



# 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:** December 17, 2009

**TO:** Bart Fletcher, Public Utilities Supervisor, Division of Economic Regulation

**FROM:** Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DNM*

**RE:** Docket No.: 090381-SU  
 Company Name: Utilities, Inc. of Longwood  
 Company Code: SU761  
 Audit Purpose: Rate Case  
 Audit Control No: 09-280-4-1

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 Commission Clerk. There are confidential work papers associated with this audit.

DNM/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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FLORIDA PUBLIC SERVICE COMMISSION  
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING  
*Miami District Office*

UTILITIES, INC. OF LONGWOOD  
RATE CASE

AS OF DECEMBER 31, 2008

DOCKET NO. 090381-SU  
AUDIT CONTROL NO. 09-280-4-1

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DOCUMENT NUMBER-DATE

12077 DEC 18 8

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**December 11, 2009**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

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 the attached schedules which were prepared by Utilities, Inc. of Longwood in support of its filing for rate relief in Docket No. 090381-SU.

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

### RATE BASE

#### General

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

*Procedures:* We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2007 and 2008 and verified that adjustments required in Order No. 960448-FOF-SU, were recorded.

#### Utility-Plant-in-Service

*Objective:* To determine that property exists and is owned by the utility. To determine that additions to plant 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 plant were made when a replacement item was put in service.

*Procedures:* We sampled plant additions for the period January 1, 1996 through December 31, 2008 for compliance with the stated objectives above. We verified whether the utility properly recorded retirements to plant when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were properly recorded. We sampled construction project additions and the corresponding source documentation. We verified that the utility used Commission approved AFUDC rates. We tested the allocations of plant allocated from both the Illinois and Florida headquarters and tested the additions made since the 2007 headquarters audit.

#### Land and Land Rights

*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 land since its last rate proceeding by searching the county's public records.

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

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

*Procedures:* We sampled CIAC additions for the period January 1, 1996 through December 31, 2008 for compliance with the stated objectives above. We reviewed developer agreements for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory to look for new developments that may have included contributed property.

### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

*Procedures:* We traced the accumulated depreciation schedules to the corresponding plant schedules. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified whether the utility properly recorded retirements to accumulated depreciation when the corresponding plant was removed or replaced. We recalculated a sample of accumulated depreciation account balances from January 1, 1996 to December 31, 2008. We tested the allocations of accumulated depreciation allocated from both the Illinois and Florida headquarters and tested the additions made since the 2007 headquarters audit.

### Accumulated Amortization of CIAC

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

*Procedures:* We traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified that the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. We recalculated a sample of accumulated amortization of CIAC account balances from January 1, 1996 to 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 recalculated the utility's working capital calculation.

## **NET OPERATING INCOME**

### General

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

*Procedures:* We reconciled the individual components of net operating income to the utility's general ledger for the 12-month period ended December 31, 2008.

### Revenues

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

*Procedures:* We traced revenues to the utility's general ledger and we reconciled the billing summaries to the utility's revenue reports. We recalculated bills to make sure they were billed in accordance with the tariff.

#### Operation and Maintenance Expenses (O&M)

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

*Procedures:* We sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives are met. We reviewed the allocations of both Illinois and Florida headquarters expenses and sampled the expenses charged through the allocations.

#### Taxes-Other-Than-Income (TOTI)

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

*Procedures:* We obtained the regulatory assessment fee (RAF) filings and reconciled them to the general ledger. We obtained the property tax bills for review. We determined if the amount booked reflects the discount amount.

#### Depreciation Expense

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

*Procedures:* We recalculated a sample of depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense.

## **CAPITAL STRUCTURE**

### General

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

*Procedures:* We reconciled the following individual component capital structure balances to the parent company general ledger as of December 31, 2008. We verified debt to the notes and short term debt to bank statements.

### Accumulated Deferred Income Taxes

*Objective:* To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

*Procedures:* Recalculated a sample of deferred tax balances for the period using Commission authorized rates and federal tax rates.



**AUDIT FINDING NO. 1**

**SUBJECT: ACQUISITION ADJUSTMENT CORRECTING ENTRIES**

**AUDIT ANALYSIS:** In 1995, the utility booked the acquisition of Utilities Inc. of Longwood prior to the issuance of Commission Order PSC-96-0448-FOF-SU that transferred and established rate base. The difference between what the utility booked and what was ordered was \$246,864. In 2005, the utility finally booked an acquisition adjustment to remove the overstatement. The utility stated that:

“... since plant was overstated at acquisition, there are no records showing in what accounts overstatement occurred. Therefore, plant was removed based on a ratio of each depreciable plant account booked at acquisition to total depreciable plant booked at acquisition, applied to the \$246,864 total overstatement.”

The following adjustments are the ones booked by the utility to correct the acquisition booked in 1995.

Correcting Entries Per Utility

<u>Account</u>	<u>Description</u>	<u>Credit</u>
3547003	Buildings & Structures	72,218
3804005	Sewage Treatment Plant	51,012
3602006	Sewage Service Lines	9,735
3602007	Force or Vacuum Mains	6,665
3612008	Sewer Mains	83,157
3612010	Manholes	17,847
3907091	Office Furniture & Equipment	1,054
3967097	Communication Equipment	1,176
3804005	Sewage Treatment Plant	4,002
	Total	<u>246,864</u>

Through our analysis of the transfer audit work papers and the acquisition file furnished by the utility, we were able to discern where the utility should have booked the acquisition of Longwood.

UTILITIES INC. OF LONGWOOD  
 COMPARISON OF LAST AUDIT AND ORDER TO AMOUNT BOOKED BY UTILITY  
 TEST YEAR ENDED DECEMBER 31, 2008

NARUC		BALANCE	BOOKED	ADJUSTMENTS	ADJUSTED	
ACCOUNT	DESCRIPTION	PRIOR AUDIT	BY	BY	TRANSFER ENTRY	DIFFERENCE
		WORKPAPERS	LONGWOOD	LONGWOOD	BY LONGWOOD	
351	ORGANIZATION	200.00			0.00	200.00
353	LAND	228,560.00	228,560.00		228,560.00	0.00
354	LIFT STATIONS	296,840.00			0.00	296,840.00
354	STRUCT AND IMPROV.	463,717.00	756,696.00	(72,217.60)	684,478.40	(220,761.40)
360	COLLECTION FORCE		69,837.00	(6,665.11)	63,171.89	(63,171.89)
361	COLLECTION GRAVITY	965,943.00	871,315.00	(83,156.61)	788,158.39	177,784.61
363	SERVICES	43,847.00	102,000.00	(9,735)	92,265.32	(48,418.32)
	MANHOLES		187,000.00	(17,846.92)	169,153.08	(169,153.08)
370	RECEIVING WELLS	5,734.00			0.00	5,734.00
371	PUMPING EQ.	70,785.00	119,359.00		119,359.00	(48,574.00)
380	T & D EQUIPMENT	342,081.00	415,140.00	(55,013.17)	360,126.83	(18,045.83)
380	LAGOON	124,370.00			0.00	124,370.00
390	OFFICE/TRANSP EQ	8,022.00	11,043.00	(1,053.92)	9,989.08	(1,967.08)
391	TRANSPORTATIN EQUIPMENT				0.00	0.00
394	LAB EQUIPMENT	2,196.00			0.00	2,196.00
	COMMUNICATION EQUIPMENT		12,322.00	(1,175.99)	11,146.01	(11,146.01)
397	OTHER GENERAL EQUIP.	14,931.00			0.00	14,931.00
398	MISCELLANEOUS	1,111.00			0.00	1,111.00
	CONSTRUCTION WORK IN PROCESS		41,929.00		41,929.00	(41,929.00)
		<u>2,568,337.00</u>	<u>2,815,201.00</u>	<u>(246,864.00)</u>	<u>2,568,337.00</u>	<u>(0.00)</u>
	PER ORDER					
	LAND	228,560.00				
	PLANT	<u>2,339,777.00</u>				
	TOTAL PER ORDER	<u>2,568,337.00</u>				
	DIFFERENCE	<u>0.00</u>				

