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State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 21, 2007

TO: Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation

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

RE: **Docket No: 060540-WU; Company Name: Colonial Manor Utility Company;**
Audit Purpose: File & Suspend Rate Case;
Audit Control No: 07-116-2-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk. 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 (2)
 Division of Competitive Markets and Enforcement (Harvey)
 General Counsel
 Office of Public Counsel

Gray Deremer, President
 Colonial Manor Utility Company
 P.O. Box 398
 New Port Richey, FL 34656

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FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING
Tampa District Office

COLONIAL MANOR UTILITY COMPANY

FILE & SUSPEND RATE CASE
AS OF DECEMBER 31, 2006

DOCKET NO. 060540-WU
AUDIT CONTROL NO. 07-116-2-1

Handwritten signature of Jeffery A. Small.

Jeffery A. Small, Audit Manager

Handwritten signature of Simon O. Ojada.

Simon O. Ojada, Audit Staff

Handwritten signature of Joseph W. Rohrbacher.

Joseph W. Rohrbacher, District
Supervisor

DOCUMENT NUMBER-DATE

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

JUNE 15, 2007

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 February 21, 2007. We have applied these procedures to the attached schedules prepared by Colonial Manor Utility Company in support of its filing for rate relief in Docket No. 060540-WU.

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

OBJECTIVES AND PROCEDURES

RATE BASE

General

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

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2006 and verified that adjustments required in Order No. PSC-05-0422-PAA-WU, issued April 20, 2005 were recorded. Audit Finding No. 1 compiles and discusses our recommended rate base balances as of historical years ending December 31, 2005 and 2006.

Utility-Plant-in-Service (UPIS)

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

Procedures: We sampled UPIS additions for the period January 1, 2004 through December 31, 2006 to test the utility's balances reflected in its filing. We tested retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding Nos. 2, 3 and 4 discuss our recommended adjustments to UPIS additions recorded in years 2004, 2005 and 2006.

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 the utility's land balance has not changed and that no land has been purchased or disposed of since its last Commission proceeding in Docket No. 041461-WU.

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts.

Procedures: We examined utility accounting records for cash contributions for the period January 1, 2004 through December 31, 2006. We scanned the utility's 2004 through 2006 Federal Income Tax returns for unrecorded cash and property contributions. Audit Finding No. 5 discusses our recommended adjustment to record CIAC additions in year 2005.

Accumulated Depreciation

Objective: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of

Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded,
Procedures: We sampled accumulated depreciation accruals for the period January 1, 2004 through December 31, 2006 to test the utility's balances reflected in its filing. We tested retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding Nos. 2, 3 and 4 discuss our recommended adjustments to UPIS additions recorded in years 2004, 2005 and 2006 and the corresponding effect on accumulated depreciation.

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.

Procedures: We sampled amortization of CIAC accruals for the period January 1, 2004 through December 31, 2006 test the utility's balances reflected in its filing. Audit Finding No. 5 discusses our recommended adjustment to record CIAC additions in year 2005 and the corresponding effect on accumulated amortization of CIAC in years 2005 and 2006.

Working Capital

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

Procedures: We calculated the utility's working capital balance as of December 31, 2005 and 2006 using 1/8th of operation and maintenance expense as required by Commission rule 25-30.433 Rate Case Proceedings, Florida Administrative Code. (F.A.C.)

NET OPERATING INCOME

General

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

Procedures: We reconciled the following individual component net operating income balances to the utility's general ledger as of December 31, 2005. Audit Finding No. 6 compiles and discusses our recommended net operating income balances for the historical 12-month periods ended December 31, 2005 and 2006.

Revenues

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

Procedures: We sampled recorded revenues for the 12-month periods ended December 31, 2005 and 2006 from the utility's general ledger to test the utility's balances reflected in its filing. We recalculated a sample of customer bills to ensure that the utility was using the rates authorized in its approved tariff. Audit Finding No. 7 discusses our specific adjustments to revenues in 2005.

Operation and Maintenance Expenses (O&M)

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

Procedures: We sampled O&M expense entries from the utility's general ledger for the 12-month periods ended December 31, 2005 and 2006 to test the utility's balances reflected in its filing. We reviewed sampled invoices for proper amount, period, classification, NARUC account and recurring nature. Audit Finding Nos. 8 and 9 discusses our recommended adjustments to O&M expenses in 2005 and 2006.

Taxes-Other-Than-Income (TOTI)

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

Procedures: We sampled TOTI expense entries from the utility's general ledger for the 12-month periods ended December 31, 2005 and 2006 to test the utility's balances reflected in its filing. We reviewed utility tax invoices for proper amount, period, classification, NARUC account and recurring nature. Audit Finding No. 10 provides information on TOTI expense for the 2006 filing.

Depreciation Expense

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

Procedures: We sampled depreciation expense entries from the utility's general ledger for the 12-month periods ended December 31, 2005 and 2006 to test the utility's balances reflected in its filing. We recalculated a sample of annual depreciation expense accruals to ensure that the utility used the Commission's rates prescribed in Rule 25-30.140, F.A.C. We ensured that depreciation expense was calculated net of CIAC amortization expense. Audit Finding Nos. 2, 3 and 4 discuss our recommended adjustments to UPIS additions recorded in years 2004, 2005 and 2006 and the corresponding effect on 2005 and 2006 depreciation expense. Audit Finding No. 5 discusses our recommended adjustment to record CIAC additions in year 2005 and the corresponding effect on 2005 and 2006 CIAC amortization expense which is netted against depreciation expense.

CAPITAL STRUCTURE

General

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. 11 provides information on the utility's historical capital structure component balances

as of December 31, 2005 and 2006.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility 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.

Customer Deposits

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

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

Owners' Equity

Objective: To determine that owners' equity balances represent actual equity of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced equity balances to the general ledger and recalculated the allowable return using Commission Order No. PSC-17-0472-PAA-WS, issued June 1, 2007.

AUDIT FINDING NO. 1

SUBJECT: INFORMATION ON 2005 AND 2006 RATE BASE

AUDIT ANALYSIS: The utility's filing reflects the following rate base balances.

Description	Balance per Books	Utility Adjustments	Adjusted Utility Balance
Utility Plant in Service	\$528,305	\$777,806	\$1,306,111
Land & Land Rights	0	0	0
Construction Work in Progress	0	0	0
Contributions in Aid of Construction (CIAC)	(173,559)	0	(173,559)
Accumulated Depreciation	(290,329)	(86,297)	(376,626)
Accumulated Amortization of CIAC	173,559	0	173,559
Acquisition Adjustment (AA)	257,525	0	257,525
Accumulated Amortization of AA	(34,338)	(34,338)	(68,676)
Working Capital	<u>18,117</u>	<u>4,467</u>	<u>22,584</u>
Net Rate Base	\$479,280	\$661,638	\$1,140,918
Historical balance as of December 31, 2005	A		
Projected 2006 and 2007 net additions		B	
Projected balance as of December 31, 2007			C

On May 23, 2007 the utility filed a letter with the Commission Clerk's office requesting permission to re-file the projected 2007 test year information. The utility plans to send a revised filing by June 30, 2007, which is beyond the time allowed for our audit fieldwork. Recognizing the above limitations we have audited the historical 2005 and compiled the historical 2006 rate base balances for this audit engagement.

The utility's 2005 and 2006 average year end rate base balances are displayed in Schedule A that follows. The balances displayed include the following audit adjustments described below and compiled in Table 1 that follows.

