

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: September 18, 2008
TO: Stephen B. Fletcher, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DV*
RE: Docket No. 080121-WS; Company Name: Aqua Utilities Florida, Inc.; Audit Purpose: Rate Case audit; Audit Control No. 08-093-1-1

Attached is the final audit report for the audit 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. Troy Rendell
Aqua Utilities Florida, Inc.
3116 Capital Circle N.E., Suite 5
Tallahassee, FL 32308-7791

Ms. Kimberly A. Joyce
Aqua Utilities Florida, Inc.
762 West Lancaster Avenue
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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

AQUA UTILITIES FLORIDA, INC.

FILE AND SUSPEND RATE CASE

TEST YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 080121-WS
AUDIT CONTROL NO. 08-093-1-1

A handwritten signature in black ink, appearing to read "Charleston J. Winston".
Charleston J. Winston, Audit ManagerA handwritten signature in black ink, appearing to read "Intesar Terkawi".
Intesar Terkawi, Audit StaffA handwritten signature in black ink, appearing to read "Debra Dobiac".
Debra Dobiac, Audit StaffA handwritten signature in black ink, appearing to read "Hymavathi Vedula".
Hymavathi Vedula, Audit StaffA handwritten signature in black ink, appearing to read "Donna Brown".
Donna Brown, Audit StaffA handwritten signature in black ink, appearing to read "Lynn M. Deamer".
Lynn M. Deamer, Audit Supervisor

DOCUMENT NUMBER-DATE

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

September 18, 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 Minimum Filing Requirements (MFRs) prepared by Aqua Utilities Florida, Inc. in support for rate relief in Docket No. 080121-WS for the test period ending December 31, 2007.

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.

II. OBJECTIVES AND PROCEDURES

RATE BASE:

A. Objective – Plant in Service: To determine that property exists and is owned by the utility. To determine that additions 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 were made when a replacement item was put in service. To determine that the land is owned by the utility and included in rate base at original cost.

1. We reconciled the beginning plant in service balance to the utility's books and to the prior Commission orders. We traced the filing additions and retirements by year to the utility's annual reports.
2. We judgmentally selected a sample of additions and retirements from the general ledger. We tested the sample of plant in service additions for the following: date acquired, original cost, account recorded, and appropriate retirements. We tested the sample of retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal.
3. We reconciled the plant in service additions and retirements to the utility's general ledger. We traced the cost of land to the warranty deeds. Audit Findings 1 through 4 and 18 address the Utility Plant in Service balances in the filing.

B. Objective – Contributions in Aid of Construction (CIAC): To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff.

1. We reconciled the beginning CIAC balances to the utility's books and the prior Commission orders. We read the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received donated property as CIAC.
2. We sampled CIAC additions and reviewed the following: description of asset or fees received, date acquired, original cost, account number where recorded, and if the amount collected is authorized in the utility tariff. We reconciled CIAC additions to the utility's general ledger. Audit Finding 1 addresses the CIAC balances in the filing.

C. Objective – Accumulated Depreciation and Depreciation Expense: To verify that accumulated depreciation and depreciation expense is calculated using the Commission authorized rates and that the calculations are correct.

1. We scheduled accumulated depreciation accruals to include: beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense by sub-account.
2. We reconciled accumulated depreciation accruals to the utility's general ledger. Audit Findings 1 through 4 address the accumulated depreciation balances in the filing.

D. Objective – Accumulated Amortization on CIAC and Amortization Expense: To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of depreciation rates authorized in the utility's last Commission rate case proceeding.

1. We reconciled beginning balances to the utility's books and the prior Commission orders. We scheduled accumulated amortization accruals to include: beginning and ending balances by function or service, methodology for calculating annual accumulated amortization accruals, methodology used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense.
2. We reconciled accumulated amortization accruals to the utility's general ledger. Audit Findings 1 and 5 address the accumulated amortization of CIAC balances in the filing.

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

1. We analyzed the utility's calculation of the components of working capital. We sampled deferred debits to determine if the timing, amount, reasonableness and re-occurring nature of the amounts were correct. We recalculated the working capital balances.
2. We recalculated the percentages used to allocate current assets and current liabilities, by system between water and wastewater, where applicable. Audit Findings 6 and 7 address the components of working capital.

CAPITAL STRUCTURE

A. Objective – Capital Structure: To determine that capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations.

1. We determined that the utility is collecting and accounting for customer deposits authorized in its Commission approved tariff and verified that the utility is calculating and remitting interest on customer deposits per Rule 25-30.311, Florida Administration Code. Other components of the capital structure reviewed are discussed in the Affiliated Transaction section because Aqua Utilities Florida, Inc., derives its funding from its parent company, Aqua America, Inc. Audit Finding 9 addresses the customer deposits reported in the filing.

REVENUE AND EXPENSES:

A. Objective - Revenue: To verify that revenues earned from the utility property during the test year are recorded and included in the filed exhibits, to verify that the utility is billing the approved tariff rates, and that the revenues are classified in compliance with the Commission Rules and Uniform System of Accounts.

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

B. Objective - Expenses: To determine that operation and maintenance costs are classified according to the Commission Rules and Uniform System of Accounts, that expenditures are appropriate for regulatory policy, that the amounts on the invoice agree with the general ledger, and that expenditures are recorded in the proper period.

1. We reconciled the general ledger Operation and Maintenance Expenses to the MFR Operation and Maintenance Expenses for the 83 systems. We performed an analytical review of the Operation and Maintenance Expenses of 2006 and 2007 reported in the 2006 and 2007 annual reports, as a basis for choosing the systems to be sampled. Each system that had an increase in the 2007 Operation and Maintenance expenses of 25% or more was selected. Based on this criteria, the audit staff noted ten systems that qualified for further testing.

2. On auditing the ten systems, the audit staff found that almost all of them have one common factor. The fines and penalties are reported in error in Account 675/775 Miscellaneous Expenses. The audit staff analyzed the general ledger and the list of the fines and penalties provided by the company of the other 73 systems, and removed the fines and penalties for the 73 systems to Account 426 Miscellaneous Non-utility Expenses.
3. We verified utility salaries, pensions and benefit expenses by tracing them to the utility's books and records. We reviewed a description of all services provided by utility employees and officers.
4. For utility sludge hauling expense, we traced amounts to the utility's books and records, and obtained contracts or other service contracts. For utility purchased power expenses, utility chemical expenses, and utility materials and supplies expenses, we traced amounts to the utility's books and records, and traced a sample of invoices to supporting documentation.
5. For utility contractual service expenses, utility rental expense, utility transportation expense, and utility insurance expense, we traced amounts to the utility's books and records, traced a sample of invoices to supporting documentation, and reviewed all material contracts, agreements, or policies.
6. For utility miscellaneous expense, we traced amounts to the utility's books and records, and traced a sample of invoices to supporting documentation. For utility bad debt expense, we analyzed bad debt expense and determined the basis that the utility uses to determine the bad debt expense. Audit Findings 10 through 19 address our findings on Operation Expenses.

C. Objective – Taxes other than Income Taxes: To determine the appropriate costs for taxes other than income taxes for the test year.

1. We verified real estate and tangible property tax incurred by the utility for the historical test year, and ensured that all property tax expense reflects the maximum discount available, and that real estate taxes incurred are only for utility property in service. We also reconciled taxes other than income amounts to the utility's general ledger.

AFFILIATED TRANSACTIONS

A. Objective – Plant in service, accumulated depreciation and depreciation expense: To determine that plant in service, accumulated depreciation and depreciation expense are stated, calculated and allocated properly.

1. We reconciled Aqua America Inc.'s plant in service accumulated depreciation and depreciation expense to the general ledger. We reviewed Aqua America Inc.'s continuing property records for plant additions, retirements, cost of removal and salvage. We recalculated accumulated depreciation and depreciation expense for proper amount and rates. We reviewed the methodology for the allocation of plant in service, accumulated depreciation and depreciation expense from Aqua America, Inc., to Aqua Utilities Florida, Inc. The allocation methodology for allocating plant in service, accumulated depreciation and depreciation expense from Aqua Utilities Florida, Inc., to the individual systems were reviewed. Sampled plant in service, accumulated depreciation and depreciation expense for the proper amount, classification period, non-recurring and support documentation. Audit Finding 19 addresses our finding on the allocation of depreciation expenses.

B. Objective – Capital Structure: To determine Aqua Utilities Florida, Inc.'s capital structure, excluding customer deposits and accumulated deferred income taxes, is properly stated.

1. Aqua Utilities Florida, Inc.'s capital structure was reconciled to the general ledger, Minimum Filing Requirements (MFRs) and Aqua America Inc.'s annual report. We reviewed the allocations from Aqua America, Inc.'s annual report to Aqua Utilities Florida, Inc.'s capital structure. The allocations from Aqua Utilities Florida, Inc.'s to the individual systems were reviewed and recalculated. A sample of Aqua America, Inc.'s debt was traced to the debt agreements and reviewed for the proper amount, period and classification. The audit staff prepared a capital structure for Aqua America, Inc. More information may be found in Audit Finding No. 8.

C. Objective – Operation and Maintenance Expenses: To determine that operation and maintenance expenses are stated, calculated and allocated properly.

1. Obtained and reviewed total expenses allocated to the individual systems from Aqua America, Inc. and Aqua Utilities Florida, Inc. Total Aqua America, Inc., and Aqua Utilities Florida, Inc. expenses allocated to the individual systems were traced the general ledgers. Reviewed and recalculated the methodology of allocating expenses from Aqua America, Inc., and Aqua Utilities Florida, Inc. We sampled allocated expenses for the proper amount, period, classification, whether non-utility related, nonrecurring, unreasonable and imprudent. Audit Findings 10, 12 and 14 address our findings on the allocation of expenses.

III. AUDIT FINDINGS

AUDIT FINDING NO. 1

SUBJECT: LAKE SUZY -WATER

AUDIT ANALYSIS: The utility balance for Utility Plant in Service (UPIS) for the Lake Suzy water system at December 31, 2007 was \$905,752. We requested supporting documentation for a sample of plant additions. The utility did not provide supporting documentation for \$534,219 in plant additions. Therefore, we recommend that this amount be removed from UPIS. This further results in an adjustment to accumulated depreciation of \$108,901 and depreciation expense of \$13,417. Since a portion of these plant in service assets are contributed property, CIAC should also be adjusted by \$137,077, accumulated amortization of CIAC should be adjusted by \$8,891, and amortization expense should be adjusted by \$3,188.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC

Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$108,901	
271	CIAC	\$137,077	
439	Adjustments to Retained Earnings	\$307,363	
272	Accumulated Amortization of CIAC		\$ 8,891
309	Supply Mains		\$ 218
331	Transmission and Distribution Mains		\$443,382
333	Services		\$ 15,873
334	Meters & Meter Installations		\$ 32,487
335	Hydrants		\$ 34,364
339	Other Plant & Misc. Equipment		\$ 7,897
403	Depreciation Expense		\$ 10,229

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 101 Plant in Service year end balance should be reduced by \$534,219, Account 108 Accumulated Depreciation year end balance should be reduced by \$108,901, Account 271 Contributions in Aid of Construction year end balance should be reduced by \$137,077, Account 272 Accumulated Amortization of CIAC year end balance should be reduced by \$8,891, and Account 403 Depreciation Expense should be reduced by \$10,229. A related adjustment should be made to the 13-month averages.

AUDIT FINDING NO. 2

SUBJECT: LAKE SUZY - WASTEWATER

AUDIT ANALYSIS: The utility balance for Utility Plant in Service (UPIS) for the Lake Suzy wastewater system at December 31, 2007 was \$2,264,137. We requested supporting documentation for a sample of plant additions. The utility did not provide supporting documentation for \$1,119,520 in plant additions. Therefore, we recommend that this amount be removed from UPIS. This further results in an adjustment to accumulated depreciation of \$359,506 and depreciation expense of \$36,147.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC			
Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$359,506	
439	Adjustments to Retained Earnings	\$796,161	
354	Structures & Improvements		\$516,754
360	Collection Sewers - Force		\$ 53,942
361	Collection Sewers – Gravity		\$254,474
362	Special Collecting Structures		\$ 28,699
363	Services to Customers		\$ 72,722
364	Flow Measuring Devices		\$ 1,353
370	Receiving Wells		\$ 45,000
371	Pumping Equipment		\$125,320
380	Treatment & Disposal Equipment		\$ 21,256
403	Depreciation Expense		\$ 36,147

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 101 Plant in Service year end balance should be reduced by \$1,119,520, Account 108 Accumulated Depreciation year end balance should be reduced by \$359,506, Account 403 Depreciation Expense should be reduced by \$36,147. A related adjustment should be made to the 13-month averages.

AUDIT FINDING NO. 3

**SUBJECT: ROSALIE OAKS - WATER/WASTEWATER
VILLAGE WATER – WATER/WASTEWATER**

AUDIT ANALYSIS: Rosalie Oaks - Water and Wastewater systems were grandfathered-in per FPSC Order No. PSC -98-0381-PAA-WS, issued March 6, 1998. The utility provided a warranty deed and a title insurance policy in support of a land purchase for Rosalie Oaks - Wastewater, but included \$-0- for land in its plant in service balance. The utility also provided an original cost study that was conducted as of December 31, 2005.

Village Water - Water and Wastewater systems were grandfathered-in per FPSC Order No. PSC -99-1882-PAA-WS, issued September 21, 1999. The utility provided an original cost study that was conducted as of December 31, 2004. The following was noted:

System	MFR	Plant in Service	
		Cost Study	Variance
Rosalie Oaks - Water	84,590	234,688	(150,098)
Rosalie Oaks - Wastewater	298,126	411,160	(113,034)
Village Water - Water	303,276	465,017	(161,741)
Village Water - Wastewater	1,088,107	814,309	273,798

Auditor was not able to determine appropriate balances because there was no available source documentation to support the recorded amounts.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: Final disposition for this Finding is deferred to the analyst.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: Final disposition for this Finding is deferred to the analyst.

