

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: August 22, 2008
TO: Richard J. Wright, Professional Accountant Specialist, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *D*
RE: Docket No. 070693-WS; Company Name: Lake Utility Services, Inc.; Audit Purpose: Rate Case; Company Code: WS641; Audit Control No.:08-078-2-2

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 Office of Commission Clerk. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey, District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Mr. Patrick C. Flynn
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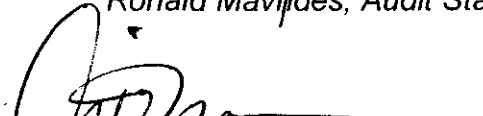
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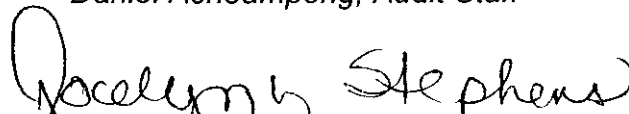
FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING
TAMPA DISTRICT OFFICE


LAKE UTILITY SERVICES, INC.
FILE AND SUSPEND RATE CASE AUDIT
HISTORICAL YEAR ENDED JUNE 30, 2007
DOCKET NO. 070693-WS
AUDIT CONTROL NO. 08-078-2-2


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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLEAR

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

JULY 15, 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 dated March 19, 2008. We have applied these procedures to the attached schedules prepared by Lake Utility Services, Inc. (LUSI) in support of its filing for rate relief in Docket No. 070693-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

General

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

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of June 30, 2007. Determined that the company made several adjustments to record auditor adjustments as calculated in the 2002 Overearnings Investigation performed in Docket 020567-WS. Audit Finding No. 1 provides information on Commission Adjustments incorrectly recorded on the company books. Audit Finding No. 2 addresses Adjustments to Rate Base.

Utility-Plant-in-Service (UPIS)

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

Procedures: We selected plant additions to be sampled for the period January 1, 2003 through June 30, 2007 for compliance with the stated objectives above. We verified that the utility properly recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether selected plant additions were in existence. We requested supporting documentation for selected construction project additions. Audit Finding No. 1 provides information on plant adjustments from the 2002 Overearnings Investigation. Audit Finding No. 3 provides information for plant additions on which the company was not able to provide supporting documentation. Audit Finding No. 4 provides information on additions to plant which should be recorded as Operation and Maintenance expense. Audit Finding No. 5 addresses Adjustments to Plant in Service. Audit Finding No. 6 provides information on amounts charged to Franchises.

Land and Land Rights

Objective: To determine that land is recorded at original cost, is being used in utility operations and is owned by the utility, or that the utility has a long-term written agreement for use of the land.

Procedures: Verified that the company still retained ownership of land which was documented in the prior rate proceeding before the Commission (Docket 870981-WS). Investigated all land additions that occurred subsequent to the 2002 Overearnings Investigation.

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

Objective: To determine that additions to CIAC are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff. To verify that all donated property is properly accounted for and recorded as CIAC and UPIS.

Procedures: We began the analysis of CIAC using the ending balance, per audit workpapers, prepared by staff in the 2002 Overearnings Investigations (Docket 020567-WS). We traced all cash contributions to company records for the period January 1, 2003 through June 30, 2007. We determined that cash contributions were billed and recorded in compliance with authorized tariff rates. We scanned cash books provided, for pertinent cash payments not recorded as CIAC and reviewed developer agreements for contributed plant amounts. We verified that additions to CIAC, from the developers, had corresponding amounts recorded to Plant. We toured the utility's authorized service territory for evidence of new developments. Audit Finding No. 7 addresses adjustments to CIAC.

Accumulated Depreciation

Objective: To determine that the company's accumulated depreciation balances are properly stated and are in compliance with Commission Rules and the NARUC Uniform System of Accounts. To verify that annual accruals are calculated using Commission authorized depreciation rates and that retirements are properly computed.

Procedures: We requested that the company provide its schedules for the calculation of depreciation expense and accumulated depreciation for the years 2003 through 2007. The Company provided water and sewer plant depreciation schedules for the years 2003-2007 and transportation schedules for 2003-2007. We reviewed the company's calculation of accumulated depreciation and determined that correct depreciation rates were being charged. We recalculated accumulated depreciation for the period January 2003 through June 2007 based upon staff adjustment to plant balances and the posting of prior audit plant adjustments. See Audit Finding No. 8 for information regarding an adjustment for Accumulated Depreciation.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rules and the NARUC Uniform System of Accounts. To verify the 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 established the beginning balances of accumulated amortization using the staff computed balance from the 2002 Overearnings Investigation. We calculated annual amortization using average CIAC balances multiplied by the composite depreciation rate. We prepared an adjustment for the difference between the amount per filing and staff's calculation. Audit Finding No. 7 addresses adjustments to CIAC – Accumulated Amortization.

Working Capital

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

Procedures: We verified the company's calculation of the Working Capital Allowance which was calculated using the Balance Sheet Method.

NET OPERATING INCOME.

General

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

Procedures: We reconciled the following individual component net operating income balances to the utility's general ledger for the 12-month period ended June 30, 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 pages.

Procedures: We reconciled revenue balances in the MFR to the general ledger. We compiled billing summaries for the test year and traced the total to the filing. Tested customer bills for Commission approved tariff rates. Traced revenues from the Regulatory Assessment Fee Form to revenues recorded in the general ledger.

