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DATE: March 25, 2009
TO: Jared Deason, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance W
RE: Docket No: 080714-WS; Company Name: Hidden Valley d/b/a Orange Lake
Utilities; Audit Purpose: Staff-assisted Rate Case; Company Code: WS892;
Audit Control No: 09-015-1-1;

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

Mr. Gary Morse
Orange Lake Utilities
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

HIDDEN VALLEY SPE LLC
d/b/a ORANGE LAKE UTILITIES

STAFF ASSISTED RATE CASE

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 080714-WS
AUDIT CONTROL NO. 09-015-1-1

A handwritten signature in cursive script, appearing to read "Intesar Terkawi".

Intesar Terkawi, Audit Manager

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer".

Lynn M. Deamer, Audit Supervisor

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

March 20, 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. We have applied these procedures to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 2008, for Hidden Valley SPE LLC d/b/a Orange Lake Utilities. The audit schedules were prepared by the audit staff as part of our work in Docket No. 080714-WS.

This review 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

RATE BASE

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

1. We reconciled the beginning plant in service balance on the annual report to Order No. PSC-04-1270-PAA-WS, dated December 22, 2004. For years 2004 to 2007, we traced the annual reports additions and retirements by year to the utility's invoices, and general ledgers. We scheduled 2008 additions and retirements based on invoices and cancelled checks provided by the utility. Audit Finding No. 2 addresses the adjustment to the Utility Plant in Service balances.
2. We tested all plant in service additions for the following: date acquired, original cost, account number and appropriate retirements. We tested all retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds and cost of removal, and amount of gain or loss recorded in utility books after disposal.

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

We verified that the land is owned by the utility and that there have been no changes to the utility's cost of land since the last Order No. PSC-04-1270-PAA-WS, dated December 22, 2004.

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

1. We scheduled accumulated depreciation beginning and ending balances by UPIS sub-account. We reviewed the methodology for calculating annual depreciation expense accruals, the service lives used to determine the depreciation expense, and the methodology for accounting for retirements and adjustments. We calculated current period depreciation expense by account.
2. We recalculated the depreciation expense accruals in the utility's annual report. Audit Finding No. 3 addresses the depreciation expense and the accumulated depreciation balances.

- D. Objective – Contribution 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.

We reconciled the beginning CIAC balances in the utility’s annual reports to the Commission order. We read the utility’s authorized tariff to determine the type and the amount 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 of CIAC.

- E. Objective – Accumulated Amortization of CIAC and Amortization Expense:** To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of authorized depreciation rates.

We reconciled beginning balances in the utility’s annual reports to the Commission Order. We recalculated accumulated amortization accruals in the utility’s annual reports. We calculated the 2008 amortization expense and the accumulated amortization of CIAC as of December 31, 2008. Audit Finding No. 4 addresses the accumulated amortization of CIAC balances.

- F. Objective – Working Capital:** To determine that the utility’s working capital balance is properly calculated in compliance with Commission rules.

We calculated the utility’s working capital balance as of December 31, 2008, pursuant to Commission rule 25-30.433(2), Florida Administrative Code.

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

We traced the common equity and long-term debt to the parent general ledger. We calculated the weighted cost of common equity and long-term debt.

REVENUE AND EXPENSES:

- A. Objective – Revenue:** To verify that revenues earned from the utility property during the test year are recorded, 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 recalculated the revenue using the utility’s billing register. We tested the reasonableness of the utility revenues by multiplying average consumption times the number of customers. We tested a number of customers’ bills to verify that the utility is using the correct tariff rates. Audit Finding No. 5 addresses the revenue balances.

2. We recalculated the Regulatory Assessment Fee (RAF) based on the revenue that we calculated in the previous step.

B. Objective – Operation and Maintenance Expenses: To determine that operation and maintenance expenses are classified according to the Commission Rules and Uniform System of Accounts, that the amounts on the invoice agree with the general ledger, that the amounts are reasonable and prudent for ongoing utility operations, and that expenditures are recorded in the proper period.

We reviewed all of the Operation and Maintenance expense invoices for proper period, proper classification, whether non-utility related, nonrecurring, unreasonable or imprudent. Audit Finding No. 6 addresses the Operation and Maintenance Expense balances.

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

We tested all the invoices for Taxes Other Than Income incurred for the historical test year for the proper supporting documentation, proper amount, proper period, proper classification, whether non-utility related, nonrecurring, unreasonable or imprudent. Audit Finding No. 7 addresses the Taxes Other Than Income Expenses.

