

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: March 12, 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
RE: **Docket No.** 070722-WS **Company Name:** WP Utilities, Inc.;
Audit Purpose: SARC
Audit Control No: 08-017-4-2

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

DNV:bj
Attachments

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

Roger E. Medema, President
WP Utilities, Inc.
3500 West Lantana Road
Lantana, FL 33462-1327

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Miami District Office

W.P. UTILITIES, INC.

STAFF ASSISTED RATE CASE

AS OF DECEMBER 31, 2007

DOCKET NO. 070722-WS

AUDIT CONTROL NO. 08-017-4-1



Kathy L. Welch Audit Manager



*Iliana Piedra, Professional Accountant
Specialist*

DOCUMENT NUMBER-DATE

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
PLANT IN SERVICE.....	5
CONTRIBUTIONS IN AID OF CONSTRUCTION.....	6
DEPRECIATION AND AMORTIZATION EXPENSE.....	7
REVENUE.....	9
TAXES OTHER THAN INCOME.....	11
ACCOUNTING FEES.....	12
EXPENSES NOT BOOKED CORRECTLY.....	13
IV. EXHIBITS	
1. WATER AND WASTEWATER RATE BASE.....	15
2. WATER NET OPERATING INCOME.....	16
3. WASTEWATER NET OPERATING INCOME.....	17
4. COST OF CAPITAL.....	18
5. ADJUSTING ENTRIES.....	19

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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

March 11, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 17, 2008. We have applied these procedures to prepare the attached schedules in support of W.P. Utilities, Inc. filing for rate relief in Docket No. 070722-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

RATE BASE

Utility-Plant-in-Service

Objective: To determine that additions to plant are authentic, recorded at original cost, and properly classified. To verify that the proper retirements of plant were made when a replacement item was put in service.

Procedures: We reconciled plant with the last audit and order. We sampled plant additions since the last audit at December 31, 1999 for compliance with the stated objectives above. We verified that the utility properly recorded retirements to plant when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were properly recorded. We determined if the utility planned any new construction. Audit finding one adjusts to the last rate order and to actual invoices.

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and ensure that all donated property is properly accounted for and recorded as CIAC and plant.

Procedures: The utility has not added new customers since the last audit. We scanned the utility's cash receipts records for unrecorded cash and property. We reviewed sales agreements and land leases for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory to look for new developments that may have included contributed property. We reconciled plant in the tax return to plant in the ledger to determine if any contributed property was not recorded. Audit Finding two corrects amortization charged to the CIAC account in 2007.

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 obtained the annual report depreciation schedules. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding plant was removed or replaced. Since the Commission does not usually correct prior year's depreciation, we adjusted the test year to the current rule rates. Audit finding three adjusts depreciation for 2007 to the Commission rule.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC amortization expense accruals are properly recorded and calculated based on the rates and method used in the utility's last rate proceeding.

Procedures: We traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified that the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. Since the Commission does not retroactively adjust depreciation, we have adjusted the 2007 amortization to comply with the composite rates in the rule. Audit finding three adjusts amortization for 2007 to the Commission rule.

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 using the one-eighth of operation and maintenance expense.

NET OPERATING INCOME

General

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

Procedures: We prepared the net operating income balances from the utility's general ledger for the 12-month period ended December 31, 2007.

Revenues

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

Procedures: We traced revenues from the general ledger to utility billing registers. We recalculated customer bills from each customer rate class and recalculated the bills using the Commission approved tariff rates. The utility did not record the fourth quarter billings in the ledger. They also billed the residential wastewater customers for the fourth quarter at the general service rate. During the whole year, the utility did not use the 30,000 gallon cap for wastewater billing. We also annualized revenue using the new September 2007 rates. Audit finding four adjusts revenue for over-billings not in accordance with the tariff, revenues not booked in the ledger for the 4th quarter and for annualization of the new rates in September 2007.

