

State of Florida



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

DATE: March 18, 2009
TO: Lydia Roberts, Regulatory Analyst II, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DNV*
RE: Docket No: 080709-WS; Company Name: Damon Utilities, Inc.;
Audit Purpose: Staff-assisted Rate Case; Company Code: WS551;
Audit Control No: 09-009-2-1;

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

DNV/tbm

Attachment: Audit Report

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

Ms. Lisa Davis
Damon Utilities, Inc.
47 Lake Damon Drive
Avon Park, FL 33825-8902

DOCUMENT NUMBER-DATE

02400 MAR 20 8

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FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING
Tampa District Office

DAMON UTILITIES, INC.
STAFF ASSISTED RATE CASE
AS OF DECEMBER 31, 2008
DOCKET NO. 080709-WS
AUDIT CONTROL NO. 09-009-2-1


Simon Ojada, Staff


*Joseph W. Rohrbacher, District
Supervisor*

DOCUMENT NUMBER-DATE
02400 MAR 20 08
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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

MARCH 6, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 9, 2009. We have applied these procedures to the attached schedules prepared by the audit staff in support of Damon Utilities, Inc. request for a Staff Assisted Rate Case in Docket No. 080709-WS.

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

OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

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

Procedures: We reviewed the utility's accounting system and found it to be in compliance with the above.

RATE BASE

Utility Plant in Service (UPIS)

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

Procedures: We determined the UPIS balance that was established in Docket No. 021192-WS, its last staff assisted rate case.¹ We compiled UPIS additions for the period January 1, 2003 through December 31, 2008 to determine the UPIS balance for this proceeding. We recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 1 discusses our findings and recommended UPIS balance as of December 31, 2008.

Land

Objective: To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We verified that there has been no change to utility's land balance or ownership since its last staff assisted rate case. We determined the utility leases the land from entities with related ownership, River Greens Golf Course, Inc. (RGGC) and DDH Partnership.

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA. To verify and insure that all donated property is properly accounted for and recorded as CIAC.

Procedures: We determined the utility's CIAC balance was established in Docket No.

¹ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, Docket No. 021192-WS.

021192-WS. We compiled additions to CIAC for the period January 1, 2003 through December 31, 2008 to determine the utility's CIAC balance for this rate case proceeding. We scanned the utility's 2003 through 2007 Federal Income Tax returns for unrecorded cash and property contributions.

Accumulated Depreciation

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

Procedures: We determined the utility's accumulated depreciation balance that was established in Docket No. 021192-WS. We compiled accumulated depreciation accruals for the period January 1, 2003 through December 31, 2008 to determine the utility's accumulated depreciation balance for this proceeding. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding No. 2 discusses our findings and recommended balance for accumulated depreciation as of December 31, 2008.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.

Procedures: We determined the utility's accumulated amortization of CIAC balance that was established in Docket No. 021192-WS. We compiled accumulated amortization of CIAC accruals for the period January 1, 2003 through December 31, 2008 to determine the utility's accumulated amortization of CIAC balance for this proceeding. Audit Finding No. 3 discusses our findings and recommended balance for accumulated amortization of CIAC as of December 31, 2008.

Working Capital

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

Procedures: We calculated the utility's working capital balance as of December 31, 2008 using one-eighth of operation and maintenance expense as required by Commission rule.²

NET OPERATING INCOME

Revenues

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

Procedures: We compiled utility revenues for the 12-month period ending December

² See Rule 25-30.433 (2), Florida Administrative Code.

31, 2008 from the utility's billing register records. We prepared a billing analysis to test the reasonableness of the recorded revenues.

Operation and Maintenance Expense

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

Procedures: We compiled operation and maintenance expense items from the utility's general ledger and vendor invoice file. We reviewed all utility invoices for proper amount, period, classification, NARUC account and recurring nature. We determined the proper allocation of invoices and expenses that included services for water and wastewater operations. Audit Finding No. 5 discusses our findings and recommended operation and maintenance expense balance for the 12-month period ending December 31, 2008.

