

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

---

**DATE:** October 6, 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:** 060257-WS **Company Name:** Cypress Lakes Utilities, Inc.  
**Audit Purpose:** File and Suspend Rate Case  
**Audit Control No:** 06-209-2-2

---

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:bj  
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

Mr. Patrick C. Flynn, Regional Director  
Cypress Lakes Utilities, Inc.  
200 Weathersfield Avenue  
Altamonte Springs, FL 32714-4027

Steve Lubertozzi, Director, Regulatory Accounting  
Cypress Lakes Utilities  
2335 Sanders Road  
Northbrook, IL 60062

Valerie L. Lord  
Rose Law Firm  
Sanlando Center  
2180 W. State Rd. 434, Suite 2118  
Longwood, FL 32779

DOCUMENT NUMBER - DATE

09248 OCT-6 8

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING

*Tampa District Office*

CYPRESS LAKES UTILITIES INC.

FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2005

DOCKET NO. 060257-WS  
AUDIT CONTROL NO. 06-209-2-2

*Jeffery A. Small, Audit Manager*

*Robert A. Freeman*

*Robert A. Freeman, Audit Staff*

*Jocelyn Y. Stephens, Audit Staff*

*Kathryn L. Welch, Audit Staff*

*Gennarro Jackson, II, Audit Staff*

*Intesar Terkawi, Audit Staff*

*Joseph W. Rohrbacher, District Supervisor*

DOCUMENT NUMBER-DATE

09248 OCT-6 05

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES .....	2
III. AUDIT FINDINGS	
1. ADJUSTMENT TO UTILITY PLANT IN SERVICE .....	7
2. ADJUSTMENT TO ACCUMULATED DEPRECIATION .....	8
3. ADJUSTMENT TO WORKING CAPITAL.....	11
4. ADJUSTMENT TO ALLOCATED WSC RATE BASE.....	12
5. ADJUSTMENT TO ALLOCATED UIF RATE BASE.....	13
6. ADJUSTMENT TO ALLOCATE TRANSPORTATION EQUIPMENT .....	15
7. ADJUSTMENT TO PRIOR RATE CASE EXPENSE.....	17
8. ADJUSTMENT TO OPERATION AND MAINTENANCE EXPENSE.....	18
9. ADJUSTMENT TO ALLOCATED WSC EXPENSE.....	20
10. INFORMATION ON TRANSPORTATION EXPENSE .....	22
11. INFORMATION ON CONTRIBUTION IN AID OF CONSTRUCTION (CIAC) ...	23
12. INFORMATION ON POTENTIAL UNRECORDED CIAC CASH .....	26
13. INFORMATION ON POTENTIAL UNRECORDED CIAC INFRASTRUCTURE.	27
14. INFORMATION ON CAPITAL STRUCTURE BALANCES .....	28
15. INFORMATION ON DEFERRED TAXES .....	30
IV. EXHIBITS	
1. WATER RATE BASE.....	33
2. WASTEWATER RATE BASE.....	34
3. WATER NET OPERATING INCOME .....	35
4. WASTEWATER NET OPERATING INCOME .....	36
5. COST OF CAPITAL .....	37

**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 27, 2006. We have applied these procedures to the attached schedules which were prepared by Cypress Lakes Utilities, Inc. in support of its filing for rate relief in Docket No. 060257-WS.

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

15 *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-04-0647-PAA-WS, issued May 28, 2003, were recorded.

#### Utility-Plant-in-Service (UPIS)

16 *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 assets 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 adjustment to remove a utility journal entry that recorded a used and useful adjustment to its wastewater UPIS balance. Audit Finding No. 6 discusses our adjustments to reduce and allocate the transportation equipment balances to the utility's water and wastewater systems.

#### Land and Land Rights

17 *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 change to utility land since its last rate proceeding by searching the county's public records.

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

20 *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. 11 provides information on the utility's 2003 CIAC adjusting journal entry that was made to allocate CIAC based on specific UPIS account balances. Audit Finding No. 12 provides information on potential unrecorded cash contribution for a developer. Audit Finding No. 13 provides information on potential unrecorded infrastructure that may have been contributed to the utility by developers.

#### Accumulated Depreciation

22 *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. 1 discusses our adjustment to remove a utility journal entry that recorded a used and useful adjustment to its wastewater accumulated depreciation balance. Audit Finding No. 2 discusses our adjustment to the utility's water and wastewater depreciation rates and the corresponding effect on its accumulated depreciation account balance. Audit Finding No. 6 discusses our adjustments to reduce and allocate the accumulated depreciation transportation equipment balances to the utility's water and wastewater systems.

#### Accumulated Amortization of CIAC

23 *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. 11 provides information on the utility's 2003 CIAC adjusting journal entry that was made to allocate CIAC based on specific UPIS account balances and the corresponding effect on accumulated amortization of CIAC account balances.

#### Working Capital

24 *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. 3 discusses our adjustment to include a working capital balance that was left out of the utility's filing.

#### Other Rate Base Items

29 30  
*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. 4 discusses our adjustments to WSC allocated rate base balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 5 discusses our adjustments to allocate UIF rate base balances to the utility's wastewater system.

### **NET OPERATING INCOME**

#### General

40  
*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

41  
*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)

42  
*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, water or wastewater 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. 6 discusses our adjustments to reduce and allocate the transportation expense balances to the utility's water and wastewater systems. Audit Finding No. 7 discusses our adjustments to reduce the annual prior rate case expense included in the filing to the amount approved by the Commission in its last rate case. Audit Finding No. 8 discusses our adjustments to O&M expense account balances. Audit Finding No. 9 discusses our adjustments to WSC allocated expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 10 provides information on the utility's transportation expense balances.

### Taxes-Other-Than-Income (TOTI)

53 *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.

### Depreciation Expense

51 *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. 2 discusses our adjustment to the utility's water and wastewater depreciation rates and the corresponding effect on its depreciation expense account balance. Audit Finding No. 4 discusses our adjustments to WSC allocated depreciation expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 5 discusses our adjustments to allocate UIF and WSC allocated depreciation expense balances to the utility's water and wastewater system. Audit Finding No. 6 discusses our adjustments to reduce and allocate the depreciation expense on transportation equipment balances to the utility's water and wastewater systems.

## **CAPITAL STRUCTURE**

### General

31 *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. 14 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

33 *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

34 *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

36 *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. 15 provides information on the utility's deferred tax balances.

Customer Deposits

35 *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 UTILITY PLANT IN SERVICE**

**SUMMARY:** The utility's wastewater rate base and depreciation expense balances are understated by \$155,523 and \$11,120, respectively, for the 12-month period ended December 31, 2005 because it erroneously recorded a used and useful adjustment to the general ledger in 2005.

**STATEMENT OF FACT:** The utility recorded the following adjusting journal entry in 2005, which they classified as an adjustment to record the used and useful adjustment that was ordered in Docket No. 020407-WS.

15-4  
/2

Utility Acct. No	NARUC Acct. No.	Account Description	Debit	Credit
1032010	103	Plant Held for Future Use	\$200,004	
1084005	108	Acc/Dep - Wastewater Treatment Plant	\$44,481	
2151000	215	Retained Earnings		\$44,481
3804005	380	Wastewater Treatment Plant		\$200,004

15-4  
/2-1p1

The accumulated depreciation entry of \$44,481 represented four years of depreciation expense accruals that were charged against income since the last rate case in the above mentioned docket. The utility removed this amount to record the cumulative effect on accumulated depreciation had the reclassification entry been booked in 2001.