- 1) Audit Finding No. 2 of this report recommends specific adjustments that reduced UPIS and accumulated depreciation balances by \$25,305 and \$26,286 for the period ended December 31, 2004.
- 2) Audit Finding No. 3 of this report recommends specific adjustments that reduced UPIS and accumulated depreciation balances by \$50,529 and \$44,147 for the period ended December 31, 2005.
- 3) Audit Finding No. 4 of this report recommends specific adjustments that increased UPIS and decreased accumulated depreciation balances by \$3,442 and \$1,298, respectively for the period ended December 31, 2006
- 4) The utility's land balance of \$16,272 should be reclassified from UPIS to Land & Land rights for filing presentation purposes.
- 5) The acquisition adjustment account balances displayed above should be removed because an acquisition adjustment was denied in Order No. PSC-05-0422-PAA-WU, issued April 20, 2005.

- 6) Audit Finding No. 5 of this report recommends specific adjustments that increased CIAC and accumulated amortization of CIAC balances by \$5,219 and \$65 for the period ended December 31, 2005 and increased the accumulated amortization of CIAC balance by \$130 for the period ended December 31, 2006.
- 7) Audit Finding No. 8 and 9 of this report recommends specific adjustments that increased CWIP by \$20,900 and \$5,108 for the periods ended December 31, 2005 and 2006, respectively.
- 8) Audit Finding No. 8 recommends reclassifying \$6,560 of O&M expense recorded in 2005 as non-recurring to Acct. No. 186 – Deferred Assets and it amortized that balance over five years or \$1,312 annually (\$6,560/5 years). The accumulated unamortized balance would be \$5,248 in 2005 and \$3,936 in 2006. (\$6,560 - \$1,312) and (\$6,560 – (\$1,312 x 2yrs))
- 9) Audit Finding Nos. 8 and 9 calculated working capital balances of \$14,700 and \$16,732 as of December 31, 2005 and 2006, respectively, based on our recommended adjusted O&M Expense balances.

EFFECT ON GENERAL LEDGER: The audit adjustments to land, acquisition adjustment account balances and working capital are for rate filing purposes only and do not effect the utility's general ledger. The effect of all other audit adjustments on the utility's general ledger are described in each of the respective audit findings.

EFFECT ON THE FILING: The utility's filing did not include average rate base balances for years 2005 and 2006. The utility's average rate base balances based on our adjustments described above are \$191,777 and \$292,142, respectively, as of December 31, 2005 and 2006.

TABLE 1

2004 Audit Adjustments

Description	Per Utility @12/31/04	Audit Adjustments		Per Audit @12/31/04
		Prior Year	Current Year	
Utility Plant in Service	\$369,458	-na-	(\$41,577)	\$327,881
Land & Land Rights	0	-na-	16,272	16,272
Contributions in Aid of Construction (CIAC)	(173,559)	-na-	0	(173,559)
Accumulated Depreciation	(276,415)	-na-	26,286	(250,129)
Accumulated Amortization of CIAC	173,559	-na-	0	173,559
Acquisition Adjustment (AA)	260,386	-na-	(260,386)	0
Accumulated Amortization of AA	<u>(17,359)</u>	-na-	<u>17,359</u>	<u>0</u>
Net Rate Base	\$336,070		(\$242,046)	\$94,024

(UPIS adjustment of \$41,577 = \$25,305+\$16,272)

2005 Audit Adjustments

Description	Per Utility @12/31/05	Audit Adjustments		Per Audit @12/31/05
		Prior Year	Current Year	
Utility Plant in Service	\$528,305	(\$41,577)	(\$50,529)	\$436,200
Land & Land Rights	0	16,272	0	16,272
Contributions in Aid of Construction (CIAC)	(173,559)	0	(5,219)	(178,778)
Accumulated Depreciation	(290,329)	26,286	44,147	(219,896)
Accumulated Amortization of CIAC	173,559	0	65	173,624
Construction Work in Process	0	0	20,900	20,900
Acquisition Adjustment (AA)	257,526	(260,386)	2,861	0
Accumulated Amortization of AA	(34,338)	17,359	16,979	0
Net Deferred Assets	0	0	5,248	5,248
Working Capital	<u>18,117</u>	-na-	<u>(3,417)</u>	<u>14,700</u>
Net Rate Base	\$479,280	(\$242,046)	\$31,035	\$268,270

2006 Audit Adjustments

Description	Per Utility @12/31/06	Audit Adjustments		Per Audit @12/31/06
		Prior Years	Current Year	
Utility Plant in Service	\$532,846	(\$92,105)	\$3,442	\$444,183
Land & Land Rights	0	16,272	0	16,272
Contributions in Aid of Construction (CIAC)	(173,559)	(5,219)	0	(178,778)
Accumulated Depreciation	(301,861)	70,433	1,298	(230,131)
Accumulated Amortization of CIAC	173,559	65	130	173,754
Construction Work in Process	44,006	20,900	5,108	70,014
Acquisition Adjustment (AA)	257,526	(257,526)	0	0
Accumulated Amortization of AA	(51,506)	34,338	17,168	0
Net Deferred Assets	0	5,248	(1,312)	3,936
Working Capital	<u>17,652</u>	-na-	<u>(920)</u>	<u>16,732</u>
Net Rate Base	\$479,280	(\$207,594)	\$24,914	\$315,982

SCHEDULE A
WATER RATE BASE – AUDIT CALCULATION

Description	Historical Balance @12/31/04	Historical Balance @12/31/05	Historical Balance @12/31/06	Historical Average @12/31/05	Historical Average @12/31/06
Utility Plant in Service	\$327,881	\$436,200	\$444,183	\$382,041	\$440,192
Land & Land Rights	16,272	16,272	16,272	16,272	16,272
Contributions in Aid of Construction (CIAC)	(173,559)	(178,778)	(178,778)	(176,169)	(178,778)
Accumulated Depreciation	(250,129)	(219,896)	(230,131)	(235,013)	(225,014)
Accumulated Amortization of CIAC	173,559	173,624	173,754	173,592	173,689
Construction Work in Process	0	20,900	70,014	10,450	45,457
Acquisition Adjustment (AA)	0	0	0	0	0
Accumulated Amortization of AA	0	0	0	0	0
Deferred Assets	0	5,248	3,936	5,904	4,592
Working Capital	<u>-na-</u>	<u>14,700</u>	<u>16,732</u>	<u>14,700</u>	<u>16,732</u>
Net Rate Base	\$94,024	\$268,270	\$315,982	\$191,777	\$293,142

AUDIT FINDING NO. 2

SUBJECT: ADJUSTMENTS TO 2004 UPIS ADDITIONS

AUDIT ANALYSIS: The utility's general ledger and its filing reflect UPIS additions of \$53,546 for the 12-month period ending December 31, 2004 in the following accounts.

Acct. No.	Description	Amount
304	Structures & Improvements	\$13,988
311	Pumping Equipment	10,315
320	Water Treatment Equipment	2,783
331	Transmission/Distribution Lines	20,201
333	Service	<u>6,259</u>
		\$53,546

Our analysis of the above UPIS additions indicates that the following adjustments are required to properly reflect the correct balances based on Commission rules.^a

- 1) Acct No. 304 includes an addition of \$3,064 for a roof replacement that should have included a corresponding retirement amount.
- 2) Acct. No. 311 includes an addition of \$6,595 to replace the motor controls for a well that should have included a corresponding retirement amount. The account also included an addition of \$3,720 to replace gate valves and piping that should have been recorded in Acct. No. 309 – Supply Mains and should have included a corresponding retirement amount.
- 3) Acct. No. 320 includes two additions totaling \$2,783 to replace gate valves that should have been recorded in Acct. No. 309 and should have included a corresponding retirement amount.
- 4) Acct. No. 331 included two additions for \$4,225 and \$7,094 to replace water main valves and a 4" water main that should have included corresponding retirement amounts.
- 5) Acct. No. 333 included three additions totaling \$6,259 for water meter replacements that should have been recorded in Acct. No. 334 – Meters and should have included a corresponding retirement amount.
- 6) We reduced depreciation expense on Acct. No. 307 – Wells & Springs by \$474 to prevent the corresponding accumulated depreciation account ending balance from exceeding its associated UPIS account ending balance. This account was fully depreciated at the end of 2004.

