

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: December 8, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110260-WS
Company Name: Useppa Island Utility, Inc.
Company Code: WS249
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 11-266-4-1

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CLERK

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 were confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER 08839

08839 DEC-8 =

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State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Useppa Island Utility, Inc.
Staff-Assisted Rate Case

Twelve Months Ended June 30, 2011

Docket No. 110260-WS
Audit Control No. 11-266-4-1
December 7, 2011

Bety Maitre

Bety Maitre
Audit Manager

Kathy Welch

Kathy Welch
Reviewer

DOCUMENT NUMBER DATE
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Purpose

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 dated September 23, 2011. We have applied these procedures to the attached schedules prepared by the audit staff in support of Useppa Island Utility, Inc.'s request for a Staff Assisted Rate Case in Docket No.110260-WS.

This audit was performed following *General Standards and Fieldwork Standards* found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term "Company" refers to Useppa Inn and Dock Co., Ltd., the parent or holding company of Useppa Island Utility, Inc. or Utility. The Utility's last rate case order PSC-07-0385-SC-WS was issued May 1, 2007 in Docket No. 060575-WS and used a test year ended June 30, 2006.

Utility Books and Records

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

Procedures: We reviewed the Utility's accounting systems. The Utility uses the NARUC account numbers in its ledgers but does not keep a detailed ledger by subaccounts.

Rate Base

Objectives: Our objective was to determine that the adjustments from the last rate case order were made to rate base.

Procedures: We agreed the total Utility balance at June 30, 2006 to prior audit work papers and the 2006 annual report. We obtained the adjustments booked by the Utility and compared them to the adjustments in Order PSC-07-0385-SC-WS. The adjustments made by the Utility to comply with Order PSC-07-0385-SC-WS were incomplete. We prepared rate base schedules for water (Exhibit 1) and wastewater (Exhibit 2). Finding 1 addresses our recommended adjustments to rate base.

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine that property exists and is owned by the Utility and that plant additions are authentic, recorded at cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of plant were made when a replacement item was put in service, and 3) Verify that the adjustments to plant in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We obtained the water and wastewater plant balances as of June 30, 2006 that were established in Docket 060575-WS. We reviewed and sampled additions to water and wastewater plant for the period July 1, 2006 through June 30, 2011, to verify the water and wastewater plant balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. Findings 1, 2, 3, 4, 5, 11, and 12 address our recommended adjustments to plant.

Land & Land Rights

Objectives: Our objective was to determine that Utility land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We obtained the water and wastewater land balances as of June 30, 2006 that were established in Docket 060575-WS and compared them to the ledger balances at June 30, 2011. We also performed a land search on the county website. Finding 6 addresses the issue of unrecorded land.

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

Objectives: Our objectives were to: 1) Determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, and 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We obtained the water and wastewater CIAC balances as of June 30, 2006 that were established in Docket 060575-WS. We reviewed the income tax returns for unrecorded cash and property contributions. No CIAC was added since the last rate case.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We obtained the water and wastewater accumulated depreciation balances as of June 30, 2006 that were established in Docket 060575-WS. We recalculated depreciation from July 1, 2006 to June 30, 2011 using the balances from the last case and the rates authorized in Rule 25-30.140, F.A.C. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. Finding 1, 2, 3, 4, 5, 7, 11, and 12 address our recommended adjustments to accumulated depreciation.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We obtained the water and wastewater accumulated amortization of CIAC balances as of June 30, 2006 that were established in Docket 060575-WS. We recalculated amortization using the balances from the last case and the rates authorized in rule 25-30.140, F.A.C. Finding 1, 8, and 9 address our recommended adjustments to accumulated amortization of CIAC.

Working Capital

Objectives: Our objective was to calculate working capital in compliance with Commission rules.

Procedures: We calculated working capital for the test year using the using the one-eighth of operating and maintenance expense method.

Net Operating Income

Operating Revenue

Objectives: Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We verified the Utility's revenues for the 12-month period ending June 30, 2011, by tracing them to the Utility's general ledger and billing reports. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period. We prepared a billing analysis of the consumption from the billing reports. We prepared net operating income schedules for water (Exhibit 3) and wastewater (Exhibit 4). Finding 10 addresses our recommended adjustments to operating revenues.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with NARUC USOA and Commission rules and are representative of ongoing utility operations.

Procedures: We verified water and wastewater operating and maintenance expenses for the 12-month period ending June 30, 2011, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper period, amount, classification, support, recurring, and utility related. We scheduled the cost of contracted services by type of service.

We examined related party transactions with other divisions of the Company for benefits received by the Utility but having no costs assigned. We prepared a lower of cost or market analysis to help evaluate the reasonableness of Utility calculations. Finding 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, and 24 address our recommended adjustments to operating and maintenance expenses.

Taxes Other than Income

Objectives: Our objective was to determine that taxes other than income expense are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

Procedures: We verified water and wastewater taxes other than income tax expenses for the 12-month period ending June 30, 2011, by tracing invoiced taxes to original source documentation.

We reviewed the 2010 regulatory assessment fee returns. Finding 10 and 25 address our recommended adjustments to taxes other than income taxes.

Capital Structure

Objectives: Our objective was 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.

Procedures: We reviewed the cost of capital components of the Utility and its parent. We recalculated the components and cost rates using averages. We prepared a schedule to reconcile rate base to the capital structure. The Utility has no short term debt, customer deposits, deferred taxes, or investment tax credits. We prepared a weighted cost of capital structure schedule (Exhibit 5). Finding 26 addresses our recommended adjustments to the capital structure.

Audit Findings

Finding 1: Prior Order Adjustments

Audit Analysis: The Utility recorded adjustments of \$21,800, \$11,007, \$21,152 to utility plant in service, accumulated depreciation and accumulated amortization of CIAC, respectively, for water for Commission Order PSC-07-0385-SC-WS. The Utility recorded adjustments of \$15,223, (\$5,372), \$3,007 to utility plant in service, accumulated depreciation and accumulated amortization of CIAC, respectively, for wastewater for the same order. These adjustments do not agree with prior Order PSC-07-0385-SC-WS. The adjustments booked by the Utility were traced to the audit report issued November 20, 2006 in Docket 060575-WS. However, the Commission had adjusted the findings in that report.

On the following pages, we provide our recommended adjustments to rate base to comply with the prior order. The Utility does not maintain a detailed ledger by subaccounts of rate base components. We established the beginning balances of each subaccount using the prior audit's workpapers and report.

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to depreciation expense should be recorded to retained earnings:

Acct.	Account Description	Debit	Credit
320	Water Treatment Equipment		\$ 1,862
334	Meters and Meter Installations		\$ 16
339	Other Miscellaneous Equipment	\$ 845	
343	Tools, Shop, & Garage Equipment	\$ 434	
344	Laboratory Equipment	\$ 583	
360	Collection Sewers - Force		\$ 9,074
380	Treatment & Disposal Equipment	\$ 265	
389	Other Plant and Misc Equipment	\$ 9,072	
108	Accum. Depreciation Water		\$ 10,420
108	Accum. Depreciation Wastewater		\$ 3,423
272	Accum. Amort. CIAC Water	\$ 1,597	
272	Accum. Amort. CIAC Wastewater	\$ 726	
345	Retained Earnings	\$ 11,273	
	Total	\$ 24,794	\$ 24,794

Effect on the Filing: Average plant should decrease by \$17 for water and increase by \$263 for wastewater. Accumulated depreciation's average balances should increase by \$10,420 (\$2 + (\$10,422)) and \$3,423 ((\$1,344) + (\$2,079)) for water and wastewater, respectively. Accumulated amortization of CIAC's average balances should increase by \$1,597 and \$726 for water and wastewater, respectively. Wastewater depreciation expense should be increased by \$269.

Utility Plant In Service Prior Order Reconciliation

Acct.	Acct. Description	6/30/2006	Total Adj.	6/30/2006	6/30/2006	Plant
		Utility's Unadj. Bal.	By Utility	Utility's Adj. Bal.	Order's Adj. Bal.	Adj.
Water Plant						
303	Land & Land Rights	\$ 10,463	\$ -	\$ 10,463	\$ 10,463	\$ -
304	Structures & Improvements	\$ 32,516	\$ 606	\$ 33,122	\$ 33,122	\$ -
307	Wells & Springs	\$ 51,199	\$ -	\$ 51,199	\$ 51,199	\$ -
310	Power Generation Equipment	\$ 172,535	\$ (172,535)	\$ -	\$ -	\$ -
311	Pump Equipment	\$ 33,797	\$ (10,898)	\$ 22,899	\$ 22,899	\$ (0)
320	Water Treatment Equipment	\$ 181,896	\$ (7,068)	\$ 174,828	\$ 172,966	\$ (1,862)
330	Distribution Reservoirs & Standpipes	\$ 6,611	\$ 155,168	\$ 161,779	\$ 161,779	\$ -
331	Transmission & Distribution Lines	\$ 63,708	\$ -	\$ 63,708	\$ 63,708	\$ -
333	Services	\$ 3,020	\$ -	\$ 3,020	\$ 3,020	\$ -
334	Meters and Meter Installations	\$ 18,006	\$ 15,786	\$ 33,792	\$ 33,776	\$ (16)
339	Other Miscellaneous Equipment	\$ 2,097	\$ (1,302)	\$ 795	\$ 1,640	\$ 845
341	Transportation Equipment	\$ 800	\$ -	\$ 800	\$ 800	\$ -
343	Tools, Shop, & Garage Equipment	\$ 1,142	\$ (820)	\$ 322	\$ 756	\$ 434
344	Laboratory Equipment	\$ 932	\$ (738)	\$ 194	\$ 777	\$ 583
	Total	\$ 578,722	\$ (21,800)	\$ 556,922	\$ 556,905	\$ (17)
	Profoma Plant				\$ -	
	Averaging Adj.				\$ (303)	
	Ordered Balance				\$ 556,602	
Wastewater Plant						
353	Land & Land Rights	\$ 15,788	\$ (12,301)	\$ 3,487	\$ 3,487	\$ -
354	Structures & Improvements	\$ 196,388	\$ (362)	\$ 196,026	\$ 196,026	\$ -
355	Power Generation Equipment	\$ -	\$ 12,301	\$ 12,301	\$ 12,301	\$ -
360	Collection Sewers - Force	\$ 122,424	\$ 5,402	\$ 127,826	\$ 118,752	\$ (9,074)
361	Collection Sewers - Gravity	\$ 377	\$ -	\$ 377	\$ 377	\$ -
364	Flow Measuring Devices	\$ -	\$ -	\$ -	\$ -	\$ -
370	Receiving Wells	\$ 64,652	\$ (1,871)	\$ 62,781	\$ 62,781	\$ -
371	Pump Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
380	Treatment & Disposal Equipment	\$ 42,112	\$ -	\$ 42,112	\$ 42,377	\$ 265 (Note A)
389	Other Plant and Misc Equipment	\$ 23,047	\$ (18,392)	\$ 4,655	\$ 13,727	\$ 9,072
391	Transportation Equipment	\$ 1,200	\$ -	\$ 1,200	\$ 1,200	\$ -
393	Tools, Shop, & Garage Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
397	Miscellaneous Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
398	Other Tangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ 465,988	\$ (15,223)	\$ 450,765	\$ 451,028	\$ 263
	Profoma Plant				\$ 73,493	
	Averaging Adj.				\$ (1,982)	
	Ordered Balance				\$ 522,539	

Note A: The Blower Adjustment was not booked because it wasn't included in the audit report.