Operation and Maintenance Expenses (O&M)

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

Procedures: We sampled O&M expense items from the general ledger based on auditor

judgment. We reviewed the sample for the proper utility system, classification, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives were met. We obtained costs from the parent to determine the costs that should have been allocated to the utility. Audit finding six adjusts accounting fees for rate case expense. Audit finding seven adjusts for items paid out of the parent company.

Taxes-Other-Than-Income

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

Procedures: We recalculated the regulatory assessment fee amounts and reconciled them to the general ledger. We obtained the property tax bills for review and to determine if the amount booked reflects the discount amount. Audit finding five adjusts for personal property tax not recorded and regulatory assessment fees based on adjusted revenues.

Depreciation Expense

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

Procedures: We recalculated a sample of plant depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense. Audit finding three adjusts depreciation and amortization expense to rule rates.

CAPITAL STRUCTURE

General

Objective: To prepare the parents' capital structure using the respective cost rates used to arrive at the overall weighted cost of capital. To determine if debt and equity are properly recorded in compliance with Commission rules and that they accurately represent the ongoing utility operations.

Procedures: We prepared the cost of capital schedule using the balances in the parent company's general ledger as of December 31, 2007.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

Procedures: We traced long-term debt balances to the original documents and verified the terms and interest rate of each note payable. We prepared amortization schedules to determine actual balances.

AUDIT FINDING NO. 1

SUBJECT: PLANT IN SERVICE

AUDIT ANALYSIS: The utility has not booked the adjustment made in Commission order PSC-95-048-FOF-WS to water plant for an increase of \$422. In addition, an invoice paid to Rodberg in 2004 for \$7,180 for repairing pumps and rewinding motor in the lift station were recorded in water transmission and distribution plant instead of wastewater plant. In 2007, two invoices appear to be for the same item. We asked the staff engineer to determine if these invoices were for the same work and whether a retirement should be booked related to the 2007 additions. The utility did not book a retirement for 2007. The 2007 issues have not been adjusted here and should be addressed by the engineer.

EFFECT ON THE GENERAL LEDGER: Water plant should be increased for the \$422 in the order. Water plant should be decreased and wastewater plant increased for the \$7,180 of lift station additions in 2004. An additional reduction may be needed for the possible duplication of 2007 invoices and a retirement may be needed which would reduce plant and increase accumulated depreciation.

AUDIT FINDING NO. 2

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

AUDIT ANALYSIS: In 2007, the utility booked amortization expense to the water and wastewater CIAC account. A credit was made to water of \$768.31 and to wastewater of \$293.60. This amount should be removed from CIAC and transferred to a contra expense account. This amount has been adjusted in a later finding.

EFFECT ON THE GENERAL LEDGER: Water CIAC should be reduced (debited) by \$768.31 and water amortization expense credited for the same amount. Wastewater CIAC should be reduced (debited) by \$293.60 and wastewater amortization expense credited for the same amount.

AUDIT FINDING NO. 3

SUBJECT: DEPRECIATION AND AMORTIZATION EXPENSE

AUDIT ANALYSIS: We computed depreciation and CIAC amortization for 2007 and compared to the amount booked by the utility. The utility also books depreciation and amortization in one account instead of separating water and wastewater. The depreciation and amortization are computed as follows:

#	ACCOUNT	2006	ADDITIONS	RETIREMENTS	2007	RULE 25-30.140 DEPRECIATION YEARS	
331	LINES	50,778.00			50,778.00	38	1,336.26
333	SERVICES	23,043.00			23,043.00	35	658.37
334	METERS	25,811.00			25,811.00	17	1,518.29
335	HYDRANTS	11,058.00			11,058.00	40	276.45
	ORGANIZATION COSTS WATER	7,698.03			7,698.03	40	192.45
	ADJUSTMENT PER LAST ORDER	422.00			422.00	40	10.55
		118,810.03			118,810.03		3,992.38
360	COLLECTION FORCE	108,241.00			108,241.00	27	4,008.93
361	COLLECTION GRAVITY	29,068.00			29,068.00	40	726.70
362	SPECIAL COLLECTING	7,180.00	13,593.00		20,773.00	37	377.74
	ORGANIZATION COSTS WASTEWATER	7,698.03			7,698.03	40	192.45
		152,187.03	13,593.00	0.00	165,780.03		5,305.82