The audit adjustments described above reduce the utility's 2004 UPIS balance by \$25,305 with a corresponding reduction of \$26,286 to accumulated depreciation.

^a The account reclassifications and retirements recommended are based on the rules and definitions described in the NARUC Uniform System of Accounts for Class B Water, 1996, which was adopted by reference in Rule 25-30.115 F.A.C.

Prior Order No. PSC-03-1250-PAA-WU, issued November 6, 2003, in the utility's last rate proceeding calculated UPIS retirements as 75 percent of the replacement cost for UPIS when the original cost could not be determined.

Additionally, the 2004 audit adjustments effect, when rolled forward, reduce the utility's accumulated depreciation and depreciation expense balances by \$1,015 for years 2005 and 2006, each.

The above adjustments are calculated and displayed in Schedule B that follows.

EFFECT ON THE GENERAL LEDGER: The utility's UPIS and accumulated depreciation balances should be reduced by \$25,305 and \$26,286, respectively as of December 31, 2004.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 1 of this report.

SCHEDULE B

Colonial Manor - 2004 UPIS Adjustments			Per Utility	UPIS Audit Adjustment			Annual		Acc/Dep Adj. (2004 = Retirement + 1/2 Dep Exp)		
				Reclass	Retirement	Total	Dep Rate	Dep Exp	@12/31/2004	@12/31/2005	@12/31/2006
304 - Structures & Improvements											
Uncontested Additions			\$10,924								
12/30/2004	04-13007	Replace roofing at Well #2	3,064	-	(2,298)	(2,298)	3.57%	(82)	(2,339)	(82)	(82)
			\$13,988	-	(\$2,298)	(\$2,298)		(\$82)	(\$2,339)	(\$82)	(\$82)
307 - Wells & Springs											
Adjustment to depreciation expense to prevent debit balance for accumulated depreciation at year end								(474)	(474)		
309 - Suppy Mains			\$0	\$6,503	(\$4,877)	\$1,626	3.13%	\$51	(\$4,852)	\$51	\$51
311 - Pumping Equipment											
09/08/2004	1075	04-6463 Well No 2 Controls Replacement	\$6,595	-	(\$4,946)	(\$4,946)	5.88%	(\$291)	(\$5,092)	(\$291)	(\$291)
11/16/2004	1094	04-8642 Gate Valve at Tank and Repipe	3,720	(3,720)	-	(3,720)	5.88%	(219)	(109)	(219)	(219)
			\$10,315	(\$3,720)	(\$4,946)	(\$8,666)		(\$510)	(\$5,201)	(\$510)	(\$510)
320 - Water Treatment Equipment											
11/22/2004	1097	04-10274 Well #3 - Gate Valve replacement	\$1,972	(\$1,972)	-	(\$1,972)	5.88%	(\$116)	(\$58)	(\$116)	(\$116)
11/22/2004	1097	04-9633 Well #4 - Gate Valve Replacement	811	(811)	-	(811)	5.88%	(48)	(24)	(48)	(48)
			\$2,783	(\$2,783)	-	(\$2,783)		(\$164)	(\$82)	(\$164)	(\$164)
331 - Transmission/Distrib Lines											
Uncontested Additions			\$8,882								
08/27/2004	1066	04-6136 Valve replacements	4,225	-	(3,169)	(3,169)	2.63%	(83)	(3,210)	(83)	(83)
10/31/2004	04-11256	4" service main replacement	7,094	-	(5,321)	(5,321)	2.63%	(140)	(5,391)	(140)	(140)
			\$20,201	-	(\$8,489)	(\$8,489)		(\$223)	(\$8,601)	(\$223)	(\$223)
333 - Services											
07/16/2004	1045	Meter replacements - Inv #34274	\$3,663	(\$3,663)	-	(\$3,663)	2.86%	(\$105)	(\$52)	(\$105)	(\$105)
12/07/2004	1107	Meter replacements Inv #38520	1,478	(1,478)	-	(1,478)	2.86%	(42)	(21)	(42)	(42)
12/27/2004	1109	Meter replacements - Inv #38823 & 38822	1,118	(1,118)	-	(1,118)	2.86%	(32)	(16)	(32)	(32)
			\$6,259	(\$6,259)	-	(\$6,259)		(\$179)	(\$89)	(\$179)	(\$179)
334 - Meters			\$0	\$6,259	(\$4,695)	\$1,565	5.88%	\$92	(\$4,649)	\$92	\$92
Total UPIS Additions & Adjustments			\$53,546	-	(\$25,305)	(\$25,305)		(\$1,489)	(\$26,286)	(\$1,015)	(\$1,015)

AUDIT FINDING NO. 3

SUBJECT: ADJUSTMENTS TO 2005 UPIS ADDITIONS

AUDIT ANALYSIS: The utility's general ledger and its filing reflect UPIS additions of \$158,848 for the 12-month period ending December 31, 2005 in the following accounts.

Acct. No.	Description	Amount
304	Structures & Improvements	\$24,566
307	Well & Springs	19,177
309	Supply Mains	15,179
311	Pumping Equipment	9,550
330	Distribution Reservoirs & Standpipes	46,000
334	Meters	7,646
335	Hydrants	30,861
336	Backflow Preventors	<u>5,869</u>
		\$158,848

Our analysis of the above UPIS additions indicates that the following adjustments are required to properly reflect the correct balances based on Commission rules.^b

- 1) Acct. No. 304 includes additions of \$779, \$1,581 and \$10,452 for roof replacements that should have included corresponding retirement amounts. The account also included an addition of \$5,068 to replace a well pump that should have been recorded in Acct. No. 311 and should have included a corresponding retirement amount.
- 2) Acct. No. 307 includes an addition of \$18,639 to replace and rehabilitate a well that should have included corresponding retirement amount.
- 3) Acct. No. 309 includes additions of \$1,000, \$1,426, \$8,812 and \$2,576 for work that replaced 4 inch water mains that should have included corresponding retirement amounts.
- 4) Acct. No. 311 includes additions of \$262 and \$9,131 to replace pumps that should have included corresponding retirement amounts.
- 5) Acct. No. 334 includes additions totaling \$7,646 for water meter replacements that should have included corresponding retirement amounts.
- 6) Acct. No. 335 includes an \$8,882 year end correcting journal entry for a balance posted in 2004 to Acct. No. 331 – Transmission Distribution Lines and should be reclassified as such.
- 7) We reduced the accumulated depreciation retirement adjustments for Acct. Nos. 307 and 309 by \$591 and \$5,964, respectively, to prevent the corresponding accumulated depreciation account ending balance from exceeding its associated UPIS account ending balance. These accounts were fully depreciated at the end of 2005.
- 8) We reduced depreciation expense for Acct. No. 320 – Water Treatment by \$1,951 to prevent the corresponding accumulated depreciation account ending balance from exceeding its associated UPIS account ending balance. This account was fully depreciated at the end of 2005.
- 9) We increased depreciation expense for Acct. No. 334 by \$3,820 because the utility did not use the correct depreciation rate as prescribed in Rule 25-30.145 F.A.C.

^b *ibid*

The audit adjustments described above reduce the utility's 2005 UPIS balance by \$50,529 with a corresponding reduction of \$43,132 to accumulated depreciation.

Additionally, the 2005 audit adjustments effect, when rolled forward, reduce the utility's accumulated depreciation and depreciation expense balances by \$2,055, for year 2006.

The above adjustments are calculated and displayed in Schedule C that follows.

