

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: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No.** 060255-SU **Company Name:** Tierra Verde Utilities, Inc.
Audit Purpose: File & Suspend Rate Case
Audit Control No: 06-209-2-7

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

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tampa District Office

TIERRA VERDE UTILITIES INC.

FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2005

DOCKET NO. 060255-SU
AUDIT CONTROL NO. 06-209-2-7

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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 27, 2006. We have applied these procedures to the attached schedules which were prepared by Tierra Verde Utilities, Inc. in support of its filing for rate relief in Docket No. 060255-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.

15-1 *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-93-0364-FOF-SU, issued March 9, 1993, were recorded.

Utility-Plant-in-Service (UPIS)

15-2/162
15 *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.

19-2 *Procedures:* We sampled UPIS additions for the period June 30, 1992 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. 16-2
19-1 Series
16-5

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)

20-1
20-2 *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.

20-3
1 *Procedures:* We sampled CIAC additions for the period June 30, 1992 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. 2 discusses our adjustments to a 2003 journal entry that was made to allocate CIAC based on specific UPIS account balances. Audit Finding No. 7 provides information on potentially unrecorded utility infrastructure that may have been contributed to the utility by developers. 20-3/x Series
20-4

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.

22-3
22-2
22-2
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 adjustments to a 2005 adjusting entry that attempted to correct the 1992 transfer accumulated depreciation 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.

23-2
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. 1 discusses our adjustments to a 2005 adjusting entry that attempted to correct the 1992 transfer accumulated amortization of CIAC balance. Audit Finding No. 2 discusses our adjustments to a 2003 journal entry that was made to allocate CIAC based on specific UPIS account balances and the corresponding effect on accumulated amortization of CIAC.

Working Capital

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

24
24-1
Procedures: We recalculated the utility's working capital balance as of December 31, 2005. Audit Finding No. 3 discusses our adjustment to include a working capital balance that was 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.

29
Series
30
Series
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.

NET OPERATING INCOME

General

40-1
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.

41
Procedures: We traced revenues to the utility's general ledger and we reconciled a sample of the third-party billing summaries to the utility's revenue reports.

Operation and Maintenance Expenses (O&M)

43-4
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. 5 discusses our adjustments to O&M expense account balances. Audit Finding No. 6 discusses our adjustments to WSC allocated expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 8 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.

53-8
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

51-3
51-4
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 adjustments to a 2003 journal entry that was made to allocate CIAC based on specific UPIS account balances and the corresponding effect on net depreciation expense.

CAPITAL STRUCTURE

General

31-1
(P.1)

Objective: To determine 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. 9 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

31-2
(P.3)

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

31-2
(P.4)

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. 10 provides information on the utility's deferred tax balances.

AUDIT FINDING NO. 1

SUBJECT: ADJUSTMENT CORRECT TRANSFER BALANCE

SUMMARY: The utility's rate base is overstated by \$22,367, as of December 31, 2005, because of an erroneous journal entry that double booked the transfer order adjustment.

STATEMENT OF FACT: The utility made adjusting journal entries to its 2005 general ledger to correct the 1992 transfer balance that was originally recorded in its 1993 general ledger. The utility's 2005 adjusting journal entry is displayed below.

Utility Acct. No.	Account Description	Debit	Credit
1084000	Acc/Dep - Sewer		\$426,220.00
1084000	Acc/Dep - Sewer	\$549,060.00	
1084001	Acc/Dep - Organization Cost	\$4,779.78	
2151000	Retained Earnings		\$12,422.22
2151000	Retained Earnings	\$367.64	
2721000	CIAC - Undistributed	\$3.00	
2723000	Acc/Amtz.of CIAC - Undistributed		\$0.56
2723000	Acc/Amtz.of CIAC - Sewer	\$448,587.00	
2723000	Acc/Amtz.of CIAC - Sewer		\$549,060.00
3511001	Organization Cost		\$14,707.00
4033001	Dep. Exp. - Organization Cost		\$367.68
4073000	CIAC Amtz. Expense - Undistributed	\$0.04	

15-2
1-4

The audit staff has determined that the adjusting entries for Acc/Dep - Sewer and Acc/Amtz. CIAC -Sewer, indicated above, were not needed because the utility had previously corrected the errors in its 1994 general ledger. The other entries were needed and should have been made because they removed acquisition cost that had been recorded as organization cost and they trued-up the utility's CIAC and related CIAC account balances to the transfer order balance.

