



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tampa District Office

ALAFAYA UTILITIES INC.

FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2005

DOCKET NO. 060256-SU
AUDIT CONTROL NO. 06-209-2-4

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

SEPTEMBER 27, 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 July 26, 2006. We have applied these procedures to the attached schedules which were prepared by Alafaya Utilities, Inc. in support of its filing for rate relief in Docket No. 060256-SU.

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, 2005 and verified that adjustments required in Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, 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 sampled UPIS additions for the period January 1, 2002 through December 31, 2005 for compliance with the stated objectives above. We verified that the utility properly recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were properly recorded. We sampled construction project additions and the corresponding source documentation. We verified that the utility used Commission approved AFUDC rates and traced the capitalized salaries to individual employee time sheets. Audit Finding No. 1 discusses our adjustments to correct a 2005 adjusting entry to UPIS that was made to record prior order balances. Audit Finding No. 3 discusses our adjustment to allocate a portion of the cost for a dump truck in the utility's transportation equipment account to other subsidiary utility systems that use the dump truck.

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 have been no changes to utility land since its last rate proceeding by searching the county's public records.

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 sampled CIAC additions for the period January 1, 2002 through December 31, 2005 for compliance with the stated objectives above. We scanned the utility's cash receipts records for unrecorded cash and property. We reviewed developer agreements for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory to look for new developments that may have included contributed property. Audit Finding No. 14 provides

information on the utility's 2003 CIAC adjusting journal entry that was made to allocate CIAC based on specific UPIS account balances.

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 traced the accumulated depreciation schedules to the corresponding UPIS schedules. We verified that the utility used Commission authorized rates to depreciate its UPIS accounts by calculating 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. We recalculated a sample of accumulated depreciation account balances as of December 31, 2005. Audit Finding No. 2 discusses our adjustments to retire UPIS and the corresponding effect on the utility's accumulated depreciation account balance. Audit Finding No. 4 discusses our adjustment to the utility's depreciation rates and the corresponding effect on its accumulated depreciation account balance.

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 traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified that the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. We recalculated a sample of accumulated amortization of CIAC account balances as of December 31, 2005. Audit Finding No. 4 discusses our adjustment to the utility's depreciation rates and the corresponding change to CIAC composite amortization rates that affect the accruals to accumulated amortization of CIAC balance.

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, 2005. Audit adjustment No. 6 discusses our adjustment to include working capital balances that were left out of the utility's filing.

Other Rate Base Items

Objective: To determine that other component balances affecting rate base are properly stated and authorized by Commission rules or prior orders.

Procedures: Determine that adjustments to include allocated rate base balances for subsidiary operations are properly reported in the filing. Audit Finding No. 5 discusses our adjustment to the utility's calculated 13-month average rate base balance. Audit Finding No. 7 discusses

our adjustments to WSC allocated rate base balances based on the affiliate transaction investigation performed in Docket No. 060253-WS.

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, 2005.

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 utility billing registers 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.

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 sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives are met. Audit Finding No. 8 discusses our adjustment to remove and amortize a nonrecurring utility insurance expense. Audit Finding No. 9 discusses our adjustment to remove unapproved rate case expense and other such expenses that were fully amortized before the test year. Audit Finding No. 10 discusses our adjustment to remove previously disallowed legal fees for its reuse system from the miscellaneous expense account balance. Audit Finding No. 11 discusses our adjustments to WSC allocated expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 13 provides information on the utility's transportation expense balances.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules and was 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. 12 discusses our adjustment to remove prior period regulatory assessment fees and record actual fees incurred for the test year.

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. Audit Finding No. 1 discusses our adjustments to correct the effects on depreciation expense balances of a 2005 adjusting entry to UPIS that was made to record prior order balances. Audit Finding No. 2 discusses our adjustments to retire UPIS and the corresponding effect on the utility's depreciation expense account balance. Audit Finding No. 4 discusses our adjustment to the utility's depreciation rates and the corresponding effect on its depreciation expense account balance.

CAPITAL STRUCTURE

General

Objective: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations.

Procedures: We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2005. Audit Finding No. 15 provides information on the utility's capital structure component balances that were determined in the affiliate audit investigation performed in Docket No. 060253-WS.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility's parent and that they 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.

Short-Term-Debt

Objective: To determine that short-term debt balances represent actual obligations of the utility's parent and that they 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. We recalculated test year interest expense.

Accumulated Deferred Income Taxes

Objective: To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

Procedures: Recalculated a sample of deferred tax balances for the period using Commission authorized rates and federal tax rates. Audit Finding No. 16 provides information on the utility's deferred tax balances.

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

SUBJECT: ADJUSTMENT TO CORRECT PRIOR ORDER BALANCE

SUMMARY: The utility's rate base and depreciation expense balances are understated by \$6,909, each, as of the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility adjusted its general ledger in December 2005 to record the utility plant in service adjustments required as of December 31, 2002, for its last rate case proceeding in Docket No. 020408-SU.

In addition, the utility calculated corresponding adjustments to accumulated depreciation and test year 2005 depreciation expense to record the cumulative effect of recording the 2002 adjustment at the end of 2005. The calculation was based on four times the annual depreciation expense of the affected accounts.

The support for the journal entry provided by the utility, to record the cumulative affect discussed above, indicates that the utility posted the 2005 depreciation expense portion of the adjustment to its utility plant in service accounts in error. Therefore that portion of the journal entry should be reversed. The accumulated depreciation portion of the adjustment was correct.

No additional adjustments to the test year are required because the journal entry was posted at the end of 2005 and included the corresponding effect on the test year.

EFFECT ON GENERAL LEDGER: The entries on the following page are needed to correct the utility's general ledger balances to remove the error discussed above.

EFFECT ON FILING: The utility's rate base balance should be reduced \$6,069 and its depreciation expense balance should be increased by \$6,909, respectively, for the 12-month period ended December 31, 2005.

Utility	NARUC			
<u>Acct. No.</u>	<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
3511001	351	Organization	\$3,823	
3521020	352	Franchises	\$3,229	
3547003	354	Buildings and Structures	\$12,549	
3550000	355	Power Generation Equipment		\$2,456
3602006	360	Service Lines		\$14,527
3602007	360	Force Mains	\$314	
3612008	361	Sewer Mains	\$29,937	
3710000	371	Pumping Equipment		\$51,666
3804005	380	Sewer Treatment Plant	\$9,416	
3824009	382	Outfall Sewer Lines	\$1,789	
3907091	390	Office Structures		\$843
3917000	391	Transportation Equipment	\$976	
3937094	393	Tools	\$376	
3967097	396	Communication Equipment	\$174	
Several	403	Depreciation Expense	\$6,909	
403****	403	Dep. Exp - Organization		\$3,823
403****	403	Dep. Exp - Franchises		\$3,229
403****	403	Dep. Exp - Buildings and Structures		\$12,549
403****	403	Dep. Exp - Power Generation Equipment	\$2,456	
403****	403	Dep. Exp - Service Lines	\$14,527	
403****	403	Dep. Exp - Force Mains		\$314
403****	403	Dep. Exp - Sewer Mains		\$29,937
403****	403	Dep. Exp - Pumping Equipment	\$51,666	
403****	403	Dep. Exp - Sewer Treatment Plant		\$9,416
403****	403	Dep. Exp - Outfall Sewer Lines		\$1,789
403****	403	Dep. Exp - Office Structures	\$843	
403****	403	Dep. Exp - Transportation Equipment		\$976
403****	403	Dep. Exp - Tools		\$376
403****	403	Dep. Exp - Communication Equipment		\$174

AUDIT FINDING NO. 2

SUBJECT: ADJUSTMENT TO RETIRE UTILITY PLANT IN SERVICE

SUMMARY: The utility's depreciation expense and accumulated depreciation balances are overstated by \$683 and \$1,002, respectively, for the 12-month period ended December 31, 2005 because it did not properly account for retirements associated with new capital additions.

STATEMENT OF FACT: The utility recorded two capital additions to utility plant in service that should have included a corresponding retirement amount. The utility's policy is to retire 75 percent of the capital assets purchase price when the original cost can not be determined.

Year Added	Utility Acct. No.	NARUC Acct. No.	Description	Amount	Associated Retirement	Dep. Rate	Dep. Exp.	Acc. Dep.
2005	3804005	380	77628*02048*Pat's Pu-Motor only	\$2,150	\$1,613	5.50%	\$44	\$44
2004	3804005	380	57904*10372*Sunshine	<u>15,475</u>	<u>11,606</u>	5.50%	<u>638</u>	<u>958</u>
				\$17,625	\$13,219		\$683	\$1,002

Notes:

Retirement amount was calculated as 75 percent of the cost of the new asset addition.