AUDIT FINDING NO. 1

SUBJECT: Books and Records

AUDIT ANALYSIS: Commission Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the National Association of Regulatory Commissioners' (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, states,

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto.

Hidden Valley's records are not maintained in accordance with the NARUC USOA. The audit staff used the utility's annual reports and invoices to compile balances of plant, accumulated depreciation, CIAC and accumulated amortization of CIAC because although the utility did provide a general ledger that included these balances, these balances did not agree to the annual report, nor were the additions on the general ledger traceable to the invoices because of commingling of NARUC accounts on the general ledger. The utility's Annual Reports should be representative of the books and records. The auditor was able to use the General Ledger for income and expenses. Documentation is not maintained at the utility's site.

The Commission should require the utility to maintain its books and records in compliance with the NARUC USOA.

AUDIT FINDING NO. 2

SUBJECT: Utility-Plant-in-Service

Audit Analysis: The utility's annual report indicates plant-in service for water and wastewater is \$587,230 and \$422,847, respectively, as of December 31, 2007. The 2008 annual report has not yet been issued.

Order No. PSC-04-1270-PAA-WS, dated December 22, 2004, established the beginning balances of the rate base as of December 31, 2004, based on an original cost study performed in connection with the original certificate filing.

In 2006, the utility replaced a water pump for \$5,875 but failed to record a retirement of \$4,406 ($\$5,875 * 0.75$). See Schedule C for more details.

In 2007, the utility failed to include water plant additions of \$42,918 and a retirement of \$12,750. The utility also failed to include wastewater plant additions of \$133,031. See Schedules C and D for more details.

In 2008, the audit staff included a water plant addition of \$3,193, and a retirement of \$1,045. The audit staff also included wastewater plant additions of \$10,982 and a retirement of \$1,151. See Schedules C and D for more details.

The audit staff did not include two invoices provided by the utility for plant additions in the year 2008.

1) An invoice from Wayne's Diversified Services, dated July 12, 2008 that represents a well demolition in the amount of \$28,720. This well was not included in the original cost study. If the well had been included in the original cost study, the cost of demolishing it would be considered as a cost of removal.

2) An invoice from Central Florida Fence Inc, dated April 30, 2008 for a fence that was installed for the Community Recreational Vehicles (RV), in the amount of \$5,500. This is considered a non-utility expense.

The audit staff determined water and wastewater plant-in-service to be \$615,140 and \$565,709 for water and wastewater, respectively, as of December 31, 2008.

See Schedules A, B, C, and D on the following pages for further details:

Schedule A – Finding No. 2

	Per Utility	Difference	Per Audit	
12/31/2004 Balance	\$526,487		\$526,487	
2005 Additions	\$0	\$0	\$0	
12/31/2005 Balance	\$526,487	\$0	\$526,487	
2006 Additions	\$60,742	(\$4,406)	\$56,336	See Schedule C
12/31/2006 Balance	\$587,229		\$582,823	
2007 Additions	\$0	\$30,168	\$30,168	See Schedule C
12/31/2007 Balance	\$587,229		\$612,991	
2008 Additions	\$0	\$2,148	\$2,148	See Schedule C
12/31/2008 Balance	\$587,229	\$27,910	\$615,139	

Note: Small differences can be attributed to rounding errors.

Schedule B – Finding 2

Wastewater Plant

Date	Per Utility		Per Audit	
12/31/2004 Balance	\$358,749		\$358,749	
2005 Additions	\$0	\$0	\$0	
12/31/2005 Balance	\$358,749		\$358,749	
2006 Additions	\$64,100	\$0	\$64,100	See Schedule D
12/31/2006 Balance	\$422,849		\$422,849	
2007 Additions	\$0	\$133,031	\$133,031	See Schedule D
12/31/2007 Balance	\$422,849		\$555,880	
2008 Additions	\$0	\$9,831	\$9,831	See Schedule D
12/31/2008 Balance	\$422,849	\$142,862	\$565,711	

Note: Small differences can be attributed to rounding errors.