Used and useful adjustments are Commission adjustments made for rate case purposes. They are not usually recorded to the utility's general ledger because they are based on engineering estimates at the time of the rate proceeding. The estimates can and do change in future periods.

Therefore, the utility adjustment should be reversed.

**EFFECT ON GENERAL LEDGER:** The following journal entry should be made to correct the utility's general ledger balances.

Utility Acct. No	NARUC Acct. No.	Account Description	Debit	Credit
1032010	103	Plant Held for Future Use		\$200,004
1084005	108	Acc/Dep - Wastewater Treatment Plant		\$44,481
2151000	215	Retained Earnings	\$44,481	
3804005	380	Wastewater Treatment Plant	\$200,004	

**EFFECT ON FILING:** The utility's wastewater rate base should be increased by \$155,523 (\$200,004 - \$44,481) as of December 31, 2005 and its depreciation expense should be increased by \$11,120 (\$44,481 / 4years) 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. 2

### SUBJECT: ADJUSTMENT TO ACCUMULATED DEPRECIATION

**SUMMARY:** The utility's water and wastewater accumulated depreciation and depreciation expense balances are understated by \$3,968 each and \$163 each, respectively, 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.

22-2  
51-4  
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 detail 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. 020407-WS. 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 used a 40 year life to amortize the undistributed CIAC balance. According to the rule cited above, a composite rate of depreciation excluding general plant should have been used to amortize unidentified CIAC balances.

**EFFECT ON GENERAL LEDGER:** The utility's water and wastewater accumulated depreciation and depreciation expense balances should be reduced by \$3,968 each and \$163 each, respectively, for the 12-month period ended December 31, 2005. See the audit staffs calculations that follow for details.

**EFFECT ON FILING:** Net water and wastewater rate base balances are reduced by \$3,968 and \$163, respectively, as of December 31, 2005. Net water and wastewater depreciation expense balances are increased by \$3,968 and \$163, respectively, for the 12-month period ended December 31, 2005.

Water Accumulated Depreciation and Depreciation Expense Adjustments

Utility Acct. Nos.	Acct. Description	Accumulated Depreciation		Depreciation Expense	
		Debit	Credit	Debit	Credit
1083021	4033021 Structure Pump	\$3			\$3
1083014	4032014 Wells		\$3	\$3	
1083025	4032025 Electric Pump		120	120	
1083032	4032032 Wt Equip		11	11	
1083042	4032042 Dist Res		4	4	
1083043	4032043 Mains		22	22	
1083045	4032045 Service Lines		87	87	
1083046	4032046 Meters	26			26
1083047	4032047 Meter Instal		94	94	
1083048	4032048 Hydrants		2	2	
1083090	4032090 Office Struct		2	2	
1083091	4032091 Office Furn		30	30	
1083094	4032094 Tools	19			19
1082000	4032092 Transportation	4,295			4,295
Total Acc. Dep. & Dep. Expense Adjustment		<u>\$4,344</u>	<u>\$376</u>	<u>376</u>	<u>\$4,344</u>
Total Adjustment		Dec. Acc/Dep	<u>(\$3,968)</u>	Dec. Dep. Exp.	<u>(\$3,968)</u>

Wastewater Accumulated Depreciation and Depreciation Expense Adjustments

Utility Acct. Nos.	Acct. Description	Accumulated Depreciation		Depreciation Expense	
		Debit	Credit	Debit	Credit
1084011	4033011 Lift Station		\$584	\$584	
1084003	4033003 Building		32,381	32,381	
1084006	4033006 Services	\$1,095			\$1,095
1084007	4033007 Force		6	6	
1084008	4033008 Gravity		49	49	
1084010	4033010 Manholes		10	10	
1085008	4037008 Reuse Transmission & Dist.		3	3	
1084004	4033004 Lagoons		13	13	
1084005	4033005 Stp	32,113			32,113
1084091	4033091 Furniture	0			0
1084094	4033094 Tools	0			0
1084095	4033095 Lab	0			0
1084097	4033097 Communication		0	0	
Total Acc. Dep. & Dep. Expense Adjustment		<u>\$33,208</u>	<u>\$33,045</u>	<u>\$33,045</u>	<u>\$33,208</u>
Total Adjustment		Dec. Acc/Dep	<u>\$163</u>	Dec. Dep. Exp.	<u>\$163</u>

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

51-4

Water Accumulated Depreciation and Depreciation Expense Adjustments

Utility Acct. No.	NARUC Acct. No.		Rule Dep. Rate	Balance 12/31/2004	Adjustment For 2001	Net Beg. Bal.	2005 Additions	Balance 12/31/05	Dep. Expense	Per Filing	Difference	Per G/L	Difference	Dep. Exp. Acct. No.	Adjusting Entry	Acc/Dep Acct. No.	Adjusting Entry
3043021	304	Structure Pump	3.13%	\$64,284	\$0	\$64,284	\$0	\$64,284	\$2,009	\$2,095	(\$86)	\$2,012	(\$3)	1083021	\$3	4033021	(\$3)
3044031	304	Structure Wtp	3.13%	2,641	0	2,641	0	2,641	83	0	82.52	82.68	(0.16)	1083031	0.16	4032031	(0.16)
3072014	307	Wells	3.33%	58,409	0	58,409	86	58,495	1,948	1,945	3.39	1,944.96	3.43	1083014	(3.43)	4032014	3.43
3113025	311	Electric Pump	5.00%	160,430	(794)	159,636	4,816	164,452	8,102	7,982	120.18	7,981.82	120.36	1083025	(120.36)	4032025	120.36
3204032	320	Wt Equip	4.55%	14,058	0	14,058	464	14,522	650	639	10.52	639.00	10.52	1083032	(10.52)	4032032	10.52
3305042	330	Dist Res	2.70%	84,061	0	84,061	134	84,195	2,274	2,270	3.73	2,269.68	4.05	1083042	(4.05)	4032042	4.05
3315043	331	Mains	2.33%	454,103	0	454,103	3,616	457,719	10,603	10,581	21.59	10,580.64	21.95	1083043	(21.95)	4032043	21.95
3335045	333	Service Lines	2.50%	224,407	0	224,407	8,234	232,641	5,713	5,625	88.10	5,625.78	87.32	1083045	(87.32)	4032045	87.32
3345046	334	Meters	5.00%	124,011	0	124,011	(1,110)	122,901	6,173	6,712	(539.19)	6,199.14	(26.33)	1083046	26.33	4032046	(26.33)
3345047	334	Meter Instal	5.00%	10,254	0	10,254	3,748	14,002	606	0	606.40	512.76	93.64	1083047	(93.64)	4032047	93.64
3355048	335	Hydrants	2.22%	71,349	0	71,349	9,121	80,470	1,687	1,685	1.88	1,685.00	1.88	1083048	(1.88)	4032048	1.88
3406050	340	Computer		3,319	0	3,319	108	3,427	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3406090	340	Office Struct	2.50%	475	0	475	0	475	12	0	11.88	9.48	2.40	1083090	(2.40)	4032090	2.40
3406091	340	Office Furn	6.67%	457	0	457	0	457	30	0	30.46	0.00	30.46	0.00	30.46	0.00	30.46
3446095	344	Lab Eq	6.67%	6,088	(303)	5,785	0	5,785	386	386	(0.32)	385.87	(0.19)	1083095	0.19	4032095	(0.19)
3466094	346	Tools	6.25%	30,829	(5,316)	25,513	294	25,807	1,604	1,623	(19.24)	1,623.00	(19.24)	1083094	19.24	4032094	(19.24)
3466097	346	Communication	10.00%	0	0	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3917000	341	Transportation	16.67%	54,793	0	54,793	(17,356)	37,437	7,686	11,981	(4,295.13)	11,981.00	(4,295.13)	1082000	4,295.13	4032092	(4,295.13)
3486050	348	Allocated Ui		<u>31,198</u>	0	<u>31,198</u>	<u>(1,309)</u>	<u>29,889</u>	0	0	<u>(9.00)</u>	0.00	0.00	0.00	0.00	0.00	0.00
				\$1,395,166	(\$6,413)	\$1,388,753	\$10,846	\$1,399,599	\$49,565	\$53,533	(\$3,968)	\$53,533	(\$3,968)		\$3,968		(\$3,968)
										3,359	Allocated Dep. Exp.						
										\$56,892	Per MFR Schedule B-13 (revised)						