Dep. Exp. and Acc/Dep of \$44 = \$1,613 x 5.5% x 1/2 year of service

Dep. Exp. of \$638 = \$11,606 x 5.5% x 1 year of service

Acc/Dep of \$958 = \$11,606 x 5.5% x 1 & 1/2 years of service

EFFECT ON GENERAL LEDGER: The following entries are needed to correct the utility's general ledger balances to properly record the retirements discussed above.

NARUC			
Acct. No.	Account Description	Debit	Credit
108	Acc/Dep - Treatment and Disposal Equip	\$14,221	
215	Retained Earnings		\$320
380	Treatment and Disposal Equip.		\$13,219
403	Dep. Expense - Treatment and Disposal Equip.		\$683

(\$14,221 = \$13,219 + \$1,002)

EFFECT ON FILING: The corresponding decreases to utility plant in service and accumulated depreciation have no effect on the utility's rate base filing since they offset each other. However, test year accumulated depreciation and depreciation expense should be reduced by \$1,002 and \$683, respectively, to remove the cumulative effect of the audit staff's retirement entry on the utility's filing.

AUDIT FINDING NO. 3

SUBJECT: ADJUSTMENT TO ALLOCATE TRANSPORTATION EQUIPMENT

SUMMARY: The utility's rate base and depreciation expense balances are overstated by \$39,101 and \$8,692, respectively, as of the 12-month period ended December 31, 2005, to properly account for a dump truck purchased in 2004.

STATEMENT OF FACT: The utility's transportation equipment account includes a dump truck that cost \$63,867. During the audit staff's tour of the utility's system, it was determined that the truck was actually located at Sanlando Utilities, Corp. - Des Pinar, a sister subsidiary of the utility.

When vehicles are used for more than one system, it would be more appropriate to include the cost of the vehicles in a separate sub-account that can then be allocated to each subsidiary system based on the actual usage of the vehicles.

The truck was purchased in 2004. The utility did not provide supporting documentation for its calculation of depreciation expense. However, the audit staff has adjusted the depreciation in a separate finding of this report. The depreciation rate for transportation equipment is 16.67 percent per Rule 25-30.140, F.A.C. The utility used a lower depreciation rate. Using the rule rate above, the depreciation expense and accumulated depreciation balances as of December 31, 2005, related to the truck are displayed below.

<u>Original Cost</u>	<u>Rule Dep. Rate</u>	<u>Depreciation Expense</u>	<u>Years in Service</u>	<u>Accumulated Depreciation</u>
\$63,869	16.67%	\$10,647	1.5	\$15,971

Utility personnel indicated that the dump truck is primarily used at Alafaya, Sanlando Utilities Corp. and Utilities, Inc. of Florida approximately 18.43 percent, 53.57 percent and 28.0 percent respectively, during the test year.

An allocation of the dump truck based on the above amounts and estimated use provided by the utility is calculated below.

<u>As of 12/31/2005</u>	<u>Percentage</u>	<u>Original Cost</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Totals	<u>100.00%</u>	<u>\$63,869</u>	<u>\$15,971</u>	<u>\$10,647</u>
Alafya	18.37%	\$11,733	\$2,934	\$1,956
Sanlando	53.57%	\$34,215	\$8,555	\$5,704
UIF	28.00%	\$17,922	\$4,481	\$2,988

EFFECT ON GENERAL LEDGER: The following entries are needed to correct the utility's general ledger balances to properly record the dump truck discussed above. The corresponding entries on Sanlando Utilities, Corp. and Utilities Inc. of Florida's books will be included in its separate audit report.

NARUC

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108	Acc/Dep - Transportation Equipment	\$13,036	
215	Retained Earnings	\$47,793	
391	Transportation Equipment		\$52,137
403	Dep. Expense - Transportation Equipment		\$8,692

EFFECT ON FILING: Net rate base should be decreased by \$39,101 (\$52,137 - \$13,036) as of December 31, 2005 and depreciation expense should be reduced by \$8,692 for the 12-month period ended December 31, 2005. There is no affect on the average rate base calculation because this entry should be treated as a prior period adjustment.

AUDIT FINDING NO. 4

SUBJECT: ADJUSTMENT TO ACCUMULATED DEPRECIATION

SUMMARY: The utility's accumulated depreciation and depreciation expense balances are understated by \$31,396, each, and its accumulated amortization of CIAC and CIAC amortization expense balances are understated by \$29,621 each, for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility records depreciation accruals monthly but the recorded amount is based on the beginning balance of plant and is not trued up at year end. Transportation equipment and wastewater services are not depreciated using the rates in Rule 25-30.140. The utility did not use a composite rate for undistributed or cash contributions.

Rule 25-30.140, F.A.C., requires the use of specific rates for each utility plant in service (UPIS) account. The utility provided a depreciation schedule that computed depreciation accruals based on its 2005 beginning UPIS sub-account balances for the year and it multiplied each account balance times the corresponding monthly depreciation rate. The utility reported some account activity to its UPIS account balances in July 2005 in its depreciation schedules, however the activity could not be reconciled to the general ledger. The utility's depreciation schedule did not compute depreciation accruals using a half year convention for the additions.

Additionally the utility's depreciation schedule did address the balances included for the transportation equipment account. Depreciation accruals, when recomputed by the audit staff, on the account balances using the required rule rates was substantially lower than the depreciation reported in the utility's filing.

The schedules on the following pages details the differences between the audit staff's calculated depreciation accruals and the amounts reported in the utility's filing. Allocated depreciation balances from subsidiary operations are not included in these schedules because they were audited separately in the affiliate transaction investigation in Docket No. 060253-WS. Only the 2005 test year was affected because that is the year that the utility booked the adjustments for its last rate case in Docket No. 020408-SU. The utility's adjustments only affected the 2005 beginning balance and not the July 2005 activity.

The audit staff's schedule computes depreciation accruals on transportation equipment using the required rule rate which is substantially higher than the rate used by the utility in its filing and is the major reason for the difference.

In addition, the utility did not use a composite rate to amortize the undistributed CIAC balance. According to the rule cited above, a composite rate of depreciation excluding general plant should be used to amortize unidentified CIAC balances.

EFFECT ON GENERAL LEDGER: The utility's accumulated depreciation and depreciation expense balances should be increased by \$31,396 each and its accumulated amortization of CIAC and CIAC amortization expense balances should be increased by \$29,621 each for the 12-month period ended December 31, 2005. See the audit staff's calculations that follow for details.

EFFECT ON FILING: Net rate base is reduced and net depreciation expense is increased by \$1,775, each, for the 12-month period ended December 31, 2005. (\$31,396 - \$29,621)

Accumulated Depreciation and Depreciation Expense Adjustments

Utility Acct. Nos.	Acct. Description	Accumulated Depreciation		Depreciation Expense	
		Debit	Credit	Debit	Credit
1084001	4033011	Organization	\$3,822.40		\$3,822.40
1084020	4033020	Franchise	3,858.82		3,858.82
1084011	4033011	Lift Station		10,493.46	10,493.46
1084003	4033003	Building		137,313.66	137,313.66
1084012	4033012	Spray Irrig Fac		621.75	621.75
1084021	4033021	Plant Sewer Special		655.67	655.67
		Power Generation		2,455.65	2,455.65
1084006	4033006	Services		10,368.38	10,368.38
1085006	4037006	Reuse Services		1,539.93	1,539.93
1084007	4033007	Force		210.55	210.55
1084008	4033008	Gravity	29,357.53		29,357.53
1084010	4033100	Manholes		3,757.90	3,757.90
1085046	4037046	Reuse Meter		2.31	2.31
1085042	4037042	Reuse Dist Res	50.02		50.02
1085008	4037008	Reuse T & D	106.94		106.94
		Pumping Equip		50,231.06	50,231.06
1084004	4034004	Lagoons		2,509.23	2,509.23
1084005	4033005	Stp	159,680.15		159,680.15
1084009	4033009	Outfall Lines	1,757.71		1,757.71
1084090	4033090	Office Structures		14.04	14.04
1084091	4033091	Furniture		814.38	814.38
1084050	4032092	Transportation		2,467.17	2,467.17
1084094	4033094	Tools	319.12		319.12
1084095	4033095	Lab		23.73	23.73
1084097	4033097	Communication	252.26		252.26
		Other Tangible Order		7,121.60	7,121.60
Total Acc. Dep. & Dep. Expense Adjustment			<u>\$199,204.95</u>	<u>\$230,600.48</u>	<u>\$230,600.48</u>
Total Adjustment			Inc. Acc/Dep	<u>\$31,395.53</u>	Inc. Dep. Exp. <u>\$31,395.53</u>

