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DATE: May 1, 2006

TO: Jay B. Revell, Regulatory Analyst III, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

RE: **Docket No:** 050563-WU **Company Name:** Park Water Company, Inc.
Audit Purpose: File and Suspend Rate Case
Audit Control No: 06-068-2-1

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
 Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
 Division of Commission Clerk & Administrative Services (2)
 Division of Competitive Markets and Enforcement (Harvey)
 General Counsel
 Office of Public Counsel

- CMP _____ Mr. Anthony Staiano, President
- COM _____ Park Water Company, Inc.
- CTR _____ 25 First Avenue North
- ECR _____ Lake Wales, Florida 33859-8761
- GCL _____ Kevin J. Egan, Vice President
- OPC _____ Park Water Company, Inc.
- RCA _____ 25 First Avenue North
- SCR _____ Lake Wales, Florida 33859-8761
- SGA _____
- SEC 1
- OTH _____

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03861 MAY-2 8

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

Tampa District Office

PARK WATER COMPANY, INC.

FILE AND SUSPEND RATE CASE

POLK COUNTY

AS OF DECEMBER 31, 2004

**DOCKET NO. 050563-WU
AUDIT CONTROL NO. 06-068-2-1**

Handwritten signature of Jeffery A. Small.

Jeffery A. Small, Audit Manager

Handwritten signature of Simon O. Ojada.

Simon O. Ojada, Audit Staff

Handwritten signature of Joseph W. Rohrbacher.

Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

03861 MAY-28

FPSC-COMMISSION CLERK

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

APRIL 21, 2006

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

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated March 16, 2006. We have applied these procedures to the attached schedules prepared by Park Water Company, Inc. in support of its filing for rate relief in Docket No. 060653-WU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

RATE BASE

General

Objective: To determine that the utility's filing represents its recorded results from continuing operations.

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2004 and verified that adjustments required in Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, were recorded.

Utility-Plant-in-Service (UPIS)

Objective: To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

Procedures: We verified 100% of all UPIS additions for the period January 1, 2000 through December 31, 2004 for compliance with the stated objectives above. Audit Finding No. 1 addresses donated water service mains from Warner Southern College that should have been recorded to Transmission and Distribution Mains. We verified that the utility properly recorded retirements to UPIS when a capital item was removed or replaced. Audit Finding No. 2 addresses that the Meters and Meter Installations account is overstated because the utility did not retire any water meter assets that were replaced in 2000 - 2004 and included invoiced amounts that should have been recorded to Materials and Supplies in 2003 and 2004. Audit Finding No. 3 addresses that Transportation Equipment is understated because the utility did not properly record its transportation equipment purchases and retirements in years 2000 - 2004. Audit Finding No. 4 addresses that other utility-plant-in-service accounts are overstated because the utility improperly capitalized operational expenses in 2000 and 2001 and did not retire a copier that was disposed of in 2002. Audit Finding No. 12 includes information provided by the utility regarding a proposed capital expansion project.

Land and Land Rights

Objective: To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We verified that there has been no changes to utility land since its last rate proceeding.

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and insure that all donated property is properly accounted for and recorded as CIAC and UPIS.

Procedures: We verified 100% of all CIAC additions for the period January 1, 2000 through December 31, 2004 for compliance with the stated objectives above. We scanned the utility's cash receipts records and its 2000-2004 Federal Tax returns for unrecorded cash and property.

Summary of Objectives and Procedures, continued

contributions. Audit Finding No. 1 addresses donated water service mains from Warner Southern College that should have been recorded to Transmission and Distribution Mains. Audit Finding No. 5 states that CIAC is understated because the utility understated its December 31, 1999, beginning balance and did not properly record CIAC additions in 2000.

Accumulated Depreciation

Objective: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

Procedures: We reconciled utility accumulated depreciation balances to the Federal Tax returns. We verified that the utility used Commission authorized rates to depreciate its UPIS accounts. We recalculated a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding UPIS was removed or replaced. The audit findings addressed in the Utility-Plant-in-Service section address corresponding adjustments to the accumulated depreciation balances.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC amortization expense accruals are properly recorded and calculated based on the rates and method used in the utility's last rate proceeding.

Procedures: We verified that the utility used Commission authorized rates to amortize its CIAC accounts. We recalculated accumulated amortization of CIAC account balances as of December 31, 2004. Audit Finding No. 5 states that the accumulated amortization of CIAC is understated because the utility did not properly calculate its amortization in years 2000 – 2004.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We recalculated the utility's working capital balance as of December 31, 2004. Audit Finding No. 6 addresses this issue.

NET OPERATING INCOME

General

Objective: To determine that the utility's filing represents its results from continuing operations.

Procedures: We reconciled the following individual component net operating income balances to the utility's general ledger for the 12-month period ended December 31, 2004.

Summary of Objectives and Procedures, continued

Revenues

Objective: To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

Procedures: We traced revenues to the general ledger and selected a sample of customer bills from each customer rate class on a random basis and recalculated the bills using the Commission approved tariff rates. Audit Finding No. 9 states that revenues are understated because the utility did not include fees received for billing and collection services provided to Crooked Lake Park Sewerage Company, Inc. We estimated revenues by multiplying the number of customers by the base facility charge for each customer rate class and by meter size. We also multiplied the total gallonage used by the gallonage charge for each rate class to determine a revenue estimate.

Operation and Maintenance Expenses (O&M)

Objective: To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We randomly selected payments from the general ledger based on an analytical review. We reviewed the sample for proper amount, classification and period. We examined invoices and supporting documentation to determine if the above objectives are met. Audit Finding No. 10 found that the expenses should be adjusted because the utility improperly included prior-period costs or costs that should be capitalized in a future period and failed to include professional fees for accounting services in its MFR filing. Audit Finding No. 14 addresses the projected rate case expense included in the MFRs.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We obtained the regulatory assessment fee filings and reconciled them to the general ledger. We obtained the property tax bills for review and to determine if the amount booked reflects the discount amount. Audit Finding No. 11 states that the TOTI expense is overstated because the utility improperly recorded regulatory assessment fees and overstated its real estate taxes.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of UPIS assets and amortization of CIAC assets for ongoing utility operations.