Taxes-Other-Than-Income (TOTI)

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

Procedures: We compiled TOTI expense items from the utility's general ledger and vendor invoice file. We reviewed all utility tax invoices for proper amount, period, classification, NARUC account and recurring nature. We determined the proper allocation of all tax expenses that included services for water and wastewater operations. Audit Finding No. 6 discusses our findings and recommended TOTI expense balance for the 12-month period ending December 31, 2008.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility contributions-in-aid-of-construction assets from ongoing utility operations.

Procedures: We calculated depreciation expense and amortization of CIAC expense balances using the UPIS and CIAC balances determined above. Audit Finding Nos. 2 and 3 discuss our findings and recommended depreciation expense and amortization of CIAC expense balances for the 12-month period ending December 31, 2008.

CAPITAL STRUCTURE

General

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

Procedures: We determined that the utility's capital structure is made up of long term debt and equity. Audit Finding No. 7 discusses our findings and recommended capital structure balance as of December 31, 2008.

AUDIT FINDING NO. 1

SUBJECT: UTILITY PLANT IN SERVICE (UPIS)

AUDIT ANALYSIS: The company's trial balance reflects UPIS balances of \$143,548 and \$232,739 for water and wastewater, respectively, for calendar year ended december 31, 2008.

Based on our adjustments and findings, the company's UPIS balances are \$143,182 and \$232,169 for water and wastewater, respectively, as of December 31, 2008.

We compiled UPIS additions from 2003 through the test year to determine the company's UPIS balance as of December 31, 2008. We started with the UPIS balances established in the company's last rate case proceeding. We then posted additions and retirements to UPIS when capital items were added or replaced. We toured the utility water and wastewater plant sites to observe and ascertain the condition and existence of utility assets discussed above.

The company's UPIS balances and our adjustments, by NARUC sub-account, are displayed on the following schedule.

EFFECT ON THE FILING: The company's UPIS balances should be \$143,182 and \$232,169 for water and wastewater, respectively, as of December 31, 2008.

EFFECT ON THE GENERAL LEDGER: UPIS should be decreased by \$366 and \$570 for water and wastewater, respectively.

Water - Plant in Service

Account Number	301	304	307	309	310	311	320	330	331	333	334	336	340	343	348	Total
Per Trial Balance	\$ 6,226	\$ 4,718	\$ 6,285	\$ 1,126	\$ 12,803	\$ 9,961	\$ 10,105	-	\$ 54,503	-	\$ 33,644	-	\$ 1,517	\$ 2,660	-	\$ 143,548
Reclass (net of retirement)	-	-	-	-	-	114	-	-	-	-	(114)	-	-	-	-	0
Expense - 2008	-	(62)	-	-	(64)	-	-	-	-	-	-	-	-	-	-	(126)
Retirement - 2008	-	-	-	-	-	-	-	-	-	-	(163)	-	-	-	-	(163)
Unidentified Difference	-	-	-	-	-	-	-	-	-	-	(77)	-	-	-	-	(77)
Totals	\$ 6,226	\$ 4,656	\$ 6,285	\$ 1,126	\$ 12,739	\$ 10,075	\$ 10,105	-	\$ 54,503	-	\$ 33,290	-	\$ 1,517	\$ 2,660	-	\$ 143,182
Per audit	\$ 6,226	\$ 4,656	\$ 6,285	\$ 1,126	\$ 12,739	\$ 10,075	\$ 10,105	-	\$ 54,503	-	\$ 33,290	-	\$ 1,517	\$ 2,660	-	\$ 143,182