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 reconciled O&M expense balances in the MFR to the utility general ledger. We reviewed a sample of utility invoices for proper amount, period, classification, NARUC account and recurring nature.

Taxes Other Than Income (TOTI)

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

Procedures: We reconciled TOTI expense balances to the general ledger. We reviewed all utility tax invoices for proper amount, period, classification, NARUC account and recurring nature. Audit Finding No. 9 addresses adjustments made to TOTI.

Depreciation Expense

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

Procedures: We recalculated depreciation expense and CIAC amortization expense using plant and CIAC balances as determined by staff and applying Commission approved rates and composite depreciation rates respectively. Audit Finding No. 10 addresses the adjustment to Depreciation Expense.

CAPITAL STRUCTURE

General

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

Procedures: We traced Accumulated Deferred Income Taxes and Customer Deposits to the General Ledger. Verified that the capital structure reconciles to the combined water and sewer rate base.

AUDIT FINDING NO. 1

SUBJECT: PRIOR AUDIT ADJUSTMENTS TO RATE BASE

AUDIT ANALYSIS:

To perform the analysis of Rate Base items, we requested that the company provide the Journal Entry used to record the Commission ordered adjustments from PSC Order 99-0635-FOF-WU (Docket 960444-WU) issued April 15, 1999. The company responded by providing the following documents (as titled by the company):

- a) The 2002 General Ledger displaying the Commission Ordered Adjustments (COA) listed as CO Adj
- b) COA Entry #1 through Entry #8
- c) COA Summary Affect of Adjustments on Test Year
- d) COA Supporting Workpapers

The above documentation included the company's efforts to record the Commission's stipulated adjustments from the rate case audit (Docket 960444-WU) as well as the staff adjustments from the 2002 Overearnings Investigation (Docket No. 020567-WS).

We scanned the documentation above and discovered that numerous errors were made by the company when preparing and/or posting the journal entry to the general ledger. We also discovered that the company made additional entries in the filing as rate base adjustments in order to correct its original journal entry posting. A description of some of the errors follows:

- 1) Company prepared journal entries for all of the adjustments that were calculated during the previous audit. However, the company did not post all these journal entries to the general ledger.
- 2) Company did not always post the correct amount of the adjustment that was calculated during the previous audit.
- 3) Company posted debit balances to its books for adjustments that had credit balances.
- 4) Company attempted to correct some of its errors but in doing so, double recorded the adjustments.
- 5) The company reversed the total amount of some entries that were initially posted. The journal entry description was "To remove all unknown adjustments made in 2005". However, we saw documentation that the initial adjustments were correctly made.
- 6) Company posted water adjustments to wastewater accounts.

Staff prepared a chart that compares the staff adjustments from the prior audits to those recorded in the 2005 general ledger as well as those included on MFR Schedule A-3 as Adjustments to Rate Base.

			Posted in					Adjustment	Adjustment
			Gen'l Ledger	Entry #2	Entry #3	Entry #5	Entry #7	to	to
	<u>Per Staff</u>	<u>Per G/L</u>		<u>MFR's</u>	<u>MFR's</u>	<u>MFR's</u>	<u>MFR's</u>	<u>Gen'l Ledger</u>	<u>MFR's</u>
WATER PLANT									
3011001	ORGANIZATION	(97,371)	(97,371)					-	-
3044031	STRUCT & IMPRV (WATER T P	(21,798)	(18,950)	(1,335)	(1,513)			(2,848)	-
3072014	WELLS & SPRINGS	(37,497)	(37,497)					-	-
309	SUPPLY MAINS POWER GENERATION	39,121		39,121				39,121	-
310	EQUIPMENT	40,219		40,219				40,219	-
3113025	ELECTRIC PUMP EQUIP	(138,756)	(78,357)					(60,399)	(60,399)
3113026	ELECTRIC PUMP EQPT SM-NC	-	(20,181)					20,181	20,181
3204032	WATER TREATMENT EQPT	19,919	19,919					-	-
3305042	DIST RESV & STNDPIPES	(78,846)	(12,246)			7,399		(66,600)	(73,999)
3315043	TRANS & DISTR MAINS	(149,992)	(110,871)					(39,121)	(39,121)
3335045	SERVICE LINES	(17,950)	(17,951)					1	1
3345046	METERS	1,003						1,003	1,003
3345047	METER INSTALLATIONS	(6,332)	(5,329)					(1,003)	(1,003)
3355048	HYDRANTS	10,039	10,039					-	-
3406090	OFF STRUCT & IMPRV	651		(524)				651	1,175
3406091	OFF FURN & EQPT	(1,226)		(51)				(1,226)	(1,175)
3446095	LABORATORY EQPT	(1,989)		(1,989)				(1,989)	(0)
3466093	TELEPHONES	-						-	-
3466094	TOOLS SHOP & MISC EQPT	(4,858)	(338)	(4,520)				(4,520)	-
3466097	COMMUNICATION EQPT	(5,504)	(5,044)	(460)				(460)	-
3486050	WATER PLANT ALLOCATED	(2,722)						(2,722)	(2,722)
3036010	LAND & LAND RIGHTS	(22,841)						(22,841)	(22,841)
3034030	L & L RIGHTS (WATER TREAT	(304,473)	(327,313)					22,840	22,840
	WATER PLANT AND LAND	(781,204)	(701,490)	78,005	(9,057)	-	7,399	(625,143)	(156,061)
	UIF ALLOCATION	(108,361)							
	WSC ALLOCATION	46,293							
	TOTAL STAFF ADJUSTMENT	(843,272)							

