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DOCKET NO. 060368-WS: Application for increase in water and wastewater rates in Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

WITNESS: Direct Testimony Of CHARLESTON J. WINSTON, Appearing On Behalf Of Staff

DATE FILED: August 21, 2007

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## DIRECT TESTIMONY OF CHARLESTON J. WINSTON

1  
2 Q. Please state your name and business address.

3 A. My name is Charleston J. Winston and my business address is 2540 Shumard Oak  
4 Blvd., Tallahassee, Florida, 32399.

5  
6 Q. By whom are you presently employed and in what capacity?

7 A. I am employed by the Florida Public Service Commission as a Professional  
8 Accountant Specialist in the Division of Regulatory Compliance and Consumer  
9 Assistance.

10  
11 Q. How long have you been employed by the Commission?

12 A. I have been employed by the Florida Public Service Commission since January,  
13 1986.

14  
15 Q. Briefly review your educational and professional background.

16 A. I have a Bachelor of Science degree in Accounting and Finance from the  
17 University of South Carolina. I was promoted to a Regulatory Analyst Supervisor of the  
18 Orlando district office in May of 1999 and held that position until the Orlando office was  
19 closed in 2005.

20  
21 Q. Please describe your current responsibilities.

22 A. Currently, I am a Professional Accountant Specialist with the responsibilities of  
23 planning and managing the most complex audits of regulated companies, affiliate  
24 company transactions, multi-layered cost allocation, cross-subsidization issues, anti-  
25 competitive behavior, predatory pricing, and fraud. I also am responsible for creating

1 | audit work programs to meet a specific audit purpose and assisting the field audit  
2 | supervisor in reviewing staff reports and work papers for compliance with audit  
3 | standards.

4 |  
5 | Q. Have you presented testimony before this Commission or any other regulatory  
6 | agency?

7 | A. Yes. I testified in the United Telephone Company Rate Case, Docket No. 910980-  
8 | TC, the Southern States Rate Case, Docket No. 950495-WS, and the BellSouth  
9 | Telecommunications, Inc. 2005 storm cost recovery case, Docket No. 060598-TL.

10 |  
11 | Q. What is the purpose of your testimony today?

12 | A. The purpose of my testimony is to sponsor the staff audit report of Aqua Utilities  
13 | Florida, Inc. (Utility) which addresses the Company's application for increase in water  
14 | and wastewater rates in Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm  
15 | Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties, Audit  
16 | Control Number 06-347-1-1. This audit report is filed with my testimony and is  
17 | identified as Exhibit CJW-1. I am testifying on all the issues except those that address the  
18 | corporate allocations and the projections. Specifically, my testimony addresses Findings  
19 | 1-4, 11-15, 18, 20, and 31. The remaining findings will be addressed by Kathy Welch  
20 | and Denise Vandiver.

21 |  
22 | Q. Did you prepare or cause to be prepared under your supervision, direction, and  
23 | control this audit report?

24 | A. Yes, I was the audit manager of this audit. I was responsible for coordinating the  
25 | audit, tracking the progress of the audit, and merging the work of all the audit staff into

1 | the one report and the combined work papers.

2 |

3 | Q. Please describe the specific audit procedures you used in auditing rate base, for the  
4 | audit findings that you are testifying on.

5 | A. For Utility Plant in Service (UPIS), we obtained and reconciled the beginning  
6 | UPIS balances to the prior Commission orders and traced the filing additions by year to  
7 | the general ledger. We selected a sample of additions and retirements from the general  
8 | ledger and tested the sample of additions for the following: date acquired, original cost,  
9 | account recorded, and appropriate retirements. We tested the sample of retirements for  
10 | the following: cost retired, account number, date of retirement or disposition, amount of  
11 | accumulated depreciation retired, amount of proceeds/cost of removal, and amount of  
12 | gain or loss recorded in utility books after disposal. We reconciled UPIS additions and  
13 | retirements to the Utility's general ledger.

14 | For Land, we obtained and reconciled beginning land balances to the prior  
15 | Commission orders and obtained copies of deeds conveying title for the Utility land. We  
16 | traced land additions and dispositions to the general ledger, and reconciled ending land  
17 | balances in the MFR to the Utility trial balance.

18 | For Contributions in Aid of Construction (CIAC), we reconciled beginning CIAC  
19 | balances to the prior Commission order, read the Utility's authorized tariff to determine  
20 | the type and amount, if any, of service availability fees for new customer additions, and  
21 | inquired if the Utility had any special agreements, developer agreements, and whether or  
22 | not it has received donated property as CIAC. We sampled CIAC additions and reviewed  
23 | the following: description of asset or fees received, date acquired, original cost, account  
24 | number where recorded, and if the amount collected is authorized in the Utility tariff. We  
25 | reconciled CIAC additions to the Utility's general ledger.

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For accumulated depreciation, we reconciled the beginning accumulated depreciation balances to the prior Commission order and reviewed the methodology for calculating annual accumulated depreciation accruals, the UPIS service lives, and the methodology for accounting for retirements and adjustments. We reconciled accumulated depreciation accruals to the Utility's general ledger.

For accumulated amortization of CIAC, we reconciled the beginning accumulated amortization balance to the prior Commission orders and reviewed the methodology for calculating annual accumulated amortization accruals and the methodology for accounting for retirements and adjustments. We tested the Utility accruals and reconciled accumulated amortization accruals to the Utility's general ledger.

For the working capital allowance, we analyzed the Utility's calculation of the components of working capital. We sampled working capital to determined if the timing, amount, classification, relationship to the Utility, reasonableness and reoccurring nature of the amounts was correct, and recalculated the working capital balances. We also recalculated the percentages used to allocate current assets and current liabilities by system between water and wastewater.

Q. Please describe the specific audit procedures you used in auditing capital structure, for the audit findings that you are testifying on.

A. We obtained the individual components of Capital Structure from the parent company general ledger and Stockholder's Annual Report. We reviewed the supporting documentation for the Capital Structure components. We determined that the Utility is collecting and accounting for customer deposits authorized in its Commission approved tariff and verified that the Utility is calculating and remitting interest on customer

1 deposits per Rule 25-30.311, Florida Administrative Code (F.A.C.). We obtained  
2 schedules detailing the Utility's accumulated deferred income tax, and we prepared a  
3 consolidated capital structure from the consolidated parent company books and records.  
4

5 Q. Please describe the specific audit procedures you used in auditing net operating  
6 income (NOI), for the audit findings that you are testifying on.

7 A. For revenues, we tested the reasonableness of the Utility revenues by multiplying  
8 average consumption times the number of customers for each class of service and  
9 compared that to a schedule of Utility revenues by customer class for the historical test  
10 year. We reconciled revenues reported on the Regulatory Assessment Fee (RAF) filing to  
11 the Utility's books and records and recalculated the amount of RAF fees due based on the  
12 Utility's revenues reported. We reconciled revenue balances in the MFR to the Utility  
13 trial balance.

14 For Operation and Maintenance (O&M) expenses, we verified utility salaries,  
15 pensions and benefit expenses by tracing to the Utility's books and records, employee  
16 earnings statements and payroll tax returns. We reviewed a description of all services  
17 provided by key utility employees and officers and reviewed time sheets and employment  
18 contracts. For utility sludge hauling expense, we traced amounts to the Utility's books  
19 and records and obtained contracts or other service contracts. We traced the following  
20 expenses to the Utility's books and records and traced a sample of invoices to supporting  
21 documentation: purchased power, chemical, materials and supplies, contractual services,  
22 rent, transportation, insurance, miscellaneous, and regulatory commission expense. For  
23 contractual service expense, we also reviewed all material contracts for legal, accounting  
24 and maintenance services. For rental expense, we also reviewed all material contracts.  
25 For insurance expense, we also reviewed all material insurance policies. For regulatory

1 commission expense, we also verified that rate case expense is amortized over a four-year  
2 period. For bad debt expense, we analyzed bad debt expense and determined a five-year  
3 average and reviewed the cause for excessive write-off of bad debt.

4 For depreciation expense, we traced amounts to the Utility's books and records  
5 and recalculated a sample of depreciation and amortization expense accruals for the test  
6 year. We verified that depreciation and amortization expenses are properly netted against  
7 each other for NOI presentation, and reconciled depreciation expense amounts to the  
8 Utility's general ledger.

9 For Taxes Other Than Income (TOTI), we verified real estate and tangible  
10 property tax incurred by the Utility for the historical test year and ensured that all  
11 property tax expense reflects the maximum discount available and that real estate taxes  
12 incurred are only for Utility property in service. We also reconciled taxes other than  
13 income amounts to the Utility's general ledger.

14

15 Q. Please review the audit findings in the audit report, that are you are testifying on.

16 A. **Audit Finding 1**

17 Audit Finding 1 addresses a reclassification for Jasmine Lakes. In 2004, the  
18 Utility recorded \$1,172,514 to Jasmine Lakes Water, Account 304, Structures &  
19 Improvements. This amount should have been recorded to Jasmine Lakes Wastewater,  
20 Account 354, Structures & Improvements. The associated adjustment to Accumulated  
21 Depreciation is \$19,522. This is one half the yearly depreciation accrual for 2005 at  
22 3.33%.

23

24 **Audit Finding 2**

25 Audit Finding 2 discusses the original cost of plant for Village Water (Water and

1 Wastewater) and Rosalie Oaks (Water and Wastewater). Florida Public Service  
2 Commission Order PSC-99-1882-PAA-WS, issued September 21, 1999, in Docket No.  
3 981697-WS, states, "Aqua Source shall be on notice that it will be required to conduct an  
4 original cost study for Village Water (Water and Wastewater) upon filing any rate  
5 petition." We were provided with the Original Cost Study on April 11, 2007. This study  
6 is included in the work papers for the analyst's review. Rosalie Oaks (Water and  
7 Wastewater) was issued a grandfather Certificate in Order PSC-98-0371-FOF-WS, issued  
8 March 6, 1998, in Docket No. 961014-WS. We asked the Utility for any original cost  
9 records, county orders, or Original Cost Studies to support the booked cost of plant. The  
10 Utility response was, "the Company is not aware of any municipal or county orders or  
11 rulings. The Company is examining the feasibility of completing an original cost study  
12 for both the water and sewer operations for the establishment of the rate base and final  
13 rates for the rate case filing." If the Utility is unable to support the original cost of the  
14 utility plant in service, the Commission should consider disallowing the costs incurred  
15 that are not supported.

16

17 **Audit Finding 3**

18         Audit Finding 3 discusses rate base adjustments from prior Commission orders.  
19 The Utility uses a Power Plant Report for its general ledger for Plant, Accumulated  
20 Depreciation, Contributions in Aid of Construction (CIAC), and Amortization of CIAC.  
21 The Utility did not make the required adjustments per prior Commission Orders to its  
22 general ledger. We reviewed the Ordered Adjustments and other adjustments made. The  
23 audit report includes schedules that detail the specific systems and the Commission  
24 adjustments that were not made to the Utility's books. We recommend that the Utility  
25 should adjust its books to include prior Commission adjustments. However, the Utility



1 included the Commission adjustments from prior orders in the MFRs; therefore, there is  
2 no effect on the Filing.

3

4 **Audit Finding 4**

5         Audit Finding 4 discusses a plant retirement at the Oakwood water system. In  
6 September, 2005, the Utility recorded \$5,095 to Account 304 - Structures &  
7 Improvements for existing plant demolition and clean-up at the Oakwood water system.  
8 The Utility used the Handy-Whitman Index to retire the old plant for \$3,547. The  
9 original cost of the plant is unknown since the Utility could not provide any records for it.  
10 The balance in Account 304 - Structures & Improvements, was zero prior to the \$5,095  
11 addition and the associated accumulated depreciation balance was zero.

12

13 **Audit Finding 11**

14         Audit Finding 11 discusses the depreciation rates for the 22 former Aqua Source  
15 Incorporated (ASI) systems. Our audit found that the depreciation rates for 2005, used by  
16 these systems, do not agree with the Florida Public Service Commission (FPSC) Rates  
17 obtained from Commission Rule 25-30.140, F.A.C., Depreciation. We recalculated all  
18 accounts by month using the FPSC rates for each account and then compared the result to  
19 the utility filing. We recommend adjustments for accounts that had been completely  
20 depreciated so they were not over depreciated. We found that the Utility Accumulated  
21 Depreciation balances were \$57,347 higher than the staff calculation for the 22 Systems.  
22 The audit report includes a table listing each system and the differences we found.  
23 Depreciation Expense should be credited for \$57,347 and Accumulated Depreciation  
24 should be debited for \$57,347.

25

1    **Audit Finding 12**

2            Audit Finding 12 discusses the depreciation rates for the former Florida Water  
3 Services Corporation (FWS) systems. The utility did not use the correct depreciation  
4 rates per Rule 25-30.140, F.A.C., Depreciation, for 2005. We selected systems to review  
5 based on our analytical review and recalculated all accounts, for those systems, by month  
6 using the FPSC rates for each account and then compared the result to the utility filing.  
7 The audit report includes a table listing each difference we found. Depreciation Expense  
8 should be credited for \$1,223 and Accumulated Depreciation should be debited for  
9 \$1,223.

10  
11    **Audit Finding 13**

12            Audit Finding 13 discusses the 2005 accumulated depreciation balances for the  
13 former FWS systems. Our audit found that the 2005 balances do not agree with the 2006  
14 general ledger. The Utility stated that the 2004 and 2005 general ledger does not contain  
15 any entries for the FWS portion of Accumulated Depreciation. These balances were  
16 recorded in mid 2006 and the filing included adjustments to reflect the balances in the  
17 correct prior year. Therefore, differences exist between the filing and general ledger  
18 balances at December 31, 2005. We also sampled additions and retirements made to the  
19 2005 accumulated depreciation accounts to book the previous Commission balances. We  
20 compared the balances to the general ledger and found that the Utility had booked  
21 \$10,608 in excess of the accumulated depreciation balances set by the Commission.

22  
23    **Audit Finding 14**

24            Audit Finding 14 discusses the amortization of CIAC for the ASI systems. Our  
25 audit found that the amortization rates for 2005, used by the 22 former ASI systems, do

1 | not agree with the FPSC rates obtained from Commission Rule 25-30.140, F.A.C.,  
2 | Depreciation. Subparagraph (9)(a) of this Rule states “Beginning with the year ending  
3 | December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for:  
4 | (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected . . . . Each  
5 | CIAC sub-account shall be amortized in the same manner that the related contributed  
6 | plant is depreciated.” We recalculated all CIAC accounts by month using the FPSC rates  
7 | for each account and then compared the result to the Utility filing. We adjusted for  
8 | accounts that had been completely amortized. The result was \$12,538 under amortization  
9 | for these systems. Based on the recalculation, all AS1 Systems, except Arredondo  
10 | wastewater and Village Water wastewater, should be adjusted. Amortization Expense of  
11 | CIAC should be credited for \$12,538 and Accumulated Amortization of CIAC should be  
12 | debited for \$12,538. The audit report includes a table detailing the specific adjustment for  
13 | each system.

14

15 | **Audit Finding 15**

16 |         Audit Finding 15 discusses the accumulated amortization of CIAC for the Ocala  
17 | Oaks water system. We reconciled the Utility filing balances to the Utility’s book  
18 | balances at December 31, 1987. By PSC Order No. 21349, dated June 7, 1989, in Docket  
19 | No. 881098-WU, the Commission established the Accumulated Amortization of CIAC  
20 | balance for the Ocala Oaks water system. The balance established, as of December 31,  
21 | 1987, was \$67,362. The utility booked a balance of \$78,780, for a difference of \$11,418.

22

23 | **Audit Finding 18**

24 |         Audit Finding 18 discusses the Utility’s capital structure. Our audit found that the  
25 | Utility did not use the consolidated parent company capital structure for Aqua America,

1 Inc. in preparing the filing. We prepared the Capital Structure of the Consolidated Parent  
2 Company as of December 31, 2005. Our schedule is reflected in the audit report.

3

4 **Audit Finding 20**

5 Audit Finding 20 discusses O&M expenses in 2005. We audited Account 610 -  
6 Purchased Water, Account 710 - Purchased Wastewater Treatment, and Account 711 -  
7 Sludge Removal Expense. We found several errors in the amounts recorded. The audit  
8 report includes a schedule that details the specific adjustments by system. These  
9 adjustments reduce expenses to reflect adjusted invoices, out of period invoices,  
10 normalization of expenses, adjustments to accruals, and adjustments so that only twelve  
11 monthly bills are included in the test year. 2005 O&M Expenses should be reduced by  
12 \$62,983.22

13

14 **Audit Finding 31**

15 Audit Finding 31 discusses Taxes Other Than Income (TOTI). The Utility  
16 understated its 2005 real estate and tangible taxes by \$7,941. The utility MFRs did not  
17 reflect the actual tax bills paid in 2005. According to the Utility, the difference between  
18 the actual bills paid and the amount reported on the MFR were due to prior-year accrual  
19 adjustments.

20

21 Q. Does this conclude your testimony?

22 A. Yes.

23

24

25

*DOCKET NO. 060368-WS*: Application for increase in water and wastewater rates in Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

*WITNESS*: **Direct Testimony Of CHARLESTON J. WINSTON**, Appearing On Behalf Of Staff

*EXHIBIT CJW-1*: Audit Report

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water and  
wastewater rates in Alachua, Brevard,  
Highlands, Lake, Lee, Marion, Orange, Palm  
Beach, Pasco, Polk, Putnam, Seminole,  
Sumter, Volusia, and Washington Counties by  
Aqua Utilities Florida, Inc.

DOCKET NO. 060368-WS

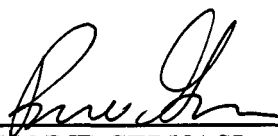
DATED: AUGUST 21, 2007

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the DIRECT TESTIMONY OF CHARLESTON J. WINSTON has been served by U.S. Mail to Kenneth A. Hoffman and Marsha E. Rule, Esquires, Rutledge, Ecenia, Purnell & Hoffman, P. A., P.O. Box 551, Tallahassee, FL 32302-0551, on behalf of AQUA UTILITIES FLORIDA, INC., and that a true and correct copy thereof has been furnished to the following by U. S. Mail, this 21st day of August, 2007:

Stephen Burgess & Stephen Reilly, Esquires  
Office of Public Counsel  
c/o The Florida Legislature  
111 W. Madison Street, Room 812  
Tallahassee, FL 32399-1400

Cecilia Bradley, Esquire  
Office of the Attorney General  
The Capitol – PL01  
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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING

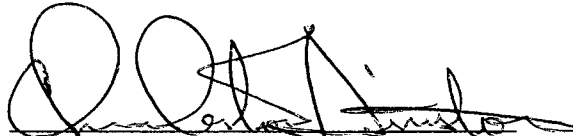
Tallahassee District Office

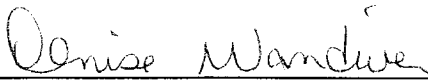
AQUA UTILITIES FLORIDA, INC.

