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DATE: December 11, 2006

TO: Nina L. Merta, Professional Accountant Specialist, Division of Economic Regulation

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

RE: **Docket No:** 060575-WS **Company Name:** Useppa Island Utility, Inc.
Audit Purpose: Staff Assisted Rate Case
Audit Control No: 06-262-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are no confidential workpapers 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)
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FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tampa District Office

USEPPA ISLAND UTILITY, INC.

STAFF ASSISTED RATE CASE

HISTORICAL YEAR ENDED JUNE 30, 2006

DOCKET NO. 060575-WS
AUDIT CONTROL NO. 06-262-4-1
Report Issued November 20, 2006

A handwritten signature in black ink, appearing to read "Tomer", written above a horizontal line.

Tomer Kopelovich, Audit Manager

A handwritten signature in black ink, appearing to read "J.W. Rohrbacher", written above a horizontal line.

Joseph W. Rohrbacher, District Audit Supervisor

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

NOVEMBER 20, 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. We have applied these procedures to the attached schedules prepared by the audit staff in support of the Useppa Island Utility, Inc. Staff Assisted Rate Case in Docket No. 060575-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

AUDIT PLANNING:

NARUC USOA

Objective: To determine that the utility maintains its accounts and records in conformity with the 1996 NARUC USOA.

Procedures: We reviewed the utility's chart of accounts. We found that the utility does not maintain its accounts and records in conformity with the 1996 NARUC USOA. Audit Finding 1 addresses this issue.

Prior Audit Adjustments

Objective: To verify that the adjustments to rate base as ordered by Order No. PSC-00-2117-PAA-SU were booked and are reflected in the utility records.

Procedures: We reviewed the adjustments mentioned above. The utility did not make all the adjustments. Audit Finding No. 2 addresses this issue.

RATE BASE:

Utility Plant In Service (UPIS)

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

Procedures: We tested all major plant additions and retirements for the period January 1, 2000 through June 30, 2006 for compliance with the objectives stated above. We prepared a schedule of UPIS, by account, from the last order with year to year additions and retirements. We verified that there have been no changes to utility land since its last rate proceeding. We verified that the utility overstated the utility plant in service for water and wastewater respectively. Audit Finding No. 3 addresses this issue.

Contributions In Aid Of Construction (CIAC)

Objective: To test CIAC additions and adjustments since January 1, 2000. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: We verified 100% of all CIAC additions for the period January 1, 2000 through June 30, 2006 for compliance with the objectives stated above. We scanned the utility's cash receipts records and its 2000 – 2005 Federal Income Tax Returns for unrecorded cash and property and determined that all CIAC were properly recorded in the utility's books.

Accumulated Depreciation

Objective: To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

Procedures: We tested annual accruals to accumulated depreciation based on adjusted plant, using last authorized rates up to the beginning of the test year and rates prescribed by Rule 25-30.140, F.A.C. for the test year. We verified that the utility did not use Commission authorized rates to depreciate its UPIS accounts. We prepared a schedule of accumulated depreciation balances by plant account from the last order with year to year additions and retirements using FPSC approved rates and compared them to company figures. We verified that the utility did not record plant retirements in accumulated depreciation as required by NARUC USoA nor did the utility use Commission approved rates under Rule 25-30.140 F.A.C. Additionally, it did not record depreciation for the period January to June 2006 for wastewater and calculated the accumulated depreciation for water incorrectly. Audit Finding No. 4 addresses this issue.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules. To verify that CIAC amortization expense accruals are properly recorded and calculated by applying annual depreciation composite rates.

Procedures: We verified that the utility used Commission authorized rates to amortize its CIAC plant accounts. We recalculated accumulated amortization of CIAC account balances for the test period applying annual composite depreciation rates. We recalculated the accumulated amortization of CIAC account for the test period applying annual composite rates. However the accumulated amortization of CIAC is understated for water and overstated for wastewater because the utility did not record the balances, as of December 31, 1999, approved by Commission Order No. PSC-00-211-PAA-SU. Additionally, it did not record amortization for the period January to June 2006. Audit Finding No. 5 addresses this issue.

Working Capital

Objective: To determine the working capital allowance.

Procedures: We determined the working capital allowance by using the 1/8 of operation and maintenance expenses methodology.

REVENUES AND EXPENSES

Revenues

Objectives: To verify that revenues earned during the test year are properly recorded. To perform billing analysis for the test year.