Schedule C – Finding 2

<u>Date</u>	<u>Account</u>	<u>Vendor</u>	<u>Amount</u>	<u>Description</u>
5/15/2006	307 Wells and Excel Enginee		\$223.75	Senior engineer, Tech, clerical paytime for project review
4/14/2006	307 Wells and Excel Enginee		\$1,700.75	Well 3, Workpay for principal, Senior eng, Tech, Clerical
6/8/2006	307 Wells and Excel Enginee		\$769.76	Workpay for Senior engineer, Tech, Clerical for project review
7/17/2006	307 Wells and Excel Enginee		\$3,654.36	Paytime for senior engineer, tech, clerical for well #3
5/26/2006	307 Wells and Wayn's Divers		\$48,000.00	Complete Installation of the well
1/19/2006	307 Wells and Excel Enginee		\$518.40	WTF Operating manual for compliance
1/6/2006	311 Pumping I Wayn's Divers		\$5,875.00	Removing pump and replacing it with another pump
			<u>(\$4,406.00)</u>	Retirement \$5,875 * 0.75
Total 2006			\$56,336.02	
1/23/2007	307 Wells and Excel Enginee		\$121.25	Paytime Senior engineer, clerical project review & Coord.
2/14/2007	307 Wells and Excel Enginee		\$1,170.00	Well 3 Paytime Senior engineer, tech, for project review & Coord.
3/23/2007	307 Wells and CDR Excavati		\$17,000.00	Replacement and adding new valves
			-\$12,750.00	Retirement \$17,000 * 0.75
3/18/2007	307 Wells and Wayn's Divers		\$16,700.00	Install New ATS switch on generator system, new main disconnect
4/17/2007	307 Wells and Excel Enginee		\$926.82	WTF Well No. 3 permitting and construction coordination
3/23/2007	311 Pumping I CDR Excavati		<u>\$7,000.00</u>	Mapping water lines,
Total 2007			\$30,168.07	
3/27/2008	304 Structure : Central Florida		\$1,392.50	Install 82 feet of chain link fence, replacing an old fence
			-\$1,044.38	Ret rement \$1,392.50 * 0.75
7/24/2008	311 Pumping I Wayn's Divers		<u>\$1,800.00</u>	Part of \$4,210 Install new whitewater air compressor
Total 2008			\$2,148.12	

Schedule D – Finding 1

Date	Account	Vendor	Amount	Description
5/15/2006	380 Treatment & Disposal Equip	Excel Engineering	\$45.00	WWTF Improvements, construction phase
1/19/2006	380 Treatment & Disposal Equip	Excel Engineering	\$389.00	WWTF Improvements, construction phase and blue prints
3/8/2006	380 Treatment & Disposal Equip	Excel Engineering	\$88.75	Senior engineer, clerical paytime for project review and coord
3/8/2006	380 Treatment & Disposal Equip	Excel Engineering	\$355.75	WWTF Improvements, construction phase and mail contract to contractors
5/15/2006	380 Treatment & Disposal Equip	Excel Engineering	\$195.00	Senior engineer, clerical paytime for project review and coord
6/7/2006	380 Treatment & Disposal Equip	Excel Engineering	\$620.00	Workpay for principal, Senior engineer, Tech, Clerical for project review & coord
6/8/2006	380 Treatment & Disposal Equip	Excel Engineering	\$271.25	Workpay for Senior engineer, Tech, Clerical for project review & coord
8/11/2006	380 Treatment & Disposal Equip	Excel Engineering	\$95.33	Clerical work regarding penalty fee
7/17/2006	380 Treatment & Disposal Equip	Excel Engineering	\$101.25	Paytime for 2.25hrs clerical re- penalty fees
7/17/2006	380 Treatment & Disposal Equip	Excel Engineering	\$161.25	Paytime for senior engineer, clerical regarding project review and Coord.
10/11/2006	380 Treatment & Disposal Equip	Excel Engineering	\$77.50	Worktime for senior engineer and clerical for compliance issues
3/19/2006	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$61,700.00	Contract amount for WWTP expansion
Total 2006			\$64,100.08	
				Completion and certification of expansion to WWTP.
2/21/2007	380 Treatment & Disposal Equip	Wayn's Diversified Serv.	\$62,790.00	WWTF Improvements construction phase3
3/8/2007	380 Treatment & Disposal Equip	Excel Engineering	\$3,140.56	Paytime, paytime principal, engineer, tech.
1/23/2007	380 Treatment & Disposal Equip	Excel Engineering	\$350.00	WWTF Improvements construction phase
3/3/2007	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$1,850.00	Installed New pump in lift station
4/12/2007	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$2,400.00	Installed New pump and float in lift station
1/16/2007	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$62,500.00	WWTP Expansion
Total 2007			\$133,030.56	
1/22/2008	354 Structure & Improvement	Central Florida Fence Inc	\$3,200.00	Install 349 feet of wood fence
3/18/2008	354 Structure & Improvement	Central Florida Fence Inc	\$3,200.00	Install 349 feet of wood fence
3/27/2008	354 Structure & Improvement	Central Florida Fence Inc	\$637.00	Install commercial chain link fence.
7/13/2008	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$1,535.00	Install New main breaker/Replacement
			-\$1,151.25	Part of \$4,210 invoice Install new time clock on blower control panel
7/24/2008	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$210.00	Part of \$4210 invoice to install new pump in lift station
7/24/2008	380 Treatment & Disposal Equip	Wayn's Diversified Serv	\$2,200.00	station
Total 2008			\$9,830.75	

The effects of the audit staff's adjustments on accumulated depreciation and depreciation expense are discussed in Finding No. 3 that follows.