The composite rate for CIAC is computed using plant excluding organization costs as follows:

#	ACCOUNT	2006	ADDITIONS	RETIREMENTS	2007	RULE 25-30.140 DEPRECIATION YEARS	
331	LINES	50,778.00			50,778.00	38	1,336.26
333	SERVICES	23,043.00			23,043.00	35	658.37
334	METERS	25,811.00			25,811.00	17	1,518.29
335	HYDRANTS	11,058.00			11,058.00	40	276.45
	ADJUSTMENT PER LAST ORDER	422.00			422.00	40	10.55
		111,112.00			111,112.00		3,799.93
	Rate (Dep./ Average Plant)						3.420%
	CIAC						28,774.00
	Water CIAC Amortization						984.04
360	COLLECTION FORCE	108,241.00			108,241.00	27	4,008.93
361	COLLECTION GRAVITY	29,068.00			29,068.00	40	726.70
362	SPECIAL COLLECTING	7,180.00	13,593.00		20,773.00	37	377.74
		144,489.00	13,593.00	0.00	158,082.00		5,113.37
	Rate (Dep./ Average Plant)						3.3799%
	CIAC						11,010.00
	Wastewater CIAC Amortization						372.13

EFFECT ON THE GENERAL LEDGER: All of the utility depreciation and amortization accounts should be reversed and the depreciation of \$3,992.38 for water and \$5,305.82 for wastewater should be recorded. Amortization expense of \$984.04 for water CIAC and \$372.13 for wastewater CIAC needs to be credited. The following entries are necessary to correct the ledger which does not use NARUC account numbers.

	DEBIT	CREDIT
ACCUMULATED DEPRECIATION	159,964.62	
DEPRECIATION EXPENSE WATER	3,992.38	
DEPRECIATION EXPENSE WASTEWATER	5,305.82	
ACCUMULATED DEPRECIATION ORG. COSTS	9,818.40	
DEPRECIATION EXPENSE		8,228.16
ACCUMULATED DEPRECIATION WATER		78,900.29
ACCUMULATED DEPRECIATION WASTEWATER		90,445.03
EQUITY		1,507.74
TO RECORD DEPRECIATION ACCORDING TO RULE RATES FOR 2007 AND SEPARATE WATER AND WASTEWATER IN THE LEDGER.		
ACCUMULATED AMORTIZATION WATER CIAC	15,896.85	
ACCUMULATED AMORTIZATION WASTEWATER CIAC	4,023.16	
AMORTIZATION EXPENSE-FINDING TWO WATER	768.31	
AMORTIZATION EXPENSE-FINDING TWO WASTEWATER	293.60	
AMORTIZATION EXPENSE BOOKED ORG. COSTS		334.70
EQUITY		557.31
ACCUMULATED AMORTIZATION		18,733.91
AMORTIZATION EXPENSE WATER		984.00
AMORTIZATION EXPENSE WASTEWATER		372.00
TO CORRECT AMORTIZATION OF CIAC AND ORGANIZATION COSTS TO COMPOSITE RATE FOR 2007 AND SEPARATE WATER AND WASTEWATER.		

AUDIT FINDING NO. 4

SUBJECT: REVENUE

AUDIT ANALYSIS: The utility currently bills and books revenues quarterly. The fourth quarter revenue was not booked in the ledger. In addition, commercial revenue was not recorded correctly. The utility has two meters but only charges the base fee on one of the meters. Our adjustment includes the correct calculation of revenues for the clubhouse and the pool. Therefore, fourth quarter water residential revenues of \$7,682.31, wastewater residential revenues of \$13,857.65, water commercial revenues of \$272.88 and wastewater commercial revenues of \$490.55 should be booked to revenue.