Procedures: We tested revenue transactions with tariffed rates and performed a simple calculation estimation to determine what test year revenues should be. We compiled revenues following a billing report summary on a monthly basis. We prepared a billing analysis schedule.

Expenses

Objectives: Sample test year operation and maintenance expense accounts. Examine the expense for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.

Procedures: We judgmentally selected accounts from the general ledger for testing. We reviewed the accounts for proper amount, classification and period. We examined invoices and supporting documentation to determine if the above objectives were met. We examined and listed all miscellaneous expenses. Included in the expense amount were invoices for items that should have been capitalized, as well as unsupported items and other adjustments. Audit Finding No. 6 addresses these adjustments.

Objectives: Review the prudence of any allocation methodology for O & M expenses used by the utility. Determine whether the original amounts to be allocated and the methodology are reasonable.

Procedures: We prepared a schedule of O & M expenses. The following expenses were allocated between water and wastewater: payroll, chemicals, materials and supplies, testing, contractual services other, rents, transportation, and insurance. We reviewed the methodology used for the allocation and determined it to be reasonable.

Objectives: To obtain a schedule of contracted services for the test year that separates engineering, accounting, legal, billing, testing, operating, and management. Test documentation for amounts paid, period of service, and that the service was related to utility operations.

Procedures: We prepared a schedule of all contractual services for the test year. We reviewed those accounts for proper amount, classification, and whether non-utility related, non-recurring, unreasonable or imprudent. We examined invoices and supporting documentation to determine if the above objectives were met.

Objectives: To provide the number of hours per month that employees and/or contracted vendors spend on operating, billing, testing, maintenance, and general management activities.

Procedures: We obtained and reviewed documents that provided information as mentioned above.

Objectives: To note expense areas where the utility has no costs assigned, but where benefits to utility are evident.

Procedures: We discussed this issue with utility management. Based on these discussions and our observations, we found no unrecorded costs.

Objectives: To note all related party relationships and transactions.

Procedures: We noted that the utility paid rent to its parent company. Also, some employees were paid by the utility and the parent company. In addition one loan was paid by the utility and the parent company.

Objectives: To review Taxes Other Than Income.

Procedures: We obtained the 2005 Regulatory Assessment Fee (RAF) filing and reconciled it to the general ledger. We obtained and reviewed the property tax bills to determine if the amount booked reflects the discounted amount. Audit Finding No. 7 addresses an error in the reported RAF payment.

CAPITAL STRUCTURE

Objective: To determine that capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits and other funds available for investment in utility plant and operations.

Procedures: We examined capital structure components to assure that they represent utility debt, capital stock, retained earnings and customer deposits. We reviewed long-term debt balances to the original documents and verified the terms and interest rate of each note payable.

Audit Finding No. 1

Subject: Utility Books and Records

Statement of Fact: Order PSC-00-2117-PAA-SU ordered Useppa Island Utility to maintain its accounts and records in conformity with the NARUC Uniform System of Accounts (USoA). The NARUC USoA provides account numbers to be used for balance sheet and income statement accounts.

The utility does not use the NARUC USoA account numbers. The audit staff was provided a chart of accounts used by the utility and was able to convert the account numbers to NARUC account numbers.

Utility staff stated they will start using the NARUC USoA account numbers for calendar year 2007.

Effect on General Ledger: There is no effect on the general ledger.

Effect on Rate Case: There is no effect on the rate case filing.

Audit Finding No. 2

Subject: Prior Audit Adjustments

Statement of Fact: In a prior audit, Docket No. 000090-SU, it was noted that adjustments from Commission Order No. PSC-97-0930-FOF-WS were not posted to the utility books and records. An entry was required to be made to the books to correct for the order balances. The difference, in the amount of \$245,155, that didn't relate to depreciation changes was charged to a receivable from the parent company since it related to contributed plant.

The utility has been carrying this amount on the books since then as an accounts receivable from Useppa Inn & Dock, the utility 's parent company.

Effect on General Ledger: Information is provided to PSC staff for determination on the appropriate recording of this amount.

Effect on Rate Case: Information is provided to PSC staff for determination on the appropriate recording of this amount.

Audit Finding No. 3

Subject: Utility Plant in Service (UPIS)

Summary: The utility water and wastewater UPIS is overstated by \$21,800 and \$15,222 respectively as of June 30, 2006.

