

State of Florida



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DATE: December 1, 2005
TO: Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 050281-WS; Company Name: Plantation Bay Utility Company; Audit Purpose: Supplemental Rate Case; Audit Control No: 05-280-2-1

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, it should send the response to the Division of Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:sbj
Attachment

- C: Division of Regulatory Compliance and Consumer Assistance (Hoppe, Tampa District Office Supervisor, File Folder)
Division of Competitive Markets and Enforcement (Harvey)
Division of the Commission Clerk and Administrative Services (2)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Tampa District Office

PLANTATION BAY UTILITY COMPANY, INC.

**FILE AND SUSPEND RATE CASE
(SUPPLEMENTAL)**

VOLUSIA COUNTY

AS OF JULY 31, 2005

**DOCKET NO. 050281-WS
AUDIT CONTROL NO. 05-280-2-1**

A handwritten signature in black ink, appearing to read "Jeffery A. Small".

Jeffery A. Small, Audit Manager

A handwritten signature in black ink, appearing to read "Intesar Terkawi".

Intesar Terkawi, Audit Staff

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher".

Joseph W. Rohrbacher, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE.....	1
	DISCLAIM PUBLIC USE.....	1
	SUMMARY OF SIGNIFICANT FINDINGS.....	2
	SUMMARY OF SIGNIFICANT PROCEDURES.....	3
II.	EXCEPTIONS	
	1. ADJUSTMENTS TO UTILITY-PLANT-IN-SERVICE (UPIS).....	4
	2. ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE.....	9
	3. CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC).....	10
	4. ACCUMULATED AMORTIZATION OF CIAC AND AMORTIZATION EXPENSE.....	11
	5. OTHER DEFERRED ASSETS.....	12
	6. CAPITAL STRUCTURE.....	14
	7. REVENUES.....	16
	8. OPERATION AND MAINTENANCE EXPENSE.....	17
	9. TAXES-OTHER-THEN-INCOME.....	22
III.	DISCLOSURES	
	1. MANAGEMENT FEE EXPENSE.....	23
	2. RATE CASE EXPENSE.....	24
	3. SLUDGE HAULING EXPENSE.....	25
IV.	EXHIBITS	
	1. WATER RATE BASE.....	26
	2. WASTEWATER RATE BASE.....	27
	3. WATER NET OPERATING INCOME.....	28
	4. WASTEWATER NET OPERATING INCOME.....	29
	5. CAPITAL STRUCTURE.....	30

**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

NOVEMBER 30, 2005

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of July 31, 2005, for Plantation Bay Utility Company, Inc.'s water and wastewater operations located in Volusia County, Florida. These schedules were prepared by the audit staff as part of our supplemental work in Docket No. 050281-WS.

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

The utility's water and wastewater utility-plant-in-service balances are overstated by \$111,959 and \$449,357, respectively, as of July 31, 2005.

The utility's water and wastewater accumulated depreciation balances are overstated by \$11,413 and \$25,516, respectively, as of July 31, 2005.

The utility's water and wastewater depreciation expense balances are overstated by \$1,873 and \$5,353, respectively, for the 7-month period ended July 31, 2005.

The utility's water and wastewater contributions-in-aid-of-construction (CIAC) balances are overstated by \$140,539 and understated by \$141,807, respectively, as of July 31, 2005.

The utility's water and wastewater accumulated amortization of CIAC balances are overstated by \$61,564 and understated by \$272,621, respectively, as of July 31, 2005.

The utility's water and wastewater amortization expense balances are overstated by \$12,694 and understated by \$12,447, respectively, for the 7-month period ended July 31, 2005.

The utility's water and wastewater other deferred asset balances are \$5,366 and \$10,135, respectively, as of July 31, 2005.

The utility's weighted cost of capital is 8.20 percent as of July 31, 2005.

The utility's water and wastewater revenues are understated by \$1,059 and \$756, respectively, for the 7-month period ended July 31, 2005.

The utility's water and wastewater operation and maintenance expenses are understated by \$21,945 and \$19,643, respectively, for the 7-month period ended July 31, 2005.

The utility's water and wastewater taxes other than incomes are understated by \$19,009 and \$18,745, respectively, for the 7-month period ended July 31, 2005.

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.

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

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

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

Verified - The item was tested for accuracy and compared to substantiating documentation.

RATE BASE: Compiled account balances for utility-plant-in-service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and deferred taxes for Plantation Bay Utility Company, Inc. as of July 31, 2005. Verified sampled additions to UPIS and CIAC accounts using auditor judgment. Calculated additions to accumulated depreciation and accumulated amortization of CIAC. Calculated a working capital balance. Assembled exhibits for water and wastewater rate base balances as of July 31, 2005.

NET OPERATING INCOME: Compiled utility revenue and operating and maintenance expense accounts for the 7-month period ended July 31, 2005. Chose a judgmental sample of customer bills and recalculated using Commission-approved rates. Chose a judgmental sample of operation and maintenance expenses and verified the invoices and other supporting documentation. Calculated depreciation and amortization expense. Scanned the support for taxes other than income. Assembled exhibits for water and wastewater net operating income for the 7-month period ended July 31, 2005.

CAPITAL STRUCTURE: Compiled the components of the capital structure for the 7-month period ended July 31, 2005. Agreed interest expense to the terms of the notes. Assembled exhibit for capital structure as of July 31, 2005.

Exception No. 1

Subject: Adjustments to Utility-Plant-in-Service (UPIS)

Statement of Facts: The utility's general ledger reflects water and wastewater UPIS balances of \$3,833,572 and \$5,019,503, respectively, as of July 31, 2005.

Included in the above balances are the following capital project additions as of July 31, 2005.

Construction of Section 1DV - Unit 3C utility infrastructure (water)	\$36,217
Construction of Section 1DV - Unit 3C utility infrastructure (wastewater)	\$45,694
Construction of Section 2EV - Unit 2 utility infrastructure (water)	\$104,522
Construction of Section 2EV - Unit 2 utility infrastructure (wastewater)	\$192,078
Construction of Section 2AF - Unit 4 utility infrastructure (water)	\$1,065
Construction of Section 2AF - Unit 4 utility infrastructure (wastewater)	\$155,306

Recommendation: The utility's water and wastewater UPIS balances are overstated by \$111,959 and \$449,357, respectively, as of July 31, 2005, based on the following audit staff determinations.

<u>Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Prior Audit Report	(\$112,969)	(\$280,844)
Construction Project 1DV Unit 3C	551	(551)
Construction Project 2EV Unit 2	(2,340)	2,340
Construction Project 2AFV Unit 4	(1,065)	(155,306)
2005 Invoice Additions	<u>3,864</u>	<u>(14,995)</u>
Total Adjustment	(\$111,959)	(\$449,356)

- 1) The audit staff, in its report dated October 28, 2005, for this rate proceeding, recommended specific adjustments that reduced water and wastewater UPIS by \$112,969 and \$280,844, respectively, as of December 31, 2004.
- 2) The capital project additions recorded for 1DV - Unit 3C mentioned above were misclassified or allocated by the utility to the incorrect NARUC accounts. The audit staff's review of the capital project and its correct account classification is illustrated on Schedule A that follows.
- 3) The capital project additions recorded for 2EV - Unit 2 mentioned above were misclassified or allocated by the utility to the incorrect NARUC accounts. The audit staff's review of the capital project and its correct account classification is illustrated on Schedule B that follows.
- 4) The capital project 2AF - Unit 4 was only partially completed as of July 31, 2005, and all additions should be recorded in Account No. 105, Construction Work-in-Progress until it is ready to be placed in service. The audit staff's adjustments are illustrated in Schedule C that follows.
- 5) The audit staff increased water UPIS and reduced wastewater UPIS by \$3,864 and \$14,995, respectively, as of July 31, 2005, to accrue July invoices not recorded in the utility's G/L, to reclassify improperly recorded invoices to the correct NARUC accounts, and to record a retirement for effluent pumps replaced at the utility's wastewater plant. The audit staff's adjustments are illustrated in Schedule D that follows.