Water - Accumulated Depreciation

Account Number	301	304	307	309	310	311	320	330	331	333	334	336	340	343	348	Total
Per Trial Balance	\$ 3,515	\$ 2,793	\$ 4,924	\$ 552	\$ 6,760	\$ 3,692	\$ 10,209	-	\$ 30,249	-	\$ 20,066	-	\$ 980	\$ 2,349	-	\$ 86,089
Reclass retirement	-	-	-	-	-	(342)	-	-	-	-	342	-	-	-	-	0
Adjust retirement - 2007	-	-	-	-	-	-	-	-	-	-	384	-	-	-	-	384
Unidentified Difference	(1)	47	10	(2)	63	(13)	1	-	16	-	(83)	-	27	(5)	-	59
Total	\$ 3,514	\$ 2,840	\$ 4,934	\$ 550	\$ 6,823	\$ 3,337	\$ 10,210	-	\$ 30,265	-	\$ 20,709	-	\$ 1,007	\$ 2,344	-	\$ 86,532
Per Audit	\$ 3,514	\$ 2,840	\$ 4,934	\$ 550	\$ 6,823	\$ 3,337	\$ 10,210	-	\$ 30,265	-	\$ 20,709	-	\$ 1,007	\$ 2,344	-	\$ 86,532

Wastewater - Plant in Service

Account Number	351	354	360	361	362	364	370	371	380	381	382	390	393	397	398	Total
Per Trial Balance	\$ 17,504	\$ 2,249	\$ 17,337	\$ 62,008	-	-	\$ 6,900	-	\$ 94,406	\$ 8,859	\$ 21,652	\$ 1,250	\$ 574	\$ -	\$ -	\$ 232,739
Retirements - depreciated plant	-	-	-	-	-	-	-	-	-	(719.00)	-	-	-	-	-	(719.00)
Expensed - 2007 (net retirement)	-	-	-	-	-	-	144.16	-	-	-	-	-	-	-	-	144.16
Unidentified Difference	-	1	-	-	-	-	4	-	-	-	-	-	-	-	-	5
Total	\$ 17,504	\$ 2,250	\$ 17,337	\$ 62,008	-	-	\$ 7,048	-	\$ 94,406	\$ 8,139	\$ 21,652	\$ 1,250	\$ 574	-	-	\$ 232,169
Per audit	\$ 17,504	\$ 2,250	\$ 17,337	\$ 62,008	-	-	\$ 7,048	-	\$ 94,406	\$ 8,139	\$ 21,652	\$ 1,250	\$ 574	-	-	\$ 232,169

Wastewater - Accumulated Depreciation

Account Number	351	354	360	361	362	364	370	371	380	381	382	390	393	397	398	Total
Per Trial Balance	\$ 9,891	\$ 779	\$ 10,972	\$ 27,438	-	-	\$ 1,516	-	\$ 89,714	\$ 5,709	\$ 16,484	\$ 1,250	\$ 550	-	-	\$ 164,303
Retirement - 2003	-	-	-	-	-	-	-	-	-	(976)	-	-	-	-	-	(976)
Retirement - 2004	-	-	-	-	-	-	-	-	-	(192)	-	-	-	-	-	(192)
Depreciation on retired plant	-	-	-	-	-	-	-	-	-	(133)	-	-	-	-	-	(133)
Retirement - 2007	-	-	-	-	-	-	(432)	-	-	-	-	-	-	-	-	(432)
Unidentified Difference	11	24	16	4	-	-	14	-	-	2	6	-	(34)	-	-	43
Total	\$ 9,902	\$ 803	\$ 10,988	\$ 27,442	-	-	\$ 1,097	-	\$ 89,714	\$ 4,410	\$ 16,490	\$ 1,250	\$ 516	-	-	\$ 162,613
Per Audit	\$ 9,902	\$ 803	\$ 10,988	\$ 27,442	-	-	\$ 1,097	-	\$ 89,714	\$ 4,410	\$ 16,490	\$ 1,250	\$ 516	-	-	\$ 162,613

AUDIT FINDING NO. 2

SUBJECT: ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

AUDIT ANALYSIS: The company's trial balance reflects Accumulated Depreciation balances of \$86,089 and \$164,303 for water and wastewater, respectively, for calendar year ended december 31, 2008.