EFFECT ON THE GENERAL LEDGER: The utility's UPIS and accumulated depreciation balances should be reduced by \$50,529 and \$44,147, respectively as of December 31, 2005.

The utility's depreciation expense balance should be decreased by \$173 for the 12-month period ending December 31, 2005.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 1 of this report.

SCHEDULE C – 1 of 2

Colonial Manor - 2005 UPIS Adjustments			Per Utility	UPIS Audit Adjustment			Annual		Dep Exp Adj.	Acc/Dep Adj.	
				Reclass	Retirement	Total	Dep Rate	Dep Exp	@12/31/2005	@12/31/2005	@12/31/2006
304 · Structures & Improvements											
Uncontested Additions											
01/10/2005	1120	Utility Improvement - Well Houses	\$6,686	-	(584)	(584)	3.57%	(21)	(10)	(595)	(21)
01/18/2005	1138	05-001	779	-	(1,186)	(1,186)	3.57%	(42)	(21)	(1,207)	(42)
01/25/2005	510489	Replace pump at Well #2	1,581	(5,068)	-	(5,068)	3.57%	(181)	(90)	(90)	(181)
12/31/2005	513	Net of two entries below	5,068	-	(7,839)	(7,839)	3.57%	(\$280)	(140)	(7,979)	(280)
			<u>\$24,566</u>	<u>(\$5,068)</u>	<u>(\$9,609)</u>	<u>(\$14,677)</u>		<u>(\$524)</u>	<u>(\$262)</u>	<u>(\$9,871)</u>	<u>(\$524)</u>
06/30/2005		Convert A/P to N/P - roof replacements	\$96,195								
12/31/2005	513	Y/E Adj JE # 5 - reclass	(85,743)								
			<u>\$10,452</u>								
307 · Wells & Springs											
Uncontested Additions											
12/31/2005	521510	Rehab Well # 5	\$537		(13,979)	(13,979)	3.70%	(518)	(259)	(14,238)	(518)
Adjustment to retirements to prevent debit balance for accumulated depreciation at year end											
			-		-	-		-	-	591	-
			<u>\$19,177</u>		<u>(\$13,979)</u>	<u>(\$13,979)</u>		<u>(\$518)</u>	<u>(\$259)</u>	<u>(\$13,647)</u>	<u>(\$518)</u>
309 · Supply Mains											
Uncontested Additions											
03/31/2005	512449	4" main replacement	\$1,366		(750)	(750)	3.13%	(23)	(12)	(762)	(23)
06/10/2005	515020	4" main replacement	1,000		(1,069)	(1,069)	3.13%	(33)	(17)	(1,086)	(33)
06/30/2005		Convert A/P to N/P - main replacement	1,426		(6,609)	(6,609)	3.13%	(207)	(103)	(6,712)	(207)
07/31/2005	516860	4" main replacement	8,812		(1,932)	(1,932)	3.13%	(60)	(30)	(1,962)	(60)
2,576			<u>\$15,179</u>		<u>(\$10,360)</u>	<u>(\$10,360)</u>		<u>(\$324)</u>	<u>(\$162)</u>	<u>(\$4,558)</u>	<u>(\$324)</u>
Adjustment to retirements to prevent debit balance for accumulated depreciation at year end											
			-		-	-		-	-	5,964	-
			<u>\$15,179</u>		<u>(\$10,360)</u>	<u>(\$10,360)</u>		<u>(\$324)</u>	<u>(\$162)</u>	<u>(\$4,558)</u>	<u>(\$324)</u>
311 · Pumping Equipment											
Uncontested Additions											
01/25/2005	510489	Replace pump at Well #2	\$156	5,068	(3,801)	1,267	5.88%	75	37	(3,763)	75
10/20/2005	524562	85 MHP Stenner 100 PSI Feed Pump	-	-	(197)	(197)	5.88%	(12)	(6)	(202)	(12)
11/30/2005	520584	Well #3 Install 25HP Pump / Piping	262	-	(6,849)	(6,849)	5.88%	(403)	(201)	(7,050)	(403)
9,131			<u>\$9,550</u>	<u>\$5,068</u>	<u>(\$10,846)</u>	<u>(\$5,778)</u>		<u>(\$340)</u>	<u>(\$170)</u>	<u>(\$11,016)</u>	<u>(\$340)</u>
320 - Water Treatment Equipment											
Adjustment to depreciation expense to prevent debit balance for accumulated depreciation at year end											
			-					-	(1,951)	(1,951)	-
330 · Distrib/Reservoir Standpipes											
Uncontested Additions											
			\$46,000	-	-	-		-	-	-	-
331 · Transmission/Distrib Lines											
			-	(\$8,882)	-	(\$8,882)	2.63%	(\$234)	(\$117)	(\$117)	(\$234)

SCHEDULE C – 2 of 2

Colonial Manor - 2005 UPIS Adjustments		Per Utility	UPIS Audit Adjustment			Annual		Dep Exp Adj.	Acc/Dep Adj.		
			Reclass	Retirement	Total	Dep Rate	Dep Exp	@12/31/2005	@12/31/2005	@12/31/2006	
334 · Meters & Meter Installation											
01/13/2005	1123	114826; 114817; 114819	113	0	(84)	(84)	5.88%	(5)	(2)	(87)	(5)
01/18/2005	1140	39615	347	0	(261)	(261)	5.88%	(15)	(8)	(268)	(15)
01/31/2005	1142	Reimbursement - 39774	564	0	(423)	(423)	5.88%	(25)	(12)	(435)	(25)
03/08/2005	1156	40000: 39863	355	0	(266)	(266)	5.88%	(16)	(8)	(274)	(16)
03/15/2005	1159	40535	924	0	(693)	(693)	5.88%	(41)	(20)	(713)	(41)
04/01/2005	1164	41192	289	0	(217)	(217)	5.88%	(13)	(6)	(223)	(13)
04/21/2005	41593		288	0	(216)	(216)	5.88%	(13)	(6)	(222)	(13)
06/03/2005	42509	13 meters @ 28.00 ea.	364	0	(273)	(273)	5.88%	(16)	(8)	(281)	(16)
06/03/2005	42509		270	0	(202)	(202)	5.88%	(12)	(6)	(208)	(12)
07/14/2005	43302	Meters	393	0	(294)	(294)	5.88%	(17)	(9)	(303)	(17)
08/24/2005	44193		48	0	(36)	(36)	5.88%	(2)	(1)	(37)	(2)
09/20/2005	44746	Curb Stops	149	0	(112)	(112)	5.88%	(7)	(3)	(115)	(7)
10/12/2005	45151	20 Meters @ \$28	616	0	(462)	(462)	5.88%	(27)	(14)	(476)	(27)
11/04/2005	45655	Meter Conns.	15	-	(11)	(11)	5.88%	(1)	(0)	(12)	(1)
11/09/2005	45739	Meter Parts	129	-	(96)	(96)	5.88%	(6)	(3)	(99)	(6)
11/10/2005	45772	Ball Valve, Curb Stop, Y-Branch	262	-	(196)	(196)	5.88%	(12)	(6)	(202)	(12)
11/14/2005	45843	Meter Parts	34	-	(25)	(25)	5.88%	(1)	(1)	(26)	(1)
11/21/2005	001	5 Curb Stops	(158)	-	118	118	5.88%	7	3	122	7
12/02/2005	46195	Curb Stops, Couplings	271	-	(203)	(203)	5.88%	(12)	(6)	(209)	(12)
12/07/2005	46271	Credit Y Branch	(33)	-	25	25	5.88%	1	1	26	1
12/15/2005	46469	20 Meters	608	-	(456)	(456)	5.88%	(27)	(13)	(469)	(27)
12/20/2005	46559	50 Meters and 18 Meter Boxes	1,765	-	(1,324)	(1,324)	5.88%	(78)	(39)	(1,363)	(78)
12/21/2005	46602	Washers	35	-	(26)	(26)	5.88%	(2)	(1)	(27)	(2)
Adjustment to record additional depreciation expense			-	-	-	-	-	-	3,820	3,820	-
			\$7,646	-	(\$5,734)	(\$5,734)		(\$337)	\$3,651	(\$2,083)	(\$337)
335 · Hydrants											
Uncontested Additions			\$39,743	-	-	-	-	-	-	-	-
12/31/2005	514	Year End Adjusting JE # 6	(8,882)	8,882	-	8,882	2.50%	222	111	111	222
			\$30,861	\$8,882	-	\$8,882		\$222	\$111	\$111	\$222
336 · RPZ/Backflow Devices											
Uncontested Additions			\$5,869								
Total UPIS Additions & Adjustments			\$158,848	-	(\$50,529)	(\$50,529)		(\$2,055)	\$842	(\$43,132)	(\$2,055)
Roll forward effect of 2004 UPIS adjustment								(1,015)	(1,015)		
Total Acc/Dep & Dep. Expense adjustment for year 2005								(\$173)	(\$44,147)		