AUDIT FINDING NO. 4

SUBJECT: PLANT IN SERVICE AND ACCUMULATED DEPRECIATION

LAKE JOSEPHINE – WATER

AUDIT ANALYSIS: The utility included \$329,672 in the MFR plant in service balance without appropriate supporting documentation. Therefore, accumulated depreciation was overstated by \$65,463 and depreciation expense was overstated by \$10,615. The utility included \$17,395 in the MFR accumulated depreciation balance from 1997 and 1998 which was prior to the last rate case but not included in FPSC Order No. PSC-001389-PAA-WU, issued July 31, 2000.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC

Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$ 82,858	
439	Adjustments to Retained Earnings	\$257,429	
304	Structures and Improvements		\$ 48,194
307	Wells and Springs		\$ 27,279
309	Supply Mains		\$ 47,319
311	Pumping Equipment		\$ 3,467
320	Water Treatment Equipment		\$ 67,496
331	Transmission and Distribution Mains		\$114,791
333	Services		\$ 11,100
343	Tools, Shop, and Garage Equipment		\$ 3,192
347	Miscellaneous Equipment		\$ 6,834
403	Depreciation Expense		\$ 10,615

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 101 Plant in Service year end balance should be reduced by \$329,672, Account 108 Accumulated Depreciation year end balance should be reduced by \$82,858, and Account 403 Depreciation Expense should be reduced by \$10,615. A related adjustment should be made to the 13-month averages.

SEBRING LAKES - WATER

AUDIT ANALYSIS: On the MFR, the utility included \$10,670 in Account 331 Transmission and Distribution Mains, \$3,222 in Account 333 Services, and \$6,230 in Account 334 Meters and Meter Installation. These amounts were unsupported additions noted in, but excluded from rate

base as per FPSC Order No. PSC-02-0651-PAA-WU, issued May 13, 2002. Therefore, these amounts should be removed from the MFR. Also, accumulated depreciation was overstated by \$4,005 and depreciation expense was overstated by \$640.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC			
Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$ 4,005	
439	Adjustments to Retained Earnings	\$16,757	
331	Transmission and Distribution Mains		\$10,670
333	Services		\$ 3,222
334	Meters and Meter Install		\$ 6,230
403	Depreciation Expense		\$ 640

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 101 Plant in Service year end balance should be reduced by \$20,122, Account 108 Accumulated Depreciation year end balance should be reduced by \$4,005, and Account 403 Depreciation Expense should be reduced by \$640. A related adjustment should be made to the 13-month averages.

LAKE OSBORNE ESTATES - WATER

AUDIT ANALYSIS: The utility included a net overstatement of \$3,289 in the MFR plant in service balance dating back to the last rate case, but not included in FPSC Order No. PSC-97-1149-FOF-WU, issued September 30, 1997. Therefore, accumulated depreciation was overstated by \$941 and depreciation expense was overstated by \$84.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC			
Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$ 941	
439	Adjustments to Retained Earnings	\$ 2,432	
301	Organization	\$ 870	
309	Supply Mains	\$ 1,700	
339	Other Plant & Misc Equip Intangible	\$ 4,787	
302	Franchises		\$ 750
331	Transmission and Distribution Mains		\$ 3,925

331	Transmission and Distribution Mains	\$ 3,925
334	Meters & Meter Installations	\$ 5,245
340	Office Furniture & Equipment	\$ 726
403	Depreciation Expense	\$ 84

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 101 Plant in Service year end balance should be reduced by \$3,289, Account 108 Accumulated Depreciation year end balance should be reduced by \$941, and Account 403 Depreciation Expense should be reduced by \$84. A related adjustment should be made to the 13-month averages.

ARRENDONDO ESTATES/FARMS - WATER

AUDIT ANALYSIS: The utility included \$16,992 in the MFR accumulated depreciation balance. This amount was unsupported dating back to but not included in FPSC Order No. PSC-96-0728-FOF-WS, issued May 30, 1996.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007.

NARUC			
Acct. No	Account Description	Debit	Credit
108	Accumulated Depreciation	\$16,992	
439	Adjustments to Retained Earnings		\$16,992

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 108 Accumulated Depreciation year end balance should be reduced by \$16,992. A related adjustment should be made to the 13-month averages.

JASMINE LAKES - WATER

AUDIT ANALYSIS: The utility included \$35,249 in the MFR accumulated depreciation balance. This amount is unsupported after adjustments recorded in the books from audit findings noted in Docket No. 060368-WS.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007.

NARUC			
Acct. No	Account Description	Debit	Credit

108	Accumulated Depreciation	\$35,249	
439	Adjustments to Retained Earnings		\$35,249

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 108 Accumulated Depreciation year end balance should be reduced by \$35,249. A related adjustment should be made to the 13-month averages.

AUDIT FINDING NO. 5

SUBJECT: ACCUMULATED AMORIZATION OF CIAC

OCALA OAKS – WATER

AUDIT ANALYSIS: The utility's MFR Accumulated Amortization of CIAC balance per FPSC Order 21349, issued June 7, 1989 stated that this balance was \$67,362 as of December 31, 1987. Audit staff updated this amount through December 1998 for a balance of \$241,005. MFR Schedule A13 states that this balance is \$252,423. This is a difference of \$11,418. The utility didn't provide any support when requested.

Therefore, audit staff recommends decreasing Accumulated Amortization of CIAC by \$11,418.

EFFECT ON THE GENERAL LEDGER IF THE FILING IS ACCPETED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007.

NARUC

Acct. No	Account Description	Debit	Credit
439	Adjustments to Retained Earnings	\$11,418	
272	Accumulated Amortization of CIAC		\$11,418

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 272 Accumulated Amortization of CIAC 13-month average balance should be reduced by \$11,418.

TANGERINE – WATER

AUDIT ANALYSIS: The utility reduced the MFR accumulated amortization of CIAC balance by \$2,830 twice. This amount was an adjustment ordered in FPSC Order No. PSC-05-1242A-PAA-WS, issued February 27, 2006.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007.

NARUC

Acct. No	Account Description	Debit	Credit
272	Accumulated Amortization of CIAC	\$2,830	
439	Adjustments to Retained Earnings		\$2,830

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 272 Accumulated Amortization of CIAC 13-month average balance should be increased by \$2,830.

AUDIT FINDING NO. 6

SUBJECT: DEFERRED DEBITS - AMORTIZATION

GRAND TERRACE - WATER

PICCIOLA ISLAND - WATER

JUNGLE DEN - WASTEWATER

AUDIT ANALYSIS: The utility amortized the Deferred Debits accounts for the systems Grand Terrace, Picciola Island, and Jungle Den over three years.

Rule 25-30.433, Florida Administrative Code, section 8 states that "non-recurring expenses shall be amortized over a *5-year* period unless a shorter or longer period of time can be justified". The utility states that the deferred debits are comprised of permits and that these must be renewed every three years, therefore a lesser period of time for amortization is justified.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: This information is provided for the analyst to make a final determination

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: This information is provided for the analyst to make a final determination

AUDIT FINDING NO. 7

SUBJECT: ACCRUED TAXES

AUDIT ANALYSIS: The ending balance for accrued taxes, as included in the working capital allowance, for all systems has a year end debit balance of \$2,860,234 and a 13-month average balance of \$1,155,342. Per the utility "The accrued liabilities section on the balance sheet in the MFR reports the liabilities owed and since more taxes are due to the company and not owed from the company a negative amount appears on the accrued taxes section of the balance sheet."

The utility provided a detailed listing of system balances, however, this response did not address why the accrual has a substantial debit balance. The company should reconcile the accrued taxes so that it is clear how much is owed for each type of tax and how much is a receivable for each type of tax.

This information will need to be reviewed by the analyst to determine what balances relate to a normalized expense for the test year. Any additional balance should be reviewed for appropriate disposition.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: This information is provided for the analyst's determination regarding a normalized amount.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: This information is provided for the analyst's determination regarding a normalized amount.

AUDIT FINDING NO. 8**SUBJECT: CAPITAL STRUCTURE**

AUDIT ANALYSIS: The Aqua Utilities Florida, Inc. Capital Structure used in the MFRs is shown below.

The Audit Staff prepared the consolidated capital structure for the parent company Aqua America, Inc., that is shown on the next page. We found that Aqua Utilities Florida, Inc. derives its source of funding from Aqua America, Inc.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: There is no effect on the general ledger.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: This finding is for informational purposes only.

AQUA UTILITIES FLORIDA, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 2007

Capital Component	Per Company	Percent of Total	Cost Rate	Weighted Cost Rate
COMMON STOCK	52,724,744	85.18%		
PAID IN CAPITAL	979,027	1.58%		
RETAINED EARNINGS	(17,942,759)	-28.99%		
TOTAL COMMON EQUITY	35,761,012	57.77%	10.25%	5.92%
LONG TERM DEBT	26,136,123	42.23%	5.10%	2.15%
TOTAL CAPITAL	61,897,135	100.00%		8.08%

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 2007

Capital Component	Per Company	Percent of Total	Cost Rate	Weighted Cost Rate
COMMON STOCK	67,049,620	3.03%		
PAID IN CAPITAL	572,050,832	25.82%		
TREASURY STOCK	(13,166,313)	-0.59%		
RETAINED EARNINGS	350,363,635	15.82%		
TOTAL COMMON EQUITY	<u>976,297,774</u>	<u>44.07%</u>	11.55%	5.09%
LONG TERM DEBT	<u>1,238,980,341</u>	<u>55.93%</u>	5.10%	2.85%
TOTAL CAPITAL	<u><u>2,215,278,115</u></u>	<u><u>100.00%</u></u>		<u><u>7.94%</u></u>

Common Equity cost rate is per Commission Order PSC-07-0472-PAA-WS, issued June 1, 2007

AUDIT FINDING NO. 9

SUBJECT: CUSTOMER DEPOSITS

AUDIT ANALYSIS: The customer deposits from the MFR D-7 schedule did not trace to the trial balance. The error was caused during the completion of monthly customer deposits activity for the MFR. Therefore, the 13 month average in the MFR should be adjusted.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: There is no effect on the general ledger.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 235 Customers Deposits should be reduced by \$62,378.

The year ended as of December 31, 2007 - Customer Deposits:

	13 Month Average 2007	December 31, 2007
Per MFR	\$276,826.00	\$300,520.02
Trial Balance	<u>\$217,045.27</u>	<u>\$192,012.82</u>
Difference	\$(62,377.73)	\$(108,507.20)

The allocations of these adjustments to the individual utility systems are shown on the schedule following this finding.

Customer Deposits By System

ACC UNIT	SYSTEM NAME	13 MONTH AVERAGE (Note 1)	MFR 13 MONTH AVERAGE	DIFFERENCE	2007 DEC TB	2007 DEC MFR	DIFFERENCE
6597	48 Estates	2.69	(3.00)	5.69	35.00	(35.00)	70.00
6567	Arrendondo Estates	(17,505.00)	(21,118.00)	3,613.00	(17,005.00)	(23,475.00)	10,950.00
6568	Arrendondo Farms	2,498.46	0.00	2,498.46	4,480.00		
6438	Beechers Point	(81.54)	(158.00)	76.46	(70.00)	(170.00)	100.00
6405	Carlton Village	(2,896.69)	(3,859.00)	962.31	(2,547.00)	(4,178.00)	1,631.00
6456	Chuluota	(35,372.74)	(41,840.00)	6,467.26	(32,753.12)	(44,226.12)	11,473.00
	East Lake Harris						
6406	Estates	(602.54)	(681.00)	78.46	(585.00)	(699.00)	114.00
6407	Fern Terrace	(1,645.00)	(1,925.00)	280.00	(1,483.00)	(2,087.00)	604.00
	Fl Central						
6461	Commerce Park	(2,507.31)	(4,033.00)	1,525.69	(1,935.00)	(4,605.00)	2,670.00
6408	Friendly Center	(232.00)	(348.00)	116.00	(203.00)	(377.00)	174.00
6433	Gibsonia Estates	(1,588.08)	(2,211.00)	622.92	(1,345.00)	(2,445.00)	1,100.00
6409	Grand Terrace	(1,292.77)	(1,631.00)	338.23	(1,182.00)	(1,742.00)	560.00
6556	Haines Creek	156.15	(105.00)	261.15	250.00	(190.00)	440.00
6462	Harmony Homes	(743.38)	(1,177.00)	433.62	(640.00)	(1,280.00)	640.00
6440	Hermits Cove	(929.23)	(1,101.00)	171.77	(844.00)	(1,174.00)	330.00
6410	Hobby Hills	(947.15)	(1,261.00)	313.85	(796.00)	(1,401.00)	605.00
6411	Holiday Haven	(1,726.23)	(2,116.00)	389.77	(1,595.00)	(2,247.00)	652.00
6413	Imperial	(1,399.23)	(1,643.00)	243.77	(1,315.00)	(1,695.00)	380.00
6441	Interlachen Park	(1,465.92)	(2,028.00)	62.08	(1,201.00)	(2,293.00)	592.00
6574	Jasmine Lakes	(47,216.38)	(64,715.00)	17,498.62	(40,466.00)	(71,205.00)	30,739.00
6467	Jungle Den	(822.92)	(869.00)	46.08	(796.00)	(896.00)	100.00
6595	Kings Cove	(10,059.31)	(10,175.00)	115.69	(9,902.00)	(10,332.00)	430.00
6401	Kingswood	(296.54)	(393.00)	96.46	(255.00)	(435.00)	180.00
6434	Lake Gibson Estates	(10,629.40)	(14,355.00)	3,725.60	(9,157.00)	(15,793.20)	6,636.20
6589	Lake Josephine	(4,035.46)	(5,111.00)	1,075.54	(3,632.00)	(5,482.00)	1,850.00
	Lake Osborne						
6558	Estates	247.69	(237.00)	484.69	420.00	(400.00)	820.00
6582	Lake Suzy	(7,371.38)	(9,133.00)	1,761.62	(6,756.00)	(9,702.00)	2,946.00
6403	Leisure Lakes	(1,695.46)	(2,076.00)	380.54	(1,467.00)	(2,277.00)	810.00
6414	Morningview	(938.00)	(1,206.00)	268.00	(938.00)	(1,206.00)	268.00
6402	Oakwood	(1,361.31)	(1,797.00)	435.69	(1,199.00)	(1,959.00)	760.00
6577	Ocala Oaks	(19,727.69)	(23,725.00)	3,997.31	(17,820.00)	(25,540.00)	7,720.00
6436	Orange Hill	(1,947.00)	(2,587.00)	640.00	(1,747.00)		
6444	Palm Port	(1,467.92)	(1,624.00)	156.08	(1,416.00)	(1,641.00)	225.00
6429	Palm Terrace	(9,168.05)	(11,255.00)	2,086.95	(8,014.20)	(12,344.20)	4,330.00
6416	Palms MHP	(103.08)	(137.00)	33.92	(100.00)	(140.00)	40.00
6442	Park Manor	(500.00)			(500.00)		
6417	Picciola Island	(1,357.46)	(1,511.00)	153.54	(1,262.00)	(1,606.00)	344.00
6418	Piney Woods	(1,414.08)	(1,824.00)	409.92	(1,367.00)	(1,871.00)	504.00
6446	Pomona Park	(1,992.38)	(2,242.00)	249.62	(1,877.00)	(2,357.00)	480.00
6419	Quail Ridge	(1,144.62)	(1,325.00)	180.38	(1,060.00)	(1,410.00)	350.00
6561	Ravenswood	45.00	(42.00)	87.00	80.00	(80.00)	160.00
6447	River Grove	(934.62)	(993.00)	58.38	(885.00)	(1,014.00)	129.00
6562	Rosalie Oaks	186.67	(172.00)	358.67	280.00	(280.00)	560.00
6451	Saratoga Harbor	(557.00)	(1,030.00)	132.00	(347.00)	(1,228.00)	540.00
6452	Saratoga Harbor	(341.00)			(341.00)		
6933	Sebring Lakes	(535.38)	(725.00)	189.62	(420.00)	(840.00)	420.00
6420	Silver Lake Estates	(1,873.15)	(4,612.00)	2,738.85	(1,478.00)	(4,993.00)	1,598.00
6448	Silver lake Oaks	(957.69)	(1,622.00)	664.31	(690.00)	(1,890.00)	1,200.00
6421	Skycrest	(1,338.00)	(1,614.00)	276.00	(1,246.00)	(1,706.00)	460.00
6831	South Seas	(400.00)	(400.00)	0.00	(400.00)	(400.00)	0.00
6450	St Johns Highlands	(403.85)	(520.00)	116.15	(357.00)	(567.00)	210.00
6422	Stone Mountain	(126.00)	(252.00)	126.00	(126.00)	(252.00)	126.00
6237	Sugar Creek Water	(680.00)			(680.00)	(2,787.00)	360.00
6596	Summit Chase	771.67	(615.00)	1,386.67	1,245.00	(1,065.00)	2,310.00
6471	Sunny Hills	(5,800.27)	(7,070.00)	1,269.73	(5,219.50)	(7,639.50)	2,420.00
6428	Tangerine	(3,472.23)	(3,896.00)	423.77	(3,267.00)	(4,021.00)	754.00