EFFECT ON GENERAL LEDGER: The following journal entry should be made to correct the utility's general ledger balances.

NARUC Acct. No.	Account Description	Debit	Credit
311	Pumping Equipment	\$4,394	
307	Wells and Springs	\$23,168	
304	Structure and Improvement	\$348	
380	Treatment & Disposal Equip.	\$135,825	
354	Structure and Improvement	\$7,037	
215	Retained Earning		\$190,124
108	Water Acc. Dep. Pumping Equip.	\$4,406	
108	Water Acc. Dep. Wells and Springs.	\$12,750	
108	Water Acc. Dep. Structure and Improv.	\$1,045	
108	Wwater Acc.Dep. Treatment&Disp. Equip.	\$1,151	

Calculation:

$$\$4,394 = \$7,000 + \$1,800 + (\$4,406 \text{ Retirement})$$

$$\$23,168 = \$35,918 + (\$12,750 \text{ Retirement})$$

$$\$348 = \$1,393 + (\$1,045 \text{ Retirement})$$

$$\$135,825 = \$133,031 + \$3,945 + (\$1,151 \text{ Retirement})$$

$$\$7,037 (\$3,200 + \$3,200 + \$637)$$

FINDING NO. 3

Subject: Accumulated Depreciation

Audit Analysis: The utility's 2007 annual report indicates the amount of accumulated depreciation is \$305,376 and \$306,707 for water and wastewater, respectively, as of December 31, 2007. There are no 2008 balances because the 2008 annual report has not yet been issued.

Order No. PSC-04-1270-PAA-WS, dated December 22, 2004, established the beginning balances of accumulated depreciation to be \$255,976 and \$274,715 for water and wastewater, respectively, as of December 31, 2004.

Rule 25-30.140, Florida Administrative Code, requires the use of prescribed service lives to depreciate water and wastewater utility-plant-in-service accounts.

The utility depreciated Account No. 336, Backflow Prevention Devices, using a service life of 25 years instead of 10 years as required in the rule mentioned above.

The utility depreciated Account No. 362, Special Collecting Structures, using a service life of 27 years instead of 37 years as required in the rule mentioned above.

Per Finding No. 2, the utility did not include all plant additions or retirements. We calculated depreciation expense and accumulated depreciation that reflects the Finding No. 2 plant additions and retirements.

We calculated the depreciation expense to be \$19,748 and \$28,136 for water and wastewater, respectively, for the 12-month period ended December 31, 2008. The audit staff calculated the accumulated depreciation to be \$309,413 and \$336,990 for water and wastewater, respectively, as of December 31, 2008. See Schedule E that follows for the audit staff calculation.