The effects of the audit staff's adjustments on accumulated depreciation and depreciation expense are discussed in Exception No. 2 of this report.

Schedule A for Exception No. 1

Plantation Bay Utility
 Section IDV Unit 3C
 Utility Infrastructure Additions

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment
3310	Transmission & Distribution Mains	\$36,216.60	\$20,196.00	28.01%	\$2,744.70	\$22,940.70	(\$13,275.90)
3330	Services	0.00	6,142.60	8.52%	834.80	6,977.40	6,977.40
3350	Hydrants	0.00	6,030.00	8.36%	819.49	6,849.49	6,849.49
3470	Miscellaneous Equipment	<u>0.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Water	\$36,216.60	\$32,368.60		\$4,398.99	\$36,767.59	\$550.99
3600	Collection - Sewers Forced	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	27,104.70	27,104.70	37.59%	3,683.61	30,788.31	3,683.61
3612	Collection - Sewers Manholes	8,962.00	8,962.00	12.43%	1,217.96	10,179.96	1,217.96
3630	Services to Customers	3,675.00	3,675.00	5.10%	499.44	4,174.44	499.44
3800	Treatment & Disposal	<u>5,952.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>(5,952.00)</u>
	Total Wastewater	\$45,693.70	\$39,741.70		\$5,401.01	\$45,142.71	(\$550.99)
	Total Contract Hard Cost	\$81,910.30	\$72,110.30	100.00%	\$9,800.00	\$81,910.30	\$0.00
	Miscellaneous Cost		\$9,800.00				

Per Audit Hard Costs are the actual project costs that are recorded specifically to the water or wastewater system.
 Miscellaneous Costs are general project contract costs that are allocated between the water and wastewater systems.

Schedule B for Exception No. 1

Plantation Bay Utility
 Section 2EV Unit 2
 Utility Infrastructure Additions

Acct#	Account Description	Per Utility Total Cost	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment
3310	Transmission & Distribution Mains	\$77,544.00	\$70,019.00	24.87%	\$3,742.81	\$73,761.81	(\$3,782.19)
3330	Services	10,898.00	10,898.00	3.87%	582.54	11,480.54	582.54
3350	Hydrants	16,080.00	16,080.00	5.71%	859.54	16,939.54	859.54
3470	Miscellaneous Equipment	<u>0.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Water	\$104,522.00	\$96,997.00		\$5,184.89	\$102,181.89	(\$2,340.11)
3600	Collection - Sewers Forced	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00
3611	Collection - Sewers Gravity	131,027.65	125,152.65	44.45%	6,689.93	131,842.58	814.93
3612	Collection - Sewers Manholes	46,700.00	45,050.00	16.00%	2,408.11	47,458.11	758.11
3630	Services to Customers	14,350.00	14,350.00	5.10%	767.07	15,117.07	767.07
3710	Pumping Equipment	<u>0.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Wastewater	\$192,077.65	\$184,552.65		\$9,865.11	\$194,417.76	\$2,340.11
	Total Contract Hard Cost	\$296,599.65	\$281,549.65	100.00%	\$15,050.00	\$296,599.65	\$0.00
	Miscellaneous Cost		\$15,050.00				

Per Audit Hard Costs are the actual project costs that are recorded specifically to the water or wastewater system.
 Miscellaneous Costs are general project contract costs that are allocated between the water and wastewater systems.

Schedule C for Exception No. 1

Plantation Bay Utility
 Section 2AF, Unit 4
 Utility Infrastructure Additions

Acct#	Account Description	Per Utility Total Cost	Per Utility @12/31/2004	Per Utility @07/31/2005	Per Audit Hard Cost	Per Audit Percentage	Per Audit Misc. Cost	Per Audit Total Cost	Audit Adjustment
3310	Transmission & Dist. Mains	\$102,531.40	\$101,466.40	\$1,065.00	\$94,306.40	18.36%	\$4,026.89	\$98,333.29	(\$1,065.00)
3330	Services	14,140.00	14,140.00	0.00	8,000.00	1.56%	341.60	8,341.60	0.00
3350	Hydrants	11,670.00	11,670.00	0.00	14,140.00	2.75%	603.78	14,743.78	0.00
3470	Miscellaneous Equipment	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	0.00%	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Water	\$128,341.40	\$127,276.40	\$1,065.00	\$116,446.40		\$4,972.27	\$121,418.67	(\$1,065.00)
3600	Collection - Sewers Forced	\$30,530.00	\$29,083.75	\$1,446.25	\$22,655.00	4.41%	\$967.37	\$23,622.37	(\$1,446.25)
3611	Collection - Sewers Gravity	321,755.70	213,501.60	108,254.10	185,600.10	36.14%	7,925.14	193,525.24	(108,254.10)
3612	Collection - Sewers Manholes	31,451.00	0.00	31,451.00	66,655.50	12.98%	2,846.20	69,501.70	(31,451.00)
3630	Services to Customers	9,275.00	0.00	9,275.00	19,075.00	3.71%	814.50	19,889.50	(9,275.00)
3710	Pumping Equipment	4,880.00	0.00	4,880.00	103,150.00	20.08%	4,404.51	107,554.51	(4,880.00)
3810	Plant Sewers	<u>9,278.90</u>	<u>9,278.90</u>	<u>0</u>	<u>0.00</u>	<u>0.00%</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
	Total Wastewater	\$407,170.60	\$251,864.25	\$155,306.35	\$397,135.60		\$16,957.73	\$414,093.33	(\$155,306.35)
	Total Contract Hard Cost	\$535,512.00	\$379,140.65	\$156,371.35	\$513,582.00	100.00%	\$21,930.00	\$535,512.00	(\$156,371.35)
	Miscellaneous Cost				\$21,930.00				

Per Audit Hard Costs are the actual project costs that are recorded specifically to the water or wastewater system.
 Miscellaneous Costs are general project contract costs that are allocated between the water and wastewater systems.

Schedule D for Exception No. 1

Plantation Bay Utility Company 2004 UPIS Adjustments

Detail from General Ledger

Acct#	Date	Invoice#	Vendor	Details	Per Utility Amount	Per Audit Recommendation
3110	06/01/05	2183	Bryson Crane Rental	Rent crane to reset pumps after repairs	\$270.00	Reclassify to Acct. No. 636 - Contractual Services - Other
3350	04/19/05	2198386	National Water Works	1ea Eclipse Hydrant Flusher	\$1,399.38	Reclassify to Acct. No. 343 - Tools, Shop & Garage Equip.
3710	06/02/05	7732	M&M Sales & Service	Replace effluent pumps	\$17,075.00	Retire 75% of invoice costs
3710	07/19/05	6302005	Wetherell Treatment	W&WW plant modifications	\$8,333.64	Reclassify \$2,189 to Acct. No. 320 - Water Treatment Equip.