Change in Accumulated Depreciation

Acct.	Acct. Description	Plant Adj.	Dep. Rate	Period (Years)	A/D	Dep. Exp.
Water Plant						
320	Water Treatment Equipment	\$ (1,862)	5.88%	5.00	\$ 548	\$ (110)
334	Meters and Meter Installations	\$ (16)	5.88%	5.00	\$ 5	\$ (1)
339	Other Miscellaneous Equipment	\$ 845	5.00%	5.00	\$ (211)	\$ 42
343	Tools, Shop, & Garage Equipment	\$ 434	6.67%	5.00	\$ (145)	\$ 29
344	Laboratory Equipment	\$ 583	6.67%	5.00	\$ (194)	\$ 39
	Total	\$ (17)			\$ 2	\$ (0)
Wastewater Plant						
360	Collection Sewers - Force	\$ (9,074)	3.70%	5.00	\$ 1,680	\$ (336)
380	Treatment & Disposal Equipment	\$ 265	6.67%	5.00	\$ -	\$ -
389	Other Plant and Misc Equipment	\$ 9,072	6.67%	5.00	\$ (3,024)	\$ 605
	Total	\$ 263			\$ (1,344)	\$ 269

Note B Fully depreciated at the end of the prior audit

Accumulated Depreciation Order Reconciliation

Acct.	Acct. Description	Utility's A/D @ 6/30/06	Booked Adj.	Utility's Adj. A/D @ 6/30/06	6/30/2006 Order's Adj. Bal.	A/D R/E Adj.
Water Accumulated Depreciation						
304	Structures & Improvements	\$ (31,926)		\$ (31,926)	\$ (31,931)	\$ (5)
307	Wells & Springs	\$ (37,709)		\$ (37,709)	\$ (37,709)	\$ -
310	Power Generation Equipment	\$ -		\$ -	\$ -	\$ -
311	Pump Equipment	\$ (18,130)	\$ 11,108	\$ (7,022)	\$ (7,108)	\$ (86)
320	Water Treatment Equipment	\$ (114,450)	\$ 7,068	\$ (107,382)	\$ (116,275)	\$ (8,893)
330	Distribution Reservoirs & Standpipes	\$ (23,722)		\$ (23,722)	\$ (23,722)	\$ -
331	Transmission & Distribution Lines	\$ (41,887)		\$ (41,887)	\$ (41,888)	\$ (1)
333	Services	\$ (2,303)		\$ (2,303)	\$ (2,303)	\$ -
334	Meters and Meter Installations	\$ (25,268)	\$ 1,347	\$ (23,921)	\$ (22,915)	\$ 1,006
339	Other Miscellaneous Equipment	\$ (225)	\$ 845	\$ 620	\$ (442)	\$ (1,062)
341	Transportation Equipment	\$ (800)		\$ (800)	\$ (800)	\$ -
343	Tools, Shop, & Garage Equipment	\$ (115)	\$ 434	\$ 319	\$ (252)	\$ (571)
344	Laboratory Equipment	\$ (83)	\$ 583	\$ 500	\$ (311)	\$ (811)
	Total	\$ (296,618)	\$ 21,384	\$ (275,234)	\$ (285,656)	\$ (10,422)
	Profoma Plant				\$ -	
	Averaging Adj.				\$ 12,559	
	Ordered Balance				\$ (273,097)	
Wastewater Accumulated Depreciation						
354	Structures & Improvements	\$ (59,861)	\$ 969	\$ (58,892)	\$ (59,820)	\$ (928)
355	Power Generation Equipment	\$ (4,342)		\$ (4,342)	\$ (4,340)	\$ 2
360	Collection Sewers - Force	\$ (101,477)	\$ 9,379	\$ (92,098)	\$ (81,757)	\$ 10,341
361	Collection Sewers - Gravity	\$ (122)		\$ (122)	\$ (122)	\$ -
363	Services			\$ -	\$ -	\$ -
364	Flow Measuring Devices			\$ -	\$ -	\$ -
370	Receiving Wells	\$ (58,716)		\$ (58,716)	\$ (58,716)	\$ -
371	Pump Equipment	\$ (45,380)		\$ -	\$ -	\$ -
380	Treatment & Disposal Equipment			\$ (45,380)	\$ (45,442)	\$ (62)
389	Other Plant and Misc Equipment	\$ (853)	\$ 9,073	\$ 8,220	\$ (3,212)	\$ (11,432)
391	Transportation Equipment	\$ (1,200)		\$ (1,200)	\$ (1,200)	\$ -
393	Tools, Shop, & Garage Equipment			\$ -	\$ -	\$ -
397	Miscellaneous Equipment			\$ -	\$ -	\$ -
398	Other Tangible Plant			\$ -	\$ -	\$ -
	Total	\$ (271,951)	\$ 19,421	\$ (252,530)	\$ (254,609)	\$ (2,079)
	Profoma Plant				\$ 6,511	
	Averaging Adj.				\$ 7,465	
	Ordered Balance				\$ (240,633)	

Accumulated Amortization of CIAC Order Reconciliation

		Utility's	6/30/2006	
		Adj. A/A	Order's	A/A
Acct.	Acct. Description	@ 6/30/06	Adj. Bal.	Adj.
Water Accumulated Amortization of CIAC				
304	Structures & Improvement CIAC	\$ 30,145	\$ 30,152	\$ 7
307	Wells & Springs CIAC	\$ 5,836	\$ 5,837	\$ 1
320	Water Treatment Equipment CIAC	\$ (6,851)	\$ (6,849)	\$ 2
331	Transmission & Distribution Lines CIAC	\$ 41,397	\$ 41,401	\$ 4
333	Services CIAC	\$ 2,074	\$ 2,073	\$ (1)
334	Meters and Meter Installations CIAC	\$ 2,103	\$ 1,537	\$ (566)
	Cash	\$ 97,979	\$ 100,129	\$ 2,150
	Total	\$ 172,683	\$ 174,280	\$ 1,597
	Profoma Plant		\$ -	
	Averaging Adj.		\$ (4,217)	
	Ordered Balance		\$ 170,063	
Wastewater Accumulated Amortization of CIAC				
354	Structures & Improvement CIAC	\$ 12,586	\$ 12,586	\$ -
360	Collection Sewers - Force CIAC	\$ 43,092	\$ 43,092	\$ -
370	Receiving Wells CIAC	\$ 40,305	\$ 40,305	\$ -
380	Treatment & Disposal Equipment CIAC	\$ 34,606	\$ 34,606	\$ -
	Cash	\$ 83,034	\$ 83,760	\$ 726
	Total	\$ 213,623	\$ 214,349	\$ 726
	Profoma Plant		\$ -	
	Averaging Adj.		\$ 3,603	
	Ordered Balance		\$ 217,952	

Finding 2: Misclassified Utility Plant in Service

Audit Analysis: We tested additions since the last audit. The test revealed \$3,048 of the Deep Well Injection project cost was capitalized to Account 307, Wells and Springs, during the test year. This project is the reason for the rate case and is not yet completed. The NARUC Uniform System of accounts for Class C Water Utilities states that the Account 105, Construction Work In Progress, "...shall include the cost of water plant in process of construction, but not ready for service." The project cost of \$3,048 should be transferred from Wells and Springs to Construction Work In Progress. Year end plant and accumulated depreciation would decrease by \$3,048 and \$56. Average water plant and average accumulated depreciation would decrease by \$1,524 (\$3,048*.50 for averaging) and \$28 (\$56*.50 for averaging), respectively. Water depreciation expense would decrease by \$56. We have included the cost of the test well in a proforma adjustment later in this report.

Change in Depreciation

Acct.	Acct. Description	Date	Plant	Reason for Removal	Rate	Service Life	Dep. Exp.	A/D	Average Effect
Water									
307	Wells & Springs	9/14/2010	\$ (3,048)	Deep Well Project	3.70%	0.5	\$ (56)	\$ 56	\$ 28

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to depreciation expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
107	Water Construction Work In Process	\$ 3,048	
307	Wells & Springs		\$ 3,048
108	Accum. Depreciation Water	\$ 56	
345	Retained Earnings		\$ 56
	Total	\$ 3,104	\$ 3,104

Effect on the Filing: Average water plant and accumulated depreciation should decrease by \$1,524 and \$28. Water depreciation expense should decrease by \$56.

Finding 3: Retirement of Utility Plant in Service

Audit Analysis: Since the last audit, the Utility did not make any retirement entries for the assets replaced. On the schedule following this finding, we have calculated the retirement adjustments using the 75% of replacement cost method. Year end plant and accumulated depreciation should be decreased by \$4,807 and \$11,756 for water and wastewater, respectively. Average plant and accumulated depreciation should decrease by \$4,669 and \$11,756 for water and wastewater respectively. The accumulated depreciation balance would also decrease because of the depreciation taken since the retirement. This results in an additional decrease in water accumulated depreciation of \$689 and \$1,381 for wastewater accumulated depreciation. The effect on average water and wastewater accumulated depreciation is a decrease of \$565 and \$918. Depreciation expense is decreased by \$248 and \$572 for water and wastewater, respectively.

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to depreciation expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
307	Wells & Springs		\$ 1,477
311	Pump Equipment		\$ 1,376
334	Meters and Meter Installations		\$ 1,597
340	Office Furniture and Equipment		\$ 358
108	Accum. Depreciation Water	\$ 5,496	
360	Collection Sewers - Force		\$ 4,732
370	Receiving Wells		\$ 2,670
380	Treatment & Disposal Equipment		\$ 3,995
390	Office Furniture and Equipment		\$ 358
108	Accum. Depreciation Wastewater	\$ 13,137	
345	Retained Earnings		\$ 2,070
	Total	\$ 18,633	\$ 18,633

Effect on the Filing: Average plant should decrease \$4,669 and \$11,756 for water and wastewater, respectively. Average accumulated depreciation should decrease by \$5,234 ((\$4,669) + \$(565)) for water and \$12,674 ((\$11,756) + (\$918)) for wastewater. Depreciation expense should decrease by \$248 water and \$572 for wastewater.

Retirement Adjustment

Acct.	Acct. Description	Date	Item Description	Replacement Cost	75% of Cost	Effect on Average	Average Adjustment
Water							
307	Wells & Springs	12/31/2007	Pressure Reducing Valve	\$ 1,211			
307	Wells & Springs	12/31/2007	Hytrol Valve	\$ 758			
			Total	\$ 1,969	\$ (1,477)		
311	Pump Equipment	9/30/2008	Sprinkler Pump	\$ 408			
311	Pump Equipment	12/31/2008	Air Charging System	\$ 1,057			
			Total	\$ 1,465	\$ (1,099)		
311	Pump Equipment	11/30/2010	Sprinkler Pump	\$ 369	\$ (277)	\$ 138	
334	Meters and Meter Installations	12/31/2007	Meters, valves, and couplings	\$ 716			
334	Meters and Meter Installations	6/17/2009	Meters	\$ 981			
334	Meters and Meter Installations	5/18/2010	Meters and couplings	\$ 433			
			Total	\$ 2,130	\$ (1,597)		
340	Office Furniture and Equipment	12/31/2007	Dell Computer	\$ 478	\$ (358)		
			Water Total	\$ 6,410	\$ (4,807)	\$ 138	\$ (4,669)
Wastewater							
360	Collection Sewers - Force	9/30/2008	Effluent Pumps	\$ 2,528			
360	Collection Sewers - Force	9/30/2008	Effluent Pumps	\$ 195			
360	Collection Sewers - Force	9/30/2008	Sewage Pump	\$ 3,588			
			Total	\$ 6,310	\$ (4,732)		
370	Receiving Wells	12/31/2009	Sewage Pump	\$ 3,560	\$ (2,670)		
380	Treatment & Disposal Equipment	12/31/2007	Blower Motor	\$ 423			
380	Treatment & Disposal Equipment	12/31/2007	Blower	\$ 1,091			
380	Treatment & Disposal Equipment	12/31/2007	Sewage Pump	\$ 543			
380	Treatment & Disposal Equipment	9/30/2008	Blower Motor	\$ 413			
380	Treatment & Disposal Equipment	1/20/2010	Sulterbilt Blower	\$ 1,405			
380	Treatment & Disposal Equipment	3/18/2010	Sulterbilt Blower	\$ 1,452			
			Total	\$ 5,327	\$ (3,995)		
390	Office Furniture and Equipment	12/31/2007	Dell Computer	\$ 478	\$ (358)		
			Wastewater Total	\$ 15,674	\$ (11,756)	\$ -	\$ (11,756)