Based on our adjustments and findings, the company's accumulated depreciation balances are \$86,532 and \$162,613 for water and wastewater, respectively, as of December 31, 2008.

We calculated depreciation expense and compiled accumulated depreciation accruals since the last rate case proceeding through the test year to determine the company's accumulated depreciation balance as of December 31, 2008. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. We depreciated the plant in service asset balances we compiled above using the depreciation rates prescribed in Commission rules.³

We calculated depreciation expense of \$5,580 and \$4,046 for the 12-month period ended December 31, 2008.

Our adjustments to accumulated depreciation are shown on the previous schedule.

EFFECT ON THE FILING: The company's accumulated depreciation balances should be \$86,532 and \$162,613 for water and wastewater, respectively, as of December 31, 2008. Depreciation expense should be \$5,580 and \$4,046 for water and wastewater, respectively, for the 12-month period ending December 31, 2008.

EFFECT ON THE GENERAL LEDGER: Accumulated depreciation should be increased by \$443 and is decreased by \$1,690 for water and wastewater, respectively. Depreciation expense should be increased by \$108 and \$14, respectively.

³ See Rule 25-30.140 (1), Florida Administrative Code.

AUDIT FINDING NO. 3

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

AUDIT ANALYSIS: The company's trial balance reflects CIAC and accumulated amortization of CIAC balances of \$67,992 and \$42,088 for water and \$65,866 and \$36,524 for wastewater as of December 31, 2008.

The company's CIAC and accumulated amortization of CIAC balances should be \$67,992 and \$42,516 for water and \$65,866 and \$33,407 for wastewater as of December 31, 2008, based on our findings discussed below.

We compiled CIAC additions for the period January 2003 through December 2008 to determine the utility's CIAC balance as of December 31, 2008. We used information from the company's 2003-2007 annual reports, company customer service connection records and its authorized service availability tariff to determine the number of new customers connected and to calculate the annual additions to CIAC since the last rate case proceeding.

We compiled accumulated amortization of CIAC accruals for the period January 2003 through December 2008 to determine the utility's accumulated amortization of CIAC balance as of December 31, 2008. We amortized CIAC using the annual composite depreciation rate as prescribed in Commission rules.⁴

We determined that the difference between the company and audited amortization for water was due to slight differences in the rates used. The difference for wastewater was due to the fact that the company used a 4.2% rate for 2007 and 2008 while the audit used composite rates.

Additionally, we calculated a balance of \$2,651 and \$1,147 for amortization expense for the 12-month period ended December 31, 2008.

EFFECT ON THE FILING: The company's CIAC and accumulated amortization of CIAC balances should be \$67,992 and \$42,516 for water and \$65,866 and \$33,407 for wastewater, respectively, as of December 31, 2008. Test year amortization expense should be \$2,651 for water and \$1,147 for wastewater, respectively, for the test year ended December 31, 2008.

EFFECT ON THE GENERAL LEDGER: Accumulated amortization should be increased by \$428 for water and decreased by \$3,117 for wastewater. Amortization expense should be increased by \$143 for water and decreased by \$1,589 for wastewater for the 12-month period ended December 31, 2008.

⁴ See Rule 25-30.140 (9), Florida Administrative Code.

AUDIT FINDING NO. 4

SUBJECT: REVENUES

AUDIT ANALYSIS: The company provided water service to 276 residential and two general service customers and wastewater service to 98 residential and two general service customers during the 12-month period ended December 31, 2008. The utility revenues are \$50,213 for water and \$39,142 for wastewater service.

The utility recorded \$175 for residential wastewater revenue which should have been for general service.

EFFECT ON THE FILING: Residential wastewater revenues should be decreased by \$175 and general service wastewater revenues should be increased by \$175.

EFFECT ON THE GENERAL LEDGER: None

AUDIT FINDING NO. 5

SUBJECT: OPERATION AND MAINTENANCE EXPENSE

AUDIT ANALYSIS: The company's general ledger reflects an operation and maintenance expense balance of \$73,599 for water and \$33,515 for wastewater for the 12-month period ended December 31, 2008.