Schedule E – Finding No. 3

2008

Water Acct. No. & Name	Per Utility Dep Exp	Per Audit Dep. Expense	Dif. in Dep. Exp.	Per Utility Acc. Dep 12/31/2007	Per Audit Acc. Dep. 12/31/2008	Dif. in Acc. Dep Bal.
304 Structure& Improvement	\$0	\$119	\$119	\$2,414	\$1,488	(\$926)
307 Wells & Springs	\$0	\$10,875	\$10,875	\$81,348	\$79,903	(\$1,445)
309 Supply Mains	\$0	\$298	\$298	\$6,414	\$6,713	\$299
310 Power Generation	\$0	\$0	\$0	\$6,373	\$6,373	\$0
311 Pumping Equipment	\$0	\$1,669	\$1,669	\$15,834	\$14,223	(\$1,611)
320 Water Treatment Equip	\$0	\$0	\$0	\$57,720	\$57,720	\$0
330 Distribution & Reservoirs	\$0	\$3,119	\$3,119	\$67,014	\$70,133	\$3,119
331 Transmission & Distribution	\$0	\$1,699	\$1,699	\$36,522	\$38,221	\$1,699
333 Services	\$0	\$783	\$783	\$16,855	\$17,638	\$783
334 Meter & Meter Installation	\$0	\$1,005	\$1,005	\$6,530	\$7,534	\$1,004
335 Hydrants	\$0	\$181	\$181	\$3,888	\$4,069	\$181
336 Backflow Prevention Devices	\$0	\$0	\$0	\$4,463	\$5,398	\$935
Total			\$19,748	\$305,375	\$309,413	\$4,038
Wastewater Acct. & Name						
354 Structure & Improvement	\$0	\$198	\$198	\$1,458	\$1,656	\$198
360 Clllection Sewers - Force	\$0	\$89	\$89	\$1,918	\$2,008	\$90
361 Collection Sewer - Gravity	\$0	\$2,090	\$2,090	\$44,924	\$47,014	\$2,090
362 Special Collecting Structures	\$0	\$1,024	\$1,024	\$30,135	\$30,022	(\$113)
363 Services to Customers	\$0	\$1,567	\$1,567	\$33,711	\$35,278	\$1,567
371 Pumping Equip	\$0	\$0	\$0	\$29,209	\$29,209	\$0
380 Treatment & Disp. Equip.	\$0	\$23,169	\$23,169	\$165,351	\$191,804	\$26,453
Total		\$28,137	\$28,137	\$306,706	\$336,991	\$30,285

EFFECT ON GENERAL LEDGER: The following entries should be made to correct the depreciation expense and accumulated depreciation.

NARUC Acct. No.	Account Description	Debit	Credit
108	Acc/Dep-Structure & Improvement	\$926	
108	Acc/Dep-Wells and Springs	\$1,445	
108	Acc/Dep- Supply Mains		\$299
108	Acc/Dep- Pumping Equipment	\$1,611	
108	Acc/Dep- Distribution & Reservoirs		\$3,119
108	Acc/Dep- Transmission & Distribution		\$1,699
108	Acc/Dep- Services		\$783
108	Acc/Dep- Meter & Meter Installation		\$1,004
108	Acc/Dep Hydrants		\$181
108	Acc/Dep- Backflow Prevention Devices		\$935
108	Acc/Dep- Structure & Improvement		\$198
108	Acc/Dep. Cillection Sewers - Force		\$90
108	Acc/Dep. Collection Sewer - Gravity		\$2,090
108	Acc/Dep- Special Collecting Structures	\$113	
108	Acc/Dep-Services to Customers		\$1,567
108	Acc/Dep- Treatment & Disp. Equip.		\$26,453
403	Dep.Exp.- Structure& Improvement	\$119	
403	Dep.Exp.- Wells & Springs	\$10,875	
403	Dep. Exp.- Supply Mains	\$298	
403	Dep.Exp.- Pumping Equipment	\$1,669	
403	Dep.Exp.- Distribution & Reservoirs	\$3,119	
403	Dep. Exp.-Transmission & Distribution	\$1,699	
403	Dep. Exp.- Services	\$783	
403	Dep. Exp.- Meter & Meter Installation	\$1,005	
403	Dep. Exp.- Hydrants	\$181	
403	Dep-Exp. Structure & Improvement	\$198	
403	Dep.Exp.- Cillection Sewers - Force	\$89	
403	Dep.Exp.- Collection Sewer - Gravity	\$2,090	
403	Dep. Exp.- Special Collecting Structures	\$1,024	
403	Dep. Exp.-Services to Customers	\$1,567	
403	Dep. Exp.- Treatment & Disp. Equip.	\$23,169	

FINDING NO. 4

Subject: Accumulated Amortization of CIAC

Audit Analysis: The utility’s 2007 annual report indicates the amount of accumulated amortization of CIAC is \$61,729 and \$110,689 for water and wastewater, respectively, as of December 31, 2007. The 2008 annual report has not yet been issued.

Plant charged to Account 331- Transmission and Distribution Lines, Account 333- Services, Account 335 – Hydrants, Account 336 – Backflow Prevention Devices, Account 360 –Collection Sewer – Force, Account 361 – Collection Sewer – Gravity, Account 362 – Special Collecting Structures – manholes, and Account 363 – Services to Customers is contributed. The utility used the applicable depreciation rates to calculate Amortization of CIAC.

Per Audit Finding No. 3 the utility did not use the prescribed service lives required in Rule 25-30.140, Florida Administrative Code, to depreciate Account 336 – Backflow Prevention Devices, and wastewater Account 362 – Special Collecting Structures – Manholes.