Water Audit Adjustment	Vendor	Details	Adjustment	Per Audit Recommendation	
3100	8/9/2005	117 Volusia Construction	Tetrofit wells for emerg. Generators	\$1,700.00	Add July accrual not recorded in G/L
3110	06/01/05	2183 Bryson Crane Rental	Rent crane to reset pumps after repairs	(270.00)	Reclassify to Acct. No. 636 - Contractual Services - Other
3200	07/19/05	6302005 Wetherell Treatment	W&WW plant modifications	2,188.76	Reclassify \$2,189 to Acct. No. 320 - Water Treatment Equip.
3340	8/9/2005	570 Sky's The Limit, Inc.	Install 7 meters	245.00	Add July accrual not recorded in G/L
3350	04/19/05	2198386 National Water Works	1ea Eclipse Hydrant Flusher	(1,399.38)	Reclassify to Acct. No. 343 - Tools, Shop & Garage Equip.
3430	04/19/05	2198386 National Water Works	1ea Eclipse Hydrant Flusher	<u>1,399.38</u>	Reclassify to Acct. No. 343 - Tools, Shop & Garage Equip.
Total Adjustment to UPIS			\$3,863.76		

Wastewater Audit Adjustment	Vendor	Details	Adjustment	Per Audit Recommendation	
3710	06/02/05	7732 M&M Sales & Service	Replace effluent pumps	(\$12,806.25)	Retire 75% of invoice costs
3710	07/19/05	6302005 Wetherell Treatment	W&WW plant modifications	<u>(2,188.76)</u>	Reclassify \$2,189 to Acct. No. 320 - Water Treatment Equip.
Total Adjustment to UP			(\$14,995.01)		

Exception No. 2

Subject: Accumulated Depreciation and Depreciation Expense

Statement of Facts: The utility's general ledger reflects water and wastewater depreciation expenses and accumulated depreciation balances of \$68,810, \$91,560, \$1,645,115, and \$1,548,580, respectively, as of July 31, 2005.

Rule 25-30.140, Florida Administrative Code, requires the use of prescribed service lives to depreciate water and wastewater utility-plant-in-service accounts.

The utility calculated its water and wastewater depreciation expenses and its accumulated depreciation balances based on estimated monthly depreciation accruals of \$9,830 and \$13,080, respectively, for the 7-month period ended July 31, 2005. ($\$9,830 \times 7 \text{ months} = \$68,810$ and $\$13,080 \times 7 \text{ months} = \$91,560$)

Recommendation: The utility's water and wastewater accumulated depreciation balances are overstated by \$11,413 and \$25,516, respectively, as of July 31, 2005, based on the following audit staff determinations.

<u>Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Prior Audit Report	(\$9,540)	(\$20,163)
Remove utility accruals as of July 31, 2005	(68,810)	(91,560)
Add audit staff accruals as of July 31, 2005	<u>66,937</u>	<u>86,207</u>
Total Adjustment	(\$11,413)	(\$25,516)

1. The audit staff, in its report dated October 28, 2005, for this rate proceeding, recommended specific adjustments that reduced water and wastewater accumulated depreciation by \$9,540 and \$20,163, respectively, as of December 31, 2004.
2. The utility's accumulated depreciation accruals were based on estimates that were not trued-up as of July 31, 2005.
3. The audit staff calculated water and wastewater accumulated depreciation accruals of \$66,937 and \$86,207, respectively, as of July 31, 2005, based on the recommendations described in its report dated October 28, 2005, for this rate proceeding, on its adjustments to UPIS described in Exception No. 1 of this report, and on the use of prescribed rates in the rule cited above.

Additionally, the utility's water and wastewater depreciation expense balances are overstated by \$1,873 and \$5,353, respectively, for the 7-month period ended July 31, 2005, based on the above audit staff determinations.

<u>Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Remove utility accruals as of July 31, 2005	(\$68,810)	(\$91,560)
Add audit staff accruals as of July 31, 2005	<u>66,937</u>	<u>86,207</u>
Total Adjustment	(\$1,873)	(\$5,353)

Exception No. 3

Subject: Contributions-in-Aid-of-Construction (CIAC)

Statement of Facts: The utility's general ledger reflects water and wastewater CIAC balances of \$2,031,130 and \$2,294,599, respectively, as of July, 31, 2005.

Recommendation: The utility's water and wastewater CIAC balances are overstated by \$140,539 and understated by \$141,807, respectively, as of July 31, 2005, because of the following audit staff determinations. See audit staff calculations below.

- 1) The audit staff, in its report dated October 28, 2005, for this rate proceeding, recommended specific adjustments that reduced water and increased wastewater CIAC by \$87,991 and \$89,259, respectively, as of December 31, 2004.
- 2) The utility improperly recorded \$12,200 of water meter installation fees as wastewater capacity fees in July 2005.
- 3) The utility improperly recorded \$64,748 of wastewater capacity fees as water meter installation fees in July 2005.

Year 2005 System Information	Additions Per Utility	Audit Adjustments Reclass		Prior Audit Adjustment	Audit Staff Adjustment
Water - Meter Installation	\$64,748	(\$64,748)	\$12,200	(\$88,628)	(\$141,176)
Water - System Capacity	0	0	0	<u>637</u> (\$87,991)	<u>637</u> (\$140,539)
W/Water System Capacity	\$12,200	(\$12,200)	\$64,748	\$89,259	\$141,807

Additionally, the audit staff adjustments above will require corresponding adjustments to CIAC amortization expense and accumulated amortization of CIAC balances which are calculated in Exception No. 4 of this report.

Exception No. 4

Subject: Amortization Expense and Accumulated Amortization of CIAC

Statement of Facts: The utility's general ledger reflects water and wastewater CIAC amortization expense and accumulated amortization of CIAC balances of \$39,970, \$39,060, \$615,478, and \$854,876, respectively, as of July 31, 2005.

Rule 25-30.140, Florida Administrative Code, requires the use of prescribed service lives to amortize water and wastewater CIAC accounts.

The utility calculated its water and wastewater amortization expenses and its accumulated amortization of CIAC balances based on estimated monthly amortization accruals of \$5,710 and \$5,580, respectively, for the 7-month period ended July 31, 2005. (\$5,710 x 7 months = \$39,970 and \$5,580 x 7 months = \$39,060)

Recommendation: The utility's water and wastewater accumulated amortization of CIAC balance are overstated by \$61,564 and understated by \$272,621, respectively, as of July 31, 2005, based on the following audit staff determinations.

<u>Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Prior Audit Report	(\$48,870)	\$260,174
Remove utility accruals as of July 31, 2005	(39,970)	(39,060)
Add audit staff accruals as of July 31, 2005	<u>27,276</u>	<u>51,507</u>
Total Adjustment	(\$61,564)	\$272,621

1. The audit staff, in its report dated October 28, 2005, for this rate proceeding, recommended specific adjustments that reduced water and increased wastewater accumulated amortization of CIAC by \$48,870 and \$260,174, respectively, as of December 31, 2004.
2. The utility's accumulated depreciation accruals were based on estimates that were not trued-up as of July 31, 2005.
3. The audit staff calculated water and wastewater amortization of CIAC accruals of \$27,276 and \$51,507, respectively, as of July 31, 2005, based on the recommendations described in its report dated October 28, 2005, for this rate proceeding, on its adjustments to CIAC described in Exception No. 3 of this report, and on the use of prescribed rates in the rule cited above.

Additionally, the utility's water and wastewater amortization expense balances are overstated by \$12,694 and understated by \$12,447, respectively, for the 7-month period ended July 31, 2005, based on the above audit staff determinations.

<u>Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Remove utility accruals as of July 31, 2005	(\$39,970)	(\$39,060)
Add audit staff accruals as of July 31, 2005	<u>27,276</u>	<u>51,507</u>
Total Adjustment	(\$12,694)	\$12,447

Exception No. 5

Subject: Other Deferred Assets

Statement of Facts: The utility's general ledger reflects a balance of \$28,684 for other deferred assets as of July 31, 2005, which is composed of water and wastewater balances of \$2,292 and \$11,633, respectively, and \$14,760 for deferred rate case expense for the current rate proceeding.

The utility calculates the amortization accrual to operating and maintenance expense for the above deferred asset balances at the end of the calendar year. Therefore, the utility's general ledger does not contain any amortization expense for other deferred assets for the 7-month period ended July 31, 2005.