FILE AND SUSPEND RATE CASE

PROJECTED YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 060368-WS  
AUDIT CONTROL NO. 06-347-1-1

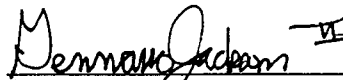
  
Charleston J. Winston, Audit Manager


  
Denise N. Vandiver, Audit Staff

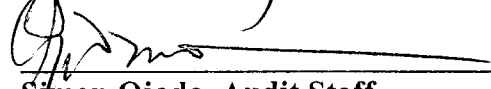
  
Kathy Welch, Audit Staff

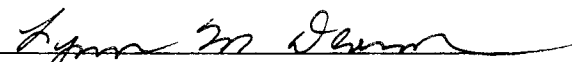
  
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**TABLE OF CONTENTS**

<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
<b>I. PURPOSE .....</b>	<b>1</b>
<b>II. OBJECTIVES AND PROCEDURES .....</b>	<b>2</b>
<b>III. AUDIT FINDINGS</b>	
1. JASMINE LAKES RECLASSIFICATION.....	7
2. ORIGINAL COST STUDY.....	8
3. RATE BASE ADJUSTMENTS TO PRIOR ORDERS.....	9
4. PLANT RETIREMENT.....	12
5. PROJECTIONS OF PLANT RETIREMENTS.....	13
6. RE-ORGANIZATION COSTS.....	14
7. UTILITY PLANT IN SERVICE PROJECTIONS.....	17
8. PROJECTED PLANT ADDITIONS.....	19
9. UTILITY PLANT IN SERVICE (UPIS) 2007 PROJECTIONS.....	21
10. LAND PROJECTIONS .....	22
11. DEPRECIATION RATES – ASI SYSTEMS .....	23
12. DEPRECIATION RATES – FWS SYSTEMS.....	25
13. ACCUMULATED DEPRECIATION BALANCES .....	26
14. CONTRIBUTIONS IN AID OF CONSTRUCTION AMORTIZATION RATES.	27
15. OCALA OAKS WATER AMORTIZATION OF CIAC.....	29
16. CIAC PROJECTIONS.....	30
17. WORKING CAPITAL ALLOWANCE PROJECTIONS.....	31
18. CAPITAL STRUCTURE.....	32
19. REVENUE PROJECTIONS.....	33
20. OPERATION AND MAINTENANCE EXPENSES.....	34
21. LAB TESING EXPENSE PROJECTIONS.....	37
22. OPERATION AND MAINTENANCE (O&M) EXPENSE PROJECTIONS.....	38
23. PURCHASED POWER EXPENSE PROJECTIONS.....	39
24. OPERATION AND MAINTENANCE (O&M) EXPENSE PROJECTIONS.....	42
25. ALLOCATED PLANT DEPRECIATION INCORRECTLY CLASSIFIED.....	44
26. UNSUPPORTED ALLOCATIONS.....	48
27. ELECTRIC ALLOCATED THROUGH DIVISION 6958 THAT SHOULD BE DIRECT.....	51
28. RADIO/SPONSORSHIP COSTS.....	53
29. BENEFITS AND ADJUSTMENT IN SALARY OVERHEAD RATE FROM BRYN MAWR.....	57
30. RENT OVERHEAD ON BRYN MAWR SALARIES.....	59
31. TAXES OTHER THAN INCOME.....	63



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

**MAY 31, 2007**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED  
PARTIES**

**We have performed the procedures enumerated 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 Minimum Filing Requirements (MFRs) prepared by Aqua Utilities Florida, Inc. in support for rate relief in Docket No. 060368-WS. There is confidential information associated with this audit.**

**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.**

## RATE BASE:

### UTILITY-PLANT-IN-SERVICE (UPIS)

Objective: To determine that utility plant exists, is being used in utility operations and is owned by the utility; that utility plant additions are recorded at original cost in the proper account, and that utility plant does not include cost incurred for items of general maintenance and repair. To determine that existing utility plant assets replaced by utility plant additions are properly retired and recognized in utility accounting records. To determine and ensure that encumbrances and liens on utility plant assets are identified and adequately disclosed.

Procedures: We obtained and agreed the beginning UPIS balances to the prior Commission orders. We traced the filing additions by year to the general ledger and selected a sample of additions and retirements from the general ledger. We tested the sample of UPIS additions for the following: date acquired, original cost, account recorded, and appropriate retirements. We tested the sample of retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal. We reconciled UPIS additions and retirements to the utility's general ledger. Audit Findings 1-9 address our findings for Utility Plant in Service.

### UTILITY LAND & LAND RIGHTS

Objective: To determine that utility land exists, is being used in utility operations, and is owned by the utility or the utility has a long-term written agreement for use of the land. To determine that utility land is recorded at original cost and in the proper account. To determine and ensure that encumbrances and liens on utility land are identified and adequately disclosed.

Procedures: We obtained and agreed beginning land balances to the prior Commission orders. We scheduled land additions and obtained copies of deeds conveying title for utility land. We traced land additions and dispositions to the General Ledger, and agreed ending land balances in the MFR to the utility trial balance. Audit Finding 10 addresses the Land balance in the filing.

### CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)

Objective: To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff.

Procedures: We agreed beginning CIAC balances to the prior Commission order. We read the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions and inquired if the utility had any special agreements, developer agreements, and whether or not it has received donated property as CIAC. We sampled CIAC additions and reviewed the following: description of asset or fees received, date acquired, original cost, account number where recorded, and if the amount collected is authorized in the utility tariff. We reconciled CIAC additions to the utility's General Ledger. Audit Findings 14 and 16 address the CIAC balances in the filing.

## ACCUMULATED DEPRECIATION OF UPIS

Objective: To determine that utility accumulated depreciation balances are properly stated and that annual accruals are reflective of depreciation rates authorized in the utility's last Commission rate case proceeding.

Procedures: We agreed beginning accumulated depreciation balances to the prior Commission order. We scheduled accumulated depreciation accruals to include: beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense by sub-account. We reconciled accumulated depreciation accruals to the utility's General Ledger. Audit Finding 13 addresses the accumulated depreciation balances.

## ACCUMULATED AMORTIZATION OF CIAC

Objective: To determine that utility accumulated amortization balances are properly stated and that annual accruals are reflective of amortization rates authorized in the utility's last Commission rate case proceeding.

Procedures: We agreed beginning accumulated amortization balance to the prior Commission orders. We scheduled accumulated amortization accruals to include: beginning and ending balances by function or service, methodology for calculating annual accumulated amortization accruals, methodology used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense. We tested the utility accruals, reconciled accumulated amortization accruals to the utility's General Ledger. Audit Finding 15 addresses the accumulated amortization balance in the filing.

## WORKING CAPITAL

Objective: To determine that the Working Capital calculation is accurate.

Procedures: Analyzed utility's calculation of the components of working capital. We sampled working capital to determine if the timing, amount, classification, relationship to the utility, reasonableness and reoccurring nature of the amounts was correct. Recalculated the working capital balances. Determined that the utility included year end amounts in the working capital computation. Recalculated percentages used to allocate current assets and current liabilities, by system between water and wastewater, if applicable. Audit Finding 17 addresses the working capital allowance balance in the filing.

## CAPITAL STRUCTURE

Objective: To determine the components of the utility's capital structure and the respective costs rates used to arrive at the overall weighted cost of capital.

Procedures: We obtained the individual components of Capital Structure from the parent company general ledger and Stockholder's Annual Report. Supporting documentation was reviewed for the Capital Structure components. We determined that the utility is collecting and accounting for customer deposits authorized in its Commission approved tariff and verified that the utility is calculating and remitting interest on customer deposits per Rule 25-30.311, F.A.C. We obtained schedules detailing the utility's accumulated deferred income tax. We prepared a consolidated capital structure from the consolidated parent company books and records. Audit Finding 18 addresses the capital structure reported in the filing.

#### NET OPERATING INCOME:

#### REVENUES

Objective: To determine that utility revenues for the test year are properly stated by identifying rates for utility services, miscellaneous service charges and other charges imposed by the utility. To determine that the utility charges are approved by the Commission in its authorized tariff. To determine that the utility has remitted the correct amount of Regulatory Assessment Fee (RAF) for 2005.

Procedures: We tested the reasonableness of the utility revenues by multiplying average consumption times the number of customers for each class of service and compared to a schedule of utility revenues by customer class for the historical test year. We reconciled revenues reported on the Regulatory Assessment Fee (RAF) filing to the utility's books and records and recalculated the amount of RAF fees due based on the utility's revenues reported. We agreed revenue balances in the MFR to the utility trial balance. Audit Finding 19 addresses the revenues reported in the filing.

#### O & M EXPENSES

Objective: To determine that test year operating expenses for the utility are properly stated, that they were prudent and that they were recorded in the period incurred. To ensure that disallowed operating expenses in prior Commission rate proceedings are not included in the current rate proceeding.

Procedures: We verified utility salaries, pensions and benefit expenses by tracing to the utility's books and records, employee earnings statements and payroll tax returns. We reviewed a description of all services provided by key utility employees and officers and reviewed time sheets and employment contracts. For utility sludge hauling expense, we traced amounts to the utility's books and records and obtained contracts or other service contracts. For utility purchased power expenses, we traced amounts to the utility's books and records and traced a sample of invoices to supporting documentation. For utility chemical expenses, we traced amounts to the utility's books and records and traced a sample of invoices to supporting documentation. For utility materials and supplies expenses, we traced amounts to the utility's books and records and traced a sample of invoices to supporting documentation. For utility contractual service expenses, we traced amounts to the utility's books and records, traced a sample of invoices to supporting documentation, and reviewed all material contracts for legal,

accounting and maintenance services. For utility rental expense, we traced amounts to the utility's books and records, traced a sample of invoices to supporting documentation, and reviewed all material contracts for rental expense. For utility transportation expense, we traced amounts to the utility's books and records, and traced a sample of invoices to supporting documentation. For utility insurance expense, we traced amounts to the utility's books and records, traced a sample of invoices to supporting documentation, and reviewed all material insurance policies. For utility regulatory commission expense, we traced amounts to the utility's books and records, traced a sample of invoices to supporting documentation, and verified that rate case expense is amortized over a four year period. For utility miscellaneous expense, we traced amounts to the utility's books and records and traced a sample of invoices to supporting documentation. For utility bad debt expense, we analyzed bad debt expense and determined a 5-year average and reviewed the cause for excessive write-off of bad debt. For projections, we compared 2006 projections to actual General ledger balances at December 31, 2006 and 2007 projections to internal capital and operating budgets for 2007. We also sampled projections, focusing on line items with 25% or greater increases. Audit Finding Nos. 20-24 and 26-30 address our findings on O&M Expenses.

#### DEPRECIATION EXPENSE

Objective: To determine the appropriate depreciation expense for the test year. To determine the appropriate amortization expense for the test year.

Procedures: We traced amounts to the utility's books and records, recalculated a sample of depreciation and amortization expense accruals for the test year, verified that depreciation and amortization expenses are properly netted against each other for NOI presentation, and reconciled depreciation expense amounts to the utility's General Ledger. Audit Findings 11, 12, and 25 addresses the depreciation expense reported in the filing.

#### TAXES-OTHER-THAN-INCOME

Objective: To determine the appropriate costs for taxes other than income taxes for the test year.

Procedures: We verified real estate and tangible property tax incurred by the utility for the historical test year and ensured that all property tax expense reflects the maximum discount available and that real estate taxes incurred are only for utility property in service. We also reconciled taxes other than income amounts to the utility's General Ledger. Audit Finding No. 31 addresses the Taxes Other Than Income reported in the filing.

#### AFFILIATE TRANSACTIONS:

Objective: To review the reasonableness of Aqua America, Inc.'s allocation methodology. Also, to audit the allocated rate base additions and gross expense costs on a parent level to determine the timing, amount, classification, relationship to the utility, reasonableness and re-occurring nature of the charges.

Procedures: The only rate base items allocated were for information technology plant additions and leasehold improvements made when a Florida office was relocated. We traced the “number of customer” methodology used to billing reports for one month and tested the allocation calculation. We sampled the projects added in 2005 and traced to source documentation to determine if the timing, amount, classification, relationship to the utility, reasonableness and re-occurring nature of the charges was correct. We also sampled 2006 invoices and reviewed support for how the utility determined the numbers for its 2007 projection. Depreciation on these allocated items was recomputed. Audit Finding 25 corrects the depreciation rate on leasehold improvements that were depreciated at the information technology rate.

We identified the costs allocated from Aqua Utilities Florida in 2005 for its Sarasota office and three Florida field offices. We reviewed the allocation methodology and one month was traced to billing reports. We sampled these costs and traced the costs to source documentation to determine if the timing, amount, classification, relationship to the utility, reasonableness and re-occurring nature of the charges was correct.

We identified the costs allocated from Aqua Utilities, Inc. for 2005. We reviewed the allocation methodology. We sampled these costs and traced the costs to source documentation to determine if the timing, amount, classification, relationship to the utility, reasonableness and re-occurring nature of the charges was correct.

**AUDIT FINDING NO. 1**

**SUBJECT: JASMINE LAKES RECLASSIFICATION**

**AUDIT ANALYSIS:** In 2004 the Utility recorded \$1,172,514 to Jasmine Lakes Water, Account 304, Structures & Improvements. This amount should have been recorded to Jasmine Lakes Wastewater, Account 354, Structures & Improvements.

The associated adjustment to Accumulated Depreciation is \$19,522. This is one half the yearly depreciation accrual for 2005 at 3.33%

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

Acct 108 Accumulated Depreciation	\$19,522	
Plant Acct 304 Structures & Improvements		\$1,172,514
<b>JASMINE LAKES WATER ADJUSTMENT</b>		
PLANT Acct 354 Structures & Improvements	\$1,172,514	
Acct 108 Accumulated Depreciation		\$19,522
<b>JASMINE LAKES WASTEWATER ADJUSTMENT</b>		

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

Acct 108 Accumulated Depreciation	\$19,522	
Plant Acct 304 Structures & Improvements		\$1,172,514
<b>JASMINE LAKES WATER ADJUSTMENT</b>		
PLANT Acct 354 Structures & Improvements	\$1,172,514	
Acct 108 Accumulated Depreciation		\$19,522
<b>JASMINE LAKES WASTEWATER ADJUSTMENT</b>		

**AUDIT FINDING NO. 2**

**SUBJECT: ORIGINAL COST STUDY**

**AUDIT ANALYSIS:** Florida Public Service Commission Order PSC-1882-PAA-WS, issued September 21, 1999 states, "Aqua Source shall be on notice that it will be required to conduct an original cost study for Village Water (Water and Wastewater) upon filing any rate petition." Audit staff was provided with the Original Cost Study on April 11, 2007. This study is included in the work papers for the analyst's review.

Rosalie Oaks (Water and Wastewater) was issued a grandfather Certificate in Order PSC-98-0371-FOF-WS issued March 6, 1998, in Docket No. 961014-WS. Audit staff asked the Company if any original cost records, county orders, or Original Cost Study were available to support the booked cost of plant. The Company response was, "the Company is not aware of any municipal or county Orders or Rulings. The Company is examining the feasibility of completing an original cost study for both the water and sewer operations for the establishment of the rate base and final rates for the rate case filing."

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

If the company is unable to support the original cost of the utility plant in service, the Commission should consider disallowing the costs incurred that are not supported.

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

If the company is unable to support the original cost of the utility plant in service, the Commission should consider disallowing the costs incurred that are not supported.



**AUDIT FINDING NO. 3**

**SUBJECT: RATE BASE ADJUSTMENTS TO PRIOR ORDERS**

**AUDIT ANALYSIS:** The Utility uses the Power Plant Report for its General Ledger for Plant, Accumulated Depreciation, Contributions in Aid of Construction (CIAC) and Amortization of CIAC. The Utility did not make the required adjustments per prior Commission Orders to its general ledger. We reviewed the Ordered Adjustments and other adjustments made. The schedules on the next two pages detail the specific systems and the Commission adjustments that were not made to the company's books.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

The Company should adjust its books to include prior Commission adjustments.

Account 108 Accumulated Depreciation	\$55,502	
Account 271 Contributions in Aid of Construction	\$20,117	
Account 439 Adjustments to Retained Earnings	\$570,835	
Account 272 Amortization of CIAC		(\$93,829)
Account 101 Plant		(\$552,625)

**EFFECT ON FILING IF FINDING IS ACCEPTED:**

The Company included the Commission Order adjustments in the MFRs, therefore, there is no effect on the Filing.

**AUDIT ADJUSTMENTS**

<b>48 ESTATES</b>	<b>GENERAL</b>	<b>AUDIT</b>	<b>COMPANY</b>	<b>AUDIT / MFR</b>
<b>WATER</b>	<b>LEDGER</b>	<b>ADJUSTMENTS</b>	<b>ADJUSTMENT</b>	<b>BALANCE</b>
		<b>PER ORDER (1)</b>	<b>TO G/L</b>	
PLANT Acct 331	116,140	930	922	117,992
PLANT Acct 303	0	1,430	0	1,430
ACCUM DEPR	(46,922)	(8,777)	(1,491)	(57,190)
CIAC	(13,600)	(4,700)	425	(17,875)
A/A of CIAC	7,219	2,608	1,202	11,029

<b>KING COVE</b>	<b>GENERAL</b>	<b>AUDIT</b>	<b>COMPANY</b>	<b>AUDIT / MFR</b>
<b>WATER</b>	<b>LEDGER</b>	<b>ADJUSTMENTS</b>	<b>ADJUSTMENT</b>	<b>BALANCE</b>
		<b>PER ORDER (1)</b>	<b>TO G/L</b>	
PLANT Acct 331	363,165	(54,312)	2,357	311,210
PLANT Acct 303	0	75	0	75
ACCUM DEPR	(156,266)	6,780	15,814	(133,672)
CIAC	(96,038)	(4,100)	(425)	(100,563)
A/A of CIAC	51,318	(6,453)	1,154	46,019

<b>KING COVE</b>	<b>GENERAL</b>	<b>AUDIT</b>	<b>COMPANY</b>	<b>AUDIT / MFR</b>
<b>WASTEWATER</b>	<b>LEDGER</b>	<b>ADJUSTMENTS</b>	<b>ADJUSTMENT</b>	<b>BALANCE</b>
		<b>PER ORDER (1)</b>	<b>TO G/L</b>	
PLANT Acct 331	427,943	(69,633)	2,266	360,576
PLANT Acct 303	0	75	0	75
ACCUM DEPR	(228,500)	(4,212)	13,669	(219,043)
CIAC	(161,130)	(7,585)	0	(168,715)
A/A of CIAC	107,586	(19,779)	3,385	91,192

**AUDIT ADJUSTMENTS**

<b>SUMMIT CHASE WATER</b>	<b>GENERAL LEDGER</b>	<b>AUDIT ADJUSTMENTS PER ORDER (1)</b>	<b>COMPANY ADJUSTMENT TO G/L</b>	<b>AUDIT / MFR BALANCE</b>
PLANT Acct. 304	393,532	(117,009)	2,505	279,028
ACCUM DEPR	(146,842)	(12,509)	35,780	(123,571)
CIAC	(47,874)	(32,682)	0	(80,556)
A/A of CIAC	30,105	227	7,965	38,297

<b>SUMMIT CHASE WASTEWATER</b>	<b>GENERAL LEDGER</b>	<b>AUDIT ADJUSTMENTS PER ORDER (1)</b>	<b>COMPANY ADJUSTMENT TO G/L</b>	<b>AUDIT / MFR BALANCE</b>
PLANT Acct 354	230,125	7,501	2,482	240,108
PLANT Acct 353	0	90,925	0	90,925
ACCUM DEPR	(135,072)	(20,234)	2,318	(152,988)
CIAC	(143,377)	(5,152)	0	(148,529)
A/A of CIAC	104,751	(40,540)	1,630	65,841

(1) Order PSC 99-2115-PAA-WS, issued 10/25/99, as of January 31, 1999

<b>JASMINE LAKES WATER</b>	<b>GENERAL LEDGER</b>	<b>AUDIT ADJUSTMENTS PER ORDER (2)</b>	<b>COMPANY ADJUSTMENT TO G/L</b>	<b>AUDIT / MFR BALANCE</b>
PLANT Acct 330	2,336,510	(233,746)	17,890	2,120,654
PLANT Acct 303	0	(2,570)	0	(2,570)
ACCUM DEPR	(660,349)	94,759	(581)	(566,171)
CIAC	(199,295)	74,336	138	(124,821)
A/A of CIAC	179,806	(30,906)	(1,805)	147,095

<b>JASMINE LAKES WASTEWATER</b>	<b>GENERAL LEDGER</b>	<b>AUDIT ADJUSTMENTS PER ORDER (2)</b>	<b>COMPANY ADJUSTMENT TO G/L</b>	<b>AUDIT / MFR BALANCE</b>
PLANT	1,519,594	(176,291)	17,764	1,361,067
ACCUM DEPR	(937,185)	(305)	(11,435)	(948,925)
CIAC	(162,314)	0	0	(162,314)
A/A of CIAC	151,372	1,014	1,545	153,931

(2) Order PSC 93-1675-FOF-WS, issued 11/18/93 as of December 31, 1991.