Procedures: We recalculated a sample of UPIS depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense.

Summary of Objectives and Procedures, continued

CAPITAL STRUCTURE

General

Objective: To determine that the utility's filing represents its recorded results from continuing operations. To verify that the utility has reconciled its capital structure to its rate base in the filing.

Procedures: We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2004 and verified that the utility has reconciled its capital structure to its rate base for the filing. Audit Finding No. 8 addresses the equity balance that should be included in the capital structure.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

Procedures: We traced long-term debt balances to the original documents and verified the terms and interest rate of each note payable. We recalculated test year interest expense. Audit Finding No. 13 further addresses the long term debt balances.

Short-Term-Debt

Objective: To determine that short-term debt balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

Procedures: We traced short-term debt balances to the original documents and verified the terms and interest rate and period of each note payable. We recalculated test year interest expense. Audit Finding No. 7 states that the effective cost rate for short-term debt is overstated because the utility overstated its total interest expense and understated its simple average amount of outstanding short-term debt.

Customer Deposits

Objective: To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

Procedures: We traced a sample of customer deposit balances to supporting documentation and verified that customer deposits were refunded and credited with interest payments in compliance with Commission rules.

AUDIT FINDING NO. 1

SUMMARY: The utility received \$261,495 of donated water service mains from Warner Southern College that should have been recorded to Acct. No. 331- Transmission and Distribution Mains and Acct. No. 271 - Contributions-in-Aid-of-Construction (CIAC)

STATEMENT OF FACTS: The utility's filing reflects balances of \$677,805 in Account No. 331 and \$244,840 for the corresponding accumulated depreciation reserve, as of December 31, 2004.

In 2000 Warner Southern College, at its own expense, abandoned and replaced its existing water service line. The college installed a 12 inch water main from the utility's pump house that extended south on US 27 to the college campus. The college also upgraded its own distribution system to 12 inch service lines throughout the campus grounds. The cost for these system improvements totaled \$261,495.

The donated property discussed above should have been recorded in Acct. No. 331 and Acct. No. 271 for its original cost of \$261,495 when received.

Additional adjustments of \$30,967 should be recorded to accrue the corresponding accumulated depreciation and accumulated amortization of CIAC for years 2000 - 2004. See the following schedules for the audit staff's calculations.

Acct. No.	Rate	Amount	2000	2001	2002	2003	2004	Total
331.00 T&D Mains	2.63%	\$261,495	\$3,441	\$6,881	\$6,881	\$6,881	\$6,881	\$30,967
271.00 CIAC	2.63%	\$261,495	\$3,441	\$6,881	\$6,881	\$6,881	\$6,881	\$30,967

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED:

Acct. No.	Acct. Description	Debit	Credit
108.00	Acc/Dep		\$30,967
331.00	T&D Mains	\$261,495	
271.00	CIAC		\$261,495
272.00	Acc/Amortz.	\$30,967	
403.00	Dep. Expense	Offsetting amounts of \$6,881	

Audit Finding No. 1, continued

EFFECT ON FILING IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc/Dep		\$27,527
331.00	T&D Mains	\$261,495	
271.00	CIAC		\$261,495
272.00	Acc/Amortz.	\$27,527	
403.00	Dep. Expense	Offsetting amounts of \$6,881	
	$\$27,527 = (\$30,967 + (\$30,967 - \$6,881))/2$		

AUDIT FINDING NO. 2

SUMMARY: The utility's balance for Account No. 334 - Meters and Meter Installations is overstated by \$15,621 as of December 31, 2004 because it did not retire any water meter assets that were replaced in 2000 - 2004 and it includes invoiced amounts that should have been recorded to Account No. 620 Materials and Supplies in 2003 and 2004.

STATEMENT OF FACTS: The utility's filing reflects balances of \$42,929 in Account No. 334 and \$10,026 for the corresponding accumulated depreciation reserve, as of December 31, 2004.

The utility instituted a water meter replacement program in 2000 that was approved in Order No. PSC-00-1774-PAA-WU. The results of this program are illustrated below.

Year	Size	Meters Replaced	Avg. Cost	Total Cost
2000	5/8"	115	\$39.06	\$4,491.90
	2"	3	\$272.85	\$818.55
2001	5/8"	178	\$39.06	\$6,952.68
	1"	1	\$105.93	105.93
	2"	4	\$272.85	<u>1,091.40</u>
				\$8,150.01
2002	5/8"	50	\$39.06	\$1,953.00
2003	5/8"	12	\$39.06	\$468.72
2004	5/8"	12	\$39.06	\$468.72
Total meter replacement cost				<u>\$16,350.90</u>

NARUC Accounting Instruction 22, for Class B Water Utilities, states that when a retirement unit is retired from utility plant, with or without replacement, the original cost or an appropriate estimate shall be credited to the utility plant account in which it is included. Additionally, the original cost shall be charged to the accumulated depreciation account applicable to such property.

The utility's balance for Account No. 334 - Meters and Meter Installations is overstated by \$15,621 as of December 31, 2004 because of the following audit staff determinations.

1. The utility did not retire any meter assets that were replaced in its water meter replacement program illustrated above. Pursuant to prior Commission decisions, the retirement amount should be \$12,263, which is calculated as 75% of the actual meter replacement cost of \$16,351 because no information was available to determine the original cost of the meters that were replaced.
2. The utility included \$2,147 of invoiced cost in 2003 that should have been charged to Acct. No. 620 because the items purchased were used for recurring maintenance of the water system.
3. The utility included \$1,211 of invoiced cost in 2004 that should have been charged to Acct. No. 620 because the items purchased were used for recurring maintenance of the water system..

Audit Finding No. 2, continued

Additionally, the above meter retirement amount will require corresponding adjustments that reduce accumulated depreciation and depreciation expenses by \$15,058 and \$873 as of December 31, 2004. See the following schedules for the audit staff's calculations.

Calculation of adjustment to retire meters that were replaced in years 2000 - 2004 and to remove material & supplies that should have been expensed.