		Posted in						Adjustment	Adjustment
		Gen'l Ledge	Entry #2	Entry #3	Entry #5	Entry #7	Total	to	to
	<u>Per Staff</u>	<u>Per G/L</u>	<u>MFR's</u>	<u>MFR's</u>	<u>MFR's</u>	<u>MFR's</u>		<u>Gen'l Leger</u>	<u>MFR's</u>
SEWER PLANT									
3511000	SEWER PLANT	-							
3511001	ORGANIZATION	-							
3521020	FRANCHISES	(1,813)	(1,813)				(1,813)		
3542011	LIFT STATION	-							
3547003	BLDGS & STRUCTS	(137,297)	(135,784)	(1,513)			(137,297)	(1,513)	-
3547096	UNDISTR SEWER PLANT	-					-	-	-
3602006	SEWAGE SERVICE LINES	-					-	-	-
3602007	FORCE OR VACUUM MAINS	(54,404)	-				-	(54,404)	(54,404)
3612008	SEWER MAINS	54,404		54,404			54,404	54,404	-
3612010	MANHOLES	-					-	-	-
3662006	REUSE SERVICES	-					-	-	-
3675046	REUSE MTR/INSTALLATIONS	-					-	-	-
371	PUMPING EQUIPMENT	-					-	-	-
3752008	REUSE TRANMISSION & DIST	-					-	-	-
3804004	SEWER LAGOONS	-					-	-	-
3804005	SEWAGE TRTMT PLANT	(111,315)	(111,015)	(313,340)	(982)	258,936	(166,401)	(300)	55,086
3824009	OUTFALL LINES	(16,718)	(16,718)				(16,718)	-	-
3907091	OFF FURN & EQPT	-					-	-	-
3937094	TOOLS SHOP & MISC EQPT	(575)	2,088	(575)		(2,088)	(575)	(2,663)	-
3967097	COMMUNICATION EQPT	-					-	-	-
3985000	OTHER TANGIBLE PLT SEWER	-			(222)	222	-	-	-
3537002	L & L RIGHTS	(392,497)	392,497				392,497	(784,994)	(784,994)
	SEWER PLANT AND LAND	(660,215)	129,255	(258,936)	(2,088)	(1,204)	257,070	(789,470)	(784,312)
	UIF ALLOCATION	52,928							
	WSC ALLOCATION	17,225							
	TOTAL STAFF ADJUSTMENT	(590,062)							

	<u>Per Staff</u>	<u>Posted in Gen'l Ledge Per G/L</u>	<u>Entry #1 MFR's</u>	<u>Entry #2 MFR's</u>	<u>Entry #3 MFR's</u>	<u>Entry #4 MFR's</u>	<u>Entry #5 MFR's</u>	<u>Entry #7 MFR's</u>	<u>Entry #8 MFR's</u>	<u>Total</u>	<u>Adjustment</u>	<u>Adjustment</u>
											<u>to Gen'l Leger</u>	<u>to MFR's</u>
<u>Accumulated Depreciation</u>												
Water	83,331	69,079	(229)	31,484	(6,418)	(10,892)	(8,726)		4,740	79,038	14,252	4,293
Sewer	(76,034)	(251,885)		44,723	(1,480)	(560)	(11,382)	(501,461)	538,648	(183,397)	175,851	107,363
<u>CIAC</u>												
Water	(84,129)	(84,159)								(84,159)	30	30
Sewer	(3,725)	(188,674)						(184,949)		(373,623)	184,949	369,898
<u>Acc Amortization - CIAC</u>												
Water	117,592	132,901					31,957	(15,309)		149,549	(15,309)	(31,957)
Sewer	80,462	80,462					117,849			198,311	-	(117,849)

Because of the discrepancies recorded above, staff reversed the effect of the company's 2005 general ledger adjustment and did not use the adjustments to rate base that were included in the filing on MFR Schedule A-3. Instead, staff included the prior audit adjustments in the beginning balance when preparing its analysis of rate base items. (See Audit Findings No. 5, 7 and 8.)

EFFECT UPON GENERAL LEDGER	<u>Water</u>	<u>Wastewater</u>
Reduce Plant in Service	\$ 79,714	\$ 789,470
Increase Accumulated Depreciation	\$ 14,252	
Reduce Accumulated Depreciation		\$ 1,759
Reduce CIAC	\$ 30	\$ 1,849
Reduce Accumulated Amortization - CIAC	\$ 15,309	\$ -
Increase Retained Earnings		\$ 537,915.00

EFFECT UPON FILING	<u>Water</u>	<u>Wastewater</u>
Reduce Plant in Service	\$ 156,061	\$ 784,312
Increase Accumulated Depreciation	\$ 4,293	
Reduce Accumulated Depreciation		\$ 107,363
Reduce CIAC	\$ 30	\$ 369,898
Reduce Accumulated Amortization - CIAC	\$ 31,957	\$ 117,849

AUDIT FINDING NO. 2

SUBJECT: RELATED PARTY ALLOCATION TO RATE BASE

AUDIT ANALYSIS:

We analyzed the related party allocations for Plant and Accumulated Depreciation for the test year ended June 30, 2007.