6564	The Woods	309.23	(248.00)	557.23	580.00	(500.00)	1,080.00
6469	Tomoka	(779.69)	(864.00)	84.31	(742.00)	(902.00)	160.00
6423	Valencia Terrace	(1,443.08)	(1,855.00)	411.92	(1,280.00)	(2,000.00)	720.00
6425	Venetian Village	(2,497.77)	(2,630.00)	132.23	(2,387.00)	(2,741.00)	354.00
6571	Village Water	(1,331.92)	(1,778.00)	446.08	(1,030.00)	(2,080.00)	1,050.00
6427	Western Shores	(1,917.00)			(1,917.00)		
6453	Wooten	(147.00)	(147.00)	0.00	(147.00)	(147.00)	0.00
6431	Zephyr Shores	(1,543.92)	(2,206.00)	662.08	(1,193.00)	(2,472.00)	1,279.00
	TOTAL	(217,045.27)	(276,826.00)	62,377.73	(192,012.82)	(300,520.02)	108,507.20

Note:

(1) Calculated by the auditor

AUDIT FINDING NO. 10

SUBJECT: PRIOR PERIOD EXPENSES

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc. \$12,255 for prior period expenses. These expenses are listed on the next page and should be disallowed in this rate proceeding.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007:

NARUC

Acct. No	Account Description	Debit	Credit
604	Employee Pension and Benefits	\$ 1,540	
633	Contractual Services – Legal	\$ 626	
636	Contractual Services – Other	\$10,065	
675	Miscellaneous Expenses	\$ 24	
215	Retained Earnings		\$12,255

EFFECT ON THE FILING IF FINDING IS ACCEPTED:

Schedule 2 shows the impact of these adjustments on each system.

SCHEDULE 1 - PRIOR PERIOD EXPENSES ADJUSTMENT SUMMARY

Last Name/Vendor	Date	Description	Invoice		Account	Florida	Total by Acct
			Date	Amount			
33839WASHINGTON POST	4/3/2007	Job Openings	9/30/06	2,487.50	410 604856	105.97	
Recl From 604864 Augustine, In	5/22/2007	Candidate Developme	10-12/06	31,500.00	410 604856	1,341.90	
32817NEIBAUER PRESS	2/3/2007	Envelopes	11/30/06	2,171.38	410 604869	92.07	1,539.93
14332MORGAN, LEWIS & BOC	3/22/2007	Attorneys Fees	11-12/06	14,695.28	405 633800	626.02	626.02
20009MONARCH STAFFING LI	2/3/2007	Temp Services	12/27/06	1,347.23	340 636640	57.12	
19787PRESTON PLUS INC.	2/6/2007	Temp Services	12/24/06	1,273.20	340 636640	53.98	
20009MONARCH STAFFING LI	2/6/2007	Temp Services	12/15/06	1,526.11	340 636640	64.71	
Y/E Reclass to Co 10	2/3/2007	Preparation - Tax Bas	6-8/06	38,834.70	321 636800	5,965.01	
20417GLOBAL TAX MANAGEM	2/6/2007	Preparation - Tax Bas	12/31/06	16,346.00	321 636800	2,510.75	
GTM CREDIT TO INDIANA	3/6/2007	Preparation - Tax Bas	5/31/06	6,143.00	320 636800	943.56	
XRT Maintenance Charge	2/3/2007	Globe Training	6/30/06	3,212.50	312 636820	136.21	
XRT Maintenance Charge	2/3/2007	Globe Training	11/30/05	7,875.00	312 636820	333.90	10,065.24
12755NICHOLAS DE BENEDIC	2/6/2007	Travel Expenses	11/30/06	254.01	200 675846	10.77	
12755NICHOLAS DE BENEDIC	2/6/2007	Travel Expenses	3-12/06	301.00	200 675849	12.76	23.53
				<u>127,966.91</u>		<u>12,254.73</u>	<u>12,254.73</u>

SCHEDULE 2 - PRIOR PERIOD EXPENSES ADJUSTMENT BY SYSTEM

System Name	Combined Acct	Water/ Wastewater Unit	Allocation Jan - June	June Alloc Amount
48 Est - Water	6597	Water	0.225%	27.53
Arredondo Estates - Water	6569	Water	0.639%	78.34
Arredondo Farms - Sewer	6389	Wastewater	0.963%	117.99
Arredondo Farms - Water	6569	Water	0.976%	119.63
Beecher's Point - Sewer	6439	Wastewater	0.048%	5.90
Beecher's Point - Water	6438	Water	0.139%	17.04
Carlton Village - Water	6405	Water	0.637%	78.01
Castle Lake - Water	6555	Water	0.289%	35.40
Chuluota - Sewer	6457	Wastewater	1.610%	197.31
Chuluota - Water	6456	Water	3.699%	453.30
East Lake Harris Estates - W:	6406	Water	0.473%	58.01
Fairways - Sewer	6971	Wastewater	0.000%	-
Fairways - Water	6970	Water	0.000%	-
Fern Terrace - Water	6407	Water	0.334%	40.97
Fl Central Commerce Park - :	6461	Wastewater	0.171%	20.98
Friendly Center - Water	6408	Water	0.083%	10.16
Gibsonia Estates - Water	6433	Water	0.524%	64.24
Grand Terrace - Water	6409	Water	0.294%	36.05
Haines Creek - Water	6556	Water	0.297%	36.38
Harmony Homes - Water	6462	Water	0.171%	20.98
Hermits Cove - Water	6440	Water	0.489%	59.98
Hobby Hills - Water	6410	Water	0.278%	34.09
Holiday Haven - Sewer	6412	Wastewater	0.297%	36.38
Holiday Haven - Water	6411	Water	0.334%	40.97
Imperial Mobile Terrace - W:	6413	Water	0.661%	80.96
Interlachen Lake/Park Manor	6441	Water	0.765%	93.74
Jasmine Lakes - Sewer	6391	Wastewater	4.159%	509.67
Jasmine Lakes - Water	6574	Water	4.180%	512.29
Jungle Den - Sewer	6468	Wastewater	0.366%	44.90
Jungle Den - Water	6467	Water	0.308%	37.69
Kenwood North - Water	6557	Water	0.131%	16.06
Kings Cove - Sewer	6395	Wastewater	0.535%	65.55
Kings Cove - Water	6595	Water	0.562%	68.83
Kingswood - Water	6401	Water	0.171%	20.98
Lake Gibson Estates - Sewer	6435	Wastewater	0.853%	104.56
Lake Gibson Estates - Water	6434	Water	2.255%	276.30
Lake Josephine - Water	6589	Water	1.525%	186.82
Lake Osborne Est - Water	6558	Water	1.254%	153.72
Lake Suzy - Sewer	6392	Wastewater	0.719%	88.17
Lake Suzy - Water	6582	Water	1.511%	185.19
Leisure Lakes - Sewer	6404	Wastewater	0.754%	92.43
Leisure Lakes - Water	6403	Water	0.776%	95.05
Morningview - Sewer	6415	Wastewater	0.096%	11.80
Morningview - Water	6414	Water	0.102%	12.45
Oakwood - Water	6402	Water	0.618%	75.71
Ocala Oaks - Water	6577	Water	4.857%	595.22
Orange Hill/Sugar Creek - W	6436	Water	0.650%	79.65
Palm Port - Sewer	6445	Wastewater	0.284%	34.74
Palm Port - Water	6444	Water	0.286%	35.07

SCHEDULE 2 - PRIOR PERIOD EXPENSES ADJUSTMENT BY SYSTEM

System Name	Combined Acct Unit	Water/ Wastewater	Allocation Jan June	June Alloc Amount
Palm Terrace - Sewer	6430	Wastewater	2.741%	335.96
Palm Terrace - Water	6429	Water	3.172%	388.73
Palms MHP - Water	6416	Water	0.166%	20.32
Park Manor - Sewer	6443	Wastewater	0.083%	10.16
Park Manor - Water	6441	Water	0.000%	-
Peace River - Sewer	6397	Wastewater	0.254%	31.14
Peace River - Water	6600	Water	0.262%	32.12
Picciola Island - Water	6417	Water	0.399%	48.84
Pine Valley - Water	6560	Water	0.126%	15.40
Piney Woods - Water	6418	Water	0.479%	58.67
Pomona Park - Water	6446	Water	0.473%	58.01
Quail Ridge - Water	6419	Water	0.257%	31.47
Ravenswood - Water	6561	Water	0.120%	14.75
River Grove - Water	6447	Water	0.286%	35.07
Rosalie Oaks - Sewer	6386	Wastewater	0.259%	31.79
Rosalie Oaks - Water	6562	Water	0.259%	31.79
Sarasota - Sewer	6965	Wastewater	19.554%	2,396.27
Sarasota - Water	6964	Water	12.421%	1,522.13
Saratoga Harbour - Water	6451	Water	0.000%	-
Sebring Lakes - Water	6933	Water	0.206%	25.24
Silver Lake Oaks - Sewer	6449	Wastewater	0.115%	14.09
Silver Lake Oaks - Water	6448	Water	0.118%	14.42
Silver Lake/Western Shore	6420	Water	4.303%	527.37
Skycrest - Water	6421	Water	0.326%	39.99
South Seas - Sewer	6831	Wastewater	0.179%	21.96
St. John's Highlands - Water	6450	Water	0.265%	32.45
Stone Mountain - Water	6422	Water	0.027%	3.28
Sugar Creek - Water	6436	Water	0.000%	-
Summit Chase - Sewer	6396	Wastewater	0.583%	71.45
Summit Chase - Water	6596	Water	0.588%	72.11
Sunny Hills - Sewer	6472	Wastewater	0.481%	59.00
Sunny Hills - Water	6471	Water	1.549%	189.77
Tangerine - Water	6428	Water	0.736%	90.13
The Meadows - Water	6559	Water	0.142%	17.37
The Woods - Sewer	6388	Wastewater	0.193%	23.60
The Woods - Water	6564	Water	0.203%	24.91
Tomoka/Twin Rivers - Water	6469	Water	0.725%	88.82
Valencia Terrace - Sewer	6424	Wastewater	0.931%	114.06
Valencia Terrace - Water	6423	Water	0.947%	116.03
Venetian Village - Sewer	6426	Wastewater	0.254%	31.14
Venetian Village - Water	6425	Water	0.441%	54.08
Village Water - Sewer	6390	Wastewater	0.094%	11.47
Village Water - Water	6571	Water	0.487%	59.65
Welaka/Saratoga - Water	6451	Water	0.415%	50.80
West Citrus - Water	6563	Water	0.177%	21.63
Western Shores - Water	6420	Water	0.000%	-
Wootens - Water	6453	Water	0.078%	9.51
Zephyr Shores - Sewer	6432	Wastewater	1.385%	169.78
Zephyr Shores - Water	6431	Water	1.393%	170.76
			<u>100.00%</u>	<u>12,254.73</u>

AUDIT FINDING NO. 11

SUBJECT: CAPITALIZATION

IMPERIAL MOBILE TERRACE

AUDIT ANALYSIS: The utility included \$4,986 in Account 636 Contractual Services – Other for the period ended December 31, 2007. This amount represents an installation of 2” gate valves with valve boxes and valve pads. This expense should be capitalized. This amount also represents a replacement. In Order No. PSC-03-1250-PAA-WU, issued November 6, 2003, in Docket No. 030250-WU, In re: Application for staff-assisted rate case in Pasco County, by Floralino Properties, Inc. , and Order No. PSC-01-1574-PSS-WS, issued July 30, 2001, in Docket No. 000584-WS, In re: Application for a staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc., the Commission found, where original cost is not available for a retirement, that 75% of the replacement cost is a reasonable estimate of original cost. Therefore 75% of the \$4,986 should be considered the original cost to be retired.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007.