<b>TOTALS</b>	<b>AUDIT ADJUSTMENTS PER ORDER</b>
Total Plant	(\$552,625)
Total ACCUM DEPR	\$55,502
Total CIAC	\$20,117
Total A/A of CIAC	(\$93,829)
Total	(\$570,835)
Total Adjustment to Retained Earnings	\$570,835
	<u>\$0</u>

**AUDIT FINDING NO. 4**

**SUBJECT: PLANT RETIREMENT**

**AUDIT ANALYSIS:** For the Oakwood water system, in September, 2005, the Company recorded \$5,095 to Account 304 – Structures & Improvements for existing plant demolition and clean-up.

The Company used the Handy-Whitman Index, 69.63%, to retire the old plant for \$3,547 (\$5,095 x 69.63%). The original cost of the plant is unknown since the Company could not provide any records for it. The balance in Account 304 – Structures & Improvements was zero prior to the \$5,095 addition and the associated accumulated depreciation balance was zero. The amount recorded for depreciation expense in 2005 was \$16, \$1,548 (\$5,095 - \$3,547) at .25% per year.

**EFFECT ON GENERAL LEDGER:**

Final disposition for this Finding is deferred to the analyst

**EFFECT ON THE FILING:**

Final disposition for this Finding is deferred to the analyst

**AUDIT FINDING NO. 5**

**SUBJECT: PROJECTIONS OF PLANT RETIREMENTS**

**AUDIT ANALYSIS:** For Valencia Terrace Water, Zephyr Shores Water and Fern Terrace Water there were significant differences between projected and actual retirements in 2006 as shown in the schedule below. These differences are between 5% and 10% of the year-end balance for plant in service for these systems.

<b>System</b>	<b>Projected 2006 Retirement</b>	<b>Actual Retirement</b>	<b>Difference</b>
Valencia Terrace Water	\$29,572	\$9,397	(\$20,175)
Zephyr Shores Water	\$15,630	\$1,503	(\$14,127)
Fern Terrace Water	\$15,847	\$320	(\$15,527)

**EFFECT ON THE GENERAL LEDGER:**

This finding is for informational purposes only.

**EFFECT ON THE FILING:**

This finding is for informational purposes only.

**AUDIT FINDING NO. 6**

**SUBJECT: RE-ORGANIZATION COSTS**

**AUDIT ANALYSIS:** The utility recorded \$34,058.83 in Florida plant, Account 340500- Office Furniture and Equipment, in November 2006 for costs related to the corporate name change. The majority of the costs were paid to an identity consultant.

According to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), Class A, Balance Sheet, Account 340 should include the cost of office furniture and equipment owned by the utility and devoted to utility service, and not permanently attached to the buildings. FPSC Order PSC-03-0647-WS, issued May 28, 2003, in Docket No. 020407-WS, for Cypress Lakes Utilities, interpreted the term "cost of acquisition" to include any consideration paid, plus any other costs incurred related to or given for the purchase of the assets. The name change would not have been necessary if the acquisition did not occur. Therefore, according to the Cypress Lakes Order, the cost should have been recorded in the acquisition adjustment account.

The depreciation was computed by the utility using the information technology rate of 16.67% a year.

In the 2006 filing for plant additions the utility understated its projection of actual expenditures by \$149,417. Therefore, removal of the \$34,058.83 costs would be offset by the \$149,417.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

The following entry should be made as of December 2006:

Acquisition Adjustment	\$34,058.83	
Account 340500-Plant		\$34,058.83
Accumulated Depreciation	\$ 946.84	
Retained Earnings		\$ 473.42
Depreciation Expense		\$ 473.42

The allocation of these adjustments to the individual utility systems can be found on the schedules following this finding. The depreciation was computed as follows:

	November-06	December-06
Plant	34,058.83	34,058.83
Depreciation Rate	1.39%	1.39%
Depreciation Exp.	473.42	473.42
Acc. Depreciation	473.42	946.84

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

In the 2006 filing for plant additions the utility understated its projection of actual expenditures by \$149,417. Therefore, removal of the \$34,058.83 costs would be offset by the \$149,417.

Allocation to Divisions for December 31, 2006 costs:

System	A/U #	County	Water	Sewer	Total	# of Cust	%	Year End Accumulated Depreciation		
								Plant	Depreciation	Expense
ARREDONDO ESTATES - Water	6567	Alachua	246		246	246	0.664%	(226.01)	6.28	(3.14)
ARREDONDO FARMS - Sewer	6389	Alachua		356	356	356	0.960%	(327.07)	9.09	(4.55)
ARREDONDO FARMS - Water	6568	Alachua	364		364	364	0.982%	(334.42)	9.30	(4.65)
CRU - HAINES CREEK	6556	Lake	111		111	111	0.299%	(101.98)	2.84	(1.42)
CRU - LAKE OSBORNE	6558	Palm Beach	468		468	468	1.262%	(429.97)	11.95	(5.98)
CRU - RAVENSWOOD	6561	Lake	44		44	44	0.119%	(40.42)	1.12	(0.56)
CRU - ROSALIE OAKS - Sewer	6386	Polk		95	95	95	0.256%	(87.28)	2.43	(1.21)
CRU - ROSALIE OAKS - Water	6562	Polk	95		95	95	0.256%	(87.28)	2.43	(1.21)
CRU - THE WOODS - Sewer	6388	Polk		71	71	71	0.192%	(65.23)	1.81	(0.91)
CRU - THE WOODS - Water	6564	Polk	75		75	75	0.202%	(68.91)	1.92	(0.96)
J SWIDERSKI - 48 ESTATES	6597	Lake	81		81	81	0.218%	(74.42)	2.07	(1.03)
J SWIDERSKI - KINGS COVE - Sewer	6395	Lake		199	199	199	0.537%	(182.83)	5.08	(2.54)
J SWIDERSKI - KINGS COVE - Water	6595	Lake	207		207	207	0.558%	(190.18)	5.29	(2.64)
J SWIDERSKI - SUMMIT CHASE - Sewer	6396	Lake		218	218	218	0.588%	(200.29)	5.57	(2.78)
J SWIDERSKI - SUMMIT CHASE - Water	6596	Lake	220		220	220	0.593%	(202.12)	5.62	(2.81)
JASMINE LAKES - Sewer	6391	Pasco		####	1,560	1,560	4.208%	(1,433.24)	39.84	(19.92)
JASMINE LAKES - Water	6574	Pasco	1,571		1,571	1,571	4.238%	(1,443.35)	40.13	(20.06)
LAKE JOSEPHINE	6589	Highlands	564		564	564	1.521%	(518.17)	14.41	(7.20)
OCALA OAKS - Water	6577	Marion	1,786		1,786	1,786	4.818%	(1,640.88)	45.62	(22.81)
SEBRING LAKES	6933	Highlands	69		69	69	0.186%	(63.39)	1.76	(0.88)
SOUTH SEAS	6831	Lee		64	64	64	0.173%	(58.80)	1.63	(0.82)
VILLAGE WATER - Sewer	6390	Polk		35	35	35	0.094%	(32.16)	0.89	(0.45)
VILLAGE WATER - Water	6571	Polk	187		187	187	0.504%	(171.81)	4.78	(2.39)
Beecher's Point - Sewer	6439	Putnam		18	18	18	0.049%	(16.54)	0.46	(0.23)
Beecher's Point - Water	6438	Putnam	53		53	53	0.143%	(48.69)	1.35	(0.68)
Carlton Village - W	6405	Lake	220		220	220	0.593%	(202.12)	5.62	(2.81)
Chuluota - Sewer	6457	Seminole		566	566	566	1.527%	(520.01)	14.46	(7.23)
Chuluota - Water	6456	Seminole	1,306		1,306	1,306	3.523%	(1,199.88)	33.36	(16.68)
East Lake Harris Estates	6406	Lake	178		178	178	0.480%	(163.54)	4.55	(2.27)
Fern Terrace	6407	Lake	125		125	125	0.337%	(114.84)	3.19	(1.60)
Florida Central Commerce Park	6461	Seminole		68	68	68	0.183%	(62.47)	1.74	(0.87)
Friendly Center	6408	Lake	31		31	31	0.084%	(28.48)	0.79	(0.40)
Gibsonia Estates	6433	Polk	191		191	191	0.515%	(175.48)	4.88	(2.44)
Grand Terrace	6409	Lake	111		111	111	0.299%	(101.98)	2.84	(1.42)
Harmony Homes	6462	Seminole	64		64	64	0.173%	(58.80)	1.63	(0.82)
Hermits Cove - Water	6440	Putnam	184		184	184	0.496%	(169.05)	4.70	(2.35)
Hobby Hills	6410	Lake	104		104	104	0.281%	(95.55)	2.66	(1.33)
Holiday Haven - Sewer	6412	Lake		112	112	112	0.302%	(102.90)	2.86	(1.43)
Holiday Haven - Water	6411	Lake	127		127	127	0.343%	(116.68)	3.24	(1.62)
Imperial Mobile Terrace	6413	Lake	247		247	247	0.666%	(226.93)	6.31	(3.15)
Interlachen Lake Estates	6441	Putnam	252		252	252	0.680%	(231.52)	6.44	(3.22)
Jungle Den - Sewer	6468	Putnam		137	137	137	0.370%	(125.87)	3.50	(1.75)
Jungle Den - Water	6467	Putnam	115		115	115	0.310%	(105.66)	2.94	(1.47)
Kingswood - W	6401	Brevard	65		65	65	0.175%	(59.72)	1.66	(0.83)
Lake Gibson Estates - Sewer	6435	Polk		319	319	319	0.861%	(293.08)	8.15	(4.07)
Lake Gibson Estates - Water	6434	Polk	841		841	841	2.269%	(772.67)	21.48	(10.74)
Leisure Lakes - Sewer	6404	Highlands		282	282	282	0.761%	(259.09)	7.20	(3.60)
Leisure Lakes - Water	6403	Highlands	291		291	291	0.785%	(267.36)	7.43	(3.72)
Morningview - Sewer	6415	Lake		33	33	33	0.089%	(30.32)	0.84	(0.42)
Morningview - Water	6414	Lake	35		35	35	0.094%	(32.16)	0.89	(0.45)
Oakwood - W	6402	Brevard	232		232	232	0.626%	(213.15)	5.93	(2.96)
Orange Hill	6436	Polk	177		177	177	0.477%	(162.62)	4.52	(2.26)
Palm Port - Sewer	6445	Putnam		107	107	107	0.289%	(98.31)	2.73	(1.37)
Palm Port - Water	6444	Putnam	107		107	107	0.289%	(98.31)	2.73	(1.37)
Palm Terrace - Sewer	6430	Pasco		####	1,034	1,034	2.789%	(949.98)	26.41	(13.20)
Palm Terrace - Water	6429	Pasco	1,191		1,191	1,191	3.213%	(1,094.23)	30.42	(15.21)
Palms Mobile Home Park	6416	Lake	62		62	62	0.167%	(56.96)	1.58	(0.79)

System	A/U #	County	Water	Sewer	Total	# of Cust	%	Year End Accumulated Depreciation		
								Plant	Depreciation	Expense
Park Manor - Sewer	6443	Putnam		31	31	31	0.084%	(28.48)	0.79	(0.40)
Park Manor - Water	6442	Putnam	31		31	31	0.084%	(28.48)	0.79	(0.40)
Picciola Island	6417	Lake	149		149	149	0.402%	(136.89)	3.81	(1.90)
Piney Woods	6418	Lake	176		176	176	0.475%	(161.70)	4.50	(2.25)
Pomona Park - Water	6446	Putnam	181		181	181	0.488%	(166.29)	4.62	(2.31)
Quail Ridge	6419	Lake	94		94	94	0.254%	(86.36)	2.40	(1.20)
River Grove - Water	6447	Putnam	107		107	107	0.289%	(98.31)	2.73	(1.37)
Saratoga Harbour - Water	6452	Putnam	51		51	51	0.138%	(46.86)	1.30	(0.65)
Silver Lake Estates	6420	Lake	1,137		1,137	1,137	3.067%	(1,044.61)	29.04	(14.52)
Silver Lake Oaks - Sewer	6449	Putnam		45	45	45	0.121%	(41.34)	1.15	(0.57)
Silver Lake Oaks - Water	6448	Putnam	45		45	45	0.121%	(41.34)	1.15	(0.57)
Skycrest	6421	Lake	124		124	124	0.334%	(113.92)	3.17	(1.58)
St Johns Highlands	6450	Putnam	98		98	98	0.264%	(90.04)	2.50	(1.25)
Stone Mountain	6422	Lake	10		10	10	0.027%	(9.19)	0.26	(0.13)
Sugar Creek	6437	Polk	67		67	67	0.181%	(61.56)	1.71	(0.86)
Sunny Hills	6471	Washington	519		519	519	1.400%	(476.83)	13.26	(6.63)
Sunny Hills	6472	Washington		180	180	180	0.486%	(165.37)	4.60	(2.30)
Tangerine	6428	Orange	270		270	270	0.728%	(248.06)	6.90	(3.45)
Tomoka	6469	Volusia	271		271	271	0.731%	(248.98)	6.92	(3.46)
Valencia Terrace - Sewer	6424	Lake		347	347	347	0.936%	(318.80)	8.86	(4.43)
Valencia Terrace - Water	6423	Lake	353		353	353	0.952%	(324.32)	9.02	(4.51)
Venetian Village - Sewer	6426	Lake		95	95	95	0.256%	(87.28)	2.43	(1.21)
Venetian Village - Water	6425	Lake	155		155	155	0.418%	(142.41)	3.96	(1.98)
Welaka	6451	Putnam	109		109	109	0.294%	(100.14)	2.78	(1.39)
Western Shores	6427	Lake	458		458	458	1.235%	(420.79)	11.70	(5.85)
Wootens	6453	Putnam	29		29	29	0.078%	(26.64)	0.74	(0.37)
Zephyr Shores - Sewer	6432	Pasco		524	524	524	1.414%	(481.42)	13.38	(6.69)
Zephyr Shores - Water	6431	Pasco	526		526	526	1.419%	(483.26)	13.43	(6.72)
CITRUS - CASTLE LAKE - Water	6555	Citrus	107		107	107	0.289%	(98.31)	2.73	(1.37)
CITRUS - KENWOOD NORTH -	6557	Citrus	49		49	49	0.132%	(45.02)	1.25	(0.63)
CITRUS - MEADOWS - Water	6559	Citrus	53		53	53	0.143%	(48.69)	1.35	(0.68)
CITRUS - PINE VALLEY - Water	6560	Citrus	47		47	47	0.127%	(43.18)	1.20	(0.60)
CITRUS - WEST CITRUS - Water	6563	Citrus	64		64	64	0.173%	(58.80)	1.63	(0.82)
LAKE SUZY - Sewer	6392	DeSoto		268	268	268	0.723%	(246.22)	6.85	(3.42)
LAKE SUZY - Water	6582	DeSoto	556		556	556	1.500%	(510.82)	14.20	(7.10)
PEACE RIVER - Sewer	6397	Hardee		96	96	96	0.259%	(88.20)	2.45	(1.23)
PEACE RIVER - Water	6600	Hardee	98		98	98	0.264%	(90.04)	2.50	(1.25)
SARASOTA - Sewer	6965	Sarasota		7,228	7,228	7,228	19.498%	(6,640.70)	184.61	(92.30)
SARASOTA - Water	6964	Sarasota	4,652		4,652	4,652	12.549%	(4,274.01)	118.82	(59.41)
<b>FLORIDA TOTALS</b>			<b>22,983</b>	<b>14,088</b>	<b>37,071</b>	<b>37,071</b>	<b>100.00%</b>	<b>(34,058.83)</b>	<b>946.84</b>	<b>(473.40)</b>



**AUDIT FINDING NO. 7**

**SUBJECT: UTILITY PLANT IN SERVICE PROJECTIONS**

**AUDIT ANALYSIS:** Audit Staff compared the December 31, 2006 projected plant balances to the December 31, 2006 actual plant balances. The actual plant balances were \$6,227,656 less than the projected balances included in the MFRs. The company commented that while the actual plant balances were significantly lower than the projected balances, it had a substantial balance in CWIP (Account 105) at December 31, 2006, as well as numerous budget carry forwards. The total CWIP for all systems at December 31, 2006 was \$8,270,026 and the total budget carry forwards at the end of 2006 were \$1,764,465. While audit staff believes that the 2006 projections may be overstated, the company has provided information that the ending balance for December 31, 2007 may be reasonable. However, because the ending balance for December 31, 2006 is overstated, the thirteen-month average for 2007 is overstated. The analyst may want to analyze the amounts under-budget and determine when the CWIP is added in 2007 so an adjusted 2007 average balance may be calculated. On an individual system basis, the following chart indicates the systems that were over- and under- budget for 2006. For these systems, the Commission should consider adjusting the thirteen-month average for 2007.

**Differences Greater than 25%**

Systems greater than 25% under-budget

Lake Josephine Water	\$700,509.31
Village Water Sewer	\$851,150.65
Chuluota Sewer	\$2,336,525.25
Kingswood Water	\$4,881.27
Palm Port Water	\$42,854.40
Park Manor Sewer	\$22,503.52
River Grove Water	\$47,868.70
Tangerine Water	\$163,256.21
Welaka Water	\$82,570.14
Zephyr Shores Water	\$111,889.01

Systems greater than 25% over-budget

48 Estates Water	\$36,367.66
Summitt Chase Water	\$78,033.86
Grand Terrace Water	\$31,905.56

Audit staff requested support for the amounts under- and over-budget. We considered the pending CWIP items and company carry-overs and for those systems with under- or over-budget amounts remaining, we requested additional documentation. The company submitted numerous "Substitution Information" forms indicating when a project in one system was deferred and the current year's budget money was moved to another system or project, or a general budget fund. The company did not provide any additional information regarding budget differences. Audit staff requested additional information regarding the remaining systems that were still under-

budget. By e-mail, the company responded: "The remaining budget variances on the report ... will not be made up by spending additional amounts in 2007." Audit staff has summarized the amounts that are under-budget, with no related justification. The following table indicates the amounts under-budget, adjusted for CWIP, carry-overs, and substitutions. Because these amounts will not be spent for these systems, audit staff recommends that the following amounts be removed from the ending balance of each system.

