Division of Economic Regulation (Casey)
 FROM: Division of Regulatory Oversight (Vandiver)
 RE: Docket No. 00-104-SU; Useppa Island Utility, Inc.
 Audit Report; Staff-assisted Rate Case
 Audit Control No. 00-104-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
 Miami District Office (Welch)
 Division of Records and Reporting
 Division of Legal Services

Vincent Formosa
 Useppa Island Utility, Inc.
 P. O. Box 640
 Bokeelia, FL 33922-0640

APP _____
 CAF _____
 CMP _____
 COM _____
 CTR _____
 EGR _____
 LEG _____
 OPC _____
 PAI _____
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 SEC / _____
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 OTH _____

DOCUMENT NUMBER-DATE

09625 AUG -98

FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Miami District Office

USEPPA ISLAND UTILITY, INC.

EARNINGS INVESTIGATION

YEAR ENDED DECEMBER 31, 1999

DOCKET NUMBER 000090-SU

AUDIT CONTROL NO. 00-104-4-1



Kathy L. Welch, Audit Manager



*Iliana Piedra, Professional Accountant
Specialist*

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

July 20, 2000

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have applied the procedures described later in this report to prepare the attached schedules of Rate Base, Net Operating Income and Capital Structure for the period ended December 31, 1999 for Useppa Island Utility, Inc.. These schedules were prepared by the auditor as part of an earnings investigation in Docket 000090-SU.

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 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 PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. 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.

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

Reviewed- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied and account balances were tested to the extent further described.

Confirmed- Evidential matter supporting an account balance, transaction or other information was obtained directly from an independent third party.

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

RATE BASE: Examined account balances for Utility-Plant-In-Service, Contributions in Aid of Construction(CIAC), accumulated depreciation, and accumulated amortization of CIAC from July 31, 1996 to December 31, 1999. Reconciled rate base balances authorized in the last Commission order to the general ledger balance. Traced additions to contracts and invoices. Obtained contracts for future plant additions. Reviewed books for unrecorded CIAC. Read lot sales agreements and toured the island for new property. Reviewed tax returns. Reviewed tariff for types of CIAC charges. Recalculated accumulated depreciation and amortization using Commission approved rates. Calculated working capital.

NET OPERATING INCOME: Examined utility revenue and expenses for the year ended December 31, 1999. Recalculated monthly billings and prepared a billing analysis. Traced expenses to supporting documentation. Determined costs paid by affiliates that relate to the utility. Determined if any costs were increasing in 2000.

COST OF CAPITAL: Examined cost of capital. Determined all additional debt and obtained notes. Prepared cost of capital schedule.

AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: PRIOR ORDER ADJUSTMENTS NOT POSTED

STATEMENT OF FACT: The rate base account balances from the last Commission Order No. PSC-97-0930-FOF-WS were compared to the general ledger. The utility has never posted adjustments from rate orders. The attached schedule compares the balances from the order to the company balances at July 31, 1996.

OPINION: The following entry should be made to the books to correct for the order balances. The difference that didn't relate to depreciation changes was charged to a receivable from the parent company since it related to contributed plant.

Water Plant	67,123.00	
Water Land	10,463.00	
Water Accumulated Depreciation	74,430.00	
Water Accumulated Amortization CIAC	90,503.00	
Wastewater Plant	9,050.00	
Wastewater Land	3,487.00	
Wastewater Accumulated Amortization CIAC	135,239.00	
Receivable from Inn and Dock	245,155.00	
Water CIAC		165,804.00
Wastewater CIAC		169,474.00
Wastewater Accumulated Depreciation		74,077.00
Retained Earnings		226,095.00

**USEPPA ISLAND UTILITY
COMPARISON OF ORDER TO BOOKS
TEST YEAR ENDED DECEMBER 31, 1999**

	ORDER BALANCE 07/31/96	COMPANY BALANCE 07/31/96	DIFFERENCE
WATER PLANT	267,374	200,251	67,123
WATER LAND	10,463	0	10,463
WATER ACC. DEPRECIATION	(103,761)	(178,191)	74,430
WATER CIAC	(224,130)	(58,326)	(165,804)
WATER ACC. AMORTIZ. CIAC	90,503	0	90,503
			0
WASTEWATER PLANT	237,141	228,091	9,050
WASTEWATER LAND	3,487	0	3,487
WASTEWATER CIAC	(230,187)	(60,713)	(169,474)
WASTEWATER ACC. DEPRECIATION	(134,111)	(60,034)	(74,077)
WASTEWATER ACC. AMORTIZ. CIAC	135,239	0	135,239

COMPUTATION OF PLANT PER ORDER	WATER	WASTEWATER
BALANCE PER UTILITY IN ORDER	200,251	228,091
ADJ. TO PROPER BALANCE ORDER	132,310	9,050
RETIRE RO PLANT	(42,133)	
RETIRE RO MEMBRANES	(23,054)	
PER ORDER BEFORE PROFORMA AND AVG.	267,374	237,141
PROFORMA PLANT	71,900	11,400
AVERAGING ADJ.	(8,824)	(1,432)
PER ORDER AFTER AVG. AND PROFORMA	330,450	247,109
CIAC PER ORDER		
BALANCE PER UTILITY PER ORDER	(58,326)	(60,713)
ADJ. TO PROPER BALANCE ORDER	(207,937)	(169,474)
RETIRE RO PLANT	42,133	
PER ORDER BEFORE PROFORMA AND AVG.	(224,130)	(230,187)
ACCUMULATED DEPRECIATION ORDER		
BALANCE PER UTILITY IN ORDER	(178,191)	(60,034)
ADJ. TO PROPER BALANCE ORDER	9,243	(74,077)
RETIRE RO PLANT	42,133	
RETIRE RO MEMBRANES	23,054	
PER ORDER BEFORE PROFORMA AND AVG.	(103,761)	(134,111)
PROFORMA PLANT	(5,964)	
AVERAGING ADJ.	8,804	5,104
PER ORDER AFTER AVG. AND PROFORMA	(100,921)	(129,007)
ACC. AMORTIZATION CIAC ORDER		
BALANCE PER UTILITY IN ORDER	0	0
ADJ. TO PROPER BALANCE ORDER	132,636	135,239
RETIRE RO PLANT	(42,133)	
PER ORDER BEFORE PROFORMA AND AVG.	90,503	135,239
AVERAGING ADJ.	(5,784)	(4,993)
PER ORDER AFTER AVG. AND PROFORMA	84,719	130,246

AUDIT EXCEPTION NO. 2

SUBJECT: MISCLASSIFICATION OF INVOICES

STATEMENT OF FACT: All expense items were reviewed with the Utility Manager and the Accounting Supervisor and were traced to invoices. Several items were charged to the wrong account including charging interest and note payments to operating expenses and taxes other than income taxes in operating and maintenance.

OPINION: The following entries need to be made to correct the coding:

REPAIRS AND MAINTENANCE WATER	246.77	
ELECTRIC EXPENSE WASTEWATER	724.15	
REPAIRS AND MAINTENANCE WASTEWATER		724.15
ELECTRIC EXPENSE WATER		246.77
WASTEWATER TRANSPORTATION	250.00	
WATER TRANSPORTATION	250.00	
WATER CONSULTING	171.00	
WASTEWATER LICENSE FEE	2,300.00	
WASTEWATER REPAIR AND MAINTENANCE	103.35	
WATER REPAIRS AND MAINTENANCE		224.36
PAYROLL TAX WASTEWATER		103.35
WATER PERMIT EXPENSE		2,300.00
WATER CHEMICALS		250.00
WASTEWATER CHEMICALS		196.64
WATER INTEREST EXPENSE	20,817.35	
WASTEWATER INTEREST EXPENSE	20,817.25	
NOTE PAYABLE		12,574.00
NOTE PAYABLE		9,965.40
RETAINED EARNINGS		189.88
NOTE PAYMENT WATER		13,200.00
NOTE PAYMENT WASTEWATER		14,400.00
RO PAYMENT WATER		14,800.61
RO PAYMENT WASTEWATER		20,238.10
PROVISION FOR TAXES		1,345.51
TAXES OTHER THAN INCOME TAX WATER	9,264.55	
TAXES OTHER THAN INCOME TAX WWATER	6,377.50	
TAX AND LIC. WATER		6,651.05
TAXES AND LIC. WASTEWATER		3,451.05
PAYROLL TAX WATER		2,613.50
PAYROLL TAX WASTEWATER		2,925.71
REPAIRS AND MAINTENANCE WASTEWATER	189.88	
NOTE PAYABLE	2,023.81	
CAPITAL IMPROVEMENTS WW		2,313.69

AUDIT EXCEPTION NO. 3

SUBJECT: RECORD PAYABLES

STATEMENT OF FACT: The annual report was prepared before the company's accountant made any adjustments and did not include payables due to the electric company and a payable for wastewater plant additions.

