

M E M O R A N D U M

December 22, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 981198-WS -- DAMON UTILITIES, INC.
AUDIT REPORT - STAFF-ASSISTED RATE CASE - PERIOD ENDED JUNE 30, 1998
AUDIT CONTROL NO. 98-314-3-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on two diskettes. The diskettes may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

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

DNV/sp

Attachment

cc: Chairman Johnson
Commissioner Clark
Commissioner Deason
Commissioner Garcia
Commissioner Jacobs
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Galloway)
Orlando District Office (Forbes)
Research and Regulatory Review (Harvey)
Office of Public Counsel

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FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

Orlando District Office

DAMON UTILITIES, INCORPORATED

STAFF-ASSISTED RATE CASE

PERIOD ENDED JUNE 30, 1998

**DOCKET NO. 981198-WS
AUDIT CONTROL NO. 98-314-3-1**

Jeffery A. Small, Audit Manager

Ian J. Forbes, District Audit Supervisor

DOCUMENT NUMBER-DATE

14551 DEC 24 88

FPSC-RECORDS/REPORTING

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

DECEMBER 18, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare schedules of Rate Base, Net Operating Income, and Capital Structure as of June 30, 1998, for Damon Utilities, Inc. These schedules were prepared by audit staff as part of the utility's application for a Staff-Assisted Rate Case in Docket No. 981198-WS. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the auditor-prepared schedules referred to above present fairly, in all material respects, the utility's books and records, which were not maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

The utility does not maintain its books and records as required by the Uniform System of Accounts and Commission rules.

The utility's average utility-plant-in-service and accumulated depreciation balances for water and wastewater operations are \$115,850/(\$36,090) and \$214,526/(\$104,073), respectively, for the period ended June 30, 1998. Additionally, the associated depreciation expense of UPIS for water and wastewater operations for the test year ended June 30, 1998, are \$4,678 and \$9,529, respectively.

The utility's average contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC balances for water and wastewater operations are (\$63,450)/\$17,711 and (\$38,221)/\$10,465, respectively, for the period ended June 30, 1998. Additionally, the associated amortization expense of CIAC for water and wastewater operations for the test year ended June 30, 1998, are \$2,562 and 1,698, respectively.

The utility's revenues from water and wastewater operations are \$36,419 and \$20,745, respectively, for the test year ended June 30, 1998.

The utility's operations and maintenance expenses for water and wastewater operations are \$25,443 and \$16,184, respectively, for the test year ended June 30, 1998. Additionally, the utility's working capital balance for water and wastewater operations are \$3,180 and \$2,023, respectively, for the period ended June 30, 1998.

The utility's taxes other than income for water and wastewater operations are \$2,401 and \$2,442, respectively, for test year ended June 30, 1998.

The utility's average capital structure is composed entirely of debt in the amount of \$97,084 with a weighted average cost rate of 9.219 percent.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining the utility's books and records since its last rate proceeding at period ended June 30, 1991, which we believe are sufficient to base our opinion. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

Assembled - Presented in Commission-required format financial information that was provided to audit staff and is the representation of utility management.

RATE BASE: Scanned and verified 100 percent of utility-provided documents used to assemble water and wastewater account balances for utility-plant-in-service (UPIS), land and land rights, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital for the period ended June 30, 1998.

NET OPERATING INCOME: Scanned and verified 100 percent of utility-provided documents used to assemble water and wastewater account balances for utility revenues, operations and maintenance expenses, depreciation expenses, amortization expenses, and taxes other than income for the test year ended June 30, 1998. Recomputed an audit-determined sample of utility billing records to verify the existing rates, miscellaneous service charges, and service availability charges charged by the utility.

CAPITAL STRUCTURE: Scanned and verified 100 percent of utility-provided documents used to assemble its capital structure for the period ended June 30, 1998. Agreed interest expense to the terms of the debt obligations.

OTHER: Audited the utility's 1997 Regulatory Assessment Fee return filed with the Commission.

Audit Exception No. 1

Subject: Noncompliance with the NARUC Uniform System of Accounts

Statement of Facts: Damon Utilities, Inc.'s general ledgers are maintained internally on a cash basis for income tax purposes.

Rule 25-30.115 (1), F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USoA).

NARUC, Class C, Accounting Instruction 2. A, requires all water and wastewater utilities to maintain their accounts on an accrual basis.

