

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 8, 2008

TO: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation

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

RE: Docket No. 070680-WS; Company Name: Orangewood Lakes Services, Inc.
Audit Purpose: Staff Assisted Rate Case;
Audit Control No: 07-347-2-1

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

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Alfred G. Heiler, President
Orangewood Lakes Services, Inc.
7602 Congress Street, Suite 4
New Port Richey, FL 34653-1107

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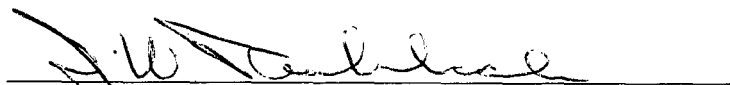
Tampa District Office

ORANGEWOOD LAKES SERVICES, INC.
STAFF ASSISTED RATE CASE
HISTORICAL YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 070680-WS
AUDIT CONTROL NO. 07-347-2-1



Daniel Acheampong, Audit Staff



Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

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

JANUARY 31, 2008

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 attached schedules prepared by the audit staff in support of Orangewood Lakes Services, Inc. (OLS) petition for a Staff Assisted Rate Case in Docket No. 070680-WS.

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

OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

Objective: To determine that the utility maintains its accounts and records in conformity with the 1996 National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA).

Procedures: We reviewed the utility's chart of accounts and general ledger. We found that the utility does not maintain its accounts and records in conformity with the 1996 NARUC USOA. Audit Finding No. 1 addresses this issue.

RATE BASE:

Utility Plant In Service (UPIS)

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

Procedures: We tested all plant additions and retirements for the period January 1 through December 31, 2007 for compliance with the objectives stated above. We prepared a schedule of UPIS, by account, showing year to year additions and retirements, using the 1980-2006 Annual Reports. The utility did not have original cost records for the utility plant in service for 1978-2006. Therefore an original cost study is needed. Audit Finding No. 2 addresses this issue.

Land and Land Rights.

Objective: To determine that land is owned by the utility and included in rate base at original cost.

Procedures: We verified that the utility has an agreement with Orangewood Lakes Mobile Home Community, Inc. (OLMHC) for use of the land on which the water and wastewater plants are located in exchange for providing OLMHC with water and wastewater services. Audit Finding No. 2 addresses this issue.

Contributions In Aid Of Construction (CIAC)

Objective: To test CIAC additions and adjustments since January 1, 1978. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: We compiled CIAC additions for the period January 1, 1978 through December 31, 2007 to determine the utility's CIAC and amortization balances. Audit Finding No. 3 addresses this issue.

Accumulated Depreciation

Objective: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

Procedures: We prepared a schedule of accumulated depreciation balances by plant account based on the 1980-2006 Annual Report plant additions. Because the utility has not maintained original cost records and an original cost study is needed, accumulated depreciation should be calculated based upon the results of the original cost study.

Accumulated Amortization of CIAC

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

Procedures: We calculated accumulated amortization of CIAC account balances for the period January 1, 1978 to December 31, 2007 using Annual Report balances. Audit Finding No. 3 addresses this issue.

Working Capital

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

Procedures: We calculated the Utility's working capital balance as of December 31, 2007 using 1/8th of operation and maintenance expense as required by Commission Rule 25-30.433(2), Florida Administrative Code.

NET OPERATING INCOME

Revenues

Objectives: To verify that revenues earned during the test year are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates. To perform billing analysis for the test year.

Procedures: We tested revenue transactions with tariff rates and performed a simple estimation to determine what test year revenues should be. We compiled revenues for the 12-month period ended December 31, 2007 from the Utility's billing report summary on a monthly basis. We prepared a billing analysis schedule. Audit Finding No. 4 addresses this issue.

Operation and Maintenance Expenses (O&M)

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

Procedures: We tested all operation and maintenance accounts. We examined invoices and supporting documentation to determine if the above objectives were met. Included in the expense amount were invoices for items that should have been capitalized, as well as other adjustments. Audit Finding No. 5 addresses these adjustments.

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

Procedures: We prepared a schedule of O & M expenses. The utility did not allocate O&M expenses between companies.