Retirement Adjustment on Depreciation

Acct.	Account Description	Date	Item Description	75% of Cost	Rate	Months	Depreciation Expense	Accumulated Depreciation	Average Adjustment
Water									
307.001	Wells & Springs	12/31/2007	Pressure Reducing Valve	\$ (908)	3.70%	43	\$ (34)	\$ 121	\$ 104
307.001	Wells & Springs	12/31/2007	Hytrol Valve	\$ (569)	3.70%	43	\$ (21)	\$ 75	\$ 65
311.001	Pump Equipment	9/30/2008	Sprinkler Pump	\$ (306)	5.88%	34	\$ (18)	\$ 51	\$ 42
311.001	Pump Equipment	12/31/2008	Air Charging System	\$ (792)	5.88%	31	\$ (47)	\$ 120	\$ 97
311.001	Pump Equipment	11/30/2010	Sprinkler Pump	\$ (277)	5.88%	8	\$ (11)	\$ 11	\$ 5
334.001	Meters and Meter Installations	12/31/2007	Meters, valves, and couplings	\$ (537)	5.88%	43	\$ (32)	\$ 113	\$ 97
334.001	Meters and Meter Installations	6/17/2009	Meters	\$ (736)	5.88%	25	\$ (43)	\$ 90	\$ 69
334.001	Meters and Meter Installations	5/18/2010	Meters and couplings	\$ (325)	5.88%	14	\$ (19)	\$ 22	\$ 13
340.001	Office Furniture and Equipment	12/31/2007	Dell Computer	\$ (358)	6.67%	43	\$ (24)	\$ 86	\$ 74
			Water Total	\$ (4,807)			\$ (248)	\$ 689	\$ 565
Wastewater									
360.002	Collection Sewers - Force	9/30/2008	Effluent Pumps	\$ (1,896)	3.70%	34	\$ (70)	\$ 199	\$ 164
360.002	Collection Sewers - Force	9/30/2008	Effluent Pumps	\$ (146)	3.70%	34	\$ (5)	\$ 15	\$ 13
360.002	Collection Sewers - Force	9/30/2008	Sewage Pump	\$ (2,691)	3.70%	34	\$ (100)	\$ 282	\$ 233
370.002	Receiving Wells	12/31/2009	Sewage Pump	\$ (2,670)	4.00%	19	\$ (107)	\$ 169	\$ 116
380.002	Treatment & Disposal Equipment	12/31/2007	Blower Motor	\$ (317)	6.67%	43	\$ (21)	\$ 76	\$ 65
380.002	Treatment & Disposal Equipment	12/31/2007	Blower	\$ (818)	6.67%	43	\$ (55)	\$ 195	\$ 168
380.002	Treatment & Disposal Equipment	12/31/2007	Sewage Pump	\$ (408)	6.67%	43	\$ (27)	\$ 97	\$ 84
380.002	Treatment & Disposal Equipment	9/30/2008	Blower Motor	\$ (310)	6.67%	34	\$ (21)	\$ 59	\$ 48
380.002	Treatment & Disposal Equipment	1/20/2010	Sulterbilt Blower	\$ (1,054)	6.67%	18	\$ (70)	\$ 105	\$ 70
380.002	Treatment & Disposal Equipment	3/18/2010	Sulterbilt Blower	\$ (1,089)	6.67%	16	\$ (73)	\$ 97	\$ 60
390.002	Office Furniture and Equipment	12/31/2007	Dell Computer	\$ (358)	6.67%	43	\$ (24)	\$ 86	\$ 74
			Wastewater Total	\$ (11,756)			\$ (572)	\$ 1,381	\$ 918

Finding 4: Unsupported Utility Plant in Service

Audit Analysis: The Utility could not provide any supporting documentation for plant additions of \$1,509 in water plant account 320-Water Treatment Equipment and \$403 in wastewater plant account 380-Treatment & Disposal Equipment for the period of July to December 2006. We recommend that these capitalized assets be removed from rate base for lack of support. This would decrease utility plant in service at year end and average by \$1,509 and \$403 for water and wastewater, respectively. The accumulated depreciation's year end balance would decrease by \$444 and \$134 for water and wastewater, respectively. Average accumulated depreciation would decrease by \$400 and \$121, respectively. Depreciation expense would decrease by \$89 for water and \$27 for wastewater.

Change in Depreciation

Acct.	Acct. Description	Date	Plant	Reason for Removal	Rate	Service Life	Dep. Exp.	A/D	Average Effect
Water									
320	Water Treatment Equipment	12/31/2006	\$(1,509)	Unsupported Plant	5.88%	5	\$ (89)	\$ 444	\$ 400
Wastewater									
380	Treatment & Disposal Equipment	12/31/2006	\$ (403)	Unsupported Plant	6.67%	5	\$ (27)	\$ 134	\$ 121

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to depreciation expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
320	Water Treatment Equipment		\$ 1,509
108	Accum. Depreciation Water	\$ 444	
380	Treatment & Disposal Equipment		\$ 403
108	Accum. Depreciation Wastewater	\$ 134	
345	Retained Earnings	\$ 1,334	
	Total	\$ 1,912	\$ 1,912

Effect on the Filing: Average plant should decrease by \$1,509 and \$403 for water and wastewater, respectively. Average accumulated depreciation should decrease by \$400 for water and \$121 for wastewater. Depreciation expense should decrease by \$89 water and \$27 for wastewater.

Finding 5: Utility Plant in Service Proformas

Audit Analysis: There are three plant proformas included in the test year. They include the deep injection well, water tank rehabilitation, and reverse osmosis retrofit projects. These projects are the reason for this rate case.

The Utility is constructing deep injection wells to reduce the contamination of ground water. Cardno Entrix, the consultant, estimates the cost at \$98,200, but also advises that the actual cost is likely to vary from the estimate and can not be determined until the project has progressed further.

In October 2011, the Utility completed the water tank rehabilitation project for \$29,569. This project was done to extend the life of the tank. The work was done by Florida Environmental Construction, Inc.

The Utility has plans to retrofit its reverse osmosis unit to reduce water waste. The Utility has attempted to bid the contract out to three companies but have only been able to acquire a single quote from Hydropro, Inc. The cost of the project to be completed by Hydropro, Inc. is \$14,200.

Below, we calculated the accumulated depreciation and depreciation expense on the Utility's plant proforma.

Depreciation on Proforma Plant

Acct.	Acct. Description	Plant	Project	Rate	Dep. Exp.	A/D
Water						
330	Distribution Reservoirs & Standpipes	\$ 29,569	Tank Rehabilitation	3.03%	\$ 896	\$ (896)
320	Water Treatment Equipment	\$ 14,200	Reverse Osmosis Retrofit	5.88%	\$ 835	\$ (835)
	Water Total	\$ 43,769			\$ 1,731	\$ (1,731)
Wastewater						
354	Structures & Improvements	\$ 98,200	Deep Injection Well	3.70%	\$ 3,637	\$ (3,637)

There are no assets being retired as a result of the new projects.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Proforma plant on the attached schedules has been increased by \$43,769 and \$98,200 for water and wastewater, respectively. Proforma Water accumulated depreciation and depreciation expense should be increased by \$1,731. Proforma wastewater accumulated depreciation and depreciation expense should be increased by \$3,637.

Finding 6: Unrecorded Land

Audit Analysis: The Utility has a land balance of \$10,463 and \$3,487 for water and wastewater. This balance has not changed since the last audit.

Our review of Lee County's online records revealed that the Utility has not recorded all of the property used in utility operations. The only parcels recorded are the ones where the water and wastewater plant and drying bed are located. The land for its lift stations, electric meters, ponds, wells, a water tank, and the deep well injection well site are not recorded as being owned by the Utility.

We informed the Utility that these sites should be recorded. The Utility Manager noted that the cost of surveying and recording would be expensive and would exceed the Utility's budget.

We are deferring the issue to the analyst in Tallahassee to determine the appropriate resolution.

Effect on the General Ledger: The effect on the ledger will depend on the conclusion reached by the Commission.

Effect on the Filing: The effect on the ledger will depends on the conclusion reached by the Commission.

Finding 7: Accumulated Depreciation and Depreciation Expense

Audit Analysis: We examined the entries booked to accumulated depreciation and depreciation expense from June 30, 2006 to June 30, 2011. The Utility did not calculate the annual depreciation accruals using the rate and procedures of Rule 25-30.140, F.A.C. We recalculated accumulated depreciation on the schedules following this finding using the half year convention and rule rates. The depreciation expense adjustment is calculated below.

Depreciation Expense Adjustment		
Acct.	Description	Amount
Water		
403	Depreciation Exp. - Water	\$ 26,585
	Depreciation Exp. Per Staff	\$ 22,415
	Adjustment	\$ (4,170)
Wastewater		
403	Depreciation Exp. - Wastewater	\$ 19,247
	Depreciation Exp. Per Staff	\$ 16,127
	Adjustment	\$ (3,120)

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to depreciation expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
108	Accum. Depreciation Water		\$ 30,813
108	Accum. Depreciation Wastewater	\$ 16,883	
345	Retained Earnings	\$ 13,930	
	Total	\$ 30,813	\$ 30,813

Effect on the Filing: Average accumulated depreciation should increase by \$32,898 for water and decrease by \$15,323 for wastewater. Depreciation expense should decrease by \$4,170 and \$3,120 for water and wastewater, respectively.