Opinion/Recommendation: Damon Utilities, Inc.'s general ledger accounting system does not readily reconcile to the USoA because of multiple differences in accounting methods and treatments between income tax basis and the USoA/Commission basis of accounting for utility operations.

At year-end, the utility makes an effort is to restate its "income tax basis" financial statements to the FPSC annual report. Audit staff efforts to reconcile the utility's FPSC annual reports to the corresponding years' tax return were largely unsuccessful.

The utility does not maintain its books per the Commission rule cited above.

Audit Exception No. 2

Subject: Utility-Plant-In-Service (UPIS) and Associated Accumulated Depreciation of UPIS

Statement of Facts: Damon Utilities, Inc.'s accounting records do not specifically identify UPIS and the associated accumulated depreciation balances for water and wastewater operations.

Rule 25-30.140 (2), F.A.C., establishes depreciation rates for water and wastewater utilities.

Opinion/Recommendation: The utility provided sufficient historical records and supporting source documentation for audit staff to assemble UPIS and associated accumulated depreciation for the water and wastewater utilities as of June 30, 1998.

Audit staff has determined the following from the above information:

- 1) The average balances for water and wastewater UPIS are \$115,850 and \$214,526, respectively, as of June 30, 1998.
- 2) The average balances for water and wastewater accumulated depreciation of UPIS are (\$36,090) and (\$104,073), respectively, as of June 30, 1998.

See the attached schedule for details.

Additionally, audit staff has determined from preparing period ended UPIS accumulated depreciation balances that the depreciation expenses applicable for the test year ended June 30, 1998, is \$4,678 and \$9,529 for water and wastewater operations, respectively.

**Schedule for
Audit Exception No. 2**

**Average Utility-Plant-in-Service -Water
Period Ended June 30, 1998**

<u>Acc#</u>	<u>Account Description</u>	<u>Plant</u>	<u>Acc/Dep</u>
301.00	Organization	\$5,657.81	(\$2,157.14)
304.00	Structures & Improvements	4,248.70	(1,253.75)
307.00	Wells & Springs	6,284.58	(2,465.77)
309.00	Supply Mains	1,125.61	(147.22)
310.00	Power Generation Equipment	5,351.37	(157.39)
311.00	Pumping Equipment	8,032.46	(2,834.99)
320.00	Water Treatment Equipment	10,063.76	(4,952.49)
331.00	Transmission & Distribution Mains	53,945.02	(14,025.92)
334.00	Meters & Meter Installations	18,480.38	(7,613.42)
343.00	Tools, Shop and Garage Equipment	<u>2,660.08</u>	<u>(481.59)</u>
	Totals	\$115,849.77	(\$36,089.68)

**Average Utility-Plant-in-Service -Wastewater
Period Ended June 30, 1998**

<u>Acc#</u>	<u>Account Description</u>	<u>Plant</u>	<u>Acc/Dep</u>
351.00	Organization	\$17,504.47	(\$4,869.58)
354.00	Structures & Improvements	1,958.00	(834.06)
360.00	Collection - Sewers Forced	17,337.12	(4,740.28)
361.00	Collection - Sewers Gravity	59,453.74	(14,370.30)
370.00	Receiving Wells	1,641.98	(971.24)
380.00	Treatment & Disposal Equipment	86,655.10	(67,390.82)
381.00	Plant Sewers	7,750.00	(2,774.16)
382.00	Outfall Sewer Lines	21,651.57	(7,989.04)
393.00	Tools, Shop and Garage Equipment	<u>573.58</u>	<u>(133.84)</u>
	Totals	\$214,525.56	(\$104,073.32)

Audit Exception No. 3

Subject: Contributions-In-Aid-of-Construction (CIAC) and Associated Accumulated Amortization of CIAC

Statement of Facts: Order No. 19655, issued on July 11, 1988, instituted the following service availability charges for the utility.

<u>Type</u>	<u>Water</u>	<u>Wastewater</u>
Meter Installation	\$75	- NA -
Plant Capacity Charge	\$575	\$465

Order No. 25789, issued on February 24, 1992, suspended the collection of the \$575 plant capacity charge for water customers because the system was at a level of 78 percent customer contributed prior to attaining its designed capacity.

Rule 25-30.140 8 (a), F.A.C., requires the utility to maintain adequate records to account for CIAC. Furthermore, it requires the utility to amortize accumulated CIAC using the composite plant amortization rate.