UTILITIES INC. OF LONGWOOD  
DEPRECIATION ON DIFFERENCES  
TEST YEAR ENDED DECEMBER 31, 2008

NARUC ACCOUNT DESCRIPTION	DIFFERENCE	DEPRECIATION RATES	DEPREC. EXPENSE	YEARS	ACC. DEPREC.
351 ORGANIZATION	200.00	2.50%	5.00	14.50	(72.50)
353 LAND	0.00				
354 LIFT STATIONS	296,840.00	4.00%	11,873.60	14.50	(172,167.20)
354 STRUCT AND IMPROV.	(220,761.40)	3.13%	(6,898.79)	14.50	100,032.51
360 COLLECTION FORCE	(63,171.89)	3.33%	(2,105.73)	14.50	30,533.08
361 COLLECTION GRAVITY	177,784.61	2.22%	3,950.77	14.50	(57,286.15)
363 SERVICES	(48,418.32)	2.63%	(1,274.17)	14.50	18,475.41
361 MANHOLES	(169,153.08)	3.33%	(5,638.44)	14.50	81,757.32
370 RECEIVING WELLS	5,734.00	3.33%	191.13	14.50	(2,771.43)
371 PUMPING EQ.	(48,574.00)	5.56%	(2,698.56)	14.50	39,129.06
380 T & D EQUIPMENT	(18,045.83)	5.56%	(1,002.55)	14.50	14,536.92
380 LAGOON	124,370.00	5.56%	6,909.44	14.50	(100,186.94)
390 OFFICE/TRANSP EQ	(1,967.08)	6.67%	(131.14)	14.50	1,901.51
391 TRANSPORTATION EQUIPMENT	0.00	16.67%	0.00	14.50	0.00
394 LAB EQUIPMENT	2,196.00	6.67%	146.40	14.50	(2,122.80)
396 COMMUNICATION EQUIPMENT	(11,146.01)	10.00%	(1,114.60)	14.50	16,161.72
397 OTHER GENERAL EQUIP.	14,931.00	6.67%	995.40	14.50	(14,433.30)
398 MISCELLANEOUS	1,111.00	10.00%	111.10	14.50	(1,610.95)
CONSTRUCTION WORK IN PROCESS	(41,929.00)				
	(0.00)		3,318.88		(48,123.76)

**EFFECT ON THE GENERAL LEDGER:** The following reclass entries are required on the general ledger.

**NARUC**

<b>ACCOUNT</b>	<b>DESCRIPTION</b>	<b>Debit</b>	<b>Credit</b>
351	ORGANIZATION	200.00	
354	LIFT STATIONS	296,840.00	
354	STRUCT AND IMPROV.		(220,761.40)
360	COLLECTION FORCE		(63,171.89)
361	COLLECTION GRAVITY	177,784.61	
363	SERVICES		(48,418.32)
360	MANHOLES		(169,153.08)
370	RECEIVING WELLS	5,734.00	
371	PUMPING EQ.		(48,574.00)
380	T & D EQUIPMENT		(18,045.83)
380	LAGOON	124,370.00	
390	OFFICE/TRANSP EQ		(1,967.08)
394	LAB EQUIPMENT	2,196.00	
396	COMMUNICATION EQUIPMENT		(11,146.01)
397	OTHER GENERAL EQUIP.	14,931.00	
398	MISCELLANEOUS	1,111.00	
107	CONSTRUCTION WORK IN PROCESS		(41,929.00)
403	ORGANIZATION AMORTIZ.. EXP.	5.00	
403	LIFT STATIONS DEP. EXP.	11,873.60	
403	STRUCT AND IMPROV. DEP. EXP.		(6,898.79)
403	COLLECTION FORCE DEP. EXP.		(2,105.73)
403	COLLECTION GRAVITY DEP. EXP.	3,950.77	
403	SERVICES DEP. EXP.		(1,274.17)
403	MANHOLES DEP. EXP.		(5,638.44)
403	RECEIVING WELLS DEP. EXP.	191.13	
403	PUMPING EQ. DEP. EXP.		(2,698.56)
403	T & D EQUIPMENT DEP. EXP.		(1,002.55)
403	LAGOON DEP. EXP.	6,909.44	
403	OFFICE/TRANSP EQ DEP. EXP.		(131.14)
403	LAB EQUIPMENT DEP. EXP.	146.40	
403	COMMUNICATION EQ. DEP. EXP.		(1,114.60)
403	OTHER GENERAL EQUIP. DEP. EXP.	995.40	
403	MISCELLANEOUS DEP. EXP.	111.10	
108	ORGANIZATION ACC. DEP.		(72.50)
108	LIFT STATIONS ACC. DEP.		(172,167.20)
108	STRUCT AND IMPROV. ACC. DEP.	100,032.51	
108	COLLECTION FORCE ACC. DEP.	30,533.08	
108	COLLECTION GRAVITY ACC. DEP.		(57,286.15)
108	SERVICES ACC. DEP.	18,475.41	
108	MANHOLES ACC. DEP.	81,757.32	
108	RECEIVING WELLS ACC. DEP.		(2,771.43)
108	PUMPING EQ. ACC. DEP.	39,129.06	
108	T & D EQUIPMENT ACC. DEP.	14,536.92	
108	LAGOON ACC. DEP.		(100,186.94)
108	OFFICE/TRANSP EQ ACC. DEP.	1,901.51	
108	LAB EQUIPMENT ACC. DEP.		(2,122.80)
108	COMMUNICATION EQ. ACC. DEP.	16,161.72	
108	OTHER GENERAL EQUIP. ACC. DEP.		(14,433.30)
108	MISCELLANEOUS ACC. DEP.		(1,610.96)
215	RETAINED EARNINGS	44,804.88	
		<u>994,681.87</u>	<u>(994,681.87)</u>

**EFFECT ON THE FILING:** Depreciation expense should be increased by \$3,318.88.  
Average accumulated depreciation should be increased by \$46,464.32  
(( $\$48,123.76 + \$44,804.88$ )/2).

**AUDIT FINDING NO. 2**

**SUBJECT: UNSUPPORTED PLANT PROFORMA**

**AUDIT ANALYSIS:** The Utility included Pro Forma plant additions of \$370,000 to be constructed by December 2010.

<b>Pro Froma Description</b>	<b>Amount</b>
Manhole Rehabilitation at Township Plaza	\$ 70,000
I&I Investigation Longwood Grove Subdivision	\$ 100,000
Correct Deficiencies Identified In Longwood Grove I&I Study	<u>\$ 200,000</u>
<b>Total</b>	<b>\$ 370,000</b>

The Utility supplied proposals for the Manhole Rehabilitation dating as far back as December 20, 2006. The Utility has supplied support for professional engineering services and construction of \$57,756 (\$11,500 + \$46,156) but no contracts were provided.

The utility supplied a contract in the amount of \$17,658 for the cost to perform the I&I investigation on Longwood Grove subdivision; however, the Company has included \$100,000 for the study and an additional \$200,000 to correct the deficiencies. The company has not completed the investigation, thus making the cost to correct deficiencies unknown and immeasurable.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the general ledger.

**EFFECT ON THE FILING:** This finding is for informational purposes only.

**AUDIT FINDING NO. 3**

**SUBJECT: PLANT SAMPLE**

**AUDIT ANALYSIS:** A sample of entries were selected from the Longwood ledger to be traced to supporting documentation. The following entries are being removed because the utility was unable to provide them or provide sufficient support; the entries should have been expensed, or are associated with an affiliated company.