Staff determined that the company posted quarterly allocations of general plant, based upon Equivalent Residential Connections (ERCs) from its related parties.

We performed an analysis of the quarterly plant allocations by reviewing the allocation manuals provided by the company. We recalculated the plant allocations using the quarterly weighted average of the plant allocation percentages times the total plant for each quarter. We also noted that all related party plant allocations are classified as general plant on the books of LUSI. Additionally, the company records all related party allocations to its water accounts and subsequently allocated a portion to wastewater based upon the ERCs.

During the analysis, we determined that the company's allocation in the manuals agree with staff calculated amounts. However, the allocation reported on the filing differs from staff calculated amount.

<u>Related Party Allocations</u>	<u>Water</u>	<u>Plant in Service</u> <u>Sewer</u>	<u>Total</u>
Adjusted WSC Average Allocation	\$ 223,952		\$ 223,952
UIF Average Allocation	182,369		182,369
Transportation Allocation	293,174		293,174
Allocation of general Plant to Sewer	<u>(174,140)</u>	<u>174,140</u>	<u>-</u>
Total Related Party Allocation - Per Comp	\$ 525,355	\$ 174,140	\$ 699,495
Related Party Allocation - Per Staff (W = .751048; Wastewater = .248952)	138,010	45,747	183,757
Staff Adjustment	<u>\$ (387,345)</u>	<u>\$ (128,393)</u>	<u>\$ (515,738)</u>

<u>Related Party Allocations</u>	<u>Accumulated Depreciation</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Adjusted WSC Average Allocation	(\$121,669)		(\$121,669)
UIF Average Allocation	(61,072)		(61,072)
Transportation Allocation	(139,017)		(139,017)
Allocation of general Plant to Sewer	<u>80,103</u>	<u>(80,103)</u>	<u>-</u>
Total Related Party Allocation - Per Comptroller	(\$241,655)	(\$80,103)	(\$321,758)
Related Party Allocation - Per Staff (W = .751048; Wastewater = .248952)	(81,740)	(27,095)	(108,835)
Staff Adjustment	<u>\$159,915</u>	<u>\$53,008</u>	<u>\$212,923</u>

Using the staff computed amount, we recommend an adjustment to rate base for Plant and Accumulated Depreciation as follows: Reduce Water and Wastewater plant by \$387,345 and \$128,393 respectively. Reduce Water and Wastewater Accumulated Depreciation by \$159,915 and \$53,008 respectively.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

Because this amount would change quarterly, an adjustment is not being recommended.

EFFECT ON FILING IF FINDING IS ACCEPTED:

Water Rate Base should be reduced by \$227,430 and Sewer Rate Base should be reduced by \$75,385.

AUDIT FINDING NO. 3

SUBJECT: UNDOCUMENTED PLANT ADDITIONS

AUDIT ANALYSIS:

We performed an analysis of plant additions for the period January 1, 2003 through June 30, 2007. As part of the analysis, we used the general ledger transaction details to judgmentally select items for testing. Our population included all line item transactions greater than \$2,000. We scheduled selected items by account number and year between water and wastewater. Due to volume of data required, we submitted four separate requests to the company to provide supporting documentation for review. These requests were faxed to the company with a follow-up to document the faxed request.

The company provided a majority of the requested documents in the first two requests. Data for the remaining requests was not received prior to end of field work. However, the company did provide partial response to these requests. These requests will be submitted to the Commission without review. The table below shows total dollars requested and total dollar amounts not received by the end of audit work.

<u>WATER</u>			
<u>Year</u>	<u>Requested</u>	<u>Not Received</u>	<u>& Not Received</u>
2003	\$ 3,574,118	\$ 1,241,240	34.73%
2004	900,075	190,563	21.17%
2005	745,095	309,190	41.50%
2006	5,078,361	3,274,941	64.49%
2007	34,583	-	0.00%
	<u>\$ 10,332,232</u>	<u>\$ 5,015,934</u>	

WASTEWATER

<u>Year</u>	<u>Requested</u>	<u>Not Received</u>	<u>& Not Received</u>
2003	\$ 249,010	\$ 137,614	55.26%
2004	45,934	-	0.00%
2005	46,054	(7,690)	-16.70% (a)
2006	60,078	29,940	49.84%
2007	27,299	2,156	7.90%
	<u>\$ 428,375</u>	<u>\$ 162,020</u>	

(a) Includes a negative amount of \$22,000.

TRANSPORTATION

<u>Year</u>	<u>Requested</u>	<u>Not Received</u>	<u>& Not Received</u>
2003	\$ 13,621	\$ 13,324	97.82%
2004	106,829	106,829	100.00%
2005	18,064	18,064	100.00%
2006	(201,013)	(201,013)	100.00%
2007	N/A	N/A	N/A
	<u>\$ (62,499)</u>	<u>\$ (62,796)</u>	

EFFECT ON GENERAL LEDGER:

None

EFFECT ON FILING:

Unless further documentation is submitted to the analyst, we have determined that an adjustment should be made to remove the undocumented amounts from rate base consideration for the current rate proceedings for Lake Utility Services, Inc.