OPINION: Electric expense was determined by a review of the invoices. Some invoices were paid by Useppa Inn and Dock and some were unpaid at the end of the year and not included in the ledger used to create the annual report. A detailed schedule of electric expense follows.

Two invoices for Q. Grady Minor were payable and related to wastewater system improvements. They totaled \$1,397.30.

The following entries are needed to accrue these expenses:

ELECTRIC EXPENSE WATER	3,197.71	
ELECTRIC EXPENSE WASTEWATER	131.40	
ACCOUNTS PAYABLE		3,329.11
WASTEWATER TREATMENT PLANT	1,397.30	
ACCOUNTS PAYABLE		1,397.30

USEPPA ISLAND UTILITY
ANALYSIS OF ELECTRIC
TEST YEAR ENDED DECEMBER 31, 2000

AMOUNTS

METER	ACCOUNT	LOCATION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
WASTEWATER:															
101943	2804222401	LS PHASE III -WASTEWATER	38.40	35.88	35.15	31.92	34.59	29.49	27.23	29.83	28.68	31.03	31.84	37.00	391.04
101944	2804222601	LS PHASE III-WASTEWATER	5.49	5.43	5.43	5.66	5.49	5.80	5.35	5.27	5.27	5.58	5.64	5.73	66.14
101941	2804222201	LS PHASE III-WASTEWATER	5.13	6.25	8.45	7.53	8.07	7.76	8.22	8.07	8.60	8.88	9.05	9.28	95.29
101942	2804222001	LS PHASE III-WASTEWATER	5.43	5.27	5.58	5.43	5.35	5.35	8.07	7.01	5.27	5.64	5.82	5.97	70.19
72655	2802250002	LS	34.33	38.88	20.12	18.17	20.05	16.39	27.88	33.93	19.95	17.53	18.51	22.46	288.20
71529	2802180005	LS 11	31.75	27.47	25.54	24.41	32.74	25.61	23.51	21.65	22.71	21.57	18.17	28.85	303.98
71662	2801035001	LS12	13.01	7.57	7.83	8.48	9.37	9.28	12.84	24.81	12.20	13.90	14.30	8.24	141.83
SEE BELOW #91822 35% OF RO PLANT METER			298.74	286.49	310.82	326.57	433.69	407.44	332.16	335.67	400.77	361.19	361.19	445.03	4,299.75
73574	2800611003	LS BEACH	26.42	38.95	5.88	18.26	25.86	17.29	10.18	17.78	17.94	16.48	20.60	28.12	243.76
70296	2800570005	LS 9	62.24	58.61	55.88	57.47	70.40	56.42	57.25	52.49	40.32	37.10	30.14	22.78	601.10
71663	2800417505	LS 10	20.15	18.19	19.33	16.61	18.19	20.09	23.63	20.09	19.78	19.31	19.47	16.08	230.92
72699	2800416006	LS 2	8.98	10.11	10.78	12.60	9.88	11.40	10.41	8.75	26.28	11.30	10.18	14.46	145.13
73573	2800414008	LS 1	6.71	6.41	6.79	6.49	7.16	7.47	8.91	6.41	5.49	6.45	7.50	7.50	83.29
70297	2800200002	LS 8	14.30	6.45	6.78	6.78	9.54	7.02	5.58	5.58	183.06	(141.93)	5.82	10.02	119.00
47887	2802120001	LS	6.15	5.78	5.64	5.95	20.27	9.23	6.36	6.69	7.51	8.61	8.94	10.05	101.18
72700	2800551000	LS GASPARILLA	5.88	5.80	6.03	2.65	3.46	6.03	5.80	5.66	10.50	5.82	6.21	6.13	69.97
			<u>583.11</u>	<u>563.54</u>	<u>536.03</u>	<u>554.98</u>	<u>714.11</u>	<u>642.07</u>	<u>573.38</u>	<u>589.69</u>	<u>814.33</u>	<u>428.46</u>	<u>573.38</u>	<u>677.70</u>	<u>7,250.77</u>

PER COMPANY WASTEWATER
ADJUSTED FOR MISCLASSIFICATION
COMPANY UNDERSTATED

6,395.22
724.15
7,119.37
131.40

WATER:															
32049	931013073	WELL-WATER	209.66	195.45	247.16	260.51	344.97	316.93	235.44	238.94	289.93	239.25	245.07	382.16	3,205.47
107938	2804223601	WATER PUMPS	142.99	118.89	157.46	150.27	214.27	235.69	180.41	197.54	235.53	196.57	152.60	216.12	2,198.34
SEE BELOW #91822 65% OF RO PLANT METER			554.80	532.04	577.24	606.50	805.42	756.67	616.88	623.38	744.28	670.77	670.77	826.49	7,985.24
			<u>907.45</u>	<u>846.38</u>	<u>981.86</u>	<u>1,017.28</u>	<u>1,364.66</u>	<u>1,309.29</u>	<u>1,032.73</u>	<u>1,059.86</u>	<u>1,269.74</u>	<u>1,106.59</u>	<u>1,068.44</u>	<u>1,424.77</u>	<u>13,389.05</u>

PER COMPANY WATER
ADJUSTED FOR MISCLASSIFICATION
COMPANY UNDERSTATED

10,437.51
(246.17)
10,191.34
3,197.71

91822	2800950003	RO PLANT-WATER 65/35 WV	853.54	818.53	888.06	933.07	1,239.11	1,164.10	949.04	959.05	1,145.05	1,031.96	1,031.96	1,271.52	12,284.99
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AUDIT EXCEPTION NO. 4

SUBJECT: DEPRECIATION EXPENSE

STATEMENT OF FACT: Commission Order No. PSC-97-0930-FOF-WS required the company to use the prescribed rates described in Rule 25-30.140, Florida Administrative Code. The company has not used these rates.

OPINION: Depreciation was recomputed using the rule rates. A schedule showing the computation follows. The following entry is necessary to adjust depreciation to the rule required rates.

DEPRECIATION EXPENSE WATER	9,136.98	
DEPRECIATION EXPENSE WASTEWATER	6,067.52	
RETAINED EARNINGS	11,591.01	
ACCUMULATED DEPRECIATION WATER		19,344.45
ACCUMULATED DEPRECIATION WASTEWATER		7,451.06

To adjust the average accumulated depreciation, the adjustment would be \$14,775.96 instead of the \$19,344.45 and the adjustment to wastewater would be a debit of \$680.33 instead of the credit of \$7,451.06.