Account	Year	JDE	Description	Amount	Dep. Rate	Annual Dep. Exp.	Years In Service	Total Depreciation
351	199 5	124 5	20716*10333*MCWHIRTER, G	\$ 4,669	2.50%	\$ 117	12.5	\$ 1,459
351	199 5	124 5	PRELIM .SUR . 9/30 G	\$ 490	2.50%	\$ 12	12.5	\$ 153
351	199 6	124 5	PREL.SUR.4 /30/96 G	\$ 3,260	2.50%	\$ 82	11.5	\$ 937
354	199 9	129 5	10212*1311 3*C & A SY A	\$ 4,869	4.00%	\$ 195	8.5	\$ 1,655
354	199 7	129 5	R61860 *07302*ELLIS K G	\$ 1,083	4.00%	\$ 43	11.5	\$ 498
354	200 2	129 5	96653*1535 0*F LOR IDA G	\$ 2,968	4.00%	\$ 119	5.5	\$ 653
354	200 4	129 5	R63747 *10372*SUN SHIN G	\$ 2,071	4.00%	\$ 83	3.5	\$ 290
360	200 2	134 5	07738*1179 9*CENTRAL C	\$ 85	2.63%	\$ 2	5.5	\$ 12
360	199 8	134 5	80994*1179 9*CENTRAL G	\$ 365	2.63%	\$ 10	9.5	\$ 91
360	199 8	134 5	80994*1179 9*CENTRAL G	\$ 365	2.63%	\$ 10	9.5	\$ 91
360	200 0	134 5	29283*1179 9*CENTRAL G	\$ 365	2.63%	\$ 10	7.5	\$ 72
360	200 0	134 5	29283*1179 9*CENTRAL G	\$ 365	2.63%	\$ 10	7.5	\$ 72
360	200 0	134 5	29283*1179 9*CENTRAL G	\$ 365	2.63%	\$ 10	7.5	\$ 72
360	200 2	134 5	07738*1179 9*CENTRAL G	\$ 85	2.63%	\$ 2	5.5	\$ 12
361	200 4	135 0	69107*1529 2*REYNTECH G	\$ 1,800	3.33%	\$ 60	3.5	\$ 210
380	200 2	140 0	97197*0730 1*CU STOM F D	\$ 951	5.56%	\$ 53	5.5	\$ 290
380	199 8	139 5	98227*1085 1*M EISSNER F	\$ 3,700	5.56%	\$ 206	9.5	\$ 1,953
380	200 4	140 0	62188*1178 9*B&B STEE G	\$ 1,100	5.56%	\$ 61	3.5	\$ 214
380	200 4	140 0	R62198 *17880*U S FILT G	\$ 1,764	5.56%	\$ 98	3.5	\$ 343
380	200 4	140 0	62573*0204 8*PAT 'S PU G	\$ 6,182	5.56%	\$ 343	3.5	\$ 1,202
380	200 4	140 0	63573*0204 8*PAT 'S PU G	\$ 5,118	5.56%	\$ 284	3.5	\$ 995
380	200 4	140 0	R71953 *18025*AABOT F G	\$ 3,975	5.56%	\$ 221	3.5	\$ 773
393	200 2	147 0	07347*0352 7*HOM E DEP E	\$ 822	6.25%	\$ 51	5.5	\$ 282
393	199 7	147 0	69416*1205 1*LONGW OOD G	\$ 602	6.25%	\$ 38	11.5	\$ 433
393	199 7	147 0	57475*0089 3*F ISHER S G	\$ 481	6.25%	\$ 30	10.5	\$ 316
394	200 1	147 5	62663*0089 3*F ISHER S B	\$ 292	6.67%	\$ 19	6.5	\$ 127
394	199 8	147 5	87299*0680 8*UTILIT Y G	\$ 477	6.67%	\$ 32	9.5	\$ 302
394	199 9	147 5	20768*0089 3*F ISHER S G	\$ 535	6.67%	\$ 36	8.5	\$ 303
<b>TOTAL DECEMBER 31, 2007</b>				<b>\$ 49,202</b>				
354	200 8	129 5	OCT REC LASS (OV) AD J. G	\$ 1,500	4.00%	\$ 60	0.5	\$ 30
354	200 8	129 5	Shu e, Mickey A G	\$ 136	4.00%	\$ 5	0.5	\$ 3
354	200 8	131 5	EXPEN SE TO CAPITA L G	\$ 2,900	2.50%	\$ 73	0.5	\$ 36
354	200 8	131 5	RECLASS F L CAP. G	\$ 1,092	2.50%	\$ 27	0.5	\$ 14
354	200 8	131 5	2008Q1 PO RECL ASSES G	\$ 1,092	2.50%	\$ 27	0.5	\$ 14
360	200 8	132 0	LOC KE WELL & PU MP CO G	\$ 445	5.00%	\$ 22	0.5	\$ 11
<b>TOTAL DECEMBER 31, 2008</b>				<b>\$ 56,367</b>		<b>\$ 2,449</b>		<b>\$ 13,919</b>
<b>A/D BALANCE A T DEC EM BER 3 1, 2007</b>								<b>\$ 11,470</b>
<b>AVERAGE</b>				<b>\$ 52,784</b>				<b>\$ 12,695</b>

- A San lando Inv oice
- B Expense in Yea r Added
- C Cancell ation fe e
- D UIF Invoice
- E Wedge field Inv oice
- F Sludge Rem oval Ex pense in Year Added
- G Invoice No t P rovided

**EFFECT ON THE GENERAL LEDGER:** The following entry should be posted to the books.

	DEBIT	CREDIT
351 ORGANIZATION		\$8,419.00
354 STRUCTURES AND IMPROVEMENTS		\$17,711.00
360 SERVICES TO CUSTOMERS		\$2,440.00
361 MANHOLES		\$1,800.00
380 TREATMENT AND DISPOSAL		\$22,790.00
393 TOOLS SHOP AND GARAGE EQUIPMENT		\$1,905.00
394 LABORATORY EQUIPMENT		\$1,304.00
108 ORGANIZATION	\$2,549.00	
108 STRUCTURES AND IMPROVEMENTS	\$3,192.00	
108 SERVICES TO CUSTOMERS	\$434.00	
108 MANHOLES	\$210.00	
108 TREATMENT AND DISPOSAL	\$5,770.00	
108 TOOLS SHOP AND GARAGE EQUIPMENT	\$1,031.00	
108 LABORATORY EQUIPMENT	\$732.00	
403 ORGANIZATION		\$210.00
403 STRUCTURES AND IMPROVEMENTS		\$632.00
403 SERVICES TO CUSTOMERS		\$75.00
403 MANHOLES		\$60.00
403 TREATMENT AND DISPOSAL		\$1,266.00
403 TOOLS SHOP AND GARAGE EQUIPMENT		\$119.00
403 LABORATORY EQUIPMENT		\$87.00
215 RETAINED EARNINGS	\$38,258.00	
145 A/R DUE TO AFFILIATE	\$6,642.00	
	<u>\$58,818.00</u>	<u>\$58,818.00</u>

|

**EFFECT ON THE FILING:** Average Plant and Accumulated Depreciation, and Depreciation Expense should be reduced by \$52,784, \$12,695, and \$2,449.



## AUDIT FINDING NO. 4

### SUBJECT: PLANT RETIREMENTS

**AUDIT ANALYSIS:** The plant sample was reviewed to ensure all retirement entries were made. Several additions sampled were found to have no corresponding retirements. The following schedule shows the retirement amounts calculated for each transaction entry.

UTILITIES INC OF LONGWOOD  
RETIREMENT  
TEST YEAR ENDED DECEMBER 31, 2008

YEAR	NARUC	DESCRIPTION OF TRANSACTION	RETIREMENT		
			AMOUNT	PERCENT	AMOUNT
1998	354	99623*07301*CUSTOM F	\$ 1,950	75%	\$ 1,463
2002	354	01664*07302*ELLIS K.	\$ 3,746	75%	\$ 2,810
2006	354	37171*07529*ADVANCED	\$ 2,080	75%	\$ 1,560
		<b>354 Total</b>			<b>\$ 5,832</b>
1997	360	71849*11106*PREFERRE	\$ 920	75%	\$ 690
		<b>360 Total</b>			<b>\$ 690</b>
1997	380	60759*10851*MEISSNER	\$ 3,500	75%	\$ 2,625
1997	380	60759*10851*MEISSNER	\$ 3,425	75%	\$ 2,569
2003	380	16114*16197*ODYSSEY	\$ 4,200	75%	\$ 3,150
2006	380	22421*16900*BIO TECH	\$ 7,500	75%	\$ 5,625
2008	380	THOMPSON ELECTRIC COMPANY	\$ 815	75%	\$ 611
		<b>380 Total</b>			<b>\$ 14,580</b>
2008	389	ITT WATER & WASTEWATER USA	\$ 6,870	75%	\$ 5,153
		<b>389 Total</b>			<b>\$ 5,153</b>
2000	390	37983*07301*CUSTOM F	\$ 507	75%	\$ 380
		<b>390 Total</b>			<b>\$ 380</b>
1995	396	24434*10344*COMMUNIC	\$ 1,936	75%	\$ 1,452
		<b>396 Total</b>			<b>\$ 1,452</b>
		<b>Grand Total</b>	<b>\$ 37,448</b>		<b>\$ 28,086</b>

The associated depreciation, both annual and accumulated, that should be removed from rate base is shown below.