Reduce Rate Base - Water Plant	\$5,014,934
Reduce Rate Base - Water Plant	\$162,020
Increases Rate Base - Transportation	\$62,796

AUDIT FINDING NO. 4

SUBJECT: CAPITALIZED EXPENSES

AUDIT ANALYSIS:

We performed an analysis of plant additions for the period January 1, 2003 through June 30, 2007. As part of the analysis, we used the general ledger transaction detail to judgmentally select items for testing. Our population included all line item transactions greater than \$2,000. We scheduled selected items by account number and year between water and wastewater and requested that the company provide supporting documentation for review. As a result of the data received by the end of audit fieldwork, we determined that the company capitalized Operation and Maintenance expenses. The table below shows total dollar amounts that should be classified as operation and maintenance accounts.

<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
2003	\$ 21,522	\$ -	\$ 21,522
2004	9,503	2,758	12,260
2005	64,220	37,162	101,382
2006	9,615	9,197	18,811
2007	6,435	15,302	21,736
Total	<u>\$ 111,294</u>	<u>\$ 64,418</u>	<u>\$ 175,712</u>

EFFECT ON GENERAL LEDGER:

WATER

Retained Earnings	104,859	
O&M Expense	6,435	
Plant		111,294

WASTEWATER

Retained Earnings	49,116	
O&M Expense	15,302	
Plant		64,418

EFFECT ON FILING:

Rate Base should be reduced by	175,712	
Water		111,294
Wastewater		64,418
O&M Expense should be increased by	21,736	
Water		6,435
Wastewater		15,302

AUDIT FINDING NO. 5

SUBJECT: PLANT IN SERVICE

AUDIT ANALYSIS:

In the analysis of rate base, staff determined that the company made numerous errors in posting the prior audit adjustments to plant (See Audit Finding No. 1)

Because of the inconsistencies performed by the company, staff recomputed plant in service using the prior audit adjusted ending balance, in Docket 020567-WS, as a starting point. We also removed the company's general ledger posting for these audit adjustments. Additionally, staff did not include adjustments made to the filing in MFR Schedule A-3 that also pertained to these adjustments.

The following table shows differences between the auditor analysis of Plant in Service (including Plant, Transportation Equipment and Land), using the general ledger as compared with the filing.

Account Description	Balance Per Filing	<u>Water</u> Balance Per Staff	Difference
Plant in Service*	\$26,382,620	\$26,298,704	<u>\$83,916</u>

	Balance Per Filing	<u>Wastewater</u> Balance Per Staff	Difference
Plant in Service*	\$9,358,611	\$9,338,096	<u>\$20,515</u>

* Includes Plant, Land and Transportation Equipment

EFFECT UPON GENERAL LEDGER

Reduce Plant In Service Water and Wastewater by \$83,916 and \$20,515, respectively.
Reduce Retained earnings by \$104,431.

EFFECT UPON FILING

Reduce Plant In Service Water and Wastewater by \$83,916 and \$20,515, respectively.

AUDIT FINDING NO. 6

SUBJECT: LEGAL FEES CHARGED TO FRANCHISE

AUDIT ANALYSIS:

During the analysis of Plant, staff noted that the company charged Legal Fees to Account 3021002 – Franchise for Territory Extension to service Mission Park.

The total costs incurred are detailed below.

<u>Year</u>	<u>Amount</u>
2003	\$ 3,955
2004	\$ 9,874
2005	\$ 5,104
2006	\$ 731
	<u>\$ 19,665</u>

This information is presented for informational purposes only.

AUDIT FINDING NO. 7

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) AND ACCUMULATED AMORTIZATION - CIAC

AUDIT ANALYSIS:

We performed an analysis of CIAC and related Accumulated Amortization – CIAC for the period January 1, 2003 through June 30, 2007. We noted that the annual additions and balances in the filing agree to those amounts included in the annual reports. We also noted discrepancies between the general ledger and the filing. Based upon the discrepancies noted in Audit Finding No. 1, staff recalculated CIAC.

Our recalculation began by using the staff adjusted balance from the 2002 Overearnings Investigation. We reviewed the company's cash books, general ledger transaction detail, a schedule of meter connection and tap fees, and developer agreements.

Included among the discrepancies noted between the filing and the supporting documentation provided by the company are cash contributions recorded in the schedule of Tap Fees but not recorded in the filing and cash contributions posted in the filing that could not be verified using supporting documentation supplied by the company.

Staff also performed an analysis of Accumulated Amortization of CIAC. We used staff calculated balances for CIAC and applied annual composite depreciation rates. Composite rates were used because we could not determine into which plant accounts the CIAC pertained.

A summary comparison between the amount per filing and staff calculation is shown below.

	<u>CIAC</u>	<u>Water</u>	<u>Sewer</u>
Per Filing		\$ 15,206,154	\$ 6,209,053
Per Staff		15,149,109	6,020,378
Difference		<u>\$ 57,045</u>	<u>\$ 188,675</u>

	<u>Accumulated Amortization</u>	<u>Water</u>	<u>Sewer</u>
Per Filing		\$ 2,442,232	\$ 1,006,495
Per Staff		2,787,386	1,206,723
Difference		<u>\$ (345,154)</u>	<u>\$ (200,228)</u>

EFFECT ON GENERAL LEDGER:

Decrease CIAC-Water and CIAC – Wastewater by \$57,045 and \$188,675, respectively. Increase Accumulated Amortization Water and Wastewater by \$341,154 and \$200,228, respectively. Increase retained earnings by \$787,102.