15-2
1

EFFECT ON GENERAL LEDGER: The following entry needs to be made to reverse the accumulated depreciation and accumulated amortization of CIAC balances that were erroneously made by the utility.

Utility Acct. No.	NARUC Acct. No.	Account Description	Debit	Credit
1084000	108	Acc/Dep - Sewer	\$426,220.00	
1084000	108	Acc/Dep - Sewer		\$549,060.00
2151000	215	Retained Earnings	\$22,367.00	
2723000	272	Acc/Amtz.of CIAC - Sewer		\$448,587.00
2723000	272	Acc/Amtz.of CIAC - Sewer	\$549,060.00	

EFFECT ON FILING: The utility's rate base should be decreased by \$22,367, as of December 31, 2005. An averaging adjustment is not required because the utility removed the affect of the journal entry adjustment before calculating the average rate base balance in the filing.

AUDIT FINDING NO. 2

SUBJECT: 2003 CIAC ADJUSTMENT

SUMMARY: The utility's accumulated amortization of CIAC balance is understated by \$63,218, as of December 31, 2005 and its CIAC amortization expense balance is understated by \$1,983 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility allocated its Contributions in Aid of Construction (CIAC) in 2003 in order to comply with Rule 25-30.140 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.

23 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

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 three problems with the utility's calculation above.

1. The utility knew the actual balances for specific CIAC sub-accounts when it purchased the system in 1992 and should have used them to redistribute its CIAC balances per the rule cited above.
2. All remaining additions since 1992 were cash contributions for impact fees and should be recorded as such rather than being allocated.
3. The utility did not allocate the associated amortization balances in 2003, only the current amortization.

23/1 p3 With the above information it was possible for the audit staff to recalculate the utility's accumulated amortization of CIAC balance as of December 31, 2005 and the CIAC amortization expense balance for the 12-month period ended December 31, 2005. See the audit staff's calculations on that follow.

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

23/1 p2

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings - W/Water		\$65,201
272	Acc/Amtz. Of CIAC	\$63,218	
407	CIAC Amtz. Expense	\$1,983	

EFFECT ON FILING: The utility's average rate base balance should be increased by \$64,290 as of December 31, 2005. The utility's net depreciation expense balances should be increased by \$1,983 for the 12-month period ended December 31, 2005.

General Ledger Account Adjustments

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Debit	Credit
2713010	271	CIAC - Impact Fee		\$377,205
2713010	271	CIAC - Tax	\$61,121	
2713004	271	CIAC - Lagoons	\$1,822	
2713011	271	CIAC - Lift Stations	\$311,984	
2713008	271	CIAC - Mains	\$34,250	
2713007	271	CIAC - Force Mains		\$116,083
2713006	271	CIAC - Services	\$51,728	
2713098	271	CIAC - Manholes	\$32,383	
2723010	272	Acc/Amort. - Impact Fee		\$554,144
2723010	272	Acc/Amort. - Tax		\$3,685
2723004	272	Acc/Amort. - Lagoons		\$156
2723011	272	Acc/Amort. - Lift Stations		\$31,573
2723008	272	Acc/Amort. - Mains	\$484,406	
2723007	272	Acc/Amort. - Force	\$98,729	
2723006	272	Acc/Amort. - Services	\$26,092	
2723098	272	Acc/Amort. - Manholes	\$43,549	
4073010	407	Amort. Exp. - Impact Fee		\$10,586
4073010	407	Amort. Exp. - Tax	\$1,945	
4073004	407	Amort. Exp. - Lagoons	\$52	
4073011	407	Amort. Exp. - Lift Stations	\$10,389	
4073008	407	Amort. Exp. - Mains	\$760	
4073007	407	Amort. Exp. - Force		\$3,866
4073006	407	Amort. Exp. - Services	\$2,210	
4073098	407	Amort. Exp. - Manholes	\$1,078	
2151000	215	Retained Earnings		\$65,201
Sum:	215	Retained Earnings		\$65,201
	272	Acc/Amortz.	\$63,218	
	407	Amortz. Exp.	\$1,983	