UTILITIES INC OF LONGWOOD  
RETIREMENT - DEPRECIATION  
TEST YEAR ENDED DECEMBER 31, 2008

YEAR	NARUC	DESCRIPTION OF TRANSACTION	RETIREMENT AMOUNT	RATE	ANNUAL DEPRE EXP
1998	354	99623*07301*CUSTOM F	\$ 1,463	3.13%	\$ 46
2002	354	01664*07302*ELLIS K.	\$ 2,810	3.13%	\$ 88
2006	354	37171*07529*ADVANCED	\$ 1,560	3.13%	\$ 49
		<b>354 Total</b>	<b>\$ 5,832</b>		<b>\$ 182</b>
1997	360	71849*11106*PREFERRE	\$ 690	3.33%	\$ 23
		<b>360 Total</b>	<b>\$ 690</b>		<b>\$ 23</b>
1997	380	60759*10851*MEISSNER	\$ 2,625	5.56%	\$ 146
1997	380	60759*10851*MEISSNER	\$ 2,569	5.56%	\$ 143
2003	380	16114*16197*ODYSSEY	\$ 3,150	5.56%	\$ 175
2006	380	22421*16900*BIO TECH	\$ 5,625	5.56%	\$ 313
2008	380	THOMPSON ELECTRIC COMPANY	\$ 611	5.56%	\$ 34
		<b>380 Total</b>	<b>\$ 14,580</b>		<b>\$ 810</b>
2008	389	ITT WATER & WASTEWATER USA	\$ 5,153	5.56%	\$ 286
		<b>389 Total</b>	<b>\$ 5,153</b>		<b>\$ 286</b>
2000	390	37983*07301*CUSTOM F	\$ 380	6.67%	\$ 25
		<b>390 Total</b>	<b>\$ 380</b>		<b>\$ 25</b>
1995	396	24434*10344*COMMUNIC	\$ 1,452	10.00%	\$ 145
		<b>396 Total</b>	<b>\$ 1,452</b>		<b>\$ 145</b>
		<b>Grand Total</b>	<b>\$ 28,086</b>		<b>\$ 1,472</b>

**EFFECT ON GENERAL LEDGER:** The following entries are needed for the general ledger

UTILITIES INC OF LONGWOOD  
 RETIREMENT - DEPRECIATION  
 TEST YEAR ENDED DECEMBER 31, 2008

NARUC	DESCRIPTION	DEBIT	CREDIT
354	Structures & Improvements		\$ 5,832
360	Collection Sewers - Force		\$ 690
380	Treatment & Disposal Equipment		\$ 14,580
389	Other Plant & Misc. Equipment		\$ 5,153
390	Office Furniture & Equipment		\$ 380
396	Communication Equipment		\$ 1,452
108	Structures & Improvements Acc. Dep.	\$ 5,832	
108	Collection Sewers - Force Acc. Dep.	\$ 690	
108	Treatment & Disposal Equipment Acc. Dep.	\$ 14,580	
108	Other Plant & Misc. Eq. Acc. Dep.	\$ 5,153	
108	Office Furniture & Equipment Acc. Dep.	\$ 380	
108	Communication Equipment Acc. Dep.	\$ 1,452	
403	Structures & Improvements Dep. Exp.		\$ 182
403	Collection Sewers - Force Dep. Exp.		\$ 23
403	Treatment & Disposal Equipment Dep. Exp.		\$ 810
403	Other Plant & Misc. Equipment Dep. Exp.		\$ 286
403	Office Furniture & Equipment Dep. Exp.		\$ 25
403	Communication Equipment Dep. Exp.		\$ 145
215	RETAINED EARNINGS	\$ 1,472	
	TOTAL	\$ 29,558	\$ 29,558

**EFFECT ON FILING:** Average plant should be reduced by \$25,204. Average Accumulated Depreciation should be decreased for the same amount. Plant, Depreciation expense should be decreased by \$1,472.

## AUDIT FINDING NO. 5

### SUBJECT: ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

**AUDIT ANALYSIS:** The utility has an approved AFUDC rate which was established in FPSC Order No. PSC-04-0262-PAA-WS, issued March 8, 2004. This Order states that the approved rate should be effective January 1, 2003. However, the utility has included AFUDC from 1995 through 2002 using a debt and equity ratio of Utilities, Inc. at June 30<sup>th</sup> and December 31<sup>st</sup> of each year.

Rule 25-30.116 (5), Florida Administrative Code states that, "No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission."

#### AFUDC CLOSED TO PLANT IN SERVICE FOR 1995 - 2002

<u>YEAR</u>	<u>PROJECT #</u>	<u>AMOUNT</u>
1995	1169501	\$61
1996	1169604	\$282
1996	1169605	\$59
1997	1169706	\$466
1997	1169707	\$300
1997	1169708	\$284
1997	1189709	\$65
1998	1169602	\$4,741
2000	1169909	\$198
2000	1160001	\$250
2001	1160101	\$504
2002	1160201	\$72
		<u>\$7,282</u>

**EFFECT ON THE GENERAL LEDGER:** Plant in Service should be reduced by \$7,282. The utility needs to determine which Plant in Service accounts these projects were closed to.

**EFFECT ON THE FILING:** Plant in Service should be reduced by \$7,282.

## AUDIT FINDING NO. 6

### SUBJECT: ERROR IN PROFORMA ADJUSTMENT TO CHANGE ERC'S

**AUDIT ANALYSIS:** The utility's new accounting system automatically allocates each account in Division 102-Northbrooke Headquarters, Division 802-Florida Regional Costs, and Division 855-Florida State costs each month using the monthly input ERC's for the applicable region. In 2009, the utility sold some of its systems which changed the ERC allocations. The utility personnel then took the costs for these divisions and re-allocated them using the new ERC calculations and planned to include the increase over what was in the ledger in 2008 in the proforma adjustments in the filing. However, in computing this adjustment, instead of using what was actually booked for rate base items, they used the yearly activity which only consisted of the additions for the year. Therefore, they increased rate base in the adjustments for more than the entire beginning balance of the plant allocated times the new ERC's. The following schedule shows the differences between what the utility used in its proforma calculation and what was actually in the ledger.

Obj Acct	Description	Per Ledger 12/31/2007	Per Ledger 12/31/2008	Per Ledger Simple Average	Restated Avg. Per Co.	Proforma Using Correct Ledger	Proforma Made By Company	Difference
1045	LAND & LAND RIGHTS GEN PLT	\$751.00	\$558.26	\$654.63	\$585.00	(\$69.63)	\$210.00	(\$279.63)
1055	STRUCTURES AND IMPROVEMENTS					-	5.00	(5.00)
1175	OFFICE STRUCT & IMPRV	21,500.00	34,538.70	28,019.35	33,722.00	5,702.65	23,002.00	(17,299.35)
1180	OFFICE FURN & EQPT	10,237.00	11,502.25	10,869.63	11,541.00	671.38	6,436.00	(5,764.63)
1195	LAB EQPT				68.00	68.00	68.00	-
1460	OFFICE FURN & EQPT					-	1.00	(1.00)
1190	TOOL SHOP & MISC EQPT		4,529.23	2,264.62	5,350.00	3,085.39	5,356.00	(2,270.62)
1205	COMMUNICATION EQPT	2,850.00	2,123.74	2,486.87	3,799.00	1,312.13	2,377.00	(1,064.87)
1320	POWER GEN. EQIP.					-	5.00	(5.00)
1470	TOOL SHOP & MISC EQPT		8.23	4.12		(4.12)		(4.12)
1580	MAINFRAME COMPUTER WTR	5,422.00	3,775.79	4,598.90	1,560.00	(3,038.90)	(1,146.00)	(1,892.90)
1585	MINI COMPUTERS WTR	11,324.00	16,261.44	13,792.72	11,680.00	(2,112.72)	6,009.00	(8,121.72)
1590	COMP SYS COST WTR	8,035.00	132,737.26	70,386.13	66,160.00	(4,226.13)	62,639.00	(66,865.13)
1595	MICRO SYS COST WTR	4,790.00	3,656.53	4,223.27	2,990.00	(1,233.27)	599.00	(1,832.27)
	<b>TOTAL PLANT</b>	<b>\$64,909.00</b>	<b>\$209,691.43</b>	<b>\$137,300.22</b>	<b>\$137,455.00</b>	<b>\$154.78</b>	<b>\$105,561.00</b>	<b>(\$105,406.22)</b>
1970	ACC DEPR-OFFICE STRUCTURE	(\$9,714.00)	(\$11,607.76)	(\$10,660.88)	(\$11,631.00)	(\$970.12)	(\$6,764.00)	\$5,793.88
1975	ACC DEPR-OFFICE FURN/EQPT	(8,542.00)	(8,569.13)	(8,555.57)	(8,713.00)	(157.44)	(4,437.00)	4,279.57
1985	ACC DEPR-TOOL SHOP & MISC		(3,208.33)	(1,604.17)	(3,615.00)	(2,010.84)	(3,608.00)	1,597.17
1990	ACC DEPR-LAB EQUIPMENT				(53.00)	(53.00)	(53.00)	-
2000	ACC DEPR-COMMUNICATION EQP	(2,859.00)	(2,155.58)	(2,507.29)	(1,569.00)	938.29	(140.00)	1,078.29
2001	ACC DEPR-COMMUNICATION EQP				(2,223.00)	(2,223.00)	(2,223.00)	-
2230	ACC DEPR-TOOL SHOP & MISC		(0.56)	(0.28)	(1,458.00)	(1,457.72)	1,349.00	(2,806.72)
2320	ACC DEPR-MAINFRAME COMP W1	(5,202.00)	(3,726.04)	(4,464.02)		4,464.02		4,464.02
2325	ACC DEPR-MINI COMP WTR	(8,785.00)	(11,555.15)	(10,170.08)	(7,914.00)	2,256.08	(3,470.00)	5,726.08
2330	COMP SYS AMORTIZATION WTR	(7,873.00)	(19,697.99)	(13,785.50)	(4,537.00)	9,248.50	32.00	9,216.50
2335	MICRO SYS AMORTIZATION WTR	(2,449.00)	(2,505.99)	(2,477.50)	(1,445.00)	1,032.50	(191.00)	1,223.50
	<b>TOTAL ACCUMULATED DEPRECIATIC</b>	<b>(\$45,424.00)</b>	<b>(\$63,026.53)</b>	<b>(\$54,225.27)</b>	<b>(\$43,158.00)</b>	<b>\$11,067.27</b>	<b>(\$19,505.00)</b>	<b>\$30,572.27</b>
		<b>\$19,485.00</b>	<b>\$146,664.90</b>	<b>\$83,074.95</b>	<b>\$94,297.00</b>	<b>\$11,222.05</b>	<b>\$86,056.00</b>	<b>(\$74,833.95)</b>