Statement of Fact: The utility reported Utility Plant in Service (UPIS) of \$578,722 and \$465,987 for water and wastewater, respectively. Audit review of the utility plant balances found the following adjustments.

- 1) The utility did not record retirements appropriately when it added plant to replace existing plant in the amount of \$21,385 for water and \$18,452 for wastewater.
- 2) The utility was unable to provide supporting documentation for the recorded additions in the amount of \$1,065 for water and \$1,547 for wastewater.
- 3) The utility did not record plant additions in 2005 and 2006 in the amount of \$606 for water and \$4,878 for wastewater.
- 4) The audit had an unreconciled difference of \$43 for water and (\$102) for wastewater.

Our adjustments are attached.

Effect on General Ledger: The following journal entry should be made to correct the utility's general ledger balances.

Utility Acct No.	Description	Debit	Credit
142.001	Plant-W to reflect retirement		21,385
142.001	Plant-W to reflect unsupported invoices		1,065
142.001	Plant-W to record additions	606	
142.001	Plant-W to record audit difference	44	
345.000	Retained Earnings	21,800	
142.002	Plan-WW to reflect retirement		18,452
142.002	Plan-WW to reflect unsupported invoices		1,547
142.002	Plant-WW to record additions		101
142.002	Plant-WW to record audit difference	4,878	
345.000	Retained Earnings	15,222	

Effect on Rate Case: The utility's plant in service should be reduced by \$21,800 and \$15,222 respectively.

Water

A/C No.	303	304	307	310	311	320	330	331	333	334	339	341	343	344	Total
Per Utility	\$10,463	\$32,516	\$51,199	\$172,535	\$33,797	\$181,896	\$6,611	\$63,708	\$3,020	\$18,006	\$2,097	\$800	\$1,142	\$932	\$578,722
Retirement															
2000					(4,484)						(677)			(583)	(5,744)
2001					(3,002)	(1,413)				(597)			(434)		(5,446)
2002					(253)					(750)					(1,003)
2003															0
2004															0
2005					(3,369)	(5,655)					(168)				(9,192)
	\$10,463	\$32,516	\$51,199	\$172,535	\$22,689	\$174,828	\$6,611	\$63,708	\$3,020	\$16,659	\$1,252	\$800	\$708	\$349	\$557,337
Reclass				(172,535)	210		155,168			17,133	297		(75)	(155)	43
Addition 2006		606													606
No Document											(754)		(311)		(1,065)
Per Audit	<u>\$10,463</u>	<u>\$33,122</u>	<u>\$51,199</u>	<u>\$0</u>	<u>\$22,899</u>	<u>\$174,828</u>	<u>\$161,779</u>	<u>\$63,708</u>	<u>\$3,020</u>	<u>\$33,792</u>	<u>\$795</u>	<u>\$800</u>	<u>\$322</u>	<u>\$194</u>	<u>\$556,921</u>

Wastewater

A/C No.	353	354	360	361	364	370	371	380	389	355	391	393	397	398	Total
Per Utility	\$15,788	\$196,388	\$122,424	\$377	\$0	\$64,652	\$0	\$42,112	\$23,047	\$0	\$1,200	\$0	\$0	\$0	\$465,988
Retirement															
2000			(3,226)						(2,023)						(5,249)
2001			(1,918)						(1,315)						(3,233)
2002			(1,723)						(2,263)						(3,986)
2003									(969)						(969)
2004															0
2005			(2,512)						(2,503)						(5,015)
	\$15,788	\$196,388	\$113,044	\$377	\$0	\$64,652	\$0	\$42,112	\$13,974	\$0	\$1,200	\$0	\$0	\$0	\$447,536
Reclass	(12,301)	(968)	11,960			(1,871)			(9,223)	12,301					(102)
Addition 2006		606	2,274						819						3,699
Addition 2005			547						632						1,179
No Document									(1,547)						(1,547)
Per Audit	<u>\$3,487</u>	<u>\$196,026</u>	<u>\$127,825</u>	<u>\$377</u>	<u>\$0</u>	<u>\$62,781</u>	<u>\$0</u>	<u>\$42,112</u>	<u>\$4,655</u>	<u>\$12,301</u>	<u>\$1,200</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$450,765</u>

Audit Finding No. 4

Subject: Adjustment to Accumulated Depreciation

Summary: The utility's water and wastewater accumulated depreciation balances are understated by \$11,007 for water and overstated by \$5,372 for wastewater as of June 30, 2006.