The utility has added 78 water and 48 wastewater customers since the last rate proceeding.

The utility collected \$17,200 in service availability fees from 31 new water customers since the last rate proceeding. $\{(\$575 \text{ times } 26 \text{ customers}) + (\$450 \text{ times } 5 \text{ customers})\}$

The utility did not collect any service availability fees for wastewater connections.

Opinion: The utility violated Order No. 25789 by continuing to collect the \$575 water service availability fee from 31 new customers and failing to collect the \$465 service availability fees for 48 new wastewater connections.

Auditor's review of the prior analyst work papers, which were used to determine the CIAC and amortization of CIAC balances for Order No. 25789, indicates that the analyst used the company's actual cash collections from new customers to determine the total additions to CIAC since CIAC was first established in Order No. 19655. Specifically, the analyst did not impute uncollected customer connections to determine CIAC balances.

Furthermore, the analyst used the composite plant amortization rate as required in the Commission rule cited above to calculate the amortization of the CIAC balance.

The utility provided sufficient historical records and supporting source documentation for the audit staff to assemble CIAC and associated accumulated amortization of CIAC for the water and wastewater utilities as of June 30, 1998.

Audit Exception No. 3, continued

Auditor proposes the following three alternative recommendations:

Primary Recommendation: The utility should be required to record the following amounts for average CIAC and amortization of CIAC as determined by audit staff's calculations.

<u>Account</u>	<u>CIAC</u>	<u>Amortz. CIAC</u>
Water	(\$63,450)	\$ 17,711
Wastewater	(\$38,221)	\$ 10,465

The above balances were calculated using the methodology approved in the utility's last rate proceeding which recorded the actual cash collections from customers as additions to CIAC and amortized the average year-end balance as prescribed in Rule 25-30.140 8(a), F.A.C.

Additionally, audit staff has determined from preparing period ended CIAC that the amortization of CIAC expenses applicable to the test year ended June 30, 1998, are \$2,562 and \$1,698 for water and wastewater operations, respectively.

Alternative Recommendation One: The utility should be required to record the following amounts for average CIAC and amortization of CIAC as determined by audit staff's calculations.

<u>Account</u>	<u>CIAC</u>	<u>Amortz. CIAC</u>
Water	(\$93,375)	\$ 21,691
Wastewater	(\$59,379)	\$ 13,611

The above balances were calculated using the service availability policy established in Order No. 19655. All customer additions for water and wastewater connections were recorded as collected or imputed for the amount(s) that should have been collected per that Order. Additionally, the average year end balances were amortized as prescribed in Rule 25-30.140 8(a), F.A.C.

Alternative Recommendation Two: The utility should be required to record the following amounts for average CIAC and amortization of CIAC as determined by audit staff's calculations.

<u>Account</u>	<u>CIAC</u>	<u>Amortz. CIAC</u>
Water	(\$51,688)	\$ 16,220
Wastewater	(\$59,379)	\$ 13,611

The above balances were calculated using the service availability policy established in Order No. 25789. All customer additions for water and wastewater connections were recorded as collected or imputed for the amount(s) that should have been collected per that Order. Additionally, the average year-end balances were amortized as prescribed in Rule 25-30.140 8(a), F.A.C.

Audit Exception No. 4

Subject: Revenues

Statement of Facts: Damon Utilities, Inc.'s reported revenues for the test year ended June 30, 1998, are \$39,042 and \$19,328 for water and wastewater services and were determined using a cash basis of accounting for income tax purposes.

Included in the above revenue amounts is \$3,900 of service availability and meter connection fees collected from new water service customers.

The utility's revenues were further impacted by the utility's use of a vacation rate for water and wastewater customers that left during the summer months.

Rule 25-30.515 (3), F.A.C., classifies "system capacity charges" as CIAC.

Rule 25-30.335 (9), F.A.C., requires a utility to bill its customers for base facility charges unless it has a Commission-authorized vacation rate.

Opinion/Recommendation: The utility's revenues for the test year ended June 30, 1998, are not properly stated per the USoA and the Commission rules cited above.

The utility provided audit staff with access to its billing registers and other utility records to assemble its revenues for the test year.

Audit staff has calculated utility revenues of \$36,419 and \$20,745 for water and wastewater services, respectively, for the test year ended June 30, 1998.