	<u>2006 Under</u> Budget	<u>CWIP</u>	<u>Carry Over</u>	<u>Substitutions</u>	<u>Remaining</u> Under Budget
Fern Terrace	\$33,619.00	\$2,455.00		\$15,300.00	\$15,864.00
Harmony Homes	\$16,337.00	\$3,235.00	\$10,000.00	\$250.00	\$2,852.00
Morningview Sewer	\$36,558.00			\$20,500.00	\$16,058.00
Picciola Island	\$38,958.00	\$196.00		\$27,000.00	\$11,762.00
Piney Woods	\$33,190.00	\$6,356.00		\$19,432.00	\$7,402.00
Pomona Park	\$47,078.00			(\$16,060.00)	\$63,138.00
River Grove	\$47,869.00	\$144.00		\$6,233.00	\$41,492.00
Sunny Hills Sewer	\$136,215.00	\$11,926.00		\$35,000.00	\$89,289.00
Venetian Village Sewer	\$71,604.00	\$19,127.00		\$5,228.00	\$47,249.00
Welaka	\$82,570.00	\$469.00		(\$25,825.00)	\$107,926.00
TOTAL					<u>\$403,032.00</u>

**EFFECT ON THE GENERAL LEDGER:**

This finding affects only the projected balances and does not have an effect on the general ledger.

**EFFECT ON THE FILING:**

The thirteen month average for these systems should be adjusted to reflect the significant differences in the beginning and ending balances.

**AUDIT FINDING NO. 8**

**SUBJECT: PROJECTED PLANT ADDITIONS**

**AUDIT ANALYSIS:** For systems with 2006 Utility Plant In Service (UPIS) additions that were greater than 25% of the 2005 balances, audit staff identified specific additions and requested supporting documentation (invoices, etc.). Our review of the supporting documentation found that:

- Twelve of these additions appear to be charges that should have been charged to Repairs and Maintenance expense.
- Five of these additions did not include the appropriate retirement or included the cost of removal in the capitalization of the new addition.
- Three of these additions included errors in the retirement (one recorded the retirement 7 months after the fact, and two recorded the retirement in the wrong account.)

Following this finding is a chart detailing the specific additions and adjustments.

**EFFECT ON THE GENERAL LEDGER:**

The 2006 general ledger should be adjusted as described on the attached chart.

**EFFECT ON THE FILING:**

The MFRS should be adjusted as described on the attached chart, plus the related accumulated depreciation and depreciation expense adjustments.

<u>County</u>	<u>System</u>	<u>W/S</u>	<u>Description</u>	<u>Account</u>	<u>Dollar Amount</u>	<u>Audit Notes Based on Documentation</u>
Alachua	Arredondo	W	200' of water main & 4" water main	331.4	\$21,217.35	Line replacements, hurricane damage; should be Repairs and Maintenance
Lake	Holiday Haven	W	Water main	331.41	\$3,131.08	Replace damaged water mains, should be Repairs and Maintenance.
Lake	Holiday Haven	W	Water Main Replacement	331.4	\$15,610.66	Replace damaged water mains, should be Repairs and Maintenance.
Lake	Imperial Mobile Terr.	W	Distribution Line Replacements	331.4	\$63,990.99	Replace water lines, should be Repairs and Maintenance.
Lee	South Seas	S	Clean/inspect/replace sewer lines	360.2	\$23,506.40	I&I work/line replacement post Hurricane; should be Repairs and Maintenance
Pasco	Jasmine Lakes	S	I&I study; repairs as needed	361.2	\$331,522.87	I&I study and improvements; should be Repairs and Maintenance
Pasco	Jasmine Lakes	S	79' of 8" sewer pipe	360.2	\$21,676.12	Collection system repair & replacements; should be Repairs and Maintenance
Pasco	Palm Terrace	S	I&I rehab and improvements	360.2	\$266,186.26	I&I rehab and improvements, should be Repairs and Maintenance
Polk	Village Water	S	Effluent Disposal site	CWIP	\$131,653.96	Cleared and rebuild berms around ponds; should be Repairs and Maintenance
Polk	Village Water	S	I&I study and improvements	CWIP	\$82,190.19	I&I study and improvements; should be Repairs and Maintenance
Seminole	Chuluota	S	Replaced 8" sewer with CIPP liner	360.2	\$43,500.00	Collection system rehabilitation; should be Repairs and Maintenance
Washington	Sunny Hills	W	Well #1 Rehabilitation	307.2	\$66,021.64	Well #1 Rehab; should be Repairs and Maintenance

<u>County</u>	<u>System</u>	<u>W/S</u>	<u>Description</u>	<u>Account</u>	<u>Dollar Amount</u>	<u>Audit Notes Based on Documentation</u>
Lake	Quail Ridge	W	Install siding trim/ shingles on control bldg	304.3	\$4,895.15	Rehab control building, retirement made in wrong account
Lake	Valencia Terrace	W	1 6,000 gal hydro-pneumatic tank	330.4	\$47,932.68	Replace hydro-pneumatic tank, retirement made 7 months later
Putnam	Palm Port	S	2 2.5 hp Masters LS pumps (SN#77409)	380.41	\$4,227.57	Replace 2 2.5 HP pumps; retirement made in wrong account

<u>County</u>	<u>System</u>	<u>W/S</u>	<u>Description</u>	<u>Account</u>	<u>Dollar Amount</u>	<u>Audit Notes Based on Documentation</u>
Lake	Valencia Terrace	W	Rehab Well #1	CWIP	\$40,978.23	Rehab Well #1, abandon old well, retirement should include cost of removal
Lake	Valencia Terrace	S	Replace fencing	CWIP	\$34,102.53	Replace fencing; retirement should include cost of removal
Lake	Venetian Village	W	3,612 ft of 4" c-900 water main	331.4	\$99,121.64	Water main relocation, no retirement made
Lee	South Seas	S	Clarifier Rehabilitation	362.2	\$68,640.13	Rebuild clarifier at WWTP; no retirement made
Pasco	Palm Terrace	W	Removal of water plant and hydro tank	304.3	\$12,106.69	Water plant demolition; should be recorded as part of retirement

**AUDIT FINDING NO. 9**

**SUBJECT: UTILITY PLANT IN SERVICE (UPIS) 2007 PROJECTIONS**

**AUDIT ANALYSIS:** Audit staff sampled projected 2007 UPIS additions for systems with increases greater than 25%. We requested supporting documentation (invoices, etc.) that should include projection basis, any bids, quotes, or invoices used to project, and method used to project. The response to this request did not provide any significant support. A few items had already had money expended and these invoices were provided. But of the \$1,410,100 in projections that were requested, these expenditures were only \$21,204. The remaining items were explained as either a blanket work order based on prior knowledge; engineer estimates based on similar items (with no tangible evidence provided); or work to be done, estimate based on prior work (no copies of prior work or invoices were provided). All invoices indicated replacements. Audit staff recommends that the 2007 projections for plant be disallowed as the company did not provide sufficient support for its projections.

In addition, we reviewed the 2007 Capital Budget and compared this to the capital additions, by system, in the MFRs. We found a difference in the Sunny Hills (Washington County) Water system. The company responded that the company inadvertently duplicated a \$150,000 addition in the MFRs. The June, 2007 addition was included in Account 309.2 as well as 320.3. The addition in Account 320.3 should be removed. This also results in a correction to the 2007 Accumulated Depreciation and Depreciation Expense.

	Account No.	Year End Adjustment	Average Test Year Adjustment	MFR Page
Utility Plant in Service	320.3	(\$150,000.00)	(\$80,769.00)	A-5, 5 of 5
Accumulated Depreciation	320.3	(\$3,977.00)	(\$1,224.00)	A-9, 5 of 5
Depreciation Expense	320.3	(\$3,977.00)	(\$3,977.00)	B-13, 3 of 3

**EFFECT ON THE GENERAL LEDGER:**

This finding affects only the projected balances and does not have an effect on the general ledger.

**EFFECT ON THE FILING:**

The 2007 additions to UPIS should be disallowed until the company provides sufficient support to document its projections.

In addition, the following adjustment should be made to the average MFR projections for the Sunny Hills 2007 water balances.

Accumulated Depreciation	\$ 1,224
Retained Earnings	\$80,769
Depreciation Expense	\$ 1,224
Utility Plant in Service	\$80,769

**AUDIT FINDING NO. 10**

**SUBJECT: LAND PROJECTIONS**

**AUDIT ANALYSIS:** The company erroneously projected a land increase of \$1,000 to Piney Woods for 2007. The company stated that it was for electrical upgrades that should have been charged to Account No. 311 – Pumping Equipment. Correction of this error will also affect Accumulated Depreciation and Depreciation Expense. This account should be depreciated at an annual rate of 5% per the Florida Administrative Code 25-30.140 Depreciation. Staff used the company’s methodology of spreading the addition over several months to calculate depreciation. The adjustment is detailed below.

2007	Account Number	Year End Adjustment	Average Test Year Adjustment
Land	303.2	(\$1,000.00)	\$423.00
Pumping Equipment	311.3	\$1,000.00	\$423.00
Accumulated Depreciation		\$23.00	\$8.00

**EFFECT ON THE GENERAL LEDGER:**

This finding is for the projected test year and does not have an effect on the historical general ledger.

**EFFECT ON THE FILING:**

The following journal adjustments should be made to the 2007 average balances for Piney Woods.

Pumping Equipment	\$423	
Depreciation Expense	8	
Land		\$423
Accumulated Depreciation		8

**AUDIT FINDING NO. 11**

**SUBJECT: DEPRECIATION RATES – ASI SYSTEMS**

**AUDIT ANALYSIS:** Depreciation rates for 2005, used by the 22 former Aqua Source Incorporated systems, do not agree with the Florida Public Service Commission (FPSC) Rates obtained from the Commission Rule 25-30.140, Florida Administrative Code (F.A.C.), Depreciation.

We recalculated all accounts by month using the FPSC rates for each account and then compared the result to the utility filing. We made adjustments for accounts that had been completely depreciated so they were not over depreciated. We found that the company Accumulated Depreciation balances were \$57,347 higher than the staff calculation for the 22 Systems. A list of the systems and differences are found on the schedule on the next page. Depreciation Expense should be credited for \$57,347 and Accumulated Depreciation should be Debited for \$57,347.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

Accumulated Depreciation	\$57,347
Depreciation Expense	\$57,347

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

Accumulated Depreciation	\$57,347
Depreciation Expense	\$57,347

### 2005 Depreciation Rate Calculation For ASI Systems

	Per Auditor	Per Company	Difference
<b>WATER</b>			
Sebring Lakes	10,093	10,872	(779)
Ocala Oaks	115,275	122,540	(7,265)
Lake Josephine	18,045	18,628	(583)
Lake Osborne	253	401	(148)
Haines Creek	2,457	2,699	(242)
Ravenswood	1,817	2,020	(203)
Forty-Eight Estates	6,710	6,983	(273)
Summit Chase	11,784	12,253	(469)
King's Cove	13,856	14,430	(574)
Village Water	6,390	7,023	(633)
Rosalie Oaks	2,657	2,959	(302)
The Woods	8,965	8,674	291
Jasmine Lakes	69,675	76,947	(7,272)
Arredondo	14,133	17,229	(3,096)
<b>WASTEWATER</b>			
Jasmine Lakes	72,821	78,949	(6,128)
Arredondo	7,658	8,737	(1,079)
King's Cove	15,400	18,861	(3,461)
Rosalie Oaks	2,506	3,040	(534)
South Seas	167,422	187,731	(20,309)
Summit Chase	3,870	5,151	(1,281)
The Woods	1,071	1,227	(156)
Village Water	12,719	15,570	(2,851)
	<u>565,577</u>	<u>622,924</u>	<u>(57,347)</u>



**AUDIT FINDING NO. 12**

**SUBJECT: DEPRECIATION RATES – FWS SYSTEMS**

**AUDIT ANALYSIS:** The utility did not use the correct depreciation rates per Commission Rule 25-30.140, Florida Administrative Code (F.A.C.), Depreciation, for 2005. Audit Staff selected systems to review based on our analytical review. We recalculated all accounts, for those systems, by month using the FPSC rates for each account and then compared the result to the utility filing.

Details of the systems and differences found are shown on the schedule below.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED FOR 2005:**

Accumulated Depreciation	\$1,223
Depreciation Expense	\$1,223

**EFFECT ON THE FILING IF FINDING IS ACCEPTED FOR 2005:**

Accumulated Depreciation	\$1,223
Depreciation Expense	\$1,223

**2005 DEPRECIATION EXPENSE FOR FWS SYSTEMS SAMPLED**

<u>System</u>	<u>County</u>	<u>Type</u>	<u>Per Audit</u>	<u>Per Company</u>	<u>Difference</u>
Oakwood	Brevard	Water	952	870	82
Friendly Center	Lake	Water	624	588	36
Holiday Haven	Lake	Water	1,487	1,491	(4)
Valencia Terrace	Lake	Water	6,977	6,911	66
Palm Terrace	Pasco	Water	9,207	8,572	635
Zephyr Shores	Pasco	Water	7,672	7,497	175
Gibsonia Estate	Polk	Water	10,960	10,714	246
Lake Gibson Estates	Polk	Sewer	104,547	104,883	(336)
Orange Hill/Sugar Creek	Polk	Water	7,093	7,190	(97)
Beecher's Point	Putnam	Sewer	12,274	14,732	(2,458)
Interlachen Lakes	Putnam	Water	4,623	4,376	247
Palm Port	Putnam	Water	3,378	3,388	(10)
Silver Lake Oaks	Putnam	Water	3,689	3,463	226
Jungle Den	Volusia	Water	675	706	(31)
Total			174,158	175,381	(1,223)

**AUDIT FINDING NO. 13**

**SUBJECT: ACCUMULATED DEPRECIATION BALANCES**

**AUDIT ANALYSIS:** The 2005 Accumulated Depreciation balances for the former Florida Water Services (FWS) systems do not agree with the 2006 General Ledger.

The Company stated that the 2004 and 2005 General Ledger does not contain any entries for the FWS portion of Accumulated Depreciation. These balances were recorded in mid 2006 and the filing included adjustments to reflect the balances in the correct prior year. Therefore, differences exist between the filing and general ledger balances at December 31, 2005.

Audit Staff sampled additions and retirements made to the 2005 accumulated depreciation accounts to book the previous Commission balances. We compared the balances to the general ledger. We found that the company had booked \$10,608 in excess of the accumulated depreciation balances set by the Commission.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED FOR 2005:**

Accumulated Depreciation	\$10,608
Depreciation Expense	\$10,608

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

**2005 ACCUMULATED DEPRECIATION BALANCE FOR FWS SYSTEMS**

<u>System</u>	<u>County</u>	<u>Type</u>	<u>Per Auditor</u>	<u>Per general ledger</u>	<u>Difference</u>
Holiday Haven	Lake	Water	32,376	24,965	7,411
Lake Gibson Estates	Polk	Sewer	460,854	477,658	(16,804)
Zephyr Shores	Pasco	Water	2,048	3,263	(1,215)
<b>Total</b>			<u>495,278</u>	<u>505,886</u>	<u>(10,608)</u>

**AUDIT FINDING NO. 14**

**SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION AMORTIZATION  
RATES ASI SYSTEMS**

**AUDIT ANALYSIS:** Amortization rates for 2005, used by the 22 former Aqua Source Incorporated (ASI) systems, do not agree with the Florida Public Service Commission (FPSC) Rates obtained from the Commission Rule 25-30.140, Florida Administrative Code (F.A.C.), Depreciation.

Rule 25-30.140(9)(a) F.A.C. states "Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected... Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated."

We recalculated all CIAC accounts by month using the FPSC rates for each account and then compared the result to the utility filing. Accounts that had been completely amortized were accounted for. The result was \$12,538 under amortization for the 22 Systems. Based on the recalculation, all ASI Systems, except Arredondo wastewater and Village Water wastewater, need revisions to Amortization of CIAC. Amortization Expense of CIAC should be credited for \$12,538 and Accumulated Amortization of CIAC should be debited for \$12,538.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

The following adjustment should be made to the general ledger. A breakdown, by system, is found on the next page.

Accumulated Amortization of CIAC	\$12,538
Amortization of CIAC	\$12,538

**2005 CIAC Amortization Calculation For ASI Systems**

	Per Auditor	Per Company	Difference
<b>WATER</b>			
Sebring Lakes	11,097	10,338	759
Ocala Oaks	37,287	29,277	8,010
Lake Josephine	12,730	12,458	272
Lake Osborne	470	532	-62
Haines Creek	1,200	1,076	124
Ravenswood	548	493	55
Forty-Eight Estates	774	659	115
Summit Chase	3,662	2,910	752
King's Cove	4,532	3,584	948
Village Water	79	93	-14
Rosalie Oaks	164	147	17
The Woods	4,101	4,206	-105
Jasmine Lakes	9,053	7,973	1,080
Arredondo	772	845	-73
<b>WASTEWATER</b>			
Jasmine Lakes	9,017	9,466	-449
Arredondo	0	0	0
King's Cove	9,285	6,980	2,305
Rosalie Oaks	328	349	-21
South Seas	23,416	24,173	-757
Summit Chase	8,252	8,670	-418
The Woods	448	448	0
Village Water	0	0	0
	<u>137,215</u>	<u>124,677</u>	<u>12,538</u>

**EFFECT ON THE FILING:**

The following adjustment should be made to the filing for 2005. A breakdown, by system, is found above.

Accumulated Amortization of CIAC	\$12,538
Amortization of CIAC	\$12,538

**AUDIT FINDING NO. 15**

**SUBJECT: OCALA OAKS WATER AMORTIZATION OF CIAC**

**AUDIT ANALYSIS:** We reconciled the utility filing balances to the company's book balances at December 31, 1987. By PSC Order 21349, dated June 7, 1989, in Docket No. 881098-WU, the Commission established the Accumulated Amortization of CIAC balance for the Ocala Oaks water system. The balance established, as of December 31, 1987 was \$67,362. The utility booked a balance of \$78,780, for a difference of \$11,418.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

The following adjustment should be made to the Ocala Oaks water system.

Account 407	Amortization Expense	\$11,418
Account 272	Accumulated Amortization of Contributions in Aid of Construction	(\$11,418)

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

The following adjustment should be made to the Ocala Oaks water system.

Account 407	Amortization Expense	\$11,418
Account 272	Accumulated Amortization of Contributions in Aid of Construction	(\$11,418)

**AUDIT FINDING NO. 16**

**SUBJECT: CIAC PROJECTIONS**

**AUDIT ANALYSIS:** The company projected no growth for the Village Water wastewater system but inadvertently projected CIAC additions of \$2,400 for 2007. The following is a summary of the amounts that should be removed on a year-end and average test year basis.

2007	Year End Adjustment	Average Test Year Adjustment	MFR Page
CIAC-Service Installation Fee	(\$2,400.00)	(\$1,015.00)	A-12, 5 of 5
Accumulated Amortization	\$31.00	\$10.00	A-14, 5 of 5

**EFFECT ON THE GENERAL LEDGER:**

This finding adjusts the projections and has no effect on the historical general ledger.

**EFFECT ON THE FILING:**

The following journal adjustments should be made to the 2007 average balances for the Village Water wastewater system.

CIAC	\$1,015	
Amortization Expense	10	
Cash		\$1,015
Accumulated Amortization		10

**AUDIT FINDING NO. 17**

**SUBJECT: WORKING CAPITAL ALLOWANCE PROJECTIONS**

**AUDIT ANALYSIS:** The ending balances for Accounts Payable for 2005-2006 differed significantly. The chart below summarizes these changes.

	Year-end Balance	% Decrease over 2005
12/31/2005	\$1,467,620	----
12/31/2006	\$525,000	-0.64%
12/31/2007	\$400,000	-0.73%

Audit staff requested an explanation for the decrease in Accounts Payable. The Company responded that in 2005, extremely large capital projects were accrued at the end of the month, based on the contractors' invoices, and then paid in the following month. Further, the company stated that for purposes of the rate case, these accruals were not made. Audit staff recommends that these accruals should have been made for projecting the working capital allowance. If the company is unable to provide estimated monthly accruals for the projected test year, an amount based on the historical test year 2005 should be used.