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

Procedures: We prepared a schedule of all contractual services for the test year. We reviewed those accounts for proper period, amount, classification, and whether non-utility related, non-recurring, unreasonable or imprudent. We examined invoices and supporting documentation to determine if the above objectives were met. Audit Finding No. 5 addresses this issue.

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

Procedures: We requested documentation that provided the information mentioned above. The utility owner did not provide all of the requested information.

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

Procedures: The utility owner expects to incur additional engineering expense. Audit Finding No. 7 addresses this issue.

Taxes-Other-Than-Income (TOTI)

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

Procedures: We obtained the 2006 Regulatory Assessment Fee (RAF) filing and recomputed the RAF's based on test year revenues. We verified the payroll taxes and traced same to the general ledger amount and payroll tax returns. Audit Finding No. 6 addresses this issue.

CAPITAL STRUCTURE

Objectives: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations.

Procedures: We obtained and examined supporting documentation for all debt and related interest expense. We determined that the utility's capital structure is made of 64% long term debt, 32% equity and 4% customer deposits. We recalculated Equity balance and long-term debt balance. Audit Finding No. 7 addresses this issue.

Audit Finding No. 1

Subject: Utility Books and Records

Audit Analysis: Commission Rule 25-30.115, F.A.C. states that water and wastewater utilities shall maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USOA). The NARUC USOA provides account numbers to be used for balance sheet and income statement accounts.

The utility does not use the NARUC USOA account numbers. The audit staff was provided a general ledger and was able to convert the account numbers to NARUC account numbers.

Effect on General Ledger: The utility should use the NARUC USOA account numbers in its General Ledger.

Effect on Rate Case: There is no effect on the rate case filing because the audit staff was able to convert the General Ledger account numbers to prepare the ratemaking schedules attached to this report.

Audit Finding No. 2

Subject: Rate Base Information

Audit Analysis: The utility's December 31, 2007 Trial Balance reflects the following rate base balances.

Description	Water	Wastewater
Utility Plant in Service (UPIS)	\$ 30,629	\$ 78,040
Land and Land Rights	0	0
Contributions in Aid of Construction (CIAC)	(21,159)	(39,477)
Accumulated Depreciation	(20,335)	(52,867)
Amortization of CIAC	<u>11,818</u>	<u>24,805</u>
Net Rate Base	\$ 953	\$ 10,501

The utility does not record depreciation, CIAC or amortization of CIAC on its books until the outside CPA prepares the Annual Report. This has not been done yet for the year ended December 31, 2007.

Utility Plant in Service (UPIS)

The utility was unable to provide documentation supporting plant in service except for a 2007 addition. Additionally, the utility expensed items in 2007 which should be capitalized. Audit Finding No. 5 of this report makes specific adjustments to the utility's operation and maintenance expense accounts that should be reclassified to the following accounts. The staff should consider an original cost study in order to determine the appropriate balances for rate base items for 1978 through 2006.

Acct. No.	Account Description	Amount	Dep. Rate	Acc Dep & Exp.
309	Supply Mains	\$2,112	3.13%	\$33
331	Transmission & Distribution Mains	896	2.63%	12
334	Meters & Meter Installation	<u>1,720</u>	5.88%	<u>51</u>
		\$4,728		\$96
354	Structures and Improvements	\$1,215	3.70%	\$22
360	Collection Sewers - Force	<u>249</u>	3.70%	<u>5</u>
		\$1,464		\$27

(Accumulated depreciation and expense was calculated using the 1/2 year convention method)

Land

The utility water and wastewater plants are located on separate lots in the Orangewood Lakes Mobile Home Community (OLMHC). According to a lease dated March 1, 1979 between OLMHC (lessor) and OLS (lessee), OLMHC is leasing land for the water and wastewater plants to the utility at no cost, in exchange for water and sewer services, which are not billed to the lessor or the ultimate customers.

This lease states that the mobile home park will pay the taxes on the land and all improvements owned by the lessee and will maintain the areas containing the water plant, sewer plant, retention ponds and all other improvements owned by the lessee. Additionally, the lessor contributed plant to the utility.

A description of utility plant and service area is discussed further in work paper 17 series.