Acct. 271 - CIAC adjusting entries offset equally

23/102

Audit Staff's Recalculation of CIAC, Acc. Amtz. of CIAC and CIAC Amtz. Expense

Per audit staff analysis of CIAC additions the only recorded balances since 1992 were for Impact Fees.

23/1 p 3

CIAC	1992 Per W/P's	Balance per Staff 2005	Balance per Utility	Difference
Impact Fee	(\$339,034)	(\$677,049)	(\$299,844)	(\$377,205)
Tax	0	0	(61,121)	61,121
Lagoons	0	0	(1,822)	1,822
Lift Stations	0	0	(311,984)	311,984
Mains	(678,068)	(678,068)	(712,318)	34,250
Force	(180,845)	(180,845)	(64,762)	(116,083)
Services	(69,577)	(69,577)	(121,305)	51,728
Manholes	<u>(79,613)</u>	<u>(79,613)</u>	<u>(111,996)</u>	<u>32,383</u>
	(\$1,347,137)	(\$1,685,152)	(\$1,685,152)	\$0

Acc/Amtz.	Rule Rates	1992 Per W/P's	Balance per Staff 2005	Balance per Utility	Difference
Impact Fee	2.89%	\$65,237	\$277,149	\$831,293	(\$554,144)
Tax		0	0	3,685	(3,685)
Lagoons		0	0	156	(156)
Lift Stations		0	0	31,573	(31,573)
Mains	2.22%	328,645	531,862	47,456	484,406
Force	3.33%	23,902	105,201	6,472	98,729
Services	2.63%	13,087	37,790	11,698	26,092
Manholes	3.33%	<u>17,707</u>	<u>53,497</u>	<u>9,948</u>	<u>43,549</u>
		\$448,578	\$1,005,499	\$942,281	\$63,218

Amtz. Exp.	Balance per Staff 2005	Balance per Utility	Difference
Impact Fee	(\$19,521)	(\$8,935)	(\$10,586)
Tax	0	(1,945)	1,945
Lagoons	0	(52)	52
Lift Stations	0	(10,389)	10,389
Mains	(15,053)	(15,813)	760
Force	(6,022)	(2,157)	(3,866)
Services	(1,830)	(4,039)	2,210
Manholes	<u>(2,651)</u>	<u>(3,729)</u>	<u>1,078</u>
	(\$45,077)	(\$47,061)	\$1,983

23/1 04

Analysis Of Accumulated Amortization CIAC
 Test Year Ended December 31, 2005

CIAC	Per 1992		Jun-Dec 1992		Balance		1993		Balance		1994		Balance		1995		Balance		1996	
	W/F's	0	0	0	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions		
Impact Fee	\$339,034	\$18,390	\$357,424	\$11,700	\$369,124	\$73,044	\$442,168	\$26,100	\$468,268	\$18,390	\$18,390	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lagoons	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lift Stations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mains	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0
Force	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0
Services	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0
Manholes	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0
	\$1,347,137	\$18,390	\$1,365,527	\$11,700	\$1,377,227	\$73,044	\$1,450,271	\$26,100	\$1,476,371	\$18,390	\$1,494,761	\$73,044	\$1,567,805	\$26,100	\$1,593,905	\$18,390	\$1,612,295	\$73,044	\$1,685,339	\$18,390