The utility adjustment made to plant in service should be reduced by \$105,406 and the adjustment to accumulated depreciation should be reduced by \$30,572.

**EFFECT ON THE GENERAL LEDGER:** The utility only made the adjustment to the filing and therefore, no adjustment is necessary to the ledger.

**EFFECT ON THE FILING:** Plant in service should be reduced by \$105,408 and accumulated depreciation should be reduced by \$30,572.

## **AUDIT FINDING NO. 7**

### **SUBJECT: ERRORS IN COMMON PLANT ALLOCATION AND DEPRECIATION RATES**

**AUDIT ANALYSIS:** In 2008, the utility installed new general ledger software (Project Phoenix) and new billing software (CC & B). The actual cost of the software recorded was \$21,617,487. The workpapers the utility used to prepare the filing recorded the software at \$21,364,569. In the allocations from headquarters that were adjusted in both the rate base and net operating income proformas, the utility included an incorrect balance for the new software installed in 2008.

In addition, the utility does not use depreciation rates from Rule 25-30.140, F.A.C. to depreciate the headquarters assets. The rule requires computers to be depreciated at six years. It does not make a separate requirement for software. The utility depreciated its mainframe over five years, its mini computers over three years, and some of the software over three years. The Project Phoenix and CC & B software was depreciated at eight years. This is a major software addition that probably will not be redone for many years and probably has a longer life than eight years. In the calculations that follow, we did not change the rate from eight to six years. A longer life is probably more appropriate for this asset than a shorter one. The utility also depreciated office furniture over 10 years instead of 15 and telephones at 15 years instead of 10. Staff recomputed depreciation since the last rate case. If the assets were fully depreciated by December 31, 2007, no change was made. The comparison of staff's computations using the rule compared to the utility computations follow.

	Asset at 12/31/2007	Asset at 12/31/2008	Simple Average	Simple Avg Per Company	Difference
MAINFRAME 5 YEARS	\$187,704.73	\$194,181.10	\$190,942.92	\$190,943.00	(\$0.08)
A/D MAINFRAME	(\$137,312.69)	(\$169,136.51)	(\$153,224.60)	(\$175,286.00)	\$22,061.40
MAINFRAME DEP. EXP.		\$32,004.00		\$21,021.00	\$10,982.72
MINI COMP. 3 YEARS	\$623,522.54	\$694,224.87	\$658,873.71	\$658,874.00	(\$0.30)
A/D MINI COMPUTERS	(\$305,019.73)	(\$376,399.23)	(\$340,709.48)	(\$445,452.00)	\$104,742.52
MINI COMP. DEP. EXP.		\$71,379.00		\$132,018.00	(\$60,638.51)
SOFTWARE 8 YEARS	\$20,152.31	\$21,617,486.75	\$10,818,819.53	\$10,692,360.00	\$126,459.53
A/D SOFTWARE	(\$12,074.71)	(\$1,364,427.15)	(\$688,250.93)	(\$680,347.00)	(\$7,903.93)
DEP. EXP. SOFTWARE		\$1,352,352.00		\$1,336,545.00	\$15,807.44
SOFTWARE 3 YEARS	\$400,338.96	\$460,942.80	\$430,640.88	\$430,641.00	(\$0.12)
A/D SOFTWARE	(\$75,680.00)	(\$142,235.78)	(\$108,957.89)	(\$184,000.00)	\$75,042.11
DEP. EXP. SOFTWARE		\$66,556.00		\$133,112.00	(\$66,556.22)
A/D OFFICE FURNITURE			(\$1,090,017.36)	(\$1,119,272.00)	\$29,254.64
DEP. EXP. OFFICE FURN.			\$23,052.00	\$30,393.93	(\$7,341.93)
A/D TELEPHONES			(\$113,035.94)	(\$107,937.00)	(\$5,098.94)
DEP. EXP. TELEPHONES			\$4,084.00	\$2,740.00	\$1,344.00

	SIMPLE	LONGWOOD
DIFFERENCE N PLANT	\$126,459.03	\$778.36
DIFFERENCE N ACC. DEP.	\$218,097.80	\$1,342.39
DIFFERENCE N DEPRECIATION EXPENSE		(\$617.99)

PERCENTLONGWOOD 0.62%

**EFFECT ON THE GENERAL LEDGER:** The ledger is not effected because the depreciation calculations by the company are done only for the filing.

**EFFECT ON THE FILING:** Plant should be increased by \$778 for software in Longwood. If the depreciation rates are changed because of the rule, Accumulated Depreciation should be reduced (debited) by \$1,342 for Longwood. Depreciation Expense should be reduced by \$618 for Longwood.



**AUDIT FINDING NO. 8**

**SUBJECT: ACCUMULATED AMORTIZATION OF CIAC**

**AUDIT ANALYSIS:** The utility restated all of CIAC and accumulated amortization in its adjustments to the filing in Schedule A-2. In its calculation of accumulated amortization it used the ordered adjustment of \$180,516 to accumulated amortization as the accumulated amortization balance. Commission Order PSC-96-488-FOF-SU showed the balance as \$670,480 at 7/31/95. The utility then took a full year of amortization in 1995 even though there were only five months left in the year. The calculation of this error follows:

	PER STAFF	USED BY COMPANY	
BALANCE PER ORDER 7/31/95	\$670,480.00	\$180,516.00	UTILITY USED ORDER ADJ. INSTEAD OF ENDING BALANCE
AMORTIZATION EXPENSE 8/1-12/31/95	<u>\$17,075.98</u>	<u>\$40,982.35</u>	UTILITY USED FULL YEAR INSTEAD OF FIVE MONTHS
ENDING BALANCE DECEMBER 31, 1995	<u>\$687,555.98</u>	<u>\$221,498.35</u>	
DIFFERENCE		<u>\$466,057.63</u>	

Prior to 2003, CIAC was kept in one account. In 2003, an allocation was made to record some CIAC to the CIAC accounts associated with contributed plant. The utility adjustment to the filing included the adjustment to account for this distribution in 2003. The difference of \$466,057.63 was allocated to the accumulated amortization accounts using the same percentages. The error does not effect amortization expense. The allocation follows:

ALLOCATED BALANCE IN 2003 PER RULE:	\$466,057.63
IN 2003 .9828 WAS ALLOCATED AND THE REST STAYED IN TAP	\$458,041.44
PORTION REMAINING IN TAP FEES	\$8,016.19
STRUCTURES AND IMPROVEMENTS TREATMENT	24.89% \$114,006.51
STRUCTURES AND IMPROVEMENTS LIFT STATION	4.54% \$20,795.08
SEWER FORCE MAINS	2.35% \$10,763.97
SERVICES TO CUSTOMERS	4.27% \$19,558.37
GRAVITY MAINS	29.04% \$133,015.23
MANHOLES	7.61% \$34,856.95
LAGOONS	2.97% \$13,603.83
TREATMENT AND DISPOSAL EQUIPMENT	24.33% \$111,441.48
INCREASE NEEDED IN ACC. AMORTIZ. BAL.	<u>\$466,057.63</u>

**EFFECT ON THE GENERAL LEDGER:** The following entry needs to be made.

Account	Description	Debit	Credit
246.4265	Acc. Amort. Tap	\$ 8,016.19	
246.4070	Acc. Amort. Structures & Imp. Treatment	114,006.51	
246.4050	Acc. Amort. Structures & Imp. Lift Stations	20,795.08	
246.4100	Acc. Amort. Sewer Force Mains	10,763.97	
246.4100	Acc. Amort. Services to Customers	19,558.37	
246.4105	Acc. Amort. Sewer Gravity Mains	133,015.23	
246.4105	Acc. Amort. Manholes	34,856.95	
246.4150	Acc. Amort. Lagoons	13,603.84	
246.4155	Acc. Amort. Treatment & Disposal Eq. Treatment Plant	111,441.49	
	Retained Earnings		\$ 466,057.63

**EFFECT ON THE FILING:** Accumulated amortization of CIAC should be increased (debited) by \$466,057.63.

**AUDT FINDING NO. 9**

**SUBJECT: LONGWOOD REVENUE ADJUSTMENT**

**AUDIT ANALYSIS:** Schedule E-2 contains the calculation of the proforma revenues used in the filing net operating income calculation. The utility changed its billing system during the test year and Schedule E-2 claims that 70 residential customers were not billed under the new system. The new system was included for seven months of the test year. However, the utility included twelve months of the bills in its calculation.

In addition, staff reviewed the list of customers provided by the utility and traced them by address to the new billing registers. Several of the addresses were billed. Several of the customers on the list were commercial customers. The estimate prepared by staff follows:

ACCOUNT	RESIDENTIAL	MONTHS NOT BILLED	METER SIZE	BASE RATE	MTHLY AVG. GAL.	GALL. RATE	GALL. COST	TOTAL EST. BILL
		384	5/8"	\$39.09				\$15,010.56
2817100977	COML	6	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
0222100065	COML		5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
3407100838	COML		5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
4298000794	COML		5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
4611910000	COML	12	2"	\$137.14	84,250.00	3.57	\$300.77	\$437.91
0541910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
7431910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
6680910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
4851020000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
0213910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
1880910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
6880910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
6821910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
4480910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
8602910000	COML	12	1"	\$42.85	27,250.00	3.57	\$97.28	\$140.13
6734910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
2490910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
6590910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
5771910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
9831910000	COML	12	5/8"	\$17.14	7,286.93	3.57	\$26.01	\$43.15
		198						<u>\$1,354.82</u>
REVENUE THAT SHOULD HAVE BEEN PROJECTED BOTH COMMERCIAL AND RESIDENTIAL								\$16,365.38
REVENUE THAT WAS PROJECTED								\$32,824.78
								<u>(\$16,459.40)</u>

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the ledger since this adjustment was made only to the filing.

**EFFECT ON THE FILING:** Projected revenues should be decreased by \$16,459.40 and regulatory assessment fee tax reduced by \$741 (4.5%).

**AUDIT FINDING NO. 10**

**SUBJECT: PAYROLL INCREASES**

**AUDIT ANALYSIS:** The utility used 2009 salaries to prepare the filing. It added a 2.25% salary increase for September 2009 of \$2,829 and a 3.5% salary increase for April 2010 of \$4,448. These amounts are included in salary expenses in the filing. Benefits, 401K costs, and pension have been compounded on to these amounts.

**EFFECT ON GENERAL LEDGER:** This finding is included for informational purposes only.

**EFFECT ON THE FILING:** This finding is included for informational purposes only.

**AUDIT FINDING NO. 11**

**SUBJECT: EMPLOYEE NOT REPLACED**

**AUDIT ANALYSIS:** Salaries and benefits include a billing specialist who is no longer at the company and will not be replaced. The salary was allocated to Longwood at 0.6155%. The total salary included was \$396 with \$50 in benefits and pension costs

**EFFECT ON THE GENERAL LEDGER:** The salaries were calculated for the proforma and therefore, this finding has no effect on the ledger.

**EFFECT ON THE FILING:** Expenses should be reduced by \$446.

**AUDIT FINDING NO. 12**

**SUBJECT: 401K COSTS**

**AUDIT ANALYSIS:** The utility added 4% of total projected salaries to expenses for 401K costs. The actual contributions made to the 401K plan amounted to 2.73% of total Utilities, Inc. salaries. Total salaries projected for Longwood were \$131,544. The amount of 401K included in the filing was \$5,247. The salaries times 2.73% equals \$3,591. The difference between the actual rate contributed and the filing of \$1,656 should be removed from expenses.

**EFFECT ON THE GENERAL LEDGER:** This finding does not effect the ledger since the utility adjusted salaries and benefits for the filing only.

**EFFECT ON THE FILING:** Expenses should be reduced by \$1,656.

**AUDIT FINDING NO. 13**

**SUBJECT: HEADQUARTERS SAMPLES**

**AUDIT ANALYSIS:** A sample of entries charged from the Northbrook Division 102 and the Altamonte Springs Division 855 were selected to be traced to supporting documentation. The utility implemented a new ledger and accounting system this year. They were unable to obtain supporting documentation for many of the entries. In addition, some of the entries should have been capitalized or removed because they would not be re-occurring during the time period the rates would be implemented. A schedule of the entries and the reasons for their removal are on the following page. The allocation rates used in the adjustments to the filing were used.

**EFFECT ON THE GENERAL LEDGER:** There is no effect since these entries are to expense and they do not get carried forward to future audits.

**EFFECT ON THE FILING:** Expenses for Longwood should be reduced by \$11,178.

ACCOUNT	PAYEE	DATE	DESCRIPTION	ADJUSTMENT	LONGWOOD LONGWOOD	
					ALLOCATION RATE	ALLOCATION AMOUNT
DIVISION 102						
102100.5735	DEC 2008 RECLASS ASSET	12/31/2008	not provided 53 hours at \$155 for Oracle installation -Should be capital	(\$149,720.15)	0.62%	(\$928.26)
102100.5735	ASHWOOD COMPUTER CO	3/7/2008	project Phoenix PO was never vouchered.	(\$8,215.00)	0.62%	(\$50.93)
102104.5735	IP SOFT	5/6/2008	Remove	(\$425,475.60)	0.62%	(\$2,637.95)
102100.5745	WRO - MICROSOFT LISC	12/31/2008	not provided	(\$139,400.56)	0.62%	(\$864.28)
102100.5745	002*AP.INVD*03*75	11/30/2008	not provided	(\$4,418.82)	0.62%	(\$27.40)
102100.5745	002*AP.INVD*03*75	9/30/2008	not provided	(\$4,418.82)	0.62%	(\$27.40)
102100.5745	Summarized Depreciation Tr	5/31/2008	not provided Deployment solutions foundations training aug. 4-8	(\$8,964.95)	0.62%	(\$55.58)
102104.5820	ARLINGTON COMPUTER I	7/28/2008	Not Recurring	(\$2,395.00)	0.62%	(\$14.85)
102101.6005	FINANCE STUDY 08/08	9/21/2008	not provided	(\$3,750.00)	0.62%	(\$23.25)
102100.6010	WSC SE6.A WSC WORKPA	11/30/2008	not provided 2007 audit of Utilities Inc. of Georgia. Should be charged	(\$42,541.65)	0.62%	(\$263.76)
102100.6010	PRICEWATERHOUSECOOL	6/17/2008	directly	(\$18,500.00)	0.62%	(\$114.70)
102100.6015	MV PREPAID TO EXP	11/30/2008	not provided	(\$125,857.00)	0.62%	(\$780.31)
102100.6025	ACCRUE 2008 LEGAL FEE:	12/31/2008	not provided Consent orders Mid County and Labrador. Should be	(\$7,273.41)	0.62%	(\$45.10)
102106.6025	SQUIRE, SANDERS & DEM	8/20/2008	charged directly Consent orders Mid County and Labrador. Should be	(\$2,890.78)	0.62%	(\$17.92)
102106.6025	LAW OFFICE OF DAVID BI	8/20/2008	charged directly Consent orders Mid County and Labrador. Should be	(\$1,330.64)	0.62%	(\$8.25)
102106.6025	SQUIRE, SANDERS & DEM	8/20/2008	charged directly Consent orders Mid County and Labrador. Should be	(\$6,068.50)	0.62%	(\$37.62)
102106.6025	SQUIRE, SANDERS & DEM	3/18/2008	charged directly Consultant fee final implementation project	(\$2,271.83)	0.62%	(\$14.09)
102100.6050	DELGADO, DANIEL	4/4/2008	Phoenix Should be capital. Assistance on FWC audit before hired full time. -since salary is annualized, non-	(\$5,000.00)	0.62%	(\$31.00)
102100.6050	Haynes Jr, John S	1/17/2008	recurring Assistance on FWC audit before hired full time. -since salary is annualized, non-	(\$7,200.00)	0.62%	(\$44.64)
102101.6050	Haynes Jr, John S	5/2/2008	recurring  Financial model services through Jan. 08. Developed a model that helps in strategic planning and forecasting Not	(\$11,700.00)	0.62%	(\$72.54)
102101.6050	MALCOLM PIRNIE, INC	3/25/2008	Recurring per co. Carolina Water Service General Rep. Should be	(\$49,956.21)	0.62%	(\$309.73)
102102.6070	HUNTON & WILLIAMS	12/31/2008	charged directly.	(\$4,724.91)	0.62%	(\$29.29)
102100.6185	CITICARD PAYMENTS 09/	11/30/2008	not provided two coach air tickets from Chicago to New York-for CEO and wife for meeting with Highstar. Remove wife's	(\$8,282.58)	0.62%	(\$51.35)
102100.6190	Schumacher, Lawrence N	3/7/2008	ticket.	(\$1,235.00)	0.62%	(\$7.66)