Statement of Fact: The utility did not record plant retirements in accumulated depreciation as required by the NARUC USoA nor did the utility use Commission approved rates under Rule 25-30.140 F.A.C. This was noted in the prior audit, Docket No. 000090-SU, Order No. PSC-002117-PAA-SU. Additionally, it did not record depreciation for the period January to June 2006 for wastewater and recorded an incorrect amount for water. Our adjustments are recorded below:

	Water	Wastewater
Per Utility	(264,226)	(257,902)
<u>Adjustments</u>		
Retirements	21,385	19,421
F.A.C. 25-30.140 Rate	(27,006)	(6,677)
2006 Acc Deprc	<u>(5,386)</u>	<u>(7,372)</u>
	<u>(11,007)</u>	<u>5,372</u>
	(275,233)	(252,530)
Per Audit	<u>(275,232)</u>	<u>(252,529)</u>
Difference	(1)	(1)

Effect on General Ledger: The following journal entry should be made to correct the utility's general ledger balances.

Utility Acct. No.	Description	Debit	Credit
145.001	Accum Depr - W to reflect plan retirement	21,385	
145.001	Accum Depr - W to reflect deprec Jan 2000 to Jun 2006		32,392
620.001	Depr Exp - W Jan - Jun 2006 depreciation	5,386	
345.000	Retained Earnings	5,621	
145.002	Accum Depr - WW to reflect plan retirement	19,421	
145.002	Accum Depr - WW to reflect deprec Jan 2000 to Jun 2006		14,049
620.002	Depr Exp - WW Jan - Jun 2006 depreciation	7,372	
345.000	Retained Earnings		12,744

Effect on Rate Case: The utility's water and wastewater accumulated depreciation should be increased by \$11,007 and reduced by \$5,372 respectively.

Audit Finding No. 5

Subject: Accumulated Amortization of CIAC

Summary: The utility's water and wastewater accumulated amortization of CIAC balances are understated by \$21,152 and \$3,007 respectively as of June 30, 2006.

Statement of Fact: The utility did not record the balances, as of December 31, 1999, approved by Commission Order No. PSC-00-2117-PAA-SU in accumulated amortization. Additionally, it did not record amortization for the period January to June 2006.

The NARUC USoA states for Account 272 that "...contributions of depreciable plant shall be amortized by charges to this account over a period equal to the estimated service life of the related contributed asset. A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset." The utility did not follow this rule. Our adjustments are recorded below.

	Water		Wastewater
Per Utility		151,532	210,616
	<u>Adjustments</u>		
Begin Balance per Order	1,169		(1,421)
Amortz per composite deprec rate	<u>19,983</u>	<u>21,152</u>	<u>4,428</u> <u>3,007</u>
		172,684	213,623
Per Audit		<u>172,682</u>	<u>213,623</u>
Difference		2	0

Effect on General Ledger: The following journal entry should be made to correct the utility's general ledger balances.

Utility			
<u>Acct No</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
252.001	Accum Amortz-Water To reflect amortiz Jan 2000-Jun 2006	\$19,983	
252.001	Accum Amortz-Water To reflect Commission beginning balance	1,169	
406.001	Amortz Expense-Water Jan-Jun 2006 amortization		\$ 4,111
345.000	Retained Earnings		17,041
252.002	Accum Amortz-WW To reflect amortize Jan 2000-Jun 2006	\$ 4,428	
252.002	Accum Amortz-WW To reflect Commission beginning balance		\$ 1,421
406.002	Amortz Expense-WW Jan-Jun 2006 amortization		3,540
345.000	Retained Earnings	533	

Effect on Rate Case: The utility's water and wastewater rate base should be increased by \$21,152 and \$3,007 respectively.

Audit Finding No. 6

Subject: Operation And Maintenance

Summary: The utility water and wastewater operation and maintenance accounts are overstated by \$1,170 and \$965 respectively as June 30, 2006.

Statement of Fact: The utility's filing reflects operation and maintenance expense of \$138,207 and \$130,946 for water and wastewater, respectively, for the 12-month period ended June 30, 2006. Included in the above expense amounts were the following invoices in the indicated accounts.