CIAC	Balance		1997		Balance		1998		Balance		1999		Balance		2000		Balance		2001	
	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions
Impact Fee	\$486,658	\$20,400	\$507,058	\$28,800	\$535,858	\$61,617	\$597,475	\$18,006	\$615,482	\$19,836	\$635,318	\$7,460	\$642,878	\$3,147	\$646,025	\$3,147	\$649,172	\$3,147	\$652,319	\$3,147
Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lagoons	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lift Stations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mains	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0
Force	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0
Services	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0
Manholes	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0
	\$1,494,761	\$20,400	\$1,515,161	\$28,800	\$1,543,961	\$61,617	\$1,605,578	\$18,006	\$1,623,585	\$19,836	\$1,643,421	\$7,460	\$1,650,881	\$3,147	\$1,654,028	\$3,147	\$1,657,175	\$3,147	\$1,660,322	\$3,147

CIAC	Balance		2002		Balance		2003		Balance		2004		Balance		2005		Balance		Per	
	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Utility	Difference	
Impact Fee	\$635,318	\$8,175	\$643,493	\$22,950	\$666,443	\$7,460	\$673,902	\$3,147	\$677,049	\$299,844	\$377,205	\$61,121	\$1,822	\$311,984	\$712,318	\$34,250	\$116,083	\$116,083	\$116,083	\$0
Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lagoons	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lift Stations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mains	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0	678,068	0
Force	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0	180,845	0
Services	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0	69,577	0
Manholes	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0	79,613	0
	\$1,643,421	\$8,175	\$1,651,596	\$22,950	\$1,674,546	\$7,460	\$1,682,005	\$3,147	\$1,685,152	\$299,844	\$377,205	\$61,121	\$1,822	\$311,984	\$712,318	\$34,250	\$116,083	\$116,083	\$116,083	\$0

Per audit staffs analysis of CIAC the only recorded items since 1992 were impact fees.

12/25

Analysis Of Accumulated Amortization CIAC
 Test Year Ended December 31, 2005

Acc/Amtz.	Rule	Per 1992	Jun-Dec 1992	Balance	1993	Balance	1994	Balance	1995	Balance	1996
CIAC	Rates*	W/P's	Additions	1992	Additions	1993	Additions	1994	Additions	1995	Additions
Impact Fee	2.89%	\$65,237	\$5,032	\$70,269	\$10,499	\$80,768	\$11,723	\$92,491	\$13,156	\$105,646	\$13,799
Tax		0	0	0	0	0	0	0	0	0	0
Lagoons		0	0	0	0	0	0	0	0	0	0
Lift Stations		0	0	0	0	0	0	0	0	0	0
Mains	2.22%	328,645	7,527	336,172	15,053	351,225	15,053	366,278	15,053	381,331	15,053
Force	3.33%	23,902	3,011	26,913	6,022	32,935	6,022	38,957	6,022	44,979	6,022
Services	2.63%	13,087	915	14,002	1,830	15,832	1,830	17,662	1,830	19,492	1,830
Manholes	3.33%	17,707	1,326	19,033	2,651	21,684	2,651	24,335	2,651	26,986	2,651
		\$448,578	\$17,810	\$466,388	\$36,055	\$502,443	\$37,279	\$539,722	\$38,712	\$578,434	\$39,355

Acc/Amtz.	Rules	Balance	1997	Balance	1998	Balance	1999	Balance	2000	Balance	2001
CIAC	Rates*	1996	Additions	1997	Additions	1998	Additions	99	Additions	2000	Additions
Impact Fee	2.89%	\$119,445	\$14,359	\$133,804	\$15,070	\$148,875	\$16,377	\$165,251	\$17,527	\$182,778	\$18,074
Tax		0	0	0	0	0	0	0	0	0	0
Lagoons		0	0	0	0	0	0	0	0	0	0
Lift Stations		0	0	0	0	0	0	0	0	0	0
Mains	2.22%	396,384	15,053	411,437	15,053	426,490	15,053	441,543	15,053	456,596	15,053
Force	3.33%	51,002	6,022	57,024	6,022	63,046	6,022	69,068	6,022	75,090	6,022
Services	2.63%	21,321	1,830	23,151	1,830	24,981	1,830	26,811	1,830	28,641	1,830
Manholes	3.33%	29,637	2,651	32,288	2,651	34,939	2,651	37,590	2,651	40,241	2,651
		\$617,789	\$39,915	\$657,705	\$40,626	\$698,331	\$41,933	\$740,264	\$43,083	\$783,347	\$43,630