The company's operation and maintenance expense balances and our adjustments, by NARUC sub-account, are displayed on the following schedule.

The utility capitalized invoices that did not meet the criteria for capitalized plant, therefore O&M expenses should be increased by \$126.

The utility paid \$8,635 to clean and paint the water tank. Commission rule 25-30.433(8), Florida Administrative Code states that non-recurring should be amortized over five years. Therefore, \$6,908 should be removed from expense to reflect the amortization.

The filing fees for the SARC, \$1,000 for water and \$500 for wastewater, was not recorded by the utility. According to Commission policy, the fees should be amortized over four years. Therefore, O&M expense should be increased by \$250 for water and \$125 for wastewater.

A pump in well No. 2 had to be pulled and repaired and additional testing was needed. An invoice from River Greens Golf Course in the amount of \$475 for repairing the pump and taking the samples was not recorded. The utility recorded \$1,580 for the testing of the samples. In accordance with the Commission rule noted above the expense should be amortized over five years. Therefore, \$1,264 should be removed from expense to reflect the amortization.

Expenses for 2007 paid in 2008 in the amount of \$192 for water and \$385 for wastewater should be removed. Also, O&M expenses should be increased to reflect 2008 expenses paid in 2009 in the amount of \$1,172 for water and 1,117 for wastewater, respectively.

O&M expense in the amount of \$138 should be decreased for water and increased for wastewater to reflect allocated expenses.

Monthly expense for contract services, testing and operations, increased during the test year. O&M expense should be increased by \$209 and \$377 for water and wastewater, respectively, to annualize the current monthly rates.

O&M expense for wastewater should be decreased by \$1,223 because invoices were not provided.

Reclass \$470 from account 775 – Miscellaneous Expense to account 408 – Taxes Other Than Income.

O&M expense should be decreased by \$14 and \$89 for water and wastewater, respectively, to reconcile the company books to the audit expenses.

The company's working capital balance for rate base purposes is \$8,414 for water and \$4,138 for wastewater, which is calculated as one-eighth of the company's operation and maintenance expense balance for the test year.

EFFECT ON THE FILING: The company's operation and maintenance expense balance is \$67,314 for water and \$33,104 for wastewater for the 12-month period ended December 31, 2008.

EFFECT ON THE GENERAL LEDGER: Operation and maintenance expense should be decreased by \$6,284 for water and \$410 for wastewater, respectively.

-	-	-	-	-	-	-	-	-	-	(1,264)	-	-	-	-	-	-	(1,580)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250	250
-	-	75	-	-	-	-	-	-	(213)	-	-	-	-	-	-	-	(138)
-	-	-	-	-	-	-	-	-	-	-	475	-	-	-	-	-	475
-	-	-	-	-	-	-	-	-	-	(192)	-	-	-	-	-	-	(192)
-	-	254	-	378	-	-	-	-	-	-	212	328	-	-	-	-	1,172
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5)	(14)
-	-	-	-	-	-	-	-	-	-	-	-	209	-	-	-	-	209
\$ 6,900	\$ 6,665	\$ 3,353	\$ 87	\$ 4,027	\$ 219	931	1,055	\$1,125	\$ 2,790	\$ 2,714	\$ 6,420	\$ 3,000	\$ 2,138	\$ 1,173	\$ 126	\$ 420	\$ 67,315
\$ 6,900	\$ 6,665	\$ 3,353	\$ 87	\$ 4,027	\$ 219	\$ 931	\$ 1,055	\$1,125	\$ 2,790	\$ 2,714	\$ 6,420	\$ 3,000	\$ 2,138	\$ 1,173	\$ 126	\$ 420	\$ 67,315