Retire	Rate	2000	2001	2002	2003	2004	Total
\$3,982.84	5.88%	\$117.14	\$234.28	\$234.28	\$234.28	\$234.28	\$1,054.28
6,112.51	5.88%	-	179.78	359.56	359.56	359.56	1,258.46
1,464.75	5.88%	-	-	43.08	86.16	86.16	215.40
351.54	5.88%	-	-	-	10.34	20.68	31.02
<u>351.54</u>	5.88%	-	-	-	-	<u>10.34</u>	<u>10.34</u>
\$12,263.18		\$117.14	\$414.06	\$636.93	\$690.35	\$711.02	\$2,569.50

Remove	Rate	2000	2001	2002	2003	2004	Total
\$2,146.89	5.88%	-	-	-	\$63.14	\$126.29	\$189.43
<u>1,211.27</u>	5.88%	-	-	-	-	<u>35.63</u>	<u>35.63</u>
\$3,358.16					\$63.14	\$161.91	\$225.06

Audit Adjustments

Balance	2003	2004	Average
Adjustment to Meters	(\$14,059)	(\$15,621)	(\$14,840)
Adjustment to Acc/Dep	(\$14,058)	(\$15,058)	(\$14,558)
Adjustment to Dep. Expense		(\$873)	
Adjustment to O&M Expense	\$2,147	\$1,211	

Calculations:	UPIS	Acc/Dep	Dep/Exp
For 2003	\$12,263 - \$352 + \$2,147	\$12,263 + \$2,570 - \$711 - \$63	
For 2004	\$12,263 + \$3,358	\$12,263 + \$2,570 + \$255	\$711 + \$162

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED:

Acct. No.	Description	Debit	Credit
108.00	Acc. Depreciation	\$15,058	
215.00	Retained Earnings		\$1,521
311.00	Meters & Meter Installations		\$15,621
403.00	Depreciation Expense	\$873	
620.00	Materials and Supplies	\$1,211	

Audit Finding No. 2, continued

EFFECT ON FILING IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc. Depreciation	\$14,558	
215.00	Retained Earnings		\$1,802
311.00	Meters & Meter Installations		\$14,840
403.00	Depreciation Expense	\$873	
620.00	Materials and Supplies	\$1,211	

AUDIT FINDING NO. 3

SUMMARY: The utility's balance for Account No. 341 - Transportation Equipment is understated by \$3,514 as of December 31, 2004, because it did not properly record its transportation equipment purchases and retirements in years 2000 - 2004.

STATEMENT OF FACTS: The utility's filing reflects balances of \$60,360 in Account No. 341 and \$9,517 for the corresponding accumulated depreciation reserve, as of December 31, 2004.

NARUC Accounting Instruction 22, for Class B Water Utilities, cited previously in Audit Finding No. 2, additionally states that the cost of removal and salvage, if any, shall be charged or credited, as appropriate, to its corresponding accumulated depreciation reserve.

Utility records reflect the following transportation equipment transactions during the period January 1, 2000 through December 31, 2004.

<u>Year</u>	<u>Purchased</u>	<u>Retired</u>
2000	2000 Ford F150	1981 Chevrolet PU
	2001 Ford F150	1982 Chevrolet PU
	Bed Liner for 2001 PU	1987 Ford PU
	Hitch for 2000 PU	1991 Ford F150
		1993 Ford Ranger
		Ford Tractor
		Camper Top
2002	2003 Ford Expedition	2001 Ford F150
		Bed Liner for 2001 F150 PU
2003	2003 Ford F150	2000 F150
		Hitch for 2000 F150 PU

The utility's balance for Account No. 341 is understated by \$3,514 as of December 31, 2004 because it did not properly record its transportation purchases and retirements as required in the NARUC accounting instruction cited previously in Audit Finding No. 2 and the above based on the following audit staff determinations.

1. The utility did not retire the accessory equipment that was installed on purchased transportation equipment when it was subsequently retired.
2. The utility did not consistently include the salvage value for retired transportation equipment to accumulated depreciation.
3. The utility did not consistently retire equal amounts to UPIS and accumulated depreciation for retired transportation equipment.

Audit Finding No. 3, continued

The audit staff, beginning with the transportation equipment balances established in Order No. PSC-00-1774-WU, reconstructed and recalculated the balances for Acct. 341 and its associated accumulation depreciation to be \$63,874 and \$21,883, respectively, as of December 31, 2004 based on the utility records identified above and the requirements of NARUC Accounting Instruction No. 22. See Schedule A that follows for the audit staff's calculation.

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc. Depreciation		\$12,366
215.00	Retained Earnings	\$13,490	
341.00	Transportation Equipment	\$3,514	
403.00	Dep. Expense		\$4,638

EFFECT ON FILING IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc. Depreciation		\$10,047
215.00	Retained Earnings	\$11,171	
341.00	Transportation Equipment	\$3,514	
403.00	Dep. Expense		\$4,638

Calculations:

<u>UPIS</u>	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>
@12/31/03	\$60,360	\$3,514	\$63,874
@12/31/04	\$60,360	\$3,514	\$63,874
Average	\$60,360	\$3,514	\$63,874

<u>Acc/Dep</u>	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>
@12/31/03	\$4,588	\$7,728	\$12,316
@12/31/04	\$9,517	\$12,366	\$21,883
Average	\$7,053	\$10,047	\$17,100

<u>Dep. Expense</u>	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>
@12/31/04	\$4,929	\$4,638	\$9,567