Acc/Amtz.	Rules	Balance	2002	Balance	2003	Balance	2004	Balance	2005	Balance	Per	
CIAC	Rates*	2001	Additions	2002	Additions	2003	Additions	2004	Additions	2005	Utility	Difference
Impact Fee	2.89%	\$200,852	\$18,479	\$219,331	\$18,929	\$238,260	\$19,368	\$257,628	\$19,521	\$277,149	\$831,293	(\$554,144)
Tax		0	0	0	0	0	0	0	0	0	3,685	(3,685)
Lagoons		0	0	0	0	0	0	0	0	0	156	(156)
Lift Stations		0	0	0	0	0	0	0	0	0	31,573	(31,573)
Mains	2.22%	471,650	15,053	486,703	15,053	501,756	15,053	516,809	15,053	531,862	47,456	484,406
Force	3.33%	81,112	6,022	87,134	6,022	93,157	6,022	99,179	6,022	105,201	6,472	98,729
Services	2.63%	30,471	1,830	32,301	1,830	34,131	1,830	35,960	1,830	37,790	11,698	26,092
Manholes	3.33%	42,893	2,651	45,544	2,651	48,195	2,651	50,846	2,651	53,497	9,947	43,549
		\$826,978	\$44,035	\$871,013	\$44,485	\$915,498	\$44,924	\$960,422	\$45,077	\$1,005,499	\$942,281	\$63,218

* All amortization rates remained the same except for Services which was changed to 3.33% in 2005
 Impact Fee amortization rate is a composite rate calculated using company provided schedules.

2004 & 2005 Average
 2004 & 2005 Average

\$982,960 Per Audit
 218,751 Per Utility
 \$64,209 Difference

AUDIT FINDING NO. 3

SUBJECT: ADJUSTMENT TO WORKING CAPITAL

SUMMARY: The utility's working allowance for wastewater rate base is \$75,411 as of December 31, 2005.

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

The audit staff has calculated a working capital allowance for wastewater rate base to be \$75,411 as of December 31, 2005.

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	Water	W/Water	Total	
Total O&M Expense	\$0	\$603,289	\$603,289	Per MFR Schedule B-2 (Revised)
Adjustments (See note below)	<u>0</u>	<u>0</u>	<u>0</u>	
Total Adjusted O&M Expense	\$0	\$603,289	\$603,289	
Divided by 8	<u>8</u>	<u>8</u>	<u>8</u>	
Working Capital	\$0	\$75,411	\$75,411	

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 allowance is only calculated for rate case proceedings.

EFFECT ON FILING: Increase net rate base by \$75,411 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 \$7,883 as of December 31, 2005.

29-31
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. Tierra Verde Utilities, Inc. received \$6,162, which is the average amount as of December 31, 2005. The allocation is net of accumulated depreciation and accumulated deferred income taxes or approximately 0.35 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 average amount in MFR Schedule A-2 for Tierra Verde Utilities, Inc. as it did in its other subsidiary rate case filings with the Commission.

29-2
29-31
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 Tierra Verde Utilities, Inc. allocated average WSC rate base allocation by \$1,721 to \$7,883.

29-1
The audit staff has incorporated the findings of the above-mentioned audit report to determine Tierra Verde Utilities Inc. allocated average WSC rate base balance of \$7,883 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 utility's average wastewater rate base by \$7,883 for the 12-month period ended December 31, 2005.

AUDIT FINDING NO. 5

SUBJECT: ADJUSTMENT TO OPERATION AND MAINTENANCE EXPENSE

SUMMARY: The utility's operation and maintenance expenses (O&M) are overstated by \$7,555 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility recorded an estimated accrual of \$34,000 for purchased waster in December 2004. The accrual was properly reversed in January 2005. The utility recorded \$41,837 for the actual invoice that was related to the accrual in January 2005. The difference between the accrual's reversal and the actual invoice causes the purchased wastewater expense balance to be overstated by \$7,337 (\$41,837 - \$34,000) for the 12-month period ended December 31, 2005.