Water Accumulated Depreciation Using Rule Rates and Procedures (1 of 2)

Acct.	Acct. Description	Rate	Utility's		Net		Net		Net		Net	
			6/30/2006	Net	12/31/2006	Net	12/31/2007	Net	12/31/2008	Net	12/31/2009	
			Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	
Water Plant												
304	Structures & Improvements		\$ 33,122	\$ -	\$ 33,122	\$ -	\$ 33,122	\$ -	\$ 33,122	\$ -	\$ 33,122	\$ -
307	Wells & Springs		\$ 51,199	\$ -	\$ 51,199	\$ 1,969	\$ 53,168	\$ -	\$ 53,168	\$ -	\$ 53,168	\$ -
310	Power Generation Equipment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
311	Pump Equipment		\$ 22,899	\$ -	\$ 22,899	\$ -	\$ 22,899	\$ 1,465	\$ 24,364	\$ -	\$ 24,364	\$ -
320	Water Treatment Equipment		\$ 162,528	\$ 1,509	\$ 164,037	\$ 3,566	\$ 167,603	\$ -	\$ 167,603	\$ -	\$ 167,603	\$ -
320.2	(WTE) Membranes		\$ 12,300	\$ -	\$ 12,300	\$ -	\$ 12,300	\$ -	\$ 12,300	\$ -	\$ 12,300	\$ -
330	Distribution Reservoirs & Standpipes		\$ 161,779	\$ -	\$ 161,779	\$ -	\$ 161,779	\$ -	\$ 161,779	\$ -	\$ 161,779	\$ -
331	Transmission & Distribution Lines		\$ 63,708	\$ -	\$ 63,708	\$ -	\$ 63,708	\$ -	\$ 63,708	\$ -	\$ 63,708	\$ -
333	Services		\$ 3,020	\$ -	\$ 3,020	\$ -	\$ 3,020	\$ -	\$ 3,020	\$ -	\$ 3,020	\$ -
334	Meters and Meter Installations		\$ 33,792	\$ -	\$ 33,792	\$ 716	\$ 34,508	\$ -	\$ 34,508	\$ 981	\$ 35,489	\$ -
335	Hydrants		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
339	Miscellaneous Equipment		\$ 795	\$ -	\$ 795	\$ -	\$ 795	\$ -	\$ 795	\$ -	\$ 795	\$ -
340	Office Furniture and Equipment		\$ -	\$ -	\$ -	\$ 477	\$ 477	\$ -	\$ 477	\$ -	\$ 477	\$ -
341	Transportation Equipment		\$ 800	\$ -	\$ 800	\$ -	\$ 800	\$ -	\$ 800	\$ -	\$ 800	\$ -
343	Tools, Shop, & Garage Equipment		\$ 322	\$ -	\$ 322	\$ -	\$ 322	\$ -	\$ 322	\$ -	\$ 322	\$ -
344	Laboratory Equipment		\$ 194	\$ -	\$ 194	\$ -	\$ 194	\$ -	\$ 194	\$ -	\$ 194	\$ -
348	Other Tangible Plant		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total		\$ 546,459	\$ 1,509	\$ 547,968	\$ 6,728	\$ 554,696	\$ 1,465	\$ 556,161	\$ 981	\$ 557,142	\$ -
Water Accum. Depreciation												
304	Structures & Improvements	3.70%	\$ (31,926)	\$ (613)	\$ (32,539)	\$ (583)	\$ (33,122)	\$ -	\$ (33,122)	\$ -	\$ (33,122)	\$ -
307	Wells & Springs	3.70%	\$ (37,709)	\$ (948)	\$ (38,657)	\$ (1,933)	\$ (40,590)	\$ (1,969)	\$ (42,559)	\$ (1,969)	\$ (44,528)	\$ -
310	Power Generation Equipment	5.88%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
311	Pump Equipment	5.88%	\$ (7,022)	\$ (674)	\$ (7,696)	\$ (1,347)	\$ (9,043)	\$ (1,390)	\$ (10,433)	\$ (1,433)	\$ (11,866)	\$ -
320	Water Treatment Equipment	5.88%	\$ (98,432)	\$ (4,825)	\$ (103,257)	\$ (9,754)	\$ (113,011)	\$ (9,859)	\$ (122,870)	\$ (9,859)	\$ (132,729)	\$ -
320.2	(WTE) Membranes	20.00%	\$ (8,950)	\$ (1,230)	\$ (10,180)	\$ (2,120)	\$ (12,300)	\$ -	\$ (12,300)	\$ -	\$ (12,300)	\$ -
330	Distribution Reservoirs & Standpipes	3.03%	\$ (23,722)	\$ (2,451)	\$ (26,173)	\$ (4,902)	\$ (31,076)	\$ (4,902)	\$ (35,978)	\$ (4,902)	\$ (40,880)	\$ -
331	Transmission & Distribution Lines	2.63%	\$ (41,887)	\$ (838)	\$ (42,725)	\$ (1,677)	\$ (44,402)	\$ (1,677)	\$ (46,078)	\$ (1,677)	\$ (47,755)	\$ -
333	Services	2.86%	\$ (2,303)	\$ (43)	\$ (2,346)	\$ (86)	\$ (2,432)	\$ (86)	\$ (2,519)	\$ (86)	\$ (2,605)	\$ -
334	Meters and Meter Installations	5.88%	\$ (23,921)	\$ (994)	\$ (24,915)	\$ (2,009)	\$ (26,924)	\$ (2,030)	\$ (28,953)	\$ (2,059)	\$ (31,012)	\$ -
335	Hydrants	2.50%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
339	Miscellaneous Equipment	5.00%	\$ 620	\$ (20)	\$ 600	\$ (40)	\$ 560	\$ (40)	\$ 521	\$ (40)	\$ 481	\$ -
340	Office Furniture and Equipment	6.67%	\$ -	\$ -	\$ -	\$ (16)	\$ (16)	\$ (32)	\$ (48)	\$ (32)	\$ (80)	\$ -
341	Transportation Equipment	16.67%	\$ (800)	\$ -	\$ (800)	\$ -	\$ (800)	\$ -	\$ (800)	\$ -	\$ (800)	\$ -
343	Tools, Shop, & Garage Equipment	6.67%	\$ 319	\$ (11)	\$ 308	\$ (21)	\$ 286	\$ (21)	\$ 265	\$ (21)	\$ 243	\$ -
344	Laboratory Equipment	6.67%	\$ 500	\$ (6)	\$ 493	\$ (13)	\$ 480	\$ (13)	\$ 467	\$ (13)	\$ 454	\$ -
348	Other Tangible Plant	10.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Other - System generated		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total		\$ (275,234)	\$ (12,653)	\$ (287,887)	\$ (24,501)	\$ (312,388)	\$ (22,019)	\$ (334,407)	\$ (22,091)	\$ (356,499)	\$ -
	Composite Rate				2.31%		4.41%		3.96%		3.96%	

Water Accumulated Depreciation Using Rule Rates and Procedures (2 of 2)

Acct.	Acct. Description	Rate	12/31/2009 Balance	Net Additions	6/30/2010 Balance	Net Additions	Staff's 6/30/2011 Balance	Utility's 6/30/2011 Balance	Adj.	Staff's Test Year G/L Avg
Water Plant										
304	Structures & Improvements		\$ 33,122	\$ -	\$ 33,122	\$ -	\$ 33,122			
307	Wells & Springs		\$ 53,168	\$ -	\$ 53,168	\$ 3,048	\$ 56,216			
310	Power Generation Equipment		\$ -	\$ -	\$ -	\$ -	\$ -			
311	Pump Equipment		\$ 24,364	\$ 2,016	\$ 26,380	\$ 2,722	\$ 29,102			
320	Water Treatment Equipment		\$ 167,603	\$ -	\$ 167,603	\$ 484	\$ 168,087			
320.2	(WTE) Membranes		\$ 12,300	\$ -	\$ 12,300	\$ -	\$ 12,300			
330	Distribution Reservoirs & Standpipes		\$ 161,779	\$ -	\$ 161,779	\$ -	\$ 161,779			
331	Transmission & Distribution Lines		\$ 63,708	\$ -	\$ 63,708	\$ -	\$ 63,708			
333	Services		\$ 3,020	\$ -	\$ 3,020	\$ -	\$ 3,020			
334	Meters and Meter Installations		\$ 35,489	\$ 433	\$ 35,922	\$ -	\$ 35,922			
335	Hydrants		\$ -	\$ -	\$ -	\$ -	\$ -			
339	Miscellaneous Equipment		\$ 795	\$ -	\$ 795	\$ -	\$ 795			
340	Office Furniture and Equipment		\$ 477	\$ -	\$ 477	\$ -	\$ 477			
341	Transportation Equipment		\$ 800	\$ -	\$ 800	\$ -	\$ 800			
343	Tools, Shop, & Garage Equipment		\$ 322	\$ -	\$ 322	\$ -	\$ 322			
344	Laboratory Equipment		\$ 194	\$ -	\$ 194	\$ -	\$ 194			
348	Other Tangible Plant		\$ -	\$ -	\$ -	\$ -	\$ -			
	Total		\$ 557,142	\$ 2,449	\$ 559,591	\$ 6,254	\$ 565,845			
Water Accum. Depreciation										
304	Structures & Improvements	3.70%	\$ (33,122)	\$ -	\$ (33,122)	\$ -	\$ (33,122)	\$ (33,122)	\$ -	\$ (33,122)
307	Wells & Springs	3.70%	\$ (44,528)	\$ (985)	\$ (45,513)	\$ (2,026)	\$ (47,538)	\$ (43,163)	\$ (4,376)	\$ (46,526)
310	Power Generation Equipment	5.88%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,318)	\$ 6,318	\$ -
311	Pump Equipment	5.88%	\$ (11,866)	\$ (776)	\$ (12,642)	\$ (1,632)	\$ (14,274)	\$ (24,100)	\$ 9,826	\$ (13,458)
320	Water Treatment Equipment	5.88%	\$ (132,729)	\$ (4,930)	\$ (137,658)	\$ (9,873)	\$ (147,531)	\$ (135,281)	\$ (12,251)	\$ (142,595)
320.2	(WTE) Membranes	20.00%	\$ (12,300)	\$ -	\$ (12,300)	\$ -	\$ (12,300)	\$ (10,273)	\$ (2,027)	\$ (12,300)
330	Distribution Reservoirs & Standpipes	3.03%	\$ (40,880)	\$ (2,451)	\$ (43,332)	\$ (4,902)	\$ (48,234)	\$ (24,347)	\$ (23,887)	\$ (45,783)
331	Transmission & Distribution Lines	2.63%	\$ (47,755)	\$ (838)	\$ (48,593)	\$ (1,677)	\$ (50,270)	\$ (44,698)	\$ (5,572)	\$ (49,431)
333	Services	2.86%	\$ (2,605)	\$ (43)	\$ (2,648)	\$ (86)	\$ (2,734)	\$ (2,535)	\$ (199)	\$ (2,691)
334	Meters and Meter Installations	5.88%	\$ (31,012)	\$ (1,057)	\$ (32,069)	\$ (2,113)	\$ (34,182)	\$ (28,114)	\$ (6,068)	\$ (33,125)
335	Hydrants	2.50%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
339	Miscellaneous Equipment	5.00%	\$ 481	\$ (20)	\$ 461	\$ (40)	\$ 421	\$ (381)	\$ 802	\$ 441
340	Office Furniture and Equipment	6.67%	\$ (80)	\$ (16)	\$ (95)	\$ (32)	\$ (127)	\$ (95)	\$ (32)	\$ (111)
341	Transportation Equipment	16.67%	\$ (800)	\$ -	\$ (800)	\$ -	\$ (800)	\$ (1,859)	\$ 1,059	\$ (800)
343	Tools, Shop, & Garage Equipment	6.67%	\$ 243	\$ (11)	\$ 233	\$ (21)	\$ 211	\$ (86)	\$ 297	\$ 222
344	Laboratory Equipment	6.67%	\$ 454	\$ (6)	\$ 448	\$ (13)	\$ 435	\$ (416)	\$ 851	\$ 441
348	Other Tangible Plant	10.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Other - System generated		\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,445)	\$ 4,445	\$ -
	Total		\$ (356,499)	\$ (11,132)	\$ (367,631)	\$ (22,415)	\$ (390,046)	\$ (359,232)	\$ (30,813)	\$ (378,838)
	Composite Rate		3.96%		1.99%		3.96%	Less: Utility's Average		(345,940)
								Difference		(32,898)
	Acct. 341 has a fully depreciated 6/30/06 beginning balance.									
	Acct. 304 and 320 (Membranes) fully depreciates in 2007.									