NARUC

Acct. No.	Account Description	Debit	Credit
331	Transmission and Distribution – Mains	\$4,986	
636	Contractual Services – Other		\$4,986
108	Accumulated Depreciation – General	\$3,739	
331	Transmission and Distribution – Mains		\$3,739
403	Depreciation Expense	\$ 58	
108	Accumulated Depreciation – General		\$ 58

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The Account 636 Contractual Services – Other balance should be reduced by \$4,986. The year end balance of Account 331 Transmission and Distribution – Mains should be increased by \$1,247, and Account 403 Depreciation Expense and the year end balance of Account 108 Accumulated Depreciation should be increased by \$58. A related adjustment should be made to the 13-month averages.

AUDIT FINDING NO. 12

SUBJECT: SHAREHOLDERS SERVICES EXPENSES

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc. \$32,134 (\$10,567 + \$21,567) for Shareholder Services expenses in Contractual Services – Other, Account 636. The Shareholder Services expenses were for Transfer Agent and Registrar and Investor Communication Services that included, Annual Stockholders’ Meeting, shareholders correspondence, stock certificate mailings, stock accounts maintenance, and salaries, etc.

In a prior Commission order addressing shareholder services expense for Southern States Utilities, Inc. (see Commission Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS), the Commission found that:

Through the ROE leverage formula, we have allowed recovery of costs associated with being a publicly traded utility. Specifically, in the calculation of the appropriate cost of equity, we recognized an additional 25 basis points to the otherwise determined cost of equity to provide for these costs. To ask SSU’s ratepayers to pay 25 basis points on ROE in addition to the amount requested by SSU would be duplicative. We also question whether the benefits SSU receives from MP&L are worth \$208,776 to the ratepayers in Florida. Consequently, we shall disallow all of the utility’s requested shareholder services expenses of \$208,776.

Therefore, audit staff recommends that these expenses be disallowed.

EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007:

NARUC

Acct. No.	Account Description	Debit	Credit
636	Contractual Services - Other	\$32,134	
426	Miscellaneous Nonutility Expenses		\$32,134

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

Accounts 634 and 734 - Contractual Services – Management Fees	\$32,134
Account 426 Miscellaneous Nonutility Expenses	\$32,134

The summary and the allocations of these adjustments to the individual utility systems are shown on the schedules following this finding.

CHEDULE 1 - SHAREHOLDERS SERVICES SALARY EXPENSE ADJUSTMENT SUMMA

Description	Activity	Amount	Date	Jan - Jun	Jul - Dec
				Amount	Amount
SHAREHOLDER SERVICE: SH		17.21	1/1/07		
SHAREHOLDER SERVICE: SH		218.95	1/1/07		
SHAREHOLDER SERVICE: SH		156.12	1/1/07		
SHAREHOLDER SERVICE: SH		85.10	1/1/07		
SHAREHOLDER SERVICE: SH		207.86	2/1/07		
SHAREHOLDER SERVICE: SH		247.06	2/1/07		
SHAREHOLDER SERVICE: SH		224.40	2/1/07		
SHAREHOLDER SERVICE: SH		255.43	2/1/07		
SHAREHOLDER SERVICE: SH		207.63	3/1/07		
SHAREHOLDER SERVICE: SH		253.43	3/1/07		
SHAREHOLDER SERVICE: SH		164.50	3/1/07		
SHAREHOLDER SERVICE: SH		248.40	3/1/07		
SHAREHOLDER SERVICE: SH		60.63	4/1/07		
SHAREHOLDER SERVICE: SH		411.59	4/1/07		
SHAREHOLDER SERVICE: SH		332.13	4/1/07		
SHAREHOLDER SERVICE: SH		355.92	4/1/07		
SHAREHOLDER SERVICE: SH		172.85	5/1/07		
SHAREHOLDER SERVICE: SH		280.14	5/1/07		
SHAREHOLDER SERVICE: SH		225.61	5/1/07		
SHAREHOLDER SERVICE: SH		237.96	5/1/07		
SHAREHOLDER SERVICE: SH		224.11	6/1/07		
SHAREHOLDER SERVICE: SH		214.32	6/1/07		
SHAREHOLDER SERVICE: SH		226.07	6/1/07		
SHAREHOLDER SERVICE: SH		136.39	6/1/07	5,163.81	
SHAREHOLDER SERVICE: SH		187.69	7/1/07		
SHAREHOLDER SERVICE: SH		181.73	7/1/07		
SHAREHOLDER SERVICE: SH		214.24	7/1/07		
SHAREHOLDER SERVICE: SH		598.17	7/1/07		
SHAREHOLDER SERVICE: SH		213.80	8/1/07		
SHAREHOLDER SERVICE: SH		225.51	8/1/07		
SHAREHOLDER SERVICE: SH		274.04	8/1/07		
SHAREHOLDER SERVICE: SH		299.32	9/1/07		
SHAREHOLDER SERVICE: SH		281.89	9/1/07		
SHAREHOLDER SERVICE: SH		567.66	9/1/07		
SHAREHOLDER SERVICE: SH		203.11	10/1/07		
SHAREHOLDER SERVICE: SH		225.51	10/1/07		
SHAREHOLDER SERVICE: SH		371.92	10/1/07		
SHAREHOLDER SERVICE: SH		192.23	11/1/07		
SHAREHOLDER SERVICE: SH		202.85	11/1/07		
SHAREHOLDER SERVICE: SH		350.29	11/1/07		
SHAREHOLDER SERVICE: SH		204.94	12/1/07		
SHAREHOLDER SERVICE: SH		196.02	12/1/07		
SHAREHOLDER SERVICE: SH		412.36	12/1/07		5,403.28
		<u>10,567.10</u>			

SCHEDULE 2 - SHAREHOLDERS SERVICES SALARY EXPENSE ADJUSTMENT BY SYSTEM

System Name	Combine		Allocation Jan - June	Allocation July - Dec	June Alloc Amount	Dec Alloc Amount	Total
	d Acct Unit	Water/ Wastewater					
48 Est - Water	6597	Water	0.22%	0.22%	11.60	12.10	23.70
Arredondo Estates - Water	6569	Water	0.64%	0.63%	33.01	34.02	67.03
Arredondo Farms - Sewer	6389	Wastewater	0.96%	0.95%	49.72	51.25	100.97
Arredondo Farms - Water	6569	Water	0.98%	0.96%	50.41	51.96	102.37
Beecher's Point - Sewer	6439	Wastewater	0.05%	0.05%	2.49	2.56	5.05
Beecher's Point - Water	6438	Water	0.14%	0.14%	7.18	7.40	14.58
Carlton Village - Water	6405	Water	0.64%	0.65%	32.87	34.88	67.75
Castle Lake - Water	6555	Water	0.29%	0.29%	14.92	15.52	30.43
Chuluota - Sewer	6457	Wastewater	1.61%	1.60%	83.14	86.27	169.42
Chuluota - Water	6456	Water	3.70%	3.74%	191.01	202.16	393.16
East Lake Harris Estates - Water	6406	Water	0.47%	0.47%	24.45	25.20	49.64
Fairways - Sewer	6971	Wastewater	0.00%	0.63%	-	34.31	34.31
Fairways - Water	6970	Water	0.00%	0.63%	-	34.31	34.31
Fern Terrace - Water	6407	Water	0.33%	0.33%	17.26	17.80	35.06
Fl Central Commerce Park - Sewer	6461	Wastewater	0.17%	0.17%	8.84	9.25	18.09
Friendly Center - Water	6408	Water	0.08%	0.08%	4.28	4.41	8.69
Gibsonia Estates - Water	6433	Water	0.52%	0.52%	27.07	27.90	54.97
Grand Terrace - Water	6409	Water	0.29%	0.29%	15.19	15.66	30.85
Haines Creek - Water	6556	Water	0.30%	0.29%	15.33	15.80	31.13
Harmony Homes - Water	6462	Water	0.17%	0.17%	8.84	9.11	17.95
Hermits Cove - Water	6440	Water	0.49%	0.48%	25.27	26.05	51.33
Hobby Hills - Water	6410	Water	0.28%	0.27%	14.36	14.81	29.17
Holiday Haven - Sewer	6412	Wastewater	0.30%	0.29%	15.33	15.80	31.13
Holiday Haven - Water	6411	Water	0.33%	0.33%	17.26	17.80	35.06
Imperial Mobile Terracc - Water	6413	Water	0.66%	0.65%	34.11	35.31	69.42
Interlachen Lake/Park Manor	6441	Water	0.76%	0.76%	39.50	41.00	80.50
Jasmine Lakes - Sewer	6391	Wastewater	4.16%	4.09%	214.76	221.09	435.85
Jasmine Lakes - Water	6574	Water	4.18%	4.11%	215.87	222.23	438.10
Jungle Den - Sewer	6468	Wastewater	0.37%	0.36%	18.92	19.50	38.43
Jungle Den - Water	6467	Water	0.31%	0.30%	15.88	16.37	32.25
Kenwood North - Water	6557	Water	0.13%	0.13%	6.77	6.98	13.74
Kings Cove - Sewer	6395	Wastewater	0.53%	0.53%	27.62	28.47	56.09
Kings Cove - Water	6595	Water	0.56%	0.55%	29.00	29.75	58.76
Kingswood - Water	6401	Water	0.17%	0.17%	8.84	9.11	17.95
Lake Gibson Estates - Sewer	6435	Wastewater	0.85%	0.84%	44.06	45.41	89.47
Lake Gibson Estates - Water	6434	Water	2.25%	2.22%	116.43	120.01	236.44
Lake Josephine - Water	6589	Water	1.52%	1.51%	78.72	81.57	160.30
Lake Osborne Est - Water	6558	Water	1.25%	1.24%	64.77	66.77	131.54
Lake Suzy - Sewer	6392	Wastewater	0.72%	0.71%	37.15	38.44	75.59
Lake Suzy - Water	6582	Water	1.51%	1.49%	78.03	80.44	158.47
Leisure Lakes - Sewer	6404	Wastewater	0.75%	0.74%	38.95	40.15	79.09
Leisure Lakes - Water	6403	Water	0.78%	0.76%	40.05	41.29	81.34
Morningview - Sewer	6415	Wastewater	0.10%	0.09%	4.97	5.13	10.10
Morningview - Water	6414	Water	0.10%	0.10%	5.25	5.41	10.66
Oakwood - Water	6402	Water	0.62%	0.61%	31.90	32.89	64.79
Ocala Oaks - Water	6577	Water	4.86%	4.79%	250.81	258.82	509.63
Orange Hill/Sugar Creek - Water	6436	Water	0.65%	0.64%	33.56	34.59	68.16
Palm Port - Sewer	6445	Wastewater	0.28%	0.28%	14.64	15.23	29.87
Palm Port - Water	6444	Water	0.29%	0.28%	14.78	15.38	30.15