In addition, the utility recorded an invoice for \$218 that was for services provided to Louisiana Water Service, Corp. which is a sister subsidiary of the utility. The entire amount should be removed from O&M expense.

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
2151000	215	Retained Earnings	\$7,337	
141****	141	Acc/Rec - Associated Company	\$218	
7105000	710	Purchased Wastewater		\$7,337
7758390	775	Miscellaneous Expense		\$218

EFFECT ON FILING: The utility's O&M expenses should be reduced by \$ 7,555 (\$7,337 + \$218) for the 12 month period ended December 31, 2005. Additionally, the utility's working capital balance should be reduced by \$944 which is 1/8th of the O&M expense reduction above.

AUDIT FINDING NO. 6

SUBJECT: ADJUSTMENT TO ALLOCATED WSC EXPENSE

SUMMARY: The utility's allocated common operating expense from Water Service Corporation (WSC) is \$29,984 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. Tierra Verde Utilities, Inc. received \$30,863, or approximately 0.40 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 Tierra Verde Utilities, Inc. allocated common expenses by \$879 to \$29,984. Additionally, the corresponding adjustment to reduce working capital for this proceeding is \$132.

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

EFFECT ON THE GENERAL LEDGER:

G/L Acct.	Description	Debit	Credit
2151000	Retained Earnings	\$878	
4032098	Dep. Exp. - Computer		\$10
4191010	Interest Income	\$1	
4272090	Interest Expense	\$189	
6329002	Audit Fees		\$407
6369009	Amtz. Exp. - Computer		\$1
6599090	Insurance Exp. - Other		\$646
6759005	Postage Fees		\$4

EFFECT ON THE FILING: The utility's wastewater O&M expense balance is overstated by \$879 for the 12-month period ended December 31, 2005 and its wastewater working capital balance should be reduced by \$132, as of December 31, 2005 which is 1/8th of the O&M expense reduction mentioned above.

58-1 all

Tierra Verde		Per Company		Adjustment		Per Audit	
Allocation Schedules		WSC Expense	Tierra Verde	WSC Expense	Tierra Verde	WSC Expense	Tierra Verde
SE51	Allocated Computer	\$545,445	\$506	(\$12,634)	(\$11)	\$532,811	\$495
SE52	Allocated Insurance	2,114,495	7,795	(156,711)	(646)	1,957,784	7,149
SE60	Allocated General	<u>4,984,765</u>	<u>22,562</u>	<u>(74,972)</u>	<u>(221)</u>	<u>4,909,793</u>	<u>22,341</u>
	Per G/L	\$7,644,705	\$30,863	(\$244,317)	(\$878)	\$7,400,388	\$29,985
	Remove interest expense not included in filing				<u>(1)</u>		<u>(1)</u>
	Per MFR				(\$879)		\$29,984

SE51		Per Utility	Adjustment	Per Audit
Acct No.				
4032098	Dep. - Computer	\$464	(\$10)	\$454
6369009	Amtz. - Computer	<u>3</u>	<u>(1)</u>	<u>2</u>
		\$467	(\$11)	\$456

SE52		Per Utility	Adjustment	Per Audit
Acct No.				
6599090	Insurance - Other	\$7,795	(\$646)	\$7,149

SE60		Per Utility	Adjustment	Per Audit
Acct No.				
4191010	Interest Income	(\$1)	\$1	\$0
4272090	Interest Expense	(189)	189	0
6329002	Audit Fees	1,195	(407)	788
6759005	Postage Fees	<u>8</u>	<u>(4)</u>	<u>4</u>
		\$1,013	(\$221)	\$792

		MFR	Adjustment	MFR B-12 0.00% Water	MFR B-12 100.00% W/Water
Acct No.		Acct. No.			
4032098	Dep. - Computer	403	(\$10)	0	(\$10)
4191010	Interest Income	426 **	0	0	0
4272090	Interest Expense	419/427	\$189	0	\$189
6329002	Audit Fees	632/732	(407)	0	(407)
6369090	Amtz. - Computer	636/736	(1)	0	(1)
6599090	Insurance - Other	659/759	(646)	0	(646)
6759005	Postage Fees	675/775	<u>(4)</u>	<u>0</u>	<u>(4)</u>
	O&M Expense Adjustment		(\$1,058)	0	(\$1,058)
	Total WSC allocated expense adjustment		(\$879)	0	(\$879)
	Working Capital Adjustment (1/8 of O&M Expense Adjustment)		(\$132)	\$0	(\$132)