Water Accumulated Depreciation and Depreciation Expense Adjustments

Utility Acct. No.	NARUC Acct. No.		Rule Dep. Rate	Balance 12/31/2004	Adjustment For 2001	Net Beg. Bal.	2005 Additions	Balance 12/31/05	Dep. Expense	Per Filing	Difference	Per G/L	Difference	Dep. Exp. Acct. No.	Adjusting Entry	Acc/Dep Acct. No.	Adjusting Entry
3542011	354	Lift Station	4.00%	85,864		85,864	2,736	88,600	3,489	2,954	535	2,905	584	1084011	(\$584)	4033011	\$584
3547003	354	Building	3.13%	1,566	1,036,177	1,037,743		1,037,743	32,429		32,429	49	32,381	1084003	(32,381)	4033003	32,381
3602006	360	Services	2.63%	161,890		161,890	2,870	164,759	4,295	5,391	(1,096)	5,391	(1,095)	1084006	1,095	4033006	(1,095)
3612007	361	Force	3.33%	178,994		178,994		178,994	5,966	5,960	6	5,961	5	1084007	(6)	4033007	6
3612008	361	Gravity	2.22%	597,313		597,313	3,187	600,499	13,309	13,260	49	13,260	49	1084008	(49)	4033008	49
3612010	361	Manholes	3.33%	308,271		308,271		308,271	10,276	10,266	10	10,265	10	1084010	(10)	4033010	10
3752008	375	Reuse Trans. & Dist.	2.33%	0		0	254	254	3	0	3	0	3	1085008	(3)	4037008	3
3804004	380	Lagoons	5.56%	36		36	426	462	14	0	14	1	13	1084004	(13)	4033004	13
3804005	380	Stp	5.55%	1,217,010	(1,296,039)	(79,029)	15,558	(63,471)	(3,954)	28,159	(32,113)	28,158	(32,113)	1084005	32,113	4033005	(32,113)
3907091	390	Furniture	6.67%	311		311		311	21		21	21	(0)	1084091	0	4033091	(0)
3937094	393	Tools	6.25%	3,814	5,316	9,130		9,130	571	592	(21)	571	(0)	1084094	0	4033094	(0)
3947095	394	Lab	6.67%	6,906		6,906		6,906	460	461	(1)	461	(0)	1084095	0	4033095	(0)
3967097	396	Communication	10.00%	2,875		2,875		2,875	288	288	(1)	287	0	1084097	(0)	4033097	0
		Wastewater utility plant in service		2,564,848	(254,546)	2,310,302	25,030	2,335,332	67,167	67,331	(164)	67,330	(163)		\$163		(\$163)

**AUDIT FINDING NO. 3**

**SUBJECT: ADJUSTMENT TO WORKING CAPITAL**

**SUMMARY:** The utility's working capital allowance for water and wastewater rate base is \$16,835 and \$32,557, respectively, as of December 31, 2005.

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

The audit staff has calculated the working capital allowance for water and wastewater rate base to be \$16,835 and \$32,557, respectively, as of December 31, 2005.

24

	Water	W/Water	Total	
Total O&M Expense	\$134,677	\$260,454	\$395,131	Per MFR Schedule B1 & B-2 (Revised)
Adjustments (See note below)	<u>0</u>	<u>0</u>	<u>0</u>	
Total Adjusted O&M Expense	\$134,677	\$260,454	\$395,131	
Divided by 8	<u>8</u>	<u>8</u>	<u>8</u>	
Working Capital	\$16,835	\$32,557	\$49,391	

Note: Audit staff adjustments to historical O&M expense in this report include the corresponding affect on working capital in each separate finding.

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

**EFFECT ON FILING:** Increase water and wastewater rate base by \$16,835 and \$32,557, respectively, as of December 31, 2005.

**AUDIT FINDING NO. 4**

**SUBJECT: ADJUSTMENT TO ALLOCATED WSC RATE BASE**

**SUMMARY:** The utility's allocated average net rate base from Water Service Corporation (WSC) is \$14,405 as of December 31, 2005. The balance should be further allocated to water and wastewater operations for \$7,457 and \$6,948, respectively.

**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. Cypress Lakes Utilities, Inc. received \$11,902, which is the average amount as of December 31, 2005. The allocation is net of accumulated depreciation and accumulated deferred income taxes or approximately 0.68 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 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 the Cypress Lakes Utilities, Inc. allocated average WSC rate base allocation by \$2,503 to \$14,405.

The audit staff has incorporated the findings of the above-mentioned audit report to determine the Cypress Lakes Utilities, Inc. allocated average WSC rate base balance of \$14,405 for this proceeding.

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

**EFFECT ON FILING:** Increase the Cypress Lakes Utilities, Inc. average water and wastewater rate base balances by \$1,296 and \$1,207, respectively, for the 12-month period ended December 31, 2005.

Simple Average	Total Amount	Water	Allocation Percent	W/Water	Allocation Percent
Per Utility Allocated Rate Base	\$11,902	\$6,161	51.76%	\$5,741	48.24%
Per Audit Allocated Rate Base	<u>\$14,405</u>	<u>\$7,457</u>	51.76%	<u>\$6,948</u>	48.24%
Audit Adjustment	\$2,503	\$1,296		\$1,207	

Small differences are due to rounding

**AUDIT FINDING NO. 5**

**SUBJECT: ADJUSTMENT TO ALLOCATED UIF RATE BASE**

**SUMMARY:** The utility's average water and wastewater rate base balances are overstated and understated by \$11,319, each as of December 31, 2005 and its net water and wastewater depreciation expense balances are overstated and understated by \$1,601, each, for the 12-month period ended December 31, 2005, because it did not allocate any allocated rate base or depreciation expense balances to its wastewater operations.