Audit Finding No. 3, continued

Schedule A - Acct. No. 341 - Transportation Equipment

Date Acquired	Description	Cost	Acc. Dep.	Dep. Expense
01/11/82	1981 Chevrolet	\$8,000.00	(\$8,000.00)	
03/20/82	1982 Chevrolet	8,997.00	(8,997.00)	
04/22/91	1987 Ford PU	3,774.00	(3,774.00)	
08/14/91	Ford Tractor & Trailer	10,400.00	(10,400.00)	
09/19/91	1991 Ford F150	11,419.00	(11,419.00)	
11/10/92	Camper top	900.00	(900.00)	
09/10/96	1993 Ford Ranger	<u>8,771.40</u>	<u>(4,872.00)</u>	
Order balance at 12/31/1999		\$52,261.40	(\$48,362.00)	
05/16/00	Buy 2000 F150	\$22,165.40	(\$1,847.12)	
05/22/00	Buy 2001 F150	28,102.10	(2,341.84)	
06/01/00	Payes - Hitch for 2000 PU	199.28	(16.61)	
06/15/00	Bed liner for 2001 PU	401.74	(33.48)	(\$4,239.04)
11/10/92	Retire Camper top	(900.00)	900.00	
06/07/00	Retire 1991 F150	(11,419.00)	10,569.00	a
06/21/00	Retire Ford Ranger	(8,771.40)	7,271.40	b
12/31/00	Retire 1981 Chevrolet	(8,000.00)	8,000.00	
12/31/00	Retire 1982 Chevrolet	(8,997.00)	8,997.00	
12/31/00	Retire 1987 Ford PU	(3,774.00)	3,774.00	
12/31/00	Retire Ford Tractor & Trailer	<u>(10,400.00)</u>	<u>9,700.00</u>	c
Balance at 12/31/2000		\$50,868.52	(\$3,389.64)	
05/16/00	2000 F150		(\$3,694.23)	
05/22/00	2001 F150		(4,683.68)	
06/01/00	Payes - Hitch for 2000 PU		(33.21)	
06/15/00	Bed liner for 2001 PU		<u>(66.96)</u>	(\$8,478.09)
Balance at 12/31/2001		\$50,868.52	(\$11,867.73)	
05/16/00	2000 F150		(\$3,694.23)	
05/22/00	Buy 2001 F150		(2,341.84)	
06/01/00	Payes - Hitch for 2000 PU		(33.21)	
06/15/00	Retire Bed liner for 2001 PU	(401.74)	(401.74)	
09/23/02	Buy Ford Expedition	36,646.46	(3,053.87)	(\$9,524.90)
09/23/02	Retire 2001 F150	<u>(28,102.10)</u>	<u>8,602.10</u>	d
Balance at 12/31/2002		\$59,011.14	(\$12,790.53)	
05/16/00	2000 F150		(\$3,694.23)	
06/01/00	Retire Payes - Hitch for 2000 PU	(199.28)	(199.28)	
09/23/02	Ford Expedition		(5,028.64)	
11/06/03	Buy 2003 F150	27,227.67	(2,268.97)	(\$11,191.12)
11/06/03	Retire 2000 F-150	<u>(22,165.40)</u>	<u>11,665.40</u>	e
Balance at 12/31/2003		\$63,874.13	(\$12,316.25)	
09/23/02	Ford Expedition		(5,028.64)	
11/06/03	2003 F150		<u>(4,537.95)</u>	(\$9,566.58)
Balance at 12/31/2004		\$63,874.13	(\$21,882.84)	
a	\$11,419 - \$850 salvage		d	\$28,102 - \$19,500 salvage
b	\$8,771 - \$1,500 salvage		e	\$22,165 - \$10,500 salvage
c	\$10,400 - \$700 salvage			

AUDIT FINDING NO. 4

SUMMARY: The following utility-plant-in-service accounts are overstated by \$4,471 as of December 31, 2004, because the utility improperly capitalized operational expenses in 2000 and 2001 and did not retire a copier that was disposed of in 2002.

1. Acct. No. 301 - Organization Cost for \$3,500 should be removed.
2. Acct. No. 340 - Office Equipment for \$862 should be retired.
3. Acct. No. 343 - Tools, Shop & Garage for \$109 should be removed.

STATEMENT OF FACTS: The utility's filing reflects balances of \$3,500 in Account No. 301 and \$396 for the corresponding accumulated depreciation reserve, as of December 31, 2004.

The utility's filing reflects balances of \$49,137 in Account No. 340 and \$40,023 for the corresponding accumulated depreciation reserve, as of December 31, 2004.

The utility's filing reflects balances of \$3,958 in Account No. 343 and \$1,147 for the corresponding accumulated depreciation reserve, as of December 31, 2004.

The utility's utility-plant-in-service is overstated by \$4,471 as of December 31, 2004, because of the following audit staff determinations effecting the above-mentioned accounts and because it did not retire the copier removed from service as required in the NARUC accounting instruction cited previously in Audit Finding No. 2.

1. Account No. 301 should be reduced by \$3,500 because it was for a fee paid by the utility to the Commission in 2000 for its petition to transfer organizational control of the utility. The transfer filing fee should have been charged to operating expense when incurred.
2. Account No. 340 should be reduced by \$862 to retire a Canon copier purchased in 1996 which was removed from service in 2002 when it was replaced.
3. Account No. 343 should be reduced by \$109 because it includes an invoice paid by the utility in 2001 for normal maintenance repairs to its 2001 Ford F150 that should have been charged to operating expense when incurred.

Additionally, the above audit adjustments will require corresponding adjustments that reduce accumulated depreciation and depreciation expenses by \$1,427 and \$153 as of December 31, 2004. See the following schedules for the audit staff's calculations.

Calculation of adjustment/retirement of UPIS in years 2000 - 2004

Account	Adjust/Retire		2000	2001	2002	2003	2004	Total
	Amount	Rate						
301.00	\$3,500.00	2.50%	\$44.00	\$88.00	\$88.00	\$88.00	\$88.00	\$396.00
340.00	861.75	6.67%	-	-	28.73	57.45	57.45	143.63
343.00	<u>109.33</u>	6.67%	-	3.64	7.29	7.29	<u>7.29</u>	<u>25.51</u>
	\$4,471.08						\$152.74	\$565.14

Audit Finding No. 4, continued

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc. Depreciation	\$1,427	
215.00	Retained Earnings	\$2,891	
301.00	Organization Cost		\$3,500
340.00	Office Equipment		\$862
343.00	Tools, Shop and Garage		\$109
403.00	Dep. Expense	\$153	