EFFECT ON FILING

Decrease CIAC-Water and CIAC – Wastewater by \$57,045 and \$188,675, respectively. Increase Accumulated Amortization Water and Wastewater by \$341,154 and \$200,228, respectively.

AUDIT FINDING NO. 8

SUBJECT: ACCUMULATED DEPRECIATION

AUDIT ANALYSIS:

Staff performed an analysis of Accumulated Depreciation using Plant in Service balances as calculated by staff. Staff balances were used because of the errors recorded in the plant accounts when the company attempted to post audit adjustments made in the 2002 Overearnings Investigation. (See Audit Finding No. 1)

Staff applied depreciation rates as mandated by Commission Rule 25-30.140 F.A.C.

The differences between the filing and staff calculation are shown below.

<u>Account</u> <u>Description</u>	WATER			SEWER		
	<u>Balance</u> <u>Per Filing</u>	<u>Balance</u> <u>Per Staff</u>	<u>Difference</u>	<u>Balance</u> <u>Per Filing</u>	<u>Balance</u> <u>Per Staff</u>	<u>Difference</u>
Accumulated Depreciation	\$3,696,892	\$3,402,779	\$294,113	\$1,860,580	\$1,799,354	\$61,226

EFFECT ON GENERAL LEDGER:

Reduce Accumulated Depreciation by \$294,113 and \$61,226 for Water and Wastewater, respectively. Increase Retained Earnings by \$355,339.

None

EFFECT UPON FILING:

Reduce Accumulated Depreciation by \$294,113 and \$61,226 for Water and Wastewater, respectively.

AUDIT FINDING NO. 9

SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME

AUDIT ANALYSIS:

The company's MFR reflect water and wastewater balances of \$293,515 and \$104,924 for a total of \$398,439 for real estate and tangible property taxes – Taxes Other Than Income (TOTI) for the 12-month period ended June 30, 2007. The company's real estate and personal property taxes are overstated by \$50,623. This is because the company did not take advantage of the available discount of \$1,135, and the utility did not provide support for \$49,488 real estate and tangible property tax bills. The company used actual 2006 tax bills for its filing.

EFFECT ON THE GENERAL LEDGER:

None, our adjustments are for rate making purposes only.

EFFECT ON THE FILING:

Decrease water and wastewater TOTI expense by \$37,461 and \$13,162, respectively, for the 12-month period ended June 30, 2007.

AUDIT FINDING NO. 10

SUBJECT: DEPRECIATION AND AMORTIZATION EXPENSE

AUDIT ANALYSIS:

Using plant in service and contributions in aid of construction, as calculated by staff, we have calculated depreciation expense and amortization expense for the period July 1, 2006 – June 30, 2007

A comparison between the filing and staff computation is shown below.

Account Description	Balance Per Filing	<u>Water</u> Balance Per Staff	Difference
Depreciation Expense	\$737,663	\$690,140	\$47,523
less:			
Amortization Expense	375,640	224,964	150,676
Net Depreciation	<u>\$362,023</u>	<u>\$465,176</u>	<u>(\$103,153)</u>

Account Description	Balance Per Filing	<u>Wastewater</u> Balance Per Staff	Difference
Depreciation Expense	\$315,254	\$315,795	(\$541)
less:			
Amortization Expense	133,931	108,336	25,595
Net Depreciation	<u>\$181,323</u>	<u>\$207,459</u>	<u>(\$26,136)</u>

EFFECT ON GENERAL LEDGER:

None

EFFECT ON FILING:

Decrease Depreciation Expense-Water by \$47,523
Increase Depreciation Expense – Wastewater by \$541

Decrease Amortization Expense – Water by \$150,676
Decrease Amortization Expense – Wastewater by \$25,562

Net effect upon Net Operating Income – Increase Depreciation Expense-Water by \$103,153 and Wastewater by \$26,103

Schedule of Water Rate Base

Florida Public Service Commission

Company: Lake Utility Services, Inc.
 Docket No.: 070693-WS
 Schedule Years Ended: Historical 6/30/07, Projected 6/30/08 & 6/30/09
 Interim [] Final [X]
 Historic [X] Projected [X]