SCHEDULE 2 - SHAREHOLDERS SERVICES SALARY EXPENSE ADJUSTMENT BY SYSTEM

System Name	Combined Acct Unit	Water/ Wastewater	Allocation Jan - June	Allocation July - Dec	June Alloc Amount	Dec Alloc Amount	Total
Palm Terrace - Sewer	6430	Wastewater	2.74%	2.70%	141.56	145.92	287.49
Palm Terrace - Water	6429	Water	3.17%	3.12%	163.80	168.84	332.64
Palms MHP - Water	6416	Water	0.17%	0.16%	8.56	8.83	17.39
Park Manor - Sewer	6443	Wastewater	0.08%	0.08%	4.28	4.41	8.69
Park Manor - Water	6441	Water	0.00%	0.00%	-	-	-
Peace River - Sewer	6397	Wastewater	0.25%	0.25%	13.12	13.52	26.65
Peace River - Water	6600	Water	0.26%	0.26%	13.53	13.95	27.49
Picciola Island - Water	6417	Water	0.40%	0.40%	20.58	21.35	41.93
Pine Valley - Water	6560	Water	0.13%	0.12%	6.49	6.69	13.18
Piney Woods - Water	6418	Water	0.48%	0.47%	24.72	25.48	50.20
Pomona Park - Water	6446	Water	0.47%	0.47%	24.45	25.20	49.64
Quail Ridge - Water	6419	Water	0.26%	0.25%	13.26	13.67	26.93
Ravenswood - Water	6561	Water	0.12%	0.12%	6.21	6.41	12.62
River Grove - Water	6447	Water	0.29%	0.28%	14.78	15.23	30.01
Rosalie Oaks - Sewer	6386	Wastewater	0.26%	0.26%	13.40	13.81	27.21
Rosalie Oaks - Water	6562	Water	0.26%	0.26%	13.40	13.81	27.21
Sarasota - Sewer	6965	Wastewater	19.55%	19.27%	1,009.73	1,041.39	2,051.12
Sarasota - Water	6964	Water	12.42%	12.25%	641.39	661.85	1,303.24
Saratoga Harbour - Water	6451	Water	0.00%	0.00%	-	-	-
Sebring Lakes - Water	6933	Water	0.21%	0.20%	10.63	10.96	21.60
Silver Lake Oaks - Sewer	6449	Wastewater	0.12%	0.11%	5.94	6.12	12.06
Silver Lake Oaks - Water	6448	Water	0.12%	0.12%	6.08	6.26	12.34
Silver Lake/Western Shores -	6420	Water	4.30%	4.24%	222.22	229.35	451.57
Skycrest - Water	6421	Water	0.33%	0.32%	16.85	17.37	34.22
South Seas - Sewer	6831	Wastewater	0.18%	0.18%	9.25	9.68	18.93
St. John's Highlands - Water	6450	Water	0.26%	0.26%	13.67	14.09	27.77
Stone Mountain - Water	6422	Water	0.03%	0.03%	1.38	1.42	2.80
Sugar Creek - Water	6436	Water	0.00%	0.00%	-	-	-
Summit Chase - Sewer	6396	Wastewater	0.58%	0.57%	30.11	31.04	61.14
Summit Chase - Water	6596	Water	0.59%	0.58%	30.38	31.32	61.70
Sunny Hills - Sewer	6472	Wastewater	0.48%	0.47%	24.86	25.63	50.49
Sunny Hills - Water	6471	Water	1.55%	1.53%	79.97	82.57	162.54
Tangerine - Water	6428	Water	0.74%	0.75%	37.98	40.57	78.55
The Meadows - Water	6559	Water	0.14%	0.14%	7.32	7.55	14.87
The Woods - Sewer	6388	Wastewater	0.19%	0.19%	9.94	10.25	20.19
The Woods - Water	6564	Water	0.20%	0.20%	10.50	10.82	21.32
Tomoka/Twin Rivers - Water	6469	Water	0.72%	0.71%	37.43	38.58	76.01
Valencia Terrace - Sewer	6424	Wastewater	0.93%	0.92%	48.06	49.69	97.75
Valencia Terrace - Water	6423	Water	0.95%	0.93%	48.89	50.40	99.29
Venetian Village - Sewer	6426	Wastewater	0.25%	0.25%	13.12	13.52	26.65
Venetian Village - Water	6425	Water	0.44%	0.43%	22.79	23.49	46.28
Village Water - Sewer	6390	Wastewater	0.09%	0.09%	4.83	4.98	9.82
Village Water - Water	6571	Water	0.49%	0.48%	25.14	26.19	51.33
Welaka/Saratoga - Water	6451	Water	0.41%	0.41%	21.41	22.07	43.47
West Citrus - Water	6563	Water	0.18%	0.17%	9.12	9.40	18.51
Western Shores - Water	6420	Water	0.00%	0.00%	-	-	-
Wootens - Water	6453	Water	0.08%	0.08%	4.01	4.13	8.13
Zephyr Shores - Sewer	6432	Wastewater	1.39%	1.36%	71.54	73.60	145.14
Zephyr Shores - Water	6431	Water	1.39%	1.37%	71.96	74.17	146.13
			100.00%	100.00%	5,163.81	5,403.28	10,567.10

SCHEDULE 3 - SHAREHOLDER SERVICES EXPENSES ADJUSTMENT SUMMARY

Last Name/Vendor	Date	Subsidiary	Amount	Acct Unit	Account	Florida	Jan - Jun Amount	Jul - Dec Amount
13277ADP INVESTOR COMN	2/3/2007	PSC ALL UTIL	3,873.43	230	636800	164.23		
30388COMPUTERSHARE SH	2/3/2007	PSC ALL UTIL	3,197.41	230	636800	135.57		
13277ADP INVESTOR COMN	3/22/2007	PSC ALL UTIL	47,833.22	230	675830	2,037.70		
30388COMPUTERSHARE SH	3/22/2007	PSC ALL UTIL	1,666.66	230	636800	71.00		
30388COMPUTERSHARE SH	3/22/2007	PSC ALL UTIL	2,634.69	230	636800	112.24		
13277ADP INVESTOR CO	3/22/2007	PSC ALL UTIL	(47,833.22)	230	675830	(2,037.70)		
13277ADP INVESTOR CO	3/22/2007	PSC ALL UTIL	47,833.22	230	636800	2,037.70		
13277ADP INVESTOR COMN	4/3/2007	PSC ALL UTIL	18,478.90	230	636800	787.20		
30388COMPUTERSHARE SH	4/3/2007	PSC ALL UTIL	1,667.45	230	636800	71.03		
30388COMPUTERSHARE SH	4/3/2007	PSC ALL UTIL	22,477.65	230	636800	957.55		
30388 COMPUTERSHARE S	4/3/2007	PSC ALL UTIL	25,882.16	230	636800	1,102.58		
13277ADP INVESTOR COMN	4/27/2007	PSC ALL UTIL	44,112.02	230	636800	1,879.17		
13277ADP INVESTOR COMN	4/27/2007	PSC ALL UTIL	45,116.94	230	636800	1,921.98		
30388COMPUTERSHARE SH	4/27/2007	PSC ALL UTIL	1,666.66	230	636800	71.00		
30388COMPUTERSHARE SH	5/2/2007	PSC ALL UTIL	39,118.72	230	636800	1,666.46		
30388COMPUTERSHARE SH	6/26/2007	PSC ALL UTIL	1,666.66	230	636800	71.00		
30388COMPUTERSHARE SH	6/30/2007	PSC ALL UTIL	24,395.31	230	636800	1,039.24		
30388COMPUTERSHARE SH	6/30/2007	PSC ALL UTIL	60,678.30	230	636800	2,584.90	14,672.85	
30388COMPUTERSHARE INC	8/21/2007	PSC ALL UTIL	1,666.66	230	636800	67.33		
30388COMPUTERSHARE INC	8/27/2007	PSC ALL UTIL	35,436.27	230	636800	1,431.63		
30388COMPUTERSHARE INC	9/6/2007	PSC ALL UTIL	1,666.66	230	636800	67.33		
30388COMPUTERSHARE INC	9/6/2007	PSC ALL UTIL	22,667.93	230	636800	915.78		
30388COMPUTERSHARE INC	10/1/2007	PSC ALL UTIL	1,666.66	230	636800	67.33		
30388COMPUTERSHARE INC	10/29/2007	PSC ALL UTIL	1,125.20	230	636800	45.46		
30388COMPUTERSHARE INC	11/23/2007	PSC ALL UTIL	21,193.45	230	636800	856.22		
30388COMPUTERSHARE INC	11/23/2007	PSC ALL UTIL	35,748.41	230	636800	1,444.24		
30388COMPUTERSHARE INC	12/3/2007	PSC ALL UTIL	1,666.66	230	636800	67.33		
30388COMPUTERSHARE INC	12/3/2007	PSC ALL UTIL	1,666.66	230	636800	67.33		
30388COMPUTERSHARE INC	12/3/2007	PSC ALL UTIL	22,799.20	230	636800	921.09		
30388COMPUTERSHARE INC	1/2/2008	PSC ALL UTIL	1,666.66	230	636800	67.33		
30388COMPUTERSHARE INC	1/2/2008	PSC ALL UTIL	21,667.78	230	636800	875.38		6,893.78
			<u>515,104.38</u>			<u>21,566.63</u>		

SCHEDULE 4 - SHAREHOLDER SERVICES EXPENSES ADJUSTMENT BY SYSTEM

System Name	Combine d Acct	Water/ Wastewater	Allocation		June Alloc	Dec Alloc	Total
			Jan - June	July - Dec	Amount	Amount	
48 Est - Water	6597	Water	0.22%	0.22%	32.96	15.44	48.40
Arredondo Estates - Wa	6569	Water	0.64%	0.63%	93.79	43.41	137.20
Arredondo Farms - Sew	6389	Wastewater	0.96%	0.95%	141.28	65.39	206.67
Arredondo Farms - Wat	6569	Water	0.98%	0.96%	143.24	66.30	209.54
Beecher's Point - Sewer	6439	Wastewater	0.05%	0.05%	7.06	3.27	10.33
Beecher's Point - Water	6438	Water	0.14%	0.14%	20.41	9.45	29.85
Carlton Village - Water	6405	Water	0.64%	0.65%	93.40	44.50	137.90
Castle Lake - Water	6555	Water	0.29%	0.29%	42.38	19.80	62.18
Chuluota - Sewer	6457	Wastewater	1.61%	1.60%	236.25	110.07	346.32
Chuluota - Water	6456	Water	3.70%	3.74%	542.74	257.92	800.66
East Lake Harris Estate	6406	Water	0.47%	0.47%	69.46	32.15	101.61
Fairways - Sewer	6971	Wastewater	0.00%	0.63%	-	43.77	43.77
Fairways - Water	6970	Water	0.00%	0.63%	-	43.77	43.77
Fern Terrace - Water	6407	Water	0.33%	0.33%	49.05	22.70	71.76
Fl Central Commerce P	6461	Wastewater	0.17%	0.17%	25.12	11.81	36.92
Friendly Center - Water	6408	Water	0.08%	0.08%	12.17	5.63	17.80
Gibsonia Estates - Wat	6433	Water	0.52%	0.52%	76.92	35.60	112.52
Grand Terrace - Water	6409	Water	0.29%	0.29%	43.17	19.98	63.15
Haines Creek - Water	6556	Water	0.30%	0.29%	43.56	20.16	63.72
Harmony Homes - Wat	6462	Water	0.17%	0.17%	25.12	11.62	36.74
Hermits Cove - Water	6440	Water	0.49%	0.48%	71.82	33.24	105.06
Hobby Hills - Water	6410	Water	0.28%	0.27%	40.81	18.89	59.70
Holiday Haven - Sewer	6412	Wastewater	0.30%	0.29%	43.56	20.16	63.72
Holiday Haven - Water	6411	Water	0.33%	0.33%	49.05	22.70	71.76
Imperial Mobile Terrac	6413	Water	0.66%	0.65%	96.93	45.05	141.98
Interlachen Lake/Park	6441	Water	0.76%	0.76%	112.24	52.31	164.55
Jasmine Lakes - Sewer	6391	Wastewater	4.16%	4.09%	610.24	282.08	892.32
Jasmine Lakes - Water	6574	Water	4.18%	4.11%	613.38	283.53	896.91
Jungle Den - Sewer	6468	Wastewater	0.37%	0.36%	53.76	24.88	78.65
Jungle Den - Water	6467	Water	0.31%	0.30%	45.13	20.89	66.02
Kenwood North - Wate	6557	Water	0.13%	0.13%	19.23	8.90	28.13
Kings Cove - Sewer	6395	Wastewater	0.53%	0.53%	78.49	36.33	114.81
Kings Cove - Water	6595	Water	0.56%	0.55%	82.41	37.96	120.37
Kingswood - Water	6401	Water	0.17%	0.17%	25.12	11.62	36.74
Lake Gibson Estates - S	6435	Wastewater	0.85%	0.84%	125.19	57.94	183.13
Lake Gibson Estates - W	6434	Water	2.25%	2.22%	330.82	153.12	483.94
Lake Josephine - Water	6589	Water	1.52%	1.51%	223.69	104.08	327.77
Lake Osborne Est - Wa	6558	Water	1.25%	1.24%	184.05	85.19	269.24
Lake Suzy - Sewer	6392	Wastewater	0.72%	0.71%	105.57	49.04	154.61
Lake Suzy - Water	6582	Water	1.51%	1.49%	221.73	102.62	324.35
Leisure Lakes - Sewer	6404	Wastewater	0.75%	0.74%	110.67	51.22	161.89
Leisure Lakes - Water	6403	Water	0.78%	0.76%	113.81	52.67	166.48
Morningview - Sewer	6415	Wastewater	0.10%	0.09%	14.13	6.54	20.67
Morningview - Water	6414	Water	0.10%	0.10%	14.91	6.90	21.81
Oakwood - Water	6402	Water	0.62%	0.61%	90.65	41.96	132.61
Ocala Oaks - Water	6577	Water	4.86%	4.79%	712.67	330.21	1,042.88
Orange Hill/Sugar Cree	6436	Water	0.65%	0.64%	95.36	44.14	139.50
Paim Port - Sewer	6445	Wastewater	0.28%	0.28%	41.60	19.43	61.03
Palm Port - Water	6444	Water	0.29%	0.28%	41.99	19.62	61.61