- ◆ The utility recorded \$3,340 and \$1,160 in water and wastewater 601 & 701 Salary expense account. These amounts were for alternate water and wastewater operators. Therefore, these amounts should be reclassified to accounts 636 and 736 Contractual Services – Other.
- ◆ The utility paid but did not record the June electric bill in its books. Expense account 615 Purchased Power should be increased by \$1,970 to reflect the June bill.
- ◆ The utility recorded \$448, \$876 and \$606 in its water 620 Material and Supplies account. These amounts were for chemicals, transportation, and structures and improvements. Therefore, these amounts should be reclassified to accounts 618 Chemicals, 650 Transportation, and 304 Structures & Improvement respectively.
- ◆ The utility recorded \$4,882 and \$1,155 in its waste water 736 Contractual Services Other account. These amounts were for Materials & Supplies, and Testing. Therefore, these amounts should be reclassified to accounts 720 Materials & Supplies, and 735 Testing respectively.
- ◆ The utility could not provide supporting documents for amounts of \$70 and \$393 for accounts 650 Transportation and 736 Contractual Services Other respectively. Therefore, these amounts should be debited to 215 Retained Earnings and credited to 750 Transportation and 736 Contractual Services Other.
- ◆ The utility under recorded its waste water Transportation account by \$764. Therefore, this amount should be debited to account 750 Transportation.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

NARUC Acct. No.	Description	Debit	Credit
636	Contractual Services – Other	3,340	
601	Salaries – Employees		3,340
736	Contractual Services – Other	1,160	
701	Salaries – Employees		1,160
615	Purchased Power	1,970	
131	Cash		1,970
618	Chemicals	448	
650	Transportation	876	
304	Structures & Improvements	606	
620	Materials & Supplies		1,930
720	Materials & Supplies	4,882	
215	Retained Earnings	393	
735	Contractual Services – Testing	1,155	
736	Contractual Services – Other		6,430
215	Retained Earnings	70	
650	Transportation		70
750	Transportation	764	
231	Accounts Payable		764

EFFECT ON RATE CASE IF FINDING IS ACCEPTED: Same as above

Audit Finding No. 7

Subject: Taxes Other Than Income

Statement of Fact: The utility's general ledger reflects Taxes-Other-Than-Income of \$11,136 for Water and \$7,715 for Wastewater for the 12-month period ended June 30, 2006. The test year revenues for the twelve month period ended June 30, 2006 are \$173,424 for water and \$92,014 for wastewater. These revenues result in a RAF payments of \$7,804 for water and \$4,141 for wastewater. Utility books only reflect payment for 2005 RAF's. The utility books are understated by \$463 for Water and \$221 for Wastewater.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

Acct. No.	Description	Debit	Credit
408	Regulatory Assessment Fees	463	
215	Retained Earnings		463
408	Regulatory Assessment Fees	221	
215	Retained Earnings		221

EFFECT ON RATE CASE IF FINDING IS ACCEPTED: Same as above.

EXHIBIT 1

USEPPA ISLAND UTILITIES
DOCKET: 060575 - WS
RATE BASE - WATER
AS OF JUNE 30, 2006

DESCRIPTION	(a)	(b)	©	(d)	{(a+d)/2}
	BALANCE PER BOOKS @06/30/05	BALANCE PER BOOKS @06/30/06	AUDIT ADJUSTMENT	AUDITED BALANCE @06/30/06	(e) AVERAGE RATE BASE @06/30/06
UTILITY PLANT IN SERVICE	560,919	568,259	(21,800)	546,459	553,689
LAND	10,463	10,463	0	10,463	10,463
PLANT HELD FOR FUTURE USE					
CIAC	(225,670)	(225,670)	0	(225,670)	(225,670)
ACCUMULATED DEPRECIATION	(249,723)	(264,226)	(9,594)	(273,820)	(261,772)
AMORTIZATION-CIAC	142,494	151,532	21,150	172,682	157,588
WORKING CAPITAL				17,273	
ACQUISITION ADJUSTMENT					
TOTAL	238,483	240,358	(10,244)	247,387	234,299

NOTE: WORKING CAPITAL ALLOWANCE COMPUTED AT 1/8 O&M EXPENS (138182/8)