ACCOUNT DIVISION 102	PAYEE	DATE	DESCRIPTION	ADJUSTMENT	LONGWOOD ALLOCATION RATE	LONGWOOD ALLOCATION AMOUNT
			Amortization of finders fee of 61,200 over 1 year. Did not provide invoice-Don't know			
102100.6355	FINDERS FEE-SLOBODAN MAR	12/31/2008	who for?	(\$5,111.94)	0.62%	(\$31.69)
			Amortization of finders fee of 61,200 over 1 year. Did not provide invoice-Don't know			
102100.6355	FINDERS FEE-SLOBODAN MAR	11/30/2008	who for?	(\$5,111.95)	0.62%	(\$31.69)
			Asked for more info 11/24/09-			
102100.6355	RELOCATION	10/31/2008	Never Received	(\$25,000.00)	0.62%	(\$155.00)
			Asked for more info 11/24/09-			
102100.6355	RELOCATION-J.HOY / J.JOHNSC	10/31/2008	Never Received	(\$5,253.56)	0.62%	(\$32.57)
			Asked for more info 11/24/09-			
102100.6355	RELOCATION-J.HOY / J.JOHNSC	7/31/2008	Never Received	(\$5,253.56)	0.62%	(\$32.57)
			Asked for more info 11/24/09-			
102100.6355	FINDERS FEE-T.ISAACS/ O.HAS	6/30/2008	Never Received	(\$19,472.00)	0.62%	(\$120.73)
			Asked for more info 11/24/09-			
102100.6355	JUNE DEFERRED ASSET WRITE	6/30/2008	Never Received	(\$12,062.27)	0.62%	(\$74.79)
			Asked for more info 11/24/09-			
102100.6355	WSC DEFERRED EMPLOYMEN	6/30/2008	Never Received	(\$54,980.00)	0.62%	(\$340.88)
			Asked for more info 11/24/09-			
102100.6355	WSC DEFERRED EMPLOYMEN	6/30/2008	Never Received	(\$19,500.00)	0.62%	(\$120.90)
			Asked for more info 11/24/09-			
102100.6355	RELOCATION-J.HOY / J.JOHNSC	6/30/2008	Never Received	(\$42,063.06)	0.62%	(\$260.79)
			Asked for more info 11/24/09-			
102100.6355	JUNE REVERSE WSC DEFERRE	6/30/2008	Never Received	\$36,094.33	0.62%	\$223.78
			Asked for more info 11/24/09-			
102100.6355	WSC DEFERRED EMPLOYMEN	6/30/2008	Never Received	(\$60,244.00)	0.62%	(\$373.51)
			Asked for more info 11/24/09-			
102100.6380	SYLVESTER ASSOCIATES	10/2/2008	no invoice provided	(\$4,400.00)	0.62%	(\$27.28)
102100.6580	WATER PLANT-CONVERTED A	6/30/2008	Asked what this was for?	(\$3,394.63)	0.62%	(\$21.05)
				<u>(\$1,267,344.05)</u>		<u>(\$7,857.53)</u>
<b>DIVISION 855</b>						
855100.5880	TRICOMM BUSINESS PRODUCT	11/20/2008	not provided	(\$1,279.07)	1.86%	(\$23.79)
855100.5900	SE90 BU 252109 SEPT RECLASS	9/30/2008	not provided	(\$2,546.85)	1.86%	(\$47.37)
855100.5900	SE 90 BU 252109 JUNE RECLAS:	6/30/2008	not provided	(\$10,384.50)	1.86%	(\$193.15)
855100.5945	SE 90 BU 252109 YTD RECLAS:	12/31/2008	not provided	(\$17,047.87)	1.86%	(\$317.09)
855100.5945	SE 90 BU 252109 JUNE RECLAS:	6/30/2008	not provided	(\$124,749.67)	1.86%	(\$2,320.34)
855100.5965	SE 90 BU 252104 JUNE RECLAS:	6/30/2008	not provided	(\$3,436.39)	1.86%	(\$63.92)
855100.5970	SE 90 BU 252104 JUNE RECLAS:	6/30/2008	not provided	(\$7,050.00)	1.86%	(\$131.13)
855100.6360	SE 90 BU 252104 OCT RECLASS	10/31/2008	not provided	(\$9,360.87)	2.39%	(\$223.72)
				<u>(\$175,855.22)</u>		<u>(\$3,320.52)</u>
						<u>(\$11,178.05)</u>

## **AUDIT FINDING NO. 14**

### **SUBJECT: DEFERRED MAINTENANCE EXPENSE**

**AUDIT ANALYSIS:** The utility has included an adjustment of \$1,186 in Schedule B-3 to correct the amortization in account 6355 – Deferred Maintenance Expense.

The deferred maintenance expense was recalculated since inception. The recalculation indicates the amortization should be decreased by \$942 in order to reflect the correct test year expense. The calculation follows on the next page.

As shown on the following page, the amortization for the Painting Project includes \$188.33 in 2008 and is fully amortized. The amortization for the Tank Maintenance includes \$9,244 in 2008 and the remainder, \$2,311 in 2009, when it is fully amortized. The amortization period for these two projects is five years.

As shown on the following page, the adjustment amount used by the utility of \$1,186 pertains to an adjustment for the Accumulated Amortization Account, not the Expense Account.

**EFFECT ON GENERAL LEDGER:** Account 6355 – Deferred Maintenance Expense should be decreased by \$942 (credited). Account 3195 – Accumulated Amortization should be increased by \$1,186 (credited). Retained Earnings should be debited by \$2,128.

**EFFECT ON FILING:** Deferred Maintenance Expense should be decreased by \$2,128 (decreased by \$1,186 to remove the utility's adjustment on B-3 and decreased by \$942 to reflect the correct amortization per the attached schedule.) Since the tank maintenance project expensed in 2008 is almost fully amortized, the utility should provide proof that they will perform these tasks again in order to allow the amortization of \$9,244 of test year expenses. If they cannot, this amount should also be removed from expenses.