Useppa Utility Company, Inc.
 Analysis of Accumulated Depreciation
 Test Year Ended December 31, 1999

WATER PLANT

PLANT ACCOUNT	DESCRIPTION	PER ORDER	ADDITIONS 7-12/96	BALANCE 12/31/96	ADDITIONS 1997	BALANCE 12/31/97	ADDITIONS 1998	BALANCE 12/31/98	ADDITIONS 1999	BALANCE 12/31/99	
301.00	ORGANIZATIONAL COSTS	0.00		0.00		0.00		0.00		0.00	
304.00	STRUCTURES AND IMPROVEMENTS	32,516.00		32,516.00		32,516.00		32,516.00		32,516.00	
307.00	WELLS AND SPRINGS	51,199.00		51,199.00		51,199.00		51,199.00		51,199.00	
309.00	SUPPLY MAINS	0.00		0.00		0.00		0.00		0.00	
310.00	POWER GENERATING EQUIPMENT	0.00		0.00		0.00		0.00		0.00	
311.00	PUMPING EQUIPMENT	13,108.00		13,108.00		13,108.00		13,108.00		13,108.00	
320.00	WATER TREATMENT EQUIPMENT	83,086.00		83,086.00	86,409.00	169,495.00		169,495.00		169,495.00	
320.20	MEMBRANES	0.00		0.00		0.00		0.00		0.00	
380.00	DIST. RESERVE AND STANDPIPES	6,611.00		6,611.00		6,611.00		6,611.00		6,611.00	
331.00	TRANSMISSION AND DISTRIBUTION LINES	61,074.00		61,074.00		61,074.00		61,074.00		61,074.00	
333.00	SERVICES	3,020.00		3,020.00		3,020.00		3,020.00		3,020.00	
334.00	METERS AND INSTALLATIONS	15,960.00		15,960.00		15,960.00		15,960.00		15,960.00	
335.00	HYDRANTS	0.00		0.00		0.00		0.00		0.00	
339.00	OTHER PLANT AND MISC. EQUIPMENT	0.00		0.00		0.00		0.00		0.00	
341.00	TRANSPORTATION EQUIPMENT	800.00		800.00		800.00		800.00		800.00	
344.00	LAB EQUIPMENT	0.00		0.00		0.00		0.00		0.00	
345.00	POWER OPERATED EQUIPMENT	0.00		0.00		0.00		0.00		0.00	
			267,374.00	0.00	267,374.00	86,409.00	353,783.00	0.00	353,783.00	0.00	353,783.00
											2,633.69
											356,416.69

ADJUST FOR NEW COLLIER PRESERVE

WATER ACCUMULATED DEPRECIATION

PLANT ACCOUNT	DESCRIPTION	RATES	PER ORDER	ADDITIONS 7-12/96	BALANCE 12/31/96	ADDITIONS 1997	BALANCE 12/31/97	ADDITIONS 1998	BALANCE 12/31/98	ADDITIONS 1999	BALANCE 12/31/99
301.00	ORGANIZATIONAL COSTS	2.50%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
304.00	STRUCTURES AND IMPROVEMENTS	3.57%	20,126.00	483.68	20,609.68	1,160.82	21,770.50	1,160.82	22,931.32	1,160.82	24,092.14
307.00	WELLS AND SPRINGS	3.70%	18,911.00	789.32	19,700.32	1,894.36	21,594.68	1,894.36	23,489.04	1,894.36	25,383.41
309.00	SUPPLY MAINS	3.13%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
310.00	POWER GENERATING EQUIPMENT	5.88%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
311.00	PUMPING EQUIPMENT	5.88%	8,282.00	321.15	8,603.15	770.75	9,373.90	770.75	10,144.65	770.75	10,915.40
320.00	WATER TREATMENT EQUIPMENT	5.88%	27,972.00	2,035.61	30,007.61	7,425.88	37,433.49	9,966.31	47,399.79	9,966.31	57,366.10
320.20	MEMBRANES	20.00%	(13,190.00)	0.00	(13,190.00)	0.00	(13,190.00)	0.00	(13,190.00)	0.00	(13,190.00)
380.00	DIST. RESERVE AND STANDPIPES	3.03%	2,928.00	83.46	3,011.46	200.31	3,211.78	200.31	3,412.09	200.31	3,612.40
331.00	TRANSMISSION AND DISTRIBUTION LINES	2.63%	25,487.00	669.27	26,136.27	1,606.25	27,742.52	1,606.25	29,348.76	1,606.25	30,955.01
333.00	SERVICES	2.86%	1,447.00	35.99	1,482.99	86.37	1,569.36	86.37	1,655.73	86.37	1,742.10
334.00	METERS AND INSTALLATIONS	5.88%	11,751.00	391.02	12,142.02	938.45	13,080.47	938.45	14,018.92	938.45	14,957.36
335.00	HYDRANTS	2.50%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
339.00	OTHER PLANT AND MISC. EQUIPMENT	5.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
341.00	TRANSPORTATION EQUIPMENT	16.67%	67.00	55.57	122.57	133.36	255.93	133.36	389.29	133.36	522.65
344.00	LAB EQUIPMENT	6.67%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
345.00	POWER OPERATED EQUIPMENT	10.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
			103,761.00	4,865.05	108,626.05	14,216.56	122,842.61	16,756.98	139,599.59	16,756.98	156,356.57
				1.82%		4.02%		4.74%		4.74%	

COMPOSITE RATE (DEPRECIATION/ENDING BALANCE)

ADJUST FOR COLLIER PRESERVE

34.63

156,391.20

AVERAGE

147,995.40

AVERAGE PER CO. AFTER ADJ. 1

133,202.12

LESS ADJ. NO. 9

17.32

ADJUSTMENT TO AVERAGE

14,775.96

BALANCE PER LEDGER

7,620.00 (211,442.12)

ADJUST BEGINNING BAL. TO ORDER

74,430.00

CO. BALANCE AFTER ADJ. NO. 1

(137,012.12)

DIFFERENCE

9,136.98 19,344.45

WASTEWATER PLANT

PLANT ACCOUNT	DESCRIPTION	PER ORDER	ADDITIONS 7-12/96	BALANCE 12/31/96	ADDITIONS 1997	BALANCE 12/31/97	ADDITIONS 1998	BALANCE 12/31/98	ADDITIONS 1999	BALANCE 12/31/99	
351.00	ORGANIZATIONAL COSTS	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	
354.00	STRUCTURES AND IMPROVEMENTS	13,871.00		13,871.00		13,871.00		13,871.00	180,039.70	193,910.70	
360.00	COLLECTION SEWERS FORCE	119,339.00		119,339.00		119,339.00		119,339.00		119,339.00	
361.00	COLLECTION SEWERS GRAVITY	377.00		377.00		377.00		377.00		377.00	
362.00	SPECIAL COLLECTING STRUCTURES	0.00		0.00		0.00		0.00		0.00	
363.00	SERVICES TO CUSTOMERS	0.00		0.00		0.00		0.00		0.00	
364.00	FLOW MEASURING DEVICES	0.00		0.00		0.00		0.00		0.00	
365.00	FLOW MEASURING INSTALLATIONS	0.00		0.00		0.00		0.00		0.00	
370.00	RECEIVING WELLS	60,242.00		60,242.00		60,242.00		60,242.00		60,242.00	
380.00	TREATMENT AND DISPOSAL EQUIPMENT	42,112.00		42,112.00		42,112.00		42,112.00		42,112.00	
381.00	PLANT SEWERS	0.00		0.00		0.00		0.00		0.00	
382.00	OUTFALL SEWER LINES	0.00		0.00		0.00		0.00		0.00	
389.00	OTHER PLANT AND MISC. EQUIPMENT	0.00		0.00		0.00		0.00		0.00	
390.00	OTHER FURNITURE AND EQUIPMENT	0.00		0.00		0.00		0.00		0.00	
391.00	TRANSPORTATION EQUIPMENT	1,200.00		1,200.00		1,200.00		1,200.00		1,200.00	
398.00	OTHER TANGIBLE PLANT	0.00		0.00		0.00		0.00		0.00	
			237,141.00	0.00	237,141.00	0.00	237,141.00	0.00	237,141.00	180,039.70	417,180.70
ADJUSTMENT FOR MONITORING WELL AND ENGINEERING										3,708.50	
ADJUSTMENT FOR COLLIER PRESERVE										3,084.70	
ADJUSTED BALANCE										423,973.90	