An indexing adjustment was tariffed in September 2007. We recomputed all revenues and traced them to meter readings. When the utility billed its 4th quarter billing, it used the general service rate to bill its wastewater customers instead of its residential rate. This amounted to an over-billing of \$953.52. In addition, during the entire year, the utility did not enforce the 30,000 gallon cap in the wastewater tariff and billed customers using more than 30,000 for the entire usage. This amounted to an over-billing of \$2,075.92. These over-billings should be refunded and removed from the ledger accounts to compute future revenues needed.

The utility also booked a returned check of \$86.86 to revenue instead of accounts receivable.

We increased revenue on a proforma basis for the September 2007 indexing increase. The revenues were computed using the meter readings times the new rates. The differences were used to increase the filing on a proforma basis. The increase in revenue is \$327.80 for water residential, \$819.51 for wastewater residential, \$12.77 for water commercial, \$18.93 for wastewater commercial revenues.

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

	DEBIT	CREDIT
ACCOUNTS RECEIVABLE	22,103.39	
WATER RESIDENTIAL REVENUE		7,682.31
WASTEWATER RESIDENTIAL REVENUE		13,657.65
WATER COMMERCIAL REVENUE		272.88
WASTEWATER COMMERCIAL REVENUE		490.55
TO RECORD THE 4TH QUARTER REVENUE NOT BOOKED		
WASTEWATER REVENUE	953.52	
ACCOUNTS RECEIVABLE		953.52
TO RECORD OVERBILLING 4TH QUARTER FOR SEWER REVENUE		
WASTEWATER REVENUE	2,075.92	
ACCOUNTS RECEIVABLE		2,075.92
TO REMOVE OVERBILLING OF WASTEWATER FOR 30,000 GAL CAP.		
ACCOUNTS RECEIVABLE	86.86	
REVENUE WATER RESIDENTIAL		86.86
CORRECT BOUNCED CHECK TO ACCOUNTS RECEIVABLE.		

EFFECT ON THE FILING: The test year adjustments increase water revenue by \$8,042.05, and wastewater revenue by \$11,118.76. The proforma for the indexing rate increases it by an additional \$340.57 for water and \$838.44 for wastewater.

AUDIT FINDING NO. 5

SUBJECT: TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The ledger included penalties for water and wastewater regulatory assessment fees of \$272.89 and \$466.34 respectively. These penalties should be removed to below the line accounts and not included in taxes other than income tax expense.

Tangible taxes of \$1,355.36 for WP Utilities were not booked to the ledger. These taxes should be allocated based on the percent of water and wastewater plant to the total plant. Therefore, \$565.86 should be allocated to water and \$789.50 for wastewater.

Regulatory assessment fees for rate case purposes change because of the over-billings and because of the proforma for indexing. Because of the over-billings, the taxes should decrease by \$34.83 for water and \$171.15 for wastewater.

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

	DEBIT	CREDIT
BELOW THE LINE EXPENSE	739.23	
WASTEWATER REGULATORY ASSESSMENT FEE		466.34
WATER REGULATORY ASSESSMENT FEE		272.89
TO REMOVE PENALTY PAID FOR REGULATORY ASSESSMENT FEE.		
TANGIBLE PERSONAL PROPERTY TAX WATER	565.86	
TANGIBLE PERSONAL PROPERTY TAX WASTEWATER	789.50	
TAXES PAYABLE		1,355.36
TO RECORD PROPERTY TAX FOR UTILITY		

EFFECT ON THE FILING: Taxes other than income tax should be increased for the test year by \$292.97 for water and \$323.16 for wastewater. The proforma adjustment increases the taxes for water by \$17.42 and decreases wastewater by \$77.21.

AUDIT FINDING NO. 6

SUBJECT: ACCOUNTING FEES

AUDIT ANALYSIS: The ledger included accounting fees to an accounting firm for the staff assisted rate case for \$455. These costs should have been included in deferred rate case expense and not accounting expenses. The costs should be amortized over four years or \$113.75 per year split between water and wastewater at \$56.87 for water and \$56.88 for wastewater.