EFFECT ON FILING IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc. Depreciation	\$1,351	
215.00	Retained Earnings	\$2,967	
301.00	Organization Cost		\$3,500
340.00	Office Equipment		\$862
343.00	Tools, Shop and Garage		\$109
403.00	Dep. Expense	\$153	

Calculations:

<u>Balance</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
Adjustment to UPIS	(\$4,471)	(\$4,471)	(\$4,471)
Adjustment to Acc/Dep	(\$1,274)	(\$1,427)	(\$1,351)
Adjustment to Dep. Expense	(\$153)		
Calculations:	\$1,427 = \$861 + \$565	\$1,274 = \$1,427 - \$153	

AUDIT FINDING NO. 5

SUMMARY: The utility's balance for Account No. 271 - Contributions-in-Aid-of-Construction (CIAC) is understated by \$70 and Account No. 272 - Accumulated Amortization of CIAC is understated by \$14,615 as of December 31, 2004, because it understated its December 31, 1999, beginning balance for CIAC, it did not properly record CIAC additions in 2000 and 2001 and did not properly calculate its amortization of CIAC in years 2000 - 2004.

STATEMENT OF FACTS: The utility's filing reflects balances of \$231,101 in Account No. 271 and \$60,068 in Account No. 272, as of December 31, 2004.

Rule 25-30.140 (9)(a), Florida Administrative Code (FAC), states,

Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC.

Order No. PSC-00-1774-PAA-WU calculated the utility's amortization of CIAC in its last rate proceeding based on the requirements of the rule cited above. The staff, at that time, also used the utility's composite depreciation rate to amortize cash contributions attributed to system capacity collections.

The audit staff, beginning with the CIAC and accumulated amortization of CIAC balances established in Order No. PSC-00-1774-WU, reconstructed and recalculated the balances for Account Nos. 271 and 272, respectively, as of December 31, 2004 based on utility records and the requirements of Rule 25-30-140 mentioned above. See Schedules B and C that follows for the audit staff's calculations.

The utility's balance for Account No. 271 is understated by \$70 and Account No. 272 is understated by \$14,615 as of December 31, 2004, based on the following audit staff determinations.

1. In year 2000 the utility changed its general ledger software system and understated its beginning CIAC balance by \$1,241.
2. In year 2000 the utility recorded \$7,530 of CIAC additions when the actual amount collected was \$7,235. Included in the \$7,235, the utility recorded \$1,400 as plant capacity fees which should have been recorded as meter installation fees.
3. In year 2001 the utility double booked a plant capacity charge of \$1,016.
4. In years 2000 - 2004 the audit staff incorporated the above adjustments and recalculated the utility's amortization of CIAC accruals using the plant specific rates per its prior rate proceeding and the rule cited above.

Audit Finding No. 5, continued

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215.00	Retained Earnings		\$17,413
271.00	CIAC		\$70
272.00	Acc. Amtz. Of CIAC	\$14,615	
403.00	Amtz. Expense	\$2,868	

EFFECT ON FILING IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215.00	Retained Earnings		\$15,979
271.00	CIAC		\$70
272.00	Acc. Amtz. Of CIAC	\$13,181	
403.00	Amtz. Expense	\$2,868	

The above adjustments are in addition to the audit staff's adjustments discussed in Audit Finding No. 1 of this report.

Calculations:

<u>CIAC Adjustments</u>	<u>Utility</u>	<u>AF# 1</u>	<u>Adjustment</u>	<u>Audit</u>
@12/31/03	\$222,051	\$261,495	(\$70)	\$483,476
@12/31/04	\$231,101	\$261,495	(\$70)	\$492,526
Average	\$226,576	\$261,495	(\$70)	\$488,001

<u>Audit Adjustment</u>	<u>Audit</u>	<u>Utility</u>	<u>Difference</u>
G/L posting Error	\$100,406	\$99,165	\$1,241
Correct Year 2000	7,235	7,530	(295)
Correct Year 2001	0	1,016	(1,016)
Net Adjustment			(\$70)

<u>Amtz. Of CIAC</u>	<u>Utility</u>	<u>AF# 1</u>	<u>Adjustment</u>	<u>Audit</u>
@12/31/03	\$54,206	\$24,085	\$11,748	\$90,039
@12/31/04	\$60,068	\$30,967	\$14,615	\$105,650
Average	\$57,137	\$27,527	\$13,181	\$97,845

<u>Amtz. Expense</u>	<u>Utility</u>	<u>AF# 1</u>	<u>Adjustment</u>	<u>Audit</u>
@12/31/04	\$5,863	\$6,881	\$2,868	\$15,612

AF# 1 = Audit staff adjustment in Audit Finding No. 1

Audit Finding No. 5, continued

Schedule B - Account No. 271 - CIAC

	Per Order 12/31/99	Add	Balance 12/31/00	Add	Balance 12/31/01	Add	Balance 12/31/02	Add	Balance 12/31/03	Add	Balance 12/31/04
Cash (Sys Capacity)	\$60,450	\$2,000	\$62,450	\$2,836	\$65,286	\$508	\$65,794	\$508	\$66,302	\$1,524	\$67,826
Meters	29,660	1,475	31,135	2,200	33,335	600	33,935	758	34,693	1,800	36,493
Backflows	0	3,760	3,760	5,425	9,185	197	9,382	200	9,582	650	10,232
T&D Lines (College)	0	261,495	261,495	0	261,495	0	261,495	0	261,495	0	261,495
T&D Lines (Extensions)	<u>100,406</u>	0	100,406	<u>7,614</u>	<u>108,020</u>	1,692	<u>109,712</u>	1,692	<u>111,404</u>	5,076	<u>116,480</u>
	\$190,516	\$268,730	\$459,246	\$18,075	\$477,321	\$2,997	\$480,318	\$3,158	\$483,476	\$9,050	\$492,526