WASTEWATER ACCUMULATED DEPRECIATION

PLANT ACCOUNT	DESCRIPTION	RATES	PER ORDER	ADDITIONS 7-12/96	BALANCE 12/31/96	ADDITIONS 1997	BALANCE 12/31/97	ADDITIONS 1998	BALANCE 12/31/98	ADDITIONS 1999	BALANCE 12/31/99
351.00	ORGANIZATIONAL COSTS	2.50%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
354.00	STRUCTURES AND IMPROVEMENTS	3.70%	7,698.00	213.84	7,911.84	513.23	8,425.07	513.23	8,938.30	3,843.96	12,782.26
360.00	COLLECTION SEWERS FORCE	3.70%	56,366.00	1,839.81	58,205.81	4,415.54	62,621.35	4,415.54	67,036.90	4,415.54	71,452.44
361.00	COLLECTION SEWERS GRAVITY	2.50%	29.00	3.93	32.93	9.43	42.35	9.43	51.78	9.43	61.20
362.00	SPECIAL COLLECTING STRUCTURES	2.70%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
363.00	SERVICES TO CUSTOMERS	2.86%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
364.00	FLOW MEASURING DEVICES	20.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
365.00	FLOW MEASURING INSTALLATIONS	2.86%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
370.00	RECEIVING WELLS	4.00%	34,136.00	1,004.03	35,140.03	2,409.68	37,549.71	2,409.68	39,959.39	2,409.68	42,369.07
380.00	TREATMENT AND DISPOSAL EQUIPMENT	6.67%	35,783.00	1,170.36	36,953.36	2,808.87	39,762.23	2,808.87	42,571.10	2,808.87	45,379.97
381.00	PLANT SEWERS	3.13%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
382.00	OUTFALL SEWER LINES	3.33%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
389.00	OTHER PLANT AND MISC. EQUIPMENT	6.67%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
390.00	OTHER FURNITURE AND EQUIPMENT	6.67%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
391.00	TRANSPORTATION EQUIPMENT	16.67%	100.00	83.35	183.35	200.04	383.39	200.04	583.43	200.04	783.47
398.00	OTHER TANGIBLE PLANT	10.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
			134,112.00	4,315.33	138,427.33	10,356.79	148,784.11	10,356.79	159,140.90	13,687.52	172,828.42
				1.82%		4.37%		4.37%		3.28%	

COMPOSITE RATE (DEPRECIATION/ENDING BALANCE)
 ADJUSTMENT FOR MONITORING WELL AND ENGINEERING
 ADJUSTMENT FOR COLLIER PRESERVE
 ADJUSTED BALANCE

AVERAGE	166,049.15
AVERAGE BOOKS	92,587.99
DIFFERENCE	73,461.16
ADJ 1	74,077.00
ADJ 8	35.96
ADJ 9	28.53
ADJ FOR AVERAGE	(680.33)

BALANCE PER LEDGER
 ADJUST BEGINNING BAL. TO ORDER
 CO. BALANCE AFTER ADJ. NO. 1
 DIFFERENCE

7,620.00	(91,300.36)
	(74,077.00)
7,620.00	(165,377.36)
6,067.52	7,451.06

AUDIT EXCEPTION NO. 5

SUBJECT: ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

STATEMENT OF FACT: Commission Order No. PSC-97-0930-FOF-WS recorded amortization of CIAC from the last order forward. The company has not amortized CIAC since this order was issued.

OPINION: Amortization expense for each year since the last case was computed using actual rates for directly identified plant and the composite amortization rates for cash additions shown on the schedule of depreciation in Audit Exception No. 4. The following entry is needed to correct the accounts:

ACCUMULATED AMORTIZATION CIAC WATER	27,307.34	
ACCUMULATED AMORTIZATION CIAC WASTEWATER	33,693.24	
AMORTIZATION EXPENSE WATER		8,547.91
AMORTIZATION EXPENSE WASTEWATER		10,396.52
RETAINED EARNINGS		42,056.15

To adjust average accumulated amortization, the adjustment for water would be \$23,033.38 instead of \$27,307.34. The adjustment for wastewater would be \$28,498.26 instead of \$33,693.24.

USEPPA UTILITY COMPANY, INC.
ANALYSIS OF CIAC AND ACCUMULATED AMORTIZATION
TEST YEAR ENDED DECEMBER 31, 1999

WATER CIAC

PLANT ACCOUNT DESCRIPTION	PER ORDER	ADDITIONS 7-12/96	BALANCE 12/31/96	ADDITIONS 1997	BALANCE 12/31/97	ADDITIONS 1998	BALANCE 12/31/98	ADDITIONS 1999	BALANCE 12/31/99
304.00 STRUCTURES AND IMP.	30,482.00		30,482.00		30,482.00		30,482.00		30,482.00
307.00 WELLS	5,928.00		5,928.00		5,928.00		5,928.00		5,928.00
320.00 WATER TREATMENT EQUIP.	14,042.00		14,042.00		14,042.00		14,042.00		14,042.00
331.00 TRANS. & DIST. LINES	61,074.00		61,074.00		61,074.00		61,074.00		61,074.00
333.00 SERVICES	2,655.00		2,655.00		2,655.00		2,655.00		2,655.00
334.00 METERS AND INSTALLATIONS	1,481.00		1,481.00		1,481.00		1,481.00		1,481.00
CASH	98,005.00		98,005.00		98,005.00		98,005.00		98,005.00
LAND	10,463.00		10,463.00		10,463.00		10,463.00		10,463.00
	<u>224,130.00</u>	<u>0.00</u>	<u>224,130.00</u>	<u>0.00</u>	<u>224,130.00</u>	<u>0.00</u>	<u>224,130.00</u>	<u>0.00</u>	<u>224,130.00</u>

ADJUSTMENT FOR 7 NEW METERS									1,540.00
ENDING BALANCE ADJUSTED									<u>225,670.00</u>
AVERAGE ADJUSTED BALANCE									224,900.00

WATER ACCUMULATED AMORTIZATION CIAC

PLANT ACCOUNT DESCRIPTION	RATES	PER ORDER	ADDITIONS 7-12/96	BALANCE 12/31/96	ADDITIONS 1997	BALANCE 12/31/97	ADDITIONS 1998	BALANCE 12/31/98	ADDITIONS 1999	BALANCE 12/31/99
304.00 STRUCTURES AND IMP.	3.57%	19,097.00	453.42	19,550.42	1,088.21	20,638.63	1,088.21	21,726.83	1,088.21	22,815.04
307.00 WELLS	3.70%	3,662.00	91.39	3,753.39	219.34	3,972.73	219.34	4,192.06	219.34	4,411.40
320.00 WATER TREATMENT EQUIP.	5.88%	(15,040.00)	344.03	(14,695.97)	825.67	(13,870.30)	825.67	(13,044.63)	825.67	(12,218.96)
331.00 TRANS. & DIST. LINES	2.63%	25,467.00	669.27	26,136.27	1,606.25	27,742.52	1,606.25	29,348.76	1,606.25	30,955.01
333.00 SERVICES	2.86%	1,320.00	31.64	1,351.64	75.93	1,427.57	75.93	1,503.50	75.93	1,579.44
334.00 METERS AND INSTALLAT	5.88%	1,240.00	36.28	1,276.28	87.08	1,363.37	87.08	1,450.45	87.08	1,537.53
CASH	COMPOSITE	54,757.00	743.20	55,500.20	3,939.80	59,440.01	4,645.44	64,085.44	4,645.44	68,730.88
LAND	0.00%	0.00		0.00		0.00		0.00		0.00
		<u>90,503.00</u>	<u>2,369.24</u>	<u>92,872.24</u>	<u>7,842.28</u>	<u>100,714.51</u>	<u>8,547.91</u>	<u>109,262.42</u>	<u>8,547.91</u>	<u>117,810.34</u>

ADJUSTMENT FOR 7 NEW METERS										36.50
COMPOSITE RATE			1.82%		4.02%		4.74%		4.74%	117,846.84
AVERAGE DIFFERENCE										113,554.63
CHANGE SINCE ORDER										4,255.71
										27,307.34