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

AUDIT FINDING NO. 7

SUBJECT: INFORMATION ON CONTRIBUTIONS IN AID OF CONSTRUCTION

SUMMARY: Tierra Verde has had several new developments added since its certificate of transfer was approved in Docket No. 920716-SU. 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 1992 through 2005.

Several of the developers listed on the schedule had paid the utility's plant capacity fees charge of \$450 for each per customer added during the years. When requested, the utility could not provide any developer agreements that included details on wastewater mains or lift stations additions. One developer agreement that was provided did mention contributed plant but none was recorded.

The utility was asked to provide a detailed list of all property that has been contributed since 1992 and include its original cost.

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.

Below is a list of development agreements noted in the utility provided CIAC schedule that should be further investigated to ensure that all contributed assets are accounted for properly.

<u>Year Recorded</u>	<u>Developer Name</u>	<u>Tap Fees Collected</u>	<u>Lots</u>
1992	Cramer & Associates	\$16,140	33
1994	Sandyventure	\$13,194	27
1994	Sunlick	\$54,000	120
1995	Tierra Sound	\$3,300	8
1995	Tsonas	\$3,150	7
1996	C&K Group	\$12,990	27
1998	Pelican Island	\$13,950	31
1999	Arrowhead Point	\$26,100	58
1999	Tierra Mar	\$18,000	40
2001	Arrowhead Point	\$10,836	24
2003	Island Path	\$16,200	36

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

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 is no effect on the filing.

AUDIT FINDING NO. 8

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 that 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 utility systems.

EFFECT ON FILING: Expenses may need to be reduced.

AUDIT FINDING NO. 9

SUBJECT: INFORMATION ON CAPITAL STRUCTURE BALANCES

SUMMARY: The utility's average capital structure balance is \$229,365,378 as of December 31, 2005 and its cost rates for long-term and short-term debt is 6.73 percent and 2.00 percent, respectively.

STATEMENT OF FACT: The utility's filing reflects the following capital structure balances prior to the reconciliation with its average 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 <i>31-1 p2</i>	\$112,803,215	\$135,285,191	\$124,044,203 <i>31-1 p1</i>	7.14%
Short Term Debt	18,768,000	3,926,000	11,347,000	2.64%
Common Equity	88,963,597	92,611,247	90,787,422	11.77%
Customer Deposits	0	0	0	6.00%
Acc. Deferred Income Tax	<u>84,994</u>	<u>102,503</u>	<u>93,749</u>	0.00%
Totals	\$220,619,806	\$231,924,941	\$226,272,374	

31-2
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 Tierra Verde'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
Parent Level				
Long Term Debt <i>31-2 p2</i>	\$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	
Tierra Verde Level				
** Customer Deposits <i>31-1 p2</i>	0	0	0	6.00%
** Acc. Deferred Income Tax	<u>84,994</u>	<u>102,503</u>	<u>93,749</u>	0.00%
Totals	\$223,743,716	\$234,987,039	\$229,365,378	

* 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 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 and short-term debt cost rates should be reduced by 0.41 percent (7.14% - 6.73%) and 0.64 percent (2.64% - 2.00%), respectively

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. 10

36-9 all

SUBJECT: INFORMATION ON DEFERRED TAXES

SUMMARY: The utility reports \$102,503 upon its books in net deferred income taxes in 2005. This amount is reported at average as \$93,749. As a result of our testing as described below, the average balance used in this case should be changed from \$93,749 by \$14,389 to report \$108,137. 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	\$93,749	\$102,503
Deferred Income Tax		
Corrections		
State Depreciation	16,192	16,192
State Intangible	189	189
Federal Intangible	(1,993)	(1,993)
Federal Depreciation	<u>Pending</u>	<u>Pending</u>
Total	\$108,137	\$116,891

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 reduce the provision for equity and debt by \$14,389 and increase deferred taxes by \$14,389.