Effect on General Ledger: Increase UPIS, for the above accounts, by \$4,728 for water and \$1,464 for wastewater rate base. Increase Accumulated Depreciation and depreciation expense by \$96 and \$27 each respectively.

Effect on Rate Case: The above adjustments to UPIS and accumulated depreciation should be considered by the staff engineer when determining the original cost rate base balances.

Audit Finding No. 3

Subject: CIAC and Accumulated Amortization

Summary: The utility's Trial Balance as of December 31, 2007 reflects a balance of \$21,159 for the water system and \$39,477 for the wastewater system for CIAC and \$11,818 and \$24,805 for accumulated amortization respectively.

The utility's 2006 Annual Report reflects a balance of \$21,159 for the water system and \$39,477 for the wastewater system as of December 31, 2006 for CIAC and \$12,876 and \$26,779 for accumulated amortization respectively.

It appears that two years of amortization prior to 1992 was not recorded on the Trial Balance. The yearly amortization amounts, per the utility, are \$529 for water and \$987 for wastewater.

Audit Analysis: The utility tariff includes a meter installation fee of \$50 for the initial commencement of water service. Without Commission approval, the utility increased its charge to \$125 per connection in 1980, \$200 in 1981 – 1985, \$275 in 1986 – 1987, \$375 in 1989 and \$500 in 2007. There was one connection in 1980 at \$125 and 12 connections in 1981 at \$200 for water. Wastewater had 51 connections at \$125 in 1980, 62 at \$200 in 1981 through 1985, 11 connections at \$275 in 1986 through 1988, one connection at \$375 in 1989 and one connection at \$500 in 2007. The Commission will need to consider whether these amounts collected in excess of the tariff charge should be refunded to the customers.

Orangewood Lake Apartments paid an initial CIAC contribution of \$550 for water and \$33,750 for wastewater. The utility owner, Al Heiler, stated that many of the additions to the plants were contributed by Orangewood Lakes Mobile Home Community and not recorded on the utility records. These additions should have been recorded, but would net to zero in the rate base. Also, \$18,000 was transferred from the wastewater to the water CIAC balances on the 1984 Annual Report.

Effect on General Ledger: The Trial Balance should be adjusted for two years of accumulated amortization. The amounts are \$1,058 ($\529×2) for water and \$1,974 ($\987×2) for wastewater. Additionally, amortization has not been recorded for 2007. Based on the recorded tap fees, Staff calculated this amount to be \$527 for water and \$993 for wastewater for the 12 month period ended December 31, 2007.

Effect on Rate Case: Information should be considered when determining the original cost rate base balances.

Audit Finding No. 4

Subject: Revenues

Summary: The billing report from Advisor Enterprise, the billing agent, recorded \$63,522 as water revenues and \$49,011 as wastewater revenues.

Audit Analysis: The Commission authorized monthly water service rates, effective November 1, 2006, of \$12.18 for Base Facility Charge and \$2.73 per 1,000 gallons over the first 2,000 gallons usage and \$22.93 for wastewater. Effective November 16, 2007, the Commission indexed the rates to \$12.50 Base Facility Charge and \$2.80 per 1,000 gallons over the first 2,000 gallons usage and \$24.07 for wastewater. Utility does not separate water, wastewater and streetlight revenues in the general ledger. Audited revenues are \$62,965 for water and \$51,154 for wastewater. The utility general ledger is on cash basis.

There are an estimated two hundred and fifty-one additional customers in Orangewood Lakes Mobile Home Community (OLMHC). These customers are not billed for water and wastewater service and are not included in the audited revenue. These customers are not metered.

Effect on General Ledger: The utility should record revenues of \$1,425 to reconcile the G/L revenues to the billing report, from Advisor.

G/L LESS CIAC (500)	114,814
BILLING REPORT	<u>116,239</u>
Difference	1,425

RETAINED EARNINGS	1,425
WATER / WASTEWATER SALES	1,425

To reconcile general ledger revenues to billing register.