Accumulated Amortization of CIAC and CIAC Amortization Expense Adjustments

Utility Acct. Nos.	Acct. Description	Accumulated Amtz. Of CIAC		CIAC Amtz. Expense	
		Debit	Credit	Debit	Credit
2723000	4073000	Undistributed	\$26,103.57		\$26,103.57
2723003	4703003	Building	74,811.45		74,811.45
2723004	4073004	Lagoons	1,247.80		1,247.80
2723005	4073005	Stp		\$74,960.97	\$74,960.97
2723006	4073006	Services		3,281.10	3,281.10
2723007	4073007	Force	0.00		0.00
2723008	4073008	Gravity	130.17		130.17
2723009	4073009	Outfall Lines	0.85		0.85
2723011	4073011	Lift Station	3,277.30		3,277.30
2723012	4073012	Spray Irrig Fac		23,065.59	23,065.59
2723050	4073050	Reuse	11,208.54		11,208.54
2723098	4073098	Manholes	17,381.82		17,381.82
2723010	4073010	Cash Ciac		3,233.11	3,233.11
Total Acc. Amtz. of CIAC & CIAC Expense Adjustm			<u>\$134,161.51</u>	<u>\$104,540.77</u>	<u>\$104,540.77</u>
Total Adjustment			Inc. AA of CIAC	<u>\$29,620.74</u>	Inc. Amtz. Exp. <u>\$29,620.74</u>

See the schedules that follow for the specific audit staff calculations.

Utility Plant in Service and Depreciation Expense Adjustments

Utility Acct. No.	NARUC Acct. No.	Rule Dep. Rate	Balance 12/31/04	Adjustment for 2001	Audit Staff Adj.	Net Beg. Bal.	2,005 Additions	Balance 38,717	Dep. Exp.	Per Filing	Difference	Per G/L	Difference	Dep. Exp. Acct. No.	Adjusting Entry	Acc/Dep Acct. No.	Adjusting Entry	
3406050	340	Allocated Ui	\$9,204	\$0	\$0	\$9,204	(\$792)	\$8,412	\$0	\$0	\$0	\$0	\$0					
3406110	340	Computer Amt Allocated	5,075	0	0	5,075	0	5,075	0	0	0	0	0					
3511001	351	Organization	190,696	650,686	(803,598)	37,784	0	37,784	945	4,767	(3,822)	4,767	(3,822)	4033011	(\$3,822)	1084001	\$3,822	
3521020	352	Franchise	131,291	(132,374)	3,229	2,146	0	2,146	54	3,912	(3,858)	3,912	(3,859)	4033020	(3,859)	1084020	3,859	
3537002	353	Land	26,830	34,013	0	60,843	0	60,843	0	0	0	0	0		0		0	
3542011	354	Lift Station	1,495,994	0	0	1,495,994	43,947	1,539,941	60,719	50,225	10,494	50,225	10,493	4033011	10,493	1084011	(10,493)	
3547003	354	Building	189,736	4,381,768	12,549	4,584,053	0	4,584,053	143,252	0	143,252	5,938	137,314	4033003	137,314	1084003	(137,314)	
3547012	354	Spray Irrig Fac	64,857	0	0	64,857	2,230	67,087	2,062	0	2,062	1,440	622	4033012	622	1084012	(622)	
3547021	354	Plant Sewer Special	452,175	0	0	452,175	0	452,175	14,130	0	14,130	13,475	656	4033021	656	1084021	(656)	
3547050	354	Sewer Plant Allocated	86,522	0	0	86,522	(13,157)	73,365	0	0	0	0	0		0		0	
3550000	355	Power Gen Eq	0	51,569	(2,456)	49,113	0	49,113	2,456	0	2,456	0	2,456		2,456		(2,456)	
3602006	360	Services	605,628	566,571	(14,527)	1,157,672	9,058	1,166,730	30,584	0	30,584	20,216	10,368	4033006	10,368	1084006	(10,368)	
3662006	366	Reuse Services	1,255,676	(9,426)	0	1,246,250	14,650	1,260,900	32,989	31,449	1,540	31,449	1,540	4037006	1,540	1085006	(1,540)	
3612007	361	Force	659,452	0	314	659,766	22,614	682,380	22,369	42,375	(20,006)	22,159	211	4033007	211	1084007	(211)	
3612008	361	Gravity	6,854,153	(1,347,183)	29,937	5,536,907	(21,397)	5,515,510	122,805	182,471	(59,666)	152,162	(29,358)	4033008	(29,358)	1084008	29,358	
3612010	361	Manholes	908,872	0	0	908,872	226,288	1,135,160	34,067	0	34,067	30,309	3,758	4033100	3,758	1084010	(3,758)	
3675046	367	Reuse Meter	19,990	0	0	19,990	12,390	32,381	1,309	1,307	2	1,307	2	4037046	2	1085046	(2)	
3745042	374	Reuse Dist Res	7,025	0	0	7,025	347	7,373	144	194	(50)	194	(50)	4037042	(50)	1085042	50	
3752008	375	Reuse T & D	2,968,461	0	0	2,968,461	3,020	2,971,481	69,082	69,188	(106)	69,188	(107)	4037008	(107)	1085008	107	
3710000	371	Pumping Eq	0	929,993	(51,666)	878,327	51,666	929,993	50,231	0	50,231	0	50,231		50,231		(50,231)	
3804004	380	Lagoons	92,147	0	0	92,147	766	92,913	5,145	0	5,145	2,635	2,509	4034004	2,509	1084004	(2,509)	
3804005	380	Slip	5,640,107	(4,965,371)	9,416	684,152	48,247	732,399	39,309	201,624	(162,315)	198,989	(159,680)	4033005	(159,680)	1084005	159,680	
3824009	382	Outfall Lines	53,681	(53,681)	1,789	1,789	(1,789)	0	30	1,788	(1,758)	1,788	(1,758)	4033009	(1,758)	1084009	1,758	
3907090	390	Office Structures	2,750	0	0	2,750	1,125	3,875	83	10,784	(10,701)	69	14	4033090	14	1084090	(14)	
3907091	390	Furniture	2,201	12,639	(843)	13,997	843	14,840	961	8,610	(7,649)	147	814	4033091	814	1084091	(814)	
3917000	391	Transportation	207,055	(5,858)	976	202,173	(19,302)	182,871	32,087	29,620	2,467	29,620	2,467	4032092	2,467	1084050	(2,467)	
3937094	391	Tools	104,963	(6,008)	376	99,331	1,667	100,998	6,260	7,532	(1,272)	6,579	(319)	4033094	(319)	1084094	319	
3947095	394	Lab	15,349	0	0	15,349	728	16,078	1,048	1,044	4	1,024	24	4033095	24	1084095	(24)	
3967097	396	Communication	2,930	(2,610)	174	494	(174)	320	41	996	(955)	293	(252)	4033097	(252)	1084097	252	
3985000	398	Other Tangible Order	0	71,216	0	71,216	0	71,216	7,122	0	7,122	0	7,122		7,122		(7,122)	
Total Plant in Service			\$22,052,821	\$175,944	(\$814,330)	\$21,414,434	\$382,977	\$21,797,411	\$679,281	\$647,886	\$31,395	\$647,885	\$31,396		\$31,396		(\$31,396)	
										(807,421)	Remove Adj Related To Allocated Plant			15,273	0	15,273		
										(\$6,909)	Adjust For Order Correction Not Posted -WP16-2/1			0	(6,909)	0		
										Remaining difference			\$663,159	\$24,486	\$663,158			