Schedule: A-1
 Page 1 of 1
 Preparer: John Moy

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held for Future Use

Line No.	(1) Description	(2) Average Amount Per Books	(3) Historical Base Year 6/30/07		(4) Adjusted Average Balance	(6) Intermediate Year 6/30/08		(8) Projected Test Year 6/30/09		(9) Supporting Schedule(s)
			A-3 Utility Adjustments	A-3 Utility Adjustments		A-3 Utility Adjustments	A-3 Utility Adjustments			
1	Utility Plant In Service	23,323,348	97,682 (A)		23,421,030		30,472,864		33,931,218	A-5, A-3
2										
3	Utility Land & Land Rights	116,158	(3,780) (A)		112,378		109,617		109,617	A-5, A-3
4										
5	Less: Non-Used & Useful Plant		0		0		0		0	A-7, A-3
6										
7	Construction Work in Progress	4,297,201	(4,297,201) (B)		0		0		0	
8										
9	Less: Accumulated Depreciation	(3,083,556)	24,320 (C)		(3,059,236)		(3,847,575)		(4,873,886)	A-9, A-3
10										
11	Less: CIAC	(14,771,966)	0		(14,771,966)		(15,206,154)		(15,206,154)	A-12
12										
13	Accumulated Amortization of CIAC	2,252,109	16,648 (E)		2,268,757		2,649,221		3,021,903	A-14
14										
15	Acquisition Adjustments	0			0		0		0	
16										
17	Accum. Amort. of Acq. Adjustments	0			0		0		0	
18										
19	Advances For Construction	(38,400)			(38,400)		(38,400)		(38,400)	A-16
20										
21	Working Capital Allowance	0	211,284 (F)		211,284		211,284		211,284	A-17, A-3
22										
23	Total Rate Base	<u>12,094,894</u>	<u>(3,951,047)</u>		<u>8,143,847</u>	<u>0</u>	<u>14,350,857</u>	<u>0</u>	<u>17,155,582</u>	

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DOCUMENT NUMBER-DATE
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 FPSC-COMMISSION CLERK

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Lake Utility Services, Inc.

Schedule: A-2

Docket No.: 070693-WS

Page 1 of 1

Schedule Years Ended: Historical 06/30/07, Projected 6/30/08 & 6/30/09

Preparer: John Hoy

Interim Final

Historic Projected

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Average Amount Per Books	(3) Historical Base Year 6/30/07		(4) Adjusted Average Balance	(5) Intermediate Year 6/30/08		(6) Projected Test Year 6/30/09		(9) Supporting Schedule(s)
			A-3 Utility	Adjustments		A-3 Utility	Adjustments	A-3 Utility	Adjusted Average Balance	
1	Utility Plant in Service	8,469,253	192,890	(A)	8,662,143		10,518,974	18,000,972	A-8, A-3	
2										
3	Utility Land & Land Rights	838,852	6,244	(A)	845,096		844,181	844,181	A-6	
4										
5	Less: Non-Used & Useful Plant (net)		0		0		(919,006)	(1,477,130)	A-7, A-3	
6										
7	Construction Work in Progress		0	(B)	0		0	0	-	
8										
9	Less: Accumulated Depreciation	(1,738,773)	(151,747)	(C)	(1,890,520)		(2,209,531)	(2,771,350)	A-10, A-3	
10										
11	Less: CIAC	(6,183,118)	184,949	(D)	(5,998,169)		(6,024,103)	(6,024,103)	A-12	
12										
13	Accumulated Amortization of CIAC	922,777	117,849	(E)	1,040,626		1,219,242	1,409,033	A-14	
14										
15	Acquisition Adjustments		0		0		0	0	-	
16										
17	Accum. Amort. of Acq. Adjustments		0		0		0	0	-	
18										
19	Advances For Construction		0		0		0	0	A-16	
20										
21	Working Capital Allowance		70,035	(F)	70,035		70,035	70,035	A-17	
22										
23	Total Rate Base	<u>2,308,991</u>	<u>420,220</u>		<u>2,729,211</u>	<u>0</u>	<u>3,499,792</u>	<u>10,051,638</u>		

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Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Lake Utility Services, Inc.
 Docket No.: 070693-WS
 Schedule Years Ended: Historical 06/30/07, Projected 6/30/08 & 6/30/09
 Interim [] Final [X]
 Historic [X] or Projected [X]

Schedule: B-1
 Page 1 of 1
 Preparer: John Hoy

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) (3) Historical Base Year 6/30/07		(4) Adjusted Test Year	(5) (6) Intermediate Year 6/30/08		(7) (8) Projected Test Year 6/30/09		(9) Supporting Schedule(s)
		Balance Per Books	Test Year Adjustments		Adjustments	Adjusted Intermediate Year	Adjustments	Adjusted Projected Year	
1	OPERATING REVENUES	2,890,389	63,217 (A)	2,953,606		2,953,606	2,817,400	5,771,006	B-4, B-3
2									
3	Operation & Maintenance	1,800,251	(311,066) (B)	1,489,185	308,490	1,797,675	508,358	2,306,033	B-5, B-3
4									
5	Depreciation, net of CIAC Amort.	378,072	(28,908) (C)	349,164	225,528	574,692	115,390	690,082	B-13, B-3
6									
7	Amortization			0					B3
8									
9	Taxes Other Than Income	643,696	(173,515) (D)	470,180	13,729	483,909	291,258	775,167	B-15, B-3
10									
11	Provision for income Taxes	4,429	121,064 (E)	125,493	(88,868)	36,625	436,987	473,612	C-1, B-3
12									
13	OPERATING EXPENSES	2,826,448	(392,425)	2,434,023	458,879	2,892,902	1,351,992	4,244,894	
14									
15	NET OPERATING INCOME	63,941	455,642	519,583	(458,879)	60,704	1,465,408	1,526,111	
16									
17									
18	RATE BASE	12,094,894		8,143,847		14,350,857		17,155,582	
19									
20									
21	RATE OF RETURN	0.53 %		6.38 %		0.42 %		8.90 %	

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DOCUMENT NUMBER 2431

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Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Lake Utility Services, Inc.
 Docket No.: 070693-WS
 Schedule Years Ended: Historical 06/30/07, Projected 6/30/08 & 6/30/09
 Interim [] Final [X]
 Historic [X] or Projected [X]