**STATEMENT OF FACT:** The utility's general ledger reflects the following allocated rate base and corresponding depreciation expense balances that were included in its filing for this proceeding. All of the balances were included in the water system filing only. The utility's filing also included adjustments to allocate these costs to the wastewater system but we could not determine if the allocated balances were based on historical or proforma information.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Balance Dec-04	Balance Dec-05	Average
1081050	108	Acc/Dep - Office Furniture & Equip.	(\$7,132)	(\$7,608)	(\$7,370)
1083050	108	Acc/Dep - Other Tangible Plant	(2,690)	(2,904)	(2,797)
3406050	340	Office Furniture & Equip.	\$31,198	\$29,889	\$30,544
3486050	348	Other Tangible Plant	<u>3,319</u>	<u>3,427</u>	<u>3,373</u>
			\$24,695	\$22,804	\$23,750
<b>UIF</b>					
4032090	403	Dep. Exp. - Other Tangible Plant		\$507	
4032091	403	Dep. Exp. - Office Furniture & Equip.		234	
4032094	403	Dep. Exp. - Communication & Equip.		216	
4032095	403	Dep. Exp. - Laboratory & Equip.		4	
4032097	403	Dep. Exp. - Communication Equip.		158	
4032098	403	Dep. Exp. - Other Tangible Plant		343	
<b>WSC</b>					
4032090	403	Dep. Exp. - Office Structures		446	
4032091	403	Dep. Exp. - Office Furniture		656	
4032093	403	Dep. Exp. - Telephones		19	
4032098	403	Dep. Exp. - Other Tangible Plant		<u>776</u>	
				\$3,359	

The rate base accounts and six of the depreciation expense accounts were allocated from Utilities Inc. of Florida (UIF), the regional office for all of the Florida systems. These balances were audited in a separate affiliate transaction audit in Docket No. 060253-WS. No adjustments were noted in the audit report dated July 15, 2005.

The rate base accounts allocated from Utilities, Inc. were included as an adjustment to the utility's rate base in the filing and those allocations are addressed in a separate finding in this



report. The corresponding WSC depreciation expense balances reflected above do not incorporate the audit staff's proposed adjustments in that finding.

63 The above balances should have been allocated between the utility's water and wastewater systems. The utility's general policy is to allocate common expenses based on the percentage of water and wastewater customers for each system. The utility's customer percentages are 52.34 percent water and 47.66 percent wastewater based on its customer allocation schedule.

**EFFECT ON GENERAL LEDGER:** The water and wastewater allocation adjustments only apply to the utility's filing.

**EFFECT ON FILING:** The utility's water and wastewater average net rate base balances should be decreased and increased by \$11,319, each, respectively, as of December 31, 2005. (\$23,750 x 47.66%) The utility's net water and wastewater depreciation expense balances should be decreased and increased by \$1,601, each, respectively, for the 12-month period ended December 31, 2005. (\$3,359 x 47.66%)

**AUDIT FINDING NO. 6**

**SUBJECT: ADJUSTMENT TO ALLOCATED TRANSPORTATION EQUIPMENT**

**SUMMARY:** The utility's average water and wastewater net rate base balances are overstated by \$14,906 and understated by \$8,245, respectively as of December 31, 2005 and its net water and wastewater depreciation expense balances are overstated by \$7,260 and understated by \$4,299, respectively for the 12-month period ended December 31, 2005, because it did not allocate any transportation asset or transportation depreciation expense balances to its wastewater operations.

**STATEMENT OF FACT:** The utility's filing reflects the following transportation account rate base and depreciation expense balances. All of the balances were included in the water system filing only.

Utility	NARUC		Balance	Balance	
Acct. No.	Acct. No.	Acct. Description	Dec-04	Dec-05	Average
1083050	108	Acc/Dep - Transportation	(\$24,843)	(\$19,468)	(\$22,156)
3917000	341	Transportation Equipment	<u>54,793</u>	<u>37,437</u>	<u>46,115</u>
			\$29,950	\$17,969	\$23,960
Per Audit Adjusted Balance					
1083050	108	Acc/Dep - Transportation	(\$24,843)	(\$15,026)	(\$19,935)
3917000	341	Transportation Equipment	<u>54,793</u>	<u>19,674</u>	<u>37,234</u>
			\$29,950	\$4,648	\$17,299
Adjustments to Rate Base			<u>\$0</u>	<u>(\$13,321)</u>	<u>(\$6,661)</u>
4032092	403	Dep. Exp. - Transportation		\$11,981	
Per Audit Adjusted Balance				\$9,020	
Adjustments to Depreciation Expense				<u>(\$2,961)</u>	
6501020	650	Transportation Expense - Gas		\$6,536	
6501030	650	Transportation Expense - Repairs		<u>4,160</u>	
				\$10,696	
Audit adjustment to remove 50% of cost				<u>\$5,348</u>	

The above balances should have been allocated to the utility's water and wastewater systems. The utility's general policy is to allocate common expenses based on the percentage of water and wastewater customers for each system. The utility's customer percentages are 52.34 percent water and 47.66 percent wastewater based on its customer allocation schedule.

The transportation plant account contains the cost of two trucks used by its operators. One of the trucks was used by a former operator who is no longer employed at the plant. According to the plant supervisor, he will not be replaced. The cost of the vehicle is approximately \$17,763 based on the utility's general ledger records.

The utility did not provide any depreciation schedules for vehicles. We have determined, though, it is not using the Rule 25-30.140 F.A.C. rule rate of 16.67 percent. We have recalculated the depreciation expense adjustment based on the rule rates in separate finding of this report. The depreciation expense in 2005 using this rate would have been \$2,961. Accumulated depreciation associated with the vehicle is \$4,442. The utility included \$5,425 of transportation expenses for water and \$5,271 for wastewater its filing. The supporting documentation for the transportation expenses provided by the utility did not contain enough information needed for us to determine the specific costs related to each vehicle. Since we are removing one of two vehicles from rate base, we are also reducing transportation expense by 50 percent.

**EFFECT ON GENERAL LEDGER:** The following general ledger entries are needed to correct the utility's general ledger balances. The water and wastewater allocation adjustments only apply to the utility's filing.

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108	Acc/Dep - Transportation	\$4,442	
215	Retained Earnings	\$2,960	
233	Intercompany Transfer	\$18,670	
391	Transportation Equipment		\$17,763
650	Transportation Expense		\$5,348
403	Dep. Exp - Transportation		\$2,961

Calculations:

Acct. No. 108       $\$17,763 \times 16.67\% \times 1 \frac{1}{2} \text{ years}$       Acct. No. 233       $\$17,763 - \$4,442 + \$5,348$

**EFFECT ON FILING:** The utility's water and wastewater average net rate base balances should be decreased by \$14,906 and increased by \$8,245, respectively, as of December 31, 2005 to remove the second truck and allocate a portion to wastewater rate base. The water and wastewater O&M expenses should be reduced by \$2,799 and \$2,549 ( $\$5,348 \times 52.34\% \ \& \ 47.66\%$ ), respectively, to remove excess transportation expense. The net water and wastewater depreciation expense balances should be decreased by \$7,260 and increased by \$4,299, respectively, for the 12-month period ended December 31, 2005, to remove and allocate of depreciation expense to wastewater operations.

Rate Base	Water	W/Water	Total
Per Utility	\$23,960	\$0	\$23,960
Per Audit	<u>9,054</u>	<u>8,245</u>	<u>17,299</u>
Adjustment	(\$14,906)	\$8,245	(\$6,661)
Depreciation Expense	Water	W/Water	Total
Per Utility	\$11,981	\$0	\$11,981
Per Audit	<u>4,721</u>	<u>4,299</u>	<u>9,020</u>
Adjustment	(\$7,260)	\$4,299	(\$2,961)

Per Audit       $\$4,721 = ((\$11,981 - \$2,961) \times 52.34\%$

Per Audit       $\$4,299 = ((\$11,981 - \$2,961) \times 47.66\%$

**AUDIT FINDING NO. 7**

**SUBJECT: ADJUSTMENT TO PRIOR RATE CASE EXPENSE**

**SUMMARY:** The utility's water and wastewater operation and maintenance expense (O&M) balances are overstated by \$2,379 and \$2,311, respectively, 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-03-0647-PAA-WS, issued May 28, 2003 authorized \$56,943 of rate case expenses to be amortized over four years or \$14,236 per year. The utility's new tariffs were approved on June 21, 2003, which is the beginning of the four year amortization period for rate case expense recovery.