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

	DEBIT	CREDIT
PREPAID RATE CASE EXPENSE	341.25	
RATE CASE EXPENSE	113.75	
ACCOUNTING		455.00

AUDIT FINDING NO. 7

SUBJECT: EXPENSES NOT BOOKED CORRECTLY

AUDIT ANALYSIS: The utility's parent company paid some expenses because of lack of utility funds. However, the utility did not record the expense and resulting payable to the parent company. We reviewed the invoices for the expenses and reviewed and the journal entries below correct the expense accounts to actual costs. The utility also misclassified some purchased water as electric expense. This is also corrected below.

In addition, the rate case will probably require the utility to convert to monthly billing. The utility estimated the additional costs of \$1,920 for bookkeeping for each water and wastewater and \$960 for the meter reader. We included these costs in the proforma adjustments.

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

	DEBIT	CREDIT
ACCOUNTING PERRY WASHBURN	900.00	
METER READING	360.00	
ACCOUNTING CAROLINE	960.00	
MISC. SUUPLIES	41.45	
PAYABLE TO HOMELAND		2,261.45
TO RECORD ITEMS PAID BY HOMELAND FOR WP UTILITIES.		
PURCHASED WATER	11,585.76	
PURCHASED WASTEWATER		1,658.27
PAYABLE TO HOMELAND		4,831.33
ELECTRIC-WASTEWATER		5,096.16
TO RECLASSIFY ELECTRIC TO PURCHASED WATER AND RECORD ACTUAL BILLS		

EFFECT ON THE FILING: In addition to the above adjustments, water expenses should be increased by \$960 for meter reading and water and wastewater expenses should be increased by \$1,920 for each water and wastewater.

EXHIBITS

- 1. RATE BASE**
- 2. WATER NET OPERATING INCOME**
- 3. WASTEWATER NET OPERATING INCOME**
- 4. COST OF CAPITAL**
- 5. ADJUSTING ENTRIES**

WATER	YEAR END	ADJUSTMENTS	ADJUSTED YEAR END	AVERAGE	ADJUSTMENTS	ADJUSTED AVERAGE
PLANT IN SERVICE	125,568.44	(6,758.00)	118,810.44	125,568.44	(6,758.00)	118,810.44
ACCUMULATED DEPRECIATION	(169,784.02)	90,882.73	(78,901.29)	(165,502.59)	88,597.99	(76,904.60)
CIAC	(29,542.31)	768.31	(28,774.00)	(29,158.16)	384.16	(28,774.00)
ACC. AMORTIZATION OF CIAC	18,733.91	(2,837.06)	15,896.85	18,202.96	(2,798.13)	15,404.83
WORKING CAPITAL			6,527.13			6,527.13
	(55,023.98)	82,055.98	33,559.13	(50,889.35)	79,426.02	35,063.80

WASTEWATER	YEAR END	ADJUSTMENTS	ADJUSTED YEAR END	AVERAGE	ADJUSTMENTS	ADJUSTED AVERAGE
PLANT IN SERVICE	158,599.85	7,180.00	165,779.85	151,803.44	7,180.00	158,983.44
ACCUMULATED DEPRECIATION	0.00	(90,445.03)	(90,445.03)		(87,792.12)	(87,792.12)
CIAC	(11,303.60)	293.60	(11,010.00)	(11,156.80)	146.80	(11,010.00)
ACC. AMORTIZATION OF CIAC		4,023.16	4,023.16		3,837.10	3,837.10
WORKING CAPITAL			5,896.40			5,896.40
	147,296.25	(78,948.27)	74,244.38	140,646.64	(76,628.23)	69,914.82