Recommendation: The utility's water and wastewater other deferred asset balances are understated by \$3,074 (\$5,366-\$2,292) and overstated by \$1,498 (\$11,633-\$10,135), respectively, as of July 31, 2005, based on the following audit staff determinations. See below and Schedule E that follows for details and audit staff's calculations.

- 1) The audit staff, in its report dated October 28, 2005, for this rate proceeding, recommended specific adjustments that increased wastewater other deferred assets \$8,855 as of December 31, 2004.
- 2) The audit staff included \$4,129 incurred for painting the water systems fire hydrants that was removed from water operating and maintenance expense in Exception No. 8 of this report.
- 3) The audit staff removed \$14,760 of rate case expense incurred for this proceeding pending staffs final determination in its recommendation. See Disclosure No. 2 of this report.
- 4) The audit staff calculated water and wastewater amortization expense balances of \$2,887 and \$6,750, respectively, that should be recorded in Acct. Nos. 636 and 736 Contractual Services - Other, for the 7-month period ended July 31, 2005.

Deferred Asset Balance - Per Audit	@12/31/2004	@07/31/2005	Audit Staff Recommendation
2005 Deferred Asset Un-Amortz. Bal. - Water	\$5,961.44	\$4,410.85	To Acct. No. 186 - Water
2005 Deferred Rate Case Un-Amortz. Bal. - Water	\$2,291.78	<u>\$954.91</u>	To Acct. No. 186 - Water
		\$5,365.76	
2005 Deferred Asset Un-Amortz. Bal. - Water	\$15,367.34	\$9,502.31	To Acct. No. 186 - W/Water
2005 Deferred Rate Case Un-Amortz. Bal. - Water	\$1,517.22	<u>\$632.19</u>	To Acct. No. 186 - W/Water
		\$10,134.50	
	2005	2005	
O&M Expense Allocation - Per Audit	12-Months	7-Months	Audit Staff Recommendation
2005 Deferred Asset Amortz. - Water	\$2,658.16	\$1,550.59	To Acct. No. 636
2005 Deferred Rate Case Amortz. - Water	\$2,291.77	<u>\$1,336.87</u>	To Acct. No. 666
		\$2,887.46	
2005 Deferred Asset Amortz. - W/Water	\$10,054.34	\$5,865.03	To Acct. No. 736
2005 Deferred Rate Case Amortz. - W/Water	\$1,517.19	<u>\$885.03</u>	To Acct. No. 766
		\$6,750.06	

Schedule E for Exception No. 5

<i>Deferred Assets</i>		Original	Utility	Original	2001	2002	2003	2004	2005
	System	Date	Acct. No.	Invoice	Amtz. Amt.	Amtz. Amt.	Amtz. Amt.	Amtz. Amt.	Amtz. Amt.
Zabatt, Inc.	Water	2001	633	\$9,161.70	\$1,832.34	\$1,832.34	\$1,832.34	\$1,832.34	\$1,832.34
Sky's The Limit, Inc. (Painting) **	Water	2005	636	<u>4,129.10</u>	<u>-na-</u>	<u>-na-</u>	<u>-na-</u>	<u>-na-</u>	<u>825.82</u>
Totals				\$13,290.80	\$1,832.34	\$1,832.34	\$1,832.34	\$1,832.34	\$2,658.16
Woody's Septic Tank	W/Water	2001	711	\$28,200.00	\$5,640.00	\$5,640.00	\$5,640.00	\$5,640.00	\$5,640.00
Woody's Septic Tank	W/Water	2001	711	4,055.00	811.00	811.00	811.00	811.00	811.00
Zabatt, Inc.	W/Water	2001	733	9,161.70	1,832.34	1,832.34	1,832.34	1,832.34	1,832.34
Wetherell Treatment (Hurricane) *1	W/Water	2004	736	<u>8,855.00</u>	<u>-na-</u>	<u>-na-</u>	<u>-na-</u>	<u>1,771.00</u>	<u>1,771.00</u>
Totals				\$50,271.70	\$8,283.34	\$8,283.34	\$8,283.34	\$10,054.34	\$10,054.34
<i>Deferred Rate Case Expense</i>		Original	Utility	Original	2001	2002	2003	2004	2005
	System	Date	Acct. No.	Invoice	Amtz. Amt.	Amtz. Amt.	Amtz. Amt.	Amtz. Amt.	Amtz. Amt.
Rose, Sundstrom & Bentley	Water	2001	630	\$438.44	-na-	\$110.48	\$110.48	\$110.48	\$107.00
Cronin, Nixon, Jackson	Water	2001	630	1,055.00	-na-	265.85	265.85	265.85	257.45
Rose, Sundstrom & Bentley	Water	2002	630	2,712.07	-na-	678.02	678.02	678.02	678.01
Cronin, Nixon, Jackson	Water	2002	630	3,018.03	-na-	754.51	754.51	754.51	754.50
Finley Engineering	Water	2002	631	36.29	-na-	9.07	9.07	9.07	9.08
Barbra Swazy	Water	2002	630	816.48	-na-	204.12	204.12	204.12	204.12
ICI	Water	2002	631	<u>1,126.44</u>	<u>-na-</u>	<u>281.61</u>	<u>281.61</u>	<u>281.61</u>	<u>281.61</u>
Totals				\$9,202.75	-na-	\$2,303.66	\$2,303.66	\$2,303.66	\$2,291.77
Rose, Sundstrom & Bentley	W/Water	2001	730	\$292.30	-na-	\$72.20	\$72.20	\$72.20	\$75.70
Cronin, Nixon, Jackson	W/Water	2001	730	703.32	-na-	173.73	173.73	173.73	182.13
Rose, Sundstrom & Bentley	W/Water	2002	730	1,772.18	-na-	443.05	443.05	443.05	443.03
Cronin, Nixon, Jackson	W/Water	2002	730	1,972.09	-na-	493.02	493.02	493.02	493.03
Finley Engineering	W/Water	2002	731	23.71	-na-	5.93	5.93	5.93	5.92
Barbra Swazy	W/Water	2002	730	533.53	-na-	133.38	133.38	133.38	133.38
ICI	W/Water	2002	731	<u>736.06</u>	<u>-na-</u>	<u>184.02</u>	<u>184.02</u>	<u>184.02</u>	<u>184.00</u>
Totals				\$6,033.19	-na-	\$1,505.32	\$1,505.32	\$1,505.32	\$1,517.19

** Audit staff additions to utility's other deferred asset balance.

Exception No. 6

Subject: Capital Structure

Statement of Facts: The utility's general ledger reflects the following debt and equity balances as of July 31, 2005.

Class of Capital	
Long-term Debt	\$1,940,442
Common Equity	(2,603,158)
Other Equity	2,531,000
Customer Deposits	<u>36,990</u>
	\$1,905,274

The utility's filing for this rate proceeding also included a balance of \$654,648 for accumulated deferred income taxes as a component of rate base.

The audit staff, in its report dated October 28, 2005, for this rate proceeding, reclassified the above balance to the utility's capital structure presentation as of December 31, 2004.

Recommendation: The utility's weighted cost of capital is 8.20 percent as of July 31, 2005, based on the following audit staff determinations. See Schedule F that follows for the audit staff calculations.

1. The utility's customer deposit balance is overstated by \$180, because it includes three customer deposits of \$60 that were refunded as of July 31, 2005, but not recorded in its general ledger.
2. The audit staff set the cost rate for common equity at zero percent because the utility's net equity balance is negative.