Wastewater Accumulated Depreciation Using Rule Rates and Procedures (1 of 2)

Acct.	Acct. Description	Rate	Utility's		12/31/2006		12/31/2007		12/31/2008		12/31/2009	
			6/30/2006	Net	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions
Wastewater Plant												
354	Structures & Improvements		\$ 196,026	\$ -	\$ 196,026	\$ 52,249	\$ 248,275	\$ 1,676	\$ 249,951	\$ -	\$ 249,951	
355	Power Generation Equipment		\$ 12,301	\$ -	\$ 12,301		\$ 12,301	\$ -	\$ 12,301	\$ -	\$ 12,301	
360	Collection Sewers - Force		\$ 127,826	\$ -	\$ 127,826	\$ 897	\$ 128,722	\$ 6,310	\$ 135,032	\$ -	\$ 135,032	
361	Collection Sewers - Gravity		\$ 377	\$ -	\$ 377	\$ -	\$ 377	\$ -	\$ 377	\$ -	\$ 377	
363	Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
364	Flow Measuring Devices		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
370	Receiving Wells		\$ 62,781	\$ -	\$ 62,781	\$ -	\$ 62,781	\$ -	\$ 62,781	\$ 3,560	\$ 66,341	
371	Pump Equipment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
380	Treatment & Disposal Equipment		\$ 42,112	\$ 403	\$ 42,515	\$ 2,057	\$ 44,572	\$ 413	\$ 44,986	\$ -	\$ 44,986	
389	Other Plant and Misc Equipment		\$ 4,655	\$ -	\$ 4,655	\$ -	\$ 4,655	\$ -	\$ 4,655	\$ -	\$ 4,655	
390	Office Furniture and Equipment		\$ -	\$ -	\$ -	\$ 478	\$ 478	\$ -	\$ 478	\$ -	\$ 478	
391	Transportation Equipment		\$ 1,200	\$ -	\$ 1,200	\$ -	\$ 1,200	\$ -	\$ 1,200	\$ -	\$ 1,200	
393	Tools, Shop, & Garage Equipment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
395	Power Operated Equipment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
397	Miscellaneous Equipment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
398	Other Tangible Plant		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
	Total		\$ 447,278	\$ 403	\$ 447,681	\$ 55,680	\$ 503,361	\$ 8,399	\$ 511,760	\$ 3,560	\$ 515,320	
Wastewater Acc. Depreciation												
354	Structures & Improvements	3.70%	\$ (58,892)	\$ (3,630)	\$ (62,522)	\$ (8,228)	\$ (70,750)	\$ (9,226)	\$ (79,976)	\$ (9,257)	\$ (89,234)	
355	Power Generation Equipment	5.88%	\$ (4,342)	\$ (362)	\$ (4,704)	\$ (724)	\$ (5,427)	\$ (724)	\$ (6,151)	\$ (724)	\$ (6,875)	
360	Collection Sewers - Force	3.70%	\$ (92,098)	\$ (2,367)	\$ (94,465)	\$ (4,751)	\$ (99,216)	\$ (4,884)	\$ (104,100)	\$ (5,001)	\$ (109,101)	
361	Collection Sewers - Gravity	2.50%	\$ (122)	\$ (5)	\$ (127)	\$ (9)	\$ (136)	\$ (9)	\$ (146)	\$ (9)	\$ (155)	
363	Services	2.86%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
364	Flow Measuring Devices	20.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
370	Receiving Wells	4.00%	\$ (58,716)	\$ (1,256)	\$ (59,972)	\$ (2,511)	\$ (62,483)	\$ (298)	\$ (62,781)	\$ (71)	\$ (62,852)	
371	Pump Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
380	Treatment & Disposal Equipment	6.67%	\$ (45,380)	\$ (13)	\$ (45,393)	\$ (95)	\$ (45,489)	\$ (178)	\$ (45,667)	\$ (192)	\$ (45,858)	
389	Other Plant and Misc Equipment	6.67%	\$ 8,220	\$ (155)	\$ 8,065	\$ (310)	\$ 7,754	\$ (310)	\$ 7,444	\$ (310)	\$ 7,134	
390	Office Furniture and Equipment	6.67%	\$ -	\$ -	\$ -	\$ (16)	\$ (16)	\$ (32)	\$ (48)	\$ (32)	\$ (80)	
391	Transportation Equipment	16.67%	\$ (1,200)	\$ -	\$ (1,200)	\$ -	\$ (1,200)	\$ -	\$ (1,200)	\$ -	\$ (1,200)	
393	Tools, Shop, & Garage Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
395	Power Operated Equipment	10.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
397	Miscellaneous Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
398	Other Tangible Plant	10.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
	Other - System Generated		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
	Total		\$ (252,530)	\$ (7,788)	\$ (260,318)	\$ (16,645)	\$ (276,962)	\$ (15,662)	\$ (292,624)	\$ (15,597)	\$ (308,221)	
	Composite Rate				1.74%		3.31%		3.06%		3.03%	

Wastewater Accumulated Depreciation Using Rule Rates and Procedures (2 of 2)

Acct.	Acct. Description	Rate	12/31/2009 Balance	Net Additions	6/30/2010 Balance	Net Additions	Staff's 6/30/2011 Balance	Utility's 6/30/2011 Balance	Adj.	Staff's Test Year G/L Avg
Wastewater Plant										
354	Structures & Improvements		\$ 249,951	\$ -	\$ 249,951	\$ -	\$ 249,951			
355	Power Generation Equipment		\$ 12,301	\$ -	\$ 12,301	\$ -	\$ 12,301			
360	Collection Sewers - Force		\$ 135,032	\$ -	\$ 135,032	\$ -	\$ 135,032			
361	Collection Sewers - Gravity		\$ 377	\$ -	\$ 377	\$ -	\$ 377			
363	Services		\$ -	\$ -	\$ -	\$ -	\$ -			
364	Flow Measuring Devices		\$ -	\$ 888	\$ 888	\$ -	\$ 888			
370	Receiving Wells		\$ 66,341	\$ -	\$ 66,341	\$ 4,542	\$ 70,883			
371	Pump Equipment		\$ -	\$ -	\$ -	\$ -	\$ -			
380	Treatment & Disposal Equipment		\$ 44,986	\$ 2,857	\$ 47,842	\$ -	\$ 47,842			
389	Other Plant and Misc Equipment		\$ 4,655	\$ -	\$ 4,655	\$ -	\$ 4,655			
390	Office Furniture and Equipment		\$ 478	\$ -	\$ 478	\$ -	\$ 478			
391	Transportation Equipment		\$ 1,200	\$ -	\$ 1,200	\$ -	\$ 1,200			
393	Tools, Shop, & Garage Equipment		\$ -	\$ -	\$ -	\$ -	\$ -			
395	Power Operated Equipment		\$ -	\$ -	\$ -	\$ -	\$ -			
397	Miscellaneous Equipment		\$ -	\$ -	\$ -	\$ -	\$ -			
398	Other Tangible Plant		\$ -	\$ -	\$ -	\$ -	\$ -			
	Total		\$ 515,320	\$ 3,745	\$ 519,065	\$ 4,542	\$ 523,607			
Wastewater Acc. Depreciation										
354	Structures & Improvements	3.70%	\$ (89,234)	\$ (4,629)	\$ (93,863)	\$ (9,257)	\$ (103,120)	\$ (37,844)	\$ (65,276)	\$ (98,491)
355	Power Generation Equipment	5.88%	\$ (6,875)	\$ (362)	\$ (7,236)	\$ (724)	\$ (7,960)	\$ -	\$ (7,960)	\$ (7,598)
360	Collection Sewers - Force	3.70%	\$ (109,101)	\$ (2,501)	\$ (111,602)	\$ (5,001)	\$ (116,603)	\$ (116,263)	\$ (340)	\$ (114,102)
361	Collection Sewers - Gravity	2.50%	\$ (155)	\$ (5)	\$ (160)	\$ (9)	\$ (169)	\$ (165)	\$ (4)	\$ (164)
363	Services	2.86%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (65)	\$ 65	\$ -
364	Flow Measuring Devices	20.00%	\$ -	\$ (89)	\$ (89)	\$ (178)	\$ (267)	\$ (41,644)	\$ 41,377	\$ (178)
370	Receiving Wells	4.00%	\$ (62,852)	\$ (71)	\$ (62,923)	\$ (233)	\$ (63,157)	\$ (65,718)	\$ 2,562	\$ (63,040)
371	Pump Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
380	Treatment & Disposal Equipment	6.67%	\$ (45,858)	\$ (191)	\$ (46,049)	\$ (382)	\$ (46,431)	\$ (76,932)	\$ 30,501	\$ (46,240)
389	Other Plant and Misc Equipment	6.67%	\$ 7,134	\$ (155)	\$ 6,978	\$ (310)	\$ 6,668	\$ (4,654)	\$ 11,322	\$ 6,823
390	Office Furniture and Equipment	6.67%	\$ (80)	\$ (16)	\$ (96)	\$ (32)	\$ (127)	\$ (319)	\$ 191	\$ (111)
391	Transportation Equipment	16.67%	\$ (1,200)	\$ -	\$ (1,200)	\$ -	\$ (1,200)	\$ (1,200)	\$ -	\$ (1,200)
393	Tools, Shop, & Garage Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
395	Power Operated Equipment	10.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
397	Miscellaneous Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
398	Other Tangible Plant	10.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Other - System Generated		\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,445)	\$ 4,445	\$ -
	Total		\$ (308,221)	\$ (8,018)	\$ (316,239)	\$ (16,127)	\$ (332,366)	\$ (349,248)	\$ 16,883	\$ (324,302)
	Composite Rate		3.03%		1.54%		3.08%	Less: Utility's Average		\$ (339,625)
Notes:									Differnece	\$ 15,323
Acct. 380 had a fully depreciated 6/30/06 beginning balance. Only new additions are depreciated on the schedule above.										
Acct. 370 fully depreciated in 2008. Going forward, only new additions are depreciated.										
Acct. 391 has a fully depreciated 6/30/06 beginning balance.										

Finding 8: Accumulated Amortization and Amortization Expense of CIAC

Audit Analysis: We examined the entries booked to accumulated amortization and amortization expense of CIAC from June 30, 2006 to June 30, 2011. The Utility books do not include amortization expense from January 1, 2011 to June 30, 2011 because the amortization accrual is manually computed at year end and then booked.

We tested the annual accruals booked by the Utility. The Utility did not calculate the annual amortization accruals using the rate and procedures of Rule 25-30.140, F.A.C. We recalculated accumulated amortization on the schedules following this finding using the half year convention. Below, we calculated the adjustment to amortization expense.

Amortization Expense Adjustment

Acct.	Acct. Description	Amount
Water		
406	Amortization Exp. Water	\$ (7,026)
	Amortization Exp. Per Staff	\$ (2,509)
	Adjustment	\$ 4,517
Wastewater		
406	Amortization Exp. Wastewater	\$ -
	Amortization Exp. Per Staff	\$ -
	Adjustment	\$ -

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to amortization expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
272	Accum. Amort. CIAC Water		\$ 23,407
272	Accum. Amort. CIAC Wastewater	\$ 638	
345	Retained Earnings	\$ 22,769	
	Total	\$ 23,407	\$ 23,407

Effect on the Filing: Average accumulated amortization of CIAC should be decreased (credited) by \$21,148 for water and increased by \$638 wastewater, respectively. Amortization expense should be decreased (debited) by \$4,517 for water. Wastewater CIAC is fully amortized.