SCHEDULE 4 - SHAREHOLDER SERVICES EXPENES ADJUSTMENT BY SYSTEM

System Name	Combine d Acct	Water/ Wastewater	Allocation Jan - June	Allocation July - Dec	June Alloc Amount	Dec Alloc Amount	Total
Palm Terrace - Sewer	6430	Wastewater	2.74%	2.70%	402.25	186.18	588.42
Palm Terrace - Water	6429	Water	3.17%	3.12%	465.43	215.42	680.85
Palms MHP - Water	6416	Water	0.17%	0.16%	24.33	11.26	35.59
Park Manor - Sewer	6443	Wastewater	0.08%	0.08%	12.17	5.63	17.80
Park Manor - Water	6441	Water	0.00%	0.00%	-	-	-
Peace River - Sewer	6397	Wastewater	0.25%	0.25%	37.28	17.26	54.54
Peace River - Water	6600	Water	0.26%	0.26%	38.46	17.80	56.26
Picciola Island - Water	6417	Water	0.40%	0.40%	58.47	27.25	85.72
Pine Valley - Water	6560	Water	0.13%	0.12%	18.44	8.54	26.98
Piney Woods - Water	6418	Water	0.48%	0.47%	70.25	32.51	102.76
Pomona Park - Water	6446	Water	0.47%	0.47%	69.46	32.15	101.61
Quail Ridge - Water	6419	Water	0.26%	0.25%	37.67	17.44	55.11
Ravenswood - Water	6561	Water	0.12%	0.12%	17.66	8.17	25.83
River Grove - Water	6447	Water	0.29%	0.28%	41.99	19.43	61.43
Rosalie Oaks - Sewer	6386	Wastewater	0.26%	0.26%	38.07	17.62	55.69
Rosalie Oaks - Water	6562	Water	0.26%	0.26%	38.07	17.62	55.69
Sarasota - Sewer	6965	Wastewater	19.55%	19.27%	2,869.11	1,328.66	4,197.77
Sarasota - Water	6964	Water	12.42%	12.25%	1,822.48	844.42	2,666.90
Saratoga Harbour - Water	6451	Water	0.00%	0.00%	-	-	-
Sebring Lakes - Water	6933	Water	0.21%	0.20%	30.22	13.99	44.20
Silver Lake Oaks - Sewer	6449	Wastewater	0.12%	0.11%	16.87	7.81	24.69
Silver Lake Oaks - Water	6448	Water	0.12%	0.12%	17.27	7.99	25.26
Silver Lake/Western Shores	6420	Water	4.30%	4.24%	631.43	292.61	924.05
Skycrest - Water	6421	Water	0.33%	0.32%	47.88	22.16	70.04
South Seas - Sewer	6831	Wastewater	0.18%	0.18%	26.29	12.35	38.64
St. John's Highlands - Water	6450	Water	0.26%	0.26%	38.85	17.98	56.83
Stone Mountain - Water	6422	Water	0.03%	0.03%	3.92	1.82	5.74
Sugar Creek - Water	6436	Water	0.00%	0.00%	-	-	-
Summit Chase - Sewer	6396	Wastewater	0.58%	0.57%	85.55	39.60	125.15
Summit Chase - Water	6596	Water	0.59%	0.58%	86.34	39.96	126.30
Sunny Hills - Sewer	6472	Wastewater	0.48%	0.47%	70.64	32.69	103.33
Sunny Hills - Water	6471	Water	1.55%	1.53%	227.22	105.35	332.57
Tangerine - Water	6428	Water	0.74%	0.75%	107.92	51.77	159.69
The Meadows - Water	6559	Water	0.14%	0.14%	20.80	9.63	30.43
The Woods - Sewer	6388	Wastewater	0.19%	0.19%	28.26	13.08	41.33
The Woods - Water	6564	Water	0.20%	0.20%	29.83	13.80	43.63
Tomoka/Twin Rivers - Water	6469	Water	0.72%	0.71%	106.35	49.22	155.57
Valencia Terrace - Sewer	6424	Wastewater	0.93%	0.92%	136.57	63.39	199.96
Valencia Terrace - Water	6423	Water	0.95%	0.93%	138.92	64.30	203.22
Venetian Village - Sewer	6426	Wastewater	0.25%	0.25%	37.28	17.26	54.54
Venetian Village - Water	6425	Water	0.44%	0.43%	64.75	29.97	94.72
Village Water - Sewer	6390	Wastewater	0.09%	0.09%	13.74	6.36	20.09
Village Water - Water	6571	Water	0.49%	0.48%	71.42	33.42	104.84
Welaka/Saratoga - Water	6451	Water	0.41%	0.41%	60.83	28.15	88.98
West Citrus - Water	6563	Water	0.18%	0.17%	25.90	11.99	37.89
Western Shores - Water	6420	Water	0.00%	0.00%	-	-	-
Wootens - Water	6453	Water	0.08%	0.08%	11.38	5.27	16.65
Zephyr Shores - Sewer	6432	Wastewater	1.39%	1.36%	203.28	93.91	297.19
Zephyr Shores - Water	6431	Water	1.39%	1.37%	204.46	94.63	299.09
			100.00%	100.00%	14,672.85	6,893.78	21,566.63

AUDIT FINDING NO. 13

SUBJECT: FINES & PENALTIES

AUDIT ANALYSIS: The utility included fines and penalties in the amount of \$61,736 in Account 675, Miscellaneous Expenses, and \$23,127 in Account 775, Miscellaneous Expenses for the period ended December 31, 2007. The fines and penalties represent penalties for St. Johns River Management District, late filing fees for Florida Public Service Commission, and late payment fees for electric and phone companies.

The Uniform System of Accounts defines Account 426, Miscellaneous Nonutility Expenses as follows:

“This Account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are: Penalties or fines for violations of statutes pertaining to Regulations.”

The table on the next page shows the breakdown of these fines and penalties by system.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC

Acct. No	Account Description	Debit	Credit
426	Misc. Nonutility Expense	\$84,951	
675	Misc. Expenses		\$61,736
775	Misc. Expenses		\$23,127

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: Account 675, Miscellaneous Expense balance should be reduced by \$61,736 and Account 775, Miscellaneous Expense balance should be reduced by \$23,215.

COMPANY	COMPANY NO.	Account 675	Account 775
Chuluota	6456	45,481	
FL Central Commerce Park	3130		251
Imperial Mobile Terrace	6413		3,427
Lake Suzy	6392		513
Morning View	6414	2,279	
Sunny Hills	6471	429	
Venitian Village	6426		72
Village Water	6390		15,014
Jasmine Lakes	6391		525
Kings Cove	6395		177
Summit Chase	6396		52
Carlton Village	6405	176	
East Lake Harris Estates	6406	71	
Fern Terrace	6407	68	
Friendly Center	6408	20	
Grand Terrace	6409	45	
Hobby Hills	6410	42	
Holiday Haven	6411	50	
Holiday Haven	6412	74	
Morning View	6415		41
Palms MHP	6416	14	
Picciola Island	6417	95	
Piney Woods	6418	130	
Quail Ridge	6419	62	
Silver Lake Estates	6420	991	
Sky Crest	6421	83	
Valencia Terrace	6423	191	
Valencia Terrace	6424		293
Venetian Village	6425	79	
Tangerin	6428	213	
Palm Terrace	6429	473	
Palm Terrace	6430		539
Zephyr Shores	6431	3,629	
Zephyr Shores	6432		221
Gibsonia Estates	6433	65	
Lake Gibson Estates	6434	227	
Lake Gibson Estates	6435		945
Orange Hill	6436	89	
Hermits Cove	6440	65	
Interlachen Park	6441	1,058	
Palm Port	6444	54	
Pomona Park	6446	616	
River Grove	6447	588	
Silver Lake Oaks	6448	21	
St. Johns Highlands	6450	32	
Saratoga Harbor	6451	65	
Harmony Homes	6462	47	
Tomoka	6469	1,226	
Lake Osborne Estates	6558	484	
The Woods	6564	572	
Jasmine Lakes	6574	740	
Ocala Oaks	6577	845	
Kings Cove	6595	117	
Summit Chase	6596	60	
48 Estates	6597	70	
South Seas	6831		1,057
TOTAL		\$ 61,736	\$ 23,127

AUDIT FINDING NO. 14

SUBJECT: LETTER OF CREDIT EXPENSES

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc. \$1,345 for Standby Letters of Credit expenses in Miscellaneous Expenses, Account 675. The Standby Letters of Credit expenses were used to obtain various loans for the utility.

According to the National Association of Regulatory Utility Commissioners (NARUC), Uniform System of Accounts (USoA), Account 181, Unamortized Debt Discount and Expense should include the total expense for all classes of long-term debt. Further, FPSC Order No. PSC-94-1452-FOF-WU, page 5, issued November 18, 1994, generally states that debt-issuing costs should be included in Account 181. Therefore, \$1,345 should be recorded in Account 181, Unamortized Debt Discount and Expense.

The unamortized balance in Account 181 should be included in the utility's Capital Structure and amortized over the period of the loan. The Standby Letters of Credit expenses were for various loans. We did not have sufficient information to determine the amortization period.

EFFECT ON THE GENERAL LEDGER IF FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007:

NARUC

Acct. No	Account Description	Debit	Credit
675	Miscellaneous Expenses	\$1,345	
181	Unamortized Debt Discount and Expense		\$1,345

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

Accounts 634 and 734 - Contractual Services – Management Fees	\$1,345
Account 181 - Unamortized Debt Discount and Expense	\$1,345

The summary, Schedule 1, and the allocations of these adjustments to the individual utility systems, Schedule 2, are shown on the schedules following this finding.

SCHEDULE 1 - LETTER OF CREDIT ADJUSTMENT SUMMARY

Last Name/Vendor	Date	Description	Amount	Acct			Jan - Jun Amount	Jul - Dec Amount
				Unit	Account	Florida		
Standby Letter of Credit AA	2/3/2007	Loan Costs	1,593.75	312	675858	67.58		
Standby Letter of Credit AA	2/3/2007	Loan Costs	1,770.71	312	675858	75.08		
Standby Letter of Credit AA	3/7/2007	Loan Costs	6,850.24	312	675858	291.82		
Standby Letter of Credit AA	3/22/2007	Loan Costs	2,683.33	312	675858	114.31		
Standby Letter of Credit AA	3/22/2007	Loan Costs	2,974.23	312	675858	126.70		
Standby Letter of Credit AA	3/22/2007	Loan Costs	5,168.16	312	675858	220.16		
Standby Letter of Credit AA	5/29/2007	Loan Costs	100.00	312	675858	4.26		
Standby Letter of Credit AA	5/29/2007	Loan Costs	400.87	312	675858	17.08	916.99	
STANDBY LETTER OF CREDI	7/7/2007	Loan Costs	100.00	312	675858	4.26		
STANDBY LETTER OF CREDI	7/7/2007	Loan Costs	400.87	312	675858	17.08		
STANDBY LETTER OF CREDI	7/7/2007	Loan Costs	(400.87)	312	675858	(16.20)		
STANDBY LETTER OF CREDI	7/7/2007	Loan Costs	(100.00)	312	675858	(4.04)		
Standby Letter of Credit AA	8/1/2007	Loan Costs	2,943.42	312	675858	118.91		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	(100.00)	312	675858	(4.04)		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	(100.00)	312	675858	(4.04)		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	(100.00)	312	675858	(4.04)		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	100.00	312	675858	4.04		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	100.00	312	675858	4.04		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	100.00	312	675858	4.04		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	100.00	312	675858	4.04		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	100.00	312	675858	4.04		
STANDBY LETTER OF CREDI	9/11/2007	Loan Costs	100.00	312	675858	4.04		
STANDBY LETTER OF CREDI	10/1/2007	Loan Costs	6,943.45	312	675858	280.52		
Standby Letter of Credit AA	11/27/2007	Loan Costs	370.00	312	675858	14.95	427.60	
			<u>32,098.16</u>			<u>1,344.59</u>		

SCHEDULE 2 - LETTER OF CREDIT ADJUSTMENT BY SYSTEM

System Name	Acct Unit	Water/ Wastewater	Allocation Jan - June	Allocation July - Dec	June Alloc Amount	Dec Alloc Amount	Total
48 Est - Water	6597	Water	0.225%	0.224%	2.06	0.96	3.02
Arredondo Estates - Wat	6569	Water	0.639%	0.630%	5.86	2.69	8.55
Arredondo Farms - Sewe	6389	Wastewater	0.963%	0.949%	8.83	4.06	12.89
Arredondo Farms - Wate	6569	Water	0.976%	0.962%	8.95	4.11	13.06
Beecher's Point - Sewer	6439	Wastewater	0.048%	0.047%	0.44	0.20	0.64
Beecher's Point - Water	6438	Water	0.139%	0.137%	1.28	0.59	1.86
Carlton Village - Water	6405	Water	0.637%	0.646%	5.84	2.76	8.60
Castle Lake - Water	6555	Water	0.289%	0.287%	2.65	1.23	3.88
Chuluota - Sewer	6457	Wastewater	1.610%	1.597%	14.76	6.83	21.59
Chuluota - Water	6456	Water	3.699%	3.741%	33.92	16.00	49.92
East Lake Harris Estates	6406	Water	0.473%	0.466%	4.34	1.99	6.34
Fairways - Sewer	6971	Wastewater	0.000%	0.635%	-	2.72	2.72
Fairways - Water	6970	Water	0.000%	0.635%	-	2.72	2.72
Fern Terrace - Water	6407	Water	0.334%	0.329%	3.07	1.41	4.47
Fl Central Commerce Pa	6461	Wastewater	0.171%	0.171%	1.57	0.73	2.30
Friendly Center - Water	6408	Water	0.083%	0.082%	0.76	0.35	1.11
Gibsonia Estates - Water	6433	Water	0.524%	0.516%	4.81	2.21	7.02
Grand Terrace - Water	6409	Water	0.294%	0.290%	2.70	1.24	3.94
Haines Creek - Water	6556	Water	0.297%	0.292%	2.72	1.25	3.97
Harmony Homes - Water	6462	Water	0.171%	0.169%	1.57	0.72	2.29
Hermits Cove - Water	6440	Water	0.489%	0.482%	4.49	2.06	6.55
Hobby Hills - Water	6410	Water	0.278%	0.274%	2.55	1.17	3.72
Holiday Haven - Sewer	6412	Wastewater	0.297%	0.292%	2.72	1.25	3.97
Holiday Haven - Water	6411	Water	0.334%	0.329%	3.07	1.41	4.47
Imperial Mobile Terrace	6413	Water	0.661%	0.653%	6.06	2.79	8.85
Interlachen Lake/Park M	6441	Water	0.765%	0.759%	7.01	3.24	10.26
Jasmine Lakes - Sewer	6391	Wastewater	4.159%	4.092%	38.14	17.50	55.63
Jasmine Lakes - Water	6574	Water	4.180%	4.113%	38.33	17.59	55.92
Jungle Den - Sewer	6468	Wastewater	0.366%	0.361%	3.36	1.54	4.90
Jungle Den - Water	6467	Water	0.308%	0.303%	2.82	1.30	4.12
Kenwood North - Water	6557	Water	0.131%	0.129%	1.20	0.55	1.75
Kings Cove - Sewer	6395	Wastewater	0.535%	0.527%	4.91	2.25	7.16
Kings Cove - Water	6595	Water	0.562%	0.551%	5.15	2.35	7.51
Kingswood - Water	6401	Water	0.171%	0.169%	1.57	0.72	2.29
Lake Gibson Estates - Se	6435	Wastewater	0.853%	0.840%	7.82	3.59	11.42
Lake Gibson Estates - W	6434	Water	2.255%	2.221%	20.68	9.50	30.17
Lake Josephine - Water	6589	Water	1.525%	1.510%	13.98	6.46	20.44
Lake Osborne Est - Wate	6558	Water	1.254%	1.236%	11.50	5.28	16.79
Lake Suzy - Sewer	6392	Wastewater	0.719%	0.711%	6.60	3.04	9.64
Lake Suzy - Water	6582	Water	1.511%	1.489%	13.86	6.37	20.22
Leisure Lakes - Sewer	6404	Wastewater	0.75%	0.74%	6.92	3.18	10.09
Leisure Lakes - Water	6403	Water	0.78%	0.76%	7.11	3.27	10.38
Morningview - Sewer	6415	Wastewater	0.10%	0.09%	0.88	0.41	1.29
Morningview - Water	6414	Water	0.10%	0.10%	0.93	0.43	1.36
Oakwood - Water	6402	Water	0.62%	0.61%	5.67	2.60	8.27
Ocala Oaks - Water	6577	Water	4.86%	4.79%	44.54	20.48	65.02
Orange Hill/Sugar Creek	6436	Water	0.65%	0.64%	5.96	2.74	8.70
Palm Port - Sewer	6445	Wastewater	0.28%	0.28%	2.60	1.21	3.81
Palm Port - Water	6444	Water	0.29%	0.28%	2.62	1.22	3.84