Utility G/L is on cash basis hence it does not reconcile with billing report. Adjustment of \$1,425 is needed to be made to bring utility revenues as recorded in the G/L to reflect accrual revenues for the period

	TOTAL WATER REVENUES	TOTAL WASTEWATER REVENUES	STREETLIGHT	TOTAL
PER AUDIT	62,965	51,154	3,707	117,826
BILLING REPORT	63,522	49,011	3,707	116,239
DIFFERENCE	(557)	2,143		1,586

WATER REVENUES	557		
RETAINED EARNINGS	1,586		
WASTEWATER REVENUES		2,143	

To reconcile Billing Report revenues to audited revenues.

Effect on Rate Case: The utility's revenues should reflect \$62,965 for water and \$51,154 for wastewater revenues. Information on the customers in OLMHC has been included in the audit work papers and should be considered by the analyst.

Audit Finding No. 5

Subject: Operation and Maintenance Expenses

Summary: The utility's operation and maintenance expense as of December 31, 2007 is \$161,918 per the General Ledger. The utility does not separate water expenses from wastewater expenses. Total audited expenses amounted to \$144,265, a difference of \$17,653.

Audit Analysis: OLS paid the following expenses in 2007: purchased water and power, chemicals, facility maintenance, minor repairs, sludge removal, contractual services (billing, cleaning, accounting and engineering), office rent, telephone, and salaries and wages.

We reviewed all invoices for the above expenses to ensure they met the following criteria:

- Recorded in the proper period
- Recorded amount was supported by invoice or other documentation
- Amount was recorded in the correct account classification
- Each amount was supported by adequate support documentation and was properly approved
- Each amount was utility related and reasonable

The following pages detail the specific adjustments we found based on our analysis. The following paragraphs summarize a few key expenses for information purposes.

Purchased Water – Utility paid the City of New Port Richey (NPR) for water availability, though the utility did not actually purchase water from NPR. Mr. Alfred Heiler stated it is prudent to continue paying NPR because he believes if he discontinued the payments, and needed to interconnect in the future, the cost impact will be too high. OLS is also interconnected to LWV Services as a backup.

Payroll – The utility had two employees on the books in 2007: The owner received \$10,400 as annual pay and the office manager was paid \$25,175.

Rent – Mr. Heiler owns the building where the utility office is located through Heiler Trust. The building contains six suites. Three suites are non related companies. Heiler Trust uses two suites and OLS uses one. The utility has a formal lease with Heiler Trust with annual rent of \$3,600. Rent includes, water, electricity and the use of the copy room.

Administrative Charges – Administrative charges were paid by utility. These charges included office telephone, postage, debt collection, etc. We obtained the number of hours that the office manager spent on water and wastewater, and split these costs between the two using this percentage.

Effect on General Ledger: Utility operation and maintenance expenses should be reduced by \$17,653.

	Debit	Credit	G/L Effects
615 Purchased Power	1,121		
715 Purchased Power	1,099		
215 Retained Earnings	60		(60)
615/715 Purchased Power To prorate January and December bills		2,280	
615 Purchased Power	7		
215 Retained Earnings To prorate January and to estimate December bills		7	7
615 Purchased Power-Streetlight	2,488		
615/715 Purchased Power To remove non-utility expense-streetlight		2,488	(2,488)
630.1/730.1 Contractual Services:-Billing Postage	5		
215 Retained Earnings To prorate January and December bills		5	5
215 Retained Earnings	75		
730.2 Contractual Services:-Premise Visit To remove 2006 December Expense		75	(75)
215 Retained Earnings	60		(60)
730.3 Contractual Services:-New Account To remove 2006 December Expense		60	

731	Contractual Services:-Prof. Accounting	1,050	
631	Contractual Services:-Prof. Accounting	1,050	
	Contractual Services:-Prof.		
631	Accounting		910
	Contractual Services:-Prof.		
731	Accounting		910
215	Retained Earnings		280
	To remove 2006 bill and record 2007 Accounting expense		280
186	Miscellaneous Deferred Debits	1725	(1725)
665/765	Regulatory Com. Amortization Expense	575	
665/765	Regulatory Commission Expense		2000
	Contractual Services:-Prof.		
631/731	Accounting		300
	To remove SARC filing fee and accounting fee to a deferred account and amortized the current year amount		
309	Supply Mains	2,112	(2,112)
331	Transmission & Distribution Mains	896	(896)
334	Meters & Meter Installation	1,720	(1,720)
354	Structure and Improvements	789	(789)
360	Collection Sewers-Force	249	(249)
736	Facility Maintenance	1,933	
636	Minor Repairs	3,832	
	To capitalize		
638/738	Telephone	14	
215	Retained Earnings		14
	To prorate January Expenses		14