Accumulated Amortization of CIAC and CIAC Amortization Expense Adjustments

Utility Acct. No.	NARUC Acct. No.	Rule Dep. Rate	Balance 12/31/04	Adjustment for 2001	Audit Staff Adj.	Net Beg. Bal.	2,005 Additions	Balance 12/31/05	Amtz. Exp.	Per Filing	Difference	Acc/Amtz. Acct. No.	Adjustment to Acc/Amtz.	Amtz. Exp Acct. No.	Adjustment Amtz. Exp.
2721000	272	Undistributed	3.02%	(\$1,023,656)	(\$339,698)	\$0	(\$1,363,354)	\$0	(\$1,363,354)	(\$41,241)	(\$15,137)	2723000	\$26,104	4073000	(\$26,104)
2721003	272	Building	3.13%	(106,043)	(2,394,138)	0	(2,500,181)	0	(2,500,181)	(78,131)	(3,319)	2723003	74,811	4073003	(74,811)
2721004	272	Lagoons	5.56%	(46,214)	0	0	(46,214)	0	(46,214)	(2,569)	(1,322)	2723004	1,248	4073004	(1,248)
2721005	272	Slp	5.55%	(2,835,346)	2,394,138	0	(441,208)	0	(441,208)	(24,487)	(99,448)	2723005	(74,961)	4073005	74,961
2721006	272	Services	2.63%	(469,792)	0	0	(469,792)	0	(469,792)	(12,363)	(15,644)	2723006	3,281	4073006	3,281
2721007	272	Force	3.33%	(395,377)	0	0	(395,377)	0	(395,377)	(13,166)	(13,166)	2723007	0	4073007	(0)
2721008	272	Gravity	2.22%	(5,858,221)	0	0	(5,858,221)	0	(5,858,221)	(130,183)	(130,053)	2723008	130	4073008	(130)
2721009	272	Outfall Lines	3.33%	(30,002)	0	0	(30,002)	0	(30,002)	(1,000)	(999)	2723009	1	4073009	(1)
2721011	272	Lift Station	4.00%	(723,844)	0	0	(723,844)	0	(723,844)	(28,954)	(25,676)	2723011	3,277	4073011	(3,277)
2721012	272	Spray Irrig Fac	3.13%	(33,230)	0	0	(33,230)	0	(33,230)	(1,038)	(24,104)	2723012	23,066	4073012	23,066
2721050	272	Reuse	2.78%	(430,187)	0	0	(430,187)	0	(430,187)	(11,946)	(738)	2723050	11,209	4073050	(11,209)
2721098	272	Manholes	3.33%	(830,486)	0	0	(830,486)	0	(830,486)	(27,683)	(10,301)	2723098	17,382	4073098	(17,382)
2721010	272	Cash Ciac	3.02%	(677,902)	0	0	(677,902)	(258,899)	(936,800)	(24,422)	(27,655)	2723010	(3,233)	4073010	3,233
Total CIAC				(\$13,460,300)	(\$339,698)	\$0	(\$13,799,998)	(\$258,899)	(\$14,058,897)	(\$397,183)	(\$367,563)		\$29,621		(\$29,621)

Office Furniture, Tools And Lab Were Adjusted To Remove Allocated Depreciation In Co. Depreciation

Calculation of composite amortization rate

Utility Acct. No.	NARUC Acct. No.	Rule Dep. Rate	Balance 12/31/04	Adjustment for 2001	Audit Staff Adj.	Net Beg. Bal.	2,005 Additions	Balance 12/31/05	Dep. Exp.	
3542011	354	Lift Station	4.00%	\$1,495,994	\$0	\$0	\$1,495,994	\$43,947	\$1,539,941	\$60,719
3547003	354	Building	3.13%	189,736	4,381,768	12,549	4,584,053	0	4,584,053	143,252
3547012	354	Spray Irrig Fac	3.13%	64,857	0	0	64,857	2,230	67,087	2,062
3547021	354	Plant Sewer Special	3.13%	452,175	0	0	452,175	0	452,175	14,130
3550000	355	Power Gen Eq	5.00%	0	51,569	(2,456)	49,113	0	49,113	2,456
3602006	360	Services	2.63%	605,628	566,571	(14,527)	1,157,672	9,058	1,166,730	30,584
3662006	366	Reuse Services	2.63%	1,255,676	(9,426)	0	1,246,250	14,650	1,260,900	32,989
3612007	361	Force	3.33%	659,452	0	314	659,766	22,614	682,380	22,369
3612008	361	Gravity	2.22%	6,854,153	(1,347,183)	29,397	5,536,367	(21,397)	5,514,970	122,793
3612010	361	Manholes	3.33%	908,872	0	0	908,872	226,288	1,135,160	34,067
3675046	367	Reuse Meter	5.00%	19,990	0	0	19,990	12,390	32,381	1,309
3745042	374	Reuse Dist Res	2.00%	7,025	0	0	7,025	347	7,373	144
3752008	375	Reuse T & D	2.33%	2,968,461	0	0	2,968,461	3,020	2,971,481	69,082
3710000	371	Pumping Eq	5.56%	0	929,993	(51,666)	878,327	51,666	929,993	50,231
3804004	380	Lagoons	5.56%	92,147	0	0	92,147	766	92,913	5,145
3804005	380	Slp	5.55%	5,640,107	(4,965,371)	9,416	684,152	48,247	732,399	39,309
3824009	382	Outfall Lines	3.33%	53,681	(53,681)	1,789	1,789	(1,789)	0	30
3985000	398	Other Tangible Order	10.00%	0	71,216	0	71,216	0	71,216	7,122
Total Plant in Service				\$21,267,954	(\$374,544)	(\$15,184)	\$20,878,226	\$412,039	\$21,290,265	\$637,791

Composite depreciation rate for CIAC amortization rate

3.02%

AUDIT FINDING NO. 5

SUBJECT: ADJUSTMENT TO 13-MONTH AVERAGE RATE BASE CALCULATION

SUMMARY: The utility's 13-month average rate base balance is overstated by \$1,176 as of December 31, 2005 because its calculated balances for utility plant in service and accumulated depreciation did not include prior period adjustments to the general ledger that the utility made during the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility's general ledger included journal entries for prior period adjustments during the 12-month period ended December 31, 2005.

The audit staff recalculated the utility's 13-month average balances as of December 31, 2005 for utility plant in service and accumulated depreciation and discovered that the utility did not include the prior period adjustment for transportation equipment in its calculations. The utility's balances are overstated by \$4,523 and \$3,347, respectively, as of December 31, 2005. See the audit staff's calculations on the following page.

EFFECT ON THE GENERAL LEDGER: There is no effect on the utility's general ledger because the 13-month average balance calculation is only used for rate filing purposes.

EFFECT ON THE FILING: The utility's 13-month average rate base should be reduced by \$1,176 as of December 31, 2005.

Alafaya Utilities, Inc.
 Recalculation of 13-Month Average UPS
 Test Year Ended December 31, 2005

Utility Plant in Service	12/31/04	01/31/05	02/28/05	03/31/05	04/30/05	05/31/05	06/30/05	07/31/05	08/31/05	09/30/05	10/31/05	11/30/05	12/31/05	13-Month Average
Beginning Balance - A	\$22,052,821	\$21,430,870	\$21,342,064	\$21,356,893	\$21,378,016	\$21,416,694	\$21,440,539	\$21,554,930	\$21,453,566	\$21,464,933	\$21,432,373	\$21,435,090	\$21,442,656	
Additions per General Ledger	0	(88,806)	14,829	21,123	38,678	23,845	114,411	(101,384)	11,367	(32,560)	2,717	7,565	547,135	
Adj. for error to Org. & AA of CIAC	0	0	0	0	0	0	0	0	0	0	0	0	(807,421)	
Co. posted Dep. Exp. To Plant	6,909													
Order adjustments posted	(628,860)	0	0	0	0	0	0	0	0	0	0	0	628,860	
Corrected Balance	21,430,870	21,342,064	21,356,893	21,378,016	21,416,694	21,440,539	21,554,950	21,453,566	21,464,933	21,432,373	21,435,090	21,442,656	21,811,229	\$21,458,652
Balance per MFR Schedule A-2, pg 2	21,437,705	21,348,890	21,363,728	21,379,416	21,418,094	21,441,939	21,561,785	21,460,401	21,471,768	21,459,208	21,441,925	21,449,491	21,804,320	\$21,462,975
Difference														(\$4,323)

Credit UPS

Accumulated Depreciation	12/31/04	01/31/05	02/28/05	03/31/05	04/30/05	05/31/05	06/30/05	07/31/05	08/31/05	09/30/05	10/31/05	11/30/05	12/31/05	13-Month Average
Beginning Balance - A	(\$5,527,706)	(\$6,238,437)	(\$6,259,825)	(\$6,310,114)	(\$6,360,367)	(\$6,409,376)	(\$6,454,198)	(\$6,529,671)	(\$6,553,408)	(\$6,600,823)	(\$6,611,810)	(\$6,662,064)	(\$6,708,425)	
Additions per General Ledger	0	(21,388)	(50,289)	(50,254)	(49,009)	(44,822)	(75,473)	(23,738)	(17,115)	(10,987)	(50,254)	(46,362)	(815,058)	
Order adjustments posted	0	0	0	0	0	0	0	0	0	0	0	0	0	
Corrected Balance	(710,731)	(6,259,825)	(6,310,114)	(6,360,367)	(6,409,376)	(6,454,198)	(6,529,671)	(6,553,408)	(6,600,823)	(6,611,810)	(6,662,064)	(6,708,425)	(6,812,752)	(\$6,500,867)
Balance per MFR Schedule A-6, pg 2	(6,234,531)	(6,255,972)	(6,306,313)	(6,356,619)	(6,405,681)	(6,450,558)	(6,526,081)	(6,549,872)	(6,597,339)	(6,608,379)	(6,658,433)	(6,704,848)	(6,813,134)	(\$6,497,520)
Difference														(\$3,347)

Credit Acc. Dep.