Audit Exception No. 5

Subject: Operating and Maintenance Expenses

Statement of Facts: Damon Utilities, Inc.'s operating and maintenance expenses for the test year were undeterminable using the utility's general ledgers.

Opinion: The utility provided auditor with access to all invoices, canceled checks, and other utility records to assemble its net operating income for the test year ended June 30, 1998.

Audit staff has calculated utility operating and maintenance expenses of \$25,443 and \$16,184 for water and wastewater operations, respectively, for test year ended June 30, 1998.

Additionally, per Rule 25-30.433 (4), F.A.C., the utility's working capital balance for rate base purposes was calculated as one-eighth of the above O&M expenses which amounts to \$3,180 and \$2,023, respectively, for water and wastewater operations.

See attached schedules for details and subaccount balances.

**Schedule for
Audit Exception No. 5**

**Operation and Maintenance Expenses
Test Year Ended June 30, 1998**

<u>Acc#</u>	<u>Account Description</u>	<u>Total Water Expense</u>	<u>Total W/Water Expense</u>
601/701	Salaries & Wages - Employees	\$8,928.00	\$1,632.00
711	Sludge Removal Expense	- NA -	1,612.50
615/715	Purchased Power	2,361.09	2,291.95
616/716	Fuel for Power Production	24.82	0.00
618/718	Chemicals	680.00	664.02
620/720	Materials & Supplies	1,863.16	314.70
630/730	Contractual Services - Billing	1,134.00	126.00
631/731	Contractual Services - Professional	472.50	1,300.00
635/735	Contractual Services - Testing	4,673.50	4,361.00
636/736	Contractual Services - Other	830.00	1,405.29
640/740	Rents	2,496.00	1,644.00
650/750	Transportation Expense	832.00	208.00
655/755	Insurance Expense	851.17	328.00
665/765	Regulatory Commission Expense	<u>296.36</u>	<u>296.36</u>
	Total Expenses	\$25,442.60	\$16,183.82

Audit Exception No. 6

Subject: Taxes Other Than Income

Statement of Facts: Damon Utilities, Inc.'s taxes other than income for the test year were undeterminable using the utility's general ledgers.

The utility is required to pay annual tax assessments to the following governmental entities during the course of its operations.

Highlands County

- + Tangible personal property tax on utility property based on an assessed value
- + A utility right-of-way assessment for utility property located in county road right-of-ways
- + An occupational license fee to operate a utility business in Highlands County

State of Florida

- + Corporation filing fee to the Department of State
- + Regulatory Assessment Fee (RAF) to the Florida Public Service Commission

Opinion: The utility provided audit staff with access to all invoices, canceled checks, and other utility records to assemble its taxes other than income for the test year ended June 30, 1998.

Additionally, audit staff calculated the utility's RAFs based on 4.5 percent of the estimated revenues determined in Audit Exception No. 4 of this report.

Using the information provided above, audit staff has determined that the utility's taxes other than income amounts are \$2,401 and \$2,442 for water and wastewater operations, respectively, for test year ended June 30, 1998. See details illustrated below.

<u>Governmental Authority</u>	<u>Assessment</u>	<u>Total Amount</u>	<u>Allocation W/S</u>		<u>Water</u>	<u>W/Water</u>
Highlands County	Property tax	\$1,830.43	20/80	*	\$366.09	\$1,464.34
Highlands County	Right-of-Way	200.00	90/10	**	180.00	20.00
Highlands County	Occupational License	90.00	90/10	**	81.00	9.00
Fla. FPSC	RAFs	2,572.38	actual		1,638.85	933.53
Fla. Dep. State	Corporation Filing Fee	<u>150.00</u>	90/10	**	<u>135.00</u>	<u>15.00</u>
	Totals	\$4,842.81			\$2,400.94	\$2,441.87

* Allocation is based on the percentage of total assessed property value for each system.

** Allocation is based on the methodology approved in the utility's previous rate proceeding.

Audit Exception No. 7

Subject: Capital Structure

Statement of Facts: The utility's books, which are maintained for income tax purposes, indicates a combined negative shareholders' equity of \$58,367 at test year ended June 30, 1998.

The utility has an outstanding long-term variable rate bank loan with an average balance of \$86,157 at test year ended June 30, 1998. During the test year the associated interest rate remained stable at 9.5 percent.