AUDIT FINDING NO. 4

SUBJECT: ADJUSTMENTS TO 2006 UPIS ADDITIONS

AUDIT ANALYSIS: The utility's general ledger reflects net additions of \$4,541 to UPIS for the 12-month period ending December 31, 2006 to the following accounts. Its filing reflected projected additions of \$10,000 to Acct. 334 – Meters.

Acct. No.	Description	Amount
309	Supply Mains	\$8
310	Power Generation Equipment	771
311	Pumping Equipment	2,380
334	Meters	1,766
336	Backflow Preventors	(384)
		<u>\$4,541</u>

Our analysis of the above UPIS additions indicates that the following adjustments are required to properly reflect the correct balances based on Commission rules.^c

- 1) We increased Acct. No. 309 by \$3,442 to include two amounts reclassified from O&M expense that is discussed in Audit Finding No. 9 of this report.
- 2) We reduced depreciation expense for Acct. No. 320 – Water Treatment by \$1,951 to prevent the corresponding accumulated depreciation account ending balance from exceeding its associated UPIS account ending balance. This account was fully depreciated at the end of 2006.
- 3) We increased depreciation expense for Acct. No. 334 by \$3,670 because the utility did not use the correct depreciation rate as prescribed in Rule 25-30.145 F.A.C.

The audit adjustments described above increase the utility's 2006 UPIS balance by \$3,442 with a corresponding increase of \$1,772, each to accumulated depreciation and depreciation expense

The above adjustments are calculated and displayed in Schedule D that follows.

EFFECT ON THE GENERAL LEDGER: The utility's UPIS and accumulated depreciation balances should be increased by \$3,442 and decreased by \$1,298, respectively as of December 31, 2006.

The utility's depreciation expense balances should be decreased by \$1,298 for the 12-month period ending December 31, 2006.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 1 of this report.

^c *ibid*

AUDIT FINDING NO. 5

SUBJECT: ADJUSTMENTS FOR 2005 AND 2006 CIAC ADDITIONS

AUDIT ANALYSIS: The utility's general ledger and its filing reflects equal balances of \$173,559 for contributions in aid of construction (CIAC) and accumulated amortization of CIAC as of historical period ending December 31, 2005 and projected periods ending December 31, 2006 and 2007.

The utility's collection of service availability charges was eliminated in Order No. PSC-05-0422-PAA-WU, which was issued April 20, 2005.

In 2005, the utility on its own volition, installed back flow prevention devices for its general service customers. It determined that the installations were required under Rule 62-555.360 F.A.C. which requires the elimination of cross-connections in public water systems by the Florida Department of Environmental Protection.

The utility recorded \$5,485 to Acct. No. 336 – Backflow Prevention Devices as of December 31, 2006 for the above installations.

The utility collected \$5,219 from its general service customers to recover the installation costs of the back flow prevention devices. It recorded these collections as revenues in 2005 which we removed in Audit Finding No. 7 of this report.

The \$5,219 collected from the utility's general service customers should be classified as cash CIAC and amortized at 2.5 percent annually, which is the depreciation rate for the corresponding UPIS Acct. No. 336.

The calculations and balances to reflect the above adjustment are shown below.

Year	CIAC		Amortz. Rate	Amortz. Of CIAC		Average CIAC	Average A/Amortz.
	Additions	Balance		Additions	Balance		
2004 - CIAC Property	-	(\$173,559)	-na-	-	\$173,559		
2004 - CIAC Backflow	-	-	2.50%	-	-		
2004 - Total CIAC	-	(\$173,559)		-	\$173,559		
2005 - CIAC Property	-	(\$173,559)	-na-	-	\$173,559	(\$173,559)	\$173,559
2005 - CIAC Backflow	<u>(\$5,219)</u>	<u>(5,219)</u>	2.50%	<u>65</u>	<u>65</u>	<u>(2,610)</u>	<u>33</u>
2005 - Total CIAC	(\$5,219)	(\$178,778)		\$65	\$173,624	(\$176,169)	\$173,592
2006 - CIAC Property	-	(\$173,559)	-na-	-	\$173,559	(\$173,559)	\$173,559
2004 - CIAC Backflow	-	<u>(5,219)</u>	2.50%	<u>130</u>	<u>195</u>	<u>(5,219)</u>	<u>130</u>
2006 - Total CIAC	-	(\$178,778)		\$130	\$173,754	(\$178,778)	\$173,689

The Commission should consider reinstating a service availability fee tariff for backflow prevention devices based on our findings discussed above.

EFFECT ON THE GENERAL LEDGER: The utility's CIAC and accumulated amortization of CIAC balances should be increased by \$5,219 and \$195, respectively as of December 31, 2006.

The utility's depreciation expense balances should be decreased by \$65 and \$130, respectively, for the 12-month periods ending December 31, 2005 and 2006.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 1 of this report.

AUDIT FINDING NO. 6

SUBJECT: INFORMATION ON 2005 AND 2006 NET OPERATING INCOME

AUDIT ANALYSIS: The utility's filing reflects the following net operating income balances.

Description	Balance per Books	Utility Adjustments	Adjusted Utility Balance
Operating Revenues	\$165,830	\$4,975	\$170,805
Operation & Maintenance Expense O&M)	144,935	35,740	180,675
Depreciation (Net of CIAC Amortz.)	13,914	52,973	66,887
Amortization Expense	0	0	0
Taxes Other Than Income (TOTI)	9,337	20,663	30,000
Provision for Income Taxes	0	0	0
Operating Expenses	\$168,186	\$109,376	\$277,562
Net Operating Income	(\$2,356)	(\$104,401)	(\$106,757)
Historical balance as of December 31, 2005	A		
Projected 2006 and 2007 net changes		B	
Projected balance as of December 31, 2007			C

On May 23, 2007 the utility filed a letter with the Commission Clerk's office requesting permission to re-file the projected 2007 test year information. The utility plans to send a revised filing by June 30, 2007, which is beyond the time allowed for our audit fieldwork. Recognizing the above limitations we have audited the historical 2005 and compiled the historical 2006 net operating income balances for this audit engagement.

The utility's 2005 and 2006 net operating income balances are displayed in Schedule E that follows. The balances displayed include the following audit adjustments described below.

- 1) Audit Finding No. 7 of this report recommends specific adjustments that reduce revenues and TOTI expense by \$5,219 and \$235, respectively, for the 12-month period ended December 31, 2005.
- 2) Audit Finding No. 8 of this report recommends specific adjustments that reduce O&M expense by \$27,338 for the 12-month period ended December 31, 2005.
- 3) Audit Finding No. 9 of this report recommends specific adjustments that reduce O&M expense by \$7,358 for the 12-month period ended December 31, 2006.
- 4) Audit Finding Nos. 2, 3, 4, and 5 of this report recommend specific adjustments that reduce depreciation expense by \$238 and \$1,428 for the 12-month periods ended December 31, 2005 and 2006.