WATER NET OPERATING INCOME	YEAR END	ADJUSTMENTS	ADJUSTED YEAR END	PROFORMA ADJUSTMENTS	PROFORMA TOTAL
WATER SALES RESIDENTIAL	(24,819.04)	(7,769.17)	(32,588.21)	(327.80)	(32,916.01)
WATER SALES COMMERCIAL	(860.60)	(272.88)	(1,133.48)	(12.77)	(1,146.25)
CONNECTION FEE INCOME	(15.00)		(15.00)		(15.00)
	<u>(25,694.64)</u>	<u>(8,042.05)</u>	<u>(33,736.69)</u>	<u>(340.57)</u>	<u>(34,077.26)</u>
PURCHASED WATER	21,992.87	11,585.76	33,578.63		33,578.63
WATER TESTING	3,890.00		3,890.00		3,890.00
RETURNED CHECK	71.94		71.94		71.94
ANNUAL REPORT FEE	99.00		99.00		99.00
BANK CHARGES	99.00		99.00		99.00
REPAIR AND MAINTENANCE	339.95	401.45	741.40	960.00	1,701.40
MANAGEMENT FEE	6,000.00		6,000.00		6,000.00
PERMITS	33.07		33.07		33.07
ACCOUNTING FEES	4,064.63	702.50	4,767.13	1,920.00	6,687.13
RATE CASE EXPENSE		56.88	56.88		56.88
OPERATION AND MAINTENANCE	<u>36,590.45</u>	<u>12,746.59</u>	<u>49,337.04</u>	<u>2,880.00</u>	<u>52,217.04</u>
DEPRECIATION EXPENSE	8,228.16	(8,228.16)	0.00		0.00
DEPRECIATION EXPENSE WATER		3,992.38	3,992.38		3,992.38
AMORTIZATION EXPENSE WATER		(984.00)	(984.00)		(984.00)
DEPRECIATION ORGANIZATION	167.35	(167.35)	0.00		0.00
DEPRECIATION AND AMORTIZATION	<u>8,395.51</u>	<u>(5,387.13)</u>	<u>3,008.38</u>	<u>0.00</u>	<u>3,008.38</u>
RAF WATER	1,788.94	(272.89)	1,516.05	17.42	1,533.47
TAXES WATER		565.86	565.86		565.86
TAXES OTHER THAN INCOME	<u>1,788.94</u>	<u>292.97</u>	<u>2,081.91</u>	<u>17.42</u>	<u>2,099.33</u>
NET OPERATING INCOME (LOSS)	(21,080.26)	389.62	(20,690.64)	(2,556.85)	(23,247.49)
BELOW THE LINE EXPENSE		739.23	739.23		739.23
NET INCOME	<u>(21,080.26)</u>	<u>(349.61)</u>	<u>(21,429.87)</u>	<u>(2,556.85)</u>	<u>(23,986.72)</u>

WASTEWATER NET OPERATING INCOME	YEAR END	ADJUSTMENTS	ADJUSTED YEAR END	PROFORMA ADJUSTMENTS	PROFORMA TOTAL
SEWER SALES RESIDENTIAL	(42,322.54)	(10,628.21)	(52,950.75)	(819.51)	(53,770.26)
SEWER SALES COMMERCIAL	(1,578.07)	(490.55)	(2,068.62)	(18.93)	(2,087.55)
REVENUE	<u>(43,900.61)</u>	<u>(11,118.76)</u>	<u>(55,019.37)</u>	<u>(838.44)</u>	<u>(55,857.81)</u>
BANK CHARGES	99.00		99.00		99.00
ANNUAL REPORT FEE	99.00		99.00		99.00
PURCHASED SEWER	34,429.34	(1,658.27)	32,771.07		32,771.07
MANAGEMENT FEE	6,000.00		6,000.00		6,000.00
ACCOUNTING FEES	4,064.63	702.50	4,767.13	1,920.00	6,687.13
RATE CASE EXPENSE		56.88	56.88		56.88
UTILITIES ELECTRIC	6,482.38	(5,096.16)	1,386.22		1,386.22
RETURNED CHECK	71.94		71.94		71.94
OPERATING AND MAINTENANCE EXPENSE	<u>51,246.28</u>	<u>(5,995.06)</u>	<u>45,251.23</u>	<u>1,920.00</u>	<u>47,171.23</u>
DEPRECIATION ORGANIZATION	167.35	(167.35)	0.00		0.00
AMORTIZATION EXPENSE WASTEWATER		(372.00)	(372.00)		(372.00)
DEPRECIATION EXPESNE WASTEWATER		5,305.82	5,305.82		5,305.82
TOTAL DEPRECIATION AND AMORTIZATION	<u>167.35</u>	<u>4,766.47</u>	<u>4,933.82</u>	<u>0.00</u>	<u>4,933.82</u>
RAF SEWER	3,057.15	(466.34)	2,590.81	(77.21)	2,513.60
TAXES WASTEWATER		789.50	789.50		789.50
TOTAL TAXES OTHER THAN INCOME	<u>3,057.15</u>	<u>323.16</u>	<u>3,380.31</u>	<u>(77.21)</u>	<u>3,303.10</u>
NET OPERATING INCOME (LOSS)	<u>(10,570.17)</u>	<u>12,024.19</u>	<u>1,454.02</u>	<u>(1,004.35)</u>	<u>449.66</u>