The utility has an outstanding long-term loan from DDH Partnership, an affiliated operation, with an average balance of \$10,926 at period ended June 30, 1998. The interest rate associated with this loan has been 7.0 percent since the last rate proceeding.

Opinion/Recommendation: The utility's shareholders' equity should be restated to zero in determining the utility's capital structure because of its negative balance.

The utility's average capital structure at period ended June 30, 1998, is composed entirely of long-term debt in the amount of \$97,084 with a weighted average cost rate of 9.219 percent. See auditor's calculations below.

<u>Debt Instrument</u>	<u>Average Balance</u>	<u>Percentage of Total Debt</u>	<u>Interest Rate</u>	<u>Weighted Cost Rate</u>
NCNB Bank Loan	\$86,157.40	88.746%	9.500%	8.431%
DDH Partnership Loan	<u>10,926.19</u>	11.254%	7.000%	<u>0.788%</u>
Totals	\$97,083.59			9.219%

Audit Disclosure No. 1

Subject: Pro Forma Wastewater Plant Additions

Statement of Facts: Utility management anticipates replacing two defective check valves in its primary lift station within the next year.

The utility has provided audit staff with a signed bid from Kencon, Inc. for \$1,497, which reflects the cost of replacing one of the check valves.

Opinion/Recommendation: Auditor forwards this information to the analyst and engineer in this rate proceeding for their consideration.

Audit Disclosure No. 2

Subject: Utility Tariff Rates

Statement of Facts: The utility provides water service to "River Greens West Condo," a four-unit condominium complex within its service territory, using a 2" water meter.

The utility does not have a Commission-approved multi-residential service tariff.

Opinion/Recommendation: The utility currently bills one of the four condominium owners for water service using rates established for 5/8" meters. (\$8.01 base facility charge and \$1.37 per thousand gallons of water use)

The Commission should determine a tariff rate for multi-residential service for this utility.

EXHIBIT I

**DAMON UTILITIES, INC.
DOCKET NO. 981198-WS
WATER RATE BASE
TEST YEAR ENDED JUNE 30, 1998
(Average)**

(a) DESCRIPTION	(b) FPSC ORDER NO.25789 @06/30/91	(c) PER COMPANY(1) 06/30/98	(e) AUDIT EXCEPTION	(f) REFER TO(2)	(g) PER AUDIT 06/30/98
UTILITY-PLANT-IN-SERVICE	\$96,002	\$0	\$115,850	E-2	\$115,850
LAND	\$0	\$0	\$0		\$0
PLANT HELD FOR FUTURE USE	(\$19,806)	\$0	\$0		\$0
CIAC	(\$46,025)	\$0	(\$63,450)	E-3	(\$63,450)
AMORTIZATION OF CIAC	\$2,371	\$0	\$17,711	E-3	\$17,711
ACCUMULATED DEPRECIATION	(\$9,094)	\$0	(\$36,090)	E-2	(\$36,090)
WORKING CAPITAL(3)	\$2,292	\$0	\$3,180	E-5	\$3,180
	=====	=====	=====		=====
TOTAL	\$25,740	\$0	\$37,201		\$37,201

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working Capital was calculated at 1/8 O&M expense per Commission policy.

EXHIBIT II

**DAMON UTILITIES, INC.
DOCKET NO. 981198-WS
WASTEWATER RATE BASE
TEST YEAR ENDED JUNE 30, 1998
(Average)**

(a) DESCRIPTION	(b) FPSC ORDER NO. 25789 @06/30/91	(c) PER COMPANY(1) 06/30/98	(d) AUDIT EXCEPTION	(e) REFER TO(2)	(f) PER AUDIT 06/30/98
UTILITY-PLANT-IN-SERVICE	\$179,154	\$0	\$214,526	E-2	\$214,526
LAND	\$0	\$0	\$0		\$0
PLANT HELD FOR FUTURE USE	(\$100,923)	\$0	\$0		\$0
CIAC	(\$8,370)	\$0	(\$38,221)	E-3	(\$38,221)
AMORTIZATION OF CIAC	(\$1,502)	\$0	\$10,465	E-3	\$10,465
ACCUMULATED DEPRECIATION	(\$36,641)	\$0	(\$104,073)	E-2	(\$104,073)
WORKING CAPITAL(3)	\$994	\$0	\$2,023	E-5	\$2,023
	=====	=====	=====		=====
TOTAL	\$32,712	\$0	\$84,720		\$84,720

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working Capital was calculated at 1/8 O&M expense per Commission policy.