Schedule F for Exception No. 6

Class of Capital	Per Utility		Per Audit		Reconciliation Adjustments		Reconciled to Rate Base
	@07/31/2005	Adjustments	@07/31/2005	Pro Rata	Pro Rata %		
Long-term Debt	\$1,940,442	\$0	\$1,940,442	\$642,375	103.862%	\$2,582,817	
Short-term Debt	0	0	0	0	0.000%	0	
Preferred Stock	0	0	0	0	0.000%	0	
Common Equity	(2,603,158)	0	(2,603,158)	(861,764)	-139.334%	(3,464,922)	
Other Equity	2,531,000	0	2,531,000	837,877	135.472%	3,368,877	
Customer Deposits	36,990	(180)	36,810	0	0.000%	36,810	
Tax Credits - Zero Cost	0	0	0	0	0.000%	0	
Accumulated Deferred Income Tax (1)	<u>654,648</u>	<u>0</u>	<u>654,648</u>	<u>0</u>	<u>0.000%</u>	<u>654,648</u>	
Total Debt and Equity	\$2,559,923	(\$180)	\$2,559,743	\$618,487	100.000%	\$3,178,230	

1) Accumulated Deferred Income Tax balance is as of December 31, 2004.

Class of Capital	Reconciled to		Cost Rate(2)	Weighted Cost
	Rate Base	Ratio		
Long-term Debt	\$2,582,817	81.27%	10.00%	8.13%
Short-term Debt	0	0.00%	0.00%	0.00%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	(3,464,922)	-109.02%	0.00%	0.00%
Other Equity	3,368,877	106.00%	0.00%	0.00%
Customer Deposits	36,810	1.16%	6.00%	0.07%
Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
Accumulated Deferred Income Tax (1)	<u>654,648</u>	<u>20.60%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Debt and Equity	\$3,178,230	100.00%		8.20%

1) Accumulated Deferred Income Tax balance is as of December 31, 2004.

2) Cost rate for common equity set to zero for rate making purposes because of net negative balance.

Exception No. 7

Subject: Revenues

Statement of Facts: The utility's general ledger reflects water and wastewater revenues of \$233,319 and \$145,143, respectively, for the 12-month period ended December 31, 2004.

The utility's billing register indicates that it serves the following customer classes.

- Water Residential Service - 5/8 meter and 1 inch meter
- Water General Service - 5/8 inch and 1 1/2-inch meter
- Wastewater Residential Service - 5/8 meter and 1 inch meter
- Wastewater General Service - 5/8 inch and 1 1/2-inch meter

Recommendation: The utility's water and wastewater revenues are understated by \$1,059 and \$756, respectively, for the 7-month period ended July 31, 2005.

The audit staff conducted a field inspection of the utility's general service meters and determined that it was billing incorrect base facility rates for the three customers identified below.

Water Adjustment Meter Service ID#	Utility Meter Billing Size	Utility Base Facility Charge	Actual Meter Size	Actual Base Facility Charge	Base Facility Difference
00-0010-2	1 1/2 inch	\$88.96	2 inch	\$142.34	\$53.38
00-0020-2	5/8 inch	\$17.79	1 inch	\$44.49	26.70
15-0190-1	5/8 inch	\$17.79	1 1/2 inch	\$88.96	<u>71.17</u>
					\$151.25
				Months Adjustment	<u>7</u> \$1,058.75

Wastewater Adjustment Meter Service ID#	Utility Meter Billing Size	Utility Base Facility Charge	Actual Meter Size	Actual Base Facility Charge	Base Facility Difference
00-0010-2	1 1/2 inch	\$63.02	2 inch	\$101.61	\$38.59
00-0020-2	5/8 inch	\$12.70	1 inch	\$31.76	19.06
15-0190-1	5/8 inch	\$12.70	1 1/2 inch	\$63.02	<u>50.32</u>
					\$107.97
				Months Adjustment	<u>7</u> \$755.79

Additionally, the above adjustments to water and wastewater revenues will require an increase to taxes other than income to record the additional regulatory assessment fees associated with the increase in utility revenues. The increase is calculated in Exception No. 9 of this report.

Exception No. 8

Subject: Operation and Maintenance Expense (O&M)

Statement of Facts: The utility's filing reflects water and wastewater O&M expenses of \$103,033 and 89,368, respectively, for the 7-month period ended July 31, 2005. The sub-account balances for the above-mentioned balances are indicated below.

Water O&M Expense			Wastewater O&M Expense		
Acct. No.	Account Description	Amount	Acct. No.	Account Description	Amount
615	Purchased Power	\$11,608	711	Sludge Removal	\$14,396
618	Chemicals	10,381	715	Purchased Power	12,347
620	Materials & Supplies	6,729	718	Chemicals	0
631	Contractual Services - Engineering	4,780	720	Materials & Supplies	4,229
632	Contractual Services - Accounting	1,049	731	Contractual Services - Engineering	2,420
633	Contractual Services - Legal	4,685	732	Contractual Services - Accounting	699
634	Contractual Services - Mgmt. Fees	27,000	733	Contractual Services - Legal	3,123
635	Contractual Services - Testing	1,632	734	Contractual Services - Mgmt. Fees	18,000
636	Contract Services - Other	34,124	735	Contractual Services - Testing	0
657	Insurance - General Liability	0	736	Contract Services - Other	33,450
666	Rate Case Expense	0	757	Insurance - General Liability	0
675	Miscellaneous Expense	<u>1,044</u>	766	Rate Case Expense	0
	Total	\$103,033	775	Miscellaneous Expense	<u>704</u>
			Total		\$89,368

Recommendation: The utility's water and wastewater O&M expenses are understated by \$21,945 and \$19,643, respectively, for the 7-month period ended July 31, 2005, based on the following audit staff determinations.

- 1) The audit staff reviewed all the vendor invoices for Account No. 711 Sludge Removal recorded in the utility's general ledger and determined that it is understated by \$1,198 based on the following finding.
 - a) The utility's general ledger does not include an invoiced amount in July 2005 totaling \$1,198 which should be accrued to sludge removal expense.
- 2) The audit staff reviewed all the vendor invoices for Accounts Nos. 615 and 715, Purchased Power recorded in the utility's general ledger and determined that they are understated by \$2,439 and \$2,145, respectively, based on the following findings.
 - a) The utility's general ledger does not include invoiced amounts incurred in July 2005 totaling \$4,774 (\$58+\$748+\$3,968) which should be accrued to water and wastewater purchased power for \$2,439 (\$58+\$2,381) and for \$2,335 (\$748+\$1,587), respectively.
 - b) The utility included \$50.44 for wastewater purchased power for Florida Power and Light Meter Account 15886-83100 which is an irrigation system that should be removed.
 - c) The utility netted out three wastewater purchased power invoice amounts totaling \$29.12 against a service deposit refund that should have been included as purchased power expense.
 - d) The utility included a \$200 service deposit that should be removed, because it does not represent wastewater purchased power expense.
 - e) The utility booked a \$32 wastewater purchased power expense adjustment twice to its general ledger. The second journal entry should be reversed for the \$32 amount.