Salaries	Employee	Purchased	Sludge	Office Expense				Contract Services				@ 28%				Total	
Officer	Benefits	Power	Removal	Chemicals	M&S	Telephone	Postage	Billing	Prof Fees	Testing	Other	Rents	Transp Exp	Insurance	Bank Chgs	Misc	765&775
703	704	715	711	718	720	720	720	730	731	735	736	740	750	755	770	765&775	
\$ 2,588	\$ 2,407	\$ 3,274	\$ 2,030	\$ 1,515	\$ 871	-	-	\$ 536	\$ 505	\$ 3,170	\$ 4,712	\$ 2,150	\$ 768	\$ 456	-	\$ 557	\$ 31,637
-	-	-	-	-	(502)	310	322	(130)	-	-	-	-	-	-	-	-	-
-	-	(75)	-	-	-	-	-	-	213	-	-	-	-	-	-	125	125
(188)	(185)	-	-	-	-	-	-	(31)	-	-	(100)	(50)	(55)	-	-	-	(1,223)
-	-	-	-	(142)	-	-	-	-	-	(243)	-	-	-	-	-	-	(385)
-	-	360	-	162	-	-	-	-	-	267	328	-	-	-	-	-	1,117
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(470)	(470)
-	-	-	-	-	-	-	-	-	-	168	209	-	-	-	-	-	377
\$ 2,400	\$ 2,222	\$ 3,560	\$ 2,030	\$ 1,535	\$ 360	310	322	\$ 375	\$ 718	\$ 3,362	\$ 5,069	\$ 2,100	\$ 713	\$ 456	-	\$ 212	\$ 33,104
\$ 2,400	\$ 2,222	\$ 3,560	\$ 2,030	\$ 1,535	\$ 360	\$ 310	\$ 322	\$ 375	\$ 718	\$ 3,362	\$ 5,069	\$ 2,100	\$ 713	\$ 456	-	\$ 212	\$ 33,104

AUDIT FINDING NO. 6

SUBJECT: TAXES OTHER THAN INCOME (TOTI)

AUDIT ANALYSIS: The company's general ledger reflects a TOTI tax balance of \$3,702 for water and \$2,194 for wastewater for the 12-month period ending December 31, 2008.

The company recorded an amount of \$470 in account 775 – Miscellaneous Expenses which we reclassified into the wastewater TOTI as shown on the preceding schedule. This was for a Department of Environmental Protection wastewater facility permit, issued September 8, 2004, which the company amortized over five years, so it will be fully amortized by September 8, 2009.

The company's TOTI tax expense should be \$3,702 for water and \$2,664 for wastewater for the 12-month period ending December 31, 2008.

EFFECT ON THE FILING: TOTI should be \$3,702 for water and \$2,664 for wastewater for the 12-month period ending December 31, 2008.

EFFECT ON THE GENERAL LEDGER: None

AUDIT FINDING NO. 7

SUBJECT: CAPITAL STRUCTURE

AUDIT ANALYSIS: The utility's capital structure consists of negative retained earnings of \$25,451, notes payable to associated company of \$87,251 and long term debt of \$16,386 payable to Highlands Independent Bank.

Provided for informational purposes only.

EFFECT ON THE FILING: None

EFFECT ON THE GENERAL LEDGER: None

FINDING NO. 8

SUBJECT: INFORMATION ON PROFORMA REQUEST

AUDIT ANALYSIS: The company requested that the following items be considered in this rate proceeding:

1. Rate case expense - \$1,644. SARC fee of \$1,500 to be amortized over four years is reflected in Audit Finding No. 5. The \$144 is for utility labor and supplies.
2. Wastewater Treatment permit - \$2,500. This permit is for five years and must be renewed by September 2014. The audit recommended expenses include \$470 for the amortization of the prior permit costing \$2,350.
3. Department of Environmental Protection – License fee for water.
4. Meter replacement program - \$8,750. The company plans to replace the fifty oldest meters in 2009 at \$175 each.

The above information is provided to the analyst for further consideration.