43-10  
63  
The utility has included \$18,926 of annual rate case expense in the filing for the 12-month period ended December 31, 2005. The above amount was allocated to Acct. Nos. 666 and 766 - Regulatory Commission Expense, for the amounts of \$9,599 and \$9,327, respectively, based on the percentage of water and wastewater utility customers. The \$18,926 allocated by the utility exceeds the Commission approved amount by \$4,690. (\$18,926 - \$14,236) The unapproved difference should be removed from the utility's filing.

The unamortized remaining balance is \$21,354 as of December 31, 2005.

Period	Balance Approved	Yearly Amtz.	Accrued Amtz	Un-Amtz. Balance
Jun-03 to Dec-03	\$56,943	(\$7,118)	(\$7,118)	\$49,825
Jan-04 to Dec-04	\$56,943	(\$14,236)	(\$21,354)	\$35,589
Jan-05 to Dec-05	\$56,943	(\$14,236)	(\$35,589)	\$21,354

**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 water and wastewater O&M expense balances should be reduced by \$2,379 and \$2,311, respectively, for the 12-month period ended December 31, 2005, and the water and wastewater working capital balances should be reduced by \$297 and \$289, respectively, as of December 31, 2005, which is 1/8<sup>th</sup> of the O&M expense reductions displayed above.

**AUDIT FINDING NO. 8**

**SUBJECT: ADJUSTMENT TO OPERATION AND MAINTENANCE EXPENSE**

**SUMMARY:** The utility's water and wastewater operation and maintenance expenses (O&M) are overstated by \$1,395 and \$3,982, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The utility included the following expense to the indicated accounts for the 12-month period ended December 31, 2005.

Utility Acct. No	NARUC Acct. No.	Invoice Ref. No. and Vendor	Total Amount	Service provided
43-61 6151010	615	U68533*64927*CITY OF	360.66	Purchased power - 13 months included
43-62 6759490	675/775	73765*15286*WASTE MA	66.40	Waste removal - 13 months included
43-8 7758490	775	89742*14847*EMS OF C	1,575.00	By-pass pump rental in 2004
43-2 7758490	775	91845*14847*EMS OF C	2,375.00	By-pass pump rental in 2004

The audit staffs analysis of the above invoices revealed that they all related to services provided in the prior year 2004.

1. The purchased power and waste removal invoices should be removed because an analysis of the respective accounts indicates that each account contains thirteen transactions including a December 2005 accrual for the same vendor. The two invoices removed were paid in January 2005 and most likely were for services provided in December 2004. The utility should have accrued these costs in December 2004 and reversed them when paid in 2005.
2. The two invoices totaling \$3,950 are for renting a by-pass pump for hurricane operations. Utility personnel indicated that this occurred in 2004 but was not billed until 2005. The utility should have accrued these costs in December 2004 and reversed them when paid in 2005.

**EFFECT ON GENERAL LEDGER:** The following general ledger entries are needed to correct the utility's general ledger balances.

NARUC Acct. No.	Account Description	Debit	Credit
215	Retained Earnings	\$4,377	
615	Water - Purchased Power		\$361
675	Water - Miscellaneous Expense		\$34
775	W/Water - Miscellaneous Expense		\$3,982
Calculations:			
Acct. No 675	Invoice for \$66 split between water and w/water based on customers - Water \$34 and W/Water \$32		
Acct. No 775	Invoices of \$1,575 + \$2,375 + \$32 allocated from above		

**EFFECT ON FILING:** The utility water and wastewater O&M expense balances should be reduced by \$395 (\$361+\$34) and \$3,982, respectively, for the 12-month period ended December 31, 2005. Additionally, water and wastewater working capital balances should be reduced by \$49 and \$498, respectively, as of December 31, 2005 which is 1/8<sup>th</sup> of the O&M expense reductions mentioned above.

**AUDIT FINDING NO. 9**

**SUBJECT: ADJUSTMENT TO ALLOCATED WSC EXPENSE**

**SUMMARY:** The utility's allocated common operating expense from Water Service Corporation (WSC) is \$49,148 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. Cypress Lakes Utilities, Inc. received \$51,071 or approximately 0.67 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 Cypress Lakes Utilities, Inc. allocated common expenses by \$1,924 to \$49,148. Additionally, the corresponding adjustment to reduce working capital for this proceeding is \$240.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Cypress Lakes Utilities Inc. allocated average WSC common expense is \$49,148 for this proceeding. See audit staff's calculations on the following page.

**EFFECT ON GENERAL LEDGER:**

G/L Acct.	Description	Debit	Credit
2151000	Retained Earnings	\$1,606	
4032098	Dep. Exp. - Computer	\$2	
4191010	Interest Income	\$1	
4272090	Interest Expense	\$317	
6329002	Audit Fees		\$565
6369009	Amtz. Exp. - Computer		\$78
6599090	Insurance Exp. - Other		\$965
6759005	Postage Fees		\$318

**EFFECT ON FILING:** The utility's water and wastewater O&M expense balances are overstated by \$850 and \$1,074, respectively, for the 12-month period ended December 31, 2005. Additionally, water and wastewater working capital balances should be reduced by \$106 and \$134, respectively, as of December 31, 2005 which is 1/8<sup>th</sup> of the O&M expense reductions mentioned above.

58-1

Cypress Lakes Allocation Schedules		Per Company		Adjustment		Per Audit	
		WSC Expense	Cypress Lakes	WSC Expense	Cypress Lakes	WSC Expense	Cypress Lakes
SE51	Allocated Computer	\$545,445	\$3,914	(\$12,634)	(\$76)	\$532,811	\$3,839
SE52	Allocated Insurance	2,114,495	13,407	(156,711)	(965)	1,957,784	12,442
SE60	Allocated General	<u>4,984,765</u>	<u>33,750</u>	<u>(74,972)</u>	<u>(565)</u>	<u>4,909,793</u>	<u>33,185</u>
	Per G/L	\$7,644,705	\$51,071	(\$244,317)	(\$1,606)	\$7,400,388	\$49,466
	Remove interest income and expense not included in filing				(318)		(318)
	Per MFR				(\$1,924)		\$49,148

SE51		Per Utility	Adjustment	Per Audit
Acct No.				
4032098	Dep. - Computer	\$776	\$2	\$778
6369009	Amtz. - Computer	<u>191</u>	<u>(78)</u>	<u>113</u>
		\$967	(\$76)	\$891

SE52		Per Utility	Adjustment	Per Audit
Acct No.				
6599090	Insurance - Other	\$13,407	(\$965)	\$12,442

SE60		Per Utility	Adjustment	Per Audit
Acct No.				
4191010	Interest Income	(\$1)	\$1	\$0
4272090	Interest Expense	(317)	317	0
6329002	Audit Fees	1,638	(565)	1,073
6759005	Postage Fees	<u>591</u>	<u>(318)</u>	<u>273</u>
		\$1,911	(\$565)	\$1,346

Acct No.		MFR Acct. No.	Adjustment	MFR B-12	MFR B-12
				44.23%	55.77%
				Water	W/Water
4032098	Dep. - Computer	403 *	\$2	\$2	\$0
4191010	Interest Income	426 **	0	0	0
4272090	Interest Expense	419/427 **	0	0	0
6329002	Audit Fees	632/732	(565)	(250)	(315)
6369090	Amtz. - Computer	636/736	(78)	(34)	(44)
6599090	Insurance - Other	659/759	(965)	(427)	(538)
6759005	Postage Fees	675/775	<u>(318)</u>	<u>(141)</u>	<u>(177)</u>
	O&M Expense Adjustment		(\$1,926)	(\$852)	(\$1,074)
	Total WSC allocated expense adjustment		(\$1,924)	(\$850)	(\$1,074)
	Working Capital Adjustment (1/8 of O&M Expense Adjustment)		(\$240)	(\$106)	(\$134)

\* This account was only charged to water operations per the reconciliation schedule provided with the MFRs.  
 \*\* Per utility filing this allocation from WSC was not carried forward into the MFR filing so no adjustment is needed.