In addition, Schedule A-17 of the MFRs for Haines Creek shows a zero balance for other Regulatory Assets for 2005 and 2007. However, there is a balance of \$9,314 for 2006. The company responded that this balance was incorrectly included in the Haines Creek MFRs. This balance should be included in the East Lake Harris MFRs.

**EFFECT ON THE GENERAL LEDGER:**

These adjustments impact the projected test year.

**EFFECT ON THE FILING:**

The information provided on Accounts Payable is for the analyst's information. The following adjustment should be made for the Haines Creek Regulatory Asset.

Regulatory Assets – East Lake Harris	\$9,314
Regulatory Assets – Haines Creek	\$9,314

**AUDIT FINDING NO. 18**

**SUBJECT: CAPITAL STRUCTURE**

**AUDIT ANALYSIS:** The Company, Aqua Utilities Florida, Inc. did not use the consolidated parent company Capital Structure for Aqua America, Inc. in preparing the Filing. Audit staff prepared the Consolidated Parent Company Capital Structure as of December 31, 2005 shown below.

**EFFECT ON 2005 GENERAL LEDGER AND FILING IF FINDING IS ACCEPTED:**

There are no effects on the general ledger if this finding is accepted.

**EFFECT ON 2005 FILING IF FINDING IS ACCEPTED:**

This finding is for informational purposes only.

AQUA AMERICA, INC. AND SUBSIDIARIES  
 CONSOLIDATED CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 2005

Capital Component	Per Company	Percent of Total	Cost Rate	Weighted Cost Rate
COMMON STOCK	64,829,000	3.08%		
PAID IN CAPITAL	474,876,000	22.54%		
TREASURY STOCK	(12,914,000)	-0.61%		
RETAINED EARNINGS	285,132,000	13.53%		
<b>TOTAL COMMON EQUITY</b>	<b>811,923,000</b>	<b>38.54%</b>	<b>11.17%</b>	<b>4.30%</b>
SHORT TERM DEBT	138,505,000	6.57%	4.72%	0.31%
LONG TERM DEBT	903,083,000	42.86%	5.96%	2.55%
ACCUMULATED DEFERRED INCOME TAXES	250,346,000	11.88%	0.00%	0.00%
CUSTOMER DEPOSITS	3,026,000	0.14%	6.00%	0.01%
<b>TOTAL CAPITAL</b>	<b>2,106,883,000</b>	<b>100.00%</b>		<b>7.18%</b>

Common Equity cost rate is per Commission Order PSC-06-0476-PAA-WS, issued June 5, 2006



**AUDIT FINDING NO. 19**

**SUBJECT: REVENUE PROJECTIONS**

**AUDIT ANALYSIS:** For the Stone Mountain water system, the company erroneously applied incorrect rates to project the 2006 revenue as shown on the schedule below. The company projected the 2007 revenues the same as 2006. The adjustment is detailed below.

<u>Class/Meter</u> <u>Size</u>	<u>Number of</u> <u>Bills</u>	<u>Consumption</u> <u>in 1,000</u> <u>gallons</u>	<u>Current</u> <u>Rates</u>	<u>2006 Revenues</u> <u>at Current Rates</u>	<u>MFR E-2W</u> <u>Schedule</u>	<u>Adjustment to</u> <u>2006 Revenue</u>
5/8 x 3/4	108		27.59	2,979.72	4,468.00	(1,488.00)
1	5		68.97	344.85	690.00	(345.00)
Gallons		512	2.97	1,520.64	1,521.00	(0)
	Total:			4,845.21	6,679.00	(1,834.00)

**EFFECT ON THE GENERAL LEDGER:**

This finding is for the projected test year and does not have an effect on the historical general ledger.

**EFFECT ON THE FILING:**

The following journal adjustments should be made to the 2007 balances for Stone Mountain.

Operating Revenues	\$1,834	
Retained Earnings		\$1,834

**AUDIT FINDING NO. 20**

**SUBJECT: OPERATION AND MAINTENANCE EXPENSES**

**AUDIT ANALYSIS:** Audit Staff adjusted Accounts 610 - Purchased Water, 710 - Purchased Wastewater Treatment and 711 - Sludge Removal Expense as shown and explained in detail on schedules 1 and 2 below.

**EFFECT ON 2005 GENERAL LEDGER AND FILING IF FINDING IS ACCEPTED:**

Retained Earnings	\$ 62,983.22
Operation and Maintenance Expenses	\$ 62,983.22
See schedules 1 & 2 below for details	

SCHEDULE 1 - ADJUSTMENTS TO EXPENSES FOR 2005 SUMMARY

Item No.	Mo.	Sys #	System Name	Acct #	Vendor	Amount Per Company	Audit Adjustment	Amount Per Audit
1.	Sch 2	6435	Lake Gibson Estates - WW	710500	28228 Polk County Bocc Util	107,840.32	(18,758.86)	89,081.46
2.	Apr	6402	Oakwood-Wtr	610100	28153 Brevard County Water	27,683.46	(22,666.26)	5,017.20
3.	Jan	6429	Palm Terrace-Wtr	610100	See Schedule 2 below	12,275.90	(12,275.90)	-
4.	Jan	6831	South Seas - WW	711500	27024 American Water Service	4,200.00	(4,200.00)	-
5.	Jan	6432	Zephyr Shores - WW	710500	22465 Board Of County Comm	3,270.20	(3,270.20)	-
6.	Dec	various	various	various	Purchwater and ww accr true up	1,812.00	(1,812.00)	-
						157,081.88	(62,983.22)	94,098.66

See Schedule 2 for an explanation of the above adjustments

SCHEDULE 2 - EXPLANATION OF ADJUSTMENTS TO EXPENSES FOR 2005 Page 1 of 2

1.	Mo.	Sys #	System Name	Acct #	Vendor	Amount per Company	Audit Adjustment	Amount per Audit	Reason
Jan	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	5,514.05	(5,514.05)	-	Out of Period - 12/1/2004
Feb	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	6,524.57		6,524.57	Jan-05
May	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	22,038.27		22,038.27	Feb-Apr 05
Jun	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	957.89	(957.89)	-	Incorrect Billing - May 05 (A)
Jul	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	1,570.25	(1,570.25)	-	Incorrect Billing - Jun 05 (A)
Aug	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	2,024.24	(2,024.24)	-	Incorrect Billing - May 05 (A)
Sep	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	5,709.31	(5,709.31)	-	Out of Period - 6/4/2004
Sep	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	1,696.25	(1,696.25)	-	Incorrect Billing - May 05 (A)
Oct	6435		Lake Gibson Estates-WW	710500	28228POLK COUNTY BOCC UTIL	1,726.49	(1,726.49)	-	Incorrect Billing - May 05 (A)
Dec	6435		Lake Gibson Estates-WW	710500	Accr Polk Cty Utilities	4,000.00	(4,000.00)	-	Incorrect Billing - Adj. (A)
Dec	6435		Lake Gibson Estates-WW	710500	Purch ww accr true up	79.00	(79.00)	-	Incorrect Billing - Adj. (A)
Dec	6435		Lake Gibson Estates-WW	710500	Accr Polk Cty Util May- Dec	56,000.00	(56,000.00)	-	Incorrect Billing - Adj. (A)
Total:						107,840.32	(79,277.48)	28,562.84	
Correct Billing Adjustments per Invoices (A)						-	60,518.62	60,518.62	May-Dec 05
Total Adjustment Per Audit:						107,840.32	(18,758.86)	89,081.46	

2. Per the Company "The charges for purchased water for the Oakwood system reflected on the March 31, 2005 invoice, recorded to G/L Apr 05, are higher than the other months in 2005 because there was a water main leak on the system during their period 2/21/05 through 3/23/05." To normalize the expense the audit staff added the before and after month expense divided by 2 and subtracted the difference as shown below.

Mar	6402	Oakwood-Wtr	610100	Mar-05	5,803.92	Per G/L & Invoice
May	6402	Oakwood-Wtr	610100	May-05	<u>4,230.49</u>	Per G/L & Invoice
					Total:	10,034.41
Divided by 2					Divided 2	5,017.21
Apr	6402	Oakwood-Wtr	610100	Apr-05	<u>27,683.46</u>	Per G/L & Invoice
Adjustment per Audit					Difference:	<u><u>(22,666.26)</u></u>

SCHEDULE 2 - EXPLANATION OF ADJUSTMENTS TO EXPENSES FOR 2005 Page 2 of 2

Mo.	Sys #	System Name	Acct #	Vendor	Amount per Company	Audit Adjustment	Amount per Audit	Reason
3.	Jan	6429 Palm Terrace-Wtr	610100.00	22465 Board of County Commi	12,100.90	(12,100.90)	-	Out of Period Dec 04
	Jan	6429 Palm Terrace-Wtr	610100.00	28241 CITY OF PORT RICHEY	175.00	(175.00)	-	Out of Period Dec 04
				Total Adjustment Per Audit	12,275.90	(12,275.90)	-	

4. The Company recorded 13 sewer bills for the 12 months of 2005. Audit staff identified and removed a bill recorded to the general ledger in January 2005 but that was for services rendered in November 2004.

5. The Company recorded 13 sewer bills for the 12 months of 2005. The invoice for \$3,270.20 was for the period 11/02/04 to 12/01/04 but was recorded to the general ledger in January 2005. The Company paid this amount to Pasco County Utilities for Sewer Charges. This expense should have been recorded in the 2004 general ledger.

6.	Dec	6401 Kingswood -Wtr	610100.00	Purch water accr true up	132.00	(132.00)	-	See Note B below
	Dec	6402 Oakwood-Wtr	610100.00	Purch water accr true up	127.00	(127.00)	-	See Note B below
	Dec	6467 Jungle Den-Wtr	610100.00	Purch water accr true up	106.00	(106.00)	-	See Note B below
	Dec	6571 Village Water-Wtr	610100.00	Purch water accr true up	715.00	(715.00)	-	See Note B below
	Dec	6432 Zephyr Shores-WW	710500.00	Purch ww accr true up	732.00	(732.00)	-	See Note B below
				Total:	1,812.00	(1,812.00)	-	

Note B: These trup-up amounts are not necessary since the company has already included 12 bills for these accounts. The above accounts do not have reversing entries at the beginning of the following period.

**AUDIT FINDING NO. 21**

**SUBJECT: LAB TESTING EXPENSE PROJECTIONS**

**AUDIT ANALYSIS:** We reviewed adjustments listed on Schedule B-3 (Adjustments to Operating Income) of the filed MFR for each system. Our review indicated that the lab testing expense for the Leisure Lakes system was significant to that system. We requested additional documentation for the lab testing expense for the Leisure Lakes water system for 2006. The response that the company provided was a listing of invoices, by system for 2005. The company response did not address the 2006 expense, as requested, but we compared the response to the MFRs for 2005. Our review of the company response found that the numbers provided did not reconcile to the MFRs for 2005. In fact, the listing for Leisure Lakes consisted of one invoice for \$84. The 2005 expense included in the Leisure Lakes MFRs was \$3,217. Based on the response, it appears that the 2005 expense should be reduced to \$84.

In addition, because the company did not provide any documentation, as requested, to support the projected increase in 2006, we recommend that the 2006 addition, also be disallowed.

**EFFECT ON THE GENERAL LEDGER:**

The following adjustments should be made to the 2005 and 2006 Lab Testing Expense:

2005		
Retained Earnings	\$3,133	
Contractual Services - Testing		\$3,133
2006		
Retained Earnings	\$5,763	
Contractual Services - Testing		\$5,763

**EFFECT ON THE FILING:**

The following adjustments should be made to the 2005 and 2006 Lab Testing Expense:

2005		
Retained Earnings	\$3,133	
Contractual Services - Testing		\$3,133
2006		
Retained Earnings	\$5,763	
Contractual Services - Testing		\$5,763

**AUDIT FINDING NO. 22**

**SUBJECT: OPERATION AND MAINTENANCE (O&M) EXPENSE PROJECTIONS**

**AUDIT ANALYSIS:** Audit staff reviewed the reasonableness of the 2006 and 2007 projections for O&M expenses. For 2006, we compared the 2006 projections to the actual expenses recorded for 2006. In total, the company MFRs projected 2006 O&M expenses of \$6,993,799. In total, the actual 2006 O&M expenses were \$7,186,381. The total 2006 projections were only 3% below actual. However, actual 2006 O&M expenses for the individual systems ranged from 74% of the projections to 157% of the projections. For rate setting purposes in the individual systems, these differences may be material.

For 2007, we compared the 2007 projections to the 2007 budget. These numbers did not reconcile and staff requested additional information. The company responded that the difference between the 2007 Budget and MFR B-6 is the "Admin Alloc" charges. Staff has concerns that this explanation is not reasonable, especially considering that these charges across the board increase all O&M expenses, including expenses that we believe should be direct charges (such as, sludge removal expense, chemicals, testing, etc.) and should not be subject to allocations. We did not have time to follow up further on these differences in the 2007 projections.

**EFFECT ON THE GENERAL LEDGER:**

This finding is for informational purposes only.

**EFFECT ON THE FILING:**

This finding is for informational purposes only.

**AUDIT FINDING NO. 23**

**SUBJECT: PURCHASED POWER EXPENSE PROJECTIONS**

**AUDIT ANALYSIS:** We reviewed the adjustments listed on Schedule B-3 (Adjustments to Operating Income) of the filed MFR for each system and on February 5, 2007, we requested the following additional information regarding the purchased power expense adjustments.

1. 2006: Purchased Power and Fuel for Purchased Power; Adj. for increase in cost due to storm damage recover surcharges and fuel charges;
2. 2007: Purchased Power and Fuel for Purchased Power; Adj. to '07 plan alloc'd by ERC's; and
3. 2006: Purchased Power Rate Increase Pass-Through

We requested the support to include all information necessary to show the basis for projection (such as internal workpapers, historical amounts used, factors used to increase, historical bills used to indicate increases, total amount projected, and any invoices used to project.) We specifically requested that the workpapers and explanation should be clear as to how these adjustments are separate and do not overlap and requested that the support should also include the method used to allocate between systems and between water and wastewater. The company response addressed items 1 and 3. However, the company did not respond to Item 2, the projected 2007 adjustment. By e-mail dated February 28, 2007, audit staff informed the company that their response did not adequately address the request. Staff agreed that the information provided regarding Items 1 and 3 was satisfactory, but the company needed to provide information on Item 2. This was followed up by another e-mail dated March 23, 2007, as well as a letter dated April 5, 2007, which listed all outstanding document requests. At this point, staff was sending the company a weekly update of outstanding document requests and this request was included each week and was discussed in several of the weekly conference calls that the company participated in. As of May 11, 2007, the company has not submitted any additional information.

We reviewed the information provided for parts 1 and 3 and found the documentation satisfactory. However, because the utility failed to support the purchased power adjustments for 2007, audit staff recommends that the 2007 adjustments be disallowed.

**EFFECT ON THE GENERAL LEDGER:**

This finding only affects the 2007 projections and does not affect the historic general ledger.

**EFFECT ON THE FILING:**

The following chart lists the adjustments that should be removed from 2007 expenses.

Page 1 of 2

<u>System</u>	<u>County</u>	<u>2007 Purchase Power Adjustemnt</u>	<u>Fuel for Purchased Power Adjustment</u>
Arredondo - Sewer	Alachua	572	462
Arredondo - Water	Alachua	333	13
Kingswood - Water	Brevard	67	3
Oakwood - Water	Brevard	82	4
Lake Josephine	Highlands	422	6
Leisure Lakes - Sewer	Highlands	257	459
Leisure Lakes - Water	Highlands	54	47
Sebring Lakes	Highlands	33	1
48 Estates	Lake	327	41
Carlton Village - Water	Lake	(2,112)	82
East Lake Harris Estates	Lake	243	5
Fern Terrace	Lake	98	2
Friendly Center	Lake	217	2
Grand Terrace	Lake	(370)	3
Haines Creek	Lake	(289)	2
Hobby Hills	Lake	63	3
Holiday Haven - Sewer	Lake	727	201
Holiday Haven - Water	Lake	72	3
Imperial Mobile Terrace	Lake	112	93
Kings Cove - Sewer	Lake	(110)	382
Kings Cove - Water	Lake	836	4
Morningview - Sewer	Lake	139	93
Morningview - Water	Lake	37	1
Palms Mobile Home Park	Lake	113	1
Picciola Island	Lake	142	21
Piney Woods	Lake	170	52
Quail Ridge	Lake	97	3
Ravenswood	Lake	91	27
Silver Lake Estates	Lake	1,973	26
Skycrest	Lake	104	71
Stone Mountain	Lake	39	1
Summit Chase - Sewer	Lake	1,886	1,105
Summit Chase - Water	Lake	580	32
Valencia Terrace - Sewer	Lake	499	445
Valencia Terrace - Water	Lake	217	5
Venetian Village - Sewer	Lake	1,276	749
Venetian Village - Water	Lake	350	20
South Seas	Lee	962	411
Ocala Oaks - Water	Marion	5,185	73
Tangerine	Orange	121	3
Lake Osborne	Palm Beac	78	5
Jasmine Lakes - Sewer	Pasco	396	1,453
Jasmine Lakes - Water	Pasco	(113)	65
Palm Terrace - Sewer	Pasco	873	904
Palm Terrace - Water	Pasco	(371)	13
Total:		16,478	7,397



<u>System</u>	<u>County</u>	<u>2007 Purchase Power Adjustment</u>	<u>Fuel for Purchased Power Adjustment</u>
Zephyr Shores -	Pasco	317	409
Zephyr Shores -	Pasco	165	6
Gibsonia Estates	Polk	259	80
Lake Gibson Estates -	Polk	652	797
Lake Gibson Estates -	Polk	826	9
Orange Hill	Polk	509	11
Rosalie Oaks - Sewer	Polk	185	137
Rosalie Oaks - Water	Polk	40	64
The Woods - Sewer	Polk	458	135
The Woods - Water	Polk	271	30
Village Water - Sewer	Polk	20	71
Village Water - Water	Polk	40	3
Beecher's Point -	Putnam	124	94
Beecher's Point -	Putnam	(12)	2
Hermits Cove - Water	Putnam	148	17
Jungle Den - Sewer	Putnam	161	225
Jungle Den - Water	Putnam	243	3
Palm Port - Sewer	Putnam	(196)	148
Palm Port - Water	Putnam	8	2
Park Manor - Sewer	Putnam	208	439
Park Manor - Water	Putnam	429	90
Pomona Park - Water	Putnam	108	26
River Grove - Water	Putnam	345	13
Silver Lake Oaks - Sewer	Putnam	72	81
Silver Lake Oaks - Water	Putnam	79	1
St Johns Highlands	Putnam	61	2
Welaka	Putnam	87	5
Wootens	Putnam	131	4
Chuluota - Sewer	Seminole	(1,170)	1,032
Chuluota - Water	Seminole	447	105
Florida Central			
Commerce Park	Seminole	360	676
Harmony Homes	Seminole	81	3
Tomoka	Volusia	(91)	5
Sunny Hills - Sewer	Washington	352	444
Sunny Hills - Water	Washington	2,296	8
Total:		8,013	5,177
Grand Total:		24,491	12,574

**AUDIT FINDING NO. 24**

**SUBJECT: OPERATION AND MAINTENANCE (O&M) EXPENSE PROJECTIONS**

**AUDIT ANALYSIS:** We reviewed adjustments listed on Schedule B-3 (Adjustments to Operating Income) and picked individual and group adjustments that appeared material. On February 5, 2007, we requested additional information in a formal Document Request. This request addressed the following specific projected expenses for 2006 and 2007 as shown on Schedule B-3, Pages 2 and 4 of each of the MFRs.