The audit staff calculated the amortization expense, using the applicable depreciation rates, to be \$2,663 and \$4,770 for water and wastewater, respectively, for the 12-month period ended December 31, 2008. The audit staff calculated the accumulated amortization of CIAC to be \$65,119 and \$114,323 for water and wastewater, respectively, for the period ended December 31, 2008.

<u>Year</u>	<u>Average CIAC</u>	<u>Amort. Expense</u>	<u>Acc. Amort. of CIAC Per Audit</u>	<u>Adjustment</u>	<u>Acc. Amort. of CIAC Per Utility</u>
2004	\$107,789		\$53,118	\$0	\$53,118
2005	\$107,789	\$3,182	\$56,300	\$312	\$55,988
2006	\$107,789	\$3,182	\$59,482	\$624	\$58,858
2007	\$107,789	\$2,974	\$62,456	\$727	\$61,729
2008	\$107,789	\$2,663	\$65,119	\$3,390	\$61,729

Wastewater

<u>Year</u>	<u>Average CIAC</u>	<u>Amort. Expense</u>	<u>Acc. Amort. of CIAC Per Audit</u>	<u>Adjustment</u>	<u>Acc. Amort. of CIAC Per Utility</u>
2004	\$178,699		\$95,243	\$0	\$95,243
2005	\$178,699	\$4,770	\$100,013	(\$379)	\$100,392
2006	\$178,699	\$4,770	\$104,783	(\$758)	\$105,541
2007	\$178,699	\$4,770	\$109,553	(\$1,136)	\$110,689
2008	\$178,699	\$4,770	\$114,323	\$3,634	\$110,689

EFFECT ON GENERAL LEDGER: The following entry should be made to correct the

account balances.

NARUC			
Acct. No.	Account Description	Debit	Credit
272	Water Acc. Amort. Of CIAC		\$3,390
403	Water CIAC Amortization Expense	\$2,663	
272	Wwater Acc. Amort. Of CIAC		\$3,634
403	WWater CIAC Amortization Expense	\$4,770	
215	Retained Earning		\$409

Finding No. 5

Subject: Water and Wastewater Revenue

Audit Analysis: The utility's 2008 partial general ledger indicates the amount of revenue for water and wastewater is \$44,665 and \$46,291, for the 12-month period ended December 31, 2008.

The audit staff calculated the revenue of water and wastewater based on the billing register provided by the utility to be \$45,501 and \$46,651, for the 12-month period ended December 31, 2008. The water and wastewater revenue is understated by \$836 (\$45,501 - \$44,665) and \$360 (\$46,651 - \$46,291), respectively, for the 12-month period ended December 31, 2008.

EFFECT ON GENERAL LEDGER: The following entry should be made to correct the account balances.

NARUC Acct. No.	Account Description	Debit	Credit
400	Water Revenue		\$836
400	Wwater Revenue		\$359
215	Retained Earning	\$1,195	

Finding No. 6

Subject: Water and Wastewater Operation and Maintenance Expense (O & M)

Audit Analysis: The utility's 2008 partial general ledger indicates the amount of O&M expenses for water and wastewater is \$34,111 and \$60,336, as indicated below, for the 12-month period ended December 31, 2008.

Water O & M Expense			Wastewater O & M Expense		
Acct. No.	Account Description	Amount	Acct. No.	Account Description	Amount
601	Salaries & Wages-Employees	\$9,412	701	Salaries & Wages-Employees	\$9,412
604	Employee Pensions & Benefits	\$1,870	704	Employee Pensions & Benefits	\$1,870
615	Purchased Power	\$156	711	Sludge Removal Expense	\$17,118
618	Chemicals	\$2,653	715	Purchased Power	\$10,987
620	Materials and Supplies	\$377	718	Chemicals	\$8,331
631	Contractual Services - Engineering	\$5,087	720	Materials and Supplies	\$171
635	Contractual Services - Testing	\$13,408	731	Contractual Services - Professional	\$2,044
636	Contractual Services - Billing	\$1,046	735	Contractual Services - Testing	\$10,279
665	Regulatory Commission Expense	\$0	765	Regulatory Commission Expense	\$0
675	Miscellaneous Expense	\$123	775	Miscellaneous Expense	\$124
		\$34,111			\$60,336

The utility's water and wastewater O&M expenses are understated by \$7,653 and overstated by \$692, respectively for the 12-month period ended December 31, 2008, based on the following audit staff determinations.