WASTEWATER CIAC

PLANT	PER	ADDITIONS	BALANCE								
ACCOUNT DESCRIPTION	ORDER	7-12/96	12/31/96	1997	12/31/97	1998	12/31/98	1999	12/31/99	2000	12/31/00
354.00 STRUCTURES AND IMP.	13,354.00		13,354.00		13,354.00		13,354.00		13,354.00		13,354.00
360.00 COLLECTION SEWERS FORCE	47,939.00		47,939.00		47,939.00		47,939.00		47,939.00		47,939.00
370.00 RECEIVING WELLS	40,526.00		40,526.00		40,526.00		40,526.00		40,526.00		40,526.00
380.00 TREATMENT AND DISPOSAL EQUIPMI	30,481.00		30,481.00		30,481.00		30,481.00		30,481.00		30,481.00
CASH	94,400.00		94,400.00		94,400.00		94,400.00		94,400.00		94,400.00
LAND	3,487.00		3,487.00		3,487.00		3,487.00		3,487.00		3,487.00
	230,187.00	0.00	230,187.00	0.00	230,187.00	0.00	230,187.00	0.00	230,187.00	0.00	230,187.00

WATER ACCUMULATED AMORTIZATION CIAC

PLANT	RATES	PER	ADDITIONS	BALANCE	ADDITIONS	BALANCE	ADDITIONS	BALANCE	ADDITIONS	BALANCE
ACCOUNT DESCRIPTION		ORDER	7-12/96	12/31/96	1997	12/31/97	1998	12/31/98	1999	12/31/99
354.00 STRUCTURES AND IMP.	3.70%	7,686.00	205.87	7,891.87	494.10	8,385.97	494.10	8,880.07	494.10	9,374.17
360.00 COLLECTION SEWERS F	3.70%	25,502.00	739.06	26,241.06	1,773.74	28,014.80	1,773.74	29,788.55	1,773.74	31,562.29
370.00 RECEIVING WELLS	4.00%	24,230.00	675.43	24,905.43	1,621.04	26,526.47	1,621.04	28,147.51	1,621.04	29,768.55
380.00 TREATMENT AND DISPO:	6.67%	27,660.00	847.12	28,507.12	2,033.08	30,540.20	2,033.08	32,573.28	2,033.08	34,606.37
CASH	COMPOSITE	50,162.00	715.87	50,877.87	3,794.88	54,672.75	4,474.56	59,147.31	4,474.56	63,621.87
LAND	0.00%	0.00		0.00		0.00		0.00		0.00
		135,240.00	3,183.35	138,423.35	9,716.84	148,140.20	10,396.52	158,536.72	10,396.52	168,933.24

17 COMPOSITE RATE

1.82%

4.37%

4.37%

3.23%

AVERAGE
DIFFERENCE

163,734.98
5,198.26

CHANGE SINCE ORDER

33,693.24

AUDIT EXCEPTION NO. 6

SUBJECT: COLLIER PRESERVE AND PLANT ADDITIONS

STATEMENT OF FACT: The company has sold seven new lots known as the Collier Preserve. Costs in 1999 relating to these and other plant additions that were expensed amounted to \$9,426.89. The company did not record any Contributions in Aid of Construction related to these lots. The customers invoices from Useppa Inn and Dock were reviewed to determine if any CIAC had been charged but none was found. Although no homes have been built on these lots, the company has started billing revenue. Commission Order No. PSC-97-0930-FOF-WS ruled that it was appropriate to include undeveloped lots in the revenue distribution. The order requires a meter charge of \$115 and a tap in charge of \$105 per lot. All other cash CIAC was discontinued. CIAC for the seven connections using these rates would be \$1,540. Amortization in 1999 using the 4.74% composite is \$73. Since it is an addition year, only half, or \$36.50, would be recorded.

OPINION: Items that were expensed that related to plant additions need to be capitalized and depreciated. They include wastewater monitoring wells for \$2,200. Engineering for the new wastewater treatment plant of \$1,508.50, water lines of \$2,633.69 and wastewater lines of \$3,084.70. Contributions of \$1,540 need to be recorded as CIAC and amortized. The following adjustments are needed:

WASTEWATER MONITORING WELLS	2,200.00	
WASTEWATER TREATMENT PLANT ENG.	1,508.50	
WATER CONSULTING		2,404.00
WASTEWATER CONSULTING		1,304.50
DEPRECIATION EXPENSE WASTEWATER	71.91	
ACCUMULATED DEPRECIATION		71.91
(MONITORING WELLS AT 4% FOR ½ YEAR OR 44.00, ENGINEERING AT 3.7% FOR ½ YEAR OR 27.91)		

The adjustment to average rate base for the above plant is \$1,100 for the wells, \$754.25 for the engineering, and 35.96 for the accumulated depreciation.

TRANSMISSION & DIST. WATER	2,633.69	
FORCE MAINS WASTEWATER	3,084.70	
MISC. EXP. COLLIER PRESERVE WATER		2,633.69
MISC. EXP. COLLIER PRESERVE WWATER		3,084.70
DEPRECIATION EXPENSE WATER	34.63	
DEPRECIATION EXPENSE WWATER	57.07	
ACCUMULATED DEPRECIATION WATER		34.63
ACCUMULATED DEPRECIATION WW		57.07
(WATER AT 2.63% FOR ½ YEAR AND WWATER AT 3.7% FOR ½ YEAR)		

The adjustment to average rate base for the above plant is \$1,316.85 for water and \$1,542.35 for wastewater. The average adjustment to accumulated depreciation for

\$1,542.35 for wastewater. The average adjustment to accumulated depreciation for water is \$17.32 and for wastewater is \$28.53.

ACCUMULATED AMORTIZATION WATER CIAC	36.50	
ACCOUNTS RECEIVABLE	1,540.00	
CIAC-WATER		1,540.00
AMORTIZATION EXPENSE WATER CIAC		36.50

The average adjustment for CIAC is \$770.00 and for accumulated amortization is \$18.25.

AUDIT EXCEPTION NO. 7

SUBJECT: ACCRUE GROSS RECEIPTS TAX

STATEMENT OF FACT: The regulatory assessment tax recorded in 1999 was for the 1998 tax.

OPINION: The company recorded 1998 taxes in 1999. The 1999 tax was \$878.87 higher for water and \$336.64 for wastewater based on 4.5%. To accrue for the 1999 tax, the following entry is necessary:

RETAINED EARNINGS	9,900.84	
TAXES OTHER THAN INCOME WATER	878.87	
TAXES OTHER THAN INCOME WWATER	336.64	
REG. ASS. FEE PAYABLE		11,116.35

AUDIT EXCEPTION NO. 8

SUBJECT: COSTS OF UTILITY NOT ALLOCATED FROM INN AND DOCK

STATEMENT OF FACT: The company made a monthly entry to allocate payroll and benefits and transportation but it was not based on actual work performed.

OPINION: Staff recalculated payroll, taxes, benefits, transportation and office rent based on actual costs and estimates of hours spent. Detailed calculations follow this exception. The following entries are necessary to record these expenses:

WATER PAYROLL	28,682.00	
WATER PAYROLL TAXES	2,130.34	
WATER HEALTH INSURANCE	3,817.11	
WASTEWATER HEALTH INSURANCE	498.93	
TRANSPORTATION EXPENSE WATER	3,724.76	
TRANSPORTATION EXPENSE WWATER	927.98	
WASTEWATER PAYROLL		4,051.91
WWATER PAYROLL TAXES		685.94
DUE TO USEPPA INN AND DOCK		35,043.27

Although no charge was recorded in the general ledger, when asked about costs paid for by the Inn and Dock Company, the company estimated \$300 a month for rent. Four companies share a 1,560 square foot building. This amounts to a little over \$9 a square foot for rent. Based on the quality of the accommodations this appears reasonable.