Exception No. 8, continued

- 3) The audit staff reviewed all the vendor invoices for Accounts Nos. 618 and 718, Chemicals recorded in the utility's general ledger and determined that they are understated by \$2,365 and \$2,489, respectively, based on the following findings.
 - a) The utility's general ledger does not include invoiced amounts incurred in July 2005 totaling \$4,855 which should be accrued to water and wastewater chemical expenses for \$4,213 (\$446+\$446+\$3,321) and \$642 (\$321 + \$321), respectively.
 - b) The utility records all chemical expenses in Account No. 618, Chemicals. The audit staff allocated \$1,848 of chlorine gas expense to Account No. 718, Chemicals, consistent with the methodology used by the utility in its filing for this rate proceeding.
- 4) The audit staff reviewed all the vendor invoices for Accounts Nos. 620 and 720, Materials and Supplies recorded in the utility's general ledger and determined that they are overstated and understated by \$230 and \$76, respectively, based on the following findings.
 - a) The utility's general ledger does not include invoiced amounts in July 2005 totaling \$515, which should be accrued and allocated to water and wastewater materials and supplies for \$335 and \$180, respectively.
 - b) The audit staff reclassified a \$273 invoice for cleaning sewer mains that the utility recorded in Account No. 636, Contractual Services - Other to wastewater materials and supplies.
 - c) The audit staff removed two invoices totaling \$942 that were recorded twice in water and wastewater materials and supplies for \$565 (\$75+\$490) and \$377 (\$50+\$327).
- 5) The audit staff reviewed all vendor invoices for Accounts Nos. 631 and 731, Contractual Services - Engineering recorded in the utility's general ledger and determined that they are overstated by \$630 and \$420, respectively, based on the following findings.
 - a) The utility's general ledger does not include invoiced amounts in July 2005 totaling \$675, which should be accrued and allocated to water and wastewater contractual services-engineering for \$405 and \$270, respectively.
 - b) The audit staff reclassified \$1,725 of an invoice totaling \$2,100 to Account No. 186, Deferred Assets as rate case expense for this rate proceeding.
- 6) The audit staff reviewed all vendor invoices for Accounts Nos. 633 and 733, Contractual Services - Legal recorded in the utility's general ledger and determined that they are understated by \$50 and \$33, respectively, based on the following finding.
 - a) The utility's general ledger does not include invoiced amounts in July 2005 totaling \$83, which should be accrued and allocated to water and wastewater contractual services-legal for \$50 and \$33, respectively.
- 7) The audit staff reviewed the general ledger for Accounts Nos. 634 and 734, Contractual Services - Management Fees and determined that they are understated by \$4,500 and \$3,000, respectively, based on the following finding.
 - a) The utility's general ledger does not include an accrual for July 2005 totaling \$7,500 which should be allocated to water and wastewater contractual services management fees for \$4,500 and \$3,000, respectively.
- 8) The audit staff reviewed all vendor invoices for Account No. 635, Contractual Services - Testing recorded in the utility's general ledger and determined that it is understated by \$572 based on the following finding.
 - a) The utility's general ledger does not include an invoiced amount in July 2005 totaling \$572, which should be accrued to water contractual services testing.
- 9) The audit staff reviewed all vendor invoices for Accounts Nos. 636 and 736, Contractual Services - Other recorded in the utility's general ledger and determined that they are understated by \$5,659 and \$6,424, respectively, based on the following findings.
 - a) The utility's general ledger does not include invoiced amounts in July 2005 totaling \$9,070 which should be accrued and allocated to water and wastewater contractual services other for \$4,824 (\$348+\$3,988+\$488)and \$4,246 (\$180+\$232+\$3,508+\$326), respectively.

Exception No. 8, continued

- b) The audit staff reclassified a \$4,129 (\$2,477+\$1,652) invoice which was for painting all of the utility's fire hydrants to Account No. 186 - Deferred Assets as nonrecurring expense which should be amortized over five years based on the findings of Exception No. 5 of this report.
 - c) The audit staff reclassified a \$273 invoice for cleaning sewer mains to Account No. 720, Materials and Supplies that is discussed in Item No. 4) b) above.
 - d) The audit staff included \$7,416 (\$1,551+\$5,865) for deferred assets amortization expense based on the findings of Exception No. 5 of this report.
 - e) The audit staff reallocated the Wetherell Treatment System invoices between water and wastewater accounts based on its review of the services performed. Water should be increased by \$2,035 with a corresponding reduction of \$2,035 to wastewater.
- 10) The audit staff reviewed the general ledger for Accounts Nos. 657 and 757, Insurance - General Liability and determined that they are understated by \$5,028 and \$3,352, respectively, based on the following finding.
- a) The audit staff included a 7-month prorated amount for water and wastewater general liability insurance of \$5,028 and \$3,352, respectively based on an insurance invoice totaling \$14,364, which the utility received after July 31, 2005.
- 11) The audit staff included \$2,222 (\$1,337+\$885) for Acct. Nos. 666 and 766, Deferred Rate Case Expense, respectively, based on the findings of Exception No. 5 of this report.
- 12) The audit staff reviewed all vendor invoices for Accounts Nos. 675 and 775, Miscellaneous Expense recorded in the utility's general ledger and determined that they are understated by \$856 and \$460, respectively, based on the following finding.
- a) The utility's general ledger does not include invoiced amounts in July 2005 totaling \$1,316 which should be accrued and allocated to water and wastewater miscellaneous expense for \$856 and \$460, respectively.

Item No.	Water	W/Water
1	\$0.00	\$1,197.78
2	2,439.04	2,144.96
3	2,365.11	2,489.49
4	(230.40)	76.08
5	(630.00)	(420.00)
6	50.10	33.40
7	4,500.00	3,000.00
8	572.00	0.00
9	5,658.73	6,424.43
10	5,027.76	3,351.83
11	1,336.87	885.03
12	<u>855.59</u>	<u>460.20</u>
Total Adjustment	\$21,944.80	\$19,643.20

See Schedules G and H that follow for invoice details and the audit staff's calculations.

Additionally, the utility's water and wastewater working capital is \$15,622 (\$103,033+\$21,945)/8 and \$13,627 (\$89,369+\$19,643)/8, respectively, based on the audit staff using the 1/8th of operating and maintenance expenses methodology as prescribed in Rule 25-30.433, Florida Administrative Code.

Schedule G for Exception No. 8

Plantation Bay Utility Company			2005 O&M Expense Adjustments			
Acct#	Date	Vendor	Details	Water	W/Water	Per Audit Recommendation
711	07/13/05	Shelly's Septic Tank	Sludge Hauling	\$0.00	\$1,197.78	Add July accrual not recorded in G/L
615/715		Fla. Power & Light	Power Meter # 15886-83100	\$0.00	(\$50.44)	Remove power expense for irrigation meter account
615/715		Fla. Power & Light	Audit staff correction	0.00	29.12	Add back p/power expense netted against deposit credit
615/715		Fla. Power & Light	Audit staff correction	0.00	(200.00)	Remove meter deposit charged to p/power expense
615/715		Fla. Power & Light	Audit staff correction	0.00	31.55	Add back p/power journal entry booked twice
615/715	07/31/05	Fla. Power & Light	Audit staff accrual	58.03	747.39	Add July accrual not recorded in G/L
615/715	07/31/05	Fla. Power & Light	Audit staff accrual	<u>2,381.01</u>	<u>1,587.34</u>	Add July accrual not recorded in G/L
				\$2,439.04	\$2,144.96	
618/718		Jones Chemicals	Chlorine Gas	(\$1,847.53)	\$1,847.53	Allocate CL gas to w/water using utility operator's estimate
618/718	07/31/05	Jones Chemicals	8-150lb CL gas	445.82	320.98	Add July accrual not recorded in G/L
618/718	07/31/05	Jones Chemicals	8-150lb CL gas	445.82	320.98	Add July accrual not recorded in G/L
618/718	07/31/05	Chemical Lime of Alabama	24 tons of lime	<u>3,321.00</u>	<u>0.00</u>	Add July accrual not recorded in G/L
				\$2,365.11	\$2,489.49	
620/720	03/15/05	Roto-Rooter	Clean sewer mains	\$0.00	\$273.00	Reclassification from Acct. No. 636 - Cont. Services-Other
620/720	07/15/05	Mowerks	Mow Water & W/Water plant sites	335.00	180.00	Add July accrual not recorded in G/L
620/720	07/18/05	Coachman Printing	500 applications for service forms	(74.77)	(49.84)	Remove double-booked invoice
620/720	07/18/05	Coachman Printing	Utility forms and letterhead	<u>(490.63)</u>	<u>(327.08)</u>	Remove double-booked invoice
				(\$230.40)	\$76.08	
631/731	07/30/05	Fineley Engineering	Engineering services and testing	\$405.00	\$270.00	Add July accrual not recorded in G/L
631/731	05/30/05	Fineley Engineering	Rate case expense	<u>(1,035.00)</u>	<u>(690.00)</u>	Remove rate case expense
				(\$630.00)	(\$420.00)	
633/733	07/22/05	Rose, Sundstrom, Bentley	Legal fees	\$50.10	\$33.40	Add July accrual not recorded in G/L
Schedule F Totals				<u>\$3,993.85</u>	<u>\$5,521.71</u>	