COST OF CAPITAL:

	2006	2007	AVERAGE	PERCENT OF TOTAL	RATE	WEIGHTED COST RATE
TRUCK LOAN	18,771.17	11,288.78	15,029.98	1.1324%	6.0750%	0.0688%
LOAN PAYABLE OWNER	242,845.28	126,949.11	184,897.20	13.9308%	0.0000%	0.0000%
MERCEDES LOAN	11,911.22	1,490.53	6,700.88	0.5049%	6.5490%	0.0331%
KUBOTA LOAN	3,161.94	0.00	1,580.97	0.1191%	0.0000%	0.0000%
GEMSA NOTE	4,726,551.76	4,661,745.79	4,694,148.78	353.6747%	7.8000%	27.5866%
EQUITY	(3,708,574.21)	(3,441,640.46)	(3,575,107.34)	-269.3619%	7.8000%	-21.0102% A
	<u>1,294,667.16</u>	<u>1,359,833.75</u>	<u>1,327,250.46</u>	<u>100.0000%</u>		<u>6.6783%</u>

A-USED THE SAME AS THE LOAN BECAUSE THE OWNER IS USING THE LOAN AS THE EQUITY IN THE BUSINESS. THEREFORE, THEY OFFSET.

ADJUSTING ENTRIES

	DEBIT	CREDIT
	1	
WATER METERS	422.00	
EQUITY		422.00
SPECIAL COLLECTION	7,180.00	
WATER T & D		7,180.00
TO RECORD ADJUSTMENT FOR ORDER PSC-95-048-FOF-WS NOT BOOKED AND TO RECORD 2004 ADDITION NEVER BOOKED.		
	2	
CIAC WATER	768.31	
CIAC WASTEWATER	293.60	
AMORTIZATION EXPENSE CIAC WATER		768.31
AMORTIZATION EXPENSE CIAC WASTEWATER		293.60
TO REMOVE AMORTIZATION EXPENSE POSTED IN THE CIAC ACCOUNT		
	3	
ACCUMULATED DEPRECIATION	159,964.62	
DEPRECIATION EXPENSE WATER	3,992.38	
DEPRECIATION EXPENSE WASTEWATER	5,305.82	
ACCUMULATED DEPRECIATION ORG. COSTS	9,818.40	
DEPRECIATION EXPENSE		8,228.16
ACCUMULATED DEPRECIATION WATER		78,900.29
ACCUMULATED DEPRECIATION WASTEWATER		90,445.03
EQUITY		1,507.74
TO RECORD DEPRECIATION ACCORDING TO RULE RATES FOR 2007 AND SEPARATE WATER AND WASTEWATER IN THE LEDGER.		
	4	
ACCUMULATED AMORTIZATION WATER CIAC	15,896.85	
ACCUMULATED AMORTIZATION WASTEWATER CIAC	4,023.16	
AMORTIZATION EXPENSE	727.21	
EQUITY		557.31
ACCUMULATED AMORTIZATION		18,733.91
AMORTIZATION EXPENSE WATER		984.00
AMORTIZATION EXPENSE WASTEWATER		372.00
TO CORRECT AMORTIZATION TO COMPOSITE RATE FOR 2007 AND SEPARATE WATER AND WASTEWATER.		
	5	
ACCOUNTS RECEIVABLE	22,103.39	
WATER RESIDENTIAL REVENUE		7,682.31
WASTEWATER RESIDENTIAL REVENUE		13,657.65
WATER COMMERCIAL REVENUE		272.88
WASTEWATER COMMERCIAL REVENUE		490.55
TO RECORD THE 4TH QUARTER REVENUE NOT BOOKED		
	6	
WASTEWATER REVENUE	953.52	
ACCOUNTS RECEIVABLE		953.52
TO RECORD OVERBILLING 4TH QUARTER FOR SEWER REVENUE		
	7	
WASTEWATER REVENUE	2,075.92	
ACCOUNTS RECEIVABLE		2,075.92
TO REMOVE OVERBILLING OF WASTEWATER FOR 30,000 GAL CAP.		