**AUDIT FINDING NO. 10**

**SUBJECT: INFORMATION ON 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.

436  
/2

## AUDIT FINDING NO. 11

### 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 for its water and wastewater systems into several specific accounts based on the percentage of water and wastewater UPIS account balances excluding organization, franchise, transportation and office equipment account balances. The utility's calculations are displayed on the following two pages.

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, wells, pumping equipment, treatment plant and sewer lagoons. 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.

Cypress Lakes-Water  
Recalculation of CIAC and Amortization of CIAC

20-4p1

Acct. Nos			UPIS	UPIS	CIAC	CIAC	CIAC	CIAC	CIAC	CIAC	CIAC
UPIS	CIAC	Acct. Description	Balance @12/31/02	Balance Percentage	Allocation @12/31/02	Additions Jan-Jun '03	Balance @12/31/02	Amtz. Rate	Amtz. Jan-Jun '03	Amtz. Jul-Dec '03	Amtz. Total
3042011	2711011	Structures & Imp. (Source of Supply)	\$64,284	5.33%	\$12,432	0	\$12,432	3.13%	\$194	\$194	\$389
3043021	2711021	Structures & Imp. (Pumping Plt.)	51	0.00%	10	0	10	3.13%	0	0	0
3044031	2711031	Structures & Imp. (Treatment Plt.)		0.00%	0	0	0	3.13%	0	0	0
3052012	2711012	Collection Reservoirs		0.00%	0	0	0	2.00%	0	0	0
3072014	2711014	Wells & Springs	56,911	4.72%	11,006	0	11,006	3.33%	183	183	367
3113025	2711025	Pumping Equipment	156,934	13.01%	30,351	0	30,351	5.00%	759	759	1,518
3204032	2711032	Treatment Equipment	11,218	0.93%	2,170	0	2,170	4.55%	49	49	99
3305042	2711042	Distribution Reservoirs & Standpipes	72,089	5.98%	13,942	0	13,942	2.70%	188	188	377
3315043	2711043	Transmission & Distribution Mains	448,522	37.19%	86,744	0	86,744	2.33%	1,009	1,009	2,017
3335045	2711045	Service Lines	204,675	16.97%	39,584	0	39,584	2.50%	495	495	990
3345046	2711046	Meters	119,658	9.92%	23,142	246	23,388	5.00%	579	585	1,163
3345047	2711047	Meter Installations	526	0.04%	102	9	110	5.00%	3	3	5
3355048	2711048	Hydrants	<u>71,116</u>	<u>5.90%</u>	<u>13,754</u>	<u>149</u>	<u>13,903</u>	2.22%	153	154	<u>307</u>
			\$1,205,982	100.00%	\$233,236	404	\$233,640				\$7,231
271		CIAC Balance per T/B @12/31/02	\$255,061								
		Less Tap Fee portion of CIAC	21,825								
		Less Tap Fee Refunds									
		Less known CIAC Sub-Acct. Balance									
		Unidentified CIAC balance	\$276,886								
271		CIAC Additions (Jan-Jun '03)	\$2,625								
407.6		Amtz. Of CIAC Expense @12/31/03		\$8,046							
		Less Tap Fees Amtz of CIAC (Jan-Jun '03)		343							
		Less Tap Fees Amtz of CIAC (Jul-Dec '03)		384							
		Less known Amtz. Of CIAC Sub-Acct. Balance									
		Unidentified Amtz. Of CIAC balance		\$7,319							
		Recalculated Amtz. Of CIAC balance above		<u>(7,231)</u>							
		Retained Earnings Adjustment		\$88							

Cypress Lakes-Wastewater  
Recalculation of CIAC and Amortization of CIAC

2d-c/p 2

Acct. Nos			UPIS	UPIS	CIAC	CIAC	CIAC	CIAC	CIAC	CIAC	CIAC
UPIS	CIAC	Acct. Description	Balance @12/31/02	Balance Percentage	Allocation @12/31/02	Additions Jan-Jun '03	Balance @12/31/02	Amtz. Rate	Amtz. Jan-Jun '03	Amtz. Jul-Dec '03	Amtz Total
3542011	2721011	Lift Station	\$78,590	3.15%	\$22,432	0	\$22,432	3.13%	\$351	\$351	\$701
3547003	2721003	Structures & Imp.	1,566	0.06%	447	0	447	3.13%	7	7	14
3547012	2721012	Spray Irrigation Facilities		0.00%	0	0	0	3.13%	0	0	0
3602006	2721006	Sewage Service Lines	152,748	6.13%	43,599	0	43,599	3.33%	727	727	1,453
3602007	2721007	Force Mains	178,994	7.19%	51,091	0	51,091	3.33%	852	852	1,703
3612008	2721008	Sewer Mains	592,829	23.80%	169,214	0	169,214	2.22%	1,880	1,880	3,760
3612010	2721098	Manholes	307,053	12.33%	87,644	0	87,644	2.22%	974	974	1,948
3804004	2721004	Sewer Lagoons	36	0.00%	10	0	10	2.86%	0	0	0
3804005	2721005	Treatment Plant	1,179,247	47.34%	336,597	0	336,597	2.86%	4,809	4,809	9,617
3824009	2721009	Outfall Lines		0.00%	0	0	0	3.33%	0	0	0
			\$2,491,061	100.00%	\$711,034	0	\$711,034				\$19,197
271		CIAC Balance per T/B @12/31/02	\$711,034								
		Less Tap Fee portion of CIAC									
		Less Tap Fee Refunds									
		Less known CIAC Sub-Acct. Balance									
		Unidentified CIAC balance	\$711,034								
271		CIAC Additions (Jan-Jun '03)									
407.6		Amtz. Of CIAC Expense @12/31/03		\$20,187							
		Less Tap Fees Amtz of CIAC (Jan-Jun '03)		0							
		Less Tap Fees Amtz of CIAC (Jul-Dec '03)		0							
		Less known Amtz. Of CIAC Sub-Acct. Balance									
		Unidentified Amtz. Of CIAC balance		\$20,187							
		Recalculated Amtz. Of CIAC balance above		<u>(19,197)</u>							
		Retained Earnings Adjustment		\$990							

**AUDIT FINDING NO. 12**

**SUBJECT: INFORMATION ON POTENTIAL UNRECORDED CIAC CASH**

**SUMMARY:** The utility may have unrecorded developer contributions for \$9,121 of fire hydrant improvements recorded in 2005 that would reduce its average rate base and net depreciation expense balances by \$2,255 and \$51, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** According to the utility's Construction Project Ledgers (CP) the utility opened Work Order No. 115-0401-10808 to raise twelve fire hydrants within the Cypress Lakes mobile home community for safety reasons. The final cost of the project was \$9,121 and the CP ledger balance was closed out to Acct. No. 335 - Hydrants in December 2005.