Schedule C - Account No. 272 - Accumulated Amortization of CIAC

	Amortz. Rate	Per Order 12/31/99	Add	Balance 12/31/00	Add	Balance 12/31/01	Add	Balance 12/31/02	Add	Balance 12/31/03	Add	Balance 12/31/04
Cash (System Capacity)	Note A	\$8,357	\$2,982	\$11,339	\$2,910	\$14,249	\$2,986	\$17,235	\$3,009	\$20,244	\$3,056	\$23,300
Meters	5.88%	23,954	1,788	25,742	1,896	27,638	1,979	29,617	2,018	31,635	2,094	33,729
Backflows	5.88%	0	111	111	381	491	546	1,037	558	1,595	583	2,178
T&D Lines (College)	2.63%	0	3,441	3,441	6,881	10,322	6,881	17,204	6,881	24,085	6,881	30,967
T&D Lines (Extensions)	2.63%	<u>1,320</u>	<u>2,642</u>	<u>3,962</u>	<u>2,742</u>	<u>6,705</u>	<u>2,865</u>	<u>9,570</u>	<u>2,909</u>	<u>12,479</u>	<u>2,998</u>	<u>15,478</u>
		\$33,631	\$10,963	\$44,594	\$14,811	\$59,405	\$15,257	\$74,662	\$15,376	\$90,039	\$15,612	\$105,650

Note A - System capacity contributions were amortized at the annual composite depreciation rate for UPIS - Source of Supply.

AUDIT FINDING NO. 6

SUMMARY: The utility's working capital balance is \$26,182 as of December 31, 2004.

STATEMENT OF FACTS: The utility's filing reflects an average working capital balance of \$13,783, as of December 31, 2004, which the utility calculated using the balance sheet approach method of netting current assets against current liabilities.

Rule 25-30.433 (2), FAC, states,

Working capital for Class A utilities shall be calculated using the balance sheet approach. Working capital for Class B and C utilities shall be calculated using the formula method (one-eighth of operation and maintenance expenses).

The utility's filing reflects \$206,159 of operation and maintenance expenses (O&M) for the 12-month period ended December 31, 2004.

The audit staff in Audit Finding Nos. 2 and 9 of this report made specific adjustments that increased the utility's O&M expense balance by \$1,211 and \$2,082, respectively, in this rate proceeding.

Based on the audit staff's adjusted 2004 O&M expense balance and using the "one-eighth methodology" cited above, the utility's working capital balance is \$26,182 as of December 31, 2004.

<u>Source</u>	<u>Amount</u>
Per Utility O&M Expense	\$206,159
Audit Finding No. 2 adjustment	1,211
Audit Finding No. 10 adjustment	<u>2,082</u>
Per Audit O&M Expense	\$209,452
Per Audit Working Capital (1/8 of above)	<u>\$26,182</u>

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED: None

EFFECT ON FILING IF FINDING ACCEPTED: Increase working capital by \$12,399 from \$13,783 to \$26,182.

AUDIT FINDING NO. 7

SUMMARY: The utility's effective cost rate for short-term debt in its capital structure presentation is overstated by 0.65 percent because it overstated its total interest expense by \$341 and understated its simple average amount of outstanding short-term debt by \$4,144 as of December 31, 2004.

STATEMENT OF FACTS: The utility's filing reflects the following components that were used to calculate its effective cost rate for short-term debt in its capital structure as of December 31, 2004.

Lender	Interest Expense	Avg. Amount Outstanding	Effective Cost Rate
Wachovia Line of Credit	\$3,500	\$50,000	7.00%
Ford F150 Note	1,007	16,782	6.00%
Ford Expedition Note	<u>1,205</u>	<u>20,090</u>	<u>6.00%</u>
	\$5,712	\$86,872	6.55%

The utility's general ledger reflects the following balances and calculated effective cost rate for short-term debt in its capital structure as of December 31, 2004.

Lender	Interest Expense	Avg. Amount Outstanding	Effective Cost Rate
Wachovia Line of Credit	\$2,437	\$50,000	4.87%
Ford F150 Note	1,128	18,627	6.06%
Ford Expedition Note	<u>1,807</u>	<u>22,389</u>	<u>8.07%</u>
	\$5,371	\$91,016	5.90%

The differences between the general ledger and the filing are displayed below.

Source	Interest Expense	Avg. Amount Outstanding	Effective Cost Rate
Per Filing	\$5,712	\$86,872	6.55%
Per General Ledger	<u>5,371</u>	<u>91,016</u>	<u>5.90%</u>
Difference	(\$341)	\$4,144	-0.65%

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED: None

EFFECT ON FILING IF FINDING ACCEPTED: Reduce the effective cost rate for short-term interest expense by 0.65 percent.

Acct. No.	Description	Debit	Credit
215.00	Retained Earnings	\$3,804	
232.00	Short-term Notes Payable		\$4,145
427.00	Interest Expense	\$341	

AUDIT FINDING NO. 8

SUMMARY: The utility's common equity balance is zero for rate setting purposes because it reflects a negative balance as of December 31, 2004.

STATEMENT OF FACTS: The utility's filing reflects a balance of \$29,500 for common equity as of December 31, 2004.

The utility's actual common equity balance is a negative \$40,747 based on general ledger balances of \$29,500 for common stock and a negative \$70,247 for retained earnings as of December 31, 2004. (\$29,500 - \$70,247)

Additionally, the utility's filing reflects a 10.10 percent return on common equity.

The utility's return on common equity, assuming a positive common equity balance, would be 11.78 percent based on the current leverage formula calculations in Order No. PSC-05-0680-WS, issued June 20, 2005, which established an authorized range of returns on common equity for water and wastewater utilities.

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED: None

EFFECT ON FILING IF FINDING ACCEPTED: The utility's return on common equity should be set at 11.78 percent if a positive equity balance is established for this rate proceeding based on the audit staff's adjustments affecting common equity in this report.

AUDIT FINDING NO. 9

SUMMARY: Utility revenues are understated by \$6,909 because the utility did not include fees received for billing and collection services provided to Crooked Lake Park Sewerage Company, Inc.

STATEMENT OF FACTS: The utility's filing reflects water revenues of \$270,567 for the 12-month period ended December 31, 2004

The utility performs billing and collection services for Crooked Lake Park Sewerage Company, Inc. which provides wastewater services to approximately 50 percent of the utility's water customers. The service is performed in conjunction with the utility's normal monthly routine for billing and collections of its water service customers.

