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Public Service Commission

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

DATE: December 20, 2007

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

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

RE: **Docket No: 070293-SU; Company Name: K W Resort Utilities Corp;**
Audit Purpose: File and Suspend Rate Case;
Audit Control No: 07-233-4-1

Attached is revised page 15 to the staff audit report issued by memo dated October 29, 2007. I am sending the utility a copy of this memo and a copy of the revised page. There are confidential work papers associated with this audit.

DNV:bj
Attachments

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

- CMP _____ Division of Commission Clerk (2)
- COM _____ Division of Competitive Markets and Enforcement (Harvey)
- CTR _____ General Counsel
- ECR _____ Office of Public Counsel
- ECR _____ Mr. Doug Carter, General Manager
- GCL _____ K W. Resort Utilities Corp.
- OPC _____ P.O. box 2125
- RCA _____ Key West, FL 33045
- SCR _____ Rose Law Firm
- SGA _____ F. Marshall Deterding
- SEC _____ 2548 Blairstone Pines Dr.
- OTH *Musquerite* _____ Tallahassee, FL 32301

DOCUMENT NUMBER-DATE

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AUDIT FINDING NO. 4

SUBJECT: FRANCHISE FEES

AUDIT ANALYSIS: In 1999, the utility recorded \$125,364.06 as franchise fees. The utility used this account because they claim that the charges were to set laws in place to force people to hook up to the utility system. A summary of the charges follows:

25,000.00	Consulting Fees Jack London
18,919.44	Legal Fees Franchise Expansion
81,444.62	Weiler Engineering for Design of Plant Expansion
<u>125,364.06</u>	

The engineering related to the new plant does not appear to relate to franchises but instead to design of the new treatment plant. If the \$81,444.62 of engineering fees were transferred to treatment and disposal plant, it would be depreciated at 5.56% instead of 2.5%. This would increase depreciation expense by \$2,492.21 a year, and increase accumulated depreciation by 7.5 years of additional depreciation expense, or \$18,691.54.

EFFECT ON THE GENERAL LEDGER: The following entry should be made:

	DEBIT	CREDIT
Treatment and Disposal Equipment	81,444.62	
Franchise		81,444.62
Retained Earnings	16,199.33	
Accumulated Depreciation Franchise	15,270.87	
Depreciation Expense	2,492.21	
Accumulated Depreciation Treatment Eq.		33,962.41

EFFECT ON THE FILING: Average accumulated depreciation should be reduced by \$17,445.44. Depreciation expense should be increased by \$2,492.21.

DECEMBER 2005	16,199.33
JANUARY 2006	16,407.02
FEBRUARY 2006	16,614.70
MARCH 2006	16,822.39
APRIL 2006	17,030.07
MAY 2006	17,237.75
JUNE 2006	17,445.44
JULY 2006	17,653.12
AUGUST 2006	17,860.81
SEPTEMBER 2006	18,068.49
OCTOBER 2006	18,276.17
NOVEMBER 2006	18,483.86
DECEMBER 2006	18,691.54
AVERAGE	<u>17,445.44</u>

Revised 12/20/07
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