Net Difference
 Note A - December 2004 balance from W/P 12-3, remaining balances recalculated by audit staff (\$1,176)

AUDIT FINDING NO. 6

SUBJECT: ADJUSTMENT TO WORKING CAPITAL

SUMMARY: The utility's 13-month average working capital balance for wastewater rate base is \$449,843, as of December 31, 2005.

STATEMENT OF FACT: The utility's filing did not include a historical working capital allowance for wastewater rate base.

The audit staff has calculated the 13-month average working capital balance for wastewater rate base as \$449,843 as of December 31, 2005.

The utility's adjusted balance of \$309,962 is understated by \$139,881 because it does not include a prior rate case expense balance of \$66,130, an allowance for uncollectible balance of \$1,414 and a difference of \$75,165 between the accrued tax balance in the filing and its general ledger. (\$66,130 - \$1,414 + \$75,165)

	General Ledger Ending Balance @12/31/2005	13-Month Avg. Balance @12/31/2005
<u>13-Month Average Working Capital</u>		
Current & Accrued Assets		
Cash	\$0	(\$2)
Special Deposits	715	715
Accounts & Notes Receivable	332,443	310,005
Deferred Debits	91,276	108,080
Deferred Rate Case Expense (See note below)	54,460	66,130
Miscellaneous	11,357	18,343
Current & Accrued Liabilities		
Accounts Payable	(18,343)	(7,867)
Accrued Taxes	(100,331)	(47,648)
Accrued Interest	(81)	2,087
Miscellaneous	<u>0</u>	<u>0</u>
Working Capital	\$371,496	\$449,843

Note:

The utility's general ledger reflects a 12/31/05 ending balance of \$85,221 for net unamortized rate case expense. This balance includes amounts not approved by the Commission in its last rate proceeding. The amount displayed above was calculated by the audit staff using the approved balance of \$93,360 and amortizing it pursuant to Section 367.0816, Florida Statutes.

EFFECT ON GENERAL LEDGER: None, because a working capital adjustment is only calculated for rate case proceedings.

EFFECT ON FILINGS: The utility's average rate base should be increased by \$449,843 as of December 31, 2005.

AUDIT FINDING NO. 7

SUBJECT: ADJUSTMENT TO ALLOCATED WSC RATE BASE

SUMMARY: The utility's 13-month average net rate base from Water Service Corporation (WSC) is \$67,113 as of December 31, 2005.

STATEMENT OF FACT: WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common rate base to each subsidiary utility throughout the United States. The utility received \$55,674, which is the 13-month average amount as of December 31, 2005. The allocation is net of accumulated depreciation and accumulated deferred income taxes or approximately 3.20 percent of the total WSC average net rate base of \$1,740,155. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The utility did not include the above-mentioned 13-month average amount in MFR Schedule A-2 for Alafaya Utilities, Inc. as it did in its other subsidiary rate case filings with the Commission.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC rate base components that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that increased Alafaya Utilities Inc. allocated average WSC rate base allocation by \$11,439 to \$67,113.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Alafaya Utilities, Inc. allocated 13-month average WSC rate base balance of \$67,113 for this proceeding.

EFFECT ON GENERAL LEDGER: None, because WSC only allocates its net rate base for rate case proceedings.

EFFECT ON FILING: The utility's 13-month average rate base should be increased by \$67,113 for the 12-month period ended December 31, 2005.

AUDIT FINDING NO. 8

SUBJECT: ADJUSTMENT TO INSURANCE EXPENSE

SUMMARY: The utility's operating and maintenance expense balance is overstated by \$4,199, for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility's filing included \$5,249 in Acct. No. 759 - Insurance Other as a settlement with a customer because raw sewage had backed up into the customer's residence. The settlement was paid in March 2005.

The damage occurred because the elder valve at the residence had been previously closed by the utility due to the prior resident not paying the bill. When the current resident moved in, the water service was turned on by the City of Oviedo. The utility failed to issue a customer service order to reopen the elder valve when the current customer requested service.

The utility recorded the \$5,249 as test year insurance expense. Costs such as these should be considered nonrecurring and be amortized over a five year period per Rule 25-30.433 (8), F.A.C.

EFFECT ON GENERAL LEDGER: The following entry is needed to correct the utility's general ledger balance.

Utility Acct. No	NARUC Acct. No.	Acct. Description	Debit	Credit
1860000	186	Deferred Asset	\$4,199	
6599090	759	Insurance Expense		\$4,199

Calculations:

Annual Amortization	\$5,249 / 5 years = \$1,050
Adjustment to Acct. 186	\$1,050 x 4 years = \$4,199
Adjustment to Acct. 759	\$5,249 - \$1,050 = \$4,199

EFFECT ON FILING: The utility's operating and maintenance expense balance should be reduced by \$4,199. The utility's 13-month average working capital balance should be increased by \$3,230.

<u>Dec-04</u>	<u>Jan-05</u>	<u>Feb-05</u>	<u>Mar-05</u>	<u>Apr-05</u>	<u>May-05</u>	<u>Jun-05</u>	<u>Jul-05</u>	<u>Aug-05</u>	<u>Sep-05</u>	<u>Oct-05</u>	<u>Nov-05</u>	<u>Dec-05</u>	13-Month <u>Average</u>
\$0	\$0	\$0	\$4,199	\$4,199	\$4,199	\$4,199	\$4,199	\$4,199	\$4,199	\$4,199	\$4,199	\$4,199	\$3,230

AUDIT FINDING NO. 9

SUBJECT: ADJUSTMENT TO PRIOR RATE CASE EXPENSE

SUMMARY: The utility's wastewater operation and maintenance expense (O&M) balances are overstated by \$33,924 for the 12-month period ended December 31, 2005, because the rate case expense reflected in the filing exceeds the amount approved in its last rate case proceeding in Docket No. 020407-WS.

STATEMENT OF FACT: Order PSC-04-0363-PAA-SU, issued April 5, 2004 authorized \$93,360 of rate case expenses to be amortized over four years or \$23,340 per year. The utility's new tariffs were approved on May 6, 2004, which is the beginning of the four year amortization period for rate case expense recovery. The unamortized remaining balance is \$54,460 as of December 31, 2005.

Period	Balance Approved	Yearly Amtz.	Accrued Amtz	Un-Amtz. Balance
May-04 to Dec-04	\$93,360	(\$15,560)	(\$15,560)	\$77,800
Jan-05 to Dec-05	\$93,360	(\$23,340)	(\$38,900)	\$54,460

The utility has included \$57,264 of annual rate case expense in the filing for the 12-month period ended December 31, 2005. The above amount was included in Acct. Nos. 766 - Regulatory Commission Expense and consists of the amortization of two deferred asset account balances.

1. The last Commission rate case which is discussed above for \$30,012.
2. The costs incurred for litigation with the City of Oviedo for \$27,252.

The first amount includes \$70,242 of unapproved rate case expense and should be reduced by \$6,672 (\$30,012 - \$23,340) to the authorized annual amount of \$23,340 mentioned above.

The second amount relating to the City of Oviedo was incurred in 1998 and was fully amortized before the test year as evident in the utility's general ledger. The utility apparently continued to amortize it through out the test year. The entire amount of \$27,252 should be removed from test year rate case expense.

Utility Acct. No.	Acct. Description	Dec-04	Dec-05	Accrual
1863030	Misc. Reg. Comm. Exp.	\$65,814	\$65,814	
1863080	Misc. Reg. Comm. Exp. - Amort.	(\$67,746)	(\$94,998)	(\$27,252)

EFFECT ON GENERAL LEDGER: There is no adjustment needed to the utility's general ledger. The unapproved portion of the utility's amortized rate case expense, however, should be charged to a non-utility expense account for all future periods.

EFFECT ON FILING: The utility's O&M expense balance should be reduced by \$33,924 (\$6,672 + \$27,252) for the 12-month period ended December 31, 2005. The corresponding effect of this adjustment on the utility's 13-month average working capital balance is discussed in a separate finding of this report.