**DEFERRED MAINTENANCE PROJECTS**

	Per year	Per month	AMORT
Starting 3/1/03 - Paint Longwood Plant			
5,650 20% or 5 year amortization	\$1,130.00	\$94.17	
			\$941.67 Mar - Dec 03 10 months
			\$1,130.00 2004
			\$1,130.00 2005
			\$1,130.00 2006
			\$1,130.00 2007
		(A)	\$188.33 2008 2 months remaining
		(B)	<u>\$5,650.00</u> TOTAL

	Per year	Per month	
4/1/2004 - Refurbish surge tank			
46,220 20% or 5 year amortization	\$9,244.00	\$770.33	
			\$6,933.00 April - Dec 04 9 months
			\$9,244.00 2005
			\$9,244.00 2006
			\$9,244.00 2007
		(A)	<u>\$9,244.00</u> 2008
		(B)	<u>\$43,909.00</u>
			\$2,311.00 Remaining 3 months

Sum (A)      \$9,432.33      2008

\$10,374.04 Per GL Account 6355

(\$941.71) Difference

Sum (B)      (\$49,559.00)      2008

(\$48,373.08) Per GL Account 3195

(\$1,185.92) Difference

**DEBIT**

**CREDIT**

	\$2,128.00	
ACCOUNT 6355 - AMORTIZATION EXPENSE		\$942.00
ACCOUNT 3195 - ACCUMULATED AMORTIZATION		\$1,186.00

**AUDIT FINDING NO. 15**

**SUBJECT: DEFERRED MAINTENANCE EXPENSE PROFORMA**

**AUDIT ANALYSIS:** The utility has included a proforma expense of \$6,000 on Schedule B-3 for Deferred Maintenance transferred from CWIP. This relates to the first year amortization for a Tank Maintenance and Repair budget amount on Schedule B-11. No source documentation was provided for the budget amount. The utility explained that this should be removed from Schedule B-3.

**EFFECT ON GENERAL LEDGER:** None.

**EFFECT ON THE FILING:** Expenses should be reduced by \$6,000.

**AUDIT FINDING NO. 16**

**SUBJECT: OPERATING AND MAINTENANCE SAMPLE**

**AUDIT ANALYSIS:** A sample of operating and maintenance entries booked was selected for testing. The following entries were either not provided by the company, recorded in the wrong period, or related to an associated company and therefore should be removed.

NARUC Account Numt	Description	Date	Amount	
711 246100.6400	VAC AND JET SERVICES LLC	10/14/2008	\$1,720.00	Sanlando
		<b>Total</b>	<b>\$1,720.00</b>	
718 246100.5490	LEAHCHEM IND., INC.	6/16/2008	\$1,000.09	Not Provided
		<b>Total</b>	<b>\$1,000.09</b>	
720 246100.6320	GREEN'S ENERGY SERVICES INC	7/10/2008	\$778.47	Sanlando
		<b>Total</b>	<b>\$778.47</b>	
775 246100.5900	ZEE MEDICAL, INC.	10/23/2008	\$225.72	Sanlando
775 246100.5900	CINTAS CORPORATION #073	9/30/2008	\$64.82	Sanlando
		<b>Total</b>	<b>\$290.54</b>	
<b>TOTAL ALL</b>			<u><b>\$3,789.10</b></u>	

**EFFECT ON THE GENERAL LEDGER:** The following entries should be made to the general ledger:

Sewer Rodding		\$1,720.00	
Other Treatment Chemicals		\$1,000.09	
Sewer Maintenance Supplies		\$778.47	
Other Office Expenses		\$290.54	
A/R Associated Companies	\$2,789.01		
Retained Earning - Current Earnings	\$1,000.09		
<b>Total</b>	<u>\$3,789.10</u>	<u>\$3,789.10</u>	

**EFFECT ON THE FILING:** Operating and maintenance expenses should be reduced by \$3,789.10.

**AUDIT FINDING NO. 17**

**SUBJECT: REGULATORY ASSESSMENT FEE**

**AUDIT ANALYSIS:** The utility does not accrue its regulatory assessment fee. The amount of \$30,110 reflected in Account 7540 – Regulatory Assessment Fee, represents the payments for the second six months of 2007 and the first six months of 2008. The actual payments related to the 2008 filings total \$34,683. The difference represents an understatement of \$4,573.

A proforma for the regulatory assessment fee was made by the utility for the increase in revenues only, not for the total requested revenues. Therefore, this adjustment was not fixed when the proforma was made.

**EFFECT ON GENERAL LEDGER:** None.

**EFFECT ON THE FILING:** Taxes Other Than Income should be increased by \$4,573.

# EXHIBITS

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Utilities, Inc. of Longwood  
 Docket No.: 090381-SU  
 Schedule Year Ended: December 31, 2008  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: A-2  
 Page 1 of 1  
 Preparer: Kirsten E. Weeks

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

Line No.	(1) Description	(2) Average Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 3,634,524	\$ 431,644 (A)	\$ 4,066,168	A-3, A-6
2					
3	Utility Land & Land Rights	229,215	210 (A)	229,425	A-3, A-6
4					
5	Less: Non-Used & Useful Plant	-	-	-	A-7
6					
7	Construction Work in Progress	218,314	(218,314) (B)	-	A-3
8					
9	Less: Accumulated Depreciation	(1,896,917)	385,077 (C)	(1,511,840)	A-3, A-10
10					
11	Less: CIAC	(1,661,914)		(1,661,914)	A-12
12					
13	Accumulated Amortization of CIAC	1,264,556	(453,906) (D)	810,650	A-3, A-14
14					
15	Acquisition Adjustments	87,728	(87,728) (E)	-	A-3
16					
17	Accum. Amort. of Acq. Adjustments	14,005	(14,005) (E)	-	A-3
18					
19	Advances For Construction				A-16
20					
21	Working Capital Allowance	-	99,980 (F)	99,980	A-17
22					
23	<b>Total Rate Base</b>	<b>\$ 1,889,511</b>	<b>\$ 142,958</b>	<b>\$ 2,032,469</b>	



Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Utilities, Inc. of Longwood  
 Docket No.: 090381-SU  
 Test Year Ended: December 31, 2008  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: B-2  
 Page 1 of 1  
 Preparer: Kirsten E. Weeks

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 7) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 770,736	\$ (25,941) (A)	\$ 744,795	\$ 199,144 (A)	\$ 943,939	B-4, B-3
2							
3	Operation & Maintenance	577,507	16,656 (B)	594,163	- (B)	594,163	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	87,195	2,905 (C)	90,100	(C)	90,100	B-14, B-3
6							
7	Amortization						
8							
9	Taxes Other Than Income	82,706	(776) (D)	81,930	10,579 (D)	92,509	B-15, B-3
10							
11	Provision for Income Taxes	(9,872)	(38,020) (E)	(47,892)	70,957 (E)	23,065	C-1, B-3
12							
13	OPERATING EXPENSES	737,536	(19,235)	718,301	81,536	799,837	
14							
15	NET OPERATING INCOME	\$ 33,200	\$ (6,706)	\$ 26,494	\$ 117,608	\$ 144,102	
16							
17							
18	RATE BASE	\$ 1,889,511	\$ 142,958	\$ 2,032,469		\$ 2,032,469	
19							
20							
21	RATE OF RETURN	1.76 %		1.30 %		7.09% %	

Schedule of Requested Cost of Capital  
Simple Average Balance

Florida Public Service Commission

Company: Utilities, Inc. of Longwood  
Docket No.: 090381-SU  
Test Year Ended: December 31, 2008  
Interim  Final   
Historical  Projected

Schedule D-1  
Page 1 of 1

Preparer: Dan Cleckerski

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

Line No.	Class of Capital	(1)	(2)	(3)	(4)	(5)
			Reconciled to Requested Rate Base AYE 12/31/2008	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt <sup>1</sup>		818,953	40.294%	6.65%	2.68%
2	Short Term Debt <sup>1</sup>		148,410	7.302%	5.23%	0.38%
3	Preferred Stock <sup>2</sup>		-	0.000%	0.00%	0.00%
4	Common Equity <sup>1,2</sup>		719,114	35.381%	11.13%	3.94%
5	Customer Deposits		29,428	1.448%	6.00%	0.09%
6	Tax Credits - Zero Cost		-	0.000%	0.00%	0.00%
7	Tax Credits - Weighted Cost		-	0.000%	0.00%	0.00%
8	Accumulated Deferred Income Tax		316,564	15.575%	0.00%	0.00%
9	Other (Explain)		-	0.000%	0.00%	0.00%
10						
11	Total		2,032,469	100.00%		7.09%

Notes:

<sup>1</sup> Long term debt, short term debt, preferred stock, and common equity are actual for Longwood's parent, Utilities, Inc.

<sup>2</sup> The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-09-0006-PCD- WS.

Supporting Schedules: D-2

Recap Schedules: A-2