- 2006: Salaries & Wages – Employees; Adjustment for open positions;
- 2007: Salaries & Wages – Employees;
- 2006: Purchased Water/Sewer Treatment; Adj. for usually wet weather, plus increase for growth and inflationary increases;
- 2006: Sludge Removal Expense; Adj. for upgraded plants, growth, and inflationary increases;
- 2006: Contractual Services – Legal; Adj. to account for fees that were previously included in the corporate charges in the past;
- 2007: Contractual Services – Legal; Adj. to '07 plan alloc'd by ERC's;
- 2006: Contractual Services – Other; Adj. for changes occurring due to moving the call center from Florida to Cary, NC;
- 2007: Contractual Services – Other; Customer Call Center Conversion;
- 2007: Contractual Services – Other; Adj. to '07 plan alloc'd by ERC's;
- 2006: Miscellaneous Expense; Adj. for various additional expenses (i.e. cellular phones, long distance charges, relocation charges, seminars, travel, and fines);
- 2007: Miscellaneous Expense; Adj. to '07 plan alloc'd by ERC's;
- 2006: Materials & Supplies; Adj. for increase in spending to improvement and repairs that are not capital in nature;
- 2007: Materials & Supplies; Adj. to '07 plan alloc'd by ERC's;
- 2007: Contractual Services – Mgmt Fees; Adj. to '07 plan alloc'd by ERC's;
- 2006: Bad Debt Expense; Adj. for improved delinquencies; and
- 2007: Bad Debt Expense; Adj. to '07 plan, allocated by ERC's.

We requested the support to include all information necessary to show the basis for projection (such as internal workpapers, historical amounts used, factors used to increase, historical bills used to indicate increases, total amount projected, and any bids, quotes, or invoices used to project.) We also stated that support should include the method used to allocate between systems and between water and wastewater. For projections with multiple items, we asked that each item be detailed separately.

On February 28, 2007, the company provided a response that included:

- 2007 Budget: a listing of monthly expense balances, by account, by system,
- Customer Call Center Conversion Expenses: a schedule detailing the calculation of the expense adjustment,
- Percentage Increases: a listing by expense description of the 2006 "Rate Adjusted Budget", the 5 year plan budget for 2007 and a calculated percentage difference,
- A listing of the expense adjustments with a one or two sentence summary, and
- A listing of the ERC count at 12/31/05 and calculations indicating the allocation percentages for all Florida systems and all Florida systems included in this rate case.

By e-mail dated March 15, 2007, audit staff responded that the company response did not adequately address the request. Staff agreed that the information provided regarding the customer call center conversion was satisfactory. However, the company did not provide information on the specific calculations used to project the remaining expenses, such as internal workpapers, historical amounts used, factors used to increase, historical bills used to indicate increases, total amount projected, and any bids, quotes, or invoices used to project. This was followed up by another e-mail dated March 23, 2007, as well as a letter dated April 5, 2007 which listed all outstanding document requests. At this point, staff was sending the company a weekly update of outstanding document requests and this specific request was included each week and was discussed in several of the weekly conference calls that the company participated in. As of May 11, 2007, the company has not submitted any additional information.

The information provided to justify the Customer Call Center Conversion Expenses is sufficient. However, the company has had over three months to provide support for the remaining adjustments made to the O&M expenses in its filing. Audit staff recommends that the supporting documentation should have been readily available. Staff's request is for the information used by the company in preparing its rate case MFRs. The company should have provided the work sheets, calculations, and schedules used to determine the total expenses, as well as the allocation work sheets to spread the costs between the systems. Because this information was not provided to the auditors, we recommend that the projected adjustments should be disallowed.

**EFFECT ON THE GENERAL LEDGER:**

This finding affects only the projected balances and does not have an effect on the general ledger.

**EFFECT ON THE FILING:**

The net effect to the filing is to reduce the Operation and Maintenance Expense by \$454,674 for 2006 and \$1,228,239 for 2007. A detailed schedule is contained in the audit workpapers.

**AUDIT FINDING NO. 25**

**SUBJECT: ALLOCATED PLANT DEPRECIATION INCORRECTLY CLASSIFIED**

**AUDIT ANALYSIS:** The utility depreciated its allocated plant at 16.67% per annum or 1.39% per month. A review of invoices showed that the December 2005 additions of \$93,945.24 related to leasehold improvements for moving the Sarasota office. Rule 25-30.140, Florida Administrative Code, Account 304 General Building and Structures provides a depreciation rate of 2.5% per annum or .21% per month. Using the correct rates would decrease depreciation expense and accumulated depreciation. The schedule on the following page shows the changes in the monthly depreciation and the 13-month average effect for all three years. The net effect in 2007 is a reduction of depreciation expense of \$13,302.61 and a decrease (debit) to the 13-month average accumulated depreciation of \$21,062.47. The second schedule shows the allocation to each utility system for the 2007 filing effect.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

For December 31, 2006, the following entry should be made:

Accumulated Depreciation Florida Leasehold	\$14,411.16	
Retained Earnings		\$ 1,108.55
Depreciation Expense Florida Leasehold		\$13,302.61

**EFFECT ON THE 2007 FILING IF FINDING IS ACCEPTED:**

The 2007 depreciation expense should be reduced (credited) by \$13,302.61 as shown by utility system on the attached schedule. The 13-month average accumulated depreciation for 2007 should be decreased (debited) by \$21,062.47 as shown by division on the attached schedule.

Docket No. 060368-WS  
Exhibit CJW-1 (Page 47 of 65)  
Audit Report

	December-05	January-06	February-06	March-06	April-06	May-06	June-06
PLANT	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00
DEPRECIATION RATE USED	1.390%	1.390%	1.390%	1.390%	1.390%	1.390%	1.390%
DEPRECIATION TAKEN	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84
ACC. DEP. TAKEN	1,305.84	2,611.67	3,917.51	5,223.34	6,529.18	7,835.01	9,140.85
AT .025 RATE FOR BLDG. (.21/MONTH)	0.210%	0.210%	0.210%	0.210%	0.210%	0.210%	0.210%
DEPRECIATION SHOULD BE	197.28	197.28	197.28	197.28	197.28	197.28	197.28
ACC. DEP SHOULD BE	197.28	394.57	591.85	789.14	986.42	1183.71	1380.99
DEPRECIATION EXPENSE DIFFERENCE	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)
ACC. DEPR. DIFFERENCE	(1,108.55)	(2,217.10)	(3,325.65)	(4,434.20)	(5,542.76)	(6,651.31)	(7,759.86)
EFFECT FOR YEAR DEPRECIATION EXP.	(1,108.55)						
EFFECT FOR YEAR ACC. DEP.	(1,108.55)						
13-MONTH AVERAGE EFFECT	(85.27)						
	<b>July-06</b>	<b>August-06</b>	<b>September-06</b>	<b>October-06</b>	<b>November-06</b>	<b>December-06</b>	
PLANT	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	
DEPRECIATION RATE USED	1.390%	1.390%	1.390%	1.390%	1.390%	1.390%	
DEPRECIATION TAKEN	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	
ACC. DEP. TAKEN	10,446.68	11,752.52	13,058.36	14,364.19	15,670.03	16,975.86	
AT .025 RATE FOR BLDG. (.21/MONTH)	0.210%	0.210%	0.210%	0.210%	0.210%	0.210%	
DEPRECIATION SHOULD BE	197.28	197.28	197.28	197.28	197.28	197.28	
ACC. DEP SHOULD BE	1,578.28	1,775.56	1,972.85	2,170.13	2,367.41	2,564.70	
DEPRECIATION EXPENSE DIFFERENCE	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	
ACC. DEPR. DIFFERENCE	(8,868.41)	(9,976.96)	(11,085.51)	(12,194.06)	(13,302.61)	(14,411.16)	
EFFECT FOR YEAR DEPRECIATION EXP.							(13,302.61)
EFFECT FOR YEAR ACC. DEP.							(14,411.16)
13-MONTH AVERAGE EFFECT							(7,759.86)
	<b>January-07</b>	<b>February-07</b>	<b>March-07</b>	<b>April-07</b>	<b>May-07</b>	<b>June-07</b>	
PLANT	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	
DEPRECIATION RATE USED	1.390%	1.390%	1.390%	1.390%	1.390%	1.390%	
DEPRECIATION TAKEN	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	
ACC. DEP. TAKEN	18,281.70	19,587.53	20,893.37	22,199.20	23,505.04	24,810.87	
AT .025 RATE FOR BLDG. (.21/MONTH)	0.210%	0.210%	0.210%	0.210%	0.210%	0.210%	
DEPRECIATION SHOULD BE	197.28	197.28	197.28	197.28	197.28	197.28	
ACC. DEP SHOULD BE	2,761.98	2,959.27	3,156.55	3,353.84	3,551.12	3,748.41	
DEPRECIATION EXPENSE DIFFERENCE	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	
ACC. DEPR. DIFFERENCE	(15,519.71)	(16,628.27)	(17,736.82)	(18,845.37)	(19,953.92)	(21,062.47)	
EFFECT FOR YEAR DEPRECIATION EXP.							
EFFECT FOR YEAR ACC. DEP.							
13-MONTH AVERAGE EFFECT							
	<b>July-07</b>	<b>August-07</b>	<b>September-07</b>	<b>October-07</b>	<b>November-07</b>	<b>December-07</b>	
PLANT	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	93,945.00	
DEPRECIATION RATE USED	1.390%	1.390%	1.390%	1.390%	1.390%	1.390%	
DEPRECIATION TAKEN	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	1,305.84	
ACC. DEP. TAKEN	26,116.71	27,422.55	28,728.38	30,034.22	31,340.05	32,645.89	
AT .025 RATE FOR BLDG. (.21/MONTH)	0.210%	0.210%	0.210%	0.210%	0.210%	0.210%	
DEPRECIATION SHOULD BE	197.28	197.28	197.28	197.28	197.28	197.28	
ACC. DEP SHOULD BE	3,945.69	4,142.97	4,340.26	4,537.54	4,734.83	4,932.11	
DEPRECIATION EXPENSE DIFFERENCE	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	(1,108.55)	
ACC. DEPR. DIFFERENCE	(22,171.02)	(23,279.57)	(24,388.12)	(25,496.67)	(26,605.22)	(27,713.78)	
EFFECT FOR YEAR DEPRECIATION EXP.							(13,302.61)
EFFECT FOR YEAR ACC. DEP.							(27,713.78)
13-MONTH AVERAGE EFFECT							(21,062.47)

System	A/U #	County	Water	Sewer	Total	# of Cust	%	13-Month	Depreciation	Retained
								Average	Expense	Earnings
								Acc. Dep.		
ARREDONDO ESTATES - Water	6567	Alachua	246		246	246	0.664%	139.77	(88.27)	(51.49)
ARREDONDO FARMS - Sewer	6389	Alachua		356	356	356	0.960%	202.27	(127.75)	(74.52)
ARREDONDO FARMS - Water	6568	Alachua	364		364	364	0.982%	206.81	(130.62)	(76.19)
CRU - HAINES CREEK	6556	Lake	111		111	111	0.299%	63.07	(39.83)	(23.23)
CRU - LAKE OSBORNE	6558	Palm Bch	468		468	468	1.262%	265.90	(167.94)	(97.96)
CRU - RAVENSWOOD	6561	Lake	44		44	44	0.119%	25.00	(15.79)	(9.21)
CRU - ROSALIE OAKS - Sewer	6386	Polk		95	95	95	0.256%	53.98	(34.09)	(19.89)
CRU - ROSALIE OAKS - Water	6562	Polk	95		95	95	0.256%	53.98	(34.09)	(19.89)
CRU - THE WOODS - Sewer	6388	Polk		71	71	71	0.192%	40.34	(25.48)	(14.86)
CRU - THE WOODS - Water	6564	Polk	75		75	75	0.202%	42.61	(26.91)	(15.70)
J SWIDERSKI - 48 ESTATES	6597	Lake	81		81	81	0.218%	46.02	(29.07)	(16.96)
J SWIDERSKI - KINGS COVE - Sewer	6395	Lake		199	199	199	0.537%	113.06	(71.41)	(41.66)
J SWIDERSKI - KINGS COVE - Water	6595	Lake	207		207	207	0.558%	117.61	(74.28)	(43.33)
J SWIDERSKI - SUMMIT CHASE - Sewer	6396	Lake		218	218	218	0.588%	123.86	(78.23)	(45.63)
J SWIDERSKI - SUMMIT CHASE - Water	6596	Lake	220		220	220	0.593%	125.00	(78.95)	(46.05)
JASMINE LAKES - Sewer	6391	Pasco		1,560	1,560	1,560	4.208%	886.34	(559.79)	(326.55)
JASMINE LAKES - Water	6574	Pasco	1,571		1,571	1,571	4.238%	892.59	(563.74)	(328.85)
LAKE JOSEPHINE	6589	Highlands	564		564	564	1.521%	320.45	(202.39)	(118.06)
OCALA OAKS - Water	6577	Marion	1,786		1,786	1,786	4.818%	1,014.74	(640.89)	(373.85)
SEBRING LAKES	6933	Highlands	69		69	69	0.186%	39.20	(24.76)	(14.44)
SOUTH SEAS	6831	Lee		64	64	64	0.173%	36.36	(22.97)	(13.40)
VILLAGE WATER - Sewer	6390	Polk		35	35	35	0.094%	19.89	(12.56)	(7.33)
VILLAGE WATER - Water	6571	Polk	187		187	187	0.504%	106.25	(67.10)	(39.14)
Beecher's Point - Sewer	6439	Putnam		18	18	18	0.049%	10.23	(6.46)	(3.77)
Beecher's Point - Water	6438	Putnam	53		53	53	0.143%	30.11	(19.02)	(11.09)
Carlton Village - W	6405	Lake	220		220	220	0.593%	125.00	(78.95)	(46.05)
Chuluota - Sewer	6457	Seminole		566	566	566	1.527%	321.58	(203.10)	(118.48)
Chuluota - Water	6456	Seminole	1,306		1,306	1,306	3.523%	742.02	(468.65)	(273.38)
East Lake Harris Estates	6406	Lake	178		178	178	0.480%	101.13	(63.87)	(37.26)
Fern Terrace	6407	Lake	125		125	125	0.337%	71.02	(44.86)	(26.17)
Florida Central Commerce Park	6461	Seminole		68	68	68	0.183%	38.64	(24.40)	(14.23)
Friendly Center	6408	Lake	31		31	31	0.084%	17.61	(11.12)	(6.49)
Gibsonia Estates	6433	Polk	191		191	191	0.515%	108.52	(68.54)	(39.98)
Grand Terrace	6409	Lake	111		111	111	0.299%	63.07	(39.83)	(23.23)
Harmony Homes	6462	Seminole	64		64	64	0.173%	36.36	(22.97)	(13.40)
Hermits Cove - Water	6440	Putnam	184		184	184	0.496%	104.54	(66.03)	(38.52)
Hobby Hills	6410	Lake	104		104	104	0.281%	59.09	(37.32)	(21.77)
Holiday Haven - Sewer	6412	Lake		112	112	112	0.302%	63.63	(40.19)	(23.44)
Holiday Haven - Water	6411	Lake	127		127	127	0.343%	72.16	(45.57)	(26.58)
Imperial Mobile Terrace	6413	Lake	247		247	247	0.666%	140.34	(88.63)	(51.70)
Interlachen Lake Estates	6441	Putnam	252		252	252	0.680%	143.18	(90.43)	(52.75)
Jungle Den - Sewer	6468	Putnam		137	137	137	0.370%	77.84	(49.16)	(28.68)
Jungle Den - Water	6467	Putnam	115		115	115	0.310%	65.34	(41.27)	(24.07)
Kingswood - W	6401	Brevard	65		65	65	0.175%	36.93	(23.32)	(13.61)
Lake Gibson Estates - Sewer	6435	Polk		319	319	319	0.861%	181.24	(114.47)	(66.77)
Lake Gibson Estates - Water	6434	Polk	841		841	841	2.269%	477.83	(301.79)	(176.04)
Leisure Lakes - Sewer	6404	Highlands		282	282	282	0.761%	160.22	(101.19)	(59.03)
Leisure Lakes - Water	6403	Highlands	291		291	291	0.785%	165.34	(104.42)	(60.91)
Morningview - Sewer	6415	Lake		33	33	33	0.089%	18.75	(11.84)	(6.91)
Morningview - Water	6414	Lake	35		35	35	0.094%	19.89	(12.56)	(7.33)

System	A/U #	County	Water	Sewer	Total	# of Cust	%	13-Month Average Acc. Dep.	Depreciation Expense	Retained Earnings
Oakwood - W	6402	Brevard	232		232	232	0.63%	131.81	-83.25	-48.56
Orange Hill	6436	Polk	177		177	177	0.48%	100.57	-63.51	-37.05
Palm Port - Sewer	6445	Putnam		107	107	107	0.29%	60.79	-38.4	-22.4
Palm Port - Water	6444	Putnam	107		107	107	0.29%	60.79	-38.4	-22.4
Palm Terrace - Sewer	6430	Pasco		1,034	1,034	1,034	2.79%	587.48	-371.04	-216.44
Palm Terrace - Water	6429	Pasco	1,191		1,191	1,191	3.21%	676.69	-427.38	-249.31
Palms Mobile Home Park	6416	Lake	62		62	62	0.17%	35.23	-22.25	-12.98
Park Manor - Sewer	6443	Putnam		31	31	31	0.08%	17.61	-11.12	-6.4
Park Manor - Water	6442	Putnam	31		31	31	0.08%	17.61	-11.12	-6.49
Picciola Island	6417	Lake	149		149	149	0.40%	84.66	-53.47	-31.19
Piney Woods	6418	Lake	176		176	176	0.48%	100	-63.16	-36.84
Pomona Park - Water	6446	Putnam	181		181	181	0.488%	102.84	(64.95)	(37.89)
Quail Ridge	6419	Lake	94		94	94	0.254%	53.41	(33.73)	(19.68)
River Grove - Water	6447	Putnam	107		107	107	0.289%	60.79	(38.40)	(22.40)
Saratoga Harbour - Water	6452	Putnam	51		51	51	0.138%	28.98	(18.30)	(10.68)
Silver Lake Estates	6420	Lake	1,137		1,137	1,137	3.067%	646.00	(408.00)	(238.00)
Silver Lake Oaks - Sewer	6449	Putnam		45	45	45	0.121%	25.57	(16.15)	(9.42)
Silver Lake Oaks - Water	6448	Putnam	45		45	45	0.121%	25.57	(16.15)	(9.42)
Skycrest	6421	Lake	124		124	124	0.334%	70.45	(44.50)	(25.96)
St Johns Highlands	6450	Putnam	98		98	98	0.264%	55.68	(35.17)	(20.51)
Stone Mountain	6422	Lake	10		10	10	0.027%	5.68	(3.59)	(2.09)
Sugar Creek	6437	Polk	67		67	67	0.181%	38.07	(24.04)	(14.02)
Sunny Hills	6471	Washington	519		519	519	1.400%	294.88	(186.24)	(108.64)
Sunny Hills	6472	Washington		180	180	180	0.486%	102.27	(64.59)	(37.68)
Tangerine	6428	Orange	270		270	270	0.728%	153.40	(96.89)	(56.52)
Tomoka	6469	Volusia	271		271	271	0.731%	153.97	(97.25)	(56.73)
Valencia Terrace - Sewer	6424	Lake		347	347	347	0.936%	197.15	(124.52)	(72.64)
Valencia Terrace - Water	6423	Lake	353		353	353	0.952%	200.56	(126.67)	(73.89)
Venetian Village - Sewer	6426	Lake		95	95	95	0.256%	53.98	(34.09)	(19.89)
Venetian Village - Water	6425	Lake	155		155	155	0.418%	88.07	(55.62)	(32.45)
Welaka	6451	Putnam	109		109	109	0.294%	61.93	(39.11)	(22.82)
Western Shores	6427	Lake	458		458	458	1.235%	260.22	(164.35)	(95.87)
Wootens	6453	Putnam	29		29	29	0.078%	16.48	(10.41)	(6.07)
Zephyr Shores - Sewer	6432	Pasco		524	524	524	1.414%	297.72	(188.03)	(109.69)
Zephyr Shores - Water	6431	Pasco	526		526	526	1.419%	298.86	(188.75)	(110.10)
CITRUS - CASTLE LAKE - Water	6555	Citrus	107		107	107	0.289%	60.79	(38.40)	(22.40)
CITRUS - KENWOOD NORTH - Water	6557	Citrus	49		49	49	0.132%	27.84	(17.58)	(10.26)
CITRUS - MEADOWS - Water	6559	Citrus	53		53	53	0.143%	30.11	(19.02)	(11.09)
CITRUS - PINE VALLEY - Water	6560	Citrus	47		47	47	0.127%	26.70	(16.87)	(9.84)
CITRUS - WEST CITRUS - Water	6563	Citrus	64		64	64	0.173%	36.36	(22.97)	(13.40)
LAKE SUZY - Sewer	6392	DeSoto		268	268	268	0.723%	152.27	(96.17)	(56.10)
LAKE SUZY - Water	6582	DeSoto	556		556	556	1.500%	315.90	(199.52)	(116.38)
PEACE RIVER - Sewer	6397	Hardee		96	96	96	0.259%	54.54	(34.45)	(20.10)
PEACE RIVER - Water	6600	Hardee	98		98	98	0.264%	55.68	(35.17)	(20.51)
SARASOTA - Sewer	6965	Sarasota		7,228	7,228	7,228	19.498%	4,106.70	(2,593.71)	(1,513.00)
SARASOTA - Water	6964	Sarasota	4,652		4,652	4,652	12.549%	2,643.11	(1,669.33)	(973.78)
<b>FLORIDA TOTALS</b>			<b>22,983</b>	<b>14,088</b>	<b>37,071</b>	<b>37,071</b>	<b>100.00%</b>	<b>21,062.47</b>	<b>(13,302.61)</b>	<b>(7,759.86)</b>