Schedule H for Exception No. 8

Plantation Bay Utility Company			2005 O&M Expense Adjustments			
Acct#	Date	Vendor	Details	Water	W/Water	Per Audit Recommendation
634/734	07/31/05	ICI	Management fees	\$4,500.00	\$3,000.00	Add July accrual not recorded in G/L
635/735	07/07/05	E-Lab, Inc.	Water testing - chlorides & sulfides	\$572.00	\$0.00	Add July accrual not recorded in G/L
636/736	01/11/05	Sky's The Limit	Paint all fire hydrants	(\$2,477.46)	(\$1,651.64)	Reclassify to Acct. No. 186 Deferred Assets
636/736	03/15/05	Roto-Rooter	Clean sewer mains	(273.00)	0.00	Reclassification from Acct. No. 636 - Cont. Services-Other
636/736	07/15/05	Mowerk's	Water & W/water plant mowing	0.00	180.00	Add July accrual not recorded in G/L
636/736	07/29/05	Sky's The Limit	July meter reading	348.00	232.00	Add July accrual not recorded in G/L
636/736	07/30/05	Wetherell Treatment Sys	July operator service fees	3,987.65	3,508.28	Add July accrual not recorded in G/L
636/736	07/31/05	Sky's The Limit	July services and meter rereads	488.23	325.48	Add July accrual not recorded in G/L
636/736	07/31/05	Wetherell Treatment Sys	Jan-Jun services	2,034.72	(2,034.72)	Reclassify to correct accounts
636/736	07/31/05	Amortization	Deferred asset allocation	<u>1,550.59</u>	<u>5,865.03</u>	Allocated deferred asset amortization
				\$5,658.73	\$6,424.43	
657/757	07/31/05	Brown & Brown Insurance	General liability insurance	\$5,027.76	\$3,351.83	Add 7-month prorata insurance of \$14,364 annual
666/736	07/31/05	Amortization	Deferred rate case allocation	\$1,336.87	\$885.03	Allocate deferred rate case expense
675/775	06/17/05	Master Craft, Inc.	Certify back-flow preventer	\$260.00	\$0.00	Add July accrual not recorded in G/L
675/775	07/01/05	The Sign Shop, Inc.	Signs for customer information	577.80	385.20	Add July accrual not recorded in G/L
675/775	05/27/05	Drain Masters, Inc.	Clean sewer line	0.00	75.00	Add July accrual not recorded in G/L
675/775	06/29/05	PBUC	Water service at L/S	<u>17.79</u>	<u>0.00</u>	Add July accrual not recorded in G/L
				\$855.59	\$460.20	
Schedule G Totals				\$3,993.85	\$5,521.71	
Schedule H Totals				<u>17,950.95</u>	<u>14,121.49</u>	
Total Adjustment				<u>\$21,944.80</u>	<u>\$19,643.20</u>	

Exception No. 9

Subject: Taxes-Other-Than-Income (TOTI)

Statement of Facts: The utility's general ledger reflects water and wastewater regulatory assessment fee (RAF) balances of \$10,641 and \$6,930, respectively, as a component for TOTI as of July 31, 2005.

The above balances represent the utility's estimated accruals of RAFs on its water and wastewater revenues and an interest and penalty fee for the late payment of its 2004 RAF.

Recommendation: The utility's water and wastewater TOTI are understated by \$19,009 and \$18,745, respectively, for the 7-month period ended July 31, 2005, based on the following audit staff determinations.

- 1) The utility's actual water and wastewater RAFs are \$9,029 and \$5,614, respectively, for the 6-month period ended June 31, 2005, based on its filed forms with the Commission.
- 2) The audit staff calculated additional water and wastewater RAFs of \$1,471 and \$917, respectively for utility revenues reported in its July 2005 general ledger.
- 3) The audit staff calculated additional water and wastewater RAF of \$48 and \$34, respectively, for its utility revenue adjustments discussed in Exception No. 7 of this report.
- 4) The audit staff included a 7-month prorated amount for water and wastewater property taxes of \$19,102 and \$19,110, respectively, based on property tax invoices totaling \$32,759, which the utility received after July 31, 2005.

<u>Audit staff adjustments</u>	<u>Water</u>	<u>Wastewater</u>
Remove accruals and interest and penalties	(\$10,640.95)	(\$6,930.42)
Add 6-month actual RAF	9,028.87	5,614.24
Add July RAF	1,470.50	917.19
Add RAF for Exception No. 7	47.64	34.01
Add 7-month prorated property taxes	<u>19,102.48</u>	<u>19,109.68</u>
Total Adjustment	\$19,008.54	\$18,744.70

Disclosure No. 1

Subject: Management Fee Expense

Statement of Facts: The utility's general ledger reflects water and wastewater management fees of \$27,000 and \$18,000, respectively, as of July 31, 2005.

The above management fees, totaling \$45,000, represent six months of accrued expenses and are allocated 60 percent water and 40 percent wastewater based on the utility 2004 revenues. The management services are provided by Intervest Construction, Inc., a related party.

The Commission last reviewed and accepted \$50,000 for the utility's management fees in Docket No. 011451-WS in its last rate proceeding.

The utility's 2002 and 2003 Annual Reports reflect management fees of \$62,400 and \$70,200, respectively, which were included for its water and wastewater operations.

Recommendation: The \$45,000 of management fees recorded in 2005 represents a 39 percent increase over the utility's \$64,800 of management fees requested in its filing for the 12-month period ended December 31, 2004. $((\$90,000 - \$64,800) / \$64,800) (\$45,000 \text{ for six months} \times 2 = \$90,000 \text{ annual})$

The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 2

Subject: Rate Case Expense

Statement of Facts: The utility has incurred \$66,485 of rate case expenses for the current rate proceeding as indicated below.

Date	Invoice #	Vendor	Invoice Amount	Total Amount
06/09/05	6092005	Cronin, Jackson, Nixon & Wilson, PA	12,623.49	
07/11/05	7112005	Cronin, Jackson, Nixon & Wilson, PA	7,632.84	
08/05/05	8052005	Cronin, Jackson, Nixon & Wilson, PA	24,156.69	
09/19/05	9192005	Cronin, Jackson, Nixon & Wilson, PA	5,606.54	\$50,019.56
05/30/05	9530A71	Finley Engineering Group	1,725.00	
06/27/05	9530A73	Finley Engineering Group	450.00	
07/30/05	9530A76	Finley Engineering Group	75.00	\$2,250.00
06/09/05	6092005	Management Regulatory Consultants, Ir	1,300.00	
07/12/05	7122005	Management Regulatory Consultants, Ir	1,421.70	
08/12/05	8122005	Management Regulatory Consultants, Ir	2,100.00	
09/19/05	9192005	Management Regulatory Consultants, Ir	150.00	\$4,971.70
05/20/05	30751	Rose, Sundstrom & Bentley, LLP	282.13	
06/24/05	30964	Rose, Sundstrom & Bentley, LLP	104.00	
08/18/05	31217	Rose, Sundstrom & Bentley, LLP	4,741.40	
09/26/05	31411	Rose, Sundstrom & Bentley, LLP	4,115.83	<u>\$9,243.36</u>
	Totals			\$66,484.62

Recommendation: The audit staff defers this issue to the analyst in Tallahassee for further review.