408	Taxes-Other-Than-Income	7,785	
675/775	Regulatory Assessment Fees-water	2,855	(2,855)
675/775	Regulatory Assessment Fees-wastewater	2,080	(2,080)
675/775	Payroll Taxes	2,850	(2,850)
To remove taxes other-than-income from O&M expenses			
	Total G/L effect		(17,653)

Effect on Rate Case: Operation & Maintenance expense is \$32,139 and \$112,126 for water and wastewater respectively.

Audit Finding No. 6

Subject: Taxes Other Than Income (TOTI)

Summary: The utility TOTI is overstated for water by \$15 and understated for wastewater by \$216.

Audit Analysis: The utility's general ledger reflects TOTI of \$9,785 for the 12-month period ended December 31 2007. The Regulatory Assessment Fee (RAF) for the utility reflects an amount of \$2,855 for water and \$2,080 for wastewater. Utility recorded the PSC SARC filing fee of \$2,000 as other taxes. Also the utility recorded payroll taxes of \$2,850.

Effect on General Ledger: The utility general ledger should reflect the audit balance of \$3,609 for water and \$4,377 for wastewater, for the 12 month period ended December 31, 2007.

WATER

TAX AUTHORITY	UTILITY AMOUNT	ADJUSTMENTS	AUDITED AMOUNT
PAYROLL TAX	769.09	6.44	775.53
REGULATORY ASSESSMENT FEES	2,855.30	-21.89	2,833.41
SUBTOTAL	3,624.39	-15.45	3,608.94

WASTEWATER

TAX AUTHORITY	UTILITY AMOUNT	ADJUSTMENTS	AUDITED AMOUNT
PAYROLL TAX	2,081.20	-6.44	2,074.76
REGULATORY ASSESSMENT FEES	2,079.81	222.12	2,301.93
SUBTOTAL	4,161.01	215.68	4,376.69

To reflect 2007 audited revenues for RAF.

(9,785-2000=7785) 7785 represents TOTI. To remove SARC filing fee.

Effect on Rate Case: Taxes Other Than Income are overstated by \$15 for water and understated by \$216 for wastewater.

Audit Finding No. 7

Subject: Capital Structure

Summary: Utility capital structure is made up of 64% long term debt, 32% common equity and 4% customer deposits

Audit Analysis: We determined that the utility long-term debt instrument stipulates 6% interest to be accumulated and added to principal if not paid at the end of the year. Utility general ledger did not accrue this interest. Utility did not close its 2006 books. We calculated the interest for the 12-month period ended at December 31, 2007 and added it to the ending balance of the loan, as shown on the 2006 trial balance.

CLASS OF CAPITAL	AMOUNT	RATIO	COST RATE	WEIGHTED COST
LONG- TERM DEBT	225,336	64.21%	6.00%	3.85%
SHORT-TERM DEBT	-	0.00%	0.00%	0.00%
COMMON EQUITY	112,482	32.05%	10.89%	3.49%
CUSTOMERS DEPOSITS	13,135	3.74%	6.00%	0.22%
ACC. DEFERRED INCOME TAXES	-	0.00%	0.00%	0.00%
TOTAL	350,953	100.00%		7.57%

The cost rate of 10.89% for common equity and the weighted average cost of capital, were calculated, using the leverage formula established in Order No. PSC07-0472-PAA-WS, issued June 1, 2007.

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

Effect on Rate Case: Provided as information for Staff.

Audit Finding No. 8

Subject: Pro Forma

Audit Analysis: The owner, Mr. Alfred Heiler, stated that the following expenses, not incurred in 2007, will be incurred in 2008:

Annual Engineering Expense \$500

This future cost is to comply with other proposed county requirements for the wastewater plant.

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

Effect on Rate Case: Provided as information for Staff.