**AUDIT FINDING NO. 26**

**SUBJECT: UNSUPPORTED ALLOCATIONS**

**AUDIT ANALYSIS:** The utility provided the 2005 Corporate Charges that were allocated from the Pennsylvania office, in its response to the Accounting Deficiencies, 33 Part 1. These costs were reconciled to the allocations for each division. We asked the Pennsylvania office to provide supporting documentation including any accruals, for costs included on this schedule. The utility did not provide enough supporting documentation to justify the following amounts on the schedule:

OTHER CHARGES-ACCOUNT	NUMBER	PER CO. SCHEDULE	PER SUPPORT PROVIDED	DIFFERENCE
Audit Regular	632/732-800	45,621.59		
Audit 404	632/732-800	26,625.71		
Audit Benefit Plans	632/732-800	239.52		
Total Audit Fees		<u>72,486.82</u>	<u>63,269.00</u>	<u>(9,217.82)</u>
Bonus	603/703-820	68,898.60	54,826.00	(14,072.60)
Outside Legal	633/733-800	8,202.22	0.00	(8,202.22)
Profit Sharing	604/704-837	59,976.96	35,756.84	(24,220.12)
Total bonus, legal and profit sharing		<u>137,077.78</u>	<u>90,582.84</u>	<u>(46,494.94)</u>
Grand Total		<u>209,564.60</u>	<u>153,851.84</u>	<u>(55,712.76)</u>

**EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED:**

The entry would be offset to affiliate company expense accounts and there would be no need for a prior period adjustment.

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

The 2005 expenses should be reduced by \$55,712.76. The allocation, by plant, follows on the next page.



System	A/U #	# of Cust	%	UNSUPPORTED ALLOCATIONS
ARREDONDO ESTATES - Water	6567	246	0.66%	(369.71)
ARREDONDO FARMS - Sewer	6389	356	0.96%	(535.02)
ARREDONDO FARMS - Water	6568	364	0.98%	(547.04)
CRU - HAINES CREEK	6556	111	0.30%	(166.82)
CRU - LAKE OSBORNE	6558	468	1.26%	(703.34)
CRU - RAVENSWOOD	6561	44	0.12%	(66.13)
CRU - ROSALIE OAKS - Sewer	6386	95	0.26%	(142.77)
CRU - ROSALIE OAKS - Water	6562	95	0.26%	(142.77)
CRU - THE WOODS - Sewer	6388	71	0.19%	(106.70)
CRU - THE WOODS - Water	6564	75	0.20%	(112.71)
J SWIDERSKI - 48 ESTATES	6597	81	0.22%	(121.73)
J SWIDERSKI - KINGS COVE - Sewer	6395	199	0.54%	(299.07)
J SWIDERSKI - KINGS COVE - Water	6595	207	0.56%	(311.09)
J SWIDERSKI - SUMMIT CHASE - Sewer	6396	218	0.59%	(327.62)
J SWIDERSKI - SUMMIT CHASE - Water	6596	220	0.59%	(330.63)
JASMINE LAKES - Sewer	6391	1560	4.21%	(2,344.47)
JASMINE LAKES - Water	6574	1571	4.24%	(2,361.00)
LAKE JOSEPHINE	6589	564	1.52%	(847.62)
OCALA OAKS - Water	6577	1786	4.82%	(2,684.12)
SEBRING LAKES	6933	69	0.19%	(103.70)
SOUTH SEAS	6831	64	0.17%	(96.18)
VILLAGE WATER - Sewer	6390	35	0.09%	(52.60)
VILLAGE WATER - Water	6571	187	0.50%	(281.04)
Beecher's Point - Sewer	6439	18	0.05%	(27.05)
Beecher's Point - Water	6438	53	0.14%	(79.65)
Carlton Village - Water	6405	220	0.59%	(330.63)
Chuluota - Sewer	6457	566	1.53%	(850.62)
Chuluota - Water	6456	1306	3.52%	(1,962.74)
East Lake Harris Estates	6406	178	0.48%	(267.51)
Fern Terrace	6407	125	0.34%	(187.86)
Florida Central Commerce Park	6461	68	0.18%	(102.19)
Friendly Center	6408	31	0.08%	(46.59)
Gibsonia Estates	6433	191	0.52%	(287.05)
Grand Terrace	6409	111	0.30%	(166.82)
Harmony Homes	6462	64	0.17%	(96.18)
Hermits Cove - Water	6440	184	0.50%	(276.53)
Hobby Hills	6410	104	0.28%	(156.30)
Holiday Haven - Sewer	6412	112	0.30%	(168.32)
Holiday Haven - Water	6411	127	0.34%	(190.86)
Imperial Mobile Terrace	6413	247	0.67%	(371.21)
Interlachen Lake Estates	6441	252	0.68%	(378.72)
Jungle Den - Sewer	6468	137	0.37%	(205.89)
Jungle Den - Water	6467	115	0.31%	(172.83)
Kingswood - Water	6401	65	0.18%	(97.69)
Lake Gibson Estates - Sewer	6435	319	0.86%	(479.41)
Lake Gibson Estates - Water	6434	841	2.27%	(1,263.91)
Leisure Lakes - Sewer	6404	282	0.76%	(423.81)
Leisure Lakes - Water	6403	291	0.78%	(437.33)
Morningview - Sewer	6415	33	0.09%	(49.59)
Morningview - Water	6414	35	0.09%	(52.60)
Oakwood - Water	6402	232	0.63%	(348.67)
Orange Hill	6436	177	0.48%	(266.01)
Palm Port - Sewer	6445	107	0.29%	(160.81)
Palm Port - Water	6444	107	0.29%	(160.81)
Palm Terrace - Sewer	6430	1034	2.79%	(1,553.96)
Palm Terrace - Water	6429	1191	3.21%	(1,789.91)
Palms Mobile Home Park	6416	62	0.17%	(93.18)
Park Manor - Sewer	6443	31	0.08%	(46.59)
Park Manor - Water	6442	31	0.08%	(46.59)
Picciola Island	6417	149	0.40%	(223.93)

System	A/U #	# of Cust	%	UNSUPPORTED ALLOCATIONS
Piney Woods	6418	176	0.47%	(264.50)
Pomona Park - Water	6446	181	0.49%	(272.02)
Quail Ridge	6419	94	0.25%	(141.27)
River Grove - Water	6447	107	0.29%	(160.81)
Saratoga Harbour - Water	6452	51	0.14%	(76.65)
Silver Lake Estates	6420	1137	3.07%	(1,708.76)
Silver Lake Oaks - Sewer	6449	45	0.12%	(67.63)
Silver Lake Oaks - Water	6448	45	0.12%	(67.63)
Skycrest	6421	124	0.33%	(186.36)
St Johns Highlands	6450	98	0.26%	(147.28)
Stone Mountain	6422	10	0.03%	(15.03)
Sugar Creek	6437	67	0.18%	(100.69)
Sunny Hills	6471	519	1.40%	(779.99)
Sunny Hills	6472	180	0.49%	(270.52)
Tangerine	6428	270	0.73%	(405.77)
Tomoka	6469	271	0.73%	(407.28)
Valencia Terrace - Sewer	6424	347	0.94%	(521.49)
Valencia Terrace - Water	6423	353	0.95%	(530.51)
Venetian Village - Sewer	6426	95	0.26%	(142.77)
Venetian Village - Water	6425	155	0.42%	(232.94)
Welaka	6451	109	0.29%	(163.81)
Western Shores	6427	458	1.24%	(688.31)
Wootens	6453	29	0.08%	(43.58)
Zephyr Shores - Sewer	6432	524	1.41%	(787.50)
Zephyr Shores - Water	6431	526	1.42%	(790.51)
CITRUS - CASTLE LAKE - Water	6555	107	0.29%	(160.81)
CITRUS - KENWOOD NORTH - Water	6557	49	0.13%	(73.64)
CITRUS - MEADOWS - Water	6559	53	0.14%	(79.65)
CITRUS - PINE VALLEY - Water	6560	47	0.13%	(70.63)
CITRUS - WEST CITRUS - Water	6563	64	0.17%	(96.18)
LAKE SUZY - Sewer	6392	268	0.72%	(402.77)
LAKE SUZY - Water	6582	556	1.50%	(835.59)
PEACE RIVER - Sewer	6397	96	0.26%	(144.28)
PEACE RIVER - Water	6600	98	0.26%	(147.28)
SARASOTA - Sewer	6965	7228	19.50%	(10,862.72)
SARASOTA - Water	6964	4652	12.55%	(6,991.33)
<b>FLORIDA TOTALS</b>		<b>37071</b>	<b>100.00%</b>	<b>(55,712.76)</b>

**AUDIT FINDING NO. 27**

**SUBJECT: ELECTRIC ALLOCATED THROUGH DIVISION 6958 THAT SHOULD BE DIRECT**

**AUDIT ANALYSIS:** Invoices for electric service for 57 S. 7<sup>th</sup> Street and 168 E. 8<sup>th</sup> Street were allocated through division 6958-Central. According to the company representative, the 7<sup>th</sup> Street address actually relates to electric service in Division 6456 (Chuluota water) and the 8<sup>th</sup> Street address relates to Division 6457 (Chuluota wastewater). We reviewed five of the invoices but more appeared to be charged to Account 615100 in division 6958. Based on a review of the account detail, \$5,844.89 relate to division 6456 and \$13,366.52 to division 6457. These costs were allocated to the companies that report to the Central Florida Division as shown on the following page. The May allocation percentages were used to allocate the year for purposes of this finding.

**EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED:** The following entry should have been made in 2005. However, there is no need for a prior period adjustment since the expenses offset:

DIVISION	ACCOUNT	DEBIT	CREDIT
6456 Chuluota W	6151000	5,844.89	
6457 Chuluota WW	6151000	13,366.52	
VARIOUS-SEE BELOW	6151000		19,211.41

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

The 2005 actual expenses should be decreased as shown on the following page and expenses for Division 6456 and 6457 increased by \$5,844.89 and \$13,366.52 respectively.

DIVISIONS IN 6958 ALLOCATIONS		MAY ALLOCATION	ADJUSTMENT ELECTRIC
CRU-ROSALIE OAKS SEWER	6386	0.578%	(111.04)
VILLAGE WATER SEWER	6390	0.215%	(41.30)
J SWIDERSKI KINKS COVE SEWI	6395	1.218%	(233.99)
JASMINE LAKES SEWER	6391	9.742%	(1,871.58)
J SWIDERSKI SUMMIT CHASE SE	6396	1.335%	(256.47)
KINGSWOOD WATER	6401	0.400%	(76.85)
OAKWOOD WATER	6402	1.422%	(273.19)
CARLTON VILLAGE WATER	6405	1.231%	(236.49)
EAST LAKE HARRIS ESTATES	6406	1.095%	(210.36)
FERN TERRACE	6407	0.769%	(147.74)
FRIENDLY CENTER	6408	0.160%	(30.74)
GRAND TERRACE	6409	0.677%	(130.06)
HOBBY HILLS	6410	0.640%	(122.95)
HOLIDAY HAVEN WATER	6411	0.763%	(146.58)
HOLIDAY HAVEN SEWER	6412	0.745%	(143.13)
IMPERIAL MOBILE TERRACE	6413	1.508%	(289.71)
MORNINGVIEW WATER	6414	0.215%	(41.30)
MORNINGVIEW SEWER	6415	0.203%	(39.00)
PALMS MOBILE HOME PARK	6416	0.382%	(73.39)
PICCIOLA ISLAND	6417	0.892%	(171.37)
PINEY WOODS	6418	1.065%	(204.60)
QUAIL RIDGE	6419	0.443%	(85.11)
SILVER LAKE ESTATES	6420	6.929%	(1,331.16)
SKYCREST	6421	0.751%	(144.28)
STONE MOUNTAIN	6422	0.062%	(11.91)
VALENCIA TERRACE WATER	6423	2.068%	(397.29)
VALENCIA TERRACE SEWER	6424	2.068%	(397.29)
VENETIAN VILLAGE WATER	6425	0.917%	(176.17)
VENETIAN VILLAGE SEWER	6426	0.578%	(111.04)
WESTERN SHORES	6427	2.480%	(476.44)
TANGERINE	6428	1.489%	(286.06)
PALM TERRACE WATER	6429	7.329%	(1,408.00)
PALM TERRACE SEWER	6430	6.369%	(1,223.57)
ZEPHYR SHORES WATER	6431	3.631%	(697.57)
ZEPHYR SHORES SEWER	6432	3.612%	(693.92)
GIBSONIA ESTATES	6433	0.991%	(190.39)
LAKE GIBSON ESTATES WATER	6434	5.028%	(965.95)
LAKE GIBSON ESTATES SEWER	6435	1.932%	(371.16)
ORANGE HILL	6436	1.083%	(208.06)
SUGAR CREEK	6437	0.412%	(79.15)
CHULUOTA WATER	6456	7.218%	(1,386.68)
CHULUOTA SEWER	6457	3.145%	(604.20)
FLORIDA CENTRAL COMMERCE	6461	0.418%	(80.30)
HARMONY HOMES	6462	0.394%	(75.69)
CRU HAINES CREEK	6556	0.671%	(128.91)
CRU RAVENSWOOD	6561	0.258%	(49.57)
CRU ROSALIE OAKS WATER	6562	0.578%	(111.04)
VILLAGE WATER WATER	6571	1.145%	(219.97)
JASMINE LAKES WATER	6574	9.674%	(1,858.51)
J SWIDERSKI KINGS COVE WATI	6595	1.249%	(239.95)
J SWIDERSKI SUMMIT CHASE W	6596	1.342%	(257.82)
J SWIDERSKI 48 ESTATES	6597	0.481%	(92.41)
		<b>100.000%</b>	<b>(19,211.41)</b>

**AUDIT FINDING NO. 28**

**SUBJECT: RADIO/SPONSORSHIP COSTS**

**AUDIT ANALYSIS:** The utility allocated the following three costs from its Bryn Mawr operations in 2005.

DATE	PAYEE	TOTAL AMOUNT	FLORIDA AMOUNT	DESCRIPTION
12/05	SEBRING INTERNATIONAL	1,000.00	1,000.00	AD IN RACE PROGRAM
08/05	INFINITY BROADCASTING	40,000.00	1,760.00	NEWSRADIO REGIONAL SPONSORSHIP
09/05	DICCICCO BATTISTA	76,000.00	3,344.00	NESRADIO LOCAL LEGEND SPONSORSHIP
		<u>117,000.00</u>	<u>6,104.00</u>	

The utility representatives explained that the Infinity Broadcasting invoice was for Public Service Announcements and advertising expenses. The Diccicco Battista Communications was for promotional/public service advertising announcements for Aqua America, Inc.

It could not be determined whether these promotions benefit the customers of Aqua Utilities of Florida. If they are not allowed, the schedule following this finding details the breakdown of the \$6,104 adjustment.

**EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED:**

The adjustment for 2005 would transfer expenses between divisions and have no effect that needs to be adjusted to the current ledger.

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

The 2005 expenses in the filing should be reduced by \$6,104 if the Commission determines that these costs do not benefit the customers. The adjustment would be allocated to the divisions as shown on the following page.