EXHIBIT 2

USEPPA ISLAND UTILITIES
DOCKET: 060575 - WS
RATE BASE - WASTEWATER
AS OF JUNE 30, 2006

DESCRIPTION	(a)	(b)	©	(d)	{(a+d)/2}
	BALANCE PER BOOKS @06/30/05	BALANCE PER BOOKS @06/30/06	AUDIT ADJUSTMENT	AUDITED BALANCE @06/30/06	(e) AVERAGE RATE BASE @06/30/06
UTILITY PLANT IN SERVICE	456,330	462,500	(15,222)	447,278	451,804
LAND	3,487	3,487	0	3,487	3,487
PLANT HELD FOR FUTURE USE					
CIAC	(230,187)	(230,187)	0	(230,187)	(230,187)
ACCUMULATED DEPRECIATION	(251,195)	(257,902)	5,373	(252,529)	(251,862)
AMORTIZATION-CIAC	201,616	210,616	3,007	213,623	207,620
WORKING CAPITAL				16,300	
ACQUISITION ADJUSTMENT					
TOTAL	180,051	188,514	(6,842)	197,972	180,861

NOTE: WORKING CAPITAL ALLOWANCE COMPUTED AT 1/8 O&M EXPENS (129216/8)

Exhibit 3

Useppa Island Utility
Docket No. 060575
NOI - Water
As of June 30, 2006

Description	Ref	<i>Balance</i>	<i>Audit</i>	<i>Balance</i>
		<i>per Books</i>	<i>Adjustments</i>	<i>per Audit</i>
		<i>06/30/06</i>		<i>06/30/06</i>
Operating Revenues	41	173,424	0	173,424
Operation & Maint.	43	139,377	(1,170)	138,207
Depreciation	22	21,838	1,583	23,421
Amortization	23	(9,037)	825	(8,213)
Taxes Other Than Income	53	11,136	463	11,599
Income Taxes	54	0	0	0
Total Operating				
Expenses		163,314	1,700	165,014
Net Operating Income				
(Loss)		10,109	18,518	8,409

Exhibit 4

Useppa Island Utility
Docket No. 060575
NOI - Waste Water
As of June 30, 2006

Description	Ref	<i>Balance</i>		<i>Balance per Audit 06/30/06</i>
		<i>per Books 06/30/06</i>	<i>Audit Adjustments</i>	
Operating Revenues	41	92,014	0	92,014
Operation & Maint.	44	131,361	(965)	130,396
Depreciation	22	18,859	(3,464)	15,396
Amortization	23	(8,998)	1,913	(7,085)
Taxes Other Than Income	53	7,715	221	7,936
Income Taxes	54	0	0	0
Total Operating Expenses		148,937	(2,294)	146,643
Net Operating Income (Loss)		(56,923)	2,294	(54,629)

USEPPA ISLAND UTILITY
DOCKET: 060575 - WS
CAPITAL STRUCTURE
AS OF JUNE 30, 2006

DESCRIPTION	(a)	(b)	(c)	(d)	(e)	(f)	(g)	((a+d)/2)
	BALANCE PER BOOKS @ 06/30/05	BALANCE PER BOOKS @ 06/30/06	AUDIT ADJUSTMENTS	AUDITED PER BOOKS @ 06/30/06	RATIO	COST RATE (1)	WEIGHTED COST OF CAPITAL	AVERAGE COST OF CAPITAL
COMMON EQUITY (A)	398,682	461,135	0	461,135	35.52%	12.09%	4.29%	429,909
Common Stock	1,000	1,000		1,000				
Paid in Capital	149,000	149,000		149,000				
Retained Earnings	248,682	311,135		311,135				
NOTES PAYABLE (B)				0	0.00%		0.00%	
Southtrust W Plant	92,101	50,780		50,780	3.91%	8.00%	0.31%	71,440
Southtrust WW Plant	95,951	79,768		79,768	6.14%	7.62%	0.47%	87,859
Stockholders (Useppa Inn)	571,392	706,694		706,694	54.43%	5.50%	2.99%	639,043
CUSTOMER DEPOSITS				0			0.00%	
ITC				0			0.00%	
OTHER				0			0.00%	
TOTAL	1,158,125	1,298,376	0	1,298,376	100.00%		8.07%	1,228,251

(A) Common Equity is the sum of the sub items listed below it.

(B) The Southtrust WW Plant (Wachovia) was refinanced in January 2006. Auditor used current cost rate on loan.
The note payable to stockholders is interest only. Utility staff states there is no loan documentation.