- 1) Account No. 615, Purchased Power is understated by \$5,229 (\$5,291 - \$62) based on the audit staff's review of all vendor invoices for the year 2008. The utility did not include in the general ledger all twelve months electric bills from Progress Energy for the water generator which equals \$5,291. Also, the utility overstated the gas bills from Lake Apopka Natural Gas District by \$62.
- 2) Account No. 636 Contractual Services – Other, is understated by \$2,232 (\$186 * 12) based on the audit staff's review of all vendor invoices for the year 2008. The utility did not include the invoices from FewTek, Inc. that represents the meter reading service, for each month of \$186.
- 3) Account Nos. 665 and 775 Regulatory Commission Expense, are each understated by \$153 and \$154, respectively. The utility did not include in the general ledger the itemization of an invoice from Excel Engineering in the amount of \$1,536 that represents preparation of Florida Public Service Commission rate case. ($\$1,536/4 \text{ years} = \384) / 2 = \$192 each for water and wastewater.
- 4) Account No. 715 Purchased Power is overstated by \$884. The utility included the late payment penalty in the amount of \$18, and doubled booked an invoice amount of \$866 for the electric invoices from Progress Energy \$884 (\$866 + \$18).

Item No.	Water (\$)	W/Water (\$)
1	\$5,229.00	
2	\$2,232.00	
3	\$192.00	\$192.00
4		(\$884.00)
Total		
Adjustment	\$7,653.00	(\$692.00)

The audit staff calculated the working capital to be \$5,220 for water (\$41,764, the total water O&M by audit, * 1/8), and \$7,456 for wastewater (\$59,644, the total wastewater O & M by audit, * 1/8).

EFFECT ON GENERAL LEDGER: The following entry should be made to correct the account balances.

NARUC		Debit	Credit
Acct. No.	Account Description		
615	Purchased Power	\$5,229	
636	Contractual Services - Other	\$2,232	
665	Regulatory Commission Exp	\$192	
715	Purchased Power		\$884
215	Retained Earning		\$6,961
765	Regulatory Commission Exp	\$192	

FINDING NO. 7

Subject: Taxes Other Than Income

Audit Analysis: The utility's 2008 partial general ledger indicates the amount of Taxes Other Than Income for water and wastewater is \$2,890 and \$2,828, as indicated below, for the 12-month period ended December 31, 2008.

	Water	W/Water
Property Taxes	\$0	\$0
FICA	\$878	\$878
RAF	\$2,012	\$1,950
	<u>\$2,890</u>	<u>\$2,828</u>

The utility's water and wastewater Taxes Other Than Income are understated by \$702 and \$2,189 for water and wastewater respectively, for the 12-month period ended December 31, 2008 based on the following audit staff determination:

- 1) The audit staff calculated the property taxes to be \$824 and \$2,197 for water and wastewater for the 12-month period ended December 31, 2008. The audit staff calculated the property taxes based on the tax bill provided by the utility. The property tax bill covers the property that measures 38.4 acres. The water utility sits on 0.33 acres, and the wastewater utility sits on 0.88 acres of the whole 38.4 acres. The total property tax amount of 38.4 acres is \$95,888. [$\$824 = (\$95,888 * 0.33/38.4)$, and $\$2,197 = (\$95,888 * 0.88/38.4)$]. No consideration for the assessed values of the structures on the property were considered because the information was not available.
- 2) The utility included in the 2008 General ledger the 2007 RAF return amount. The audit staff calculated the 2008 RAF amount based on the calculated revenue, see Finding No.4, to be \$2,048 ($\$45,501 * 4.5\%$), and \$2,099 ($\$46,651 * 4.5\%$).
- 3) The audit staff recalculated the FICA to be \$720 each for Water and Wastewater, for the 12-month period ended December 31, 2008. The total payroll of $\$18,824 * (6.2\% \text{ Social Security Rate plus } 1.45\% \text{ Medicare Rate})$ equals $\$1,440/2 = \720 .

Item No.	Water (\$)	W/Water (\$)
1	\$824.00	\$2,197.00
2	(\$158.00)	(\$158.00)
3	\$36.00	\$149.00
Total Adjustment	\$702.00	\$2,188.00

Calculation:
 \$158 ($\$720 - \878)
 \$36 ($\$2,048 - \$2,012$)
 \$149 ($\$2,099 - \$1,950$)

EFFECT ON GENERAL LEDGER: The following entries should be made to correct the Account balances

NARUC			
Acct. No.	Account Description	Debit	Credit
408	Water Property Taxes		\$824
408	Wwater Property Taxes	\$2,197	
408	Water RAF		\$36
408	Wwater RAF	\$149	
409	Water FICA		\$158
409	Wwater FICA		\$158
215	Retained Earning		\$2,890