	AF-2	AF-3	AF-4	AF-5	Total
2005 Dep. Expense	(\$1,015)	\$842	\$0	(\$65)	(\$238)
2006 Dep. Expense	(\$1,015)	(\$2,055)	\$1,773	(\$130)	(\$1,427)

EFFECT ON GENERAL LEDGER: The effect of the audit adjustments on the utility's general ledger are described in each of the respective audit findings.

EFFECT ON THE FILING: The utility's net operating income balance should be increased by \$22,592 for the 12-month period ended December 31, 2005.

The utility's filing did not include net operating income balances for 2006. However, we have calculated an operating loss of \$134 for the 12-month period ended December 31, 2006.

SCHEDULE E

2005 Net Operating Income

Description	Per Utility @12/31/05	Audit Adjustments	Per Audit @12/31/05
Operating Revenues	\$165,830	(\$5,219)	\$160,611
Operation & Maintenance Expense	144,935	(27,338)	117,597
Depreciation (Net of CIAC Amortz.)	13,914	(238)	13,676
Amortization Expense	0	0	0
Taxes Other Than Income	9,337	(235)	9,102
Provision for Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Operating Expenses	<u>\$168,186</u>	<u>(\$27,811)</u>	<u>\$140,375</u>
Net Operating Income	<u>(\$2,356)</u>	<u>\$22,592</u>	<u>\$20,236</u>

2006 Net Operating Income

Description	Per Utility @12/31/06	Audit Adjustments	Per Audit @12/31/06
Operating Revenues	\$160,797	\$0	\$160,797
Operation & Maintenance Expense	141,214	(7,358)	133,856
Depreciation (Net of CIAC Amortz.)	16,829	(1,427)	15,402
Amortization Expense	0	0	0
Taxes Other Than Income	11,673	0	11,673
Provision for Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Operating Expenses	<u>\$169,716</u>	<u>(\$8,785)</u>	<u>\$160,931</u>
Net Operating Income	<u>(\$8,919)</u>	<u>\$8,785</u>	<u>(\$134)</u>

AUDIT FINDING NO. 7

SUBJECT: ADJUSTMENT TO 2005 REVENUES

AUDIT ANALYSIS: The utility's general ledger reflects water revenues of \$165,832 for the 12-month period ended December 31, 2005.

In 2005, the utility installed backflow prevention devices and collected \$5,219 from its general service customers and included the payments as revenues.

In Audit Finding No. 5 of this report, we reclassified these payments as Contributions in Aid of Construction.

The utility's 2005 revenue balance should be reduced by \$5,219.

Additionally, the utility's taxes other than income (TOTI) expense should be reduced by \$235 ($\$5,219 \times 4.5$ percent) to remove the regulatory assessment fees associated with our recommended revenue reduction of \$5,219 above.

EFFECT ON THE GENERAL LEDGER: The utility's revenues and TOTI expense should be reduced by \$5,219 and \$235, respectively, for the 12-month period ended December 31, 2006.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 6 of this report.

AUDIT FINDING NO. 8

SUBJECT: ADJUSTMENTS TO 2005 O&M EXPENSE

AUDIT ANALYSIS: The utility's general ledger and its filing reflect \$144,935 of O&M expense for the 12-month period ending December 31, 2005 which was recorded in the following accounts.

Acct. No.	Description	Amount
603	Salaries & Wages - Officers	\$24,000
610	Purchased Water	3,332
615	Purchased Power	6,354
618	Chemicals	1,179
620	Materials & Supplies	1,615
631	Contractual Services - Engineering	103,803
635	Contractual Services - Testing	850
636	Contractual Services - Other	606
655	Insurance Expense	835
670	Bad Debt Expense	21
675	Miscellaneous Expense	2,340
	Total O&M Expense	\$144,935

Our analysis of the above O&M expense amounts indicates that the following adjustments are required to properly reflect the correct balances based on Commission rules.^d

- 1) Acct No. 610 should be reduced by \$251 for purchased water expense that was incurred in the prior period 2004.
- 2) Acct No. 615 should be reduced by \$505 for purchased power expense that was incurred in the prior period 2004.
- 3) Acct No. 631 should be reduced by \$103,803 (\$20,900+\$6,560+\$1,500+\$72,518+\$2,325) and reclassified to the following accounts.
 - a) Acct. No. 105 – Construction Work in Progress (CWIP) should be increased by \$20,900 for invoiced amounts relating to engineering fees incurred for general water plant upgrades to address the excessive nitrates in the utility's water supply. The utility began recording these cost to CWIP in 2006.
 - b) Acct. No. 186 – Deferred Assets should be increased by \$6,560 for invoiced amounts relating to engineering services to design and up-grade utility system maps, to design an emergency preparedness plan, and to create an O&M maintenance manual. These

^d The account reclassifications recommended are based on the rules and definitions described in the NARUC Uniform System of Accounts for Class B Water, 1996, which was adopted by reference in Rule 25-30.115 F.A.C.

Rule 25-30.433 (8) F.A.C. requires non-recurring expenses to be amortized over five years unless a shorter time period is justified.

NARUC, Class B, Income Accounts, Account 426 – Miscellaneous Nonutility Expenses include amounts for penalties or fines for violations of statutes pertaining to regulation.

- cost are non-recurring in nature and should be deferred and amortized over five years.
- c) Acct. No. 632 – Contractual Services – Accounting should be increased by \$1,500 for professional fees associated with the preparation of the utility's federal tax return and annual report.
 - d) Acct. No. 634 – Contractual Services – Management Fees should be increased by \$72,518 for professional fees associated with the monthly management fee paid to US Water Corporation as the utility's contract operator.
 - e) Acct. No. 636 should be increased by \$2,325 for services provided by US Water Corporation outside the scope of its utility services contract.
- 4) Acct. No. 636 should be increased by \$1,312 which is the annual amortization amount of the \$6,560 balance deferred in Item 3 (b) above. (\$6,560 / 5 years)
 - 5) Acct. No. 675 should be reduced by \$434 and reclassified to Acct. No. 426 – Miscellaneous Nonutility Expenses because it was a late penalty and fine levied by the Commission for the utility's failure to remit its 2005 regulatory assessment fees in a timely manor.

The audit adjustments described above reduce the utility's 2005 O&M expense balance by \$27,338 with a corresponding reduction of \$3,417 to working capital.

The above adjustments are calculated in Table 2 below and displayed in Schedule F that follows.

EFFECT ON THE GENERAL LEDGER: The utility's O&M expenses should be reduced by \$27,338 for the 12-month period ended December 31, 2005.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 6 of this report.