EXHIBIT I

ORANGWOOD LAKES SERVICES, INC.
WATER NET OPERATING INCOME/LOSS
FOR THE 12- MONTH PERIOD ENDING DECEMBER 31, 2007
DOCKET NO. 070680-WS

NET OPERATING INCOME - WATER		(1)	(2)	(3)
		PER COMPANY		
DESCRIPTION	W/P REF	@ 12/31/2007	AUDIT ADJUSTMENTS	PER AUDIT @ 12/31/2007
OPERATING REVENUES	41	63,522	(557)	62,965
OPERATING EXPENSES				
OPERATION AND MAINTENANCE EXPENSE	43	0	32,139	32,139
DEPRECIATION EXPENSE		0	0	0
CIAC AMORTIZATION		0	0	0
PSC AMORTIZATION EXPENSE	43-1	0	288	288
TAXES OTHER THAN INCOME	53	3,624	-15	3,609
PROVISION FOR INCOME TAXES				
EXPENSE	-NA-	-NA-	-NA-	-NA-
TOTAL OPERATING EXPENSES		3,624	32,411	36,035
NET OPERATING INCOME / LOSS		59,897	(32,968)	26,930

Notes to above
schedule:

The Utility books did not separate expenses between water and wastewater.
Cost study has been requested for rate base balance to be established; therefore audit did not calculate CIAC/ Depreciation expense.

Utility is a S-Corporation, for income tax purposes, Utility is taxed at shareholder level.

All amounts are rounded to the nearest whole number.

EXHIBIT II

ORANGEWOOD LAKES SERVICES, INC.
WASTEWATER NET OPERATING INCOME/LOSS
FOR THE 12- MONTH PERIOD ENDING DECEMBER 31, 2007
DOCKET NO. 070680-WS

DESCRIPTION	W/P REF	(1) PER COMPANY @ 12/31/2007	(2) AUDIT ADJUSTMENTS	(3) PER AUDIT @ 12/31/2007
OPERATING REVENUES	41	49,011	2,143	51,154
OPERATING EXPENSES			0	
OPERATION AND MAINTENANCE EXPENSE	43	0	112,126	112,126
DEPRECIATION EXPENSE		0	0	0
CIAC AMORTIZATION		0	0	0
PSC AMORTIZATION EXPENSE	43-2	0	288	288
TAXES OTHER THAN INCOME	53	4,161	216	4,377
PROVISION FOR INCOME TAXES EXPENSE	-NA-	-NA-	-NA-	-NA-
 TOTAL OPERATING EXPENSES		4,161 0	112,629	116,790
 NET OPERATING INCOME / LOSS		44,850	(110,486)	(65,636)

Notes to above schedule:

The Utility books did not separate expenses between water and wastewater.

Cost study has been requested for rate base balance to be established; hence audit did not calculate CIAC/ Depreciation expense.

Utility is a S-Corporation, for income tax purposes, Utility is taxed at shareholder level.

All amounts are rounded to the nearest whole number.

EXHIBIT III

**ORANGEWOOD LAKES SERVICES, INC.
CAPITAL STRUCTURE
AS OF DECEMBER 31, 2007
DOCKET NO. 070680-WS**

CLASS OF CAPITAL	AMOUNT	RATIO	COST RATE	WEIGHTED COST
LONG- TERM DEBT	225,336	64.21%	6.00%	3.85%
SHORT-TERM DEBT	-	0.00%	0.00%	0.00%
COMMON EQUITY	112,482	32.05%	10.89%	3.49%
CUSTOMERS DEPOSITS	13,135	3.74%	6.00%	0.22%
ACC. DEFERRED INCOME TAXES	-	0.00%	0.00%	0.00%
TOTAL	350,953	100.00%	22.89%	7.57%

Notes:

Utility did not close the 2006 books, therefore December 2007 trial balance amounts do not reconcile with 2007 G/L amounts, Utility tax amounts do not reconcile with trial balance or G/L as of December 31, 2007.

Cost rate for common equity Per Order No. PSC-07-0472-PAA-WS, issued June 1, 2007

$$\text{Return on Equity} = 7.10 + 1961 / \text{Equity Ratio}$$

$$\text{Equity ratio} = 0.83$$

$$\text{Return on Equity} = 10.89\%$$