AUDIT FINDING NO. 10

SUBJECT: ADJUSTMENT TO MISCELLANEOUS EXPENSE

SUMMARY: The utility's O&M expense is overstated by \$21,852 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: Operating and Maintenance expenses and working capital need to be reduced for a 1996 reuse proceeding that the Commission disallowed in a prior order.

The deferred maintenance account of the utility includes a net balance of \$65,579 at the beginning of 2005 for a 1996 reuse proceeding. Order PSC-04-0363-PAA-SU, determined that the costs related to this proceeding should have been fully amortized when that order was issued.

<u>Utility Acct. No.</u>	<u>Acct. Description</u>	<u>Dec-04</u>	<u>Dec-05</u>	<u>13-Month Avg</u>
1862041	Def. Charges - Attorney Fees	\$218,545	\$218,545	\$218,545
1865041	Amort. Of Def. Charges - Attorney Fees	<u>(152,966)</u>	<u>(174,818)</u>	<u>(163,892)</u>
		\$65,579	\$43,727	\$54,653

The utility included \$21,852 (\$174,818 - \$152,966) of amortization expense in Acct No. 775 - Miscellaneous Expenses for the 1996 reuse proceeding. The utility is amortizing the balance over 10 years. Therefore, O&M expense should be reduced by the amortization expense recorded above.

EFFECT ON GENERAL LEDGER: There is no adjustment needed to the utility's general ledger. The unapproved reuse expense amortization, however, should be charged to a non-utility expense account for all future periods.

EFFECT ON THE FILING: The utility's O&M expense balance should be reduced by \$21,852 and a corresponding reduction of \$54,653 to the utility's 13-month average working capital balance.

AUDIT FINDING NO. 11

SUBJECT: ADJUSTMENT TO ALLOCATED WSC EXPENSE

SUMMARY: The utility's allocated common operating expense from Water Service Corporation (WSC) is \$212,757 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common operating expenses to each subsidiary utility throughout the United States. Alafaya Utilities, Inc. received \$218,867, or approximately 2.87 percent of \$7,644,705 in total WSC common expenses for the 12-month period ended December 31, 2005. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC common expenses that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that reduced Alafaya Utilities, Inc. allocated common expenses by \$6,110 to \$212,757.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Alafaya Utilities Inc. allocated average WSC common expenses is \$29,984 for this proceeding. See audit staffs calculations on the following page.

EFFECT ON GENERAL LEDGER:

Utility Acct. No.	Description	Debit	Credit
2151000	Retained Earnings	\$6,106	
4032098	Dep. Exp. - Computer		\$57
4191010	Interest Income	\$4	
4272090	Interest Expense	\$1,473	
6329002	Audit Fees		\$2,460
6369009	Amtz. Exp. - Computer		\$460
6599090	Insurance Exp. - Other		\$2,874
6759005	Postage Fees		\$1,732

EFFECT ON FILING: The utility's wastewater O&M expense balance is overstated by \$6,110 for the 12-month period ended December 31, 2005.

Alafaya		Per Company		Adjustment		Per Audit	
Allocation Schedules		WSC Expense	Alafaya	WSC Expense	Alafaya	WSC Expense	Alafaya
SE51	Allocated Computer	\$545,445	\$21,523	(\$12,634)	(\$517)	\$532,811	\$21,006
SE52	Allocated Insurance	2,114,495	44,743	(156,711)	(2,874)	1,957,784	41,869
SE60	Allocated General	<u>4,984,765</u>	<u>152,601</u>	<u>(74,972)</u>	<u>(2,715)</u>	<u>4,909,793</u>	<u>149,886</u>
	Per G/L	\$7,644,705	\$218,867	(\$244,317)	(\$6,106)	\$7,400,388	\$212,761
	Remove interest expense not included in filing				(4)		(4)
	Per MFR				(\$6,110)		\$212,757

SE51		Per Utility	Adjustment	Per Audit
Acct No.				
4032098	Dep. - Computer	\$3,603	(\$57)	\$3,546
6369009	Amtz. - Computer	<u>1,077</u>	<u>(460)</u>	<u>617</u>
		\$4,680	(\$517)	\$4,163

SE52		Per Utility	Adjustment	Per Audit
Acct No.				
6599090	Insurance - Other	\$44,743	(\$2,874)	\$41,869

SE60		Per Utility	Adjustment	Per Audit
Acct No.				
4191010	Interest Income	(\$4)	\$4	\$0
4272090	Interest Expense	(1,473)	1,473	0
6329002	Audit Fees	7,212	(2,460)	4,752
6759005	Postage Fees	<u>3,421</u>	<u>(1,732)</u>	<u>1,689</u>
		\$9,156	(\$2,715)	\$6,441

		MFR	Adjustment	MFR B-12 0.00% Water	MFR B-12 100.00% W/Water
Acct No.		Acct. No.			
4032098	Dep. - Computer	403	(\$57)	\$0	(\$57)
4191010	Interest Income	426 **	0	0	0
4272090	Interest Expense	419/427	1,473	0	1,473
6329002	Audit Fees	632/732	(2,460)	0	(2,460)
6369090	Amtz. - Computer	636/736	(460)	0	(460)
6599090	Insurance - Other	659/759	(2,874)	0	(2,874)
6759005	Postage Fees	675/775	<u>(1,732)</u>	<u>0</u>	<u>(1,732)</u>
			(\$7,526)	0	(\$7,526)
	Total WSC allocated expense adjustment		(\$6,110)	0	(\$6,110)

** Per utility filing this allocation from WSC was not carried forward into the MFR filing so no adjustment is needed.

AUDIT FINDING NO. 12

SUBJECT; ADJUSTMENT TO TAXES OTHER THEN INCOME

SUMMARY: The utility's Taxes Other Than Income (TOTI) balance is understated by \$10,778, for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility's filing reflects a balance of \$114,372 for regulatory assessment fees (RAF) for the 12-month period ended December 31, 2005.

<u>Jul-Dec 2004</u>	<u>Jan - Jun -2005</u>	<u>Total</u>
\$52,727	\$61,645	\$114,372

The utility's RAF balance is understated by \$10,778 because the utility's balance included \$52,727 of RAF for the period July 2004 through December 2004 which is the prior period.

The RAF amount for the period July 2005 through December 2005 is \$63,505. The utility should have included the proper periods for the filing.

<u>RAF</u>	<u>Amount</u>	<u>Explanation</u>
Per Audit	\$63,505	Add Jul-Dec 2005 RAF filing
Per Utility	<u>(52,727)</u>	Remove Jul-Dec 2004 RAF filing
Audit Adjustment	\$10,778	

EFFECT ON GENERAL LEDGER: The utility's 2005 RAF should be increased by a net \$10,778 to properly record the actual RAF for the period.

EFFECT ON FILING: The utility's TOTI balance should be increased by \$10,778 for the 12-month period ended December 31, 2005.

AUDIT FINDING NO. 13

SUBJECT: TRANSPORTATION EXPENSE

SUMMARY: The supporting documentation supplied by the utility for transportation expense was not sufficient to determine that the charges relate to the specific vehicles used in each system.

STATEMENT OF FACT: The utility uses GE Capital Fleet to manage its fleet of vehicles. GE Capital provides gas cards for the employees to buy fuel for their vehicles and oversees the maintenance of the fleet. The utility provided the total invoice and its internal allocations of those invoices to each utility system. This did not provide us the information necessary to determine that the charges allocated by the utility actually related to vehicles for that system or whether the repairs were reasonable. We requested additional information but it was not received before the completion of the audit.

EFFECT ON GENERAL LEDGER: Expenses may need to be re-allocated among systems.

EFFECT ON FILING: Expenses may need to be reduced.

AUDIT FINDING NO. 14

SUBJECT: INFORMATION ON CONTRIBUTIONS IN AID OF CONSTRUCTION

SUMMARY: The utility allocated its Contributions in Aid of Construction (CIAC) in 2003 in order to comply with Rule 25-30.140, F.A.C., which required CIAC for contributed property which can be specifically associated with a corresponding utility plant in service (UPIS) account to be amortized using the same depreciation rates as the UPIS account.

STATEMENT OF FACT: In 2003, the utility made an adjusting journal entry to re-distribute its combined CIAC account balances into several specific accounts based on the percentage of UPIS account balances excluding balances in organization, franchise, transportation and office equipment. The utility's schedule that calculates the journal entry is displayed on the following page.

The utility first determined a balance for undistributed CIAC which represented cash collections. The amount was determined by estimating the total tap fees collected for the utility system. The remaining CIAC balance was then redistributed to specific CIAC sub-accounts based on the allocation methodology described above.

However, the audit staff notes that there are two problems with the utility's calculation.