EXHIBIT 1

DAMON UTILITIES, INC.
 DOCKET: 080709 - WS
 RATE BASE - WATER
 AS OF DECEMBER 31, 2008

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/08	(b) AUDIT ADJUSTMENT REF	© AUDITED BALANCE @12/31/08
UTILITY PLANT IN SERVICE	143,548	(366) AF 1	143,182
LAND	0	0	0
PLANT HELD FOR FUTURE USE	0	0	0
CIAC	(67,992)	0	(67,992)
ACCUMULATED DEPRECIATION	(86,089)	(443) AF 2	(86,532)
AMORTIZATION-CIAC	42,088	428 AF 3	42,516
WORKING CAPITAL		8,414	8,414
PLANT MATERIAL & SUPPLIES	0	0	0
TOTAL	31,555	8,033	39,588

EXHIBIT 1

**DAMON UTILITIES, INC.
DOCKET: 080709 - WS
RATE BASE - WASTEWATER
AS OF DECEMBER 31, 2008**

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/08	(b) AUDIT ADJUSTMENT REF	(c) AUDITED BALANCE @12/31/08
UTILITY PLANT IN SERVICE	\$232,739	(\$570) AF 1	\$232,169
LAND	0	0	0
PLANT HELD FOR FUTURE USE		0	0
CIAC	(65,866)	0	(65,866)
ACCUMULATED DEPRECIATION	(164,303)	1,690 AF 2	(162,613)
AMORTIZATION-CIAC	36,524	(3,117) AF 3	33,407
WORKING CAPITAL		4,138	4,138
PLANT MATERIAL & SUPPLIES	0	0	0
TOTAL	\$39,094	\$2,141	\$41,235

Note: Working Capital based on 1/8 O&M Expense (33,104 / 8)

EXHIBIT 2

DAMON UTILITIES, INC.
DOCKET: 080709 - WS
NET OPERATING INCOME - WATER
AS OF DECEMBER 31, 2008

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/08	(b) AUDIT ADJUSTMENT REF	(c) AUDITED BALANCE @12/31/08
REVENUES	\$50,213	\$0	\$50,213
OPERATION & MAINTENANCE EXP	73,599	(6,284) AF 5	67,315
DEPRECIATION EXPENSE	5,472	108 AF 2	5,580
CIAC AMORTIZATION	(2,508)	(143) AF 3	(2,651)
TAXES OTHER THAN INCOME	3,702	0	3,702
OPERATING EXPENSE	80,265	(6,319)	73,946
NET OPERATING INCOME	(\$30,052)	\$6,319	(\$23,733)

EXHIBIT 2

DAMON UTILITIES, INC.
DOCKET: 080709 - WS
NET OPERATING INCOME - WASTEWATER
AS OF DECEMBER 31, 2008

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/08	(b) AUDIT ADJUSTMENT REF	(c) AUDITED BALANCE @12/31/08
REVENUES	\$39,142	\$0	\$39,142
OPERATION & MAINTENANCE EXP	33,515	(410) AF 5	33,104
DEPRECIATION EXPENSE	4,032	14 AF 2	4,046
CIAC AMORTIZATION	(2,736)	1,589 AF3	(1,147)
TAXES OTHER THAN INCOME	2,194	470 AF 6	2,664
OPERATING EXPENSE	37,005	1,663	38,668
NET OPERATING INCOME	\$2,137	(\$1,663)	\$475

EXHIBIT 3

**DAMON UTILITIES, INC.
DOCKET: 080709 - WS
CAPITAL STRUCTURE
AS OF DECEMBER 31, 2008**

DESCRIPTION	BALANCE PER BOOKS @ 12/31/08	AUDIT USTMENTS	COST RATE
COMMON EQUITY (A)	\$0	\$0	11.94%
Common Stock			
Paid in Capital			
Retained Earnings	(25,451)		
NOTES PAYABLE			
Highlands Independent Bank	16,386		5.00%
Associated Company	87,251		0.00%
River Greens Golf Club			
CUSTOMER DEPOSITS			
ITC			
OTHER			
TOTAL	\$78,186 =====	\$0 =====	

(A) Common Equity cannot be less than zero