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 \$16,192 and at year end \$16,192.

EFFECT ON GENERAL LEDGER:

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$16,192	
190	State Deferred Taxes -- Depreciation		\$16,192

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 (\$1,993) and at year end is (\$1,993). The estimated correction to state deferred account is \$189 at average and at year end is \$189.

EFFECT ON GENERAL LEDGER:

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings		\$1,804
190	Federal Deferred Taxes – Intangible Plant	\$1,993	
190	State Deferred Taxes – Intangible Plant		\$189

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

Company: Tierra Verda Utilities Inc.
 Docket No.: 060255-SU
 Test Year Ended: December 31, 2005
 Interim Final
 Historic Projected

Florida Public Service Commission

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

REVISED

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) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 3,271,506	\$ 31,952	\$ 3,303,458	A-6
2	Utility Land & Land Rights	-	-	-	A-6
3	Less: Non-Used & Useful Plant	-	-	-	A-7
4	Construction Work in Progress	63,296	(63,296)	-	-
5	Less: Accumulated Depreciation	(1,749,558)	3,797	(1,745,761)	A-10
6	Less: CIAC	(1,683,577)	-	(1,683,577)	A-12
7	Accumulated Amortization of CIAC	918,751	-	918,751	A-14
8	Acquisition Adjustments	351,207	(351,207)	-	A-18
9	Accum. Amort. of Acq. Adjustments	(61,247)	61,247	-	A-18
10	Advances For Construction	-	-	-	A-16
11	Working Capital Allowance	-	85,644	85,644	A-17
12	Total Rate Base	\$ 1,090,378	\$ (211,863)	\$ 878,515	

EXHIBIT 2

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Tierra Verde Utilities Inc.
 Docket No.: 168255-SU
 Test Year Ended: December 31, 2005
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-2 REVISED
 Page 1 of 1
 Preparer: 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	\$ 606,834	\$ 11,570 (A)	\$ 618,404	\$ 214,699 (G)	\$ 833,103	B-4, E-2
2							
3	Operation & Maintenance	603,289		603,289	81,864 (B), (C), (H)	685,153	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	46,547	-	46,547	733 (I)	47,280	B-14, B-3
6							
7	Amortization			-	-	-	B-3
8							
9	Taxes Other Than Income	33,576	521 (E)	34,097	11,701 (J)	45,798	B-15, B-3
10							
11	Provision for Income Taxes	(38,588)	5,842 (F)	(32,746)	18,798 (K)	(13,948)	C-1, B-3
12							
13	OPERATING EXPENSES	644,824	6,363	651,187	113,096	764,283	
14							
15	NET OPERATING INCOME	\$ (37,989)	\$ 5,207	\$ (32,783)	\$ 101,603	\$ 68,820	
16							
17							
18	RATE BASE	\$ 1,090,378	\$ (211,863)	\$ 878,515	\$ -	\$ 878,515	
19							
20							
21	RATE OF RETURN	(3.48) %		(3.73) %		7.83 %	

EXHIBIT 3

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

Florida Public Service Commission

Company: Tierra Verde Utilities Inc.
Docket No.: 060255-SU
Test Year Ended: December 31, 2005

Schedule: D-1
Page 1 of 1
Preparer: Steven M. Lubertozi

REVISED

Historic [] or Projected [X]

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) Class of Capital	(2) Reconciled To Requested Rate Base	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long-Term Debt	430,389	46.09 %	7.14 %	3.50 %
2	Short-Term Debt	39,372	4.48 %	2.64 %	0.1182 %
3	Preferred Stock				
4	Customer Deposits	-	-	0.00 %	0.00 %
5	Common Equity	315,005	35.86 %	11.78 %	4.22 %
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax	83,749	10.67		
8	Other (Explain)				
9	Total	878,515	100.00 %		7.83 %

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