1. The utility did not book Commission adjustments from the last rate case until 2005 and therefore the plant balances used by the utility to reallocate its CIAC balance did not reflect the Commission balances.
2. The utility allocated the CIAC to all of its UPIS accounts excluding organization, franchise and transportation equipment.

Usually when the utility receives contributed plant from a developer, it consists of service lines, lift stations, and customer service extensions. The utility's allocation method redistributed a portion of its CIAC balance to accounts containing buildings and structures, treatment plant, sewer lagoons and pumping equipment. These accounts are not normally associated with contributed property for wastewater utility systems.

The audit staff defers this issue to the analyst in Tallahassee for final disposition.

EFFECT ON GENERAL LEDGER: If the utility's CIAC allocation is recalculated by the analyst, the accumulated amortization of CIAC and CIAC amortization expense balances will all need to be adjusted accordingly.

EFFECT ON FILING: The total balance for CIAC reflected in the utility's filing will not change. However, the accumulated amortization of CIAC would need to be adjusted along with the 13-month average balance for the test year. Additionally the recalculated amortization of CIAC expense balance will affect the net depreciation expense presented in the utility's filing.

Alafaya

Recalculation of CIAC and Amortization of CIAC

Acct. Nos			UPIS	UPIS	CIAC	CIAC	CIAC	CIAC	CIAC	CIAC	CIAC
UPIS	CIAC	Acct. Description	Balance	Balance	Allocation	Additions	Balance	Amtz.	Amtz.	Amtz.	Amtz.
			@12/31/02	Percentage	@12/31/02	Jan-Jun '03	@12/31/02	Rate	Jan-Jun '03	Jul-Dec '03	Total
3542011	2721011	Lift Station	\$1,076,458	7.90%	\$601,627	0	\$601,627	3.13%	\$9,400	\$9,400	\$18,801
3547003	2721003	Structures & Imp.	189,736	1.39%	106,043	0	106,043	3.13%	1,657	1,657	3,314
3547012	2721012	Spray Irrigation Facilities	59,457	0.44%	33,230	0	33,230	3.13%	519	519	1,038
3602006	2721006	Sewage Service Lines	386,956	2.84%	216,268	0	216,268	3.33%	3,604	3,604	7,209
3602007	2721007	Force Mains	564,955	4.14%	315,750	0	315,750	3.33%	5,263	5,263	10,525
3612008	2721008	Sewer Mains	5,817,310	42.67%	3,251,263	0	3,251,263	2.22%	36,125	36,125	72,250
3612010	2721098	Manholes	327,979	2.41%	183,306	0	183,306	2.22%	2,037	2,037	4,073
3804004	2721004	Sewer Lagoons	82,687	0.61%	46,213	0	46,213	2.86%	660	660	1,320
3804005	2721005	Treatment Plant	5,073,195	37.21%	2,835,381	0	2,835,381	2.86%	40,505	40,505	81,011
3824009	2721009	Outfall Lines	<u>53,681</u>	<u>0.39%</u>	<u>30,002</u>	<u>0</u>	<u>30,002</u>	3.33%	<u>500</u>	<u>500</u>	<u>1,000</u>
			\$13,632,414	100.00%	\$7,619,082	0	\$7,619,082				\$200,542
271		CIAC Balance per T/B @12/31/02	\$10,065,824								
		Less Tap Fee portion of CIAC	(1,212,673)								
		Less Tap Fee Refunds	0								
		Less known CIAC Sub-Acct. Balance	<u>(1,234,068)</u>								
		Unidentified CIAC balance	\$7,619,082								
271		CIAC Additions (Jan-Jun '03)	\$178,140								
407.6		Amtz. Of CIAC Expense @12/31/03		\$250,475							
		Less Tap Fees Amtz of CIAC (Jan-Jun '03)		(14,977)	((1,12,673)*2.47%)/2			2.47%		Amtz. Rate 1st half of 2003	
		Less Tap Fees Amtz of CIAC (Jul-Dec '03)		(17,177)	(((1,12,673-178,140)*2.47%)/2)			2.47%		Amtz. Rate 2nd half of 2003	
		Less known Amtz. Of CIAC Sub-Acct. Balance		<u>(27,739)</u>							
		Unidentified Amtz. Of CIAC balance		\$190,583							
		Recalculated Amtz. Of CIAC balance above		<u>(200,542)</u>							
		Retained Earnings Adjustment		(\$9,959)							

AUDIT FINDING NO. 15

SUBJECT: INFORMATION ON CAPITAL STRUCTURE BALANCES

SUMMARY: The utility's 13- month average capital structure balance is \$232,178,925 as of December 31, 2005 and its cost rate for long-term and short-term debt is 6.58 percent and 5.14 percent, respectively.

STATEMENT OF FACT: The utility's filing reflects the following capital structure balances prior to the reconciliation with rate base as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	13-Month Average	Cost Rate
Long Term Debt	\$112,803,215	\$135,285,191	\$133,025,102	6.65%
Short Term Debt	18,768,000	3,926,000	\$4,522,923	6.62%
Common Equity	88,963,597	92,611,247	\$91,510,699	11.78%
Customer Deposits	119,480	128,520	\$125,672	6.00%
Acc. Deferred Income Tax	<u>10,600</u>	<u>143,632</u>	<u>\$20,833</u>	0.00%
Totals	\$220,664,892	\$232,094,590	\$229,205,229	

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the Utilities, Inc., the parent, capital structure component balances as of December 31, 2005. The audit report, issued July 15, 2006, determined the following 13-month average balances for Alafaya's parent, Utilities Inc. as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	13-Month Average	Cost Rate
Parent Level				
Long Term Debt	\$112,803,215	\$135,285,191	\$133,025,102	6.58%
Short Term Debt	18,768,000	3,926,000	\$4,403,615	5.14%
* Common Equity	92,087,507	95,673,345	\$94,603,703	
Alafaya Level				
** Customer Deposits	119,480	128,520	\$125,672	6.00%
** Acc. Deferred Income Tax	<u>10,600</u>	<u>143,632</u>	<u>\$20,833</u>	0.00%
Totals	\$223,788,802	\$235,156,688	\$232,178,925	

* The cost rate for common equity to be determined after reconciliation to the utility's average rate base.

** These balances do not include other audit adjustments in this report where applicable.

Based on the above-mentioned affiliate audit report findings the 13-month average common equity balance should be increased by \$3,093,004 (\$94,603,703 - \$91,510,699), the long-term debt cost rate should be reduced by 0.07 percent (6.65% - 6.58%) and the short term debt cost rate should be reduced by 1.48 percent (6.62% - 5.14%) as of December 31, 2005.

EFFECT ON GENERAL LEDGER: None, because capital structure balances are only used in rate case proceedings

EFFECT ON FILING: To be determined by the analyst in Tallahassee.

AUDIT FINDING NO. 16

SUBJECT: INFORMATION ON DEFERRED TAXES

SUMMARY: The utility reports a net asset of \$143,632 upon its books in net deferred income taxes in 2005. This amount is reported at 13-month average as a liability of (\$20,833). As a result of our testing as described below, the average balance used in this case should be changed from (\$20,833) by \$137,084 to report a net deferred tax asset of \$116,251. This amount contains estimates which have been presented to the utility and are subject to adjustments based upon further findings during this case.

<u>Calculations:</u>	<u>Average</u>	<u>Year End</u>
Beginning Balance	(\$20,833)	\$143,632
Deferred Income Tax		
Corrections		
13-Month Average	97,949	-na-
State Depreciation	(12,524)	(12,494)
State Intangible	(1,926)	(1,926)
Federal Intangible	53,585	53,585
Federal Depreciation	<u>Pending</u>	<u>Pending</u>
Total	\$116,251	\$182,797

EFFECT ON FILING: If all the findings are accepted the effect on rate base is to increase working capital by \$116,251. The effect on capital structure is to increase the provision for equity and debt by \$137,084 and decrease deferred taxes by \$20,833. There is no direct effect on utility income.

Deferred Taxes -- Item 1: 13-Month Average

The utility's calculation of average deferred income taxes may be considered incorrect. General Instruction No. 4, NARUC Uniform System of Accounts, provides that accounts are kept monthly. The utility did not keep its deferred income tax accounts monthly. Based on estimates, if the deferred income taxes were kept on a monthly basis, the utility's 13 month average balance would be change from (\$20,833) by \$97,949 to report \$77,066. This is a ratemaking adjustment and no entries are needed to the accounts.