191  
2

A developer, operating in the community, offered to pay half the cost, or approximately \$4,561, for the project if the utility would assist him in connecting his developments to the utility's wastewater system. The audit staff could not determine if any contribution was ever recorded.

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

**EFFECT ON GENERAL LEDGER:** If the analyst determines that the developer did pay for one-half of the cost for this project, then the following journal entry should be recorded to correct its general ledger balance.

NARUC			
Acct. No.	Account Description	Debit	Credit
215	Retained Earnings	\$4,561	
271	CIAC - Hydrants		\$4,561
272	Acc/Amtz. - Hydrants	\$51	
407	CIAC Amtz. Exp. - Hydrants		\$51

Acc/Dep, Acc/Amtz., Dep. Exp. and CIAC Amtz. Exp calculated as follows  $\$51 = ((\$4,561 \times 2.22\%) / 2)$

**EFFECT ON FILING:** If the analyst determines that the developer did pay for one-half of the cost for this project, then the utility's average rate base is overstated by \$2,255  $((\$4,561 - \$51) / 2)$  and its net depreciation expense is overstated by \$51 for the 12-month period ended December 31, 2005.

**AUDIT FINDING NO. 13**

**SUBJECT: INFORMATION ON POTENTIAL UNRECORDED CIAC  
INFRASTRUCTURE**

**SUMMARY:** Cypress Lakes has had several new developments added since its last rate case in Docket No. 020407-WS. The utility's records, however, do not reflect any new additions to utility plant in service (UPIS) or contributions in aid of construction (CIAC) for wastewater mains or lift stations that you would expect to find.

**STATEMENT OF FACT:** The utility provided the audit staff with a detailed schedule of tap fee connections to support its recorded CIAC additions for the years 2001 through 2005.

No developers appeared on the schedule and no collections of multiple tap fees were noted.

The audit staff recognizes that some developers may have retained ownership of the utility infrastructure once connected to the utility's system. However, without an agreement or other documentation, we cannot determine if this is the case.

The recording of contributed property would have no net effect on the utility's net rate base, and O&M expenses because the asset and expense accounts would offset each other. The NARUC Uniform System of Accounts, however, requires recording all UPIS and CIAC additions to the general ledger.

205  
The utility was asked to provide a detailed list of all property that has been contributed since 2001 and include its original cost in Document Request No. CL-072-26 on September 5, 2006. The utility's response, provided on September 26, 2006, arrived too late for the audit staff to properly analyze and include in this report. The response is included in the audit staffs work papers for the analyst in Tallahassee to review.

**EFFECT ON GENERAL LEDGER:** When an amount of contributed assets is determined, UPIS and CIAC should be increased and the corresponding additions should then be depreciated and amortized at the same rates as prescribed in Rule 25-30.140, F.A.C. and recorded in the appropriate rate base accounts.

**EFFECT ON FILING:** All of the above balances, when determined, would be offsetting so that there in no effect on the utility's filing.

**AUDIT FINDING NO. 14**

*w/ 31 all*

**SUBJECT: INFORMATION ON CAPITAL STRUCTURE BALANCES**

**SUMMARY:** The utility's average capital structure balance is \$229,306,074 as of December 31, 2005 and its cost rate for long-term debt is 6.73 percent.

**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	Average	Cost Rate
Long Term Debt	\$112,803,215	\$135,285,191	\$124,044,203	6.81%
Short Term Debt	18,768,000	3,926,000	11,347,000	2.00%
Common Equity	88,963,597	92,611,247	90,787,422	11.77%
Customer Deposits	10,500	13,800	12,150	6.00%
Acc. Deferred Income Tax	<u>30,403</u>	<u>14,186</u>	<u>22,295</u>	0.00%
Totals	\$220,575,715	\$231,850,424	\$226,213,070	

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 average balances for Cypress Lake's parent, Utilities Inc. as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	Average	Cost Rate
<b>Parent Level</b>				
Long Term Debt	\$112,803,215	\$135,285,191	\$124,044,203	6.73%
Short Term Debt	18,768,000	3,926,000	11,347,000	2.00%
* Common Equity	92,087,507	95,673,345	93,880,426	
<b>Cypress Lakes Level</b>				
** Customer Deposits	10,500	13,800	12,150	6.00%
** Acc. Deferred Income Tax	<u>30,403</u>	<u>14,186</u>	<u>22,295</u>	0.00%
Totals	\$223,699,625	\$234,912,522	\$229,306,074	

\* 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 average common equity balance should be increased by \$3,093,004 (\$93,880,426 - \$90,787,422), the long-term debt cost rate should be reduced by 0.08 percent (6.81% - 6.73%) 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. 15**

*w/k 36-9 all*

**SUBJECT: INFORMATION ON DEFERRED TAXES**

**SUMMARY:** The utility reports a net liability of (\$14,186) upon its books in net deferred income taxes in 2005. This amount is reported at average as a liability of (\$22,295). As a result of our testing as described below, the average balance used in this case should be changed from a net average liability of (\$22,295) by \$18,425 to report a net average liability of (\$3,870). 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	(\$22,295)	(\$14,186)
Deferred Income Tax		
Corrections		
State Depreciation	(240)	(239)
State Intangible	0	0
Federal Intangible	18,665	18,665
Federal Depreciation	<u>Pending</u>	<u>Pending</u>
Total	(\$3,870)	\$4,240
	Net Liability	Net Asset

**EFFECT ON FILING:** If all the findings are accepted there is no direct effect on rate base or utility income. Capital structure effect is to increase the provision for equity and debt by \$18,425 and decrease deferred taxes by \$18,425.

**Deferred Taxes -- Item 1: 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 correction at average is (\$240) increasing the average net liability and (\$239) at year end reducing the net asset.

**EFFECT ON GENERAL LEDGER:**

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$239	
190	State Deferred Taxes -- Depreciation		\$239

**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 was reduced from \$108,872 to \$0 per book during 2005, and further, the MFR reduced the balance of intangible plant at the end of 2004 also from \$108,872 to \$0. This leaves an average and year end balance for Utility intangible plant as \$0.

No adjustment was made to the associated Federal deferred tax accounts which were recorded as deferred tax liability of \$18,665 per book for all of 2005. Associated State deferred tax accounts were on the accounts as \$0.

To match the reduction of organizational plant account balance from \$108,872 to \$0. The Federal and State deferred taxes should also be reduced to \$0. Since Federal taxes were at \$18,665, a reduction of \$18,665 is in order. Since State deferred taxes were already at \$0, no adjustment is needed.

**EFFECT ON GENERAL LEDGER:**

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings		\$18,665
190	Federal Deferred Taxes – Intangible Plant	\$18,665	

**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

## Water Rate Base

Company: Cypress Lakes Utilities, Inc.  
 Docket No.: 090257-W5  
 Test Year End: December 31, 2005  
 Interim [ ] or Final [x]  
 Historic [x] or Projected [ ]

Florida Public Service Commission  
 Schedule: A-1 Revised  
 Page 1 of 1  
 Preparer: Vrchow, Krause

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.