SCHEDULE 2 - LETTER OF CREDIT ADJUSTMENT BY SYSTEM

System Name	Combined Acct Unit	Water/ Wastewater	Allocation Jan - June	Allocation July - Dec	June Alloc Amount	Dec Alloc Amount	Total
Palm Terrace - Sewer	6430	Wastewater	2.74%	2.70%	25.14	11.55	36.69
Palm Terrace - Water	6429	Water	3.17%	3.12%	29.09	13.36	42.45
Palms MHP - Water	6416	Water	0.17%	0.16%	1.52	0.70	2.22
Park Manor - Sewer	6443	Wastewater	0.08%	0.08%	0.76	0.35	1.11
Park Manor - Water	6441	Water	0.00%	0.00%	-	-	-
Peace River - Sewer	6397	Wastewater	0.25%	0.25%	2.33	1.07	3.40
Peace River - Water	6600	Water	0.26%	0.26%	2.40	1.10	3.51
Picciola Island - Water	6417	Water	0.40%	0.40%	3.65	1.69	5.34
Pine Valley - Water	6560	Water	0.13%	0.12%	1.15	0.53	1.68
Piney Woods - Water	6418	Water	0.48%	0.47%	4.39	2.02	6.41
Pomona Park - Water	6446	Water	0.47%	0.47%	4.34	1.99	6.34
Quail Ridge - Water	6419	Water	0.26%	0.25%	2.35	1.08	3.44
Ravenswood - Water	6561	Water	0.12%	0.12%	1.10	0.51	1.61
River Grove - Water	6447	Water	0.29%	0.28%	2.62	1.21	3.83
Rosalie Oaks - Sewer	6386	Wastewater	0.26%	0.26%	2.38	1.09	3.47
Rosalie Oaks - Water	6562	Water	0.26%	0.26%	2.38	1.09	3.47
Sarasota - Sewer	6965	Wastewater	19.55%	19.27%	179.31	82.41	261.72
Sarasota - Water	6964	Water	12.42%	12.25%	113.90	52.38	166.27
Saratoga Harbour - Water	6451	Water	0.00%	0.00%	-	-	-
Sebring Lakes - Water	6933	Water	0.21%	0.20%	1.89	0.87	2.76
Silver Lake Oaks - Sewer	6449	Wastewater	0.12%	0.11%	1.05	0.48	1.54
Silver Lake Oaks - Water	6448	Water	0.12%	0.12%	1.08	0.50	1.57
Silver Lake/Western Shores	6420	Water	4.30%	4.24%	39.46	18.15	57.61
Skycrest - Water	6421	Water	0.33%	0.32%	2.99	1.37	4.37
South Seas - Sewer	6831	Wastewater	0.18%	0.18%	1.64	0.77	2.41
St. John's Highlands - Water	6450	Water	0.26%	0.26%	2.43	1.12	3.54
Stone Mountain - Water	6422	Water	0.03%	0.03%	0.25	0.11	0.36
Sugar Creek - Water	6436	Water	0.00%	0.00%	-	-	-
Summit Chase - Sewer	6396	Wastewater	0.58%	0.57%	5.35	2.46	7.80
Summit Chase - Water	6596	Water	0.59%	0.58%	5.40	2.48	7.87
Sunny Hills - Sewer	6472	Wastewater	0.48%	0.47%	4.41	2.03	6.44
Sunny Hills - Water	6471	Water	1.55%	1.53%	14.20	6.53	20.73
Tangerine - Water	6428	Water	0.74%	0.75%	6.74	3.21	9.96
The Meadows - Water	6559	Water	0.14%	0.14%	1.30	0.60	1.90
The Woods - Sewer	6388	Wastewater	0.19%	0.19%	1.77	0.81	2.58
The Woods - Water	6564	Water	0.20%	0.20%	1.86	0.86	2.72
Tomoka/Twin Rivers - Water	6469	Water	0.72%	0.71%	6.65	3.05	9.70
Valencia Terrace - Sewer	6424	Wastewater	0.93%	0.92%	8.53	3.93	12.47
Valencia Terrace - Water	6423	Water	0.95%	0.93%	8.68	3.99	12.67
Venetian Village - Sewer	6426	Wastewater	0.25%	0.25%	2.33	1.07	3.40
Venetian Village - Water	6425	Water	0.44%	0.43%	4.05	1.86	5.91
Village Water - Sewer	6390	Wastewater	0.09%	0.09%	0.86	0.39	1.25
Village Water - Water	6571	Water	0.49%	0.48%	4.46	2.07	6.54
Welaka/Saratoga - Water	6451	Water	0.41%	0.41%	3.80	1.75	5.55
West Citrus - Water	6563	Water	0.18%	0.17%	1.62	0.74	2.36
Western Shores - Water	6420	Water	0.00%	0.00%	-	-	-
Wootens - Water	6453	Water	0.08%	0.08%	0.71	0.33	1.04
Zephyr Shores - Sewer	6432	Wastewater	1.39%	1.36%	12.70	5.82	18.53
Zephyr Shores - Water	6431	Water	1.39%	1.37%	12.78	5.87	18.65
			<u>100.00%</u>	<u>100.00%</u>	<u>916.99</u>	<u>427.60</u>	<u>1,344.59</u>

AUDIT FINDING NO. 15

SUBJECT: PRELIMINARY STUDY

AUDIT ANALYSIS: The utility included \$2,695 in Account 731, Contractual Services - Engineering for the period ended December 31, 2007. This amount represents a 2005 preliminary Engineering Study project that was abandoned.

The Uniform System of Accounts states:

“Preliminary Survey and Investigation Charges Account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be transferred to account 426 - Miscellaneous Nonutility Expenses.”

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entry is needed to correct the utility general ledger balances as of December 31, 2007.

The table below shows the breakdown of this transaction by system.

COMPANY	COMPANY NO.	731
Lake Suzy	6392	\$2,695
Total		\$2,695

NARUC			
Acct. No.	Account Description	Debit	Credit
426	Miscellaneous Nonutility Expenses	\$2,695	
731	Contractual Services - Engineering		\$2,695

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: Account 731 Contractual Services - Engineering balance should be reduced by \$2,695.

AUDIT FINDING NO. 16

SUBJECT: OUT OF PERIOD EXPENSES

AUDIT ANALYSIS: The utility included out of the period expenses in the MFR for the test year. These amounts should be removed from the test year expenses.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

The table below shows the breakdown of these out of period expenses by system.

COMPANY	COMPANY NO.	Acct 735	Acct 720	Acct 635	Acct 736	Acct 615	Acct 618	Acct 718
Rosalie Oaks	6386	120						
FL Central Commerce Park	6461		302					
Lake Suzy	6582			20,531				
Lake Suzy	6392	190			941			
Morning View	6414					73	50	
Village Water	6390							110
Total		\$ 310	\$ 302	\$ 20,531	\$ 941	\$ 73	\$ 50	\$ 110

NARUC

Acct. No.	Account Description	Debit	Credit
215	Retained Earnings	\$22,317	
735	Contractual Services – Testing		\$ 310
720	Materials and Supplies		\$ 302
610	Contractual Services – Testing		\$20,531
736	Contractual Services – Other		\$ 941
615	Purchased Power		\$ 73
618	Chemicals		\$ 50
718	Chemicals		\$ 110

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: Account 735 Contractual Services – Testing balance should be reduced by \$310. Account 720 Materials and Supplies balance should be reduced by \$302. Account 610 Purchased Water balance should be reduced by \$20,531. Account 736 Contractual Services – Other balance should be reduced by \$941. Account 615 Purchased Power balance should be reduced by \$73. Account 618 Chemicals balance should be reduced by \$50. Account 718 Chemicals balance should be reduced by \$110.

AUDIT FINDING NO. 17

SUBJECT: PRELIMINARY SURVEY EXPENSES

AUDIT ANALYSIS: The utility paid \$16,173.13 to Florida Department of Environmental Protection (FDEP) (\$1,000) and Adirondack Engineering (\$15,173.13) for work done in obtaining a Wastewater treatment plant permit renewal in 2005. The utility then amortized this amount in Account 736, Contractual Services – Other from June 2005 to September 2007. In September 2007, the utility wrote off the remaining balance of \$9,529 because the permit process was abandoned. Prior to the write-off in September 2007, the utility expensed \$2,312 (\$289 per month from January 2007 to August 2007) to this account for a total of \$11,841 (\$9,529 + \$2,312). When asked for details, the utility provided the following explanation.

“We had incurred charges for a permit at the Village Water sewer plant. We accumulated/deferred these charges and then were amortizing them over a period of time. During one of our managers meetings last year the discussion came up on permit charges for the plant. I questioned why we were doing it again when we had incurred charges and were currently amortizing. It turns out that the prior permitting work that was done wasn't completed and the permit application was abandoned, no permit issued. Now we were going at it again. Therefore we couldn't justify amortizing sunk costs so we expensed the remaining amount in full September of last year.”

Since no permit was issued, and the utility received no benefit from these expenses, audit staff believes that Account 736, Contractual Services-Other should be reduced by \$11,841.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: Pending Commission approval the following entry would need to be made

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Acct. No.	Account Description	Debit	Credit
426	Miscellaneous Nonutility Expenses	\$11,841	
736	Contractual Services-Other		\$11,841

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: Account 736 Contractual Services - Other balance should be reduced by \$11,841.

AUDIT FINDING NO. 18

SUBJECT: LAKE SUZY WASTEWATER LAND TRANSFER

AUDIT ANALYSIS: Commission Order No. PSC-97-0540-FOF-WS, issued May 12, 1997, in Docket No. 960799-WS, established the cost of wastewater land to be included in rate base. The order addressed 25.52 acres of land.

- 5.97 acres was included in rate base at a value of \$62,381
- 19.55 acres was valued at \$294,856 but was reduced by \$94,656 to reflect the 6.32 acres held for future use, for an adjusted balance of \$200,200,
- Net land value for the 25.52 acres of \$262,581.

In June 2005, the prior owner of the utility entered into litigation proceedings with Aqua regarding the wastewater land. In December, 2007, as part of a settlement agreement regarding this litigation, the utility sold the 5.97 acres to Mr. Dallas Shepard for \$100,000. The settlement agreement also required Aqua to pay annual rent of \$10,000, and required retroactive payments beginning in June 2005.

Land Value

The utility's general ledger reflects a wastewater land balance of \$442,800, as of November 30, 2007. As stated above, the Commission has previously established land at a value of \$262,581. The utility has not reflected the Commission's adjustments to land in the general ledger. At December 31, 2007, the utility's general ledger reflected a land balance of \$269,366, and the MFRs included a thirteen-month average of \$429,459. We recommend that the land balances be adjusted to reflect the prior Commission order as well as the sale of the land. The year-end balance should reflect the value of the remaining acres, as stated above, \$200,200. The 13-month average for land should also be adjusted to remove all of the land sold. Using the Commission approved balances, the 13-month average balance should be \$200,200. This current rate case may re-evaluate the level of land held for future use and that may impact the final valuation.

Gain/Loss on Sale of Land

As part of the sale of the land, the utility incurred legal and other costs of \$33,649. This results in net proceeds from the sale of \$66,352 (\$100,000 - \$33,649.) The utility valued the land at \$173,434 at the time of the sale and calculated a loss on the sale of \$107,083 (\$173,434 - \$66,352.) However, staff believes that the net proceeds should be compared to the value included in rate base in the prior order and recommends that a gain occurred on the sale, in the amount of \$3,934 (\$66,352 - \$62,381.)

The NARUC USOA states that Account 414 should include, **when authorized by the Commission**, gains and losses from the sale of utility property. Therefore, pending Commission approval, the staff calculated gain should be booked to Account 414 – Gain (Losses) from Disposition of Utility Property and the loss booked by the company should be removed. As stated above, the company booked a loss of \$107,083. The company is amortizing this loss over 25 years at a rate of \$357 per month.

Rental of Building/Real Property

The utility included \$36,899 in Account 741 – Rental of Building/Real Property for the period ended December 31, 2007. This amount represents:

- \$11,066, amortization of the loss for the period June 2005 through December 2007,
- \$15,833, rent for the period June 2005 through December 2006,
- \$10,000, rent for the year ended December 31, 2007.

As recommended above, we believe that there is a gain on the sale of the land, so the amortization expense should be removed from the expense. If the Commission approves the gain and it is amortized over the same 25 year period, only twelve months of the amortization should be included in the test year. This would result in removing the \$11,066 and reflecting \$157 as the amortization of the gain.

Even though the utility owned the land during the test year, it will not own the land for the period that rates will be established. Therefore, we believe that it is reasonable to include the lease payments in test year expenses. However, only twelve months of lease payments should be included in a test year. Therefore, the \$15,833 should be removed.