Deferred Taxes -- Item 2: Accelerated Depreciation - State of Florida

When the utility takes tax benefits due to accelerated depreciation, the utility must record deferred income taxes. In this case, the utility failed to record sufficient state deferred taxes in its accounts. The estimated liability increase at average is \$12,524 and at year end is \$12,494. This estimate was presented to the utility and is subject to adjustment during the case.

EFFECT ON GENERAL LEDGER:

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$12,494	
190	State Deferred Taxes – Depreciation		\$12,494

Deferred Taxes -- Item 2: Deferred Taxes Intangible Plant – Federal and State of Florida

Intangible plant is recorded as an asset in water and sewer plant accounts as either organization plant or as franchise plant. For income tax purposes, this intangible plant is expensed and deferred taxes are recorded. Intangible plant and deferred taxes for intangible plant during the normal course of business are not reduced unless a utility's assets are sold.

Utility intangible plant did not match the expected balance of deferred income taxes. Further the State of Florida deferred taxes had not been properly recorded. The estimated correction to Federal deferred accounts at average is an asset increase of \$53,585 and at year end the asset increase is \$53,585. The estimated correction to state deferred account is a liability increase of \$1,926 at average and a liability increase at year end of \$1,926. These estimates were presented to the utility and are subject to adjustment during this rate case proceeding.

EFFECT ON GENERAL LEDGER:

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings		\$51,659
190	Federal Deferred Taxes – Intangible Plant	\$53,585	
190	State Deferred Taxes – Intangible Plant		\$1,926

Deferred Taxes -- Item 3: Accelerated Depreciation – Federal

Accelerated depreciation is a difficult account for a utility to maintain and difficult for the Commission to audit. We found there was a possibility of errors and non utility effects in the account. There was not enough available audit time for staff to verify the details in this account sufficiently to comment the account was free of error, free of non utility effects and reflected necessary Commission adjustments appropriately.

Absent available audit resources, we have asked the utility to present additional information concerning its deferred taxes in this matter. Absent additional audit procedures, we recommend industry staff use reported plant additions, retirements and Commission adjustments along with known state and federal depreciation rates to determine what level for Federal Accumulated Deferred Income Tax is reasonable. Once a Federal Deferred Tax – Accelerated Depreciation level is set, it would be appropriate to revise the estimate presented in item 2: Deferred Taxes -- Accelerated Depreciation State of Florida.

Possible Accounts Affected upon General ledger:

Retained Earnings

State Deferred Income Taxes – Depreciation

Federal Deferred Income Taxes – Depreciation

State Non Utility Deferred Income Taxes – Depreciation

Federal Non Utility Deferred Income taxes -- Depreciation

Deferred Taxes -- Item 4: Accounting for Post 2000 Tap Fees

Treasury Regulation Section 1.118-2(b) (3) excludes customer connection fees from the definition of CIAC for tax purposes. Therefore, Commission staff has advised that subsequent to the year 2000, CIAC in the form of cash tap fees paid to the utility is taxable. This appears to be a significant item in future utility accounting and ratemaking.

The utility records the effects of (1) taxable CIAC and (2) its amortization correctly in its deferred tax accounts, but the also utility reports (3) additional book depreciation in its reports where no book depreciation exists. Further, it appears that the taxable CIAC effects are at an accelerated rate rather than the straight line rate used by the utility. This reporting does not affect the setting of rates in this case, but it clouds the auditing and determination of deferred taxes and the utility's ongoing and future reports such as annual report schedule F-23 and MFR schedules C-1 and C-2, and C-5. Clarification on this matter is needed.

From the auditor's perspective, it appears the proper accounting for taxable CIAC is to treat the amortization of tax on CIAC as income statement amortization and not provide a corresponding provision for income taxes on this amortization in ratemaking. Treating this item entirely in deferred tax accounts on the balance sheet seems to cause long-lived problems in assessing the impact of taxable CIAC and accelerated depreciation on rates.

Deferred Taxes -- Item 5: Error in Utility MFR

Utility information contained in its filing schedules C-1, C-2 and C-5 that report the provision for income taxes did not match utility schedule B-1 or Annual Report Schedule F-23 or Annual Report Schedule F-3. This type of error causes audit inefficiencies. Staff has relied upon annual report schedules during this audit of deferred income taxes.

Deferred Taxes -- Item 6: AFUDC

Based upon a review of cash flow model, it is apparent that when setting rates for a utility receiving both an income tax allowance and AFUDC, for ratemaking, it is appropriate to adjust the final calculations for income tax expense by the tax effect of equity AFUDC depreciation.

In the past, this item could be considered immaterial but the issue grows as AFUDC is accrued by utilities year-after-year which receive allowances for federal income tax.

Due to audit time constraints, the auditor was not able to fully research this utility's AFUDC history or determine the correct amount of equity AFUDC depreciation in this case.

EXHIBIT 1

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Alafaya Utilities, Inc.
 Docket No.: 060256-SU
 Test Year Ended: December 31, 2005
 Interim Final
 Historic Projected

Schedule: A-2
 Page 1 of 1
 Preparer: Steven M. Lubertozzi

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

Line No.	(1) Description	(2) Average Amount Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 21,402,133	\$ 2,267,717 (A)	\$ 23,669,850	A-6
2					
3	Utility Land & Land Rights	60,843		60,843	A-6
4					
5	Less: Non-Used & Useful Plant		(75,568) (B) . (D)	(75,568)	A-7
6					
7	Construction Work in Progress	356,711	(356,711) (C)	-	A-18
8					
9	Less: Accumulated Depreciation	(6,497,520)	533,163 (D)	(5,964,357)	A-10
10					
11	Less: CIAC	(13,634,102)		(13,634,102)	A-12
12					
13	Accumulated Amortization of CIAC	4,483,331		4,483,331	A-14
14					
15	Acquisition Adjustments				-
16					
17	Accum. Amort. of Acq. Adjustments				-
18					
19	Advances For Construction				A-16
20					
21	Working Capital Allowance	-	309,962 (E)	309,962	A-17
22					
23	Total Rate Base	\$ 6,171,396	\$ 2,678,563	\$ 8,849,959	

EXHIBIT 2

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Alafaya Utilities, Inc.
 Docket No.: 060256-SU
 Test Year Ended: December 31, 2005
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-2 REVISED
 Page 1 of 1
 Prepared: Steven M. Lubertozzi

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	\$ 2,781,124	\$ 76,962 (A)	\$ 2,858,086	\$ 1,284,377 (E)	\$ 4,142,462	B-4
2							
3	Operation & Maintenance	2,013,286		2,013,286	190,644 (F)	2,203,929	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	295,596	(16,169) (B)	279,427	93,204 (G)	372,631	B-14, B-3
6							
7	Amortization			-		-	
8							
9	Taxes Other Than Income	437,478	5,738 (C)	443,216	102,916 (H)	546,132	B-15, B-3
10							
11	Provision for Income Taxes	(95,748)	10,892 (D)	(84,856)	339,105 (I)	254,249	C-1, B-3
12							
13	OPERATING EXPENSES	\$ 2,650,612	\$ 461	\$ 2,651,073	\$ 725,869	\$ 3,376,941	
14							
15	NET OPERATING INCOME	\$ 130,512	\$ 76,501	\$ 207,013	\$ 568,508	\$ 765,521	
16							
17							
18	RATE BASE	\$ 6,171,396	\$ 2,678,563	\$ 8,849,959	\$ -	\$ 8,849,959	
19							
20							
21	RATE OF RETURN	2.11 %		2.34 %		8.65 %	

EXHIBIT 3

Schedule of Requested Cost of Capital (Final Rates)
13-Month Average Balance

Florida Public Service Commission

Company: Alafaya Utilities, Inc.
Docket No.: 060256-SU
Test Year Ended: December 31, 2005
Schedule Mid-Year Ended:
Historic [] or Projected [X]

Schedule: D-1 REVISED
Page 1 of 1
Preparer: Steven M. Lubertozzi

Subsidiary [] or Consolidated [X]

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1)	(2)	(3)	(4)
		Total Capital	Ratio	Cost Rate	Weighted Cost
1	Long-Term Debt	5,054,530	57.11 %	6.65 %	3.80 %
2					
3	Short-Term Debt	171,893	1.94 %	6.62 %	0.13 %
4					
5	Preferred Stock				
6					
7	Customer Deposits	125,672	1.42 %	6.00 %	0.09 %
8					
9	Common Equity	3,477,030	39.29 %	11.78 %	4.63 %
10					
11	Tax Credits - Zero Cost				
12					
13	Accumulated Deferred Income Tax	20,833	0.24		
14					
15	Other (Explain)				
16					
17					
18	Total	8,849,958	100.00 %		6.65 %