OFFICE RENT WATER	1,800.00	
OFFICE RENT WASTEWATER	1,800.00	
DUE TO USEPPA INN AND DOCK		3,600.00

USEPPA UTILITY CO., INC.
ANALYSIS OF TRANSPORTATION
TEST YEAR ENDED DECEMBER 31, 1999

PER USEPPA INN AND DOCK FINANCIALS:

BOAT INCOME	67,482.84
EXPENSES:	
BOAT TRANSPORTATION (GAS)	38,942.84
BOAT REPAIRS	6,707.17
MARINA WAGES	112,689.50
PAYROLL TAXES	9,896.96
HEALTH INSURANCE	4,173.75
EQUIPMENT	461.06
WORKMENS COMP	1,675.46
FLA SUBMERGED LAND LEASE DOCK RENT 45 SPACES TRANSPORTATION USES 2 OR 4.5%	443.41
TOTAL TRANSPORTATION RELATED EXPENSES	<u>174,990.15</u>
NET EXPENSES	(107,507.31)

	WATER	WASTEWATER
UTILITY PAYROLL	62,011.04	29,278.08
TOTAL USEPPA PAYROLL	<u>1,381,756.06</u>	<u>1,381,756.06</u>
	4.49%	2.12%
EXPENSES	<u>107,507.31</u>	<u>107,507.31</u>
TRANSPORTATION ALLOCATED TO UTILITY	4,824.76	2,277.98
ACTUAL CHARGED	1,100.00	1,350.00
DIFFERENCE-ADJUST	<u>3,724.76</u>	<u>927.98</u>

AUDIT EXCEPTION NO. 9

SUBJECT: REVENUE OVERSTATED

STATEMENT OF FACT: The company switched ledger systems in October of 1999. In the transition, Inn and Dock water only customers were billed for wastewater and therefore, revenues were overstated.

A determination also needs to be made as to whether some accounts are residential or general service. The company has been billing the museum as a residential customer. This was changed to a general customer in the billing analysis.

Some Useppa Inn and Dock billings are for rental units and office space. The company has also billed these as residential units.

OPINION: The wastewater billing for water only customers needs to be removed. The necessary adjustment follows:

WASTEWATER BASE REVENUE	395.97	
WASTEWATER USAGE REVENUE	708.40	
DUE USEPPA INN AND DOCK		1,104.37

The company needs to review its billing and make sure that meter sizes and classifications between general service and residential are correct.

AUDIT EXCEPTION NO. 10

SUBJECT: LAND AND PROPERTY TAX

STATEMENT OF FACT: The company provided two deeds to the Commission in 1992 as proof that Useppa Inn and Dock Company, Limited had transferred ownership of the utility property to Useppa Utility Company, Inc. These deeds were never recorded. The Lee County Abstract office determined that Useppa Inn and Dock retained ownership of the parcels. However, the deed that discusses exhibits A, B, and C must contain the wrong legal description. The parcel is supposed to be for a pond. The legal description, according to the Abstract Office is for beachfront property owned by two different owners. The pond can be seen on the map but is not at the location that was identified by the abstract office.

The company is currently taking action to record these deeds.

Property tax would have been billed to the utility if the land had been recorded.

OPINION: The company should provide deeds with the appropriate documentary stamps to prove ownership. Property tax was determined based on the percent of square feet and is shown on the attached schedule.

The following entry should be made:

WATER PROPERTY TAX	201.30	
WASTEWATER PROPERTY TAX	67.10	
DUE TO USEPPA INN AND DOCK		268.40

COMPANY: USEPPA UTILITY
TITLE: ANALYSIS OF LAND
TEST YEAR: DECEMBER 31, 1999

6.2223	ACRES IN PARCEL 1
53.22188	ACRES IN PARCEL 2
<u>59.44418</u>	TOTAL ACRES USEPPA ISLAND CLUB LAND
43,560	SQ. FEET PER ACRE
<u>2,589,388.48</u>	TOTAL SQUARE FEET
32,332	SQUARE FEET UTILITY PROPERTY
1.25%	PERCENT OF UTILITY PROPERTY TO TOTAL PROPERTY
9,336.72	PROPERTY TAX PARCEL 1
<u>12,158.40</u>	PROPERTY TAX PARCEL 2
<u>21,495.12</u>	TOTAL PROPERTY TAX
<u><u>268.40</u></u>	PORTION OF TAX RELATED TO THE UTILITY
201.30	ALLOCATED BASED ON LAND 75% WATER
<u>67.10</u>	ALLOCATED BASED ON LAND 25% WATER
268.40	

STAFF PREPARED EXHIBITS

RATE BASE

NET OPERATING INCOME

COST OF CAPITAL

ADJUSTING JOURNAL ENTRIES

Useppa Utility Company, Inc.
 Rate Base-Average
 Test Year Ended December 31, 1999

WATER

	Book Balance 1/1/99	Book Balance 12/31/99	Average Balance 1999	Staff Adjusting Entries	Entry Number	Adjusted Average Balance	Proforma Plant Adjustment	Adjusted Rate Base
Land			0.00	10,463.00	1	10,463.00		10,463.00
Plant in Service	286,660.00	286,660.00	286,660.00	68,439.85	1,9	355,099.85	137,245.00	492,344.85
Accumulated Depreciation	(203,822.12)	(211,442.12)	(207,632.12)	59,636.72	1,4,9	(147,995.40)		(147,995.40)
CIAC	(58,326.00)	(58,326.00)	(58,326.00)	(166,574.00)	1,6	(224,900.00)		(224,900.00)
Accumulated Amortization CIAC			0.00	113,554.63	1,5,6	113,554.63		113,554.63
Working Capital			0.00	12,920.42		12,920.42		12,920.42
	24,511.88	16,891.88	20,701.88	98,440.62	0.00	119,142.50	137,245.00	256,387.50

NOI Return 40,963.72 Return 15.98%
 34.38%

WASTEWATER

	Book Balance 1/1/99	Book Balance 12/31/99	Average Balance 1999	Staff Adjusting Entries	Entry Number	Adjusted Average Balance
Land			0.00	3,487.00	1	3,487.00
Plant in Service	228,091.03	408,131.00	318,111.02	13,843.90	1,8,9,18	331,954.92
Accumulated Depreciation	(93,875.62)	(91,300.36)	(92,587.99)	(73,461.16)	1,4,8,9	(166,049.15)
CIAC	(60,713.00)	(60,713.00)	(60,713.00)	(169,474.00)	1	(230,187.00)
Accumulated Amortization CIAC			0.00	163,733.98	1,5	163,733.98
Working Capital			0.00	6,957.44		6,957.44
	73,502.41	256,117.64	164,810.03	(54,912.84)	0.00	109,897.19

NOI Return 15,741.46
 14.32%

Useppa Utility Company, Inc.
 Rate Base-Year End
 Test Year Ended December 31, 1999

WATER

	Book Balance 12/31/99	Staff Adjusting Entries	Entry Number	Adjusted Average Balance
Land		10,463.00	1	10,463.00
Plant in Service	286,660.00	69,756.69	1,9	356,416.69
Accumulated Depreciation	(211,442.12)	55,050.92	1,4,9	(156,391.20)
CIAC	(58,326.00)	(167,344.00)	1,6	(225,670.00)
Accumulated Amortization CIAC		117,846.84	1,5,6	117,846.84
Working Capital		12,920.42		12,920.42
	<u>16,891.88</u>	<u>96,693.87</u>		<u>115,585.75</u>

WASTEWATER

	Book Balance 12/31/99	Staff Adjusting Entries	Entry Number	Adjusted Average Balance
Land		3,487.00	1	3,487.00
Plant in Service	408,131.00	17,240.50	1,8,9,17	425,371.50
Accumulated Depreciation	(91,300.36)	(81,657.04)	1,4,8,9	(172,957.40)
CIAC	(60,713.00)	(169,474.00)	1	(230,187.00)
Accumulated Amortization CIAC		168,932.24	1,5	168,932.24
Working Capital		6,957.44		6,957.44
	<u>256,117.64</u>	<u>(54,513.86)</u>		<u>201,603.78</u>

USEPPA UTILITY COMPANY, INC.
ANALYSIS OF NET OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1999
WATER:

	PER COMPANY ANNUAL REPORT	ADJUSTMENTS TO ACTUAL TEST YEAR	ADJUSTMENT NUMBER	STAFF ADJUSTED BALANCE
GROSS REVENUE:				
WATER DEMAND INCOME	(85,849.48)			(85,849.48)
WATER CONSUMPTION INCOME	(79,159.87)			(79,159.87)
TOTAL REVENUE	(165,009.35)	0.00	0.00	(165,009.35)
OPERATION AND MAINTENANCE EXPENSE:				
CHEMICALS AND SUPPLIES	2,683.58	(250.00)	7	2,433.58
ACCOUNTING	725.00			725.00
LABOR WATER	29,894.96	28,682.00	14	58,576.96
ADMINISTRATIVE SALARIES	3,750.00			3,750.00
BANK SERVICE CHARGES	34.33			34.33
CONSULTANTS	6,949.09	(2,233.00)	7,8	4,716.09
ELECTRICITY	10,437.51	2,951.94	2,3	13,389.45
HEALTH INSURANCE	1,159.98	3,817.11	14	4,977.09
WORKMENS COMP	286.00			286.00
MISC. EXPENSE COLLIER	2,633.69	(2,633.69)	9	0.00
TRANSPORTATION	850.00	3,974.76	7,14	4,824.76
OPERATING INSURANCE	142.50			142.50
OFFICE SUPPLIES	72.23			72.23
PAYROLL TAXES	2,613.50	(2,613.50)	11	0.00
REPAIRS AND MAINTENANCE	7,449.85	22.41	2,7	7,472.26
TELEPHONE	88.12			88.12
TAXES AND LICENSES	6,651.05	(6,651.05)	11	0.00
PERMITS	2,375.00	(2,300.00)	7	75.00
PROVISION FOR TAXES	1,345.51	(1,345.51)	10	0.00
RENT		1,800.00	17	1,800.00
NOTE PAYMENT	13,200.00	(13,200.00)	10	0.00
RO PLANT NOTE PAYMENT	14,800.61	(14,800.61)	10	0.00
TOTAL	108,142.51	(4,779.14)	0.00	103,363.37
DEPRECIATION	7,620.00	9,171.61	4,9	16,791.61
AMORTIZATION OF CIAC		(8,584.41)	5,6	(8,584.41)
TAXES OTHER THAN INCOME		12,475.06	11,13,14,16	12,475.06
TOTAL OPERATING EXPENSE	115,762.51	8,283.12	0.00	124,045.63
NET OPERATING (INCOME) LOSS	(49,246.84)	8,283.12	0.00	(40,963.72)
INTEREST EXPENSE		20,817.35	10	20,817.35
NET (INCOME) LOSS	(49,246.84)	29,100.47	0.00	(20,146.37)

**USEPPA UTILITY COMPANY, INC.
ANALYSIS OF NET OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1999**

WASTEWATER:

	PER COMPANY ANNUAL REPORT	ADJUSTMENTS TO ACTUAL TEST YEAR	ADJUSTMENT NUMBER	STAFF ADJUSTED BALANCE
GROSS REVENUE:				
WASTEWATER DEMAND INCOME	(44,361.53)	395.97	15	(43,965.56)
WASTEWATER CONSUMPTION INCOME	(37,659.12)	708.40	15	(36,950.72)
TOTAL REVENUE	(82,020.65)	1,104.37		(80,916.28)
OPERATION AND MAINTENANCE EXPENSE:				
CHEMICALS AND SUPPLIES	2,325.35	(196.64)	7	2,128.71
ACCOUNTING	725.00			725.00
LABOR	29,879.99	(4,051.91)	14	25,828.08
ADMINISTRATIVE SALARIES	3,750.00			3,750.00
BANK SERVICE CHARGES	34.34			34.34
CONSULTANTS	4,302.49	(1,304.50)	8	2,997.99
ELECTRICITY	6,395.22	855.55	2,3	7,250.77
HEALTH INSURANCE	1,160.10	498.93	14	1,659.03
WORKMENS COMP	327.00			327.00
MISC. EXPENSE COLLIER	3,084.70	(3,084.70)	9	0.00
TRANSPORTATION	1,100.00	1,177.98	7,14	2,277.98
OPERATING INSURANCE	142.50			142.50
PAYROLL TAXES	3,029.06	(3,029.06)	7,11	0.00
REPAIRS AND MAINTENANCE	4,805.88	(430.92)	2,7,11	4,374.96
TELEPHONE	88.18			88.18
TAXES AND LICENSES	3,451.79	(3,451.79)	11	0.00
PERMITS	75.00	2,300.00	7	2,375.00
NOTE PAYMENT	14,400.00	(14,400.00)	10	0.00
RENT		1,800.00	17	1,800.00
CAPITAL EXPENDITURE	2,213.69	(2,313.69)	12	(100.00)
RO PLANT NOTE PAYMENT	20,238.10	(20,238.10)	10	0.00
TOTAL	101,528.39	(45,868.85)		55,659.54
DEPRECIATION	7,620.00	6,196.50	4,8,9	13,816.50
AMORTIZATION OF CIAC		(10,396.52)	5	(10,396.52)
TAXES OTHER THAN INCOME		6,095.30	11,13,14,16	6,095.30
TOTAL OPERATING EXPENSE	109,148.39	(43,973.57)		65,174.82
NET OPERATING (INCOME) LOSS	27,127.74	(42,869.20)		(15,741.46)
INTEREST EXPENSE		20,817.35	10	20,817.35
NET (INCOME) LOSS	27,127.74	(22,051.85)	0.00	5,075.89

SOURCE: TRIAL BALANCE AND ANNUAL REPORT

USEPPA UTILITY COMPANY, INC.
 COST OF CAPITAL
 TEST YEAR ENDED DECEMBER 31, 1999

	BALANCE 12/31/98	ADJUSTMENT TO 12/31/99	ENTRY	ADJUSTED 12/31/99	BALANCE 12/31/99	ADJUSTMENT TO 12/31/99	ENTRY	ADJUSTED 12/31/99	AVERAGE	PERCENT OF	INTEREST	WEIGHTED
										TOTAL	RATE	COST
COMMON STOCK	1,000.00			1,000.00	1,000.00			1,000.00	1,000.00			
PAID IN CAPITAL	149,000.00			149,000.00	149,000.00			149,000.00	149,000.00			
RETAINED EARNINGS	(419,920.87)	256,750.02	1,4,5,10	(163,170.85)	(300,579.87)	244,773.33	1,4,5,10,13,A	(105,806.54)	(228,193.01)			
TOTAL EQUITY	(269,920.87)	256,750.02		(13,170.85)	(200,579.87)	244,773.33		84,193.65	(78,193.01)			
NOTE PAYABLE SOUTHTRUST WATER	57,330.50			57,330.50	46,813.95	(12,574.00)	10	33,239.95	39,526.95	7.48%	9.00%	0.67%
NOTE PAYABLE SOUTHTRUST WWATE:	24,500.00			24,500.00	170,000.00	(11,989.21)	10	158,010.79	164,005.40	31.05%	9.00%	2.79%
NOTE PAYABLE STOCKHOLDERS	344,574.83			344,574.83	324,639.25			324,639.25	324,639.25	61.46%	10.00%	6.15%
	426,405.33	0.00		426,405.33	540,493.20	(24,563.21)		515,929.99	528,171.60	100.00%		9.61%

NOTE A TO CREDIT RETAINED EARNINGS FOR ADJUSTMENTS 2,075.85
 TO CURRENT NOI

NOTE B CO. HAS A NEGATIVE EQUITY DUE TO RETAINED EARNINGS HAVING A DEBIT BALANCE.
 ORDER 93-0930-WS ADJUSTED EQUITY TO ZERO.

Useppa Utility Company, Inc.
Adjusting Entries
Test Year Ended December 31, 1999

	DEBIT	CREDIT
1		
Water Plant	67,123.00	
Water Land	10,463.00	
Water Accumulated Depreciation	74,430.00	
Water Acc. Amortiz. CIAC	90,503.00	
Wastewater Plant	9,050.00	
Wastewater Land	3,487.00	
Wastewater Accumulated Amortization CIAC	135,239.00	
Receivable from Inn and Dock	245,155.00	
Water CIAC		165,804.00
Wastewater CIAC		169,474.00
Wastewater Accumulated Depreciation		74,077.00
Retained Earnings		226,095.00

To record corrections from order.

2		
Repairs and Maintenance Water	246.77	
Electric Expense Wastewater	724.15	
Repairs and Maintenance Wastewater		724.15
Electric Expense Water		246.77

To transfer expenses to proper account.