The utility provides all water and wastewater billing services using existing utility personnel, equipment and office supplies.

Crooked Lake Park Sewerage Company, Inc. is charged a monthly fee of \$575.75 which is paid to an affiliated company, Staiano Investment Management Company, Inc. The annual amount collected was \$6,909 for the 12-month period ended December 31, 2004.

The utility estimates, in a cost analysis provided to the audit staff for this proceeding, that the cost incurred by the utility for providing this service equals the monthly revenues received from Crooked Lake Park Sewerage Company, Inc.

Additionally, the increase of \$6,909 in utility revenues will require a corresponding increase of \$311 for regulatory assessment fees for this proceeding. (\$6,909 x 4.5%)

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215.00	Retained Earnings	\$6,598	
408.00	TOTI-Regulatory Assesment Fees	\$311	
474.00	Other Water Revenues		\$6,909

EFFECT ON THE FILING IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215.00	Retained Earnings	\$6,598	
408.00	TOTI-Regulatory Assesment Fees	\$311	
474.00	Other Water Revenues		\$6,909

AUDIT FINDING NO. 10

SUMMARY: Utility operation and maintenance expenses are understated by \$2,082 because the utility improperly included prior-period costs and a cost that should be capitalized in a future period, and the utility failed to include professional fees for accounting services in its MFR filing.

1. Acct. No. 631 - Contractual Services - Engineering for \$2,465 should be removed.
2. Acct. No. 632 - Contractual Services - Accounting for \$6,023 should be added.
3. Acct. No. 666 - Regulatory Commission Expense for \$1,476 should be removed.

STATEMENT OF FACTS: The utility's filing reflects water operation and maintenance expense of \$206,159 for the 12-month period ended December 31, 2004

Included in the above expense amount were the following invoices in the indicated accounts.

- Acct. No. 631 included an invoice for \$2,465 of engineering services that were related to the utility's proposed capital expansion project. The utility has been recording all costs related to this project in Acct. No. 174 - Miscellaneous and Accrued Assets. The invoice mentioned above should be reclassified to Acct. No. 174.
- Acct. No. 666 included \$1,476 of amortized rate case expense from the utility's last rate proceeding. That proceeding, Docket No. 991627-WU, used a December 31, 1999 test year. Therefore, all rate case expense would have been fully amortized as of December 31, 2003, which is the four year period prescribed in accordance with Section 367.0816, Florida State Statutes. Therefore, the rate case expense mentioned above should be removed for this rate proceeding.

Not included in the above expense amount but included in the utility's general ledger is \$6,023 for professional accounting services. This amount should be included for this rate proceeding.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
174.00	Miscellaneous and Accrued Assets	\$2,465	
631.00	Contractual Services - Engineering		\$2,465

EFFECT ON THE FILING IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
174.00	Miscellaneous and Accrued Assets	\$2,465	
215.00	Retained earnings		\$4,547
631.00	Contractual Services - Engineering		\$2,465
632.00	Contractual Services - Accounting	\$6,023	
666.00	Regulatory Commission Expense		\$1,476

AUDIT FINDING NO. 11

SUMMARY: The utility's Taxes-Other-Than-Income (TOTI) is overstated by \$6,582 because it improperly recorded \$6,148 of regulatory assessment fees and overstated its real estate taxes by \$434.

STATEMENT OF FACTS: The utility's filing reflects TOTI of 42,404 for the 12-month period ended December 31, 2004, represented by the following amounts

<u>Description</u>	<u>Amount</u>
Regulatory Assesment Fees	\$18,324
Payroll Taxes	9,682
Real Estate and Personal Property Tax	13,987
Other	<u>411</u>
Total TOTI	\$42,404

Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, reduced the amount of property tax expense allowed for rate setting purposes to the invoiced amount after application of the maximum discount for early payment.

The utility's TOTI is overstated by \$6,582 based on the following audit staff determinations.

1. The utility's RAF is overstated by \$6,148 because it did not properly record its RAF in the year incurred. (\$18,324 - \$12,176) The \$18,324 indicated above is composed of January - December 2003 and January - June 2004 RAF payments of \$11,806 and \$6,518, respectively. The actual RAF for the period January - December 2004 is \$12,176 based on 2004 revenues of \$270,567 times 4.5 percent.
2. The utility's real estate and personal property taxes are overstated by \$434 because it did not pay them in a timely manner that would capture the maximum discount available as required in the prior order cited above.

Additionally, the utility owes \$206 of RAF plus penalties and interest to the Commission because its combined 2004 RAF returns understated its 2004 revenues by \$4,581.

<u>Description</u>	<u>Amount</u>	<u>RAF</u>
Actual Revenues January - December 2004	\$270,567	\$12,176
Reported Revenues January - December 2004	(144,859)	(6,519)
Reported Revenues July - December 2004	<u>(121,127)</u>	<u>(5,451)</u>
Difference	\$4,581	\$206

Audit Finding No. 11, continued

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215.00	Retained Earnings		\$207
408.00	Taxes-Other-Than-Income	\$207	

EFFECT ON FILING IF FINDING ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215.00	Retained Earnings	\$6,582	
408.00	Taxes-Other-Than-Income		\$6,582

Calculations:

Balance	2004
Adjustment to RAF	\$6,148
Adjustment to property taxes	<u>434</u>
Total Adjustment	\$6,582

The above RAF adjustments are in addition to the audit staff's adjustments discussed in Audit Finding No. 9 of this report.

AUDIT FINDING NO. 12

STATEMENT OF FACTS: The utility's filing includes an adjustment to rate base for \$2,496,382 for a proposed capital expansion project to its water utility system.

The components of this adjustment are categorized to the following UPIS accounts.

Account No.	Description	Amount
334.00	Meters and Meter Installations	\$146,335
335.00	Hydrants	60,965
331.00	Transmission and Distribution Mains	<u>2,289,082</u>
		\$2,496,382

The utility provided the audit staff with supporting documentation for the following expenses, totaling \$54,678, which it has already incurred for the above mentioned capital project.