EXHIBIT I

**HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITY
DOCKET NO. 080714-WS
WATER RATE BASE
HISTORICAL PERIOD ENDED DECEMBER 31, 2008**

<u>DESCRIPTION</u>	<u>PER UTILITY</u>	<u>ADJUSTMENT</u>	<u>REFER TO</u>	<u>PER AUDIT</u>
UTILITY PLANT IN SERVICE	\$587,230	\$27,910	F 2	\$615,140
LAND AND LAND RIGHTS	\$4,600	\$0		\$4,600
CONTRIBUTION IN-AID-OF- CONSTRUCTION (CIAC)	(\$107,789)	\$0		(\$107,789)
ACCUMULATED DEPRECIATION	(\$305,376)	(\$4,037)	F 3	(\$309,413)
ACCUMULATED AMORTIZATION OF CIAC	\$61,729	\$3,390	F 4	\$65,119
WORKING CAPITAL	\$0	\$5,220	F 6	\$5,220
TOTAL	\$240,394	\$32,483		\$272,877

EXHIBIT II

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITY
DOCKET NO. 080714-WS
WASTEWATER RATE BASE
HISTORICAL PERIOD ENDED DECEMBER 31, 2008

DESCRIPTION	PER UTILITY ADJUSTMENT REFER TO PER AUDIT			
UTILITY PLANT IN SERVICE	\$422,847	\$142,862	F 2	\$565,709
LAND AND LAND RIGHTS	\$3,750	\$0		\$3,750
CONTRIBUTION IN-AID-OF- CONSTRUCTION (CIAC)	(\$178,699)	\$0		(\$178,699)
ACCUMULATED DEPRECIATION	(\$306,707)	(\$30,283)	F3	(\$336,990)
ACCUMULATED AMORTIZATION	\$110,639	\$3,634	F 4	\$114,323
WORKING CAPITAL	\$0	\$7,456	F 6	\$7,456
TOTAL	\$51,880	\$123,669		\$175,549

EXHIBIT III

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITY
 DOCKET NO. 080714-WS
 WATER NET OPERATING INCOME
 HISTORICAL PERIOD ENDED DECEMBER 31, 2008

DESCRIPTION	PER UTILIT	ADJUSTMENT	REFER TO	PER AUDIT
OPERATING REVENUES	\$44,665	\$836	F 5	\$45,501
OPERATING EXPENSES:				
O & M EXPENSE	\$34,111	\$7,653	F 6	\$41,764
DEPRECIATION EXPENSE	\$0	\$19,748	F 3	\$19,748
CIAC AMORTIZATION	\$0	\$2,663	F 4	\$2,663
TAXES OTHER THAN INCOME	\$2,890	\$702	F 7	\$3,592
TOTAL OPERATING EXPENSES	\$37,001	\$30,766		\$67,767
NET OPERATING INCOME (LOSS)	\$7,664	(\$29,930)		(\$22,266)

EXHIBIT IV

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITY
 DOCKET NO. 080714-WS
 WASTEWATER NET OPERATING INCOME
 HISTORICAL PERIOD ENDED DECEMBER 31, 2008

DESCRIPTION	PER UTILITY	ADJUSTMENT	REFER TO	PER AUDIT
OPERATING REVENUES	\$46,291	\$360	F 5	\$46,651
OPERATING EXPENSES:				
O & M EXPENSE	\$60,336	(\$692)	F 6	\$59,644
DEPRECIATION EXPENSE	\$0	\$28,136	F 3	\$28,136
CIAC AMORTIZATION	\$0	\$4,770	F 4	\$4,770
TAXES OTHER THAN INCOME	\$2,828	\$2,189	F 7	\$5,017
TOTAL OPERATING EXPENSES	\$63,164	\$34,403		\$97,567
NET OPERATING INCOME (LOSS)	(\$16,873)	(\$34,043)		(\$50,916)

EXHIBIT V

**HOMETOWN AMERICA (HIDDEN VALLEY d/b/a ORANGE LAKE UTILITY)
CONSOLIDATED CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 2008**

Capital Component	Per Company	Ratio	Cost	Weighted Cost
COMMON EQUITY	\$1,292,779,443	42.43%	12.67%	5.38%
LONG TERM DEBT	\$1,753,785,919	57.57%	5.51%	3.17%
TOTAL DEBT AND EQUITY	\$3,046,565,362	100.00%		8.55%

Common Equity cost rate is per Commission Order PSC-08-0846-FOF-WS, issued December 31, 2008