Disclosure No. 3

Subject: Sludge Hauling Expense

Statement of Facts: On September 23, 2005 the utility was notified by Shelly's Environmental Systems that the fee for hauling its sludge would increase from \$0.095 per gallon to \$0.12 per gallon as of November 31, 2005.

Recommendation: The utility disposed of 149,500 gallons of sludge during the 7-month period ended July 31, 2005 for a total cost of \$14,824.

The cost of disposing the same amount of sludge at the new fee indicated above would be \$17,940 (149,500x\$0.12), which represents a 21 percent increase. (((\$17,940-\$14,824)/\$14,824)

The audit staff defers this issue to the analyst in Tallahassee for further review.

EXHIBIT I**PLANTATIONBAY UTILITY COMPANY, INC.
WATER RATE BASE
DOCKET NO. 050281-WS (SUPPLEMENTAL)
AS OF JULY 31, 2005**

<u>DESCRIPTION</u>	<u>PER UTILITY</u>	<u>ADJUSTMENT</u>	<u>REFER TO</u>	<u>PER AUDIT</u>
UTILITY-PLANT-IN-SERVICE	\$3,833,572	(\$111,959)	Exception No. 1	\$3,721,613
LAND & LAND RIGHTS	58,949	0		58,949
CONSTRUCTION-WORK-IN-PROGRESS	0	121,419	Exception No. 1	121,419
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)	(2,031,130)	140,539	Exception No. 3	(1,890,591)
ACCUMULATED DEPRECIATION	(1,645,115)	11,413	Exception No. 2	(1,633,702)
ACCUMULATED AMORTIZATION OF CIAC	615,478	(61,564)	Exception No. 4	553,914
OTHER DEFERRED ASSETS (1)	2,292	3,074	Exception No. 5	5,366
WORKING CAPITAL	0	<u>15,622</u>	Exception No. 8	15,622
TOTAL	<u>\$834,046</u>	<u>\$118,544</u>		<u>\$952,590</u>

Notes:

1) Does not include deferred rate case expense incurred for the current rate proceeding.

EXHIBIT II**PLANTATIONBAY UTILITY COMPANY, INC.
WASTEWATER RATE BASE
DOCKET NO. 050281-WS (SUPPLEMENTAL)
AS OF JULY 31, 2005**

DESCRIPTION	PER UTILITY	ADJUSTMENT	REFER TO	PER AUDIT
UTILITY-PLANT-IN-SERVICE	\$5,019,503	(\$449,357)	Exception No. 1	\$4,570,146
LAND & LAND RIGHTS	50,631	0		50,631
CONSTRUCTION-WORK-IN-PROGRESS	0	414,093	Exception No. 1	414,093
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)	(2,294,599)	(141,807)	Exception No. 3	(2,436,406)
ACCUMULATED DEPRECIATION	(1,548,580)	25,516	Exception No. 2	(1,523,064)
ACCUMULATED AMORTIZATION OF CIAC	854,876	272,621	Exception No. 4	1,127,497
OTHER DEFERRED ASSETS (1)	11,633	(1,498)	Exception No. 5	10,135
WORKING CAPITAL	0	<u>13,627</u>	Exception No. 8	13,627
TOTAL	<u>\$2,093,464</u>	<u>\$133,195</u>		<u>\$2,226,659</u>

Notes:

1) Does not include deferred rate case expense incurred for the current rate proceeding.

EXHIBIT III**PLANTATIONBAY UTILITY COMPANY, INC.
WATER NET OPERATING INCOME
DOCKET NO. 050281-WS (SUPPLEMENTAL)
SEVEN-MONTH PERIOD ENDED JULY 31, 2005**

<u>DESCRIPTION</u>	<u>PER</u>	<u>PER</u>	<u>REFER TO</u>	<u>PER</u>
	<u>UTILITY</u>	<u>ADJUSTMENT</u>		<u>AUDIT</u>
OPERATING REVENUES	\$233,319	\$1,059	Exception No. 7	\$234,378
OPERATION & MAINTENANCE (1)	103,033	21,945	Exception No. 8	124,978
DEPRECIATION EXPENSE	68,810	(1,873)	Exception No. 2	66,937
AMORTIZATION EXPENSE	(39,970)	12,694	Exception No. 4	(27,276)
TAXES OTHER THEN INCOME	10,641	19,009	Exception No. 9	29,650
PROVISION FOR INCOME TAXES (2)	<u>0</u>	<u>0</u>		<u>0</u>
OPERATING EXPENSES	142,514	51,775		194,289
NET OPERATING INCOME	<u>\$90,805</u>	<u>(\$50,716)</u>		<u>\$40,089</u>

Notes:

- 1) Does not include amortized rate case expense incurred for the current rate proceeding.
- 2) Income tax set to zero because of existing net loss carry forward that would offset any income tax liability.

EXHIBIT IV**PLANTATIONBAY UTILITY COMPANY, INC.
WASTEWATER NET OPERATING INCOME
DOCKET NO. 050281-WS (SUPPLEMENTAL)
SEVEN-MONTH PERIOD ENDED JULY 31, 2005**

<u>DESCRIPTION</u>	<u>PER UTILITY</u>	<u>ADJUSTMENT</u>	<u>REFER TO</u>	<u>PER AUDIT</u>
OPERATING REVENUES	\$145,143	\$756	Exception No. 7	\$145,899
OPERATION & MAINTENANCE (1)	89,368	19,643	Exception No. 8	109,011
DEPRECIATION EXPENSE	91,560	(5,353)	Exception No. 2	86,207
AMORTIZATION EXPENSE	(39,060)	(12,447)	Exception No. 4	(51,507)
TAXES OTHER THEN INCOME	6,930	18,745	Exception No. 9	25,675
PROVISION FOR INCOME TAXES (2)	<u>0</u>	<u>0</u>		<u>0</u>
OPERATING EXPENSES	148,798	20,588		169,386
NET OPERATING INCOME	<u>(\$3,655)</u>	<u>(\$19,832)</u>		<u>(\$23,487)</u>

Notes:

- 1) Does not include amortized rate case expense incurred for the current rate proceeding.
- 2) Income tax set to zero because of existing net loss carry forward that would offset any income tax liability.

EXHIBIT V**PLANTATIONBAY UTILITY COMPANY, INC.
CAPITAL STRUCTURE
DOCKET NO. 050281-WS (SUPPLEMENTAL)
AS OF JULY 31, 2005**

CLASS OF CAPITAL	RECONCILED TO RATE BASE	RATIO	COST RATE(2)	WEIGHTED COST
LONG-TERM DEBT	\$2,582,817	81.27%	10.00%	8.13%
SHORT-TERM DEBT	0	0.00%	0.00%	0.00%
PREFERRED STOCK	0	0.00%	0.00%	0.00%
COMMON EQUITY	(3,464,922)	-109.02%	0.00%	0.00%
OTHER EQUITY	3,368,877	106.00%	0.00%	0.00%
CUSTOMER DEPOSITS	36,810	1.16%	6.00%	0.07%
TAX CREDITS - ZERO COST	0	0.00%	0.00%	0.00%
ACCUMULATED DEFERRED INCOME TAX	<u>654,648</u>	<u>20.60%</u>	0.00%	<u>0.00%</u>
TOTAL DEBT AND EQUITY	\$3,178,230	100.00%		8.20%

1) Accumulated Deferred Income Tax balance is as of December 31, 2004.

2) Cost rate for investor equity set to zero for rate making purposes because of net negative balance.