Year	Engineering	Professional	Survey	Permits	Advertising	Total
2000	-	\$2,500	-	-	-	\$2,500
2001	7,700	-	-	-	-	7,700
2002	27,100	-	3,286	-	-	30,386
2003	7,343	-	-	-	-	7,343
2004	-	2,465	-	-	-	2,465
2005	-	-	-	3,790	494	4,284
	<u>\$42,143</u>	<u>\$4,965</u>	<u>\$3,286</u>	<u>\$3,790</u>	<u>\$494</u>	<u>\$54,678</u>

Professional Fees of \$2,465 in 2004 were reclassified from O&M Expense in Audit Finding No. 9 of this report.

The audit staff defers this finding to the analyst in Tallahassee.

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED: None

EFFECT ON FILING IF FINDING ACCEPTED: None

AUDIT FINDING NO. 13

STATEMENT OF FACTS: The utility's capital structure presentation includes a long-term debt component of \$2,496,382 which represents the anticipated execution of a low interest loan from the State Revolving Fund for Drinking Water Facilities which is administered by the Florida Department of Environmental Protection.

The utility included this long-term debt in its capital structure presentation in conjunction with its requested rate base adjustment discussed in Audit Finding No. 12.

The audit staff has discovered three other changes to its overall outstanding debt since December 31, 2004, the utility's historical test year in this proceeding. These changes could have a material affect on its overall capital structure in this proceeding.

1. The utility purchased a 2005 Cadillac Escalade on June 8, 2005, and financed \$58,584 of the purchase price with SunTrust Bank for 60 months at an annual interest rate of 6.55 percent. The outstanding balance of the loan was \$46,845 as of March 31, 2006.
2. In conjunction with the above purchase the utility traded in its 2003 Expedition and received a trade-in value of \$17,500 for the vehicle and a net pay off on trade of \$18,381 which eliminated the note payable associated with the 2003 Expedition.
3. The utility executed a promissory note for \$108,800 secured line of credit on January 12, 2006, with Wachovia Bank. The utility also executed a Mortgage and Assignment of Rents that grants the bank a security interest in its personal property in conjunction with the promissory note on the same date. The terms of the note indicate a variable interest rate will accrue on the unpaid balance based on the bank's announced prime rate. The outstanding balance of the line of credit was \$75,000 as of March 31, 2006, and the announced prime rate was 7.75 percent.

The audit staff defers this finding to the analyst in Tallahassee.

EFFECT ON GENERAL LEDGER IF FINDING ACCEPTED: None

EFFECT ON FILING IF FINDING ACCEPTED: None

AUDIT FINDING NO. 14

STATEMENT OF FACTS: The utility's filing includes \$12,000 of rate case expense for professional services for this rate proceeding.

The utility has provided copies of invoices totaling \$12,409 as of April 13, 2006, for professional and printing services incurred for this rate proceeding.

The audit staff defers this finding to the analyst in Tallahassee.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None

EFFECT ON THE FILING IF FINDING IS ACCEPTED: None

EXHIBIT I

(REVISED 03/08/2006)

Schedule of Water Rate Base

Florida Public Service Commission

Company: Park Water Company
 Docket No.: 050563-WU
 Schedule Year Ended: 12/31/04
 Interim Final
 Historical Projected

Schedule: A-1
 Page 1 of 71
 Preparer:

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	1,066,462	2,496,382	3,562,844	A-5
2	Utility Land & Land Rights	0	0	0	A-5
3	Less: Non-Used & Useful Plant	-86,080	0	-86,080	A-7
4	Construction Work in Progress	0	0	0	-
5	Less: Accumulated Depreciation	-386,546	0	-386,546	A-9
6	Less: CIAC	-226,576	0	-226,576	A-12
7	Accumulated Amortization of CIAC	57,137	0	57,137	A-14
8	Acquisition Adjustments	0	0	0	-
9	Accum. Amort. of Acq. Adjustments	0	0	0	-
10	Advances For Construction	0	0	0	A-16
11	Working Capital Allowance	13,783	0	13,783	A-17
12	Total Rate Base	438,180	2,496,382	2,934,562	

EXHIBIT II

(REVISED 03/08/2006)

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Park Water Company
 Schedule Year Ended: 12/31/04
 Interim Final
 Historic or Projected

Schedule: B-1
 Page 20 of 71
 Docket No.: 050563-WU
 Preparer:

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

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	270,567	0	270,567	474,500	745,067	B-4
2	Operation & Maintenance	206,159	0	206,159		206,159	B-5
3	Depreciation, net of CIAC Amort.	33,226	75,586	108,812	0	108,812	B-13
4	Amortization		0		0	0	
5	Taxes Other Than Income	42,404	72,500	114,904	21,353	136,257	B-15
6	Provision for Income Taxes	0	0	0		0	C-1
7	OPERATING EXPENSES	281,789	148,086	429,875	21,353	451,228	
8	NET OPERATING INCOME	-11,222	-148,086	-159,308	453,147	293,839	
9	RATE BASE	438,180	2,496,382	2,934,562		2,934,562	A-1
10	RATE OF RETURN	LOSS		LOSS		10.01%	

EXHIBIT III

(REVISED 03/08/2006)

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

Florida Public Service Commission

Company: Park Water Company
Docket No.: 050563-WU
Test Year Ended: 12/31/04
Schedule Year Ended:
Historic [X] or Projected []

Schedule: D-1
Page 35 of 71
Preparer:

Subsidiary [] or Consolidated []

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

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	3,015,240	96.06%	6.00%	5.78%
2	Short-Term Debt	86,872	2.77%	6.55%	0.18%
3	Preferred Stock	0	0		
4	Customer Deposits	7,334	0.23%	6.00%	0.01%
5	Common Equity	29,500	0.94%	10.10%	0.09%
6	Tax Credits - Zero Cost	0			
7	Tax Credits - Wtd. Cost	0			
8	Accum. Deferred Income Taxes	0			
9	Other (Explain)	0			
10	Total	3,138,946	100.00%		6.05%

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