EXHIBIT III

**DAMON UTILITIES, INC.
DOCKET NO. 981198-WS
WATER NET OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998**

(a)	(b)	(c)	(e)	(f)	(g)
DESCRIPTION	FPSC ORDER NO. 25789 @06/30/91	PER COMPANY(1) 06/30/98	AUDIT EXCEPTION	REFER TO(2)	PER AUDIT 06/30/98
OPERATING REVENUES	\$23,336	\$0	\$36,419	E-4	\$36,419
	-----	-----	-----		-----
OPERATING EXPENSES:					
O&M EXPENSE	\$18,337	\$0	\$25,443	E-5	\$25,443
DEPRECIATION EXPENSE	\$1,180	\$0	\$4,678	E-2	\$4,678
AMORTIZATION	\$195	\$0	(\$2,562)	E-3	(\$2,562)
TAXES OTHER THAN INCOME	\$1,050	\$0	\$2,401	E-6	\$2,401
INCOME TAX EXPENSE	\$0	\$0	\$0		\$0
	-----	-----	-----		-----
TOTAL OPERATING EXPENSE	\$20,762	\$0	\$29,959		\$29,959
	=====	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$2,574	\$0	\$6,460		\$6,460

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.

EXHIBIT IV

**DAMON UTILITIES, INC.
DOCKET NO. 981198-WS
WASTEWATER NET OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998**

(a) DESCRIPTION	(b) FPSC ORDER NO. 25789 @06/30/91	(c) PER COMPANY(1) @06/30/98	(e) AUDIT EXCEPTION	(f) REFER TO(2)	(g) PER AUDIT @06/30/98
OPERATING REVENUES	\$13,449	\$0	\$20,745	E-4	\$20,745
<hr/>					
OPERATING EXPENSES:					
O&M EXPENSE	\$7,954	\$0	\$16,184	E-5	\$16,184
DEPRECIATION EXPENSE	\$1,180	\$0	\$9,529	E-2	\$9,529
AMORTIZATION	\$439	\$0	(\$1,698)	E-3	(\$1,698)
TAXES OTHER THAN INCOME	\$605	\$0	\$2,442	E-6	\$2,442
INCOME TAX EXPENSE	\$0	\$0	\$0		\$0
<hr/>					
TOTAL OPERATING EXPENSE	\$10,178	\$0	\$26,457		\$26,457
<hr/>					
NET OPERATING INCOME(LOSS)	\$3,271	\$0	(\$5,712)		(\$5,712)

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.

EXHIBIT V

**DAMON UTILITIES, INC.
DOCKET NO. 981198-WS
CAPITAL STRUCTURE
TEST YEAR ENDED JUNE 30, 1998
(Average)**

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
DESCRIPTION	FPSC ORDER NO. 25789 @06/30/91	PER COMPANY(1) @06/30/98	AUDIT EXCEPTION	REFER TO(2)	PER AUDIT @06/30/98	RATIO	COST RATE(4)	WEIGHTED COST OF CAPITAL
COMMON EQUITY (3)	\$0	\$0	\$0		\$0	0.00%	11.290%	0.000%
PREFERRED STOCK	\$0	\$0	\$0		\$0	0.00%	0.000%	0.000%
LONG-TERM DEBT	\$165,238	\$0	\$97,084	E-7	\$97,084	100.00%	9.219%	9.219%
SHORT-TERM DEBT	\$0	\$0	\$0		\$0	0.00%	0.000%	0.000%
CUSTOMER DEPOSITS(5)	\$0	\$0	\$0		\$0	0.00%	6.000%	0.000%
ITC	\$0	\$0	\$0		\$0	0.00%	0.000%	0.000%
TOTAL	\$165,238	\$0	\$97,084		\$97,084	100.00%		9.219%

REQUIRED FOOTNOTES:

- | | |
|---|--|
| <p>(1) Company balance set to zero. See Audit Exception No. 1.</p> <p>(2) Audit adjustments do not include audit disclosures.</p> <p>(3) Common equity is zero because of negative balance.</p> | <p>(4) Cost rate for common equity established in Order No. 25789.</p> <p>(5) The utility does not collect a customer deposit for service connections.</p> |
|---|--|