Schedule: B-2
 Page 1 of 1
 Preparer: John Hoy

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(3) Historical Base Year 6/30/07		(4) Adjusted Test Year	(6) Intermediate Year 6/30/08 Adjusted Intermediate Year		(7) Projected Test Year 6/30/09 Adjusted Projected Year		Supporting Schedule(s)
		(2) Balance Per Books	Test Year Adjustments		(5) Adjustments	Year	Adjustments	Year	
1	OPERATING REVENUES	870,816	14,337 (A)	885,153		885,153	1,876,609	2,761,762	B-4, B-3
2									
3	Operation & Maintenance	329,951	298,499 (B)	628,450	85,905	714,355	156,570	870,925	B-8, B-3
4	Depreciation, net of CIAC Amort.	89,696	104,486 (C)	194,182	(36,599)	157,583	196,474	354,057	B-14, B-3
5									
6									
7	Amortization								B3
8									
9	Taxes Other Than Income		159,389 (D)	159,389	4,551	163,940	201,181	365,121	B-15, B-3
10									
11	Provision for Income Taxes	29,228	(29,228) (E)	0	(75,743)	0	277,495	277,495	C-1, B-3
12									
13	OPERATING EXPENSES	448,875	533,146	982,021	(21,886)	1,035,878	831,720	1,867,598	
14									
15	NET OPERATING INCOME	421,941	(518,809)	(96,868)	21,886	(150,725)	1,044,889	894,164	
16									
17									
18	RATE BASE	2,308,991		2,729,211		3,499,792		10,051,638	
19									
20									
21	RATE OF RETURN	18.27 %		- %		- %		8.90 %	

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Schedule of Requested Cost of Capital
13 Month Average

Florida Public Service Commission

Company - Lake Utility Services, Inc.
Docket No.: 070693-WS
Schedule Year Ended: 6/30/07
Interim [] Final [x]
Historical [x] Projected []

Schedule D-1
Page 1 of 3

Preparer: Michelle Rochow

Explanation: Provide a schedule which calculates the requested cost of capital on a 13 month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	(1) Class of Capital	(2) Reconciled to Requested Rate Base AYE 6/30/07	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long Term Debt	6,010,484.31	55.28%	6.63%	3.67%
2	Short Term Debt	188,816.55	1.74%	1.53%	0.03%
3	Preferred Stock	-	0.00%	0.00%	0.00%
4	Common Equity	4,349,109.66	40.00%	11.86%	4.74%
5	Customer Deposits	243,594.44	2.24%	6.00%	0.13%
6	Tax Credits - Zero Cost	-	0.00%	0.00%	0.00%
7	Tax Credits - Weighted Cost	-	0.00%	0.00%	0.00%
8	Accumulated Deferred Income Tax	81,053.04	0.75%	0.00%	0.00%
9	Other (Explain)	-	0.00%	0.00%	0.00%
10	Total	<u>10,873,058.00</u>	<u>100.00%</u>		<u>8.57%</u>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-070006-WS
The equity ratio is 40% or greater. Therefore, the actual cost rate has been used.

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

DOCUMENT NUMBER DATE

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Reconciliation of Capital Structure to Requested Rate Base
13 Month Average

Florida Public Service Commission

Company - Lake Utility Services, Inc.
Docket No.: 070693-WS
Schedule Year Ended: 6/30/07
Interim Final
Historical Projected

Schedule D-2
Page 1 of 3

Preparer: Michelle Rochow

Explanation: Provide a reconciliation of 13 month average structure to requested rate base. Explain all adjustments. Submit an additional schedule if a year-end basis is used.

Line No.	(1) Class of Capital	(2) Balance 6/30/07	(3) Balance 6/30/06	(4) 13 Month Average	(5) Reconciliation Adjustments		(6) Pro Rata Percentage	(7) Reconciled to Requested Rate Base AYE 6/30/07
					Pro Rata	Pro Rata		
1	Long Term Debt	180,000,000	97,275,520	173,636,578	(167,626,094)	56.98%	6,010,484	
2	Short Term Debt	-	66,317,000	5,439,769	(5,250,953)	1.79%	188,817	
3	Preferred Stock	-	-	-	-	0.00%	-	
4	Common Equity	158,486,069	93,830,258	125,643,139	(121,294,030)	41.23%	4,349,110	
5	Customer Deposits	245,690	244,340	243,594	-	n/a	243,594	
6	Tax Credits - Zero Cost	-	-	-	-	n/a	-	
7	Tax Credits - Weighted Cost	-	-	-	-	0.00%	-	
8	Accumulated Deferred Income Taxes	106,051	86,808	81,053	-	n/a	81,053	
9	Other (Explain)	-	-	-	-	0.00%	-	
10	Total	<u>338,837,810</u>	<u>257,753,926</u>	<u>305,044,135</u>	<u>(294,171,077)</u>	<u>100.00%</u>	<u>10,873,058</u>	

Note: Long term debt, short term debt, preferred stock, and common equity are actual for Lake Utilities, Inc.'s parent company, Utilities, Inc.

Supporting Schedules: A-19, C-7, C-8, D-3, D-4, D-5, D-7
Recap Schedules: D-1