System	A/U #	# of Cust	%	RADIO/SPONSORSHIP ADJUSTMENT
ARREDONDO ESTATES - Water	6567	246	0.664%	(40.51)
ARREDONDO FARMS - Sewer	6389	356	0.960%	(58.62)
ARREDONDO FARMS - Water	6568	364	0.982%	(59.94)
CRU - HAINES CREEK	6556	111	0.299%	(18.28)
CRU - LAKE OSBORNE	6558	468	1.262%	(77.06)
CRU - RAVENSWOOD	6561	44	0.119%	(7.24)
CRU - ROSALIE OAKS - Sewer	6386	95	0.256%	(15.64)
CRU - ROSALIE OAKS - Water	6562	95	0.256%	(15.64)
CRU - THE WOODS - Sewer	6388	71	0.192%	(11.69)
CRU - THE WOODS - Water	6564	75	0.202%	(12.35)
J SWIDERSKI - 48 ESTATES	6597	81	0.218%	(13.34)
J SWIDERSKI - KINGS COVE - Sewer	6395	199	0.537%	(32.77)
J SWIDERSKI - KINGS COVE - Water	6595	207	0.558%	(34.08)
J SWIDERSKI - SUMMIT CHASE - Sewer	6396	218	0.588%	(35.90)
J SWIDERSKI - SUMMIT CHASE - Water	6596	220	0.593%	(36.22)
JASMINE LAKES - Sewer	6391	1,560	4.208%	(256.86)
JASMINE LAKES - Water	6574	1,571	4.238%	(258.68)
LAKE JOSEPHINE	6589	564	1.521%	(92.87)
OCALA OAKS - Water	6577	1,786	4.818%	(294.08)
SEBRING LAKES	6933	69	0.186%	(11.36)
SOUTH SEAS	6831	64	0.173%	(10.54)
VILLAGE WATER - Sewer	6390	35	0.094%	(5.76)
VILLAGE WATER - Water	6571	187	0.504%	(30.79)
Beecher's Point - Sewer	6439	18	0.049%	(2.96)
Beecher's Point - Water	6438	53	0.143%	(8.73)
Carlton Village - W	6405	220	0.593%	(36.22)
Chuluota - Sewer	6457	566	1.527%	(93.20)
Chuluota - Water	6456	1,306	3.523%	(215.04)
East Lake Harris Estates	6406	178	0.480%	(29.31)
Fern Terrace	6407	125	0.337%	(20.58)
Florida Central Commerce Park	6461	68	0.183%	(11.20)
Friendly Center	6408	31	0.084%	(5.10)
Gibsonia Estates	6433	191	0.515%	(31.45)
Grand Terrace	6409	111	0.299%	(18.28)
Harmony Homes	6462	64	0.173%	(10.54)
Hermits Cove - Water	6440	184	0.496%	(30.30)
Hobby Hills	6410	104	0.281%	(17.12)
Holiday Haven - Sewer	6412	112	0.302%	(18.44)
Holiday Haven - Water	6411	127	0.343%	(20.91)
Imperial Mobile Terrace	6413	247	0.666%	(40.67)
Interlachen Lake Estates	6441	252	0.680%	(41.49)
Jungle Den - Sewer	6468	137	0.370%	(22.56)
Jungle Den - Water	6467	115	0.310%	(18.94)
Kingswood - W	6401	65	0.175%	(10.70)
Lake Gibson Estates - Sewer	6435	319	0.861%	(52.53)
Lake Gibson Estates - Water	6434	841	2.269%	(138.48)

System	A/U #	# of Cust	%	RADIO/SPONSORSHIP
				ADJUSTMENT
Leisure Lakes - Sewer	6404	282	0.761%	(46.43)
Leisure Lakes - Water	6403	291	0.785%	(47.92)
Morningview - Sewer	6415	33	0.089%	(5.43)
Morningview - Water	6414	35	0.094%	(5.76)
Oakwood - W	6402	232	0.626%	(38.20)
Orange Hill	6436	177	0.477%	(29.14)
Palm Port - Sewer	6445	107	0.289%	(17.62)
Palm Port - Water	6444	107	0.289%	(17.62)
Palm Terrace - Sewer	6430	1,034	2.789%	(170.26)
Palm Terrace - Water	6429	1,191	3.213%	(196.11)
Palms Mobile Home Park	6416	62	0.167%	(10.21)
Park Manor - Sewer	6443	31	0.084%	(5.10)
Park Manor - Water	6442	31	0.084%	(5.10)
Picciola Island	6417	149	0.402%	(24.53)
Piney Woods	6418	176	0.475%	(28.98)
Pomona Park - Water	6446	181	0.488%	(29.80)
Quail Ridge	6419	94	0.254%	(15.48)
River Grove - Water	6447	107	0.289%	(17.62)
Saratoga Harbour - Water	6452	51	0.138%	(8.40)
Silver Lake Estates	6420	1,137	3.067%	(187.22)
Silver Lake Oaks - Sewer	6449	45	0.121%	(7.41)
Silver Lake Oaks - Water	6448	45	0.121%	(7.41)
Skycrest	6421	124	0.334%	(20.42)
St Johns Highlands	6450	98	0.264%	(16.14)
Stone Mountain	6422	10	0.027%	(1.65)
Sugar Creek	6437	67	0.181%	(11.03)
Sunny Hills	6471	519	1.400%	(85.46)
Sunny Hills	6472	180	0.486%	(29.64)
Tangerine	6428	270	0.728%	(44.46)
Tomoka	6469	271	0.731%	(44.62)
Valencia Terrace - Sewer	6424	347	0.936%	(57.14)
Valencia Terrace - Water	6423	353	0.952%	(58.12)
Venetian Village - Sewer	6426	95	0.256%	(15.64)
Venetian Village - Water	6425	155	0.418%	(25.52)
Welaka	6451	109	0.294%	(17.95)
Western Shores	6427	458	1.235%	(75.41)
Wootens	6453	29	0.078%	(4.78)
Zephyr Shores - Sewer	6432	524	1.414%	(86.28)
Zephyr Shores - Water	6431	526	1.419%	(86.61)
CITRUS - CASTLE LAKE - V	6555	107	0.289%	(17.62)
CITRUS - KENWOOD NOR1	6557	49	0.132%	(8.07)
CITRUS - MEADOWS - Wate	6559	53	0.143%	(8.73)
CITRUS - PINE VALLEY - W	6560	47	0.127%	(7.74)
CITRUS - WEST CITRUS - V	6563	64	0.173%	(10.54)

System	A/U #	# of Cust	%	RADIO/SPONSORSHIP
				ADJUSTMENT
LAKE SUZY - Sewer	6392	268	0.723%	(44.13)
LAKE SUZY - Water	6582	556	1.500%	(91.55)
PEACE RIVER - Sewer	6397	96	0.259%	(15.81)
PEACE RIVER - Water	6600	98	0.264%	(16.14)
SARASOTA - Sewer	6965	7,228	19.498%	(1,190.14)
SARASOTA - Water	6964	4,652	12.549%	(765.98)
<b>FLORIDA TOTALS</b>		<b>37,071</b>	<b>100.00%</b>	<b>(6,104.00)</b>



## AUDIT FINDING NO. 29

### **SUBJECT: BENEFITS AND ADJUSTMENT IN SALARY OVERHEAD RATE FROM BRYN MAWR**

**AUDIT ANALYSIS:** Aqua America includes an overhead rate on each person's salary that is allocated monthly to the individual states. The overhead includes payroll taxes, rent, employee benefits and an amount for "adjustments/timing". Rent was addressed in a separate finding in this report. We did not receive supporting documentation for the benefits overhead for the employees selected in the staff sample. Aqua America provided the following information related to benefits:

The "Benefits" column of the company schedule provided in answer to an audit request includes the budgeted benefits expense for 2005 for each employee. "The level of benefits coverage available depends on their position, date of hire, and chosen benefit package. Each of these benefit packages has different eligibility requirements for benefits such as pension, post-retirement health care, and vacation. In addition to the different plans that employees may be eligible for, the "Benefits" expense may vary depending on their elections for coverage, such as family coverage for dependents and choosing to opt out of having company benefits altogether."

In order to adequately audit these benefits, staff needed to obtain the detail of each type of benefit for each employee in the sample and the supporting documentation that shows that these are the actual costs paid such as the health insurance invoice, any car leases, life insurance invoices, and pension costs charges.

In the staff test of May salaries allocated, we also determined that adjustments were made for "timing" that increased the salaries by almost 50%. The company provided the following information on this adjustment.

"The difference (adjustment) is due to the fact that monthly billing rates represent actual service company costs in the month divided by reported billable hours in that month, and fluctuate from normalized billing rates due to unplanned events and transactions and the timing of events until adjusted on an annual basis. In effect, this column of the schedule will fluctuate between positive and negative adjustments based on the amount of billing hours and actual costs occurring each month. At the conclusion of the fiscal year, Aqua completes a reconciliation of budgeted billing rates and actual billing rates and the variances are charged or credited to the states in the next fiscal year. For the 2005 fiscal year there was not a true up reconciliation performed because Aqua was converting to a new allocations process/system, thereby making the old system obsolete. It was the opinion of the company that the true-up for fiscal year 2005 would not yield material differences and therefore was not done. Under the new allocation process, there is no need for a reconciliation of budgeted and actual billing rates because the billing rates remain consistent throughout the year."

Since the annualized salaries for the May sample were approximately the same as the W-2 wages, the increase for timing adjustments appeared excessive. Therefore, we asked for the adjustments for all twelve months for the sample of employees to determine if the adjustments offset. Aqua America was not able to provide this information in time for the completion of the

audit. We did receive two months with negative adjustments. In order to determine if the adjustments actually offset, twelve months would be needed.

**EFFECT ON THE GENERAL LEDGER:**

This finding is for informational purposes only.

**EFFECT ON THE FILING:**

Expenses allocated from Aqua America may need to be decreased based on additional information needed from Aqua America. Rate Case Expenses would also be affected.

**AUDIT FINDING NO. 30**

**SUBJECT: RENT OVERHEAD ON BRYN MAWR SALARIES**

**AUDIT ANALYSIS:** Aqua America charges monthly salaries to the individual states based on hours worked. The employee rate per hour per employee includes an overhead component for rent. Aqua Pennsylvania calculated the cost of rent, phones, heating oil, electric, and depreciation on furniture, computer and printer per employee and multiplied that cost by the eighty-eight service company employees. This cost, divided by the total service company labor, amounts to 12.89% of the total service company labor salaries. This agrees with the percent of rent charged on the salaries we tested in this audit.

To arrive at the rent portion of the above percent, the parent used the cost of one building and the estimated cost of renovations to that building and the estimated cost of a second new building. These were multiplied by a 15.15% return on investment. The parent determined that these estimates amounted to \$22.91 per square foot and used the market rate of \$24 per square foot to compute the cost per employee for rent. When costs are allocated from affiliate companies, the Commission generally allows the lower of cost or market. Rule 25-6.1351, Cost Allocation and Affiliate Transactions, Florida Administrative Code describes the methodology for electric utilities.

For the overheads added to 2005 wages, the rent should have been computed on actual plant in service and should not have included estimated construction costs for 2006 additions. In addition, the rate of return in the MFR's are unique to each system. The staff recommendation for interim rates established a 7.51% rate of return for 2005.

Staff has computed the rent component as follows:

Plant	15,134,666.00
Accumulated Depreciation	<u>(4,564,797.00)</u>
	<u>10,569,869.00</u>
Rate of Return	<u>7.51%</u>
Return on Investment	<u>793,797.16</u>
Depreciation Expense	<u>414,872.00</u>
Real Estate Taxes	<u>146,605.00</u>
	<u>1,355,274.16</u>
Square Feet	96,605.00
Cost Per Square Foot	14.03
Used by utility	24.00
Difference	<u>(9.97)</u>

The parent uses 12.89% of salaries as overhead computed as follows:

Rent costs for SC Employees	808,810.00
Total Service Co. Labor	6,271,388.00
Percent	12.90%

This would be changed for the above correction as follows:

Rent-Computed on prior page	1,355,274.16
Employees in Building	319.00
Yearly rent per Employee	4,248.51
Phone expense per Employee	697.00
Gas/Oil Heat per Employee	85.00
Electric per Employee	503.00
Furniture per Employee	275.00
Computer per Employee	300.00
Printer per Employee	63.00
	<u>6,171.51</u>
Service Co. Employees	88.00
Total Rent Costs to Allocate	<u>543,092.73</u>
Salary Service Co.	<u>6,271,388.00</u>
	<u>8.66%</u>
Fla. Salaries from Service Co.	613,759.75
Percent of cost that is rent	12.90%
Rent portion	<u>79,155.53</u>
Salaries Without Rent	534,604.22
Correct Rent Percent	8.66%
Correct Rent Amount	<u>46,295.92</u>
Adjustment	<u>32,859.61</u>

The \$32,859.61 difference should reduce 2005 expenses by division using a customer allocation. The amount per division can be found on the following page.

**EFFECT ON THE GENERAL LEDGER:**

Because this is a prior period adjustment reallocating expenses, no entry needs to be booked.

**EFFECT ON THE FILING:**

Expenses for 2005 should be reduced by \$32,859.61 in total and by division as shown on the following page. The rent overhead was also included in Rate Case Expense. Aqua America should provide corrected amounts.

System	A/U #	# of Cust	%	RENT OVERHEAD ADJUSTMENT
ARREDONDO ESTATES - Water	6567	246	0.664%	(218.05)
ARREDONDO FARMS - Sewer	6389	356	0.960%	(315.56)
ARREDONDO FARMS - Water	6568	364	0.982%	(322.65)
CRU - HAINES CREEK	6556	111	0.299%	(98.39)
CRU - LAKE OSBORNE	6558	468	1.262%	(414.83)
CRU - RAVENSWOOD	6561	44	0.119%	(39.00)
CRU - ROSALIE OAKS - Sewer	6386	95	0.256%	(84.21)
CRU - ROSALIE OAKS - Water	6562	95	0.256%	(84.21)
CRU - THE WOODS - Sewer	6388	71	0.192%	(62.93)
CRU - THE WOODS - Water	6564	75	0.202%	(66.48)
J SWIDERSKI - 48 ESTATES	6597	81	0.218%	(71.80)
J SWIDERSKI - KINGS COVE - Sewer	6395	199	0.537%	(176.39)
J SWIDERSKI - KINGS COVE - Water	6595	207	0.558%	(183.48)
J SWIDERSKI - SUMMIT CHASE - Sew	6396	218	0.588%	(193.23)
J SWIDERSKI - SUMMIT CHASE - Wat	6596	220	0.593%	(195.01)
JASMINE LAKES - Sewer	6391	1,560	4.208%	(1,382.78)
JASMINE LAKES - Water	6574	1,571	4.238%	(1,392.53)
LAKE JOSEPHINE	6589	564	1.521%	(499.93)
Ocala Oaks - Water	6577	1,786	4.818%	(1,583.10)
SEBRING LAKES	6933	69	0.186%	(61.16)
SOUTH SEAS	6831	64	0.173%	(56.73)
VILLAGE WATER - Sewer	6390	35	0.094%	(31.02)
VILLAGE WATER - Water	6571	187	0.504%	(165.76)
Beecher's Point - Sewer	6439	18	0.049%	(15.96)
Beecher's Point - Water	6438	53	0.143%	(46.98)
Carlton Village - W	6405	220	0.593%	(195.01)
Chuluota - Sewer	6457	566	1.527%	(501.70)
Chuluota - Water	6456	1,306	3.523%	(1,157.63)
East Lake Harris Estates	6406	178	0.480%	(157.78)
Fern Terrace	6407	125	0.337%	(110.80)
Florida Central Commerce Park	6461	68	0.183%	(60.27)
Friendly Center	6408	31	0.084%	(27.48)
Gibsonia Estates	6433	191	0.515%	(169.30)
Grand Terrace	6409	111	0.299%	(98.39)
Harmony Homes	6462	64	0.173%	(56.73)
Hermits Cove - Water	6440	184	0.496%	(163.10)
Hobby Hills	6410	104	0.281%	(92.19)
Holiday Haven - Sewer	6412	112	0.302%	(99.28)
Holiday Haven - Water	6411	127	0.343%	(112.57)
Imperial Mobile Terrace	6413	247	0.666%	(218.94)
Interlachen Lake Estates	6441	252	0.680%	(223.37)
Jungle Den - Sewer	6468	137	0.370%	(121.44)
Jungle Den - Water	6467	115	0.310%	(101.94)
Kingswood - W	6401	65	0.175%	(57.62)
Lake Gibson Estates - Sewer	6435	319	0.861%	(282.76)
Lake Gibson Estates - Water	6434	841	2.269%	(745.46)
Leisure Lakes - Sewer	6404	282	0.761%	(249.96)
Leisure Lakes - Water	6403	291	0.785%	(257.94)
Morningview - Sewer	6415	33	0.089%	(29.25)
Morningview - Water	6414	35	0.094%	(31.02)
Oakwood - W	6402	232	0.626%	(205.64)
Orange Hill	6436	177	0.477%	(156.89)
Palm Port - Sewer	6445	107	0.289%	(94.84)
Palm Port - Water	6444	107	0.289%	(94.84)
Palm Terrace - Sewer	6430	1,034	2.789%	(916.53)
Palm Terrace - Water	6429	1,191	3.213%	(1,055.70)
Palms Mobile Home Park	6416	62	0.167%	(54.96)
Park Manor - Sewer	6443	31	0.084%	(27.48)
Park Manor - Water	6442	31	0.084%	(27.48)

System	A/U #	# of Cust	%	RENT OVERHEAD
				ADJUSTMENT
Picciola Island	6417	149	0.402%	(132.07)
Piney Woods	6418	176	0.475%	(156.01)
Pomona Park - Water	6446	181	0.488%	(160.44)
Quail Ridge	6419	94	0.254%	(83.32)
River Grove - Water	6447	107	0.289%	(94.84)
Saratoga Harbour - Water	6452	51	0.138%	(45.21)
Silver Lake Estates	6420	1,137	3.067%	(1,007.83)
Silver Lake Oaks - Sewer	6449	45	0.121%	(39.89)
Silver Lake Oaks - Water	6448	45	0.121%	(39.89)
Skycrest	6421	124	0.334%	(109.91)
St Johns Highlands	6450	98	0.264%	(86.87)
Stone Mountain	6422	10	0.027%	(8.86)
Sugar Creek	6437	67	0.181%	(59.39)
Sunny Hills	6471	519	1.400%	(460.04)
Sunny Hills	6472	180	0.486%	(159.55)
Tangerine	6428	270	0.728%	(239.33)
Tomoka	6469	271	0.731%	(240.21)
Valencia Terrace - Sewer	6424	347	0.936%	(307.58)
Valencia Terrace - Water	6423	353	0.952%	(312.90)
Venetian Village - Sewer	6426	95	0.256%	(84.21)
Venetian Village - Water	6425	155	0.418%	(137.39)
Welaka	6451	109	0.294%	(96.62)
Western Shores	6427	458	1.235%	(405.97)
Wootens	6453	29	0.078%	(25.71)
Zephyr Shores - Sewer	6432	524	1.414%	(464.47)
Zephyr Shores - Water	6431	526	1.419%	(466.24)
CITRUS - CASTLE LAKE - Water	6555	107	0.289%	(94.84)
CITRUS - KENWOOD NORTH - Water	6557	49	0.132%	(43.43)
CITRUS - MEADOWS - Water	6559	53	0.143%	(46.98)
CITRUS - PINE VALLEY - Water	6560	47	0.127%	(41.66)
CITRUS - WEST CITRUS - Water	6563	64	0.173%	(56.73)
LAKE SUZY - Sewer	6392	268	0.723%	(237.55)
LAKE SUZY - Water	6582	556	1.500%	(492.84)
PEACE RIVER - Sewer	6397	96	0.259%	(85.09)
PEACE RIVER - Water	6600	98	0.264%	(86.87)
SARASOTA - Sewer	6965	7,228	19.498%	(6,406.87)
SARASOTA - Water	6964	4,652	12.549%	(4,123.52)
<b>FLORIDA TOTALS</b>		<b>37,071</b>	<b>100.00%</b>	<b>(32,859.61)</b>

**AUDIT FINDING NO. 31**

**SUBJECT: TAXES OTHER THAN INCOME**

**AUDIT ANALYSIS:** Aqua Utilities Florida, Inc. understated its 2005 real estate and tangible taxes by \$7,941 as shown on the schedule below. The utility did not report the actual tax bills paid in its MFR. The \$7,941 reflects the difference between the actual tax bills paid and the MFR filings. According to the utility, the difference between the actual bills paid and the amount reported on the MFR were due to prior year accrual adjustments.

County	System Name		2005 Tax		
			2005 MFR	Bill	Difference
Lake County	Haines Creek	W	\$ (1,374)	\$ 462	\$ 1,836
Lake County	48 Estates	W	1,090	213	(877)
Lee County	South Seas	WW	9,830	20,079	10,249
Marion County	Ocala Oaks	W	10,380	10,083	(297)
Pasco County	Jasmine Lakes	W	9,531	8,700	(831)
Pasco County	Jasmine Lakes	WW	9,959	9,091	(868)
Sumter County	The Woods	W	1,346	75	(1,271)
Total:			<u>\$ 40,762</u>	<u>\$ 48,703</u>	<u>\$ 7,941</u>

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

Taxes Other Than Income	\$ 7,941	
Retained Earnings		\$ 7,941

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

Taxes Other Than Income	\$ 7,941	
Retained Earnings		\$ 7,941