Water Accumulated Amortization Adjustment

Acct.	Acct. Description	CIAC		Utility's	Amt.	12/31/06	Amt.	12/31/07	Amt.	12/31/08	Amt.	12/31/09
		Balance	Rate	6/30/06	Exp.	Balance	Exp.	Balance	Exp.	Balance	Exp.	Balance
304	Structures & Improvement CIAC	30,482	3.70%	\$ 30,145	\$ 337	\$ 30,482	\$ -	\$ 30,482	\$ -	\$ 30,482	\$ -	\$ 30,482
307	Wells & Springs CIAC	5,928	3.70%	\$ 5,836	\$ 92	\$ 5,928	\$ -	\$ 5,928	\$ -	\$ 5,928	\$ -	\$ 5,928
320	Water Treatment Equipment CIAC	14,042	5.88%	\$ (6,851)	\$ 413	\$ (6,438)	\$ 826	\$ (5,612)	\$ 826	\$ (4,786)	\$ 826	\$ (3,960)
331	Transmission & Distribution Lines CIAC	61,074	2.63%	\$ 41,397	\$ 804	\$ 42,201	\$ 1,607	\$ 43,808	\$ 1,607	\$ 45,415	\$ 1,607	\$ 47,022
333	Services CIAC	2,655	2.86%	\$ 2,074	\$ 38	\$ 2,112	\$ 76	\$ 2,188	\$ 76	\$ 2,264	\$ 76	\$ 2,340
334	Meters and Meter Installations CIAC	1,481	5.88%	\$ 2,103	\$ -	\$ 2,103	\$ -	\$ 2,103	\$ -	\$ 2,103	\$ -	\$ 2,103
	Cash	99,545	Composite	\$ 97,979	\$ -	\$ 97,979	\$ -	\$ 97,979	\$ -	\$ 97,979	\$ -	\$ 97,979
Total		215,207		\$ 172,683	\$ 1,684	\$ 174,367	\$ 2,509	\$ 176,876	\$ 2,509	\$ 179,385	\$ 2,509	\$ 181,894

Acct.	Acct. Description	CIAC		Amt.	Staff's	Amt.	Staff's	Utility's	Staff	Accum.		
		Balance	Rate	Exp.	Balance	Exp.	Balance	Balance	Adj.	Amort.		
304	Structures & Improvement CIAC	30,482	3.70%	\$ 30,482	\$ -	\$ 30,482	\$ -	\$ 30,482	\$ 30,631	\$ (149)	\$ 30,482	Fully Amortized
307	Wells & Springs CIAC	5,928	3.70%	\$ 5,928	\$ -	\$ 5,928	\$ -	\$ 5,928	\$ 5,928	\$ -	\$ 5,928	Fully Amortized
320	Water Treatment Equipment CIAC	14,042	5.88%	\$ (3,960)	\$ 413	\$ (3,547)	\$ 826	\$ (2,721)	\$ (3,137)	\$ 416	\$ (3,134)	
331	Transmission & Distribution Lines CIAC	61,074	2.63%	\$ 47,022	\$ 804	\$ 47,826	\$ 1,607	\$ 49,433	\$ 48,624	\$ 809	\$ 48,629	
333	Services CIAC	2,655	2.86%	\$ 2,340	\$ 38	\$ 2,377	\$ 76	\$ 2,453	\$ 2,415	\$ 39	\$ 2,415	
334	Meters and Meter Installations CIAC	1,481	5.88%	\$ 2,103	\$ -	\$ 2,103	\$ -	\$ 2,103	\$ (517)	\$ 2,620	\$ 2,103	Fully Amortized
	Cash	99,545	Composite	\$ 97,979	\$ -	\$ 97,979	\$ -	\$ 97,979	\$ 123,121	\$ (27,142)	\$ 97,979	Fully Amortized
Total		215,207		\$ 181,894	\$ 1,255	\$ 183,148	\$ 2,509	\$ 185,657	\$ 209,064	\$ (23,407)	\$ 184,403	
									Utility's Average	\$	205,551	
									Adjustment	\$	(21,148)	

Wastewater Accumulated Amortization Adjustment

Acct.	Acct. Description	CIAC		Utility's	Amt.	12/31/06	Amt.	12/31/07	Amt.	12/31/08	Amt.	12/31/09
		Balance	Rate	6/30/06	Exp.	Balance	Exp.	Balance	Exp.	Balance	Exp.	Balance
354	Structures & Improvement CIAC	13,354	3.70%	\$ 12,586	\$ 247	\$ 12,833	\$ 495	\$ 13,328	\$ 26	\$ 13,354	\$ -	\$ 13,354
360	Collection Sewers - Force CIAC	47,939	3.70%	\$ 43,092	\$ 888	\$ 43,980	\$ 1,776	\$ 45,755	\$ 1,776	\$ 47,531	\$ 408	\$ 47,939
370	Receiving Wells CIAC	40,526	4.00%	\$ 40,305	\$ 221	\$ 40,526	\$ -	\$ 40,526	\$ -	\$ 40,526	\$ -	\$ 40,526
380	Treatment & Disposal Equipment CIAC	30,481	6.67%	\$ 34,606	\$ -	\$ 34,606	\$ -	\$ 34,606	\$ -	\$ 34,606	\$ -	\$ 34,606
	Cash	94,400	Composite	\$ 83,034	\$ 1,668	\$ 84,702	\$ 3,168	\$ 87,870	\$ 2,934	\$ 90,804	\$ 3,596	\$ 94,400
Total		226,700		\$ 213,623	\$ 3,024	\$ 216,647	\$ 5,438	\$ 222,085	\$ 4,736	\$ 226,821	\$ 4,004	\$ 230,825
Composite Rates							1.77%		3.36%		3.11%	3.07%

Acct.	Acct. Description	CIAC		Amt.	Staff's	Amt.	Staff's	Utility's	Staff	Accum.		
		Balance	Rate	Exp.	Balance	Exp.	Balance	Balance	Adj.	Amort.		
354	Structures & Improvement CIAC	13,354	3.70%	\$ 13,354	\$ -	\$ 13,354	\$ -	\$ 13,354	\$ 13,840	\$ (2,486)	\$ 13,354	Fully Amortized
360	Collection Sewers - Force CIAC	47,939	3.70%	\$ 47,939	\$ -	\$ 47,939	\$ -	\$ 47,939	\$ 49,300	\$ (1,361)	\$ 47,939	Fully Amortized
370	Receiving Wells CIAC	40,526	4.00%	\$ 40,526	\$ -	\$ 40,526	\$ -	\$ 40,526	\$ 40,526	\$ -	\$ 40,526	Fully Amortized
380	Treatment & Disposal Equipment CIAC	30,481	6.67%	\$ 34,606	\$ -	\$ 34,606	\$ -	\$ 34,606	\$ 46,805	\$ (12,199)	\$ 34,606	Fully Amortized
	Cash	94,400	Composite	\$ 94,400	\$ -	\$ 94,400	\$ -	\$ 94,400	\$ 77,717	\$ 16,683	\$ 94,400	Fully Amortized
Total		226,700		\$ 230,825	\$ -	\$ 230,825	\$ -	\$ 230,825	\$ 230,187	\$ 638	\$ 230,825	
Composite Rates									Utility's Average	\$	230,187	
									Adjustment	\$	638	

Finding 9: Accumulated Amortization Exceeding CIAC Balances

Audit Analysis: We combined all the adjustments to accumulated amortization and found subaccounts that exceeded the corresponding CIAC balances. Below are the adjustments needed to agree fully amortized accumulated amortization of CIAC subaccounts balances to its corresponding CIAC subaccount balances. All of these accounts were fully amortized prior to the test year.

Adjust A/A of CIAC to CIAC Balance for Accounts Fully Amortized Prior to the Test Year

Acct.	Acct. Description	CIAC Balance	Utility's 6/30/2011 Balance	Accrual Calculation Adj. (Finding 8)	Prior Audit Adj. (Finding 1)	Adjusted Staff Bal.	Additional Adj. to Acc. Amt.
Accum. Amort. Of CIAC - Water							
304	Structures & Improvement CIAC	\$ (30,482)	\$ 30,631	\$ (149)	\$ 7	\$ 30,489	\$ (7)
307	Wells & Springs CIAC	\$ (5,928)	\$ 5,928	\$ -	\$ 1	\$ 5,929	\$ (1)
320	Water Treatment Equipment CIAC	\$ (14,042)	\$ (3,137)	\$ 416	\$ 2	\$ (2,719)	
331	Transmission & Distribution Lines CIAC	\$ (61,074)	\$ 48,624	\$ 809	\$ 4	\$ 49,437	
333	Services CIAC	\$ (2,655)	\$ 2,415	\$ 39	\$ (1)	\$ 2,452	
334	Meters and Meter Installations CIAC	\$ (1,481)	\$ (517)	\$ 2,620	\$ (566)	\$ 1,537	\$ (56)
	Cash	\$ (99,545)	\$ 125,121	\$ (27,142)	\$ 2,150	\$ 100,129	\$ (584)
	Total	\$ (215,207)	\$ 209,064	\$ (23,407)	\$ 1,597	\$ 187,254	\$ (648)
Accum. Amort. Of CIAC - Wastewater							
354	Structures & Improvement CIAC	\$ (13,354)	\$ 15,840	\$ (2,486)	\$ -	\$ 13,354	\$ -
360	Collection Sewers - Force CIAC	\$ (47,939)	\$ 49,300	\$ (1,361)	\$ -	\$ 47,939	\$ -
370	Receiving Wells CIAC	\$ (40,526)	\$ 40,526	\$ -	\$ -	\$ 40,526	\$ -
380	Treatment & Disposal Equipment CIAC	\$ (30,481)	\$ 46,805	\$ (12,199)	\$ -	\$ 34,606	\$ (4,125)
	Cash	\$ (94,400)	\$ 77,717	\$ 16,683	\$ 726	\$ 95,126	\$ (726)
	Total	\$ (226,700)	\$ 230,187	\$ 638	\$ 726	\$ 231,551	\$ (4,851)

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger:

Acct.	Acct. Description	Debit	Credit
272	Accum. Amort. CIAC Water		\$ 648
272	Accum. Amort. CIAC Wastewater		\$ 4,851
345	Retained Earnings	\$ 5,499	
	Total	\$ 5,499	\$ 5,499

Effect on the Filing: The average effect on the filing will be a decrease to accumulated amortization of CIAC of \$648 and \$4,851 for water and wastewater, respectively.

Finding 10: Revenues

Audit Analysis: The Utility's test year revenues are understated by \$222 and \$1,827 for water and wastewater, respectively.

Revenue Recalculation by Staff

Acct.	Acct. Description	Billing Amount	Amount Per G/L	G/L Adj.	Billing Adj.	Total Adj.
Water Plant Revenues Per G/L						
460	Water Demand	\$ (80,559)	\$ (81,797)	\$ 1,238	\$ -	\$ 1,238
461	Metered Water Revenues	\$ (83,461)	\$ (83,088)	\$ (373)	\$ -	\$ (373)
462	Fire Protection Revenues	\$ (1,128)	\$ (19)	\$ (1,109)	\$ -	\$ (1,109)
474	Other Water Revenues	\$ -	\$ (22)	\$ 22	\$ -	\$ 22
	Total	\$ (165,147)	\$ (164,926)	\$ (222)	\$ -	\$ (222)
Wastewater Plant Revenues Per G/L						
521	Waste Water Demand	\$ (86,650)	\$ (86,521)	\$ (129)	\$ (812)	\$ (941)
522	Waste Usage Income	\$ (66,835)	\$ (66,681)	\$ (154)	\$ (732)	\$ (886)
524	Other Wastewater Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ (153,485)	\$ (153,202)	\$ (282)	\$ (1,544)	\$ (1,827)

We compared the Utility's books to the Utility's billing report and found the ledger was understated by \$222 and \$283 ((\$1,827)-(\$1,544)) for water and wastewater, respectively. The Utility acknowledged that the general ledger understatement is due to accounting errors.

In addition, we recalculated the Utility's billing reports. There were no material misstatements in the water billing report. However, the Utility's wastewater billing reports were understated by \$1,544. The understatement includes \$449 for uncharged wastewater usage, \$1,166 for misclassified general service customers as residential customers, and (\$71) for prior months corrections.

The additional regulatory assessment fees of 4.5% on the understated balances are \$24 and \$30 for water and wastewater.