3		
Electric Expense Water	3,198.71	
Electric Expense Wastewater	131.40	
Accounts Payable		3,330.11

To record bills paid by Inn and Dock and correct bills paid by Useppa that were for Inn and Dock and to record October to December bills not accrued.

	4		
DEPRECIATION EXPENSE WATER		9,136.98	
DEPRECIATION EXPENSE WASTEWATER		6,067.52	
RETAINED EARNINGS		11,591.01	
ACCUMULATED DEPRECIATION WATER			19,344.45
ACCUMULATED DEPRECIATION WASTEWATER			7,451.06
TO RECORD DEPRECIATION USING THE NEW RULE FROM THE LAST RATE CASE FORWARD			
ADJUSTMENT TO AVERAGE WATER ACC. DEP.			14,775.96
ADJUSTMENT TO AVERAGE WASTEWATER ACC. DEP.		680.33	
TO ADJUST NEW ACC. DEP. TO AVERAGE CALCULATION-DO NOT POST			
	5		
ACCUMULATED AMORTIZATION CIAC WATER		27,307.34	
ACCUMULATED AMORTIZATION CIAC WASTEWATER		33,693.24	
AMORTIZATION EXPENSE WATER			8,547.91
AMORTIZATION EXPENSE WASTEWATER			10,396.52
RETAINED EARNINGS			42,056.15
TO RECORD ACCUMULATED AMORTIZATION CALCULATED BY STAFF. CO. DID NOT BOOK			
ACCUMULATED AMORTIZATION CIAC WATER		23,033.38	
ACCUMULATED AMORTIZATION CIAC WASTEWATER		28,498.26	
TO CORRECT FOR AVERAGE-DO NOT POST			
	6		
ACCUMULATED AMORTIZATION WATER CIAC		36.50	
ACCOUNTS RECEIVABLE		1,540.00	
CIAC-WATER			1,540.00
AMORTIZATION EXPENSE WATER CIAC			36.50
TO RECORD CIAC FOR 7 NEW LOTS AND AMORTIZATION USING THE COMPOSITE RATE FOR A HALF YEAR			
AVERAGE ADJUSTMENT:			
ACCUMULATED AMORTIZATION WATER CIAC		18.25	
CIAC			770.00
	7		
WASTEWATER TRANSPORTATION		250.00	
WATER TRANSPORTATION		250.00	
WATER CONSULTING		171.00	
WASTEWATER LICENSE FEE		2,300.00	
WASTEWATER REPAIR AND MAINTENANCE		103.35	
WATER REPAIRS AND MAINTENANCE			224.36
PAYROLL TAX WASTEWATER			103.35
WATER PERMIT EXPENSE			2,300.00
WATER CHEMICALS			250.00
WASTEWATER CHEMICALS			196.64
TO CORRECT MISC. CODING ERRORS DURING CONSULTATION WITH PLANT SUPERVISOR AND REVIEW OF INV.			

	8		
WASTEWATER MONITORING WELLS		2,200.00	
WASTEWATER TREATMENT PLANT ENG.		1,508.50	
WATER CONSULTING			2,404.00
WASTEWATER CONSULTING			1,304.50
TRANSFER MONITORING WELLS AND ENGINEERING FOR NEW WWTP TO PROPER ACCOUNTS.			

AVERAGE ADJUSTMENT			
WASTEWATER MONITORING WELLS		1,100.00	
WASTEWATER TREATMENT PLANT ENG.		754.25	
DEPRECIATION EXPENSE WASTEWATER		71.91	
ACCUMULATED DEPRECIATION WW			71.91
TO DEPRECIATE MONITORING WELL AT 4% FOR 1/2 YEAR		44.00	
AND ENG. AT 3.7% FOR 1/2 YEAR		27.91	
		<u>71.91</u>	
AVERAGE ADJUSTMENT			
ACCUMULATED DEPRECIATION WW			35.96

	9		
T & D WATER		2,633.69	
FORCE MAIN WASTEWATER		3,084.70	
MISC. EXP. COLLIER PRESERVE WATER			2,633.69
MISC. EXP. COLLIER PRESERVE WW			3,084.70
TO TRANSFER COSTS FOR CONSTRUCTION OF COLLIER PRESERVE TO PLANT			
AVERAGE ADJUSTMENT:			
T & D WATER		1,316.85	
FORCE MAIN WASTEWATER		1,542.35	
DEPRECIATION EXPENSE WATER		34.63	
DEPRECIATION EXPENSE WASTEWATER		57.07	
ACCUMULATED DEPRECIATION WATER			34.63
ACCUMULATED DEPRECIATION WW			57.07
DEPRECIATE AT 1/2 YEAR AT 3.7% WASTEWATER AND 2.63% WATER			
AVERAGE ADJ.			
ACCUMULATED DEPRECIATION WATER			17.32
ACCUMULATED DEPRECIATION WW			28.53

	10		
WATER INTEREST EXPENSE		20,817.35	
WASTEWATER INTEREST EXPENSE		20,817.35	
NOTE PAYABLE		12,574.00	
NOTE PAYABLE		9,965.40	
RETAINED EARNINGS			189.88
NOTE PAYMENT WATER			13,200.00
NOTE PAYMENT WASTEWATER			14,400.00
RO PAYMENT WATER			14,800.61
RO PAYMENT WASTEWATER			20,238.10
PROVISION FOR TAXES			1,345.51
TO CORRECT CODING OF LOAN PAYMENTS			

11

TAXES OTHER THAN INCOME TAX WATER	9,264.55	
TAXES OTHER THAN INCOME TAX WWATER	6,377.50	
TAXES AND LIC. WATER		6,651.05
TAXES AND LIC. WASTEWATER		3,451.79
PAYROLL TAX WATER		2,613.50
PAYROLL TAX WASTEWATER		2,925.71
TO REMOVE TAXES OTHER THAN INCOME FROM OPERATING EXPENSES		

12

REPAIR AND MAINTENANCE WASTEWATER	189.88	
NOTE PAYABLE	2,023.81	
CAPITAL IMPROVEMENTS WW		2,313.69
TO CORRECT MISCLASSIFICATION OF EXPENSE AND LOAN PAYMENT		

13

RETAINED EARNINGS	9,900.84	
TAXES OTHER THAN INCOME WATER	878.87	
TAXES OTHER THAN INCOME WASTEWATER	336.64	
REG. ASS. FEE PAYABLE		11,116.35
CO. RECORDED 1998 TAXES IN 1999. CO. SHOULD HAVE USED ACCRUAL ACCOUNTING AND ACCRUED FOR 1998 IN 1998.		

14

WATER PAYROLL	28,682.00	
WATER PAYROLL TAXES	2,130.34	
WATER HEALTH INSURANCE	3,817.11	
WASTEWATER HEALTH INSURANCE	498.93	
TRANSPORTATION EXPENSE WATER	3,724.76	
TRANSPORTATION EXPENSE WASTEWATER	927.98	
WASTEWATER PAYROLL		4,051.91
WATER PAYROLL TAXES		685.94
DUE TO USEPPA INN AND DOCK		35,043.27
TO RECORD SALARIES BASED ON CO. PERCENTAGES AND TRANSPORTATION BASED ON PAYROLL.		

15

WASTEWATER BASE REVENUE	395.97	
WASTEWATER USAGE REVENUE	708.40	
DUE USEPPA INN AND DOCK		1,104.37
REDUCE REVENUE FOR OVER-BILLING OCTOBER. BILLED WATER ONLY METERS FOR WASTEWATER		

16

WATER PROPERTY TAX	201.30	
WASTEWATER PROPERTY TAX	67.10	
DUE TO USEPPA INN AND DOCK		268.40
RECORD PROPERTY TAX TO AFFILIATE		

17

OFFICE RENT WATER	1,800.00	
OFFICE RENT WASTEWATER	1,800.00	
DUE TO USEPPA INN AND DOCK		3,600.00
TO RECORD RENT FOR OFFICE SPACE FOR UTILITY STAFF		

18

WASTEWATER TREATMENT PLANT	1,397.30	
ACCOUNTS PAYABLE		1,397.30
TO RECORD PAYABLE TO GRADY		