TABLE 2

Summary of Adjustments

Acct.	1	2	3	4	5	Total
105	-	-	\$20,900	-	-	\$20,900
186	-	-	6,560	-	-	6,560
610	(251)	-	-	-	-	(251)
615	-	(505)	-	-	-	(505)
631	-	-	(103,803)	-	-	(103,803)
632	-	-	1,500	-	-	1,500
634	-	-	72,518	-	-	72,518
636	-	-	2,325	1,312	-	3,637
675	-	-	-	-	(434)	(434)
O&M Exp. Adj.	(\$251)	(\$505)	(\$27,461)	\$1,312	(\$434)	(\$27,338)
Total Adj.	(\$251)	(\$505)	-	\$1,312	(\$434)	\$122

SCHEDULE F

2005 O&M Expense

Acct. Nos.	Acct. Description	Per Utility		Per Audit
		Historical 2005	Adjustment	Historical 2005
601	Salaries & Wages - Employees	-	-	-
603	Salaries & Wages - Officers	\$24,000	-	\$24,000
604	Employee Pension & Benefits	-	-	-
610	Purchased Water	3,332	(251)	3,081
615	Purchased Power	6,354	(505)	5,849
616	Fuel for Power Purchased	-	-	-
618	Chemicals	1,179	-	1,179
620	Materials & Supplies	1,615	-	1,615
631	Contractual Services - Engineering	103,803	(103,803)	-
632	Contractual Services - Accounting	-	1,500	1,500
633	Contractual Services - Legal	-	-	-
634	Contractual Services - Management Fees	-	72,518	72,518
635	Contractual Services - Testing	850	-	850
636	Contractual Services - Other	606	3,637	4,243
640	Rents	-	-	-
655	Insurance Expense	835	-	835
665	Regulatory Comm. Expense	-	-	-
670	Bad Debt Expense	21	-	21
675	Miscellaneous Expense	<u>2,340</u>	<u>(434)</u>	<u>1,906</u>
	Total O&M Expense	\$144,935	(\$27,338)	\$117,597
	Working Capital (1/8 of O&M Expense)	\$18,117	(\$3,417)	\$14,700

AUDIT FINDING NO. 9

SUBJECT: ADJUSTMENTS TO 2006 O&M EXPENSE

AUDIT ANALYSIS: The utility's general ledger reflects \$141,214 of O&M expense for the 12-month period ending December 31, 2006 which was recorded in the following accounts.

Acct. No.	Description	Amount
603	Salaries & Wages - Officers	\$24,000
610	Purchased Water	2,830
615	Purchased Power	7,206
618	Chemicals	1,126
620	Materials & Supplies	295
631	Contractual Services - Engineering	88,137
635	Contractual Services - Testing	7,809
636	Contractual Services - Other	6,048
670	Bad Debt Expense	922
675	Miscellaneous Expense	2,841
	Total O&M Expense	\$141,214

Our analysis of the above O&M expense amounts indicates that the following adjustments are required to properly reflect the correct balances based on Commission rules.^e

- 1) Acct No. 615 should be reduced by \$564 for \$13 of purchased power expense that was incurred in the prior period 2004 and to reclassify \$551 of purchased water expense to Acct. No. 610 that was recorded in error to this account.
- 2) Acct No. 620 should be reduced by \$63 to reclassify an equipment rental invoice to Acct. No. 640 – Rents.
- 3) Acct No. 631 should be reduced by \$84,902 (\$5,108+\$2,657+\$74,803+\$2,334) and reclassified to the following accounts.
 - a. Acct. No. 105 – Construction Work in Progress (CWIP) should be increased by \$5,108 for invoiced amounts relating to engineering fees incurred for general water plant upgrades to address the excessive nitrates in the utility's water supply.
 - b. Acct. No. 632 – Contractual Services – Accounting should be increased by \$2,657 for professional fees associated with the preparation of the utility's federal tax return and annual report.
 - c. Acct. No. 634 – Contractual Services – Management Fees should be increased by \$74,803 for professional fees associated with the monthly management fee paid to US Water Corporation as the utility's contract operator.
 - d. Acct. No. 636 should be increased for services provided by US Water Corporation outside the scope of its utility services contract.

^e The account reclassifications recommended are based on the rules and definitions described in the NARUC Uniform System of Accounts for Class B Water, 1996, which was adopted by reference in Rule 25-30.115 F.A.C.

- 4) Acct. No. 635 should be reduced by \$335 to reclassify an invoice to test well pump flow rates to Acct. No. 636
- 5) Acct. No. 636 should be reduced \$2,209 (\$3,442-\$79+\$1,312) for the following reclassifications and additions.
 - a. Acct. No. 309 – Supply Mains should be increased by \$3,442 to reclassify engineering and construction fees to repair and replace two four inch water mains that should have been capitalized.
 - b. Acct. No 640 should be increased by \$79 to reclassify an equipment rental invoice.
 - c. Acct. No. 636 should be increased by \$1,312 which is the annual amortization amount of the \$6,560 balance deferred in Item 3 (b) of Audit Finding No. 8 of this report.. (\$6,560 / 5 years)
- 6) Acct. No. 675 should be reduced by \$107 to remove a chemical expense invoice that should have been recorded on the books of Dixie Grove Utilities, a sister operating utility.

The audit adjustments described above reduce the utility's 2006 O&M expense balance by \$7,358 with a corresponding reduction of \$920 to working capital.

The above adjustments are calculated in Table 3 below and displayed in Schedule G that follows.

EFFECT ON THE GENERAL LEDGER: The utility's O&M expenses should be reduced by \$7,358 for the 12-month period ended December 31, 2006.

EFFECT ON THE FILING: The effect on the filing is described in Audit Finding No. 6 of this report.

TABLE 3

Summary of Adjustments

Acct.	1	2	3	4	5a	5b	5c	6	Total
105	-	-	\$5,108	-	-	-	-	-	\$5,108
309	-	-	-	-	3,442	-	-	-	3,442
610	551	-	-	-	-	-	-	-	551
615	(564)	-	-	-	-	-	-	-	(564)
620	-	(63)	-	-	-	-	-	-	(63)
631	-	-	(84,902)	-	-	-	-	-	(84,902)
632	-	-	2,657	-	-	-	-	-	2,657
634	-	-	74,803	-	-	-	-	-	74,803
635	-	-	-	(335)	-	-	-	-	(335)
636	-	-	2,334	335	(3,442)	(79)	1,312	-	459
640	-	63	-	-	-	79	-	-	142
675	-	-	-	-	-	-	-	(107)	(107)
O&M Exp. Adj.	(\$13)	-	(\$5,108)	-	(\$3,442)	-	\$1,312	(\$107)	(\$7,358)
Total Adj.	(\$13)	-	(\$0)	-	-	-	\$1,312	(\$107)	\$1,192

SCHEDULE G

2006 O&M Expense

Acct. Nos.	Acct. Description	Per Utility		Per Audit
		Historical 2006	Adjustment	Historical 2006
601	Salaries & Wages - Employees	-	-	-
603	Salaries & Wages - Officers	\$24,000	-	\$24,000
604	Employee Pension & Benefits	-	-	-
610	Purchased Water	2,830	551	3,381
615	Purchased Power	7,206	(564)	6,642
616	Fuel for Power Purchased	-	-	-
618	Chemicals	1,126	-	1,126
620	Materials & Supplies	295	(63)	232
631	Contractual Services - Engineering	88,137	(84,902)	3,236
632	Contractual Services - Accounting	-	2,657	2,657
633	Contractual Services - Legal	-	-	-
634	Contractual Services - Management Fees	-	74,803	74,803
635	Contractual Services - Testing	7,809	(335)	7,474
636	Contractual Services - Other	6,048	459	6,507
640	Rents	-	142	142
655	Insurance Expense	-	-	-
665	Regulatory Comm. Expense	-	-	-
670	Bad Debt Expense	922	-	922
675	Miscellaneous Expense	<u>2,841</u>	<u>(107)</u>	<u>2,734</u>
	Total O&M Expense	\$141,214	(\$7,358)	\$133,856
	Working Capital (1/8 of O&M Expense)	\$17,652	(\$920)	\$16,732

AUDIT FINDING NO. 10

SUBJECT: INFORMATION ON 2006 TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The utility's general ledger reflects \$11,673 of taxes other than income (TOTI) expense for the 12-month period ended December 31, 2006 which was composed of the following amounts.

Property Taxes	\$4,437
Regulatory Assessment Fees	<u>7,236</u>
Total TOTI	\$11,673

The utility's filing reflects a balance of \$11,858 for TOTI expense for the projected 12-month period ended December 31, 2006. We determined that the difference of \$185 was an error in the filing because it picked-up the gross real estate tax due before an early payment discount.