Effect on the General Ledger: Since the books will be closed when this order is issued, there is no effect on the ledger.

Effect on the Filing: Water and wastewater revenue should be increased by \$222 and \$1,827, respectively. Water and wastewater taxes other than income should increase by \$24 and \$30.

Finding 11: Utility Plant in Service Expensed

Audit Analysis: We tested operations and maintenance expenses for proper period, amount, classification, and whether the items were utility related and reoccurring.

The Utility expensed \$839 to water account 620, Material and Supplies, for a drinking water well pipe. This item should have been capitalized to account 307, Wells and Springs. This item is not in the test year and will not have an effect on operations and maintenance expenses in the filing.

The Utility expensed \$298 to wastewater account 720, Material and Supplies, for a replacement blower. This item should have been capitalized to account 380, Treatment and Disposal Equipment. This item was in the test year. Therefore, the average is \$149 ($\$298 \times .50$ for averaging).

Below, we have calculated the plant and change in depreciation adjustments for these items.

Depreciation on Capital Items												
Acct.	Account Description	Date	Vendor	Amount Expensed	In Test Year	Test Year Adj.	Rate	Period (Years)	Dep. Exp.	A/D	Avg. A/D Adj.	
Water												
307	Wells & Springs	1/20/2010	Coast Pump	\$ 839			3.70%	1.50	\$ 31	\$ (47)	\$ (31)	
Wastewater												
380	Treatment & Disposal Equipment	6/2/2011	Grainger	\$ 298	Y	\$ (298)	6.67%	0.50	\$ 10	\$ (10)	\$ (5)	

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to depreciation expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
307	Material and Supplies	\$ 839	
380	Treatment & Disposal Equipment	\$ 298	
108	Accum. Depreciation - Water		\$ 47
108	Accum. Depreciation - Wastewater		\$ 10
345	Retained Earnings		\$ 1,080
	Total	\$ 1,137	\$ 1,137

Effect on the Filing: Average plant will increase by \$839 for water and \$149 for wastewater. Average accumulated depreciation for water and wastewater should increase by \$31 and \$5, respectively. Wastewater operation and maintenance expenses will decrease by \$298. Depreciation expense should increase by \$31 and \$10 for water and wastewater, respectively.

Finding 12: Permit Cost Expensed

Audit Analysis: The Utility expensed permit costs relating to the deep injection well project proforma. This project is not completed and should be capitalized to account 105, Construction Work in Progress. The costs were allocated between water and wastewater. For this rate case, the staff engineer has classified this proforma project as wastewater.

Between January 1, 2010 and June 30, 2011, the Utility charged water and wastewater account 631/731, Contracts Service Professional, \$2,863 and \$16,230, respectively for permit cost. Total water and wastewater permit costs included in the test year were \$2,239 and \$8,600, respectively.

In December 2009, the Utility also expensed permit cost to account 636/736, Contract Service Other, of \$280 and \$360, respectively. These costs have no effect on test year expenses.

On the schedule below, we calculate the proforma plant and change in depreciation adjustments.

Depreciation on Wastewater Deep Injection Well Permit Cost (Proforma)										
Acct.	Account Description	Date	Vendor	Amount Expensed	Exp. Acct.	In Test Year	Test Year Adj.	Rate	Dep. Exp.	Accum. Dep.
105	Const. Work In Progress	1/31/2010	Q. Grady Minor	\$ 623	631			3.70%	\$ 23	\$ (23)
105	Const. Work In Progress	8/10/2010	Entrix, Inc	\$ 210	631	Y	\$ (210)	3.70%	\$ 8	\$ (8)
105	Const. Work In Progress	9/14/2010	Entrix, Inc	\$ 850	631	Y	\$ (850)	3.70%	\$ 31	\$ (31)
105	Const. Work In Progress	3/26/2011	Entrix, Inc	\$ 1,179	631	Y	\$ (1,179)	3.70%	\$ 44	\$ (44)
	Total Expensed to Acct. 631			\$ 2,863			\$ (2,239)			
105	Const. Work In Progress	12/21/2009	Q. Grady Minor	\$ 280	636			3.70%	\$ 10	\$ (10)
	Total Expensed to Water			\$ 3,143			\$ (2,239)			
105	Const. Work In Progress	1/31/2010	Q. Grady Minor	\$ 3,164	731			3.70%	\$ 117	\$ (117)
105	Const. Work In Progress	4/12/2010	Q. Grady Minor	\$ 1,629	731			3.70%	\$ 60	\$ (60)
105	Const. Work In Progress	5/24/2010	Q. Grady Minor	\$ 1,020	731			3.70%	\$ 38	\$ (38)
105	Const. Work In Progress	6/14/2010	Q. Grady Minor	\$ 1,817	731			3.70%	\$ 67	\$ (67)
105	Const. Work In Progress	7/8/2010	Q. Grady Minor	\$ 977	731	Y	\$ (977)	3.70%	\$ 36	\$ (36)
105	Const. Work In Progress	8/10/2010	Entrix, Inc	\$ 420	731	Y	\$ (420)	3.70%	\$ 16	\$ (16)
105	Const. Work In Progress	9/1/2010	Q. Grady Minor	\$ 2,886	731	Y	\$ (2,886)	3.70%	\$ 107	\$ (107)
105	Const. Work In Progress	9/14/2010	Entrix, Inc	\$ 1,701	731	Y	\$ (1,701)	3.70%	\$ 63	\$ (63)
105	Const. Work In Progress	9/24/2010	Q. Grady Minor	\$ 497	731	Y	\$ (497)	3.70%	\$ 18	\$ (18)
105	Const. Work In Progress	10/7/2010	Entrix, Inc	\$ 405	731	Y	\$ (405)	3.70%	\$ 15	\$ (15)
105	Const. Work In Progress	11/12/2010	Entrix, Inc	\$ 714	731	Y	\$ (714)	3.70%	\$ 26	\$ (26)
105	Const. Work In Progress	12/31/2010	DEP	\$ 1,000	731	Y	\$ (1,000)	3.70%	\$ 37	\$ (37)
	Total Expensed to Acct. 731			\$ 16,230			\$ (8,600)			
105	Const. Work In Progress	12/21/2009	Q. Grady Minor	\$ 360	736			3.70%	\$ 13	\$ (13)
	Total Expensed to Wastewater			\$ 16,590			\$ (8,600)			
	Total Water and Wastewater Permit Costs			\$ 19,733					\$ 731	\$ (731)
										Wastewater Proforma Total

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to professional contract services should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
105	Construction Work In Progress - Wastewater	\$ 19,733	
345	Retained Earnings		\$ 19,733
	Total	\$ 19,733	\$ 19,733

Effect on the Filing: Wastewater plant should be increased by \$19,733. Accumulated depreciation should be increased by \$731. Water and wastewater operation and maintenance expenses should be decreased by \$2,239 and \$8,600, respectively. Wastewater depreciation expense should be increased by \$731.

Finding 13: Additional Transportation Expenses

Audit Analysis: The Utility recorded \$548 and \$3,798 in account 635/735, Contract Service Testing for water and wastewater, respectively. These charges were for carrier service to transport water and wastewater samples for testing. These expenses are transportation expenses and should have been booked to account 650/750, Transportation.

In addition, the ledger has only 11 months of cost recorded. We annualized the amount of transportation costs below. Proforma transportation cost should increase by \$50 and \$345 for water and wastewater, respectively.

Expense Testing Adjustments						
Exp. Acct.	Description	Date	Vendor	Amount	Proper Acct.	Description
Water						
635	Contract Service Testing	7/31/2010	CPR Carrier, Inc.	\$ 60	650	Transportation
635	Contract Service Testing	8/31/2010	CPR Carrier, Inc.	\$ 44	650	Transportation
635	Contract Service Testing	9/30/2010	CPR Carrier, Inc.	\$ 60	650	Transportation
635	Contract Service Testing	10/31/2010	CPR Carrier, Inc.	\$ 44	650	Transportation
635	Contract Service Testing	11/30/2010	CPR Carrier, Inc.	\$ 63	650	Transportation
635	Contract Service Testing	12/7/2010	CPR Carrier, Inc.	\$ 45	650	Transportation
635	Contract Service Testing	1/31/2011	CPR Carrier, Inc.	\$ 40	650	Transportation
635	Contract Service Testing	2/28/2011	CPR Carrier, Inc.	\$ 68	650	Transportation
635	Contract Service Testing	3/31/2011	CPR Carrier, Inc.	\$ 42	650	Transportation
635	Contract Service Testing	4/30/2011	CPR Carrier, Inc.	\$ 42	650	Transportation
635	Contract Service Testing	5/31/2011	CPR Carrier, Inc.	\$ 40	650	Transportation
	Total			\$ 548		
		No. of Months in Ledger		\$ 11		
		Average Monthly Cost		\$ 50		
		Annualized Cost		\$ 598		
Wastewater						
735	Contract Service Testing	7/31/2010	CPR Carrier, Inc.	\$ 300	750	Transportation
735	Contract Service Testing	8/31/2010	CPR Carrier, Inc.	\$ 360	750	Transportation
735	Contract Service Testing	9/30/2010	CPR Carrier, Inc.	\$ 300	750	Transportation
735	Contract Service Testing	10/31/2010	CPR Carrier, Inc.	\$ 360	750	Transportation
735	Contract Service Testing	11/30/2010	CPR Carrier, Inc.	\$ 300	750	Transportation
735	Contract Service Testing	12/31/2010	CPR Carrier, Inc.	\$ 363	750	Transportation
735	Contract Service Testing	1/31/2011	CPR Carrier, Inc.	\$ 326	750	Transportation
735	Contract Service Testing	2/28/2011	CPR Carrier, Inc.	\$ 300	750	Transportation
735	Contract Service Testing	3/31/2011	CPR Carrier, Inc.	\$ 378	750	Transportation
735	Contract Service Testing	4/30/2011	CPR Carrier, Inc.	\$ 381	750	Transportation
735	Contract Service Testing	5/31/2011	CPR Carrier, Inc.	\$ 430	750	Transportation
	Total			\$ 3,798		
		No. of Months in Ledger		\$ 11		
		Average Monthly Cost		\$ 345		
		Annualized Cost		\$ 4,144		

Effect on the General Ledger: Since the books will be closed when this order is issued, there is no effect on the ledger.

Effect on the Filing: Proforma operating and maintenance expense should increase by \$50 and \$345 for water and wastewater, respectively.

Finding 14: Department of Environmental Protection Fine

Audit Analysis: The Utility was fined \$2,000 by the Department of Protection in December 2010 for taking too long to get their wastewater permit. According to the NARUC chart of accounts, fines are recorded below the line.

Effect on the General Ledger: Since the books will be closed when this order is issued, there is no effect on the ledger.

Effect on the Filing: Wastewater operating and maintenance expenses should decrease by \$2,000.

Finding 15: Insurance Cost

Audit Analysis: The Utility recorded total insurance cost of \$7,276 for both water and wastewater. Total premiums have been reduced by \$1,256 for the 2010-2011 period. We recommend decreasing water and wastewater expenses each by \$628 ($\$1,256 \times 50\%$ to each water and wastewater) to reflect most recent historical cost estimate.

Effect on the General Ledger: Since the books reflect actual premiums, there is no effect on the ledger.

Effect on the Filing: Proforma operation and Maintenance expenses for water and wastewater should each decrease by \$628.