		DEBIT	CREDIT
	8		
BELOW THE LINE EXPENSE		739.23	
WASTEWATER REGULATORY ASSESSMENT FEE			466.34
WATER REGULATORY ASSESSMENT FEE			272.89
TO REMOVE PENALTY PAID FOR REGULATORY ASSESSMENT FEE.			
	9		
ACCOUNTING PERRY WASHBURN		900.00	
METER READING		360.00	
ACCOUNTING CAROLINE		960.00	
MISC. SUUPLIES		41.45	
PAYABLE TO HOMELAND			2,261.45
TO RECORD ITEMS PAID BY HOMELAND FOR WP UTILITIES.			
	10		
PURCHASED WATER		11,585.76	
PURCHASED WASTEWATER			1,658.27
PAYABLE TO HOMELAND			4,831.33
ELECTRIC			5,096.16
TO RECLASSIFY ELECTRIC TO PURCHASED WATER AND RECORD ACTUAL BILLS			
	11		
PREPAID RATE CASE EXPENSE		341.25	
RATE CASE EXPENSE		113.75	
ACCOUNTING			455.00
TO RECORD MILLIAM AND SWAIN RATE CASE COSTS.			
	12		
TANGIBLE PERSONAL PROPERTY TAX WATER		565.86	
TANGIBLE PERSONAL PROPERTY TAX WASTEWATER		789.50	
TAXES PAYABLE			1,355.36
TO RECORD PROPERTY TAX FOR UTILITY.			
	13		
ACCOUNTS RECEIVABLE		86.86	
REVENUE WATER RESIDENTIAL			86.86
CORRECT BOUNCED CHECK TO ACCOUNTS RECEIVABLE.			

PROFORMA ADJUSTMENTS	DEBIT	CREDIT
WATER REVENUE RESIDENTIAL		327.80
WASTEWATER REVENUE RESIDENTIAL		819.51
WATER REVENUE COMMERCIAL		12.77
WASTEWATER REVENUE COMMERCIAL		18.93
TO INCREASE REVENUE FOR RATE INCREASE IN SEPTEMBER 2007		
REGULATORY ASSESSMENT FEE WATER	17.42	
REGULATORY ASSESSMENT FEE WASTEWATER		77.21
TO CORRECT THE RAF FOR THE OVERBILLING AND THE RATE INCREASE IN SEPT.		
METER READING EXPENSE	960.00	
ACCOUNTING WATER	1,920.00	
ACCOUNTING WASTEWATER	1,920.00	
TO RECORD ADDITIONAL METER READING AND BILLING COSTS FOR MONTHLY BILLING		