<u>Description</u>	<u>Amount per Filing</u>	<u>Adjustment</u>	<u>Amount per G/L</u>
Real Estate Taxes	\$1,792	(\$72)	\$1,720
Tangible Taxes	2,830	(113)	2,717
Regulatory Assessment Fees	<u>7,236</u>	<u>0</u>	<u>7,236</u>
	\$11,858	(\$185)	\$11,673

EFFECT ON THE GENERAL LEDGER: There is no effect on the utility's general ledger.

EFFECT ON THE FILING: The utility's filing included a projected 2006 balance for TOTI. Audit Finding No. 6 of this report uses the historical 2006 balance for TOTI. Therefore, the adjustment above is presented for information purposes only.

AUDIT FINDING NO. 11

SUBJECT: INFORMATION ON 2005 AND 2006 CAPITAL STRUCTURE

AUDIT ANALYSIS: The capital structure reflected in the utility's filings reflects Colonial Manor Utility Company's projected capital structure as of December 31, 2007.

Below we have provided a calculation of the utility's capital structure and its weighted average cost of capital as of December 31, 2005 and 2006 after being reconciled to the recommended average 2005 and 2006 rate base balances displayed in Audit Finding No. 1 of this report.

Period 2005								
	Year End 2004	Year End 2005	Average	Reconciling Adjustment	Reconciled to Rate Base	Ratio	Cost Rate	Average Weighted Cost
Owners Equity	\$127,989	\$113,105	\$120,547	(\$54,920)	\$65,627	34.22%	10.70%	3.66%
Long Term Debt	173,558	268,498	221,028	(\$100,698)	120,330	62.74%	7.21%	4.52%
Customer Deposits	<u>9,984</u>	<u>11,398</u>	<u>10,691</u>	<u>(\$4,871)</u>	<u>5,820</u>	3.03%	6.00%	<u>0.18%</u>
	\$311,531	\$393,001	\$352,266	(\$160,489)	\$191,777	100.00%		8.37%

Period 2006								
	Year End 2005	Year End 2006	Average	Reconciling Adjustment	Reconciled to Rate Base	Ratio	Cost Rate	Average Weighted Cost
Owners Equity	\$113,105	\$171,344	\$142,225	(\$39,794)	\$102,430	34.94%	10.80%	3.77%
Long Term Debt	268,498	241,548	255,023	(71,355)	183,668	62.65%	7.77%	4.87%
Customer Deposits	<u>11,398</u>	<u>8,164</u>	<u>9,781</u>	<u>(2,737)</u>	<u>7,044</u>	2.40%	<u>6.00%</u>	<u>0.14%</u>
	\$393,001	\$421,056	\$407,028	(\$127,361)	\$293,142	100.00%		8.79%

See the following schedules for our calculations.

EFFECT ON THE GENERAL LEDGER: None for informational purposes only.

EFFECT ON THE FILING: None for informational purposes only.

Cost Rate for Common Equity

2005 Return on equity = 10.70%

2006 Return on equity = 10.80%

(Where the ROE = 7.10% + 1.961/ Equity Ratio)

Year	Equity	Debt	Equity Ratio
2005	\$120,547	\$221,028	54.54%
2006	\$142,225	\$268,498	52.97%

The cost rate for owners equity was calculated using the leverage graph formula established in Order No. PSC-07-0472-PAA-WS, issued June 1, 2007.

Long-Term Debt	Year End Balance		Average Balance	Interest Expense	Effective Rate
	@12/31/04	@12/31/05			
Note Payable @7.00%	173,558	166,065	169,812	11,922	7.02%
Note Payable @9.00%	<u>0</u>	<u>102,433</u>	<u>51,217</u>	<u>4,008</u>	<u>7.83%</u>
	173,558	268,498	221,028	15,930	7.21%

Long-Term Debt	Year End Balance		Average Balance	Interest Expense	Effective Rate
	@12/31/05	@12/31/06			
Note Payable @7.00%	166,065	158,020	162,043	11,370	7.02%
Note Payable @9.00%	<u>102,433</u>	<u>83,528</u>	<u>92,981</u>	<u>8,452</u>	<u>9.09%</u>
	268,498	241,548	255,023	19,821	7.77%

EXHIBIT 1

Schedule of Water Rate Base

Florida Public Service Commission

Company: Colonial Manor Utility Co.
 Docket No.: 060540-WU
 Schedule Year Ended: December 31, 2007
 Interim [] Final [x]
 Historical [] Projected [x]

Schedule: A-1 (revised)
 Page 1 of 1
 Preparer: Joseph G. Gabay

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

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$528,305	\$777,806	\$1,306,111	A-5
2	Utility Land & Land Rights		\$0	\$0	A-5
3	Less: Non-Used & Useful Plant	\$0	\$0	\$0	A-7
4	Construction Work in Progress	\$0	\$0	\$0	-
5	Less: Accumulated Depreciation	-\$290,329	-\$86,297	-\$376,626	A-9
6	Less: CIAC	-\$173,559	\$0	-\$173,559	A-11
7	Accumulated Amortization of CIAC	\$173,559	\$0	\$173,559	A-12
8	Acquisition Adjustments	\$257,525	\$0	\$257,525	-
9	Accum. Amort. of Acq. Adjustments	-\$34,338	-\$34,338	-\$68,676	-
10	Advances For Construction	\$0	\$0	\$0	A-14
11	Working Capital Allowance	\$18,117	\$4,467	\$22,584	A-15
12	Total Rate Base	<u>\$479,280</u>	<u>\$661,638</u>	<u>\$1,140,918</u>	

EXHIBIT 2

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Colonial Manor Utility Co.
 Schedule Year Ended: December 31, 2007
 Interim Final
 Historic or Projected

Schedule: B-1 (revised)
 Page 1 of 1
 Docket No.: 060540-WU
 Preparer: Joseph G. Gabay

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	\$165,830	\$4,975	\$170,805	\$178,130	\$348,935	-
2	Operation & Maintenance	\$144,935	\$35,740	\$180,675	\$0	\$180,675	B-4
3	Depreciation, net of CIAC Amort.	\$13,914	\$52,973	\$66,887	\$0	\$66,887	B-10
4	Amortization	\$0	\$0	\$0	\$0	\$0	
5	Taxes Other Than Income	\$9,337	\$20,663	\$30,000	\$0	\$30,000	B-12
6	Provision for Income Taxes	\$0	\$0	\$0	\$0	\$0	C-1
7	OPERATING EXPENSES	\$168,186	\$109,376	\$277,562	\$0	\$277,562	
8	NET OPERATING INCOME	(\$2,356)	(\$104,401)	(\$106,757)	\$178,130	\$71,373	
9	RATE BASE	\$479,280		\$803,748		\$803,748	
10	RATE OF RETURN	-0.49%		-13.28%		8.88%	

EXHIBIT 3

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

Florida Public Service Commission

Company: Colonial Manor Utility Co.
Docket No: 060540-WU
Test Year Ended: December 31, 2007
Schedule Year Ended: December 31, 2007
Historic [] or Projected [x]
Subsidiary [] or Consolidated [x]

Schedule: D-1
Page 1 of 1
Preparer: Joseph G. Gabay

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

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	1,064,824	87.87%	8.51%	7.48%
2	Short-Term Debt	0			
3	Preferred Stock	0			
4	Customer Deposits	10,691	0.88%	6.00%	0.05%
5	Common Equity	136,345	11.25%	11.96%	1.35%
6	Tax Credits - Zero Cost	0			
7	Tax Credits - Wtd. Cost	0			
8	Accum. Deferred Income Taxes	0			
9	Other (Explain)	0			
10	Total	1,211,860	100.00%		8.88%

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