(1) Line No.	(2) Description	(3) Balance Per Books	(4) Utility Adjustments	(5) Adjusted Books Balance	(6) Proforma Adjustments	(7) Adjusted Utility Balance	(8) Supporting Schedule(s)
1	Utility Plant in Service	\$ 1,394,454	\$ -	\$ 1,394,454	\$ 10,504 A	\$ 1,404,958	A-3, A-3
2	Utility Land & Land Rights	509	-	509	-	509	A-5
3	Less: Non-Used & Useful Plant	-	-	-	-	-	A-3, A-7
4	Construction Work in Progress	-	-	-	-	-	A-3, A-18
5	Less: Accumulated Depreciation	(441,149)	-	(441,149)	(200) B	(441,352)	A-3, A-7
6	Less: CIAC	(288,599)	-	(288,599)	-	(288,599)	A-12
7	Accumulated Amortization of CIAC	73,149	-	73,149	-	73,149	A-14
8	Acquisition Adjustment	-	-	-	-	-	A-3, A-18
9	Accum. Amort. Of Acq. Adjustments	-	-	-	-	-	A-3, A-18
10	Advances for Construction	-	-	-	-	-	A-16
11	Working Capital Allowance	-	-	-	21,790 G	21,790	A-17, A-3
12	Total Rate Base	\$ 738,363	\$ -	\$ 738,363		\$ 770,454	

**EXHIBIT 2**

**Sewer Rate Base**

Company: Cypress Lakes Utilities, Inc.  
 Docket No.: 960257-WS  
 Test Year End: December 31, 2005  
 Interim  or Final   
 Historic  or Projected

Florida Public Service Commission  
 Schedule: A-2 Revised  
 Page 1 of 1  
 Preparer: Virchow, Krause

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 Books Balance	(5) Proforma Adjustments	(6) Adjusted Utility Balance	(7) Supporting Schedule(s)
1	Utility Plant in Service	\$ 2,323,319	\$ -	\$ 2,323,319	\$ 14,437 A	\$ 2,337,756	A-6
2	Utility Land & Land Rights	2,610	-	2,610	-	2,610	A-6
3	Less: Non-Used & Useful Plant	-	(9,310) C	(9,310)	-	(9,310)	A-3, A-7
4	Construction Work in Progress	200,004	(200,004) E	-	-	-	A-3, A-18
5	Less: Accumulated Depreciation	(701,311)	-	(701,311)	(483) B	(701,794)	A-10, A-3
6	Less: CIAC	(711,034)	-	(711,034)	-	(711,034)	A-12
7	Accumulated Amortization of CIAC	155,692	-	155,692	-	155,691.50	A-14
8	Acquisition Adjustment	-	-	-	-	-	A-3, A-18
9	Accum. Amort. Of Acq. Adjustments	-	-	-	-	-	A-3, A-18
10	Advances for Construction	-	-	-	-	-	A-18
11	Working Capital Allowance	-	-	-	37,280 G	37,280	A-17, A-18
12	Total Rate Base	\$ 1,289,280	\$ (209,314)	\$ 1,059,966		\$ 1,111,200	

**EXHIBIT 3**

Net Operating Income Statement - Water  
 Company: Cypress Lakes Utilities, Inc.  
 Docket No.: 060257-W5  
 Test Year End: December 31, 2005  
 Interim  or Final   
 Historic  or Projected

Florida Public Service Commission  
 Schedule: B-1 Revised  
 Page 1 of 1  
 Preparer: Virchow, Krause

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 change.

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	\$ 245,865	\$ 2,492	\$ 248,357	\$ 101,790	\$ 350,147	B-4, E-2
2	Operation & Maintenance	134,677	-	134,677	39,639	174,316	E, F, G, L, I B-5
3	Depreciation, net of CIAC amort.	47,869	-	47,869	-	47,869	D B-13
4	Amortization	-	-	-	-	-	-
5	Taxes Other Than Income	22,994	-	22,994	5,506	28,500	K, M B-15
6	Provision for Income Taxes	7,289	-	7,289	26,222	33,511	J C-1, B-3
7	OPERATING EXPENSES	212,829	-	212,829	71,367	284,196	
8	NET OPERATING INCOME	\$ 33,036	\$ 2,492	\$ 35,528	\$ 30,423	\$ 65,951	
9	RATE BASE	\$ 738,363		\$ 738,363		\$ 770,454	A-1
10	RATE OF RETURN	4.47%		4.81%		8.56%	

**EXHIBIT 4**

**Net Operating Income Statement - Sewer**

Company: Cypress Lakes Utilities, Inc.  
 Docket No.: 060257-W5  
 Test Year End: December 31, 2005  
 Interim  or Final   
 Historic  or Projected

**Florida Public Service Commission**

Schedule: B-2 Revised  
 Page 1 of 1  
 Preparer: Vinchow, Krause

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.

(1) Line No.	(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	\$ 353,217	\$ 7,020 A	\$ 360,237	\$ 150,329 I	\$ 510,566	B-4, E-2
2 Operation & Maintenance	260,454	-	260,454	37,784 F, G, L	298,238	B-6
3 Depreciation, net of CIAC amort.	44,979	-	44,979	483 D	45,462	B-14
4 Amortization	87	(87) B	-	-	-	B-3
5 Taxes Other Than Income	32,579	-	32,579	7,628 K, M	40,207	B-15
6 Provision for Income Taxes	(23,234)	23,234 C	-	31,540 J	31,540	
7 OPERATING EXPENSES	314,865	23,147	338,012	77,435	415,447	
8 NET OPERATING INCOME	\$ 38,352	\$ (16,127)	\$ 22,225	\$ 72,894	\$ 95,119	
9 RATE BASE	\$ 1,269,280		\$ 1,059,966		\$ 1,111,200	A-2
10 RATE OF RETURN	3.02%		2.10%		8.56%	

# EXHIBIT 5

**Requested Cost of Capital**

Florida Public Service Commission

Company: Cypress Lakes Utilities, Inc.  
 Docket No.: 060257-WS  
 Test Year End: December 31, 2005  
 Schedule Year End: December 31, 2005  
 Interim  or Final   
 Historic  or Projected

Schedule: D-1 Revised  
 Page 1 of 1  
 Preparer: Kirsten E. Weeks

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.	(1) Class of Capital	(2) Total Capital	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long Term Debt	\$ 1,013,073	54.84%	6.81%	3.73%
2	Short Term Debt	92,671	5.02%	2.00%	0.10%
3	Preferred Stock	-	0.00%	0.00%	0.00%
4	Common Equity	741,464	40.14%	11.77%	4.72%
5	Customer Deposits	12,150	0.00%	6.00%	0.00%
6	Tax Credits - Zero Cost	-	0.00%	0.00%	0.00%
7	Tax Credits - Weighted Cost	-	0.00%	0.00%	0.00%
8	Accumulated Deferred Income Tax	22,295	0.00%	0.00%	0.00%
9	Other (Explain)	-	0.00%	0.00%	0.00%
10	Total	\$ <u>1,881,653</u>	<u>100%</u>		<u>8.68%</u>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-050006. Since the equity ratio is greater than 40.00%, a(n) 11.77% cost rate has been used.

Note: Long term debt, short term debt, preferred stock, and common equity are actual for Cypress Lakes Utilities, Inc.'s parent company, Utilities, Inc.