Land Lease

The settlement agreement in the court case established a twenty year lease for the land sold. Commission Rule 25-30.433(10), Florida Administrative Code, requires a utility to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease. We believe that the twenty year lease is in violation of this rule.

EFFECT ON GENERAL LEDGER:

215	Retained Earnings	\$196,016
	Land	\$69,166
	Gain	\$3,934
	Remove Loss	\$96,017
	Remove amortization	\$11,066
	Remove rental	\$15,833

EFFECT ON FILING:

215	Retained Earnings	\$356,109
	Land	\$229,259
	Gain	\$3,934
	Remove Loss	\$96,017
	Remove amortization	\$11,066
	Remove rental	\$15,833

AUDIT FINDING NO. 19

SUBJECT: DEPRECIATION EXPENSE

AUDIT ANALYSIS: Aqua America, Inc. allocated to Aqua Utilities Florida, Inc., \$17,352 for depreciation expenses in Account 403 – Depreciation Expenses.

The following are the Audit Staff's questions and the utility's responses for the above allocated depreciation expenses as shown on Response to the Affiliated Document Request 35, paraphrased:

1. **Question:** Are these plant items already included in the allocation from Aqua America, Inc., to Aqua Utilities Florida, Inc., along with depreciation?
Response: No, these are other Service Company assets.
2. **Question:** Provide total Aqua America, Inc., plant in service and the allocated portion to the states including Florida.
Response: Aqua America, Inc. plant in service associated with these depreciation expenses is not being allocated, just the depreciation expenses are being allocated.
3. **Question:** Why is this depreciation expense accrual included with Operation and Maintenance Expenses instead of depreciation expenses?
Response: Since this plant is recorded on the Service Company books, not the Florida or Aqua Utilities Florida, Inc. books, it is treated as a management fee instead of depreciation.
4. **Question:** Is there a corresponding entry included in accumulated depreciation that is also being allocated to Aqua Utilities Florida, Inc? If so, please provide.
Response: There is no corresponding accumulated depreciation being allocated, only the depreciation expenses.

The Audit Staff has audited the plant in service, accumulated depreciation, and depreciation expense that were allocated from Aqua America, Inc. to Aqua Utilities Florida, Inc for this rate proceeding.

The other Service Company assets were not allocated to Aqua Utilities Florida, Inc. for this rate proceeding.

The summary, Schedule 1, and the allocations of this adjustment to the individual utility systems, Schedule 2, are shown on the schedules following this finding.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: There is no effect on general ledger.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: This information is provided for the analyst's use.

SCHEDULE 1 - DEPRECIATION ACCRUALS ADJUSTMENT SUMMARY

Last Name/Vendor	Date	Description	Subsidiary	Amount	Acct Unit	Account	Florida	Total
Depreciation Adjustment	39119	Depre. Exp.	PSC ALL UTIL	(340.14)	422	403010	(14.42)	
Depreciation Accrual	39119	Depre. Exp.	PSC ALL UTIL	28,345.10	422	403010	1,201.83	
Depreciation Accrual	39142	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,510.71	
Depreciation Adjustment	39163	Depre. Exp.	PSC ALL UTIL	340.14	422	403010	14.49	
Depreciation Accrual	39175	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,510.71	
Depreciation Accrual	39204	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,510.71	
Depreciation Accrual	39244	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,510.71	
Depreciation Accrual	39244	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,510.71	8,755.47
Depreciation Accrual	39303	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,432.70	
Depreciation Accrual	39325	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,432.70	
Depreciation Accrual	39351	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,432.70	
Depreciation Accrual	39387	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,432.70	
Depreciation Accrual	39420	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,432.70	
Depreciation Accrual	39438	Depre. Exp.	PSC ALL UTIL	35,462.77	422	403010	1,432.70	8,596.18
				<u>418,435.57</u>			<u>17,351.65</u>	<u>17,351.65</u>

SCHEDULE 2 - DEPRECIATION EXPENSE ADJUSTMENT BY SYSTEM

System Name	Combined Acct Unit	Water/ Wastewater	Allocation		June Alloc	Dec Alloc	Total
			Jan - June	July - Dec	Amount	Amount	
48 Est - Water	6597	Water	0.225%	0.224%	19.67	19.25	38.92
Arredondo Estates - Water	6569	Water	0.639%	0.630%	55.97	54.13	110.10
Arredondo Farms - Sewer	6389	Wastewater	0.963%	0.949%	84.30	81.54	165.84
Arredondo Farms - Water	6569	Water	0.976%	0.962%	85.47	82.67	168.14
Beecher's Point - Sewer	6439	Wastewater	0.048%	0.047%	4.22	4.08	8.29
Beecher's Point - Water	6438	Water	0.139%	0.137%	12.18	11.78	23.95
Carlton Village - Water	6405	Water	0.637%	0.646%	55.73	55.49	111.22
Castle Lake - Water	6555	Water	0.289%	0.287%	25.29	24.69	49.98
Chuluota - Sewer	6457	Wastewater	1.610%	1.597%	140.97	137.25	278.22
Chuluota - Water	6456	Water	3.699%	3.741%	323.86	321.61	645.48
East Lake Harris Estates -	6406	Water	0.473%	0.466%	41.45	40.09	81.54
Fairways - Sewer	6971	Wastewater	0.000%	0.635%	-	54.58	54.58
Fairways - Water	6970	Water	0.000%	0.635%	-	54.58	54.58
Fern Terrace - Water	6407	Water	0.334%	0.329%	29.27	28.31	57.58
Fl Central Commerce Park	6461	Wastewater	0.171%	0.171%	14.99	14.72	29.71
Friendly Center - Water	6408	Water	0.083%	0.082%	7.26	7.02	14.28
Gibsonia Estates - Water	6433	Water	0.524%	0.516%	45.90	44.39	90.29
Grand Terrace - Water	6409	Water	0.294%	0.290%	25.76	24.91	50.67
Haines Creek - Water	6556	Water	0.297%	0.292%	25.99	25.14	51.13
Harmony Homes - Water	6462	Water	0.171%	0.169%	14.99	14.50	29.48
Hermit's Cove - Water	6440	Water	0.489%	0.482%	42.85	41.45	84.30
Hobby Hills - Water	6410	Water	0.278%	0.274%	24.35	23.55	47.91
Holiday Haven - Sewer	6412	Wastewater	0.297%	0.292%	25.99	25.14	51.13
Holiday Haven - Water	6411	Water	0.334%	0.329%	29.27	28.31	57.58
Imperial Mobile Terrace -	6413	Water	0.661%	0.653%	57.84	56.17	114.01
Interlachen Lake/Park Ma	6441	Water	0.765%	0.759%	66.97	65.23	132.20
Jasmine Lakes - Sewer	6391	Wastewater	4.159%	4.092%	364.14	351.74	715.88
Jasmine Lakes - Water	6574	Water	4.180%	4.113%	366.01	353.55	719.56
Jungle Den - Sewer	6468	Wastewater	0.366%	0.361%	32.08	31.03	63.11
Jungle Den - Water	6467	Water	0.308%	0.303%	26.93	26.05	52.98
Kenwood North - Water	6557	Water	0.131%	0.129%	11.47	11.10	22.57
Kings Cove - Sewer	6395	Wastewater	0.535%	0.527%	46.83	45.30	92.13
Kings Cove - Water	6595	Water	0.562%	0.551%	49.18	47.34	96.51
Kingswood - Water	6401	Water	0.171%	0.169%	14.99	14.50	29.48
Lake Gibson Estates - Sew	6435	Wastewater	0.853%	0.840%	74.70	72.25	146.95
Lake Gibson Estates - Wat	6434	Water	2.255%	2.221%	197.41	190.93	388.34
Lake Josephine - Water	6589	Water	1.525%	1.510%	133.48	129.78	263.26
Lake Osborne Est - Water	6558	Water	1.254%	1.236%	109.83	106.22	216.05
Lake Suzy - Sewer	6392	Wastewater	0.719%	0.711%	62.99	61.15	124.14
Lake Suzy - Water	6582	Water	1.511%	1.489%	132.31	127.97	260.27
Leisure Lakes - Sewer	6404	Wastewater	0.754%	0.743%	66.04	63.87	129.91
Leisure Lakes - Water	6403	Water	0.776%	0.764%	67.91	65.68	133.59
Morningview - Sewer	6415	Wastewater	0.096%	0.095%	8.43	8.15	16.58
Morningview - Water	6414	Water	0.102%	0.100%	8.90	8.61	17.51
Oakwood - Water	6402	Water	0.618%	0.609%	54.09	52.32	106.41
Ocala Oaks - Water	6577	Water	4.857%	4.790%	425.26	411.76	837.01
Orange Hill/Sugar Creek -	6436	Water	0.650%	0.640%	56.90	55.04	111.94
Palm Port - Sewer	6445	Wastewater	0.284%	0.282%	24.82	24.23	49.06
Palm Port - Water	6444	Water	0.286%	0.285%	25.06	24.46	49.52

SCHEDULE 2 - DEPRECIATION EXPENSE ADJUSTMENT BY SYSTEM

System Name	Combine d Acct	Water/ Wastewater	Allocation		June Alloc	Dec Alloc	Total
			Jan - June	July - Dec	Amount	Amount	
Palm Terrace - Sewer	6430	Wastewater	2.741%	2.701%	240.03	232.15	472.18
Palm Terrace - Water	6429	Water	3.172%	3.125%	277.73	268.62	546.34
Palms MHP - Water	6416	Water	0.166%	0.163%	14.52	14.04	28.56
Park Manor - Sewer	6443	Wastewater	0.083%	0.082%	7.26	7.02	14.28
Park Manor - Water	6441	Water	0.000%	0.000%	-	-	-
Peace River - Sewer	6397	Wastewater	0.254%	0.250%	22.25	21.52	43.76
Peace River - Water	6600	Water	0.262%	0.258%	22.95	22.20	45.14
Picciola Island - Water	6417	Water	0.399%	0.395%	34.89	33.97	68.87
Pine Valley - Water	6560	Water	0.126%	0.124%	11.01	10.64	21.65
Piney Woods - Water	6418	Water	0.479%	0.472%	41.92	40.54	82.46
Pomona Park - Water	6446	Water	0.473%	0.466%	41.45	40.09	81.54
Quail Ridge - Water	6419	Water	0.257%	0.253%	22.48	21.74	44.22
Ravenswood - Water	6561	Water	0.120%	0.119%	10.54	10.19	20.73
River Grove - Water	6447	Water	0.286%	0.282%	25.06	24.23	49.29
Rosalie Oaks - Sewer	6386	Wastewater	0.259%	0.256%	22.71	21.97	44.68
Rosalie Oaks - Water	6562	Water	0.259%	0.256%	22.71	21.97	44.68
Sarasota - Sewer	6965	Wastewater	19.554%	19.273%	1,712.03	1,656.77	3,368.80
Sarasota - Water	6964	Water	12.421%	12.249%	1,087.50	1,052.95	2,140.45
Saratoga Harbour - Water	6451	Water	0.000%	0.000%	-	-	-
Sebring Lakes - Water	6933	Water	0.206%	0.203%	18.03	17.44	35.47
Silver Lake Oaks - Sewer	6449	Wastewater	0.115%	0.113%	10.07	9.74	19.81
Silver Lake Oaks - Water	6448	Water	0.118%	0.116%	10.30	9.97	20.27
Silver Lake/Western Shores	6420	Water	4.303%	4.245%	376.78	364.87	741.66
Skycrest - Water	6421	Water	0.326%	0.321%	28.57	27.63	56.20
South Seas - Sewer	6831	Wastewater	0.179%	0.179%	15.69	15.40	31.09
St. John's Highlands - Water	6450	Water	0.265%	0.261%	23.18	22.42	45.61
Stone Mountain - Water	6422	Water	0.027%	0.026%	2.34	2.26	4.61
Sugar Creek - Water	6436	Water	0.000%	0.000%	-	-	-
Summit Chase - Sewer	6396	Wastewater	0.583%	0.574%	51.05	49.37	100.42
Summit Chase - Water	6596	Water	0.588%	0.580%	51.52	49.83	101.35
Sunny Hills - Sewer	6472	Wastewater	0.481%	0.474%	42.15	40.77	82.92
Sunny Hills - Water	6471	Water	1.549%	1.528%	135.59	131.36	266.95
Tangerine - Water	6428	Water	0.736%	0.751%	64.40	64.55	128.95
The Meadows - Water	6559	Water	0.142%	0.140%	12.41	12.00	24.42
The Woods - Sewer	6388	Wastewater	0.193%	0.190%	16.86	16.31	33.17
The Woods - Water	6564	Water	0.203%	0.200%	17.80	17.21	35.01
Tomoka/Twin Rivers - Water	6469	Water	0.725%	0.714%	63.46	61.38	124.84
Valencia Terrace - Sewer	6424	Wastewater	0.931%	0.920%	81.49	79.04	160.54
Valencia Terrace - Water	6423	Water	0.947%	0.933%	82.90	80.18	163.07
Venetian Village - Sewer	6426	Wastewater	0.254%	0.250%	22.25	21.52	43.76
Venetian Village - Water	6425	Water	0.441%	0.435%	38.64	37.37	76.01
Village Water - Sewer	6390	Wastewater	0.094%	0.092%	8.20	7.93	16.12
Village Water - Water	6571	Water	0.487%	0.485%	42.62	41.67	84.29
Welaka/Saratoga - Water	6451	Water	0.415%	0.408%	36.30	35.11	71.40
West Citrus - Water	6563	Water	0.177%	0.174%	15.46	14.95	30.40
Western Shores - Water	6420	Water	0.000%	0.000%	-	-	-
Wootens - Water	6453	Water	0.078%	0.076%	6.79	6.57	13.36
Zephyr Shores - Sewer	6432	Wastewater	1.385%	1.362%	121.30	117.09	238.40
Zephyr Shores - Water	6431	Water	1.393%	1.373%	122.00	118.00	240.00
			100.000%	100.000%	8,755.47	8,596.18	17,351.65