Finding 16: Salaries

Audit Analysis: The Utility reported \$63,058 and \$57,028 in salaries for water and wastewater expenses. The Utility has five employees. The CEO and Comptroller, who allocate 15% of their time, the Utility Manager and Trainee, who allocate 90% of their time, and the Administrative Assistant who allocates 75% of his/her time to the Utility. During the test year, the Trainee and Administrative Assistant left the Utility. The Utility is in the process of hiring new employees. We annualized the salaries for the five positions using the current or anticipated pay rates. Proforma water and wastewater salaries should increase by \$3,492 and \$3,286.

In addition to salaries, the Utility booked professional service expenses to water and wastewater salaries. The Utility contracts a weekend operator to maintain the water plant, one day a week. The Utility included \$5,760 for this contracted operator in account 601, Salaries - Water. Water and wastewater salaries also included \$953 and \$477 for vacation coverage by W.W. Water services. These expenses should be reclassified as contracted professional services.

Effect on the General Ledger: Since the books will be closed when this order is issued, there is no effect on the general ledger.

Effect on the Filing: Proforma operation and maintenance water and wastewater expenses should increase \$3,492 and \$3,286, respectively.

Finding 17: Proforma Expense for Contracted Operators

Audit Analysis: The Department of Environmental Protection requires seven days of coverage on the water system. The Utility has one certified operator that works six days a week on both systems. The seventh day is covered by a contractor. The contractor works one hour a week at a rate of \$120 per day for the water division only. The Utility has paid a total of \$5,760 to the contractor for weekend coverage for 48 trips. Starting January 1, 2012, this contractor will be increasing his rate by \$20 per day. Proforma contracted services should increase by \$960 (\$20 each for 48 trips).

W.W. Water Systems, Inc. covers both systems while the certified operator is on vacation. The operator gets three weeks of vacation per year. During the test year, the operator worked partial days and vacation coverage was not fully utilized. The total amount paid to W.W. Water Systems, Inc. in the test year was \$1,430. The vendor charges \$65 an hour for a minimum of two and a half hours per day. The operator plans to take full days of vacation coverage going forward. Proforma contracted professional services should increase by \$1,495 (\$65/hour for 2.5 hours for 18 days). W.W. Water Systems, Inc. expenses are allocated 2/3 to water and 1/3 to wastewater based on system requirements by DEP.

Vacation Coverage Allocation

Systems	Amount	Allocation Rate	Allocation Amt.
Water	\$ 1,495	66.67%	\$ 997
Wastewater	\$ 1,495	33.33%	\$ 498
Total			\$ 1,495

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Proforma operation and maintenance water and wastewater expenses should increase \$1,957 (\$960+\$997) and \$498, respectively.

Finding 18: Rent Expense

Audit Analysis: The Utility recorded \$16,900 in rent expense paid to Useppa Inn and Dock Company, Ltd. for both water and wastewater. The monthly rent according to the lease agreement is \$1,300 per month or \$15,600 annually. There was an extra month of rent in the test year ledger.

In a prior Order PSC-07-0385-SC-WS, the Commission reduced the rent to \$800 per month or \$9,600. This amount was based on 264 square feet of leased office space. While on the plant tour, we recalculated the office space with a common area allocation to be approximately 323 square feet. We allocated one-third of the 357 square feet of common area to the Utility because the area is shared by housekeeping, service, and the Utility. This is an additional 59 square feet of space for the Utility.

Office Space Allocation

	Total	Allocated
Description	Space	Space (Sq.Ft.)
Work Space	204	204
Common Area	357	119
Total Space		323

We also searched the web for comparable private island rates and could not find any commercial office space available. Rent in nearby cities with similar square feet ranged from \$15 to \$20 per square foot. At 323 square feet, an annual payment of \$15,600 equals \$48 per square foot. The \$9,600 ordered rate based on the 264 square feet in the order results in a rental rate of \$36.36 per square foot. The ordered rate of \$9,600 annually based on the revised 323 square feet equals \$29.72 per square foot. Since there is no other space available on the island for the Utility to rent, and prices on the island are high because of the exclusivity of the location, we would expect the Utility to pay a premium. If we were to use the \$36.36 per square foot rate used in the order times the 323 square feet determined in this audit, rent would be increased to \$11,744. However, in the attached schedules, we have reduced the test year expenses to the ordered amount of \$9,600 annually for both water and wastewater, or a decrease of \$3,650 for each water and wastewater. The analyst may want to take into consideration the additional square footage allocated from the common areas and an increase in the rent rate per square foot.

Effect on the General Ledger: Since the Utility is paying the amount in the lease agreement, there is no effect on the ledger.

Effect on the Filing: Based on the \$9,600 allowed amount in the last order, water and wastewater expenses would each be reduced by \$3,650.

Finding 19: Transportation Expense

Audit Analysis: The Utility included a charge of \$2,000, allocated at \$1,000 to water and wastewater, respectively, for the down payment on the Utility's 36 month truck lease. We reviewed the signed lease agreement and found the proper amount of the down payment to be \$2,178.

In addition, the Utility expensed \$496, allocated at \$248 to each water and wastewater, for the excessive wear and use charge from the prior truck lease. These expenses should be deferred and amortized over the life of the lease.

Transportion Expense Adjustments					
Description	Amount	Acct.	Acct. Description	Water	Waste
New 36 Month Truck Lease (2010)					
Amount Per Ledger	\$ 2,000	650/750	Transportation	\$ (1,000)	\$ (1,000)
Amount Due at Signing	\$ 2,500				
Less: First Monthly Payment	\$ 322				
Down Payment	\$ 2,178	186	Deferred Misc. Debits	\$ 1,089	\$ 1,089
Deferral Period (36 months)	36				
Monthly Amortization Exp.	\$ 61				
Annual Amortization Exp.	\$ 726	650/750	Transportation	\$ 363	\$ 363
		186	Deferred Misc. Debits	\$ (363)	\$ (363)
Old Leased Truck (2007)					
Amount Per Ledger	\$ 496	650/750	Transportation	\$ (248)	\$ (248)
Excessive Wear and Use	\$ 496	186	Deferred Misc. Debits	\$ 248	\$ 248
Deferral Period (36 months)	36				
Monthly Amortization Exp.	\$ 14				
Annual Amortization Exp.	\$ 165	650/750	Transportation	\$ 83	\$ 83
		186	Deferred Misc. Debits	\$ (83)	\$ (83)

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to transportation should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
186	Deferred Misc. Debits	\$ 1,783	
345	Retained Earnings		\$ 1,783
	Total	\$ 1,783	\$ 1,783

Effect on the Filing: Operation and maintenance expense should be decreased by \$1,248 (\$1,000+\$248) for each water and wastewater expense. Proforma water and wastewater operation and maintenance expense should each increase by \$446 (\$363 + \$83).

Finding 20: Electric

Audit Analysis: We reconciled the purchase power entries to invoices. The Utility's ledger was understated by \$106. We recalculated the allocation of purchase power, allocating all lift stations to wastewater and the well airstrip to water. The reverse osmosis plant was split 65/35 between water and wastewater. Our calculation shows that water is overstated \$1,782 and wastewater is understated by \$1,887. The calculation follows:

Purchase Power Allocation

Meter ID	Description	Annual Amount	Allocation	Water Allocation	Wastewater Allocation
3820850	Lift Station	\$ 374	Wastewater	\$ -	\$ 374
9489524	RO Plant	\$ 24,945	65/35	\$ 16,214	\$ 8,731
3877662	Lift Station	\$ 282	Wastewater	\$ -	\$ 282
3877672	Lift Station	\$ 317	Wastewater	\$ -	\$ 317
3877671	Lift Station	\$ 290	Wastewater	\$ -	\$ 290
3877539	Lift Station	\$ 271	Wastewater	\$ -	\$ 271
3877541	Lift Station	\$ 391	Wastewater	\$ -	\$ 391
3877540	Lift Station	\$ 555	Wastewater	\$ -	\$ 555
3877542	Lift Station	\$ 371	Wastewater	\$ -	\$ 371
3877534	Lift Station	\$ 266	Wastewater	\$ -	\$ 266
3877561	Lift Station	\$ 384	Wastewater	\$ -	\$ 384
3877840	Lift Station	\$ 202	Wastewater	\$ -	\$ 202
3877619	Lift Station	\$ 397	Wastewater	\$ -	\$ 397
3877555	Lift Station	\$ 1,527	Wastewater	\$ -	\$ 1,527
3877618	Lift Station	\$ 330	Wastewater	\$ -	\$ 330
3877532	Lift Station	\$ 299	Wastewater	\$ -	\$ 299
3877556	Lift Station	\$ 361	Wastewater	\$ -	\$ 361
3877559	Lift Station	\$ 303	Wastewater	\$ -	\$ 303
3967091	Well Airstrip	\$ 4,922	Water	\$ 4,922	\$ -
Total Per Bills		\$ 36,786		\$ 21,136	\$ 15,651
G/L Acct.					
615.001		\$ 22,917	Water	\$ 22,917	
715.002		\$ 13,763	Wastewater		\$ 13,763
Total Per G/L		\$ 36,681		\$ 22,917	\$ 13,763
Adj.		\$ 106		\$ (1,782)	\$ 1,887

Effect on the General Ledger: Since the books will be closed when this order is issued, there is no effect on the general ledger.

Effect on the Filing: Water operating and maintenance expenses should be decreased by \$1,781 and wastewater increased by \$1,887.

Finding 21: Generator Fuel Proforma

Audit Analysis: The Utility recorded \$9 in account 616/716, Fuel for Power Production, for each system. The Utility states that it has not been billed by the vendor for fuel for its generator. The fuel is purchased two times a year. In the prior year, the Utility paid \$677 for a six month supply to run its generator once a week for 25 minutes. Charges are split 50/50 between water and wastewater. Annualized, the cost for each system would be \$677 for the test year.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Proforma operation and maintenance expense would increase by \$677 to both water and wastewater.

Finding 22: Contract Services Testing Expense

Audit Analysis: The Utility's records do not reflect the cost of all required testing for water and wastewater. Total cost for required testing is \$2,614 and \$5,956 for water and wastewater. Water expenses should increase by \$1,547 to reflect required annual testing expenses of \$2,614. Wastewater testing expenses should be reduced by \$213 to reflect required annual testing expenses of \$5,956.

In addition to annual testing, there are water and wastewater tests conducted every two to three years. The Utility did not defer and amortize these costs. On the next page, we have provided the Utility's testing cost. The cost to conduct water testing every three years is \$2,031, amortized at \$677 per year. The cost to conduct wastewater testing every two years is \$225, amortized a \$113 per year.

The Utility requests \$156 for 12 additional Total Coliform sample testing per year for main breaks and bad samples.

The Utility provided the future annual deep well injection testing costs prepared by Entrix. Total cost to conduct the testing by Entrix would be \$13,500 per year. The cost for testing the deep well injection would be \$8,568 using their existing lab. We have increased proforma testing by \$8,568 for annual testing of the deep well injection project.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Water operating and maintenance expenses would increase by \$2,380 ($\$1,547 + \$677 + \156) and decrease by \$100 ($(\$213) + \113) for wastewater. Proforma wastewater expense should be increased by \$8,568.

Annual Water Plant Testing Cost

No. of Test	Test	Cost	Total Cost
1	TTHM	\$ 95	\$ 95
1	HAA5	\$ 150	\$ 150
3	Nitrate	\$ 18	\$ 54
3	Nitrite	\$ 18	\$ 54
50	Total Coli form	\$ 13	\$ 650
26	TDS	\$ 14	\$ 364
14	Chloride	\$ 15	\$ 210
2	Arsenic	\$ 19	\$ 38
2	ph	\$ 13	\$ 26
2	Sulfate	\$ 15	\$ 30
2	rads 226/228/ gross alpha	\$ 271	\$ 542
2	Turbidity	\$ 14	\$ 28
2	Specific Conductivity	\$ 15	\$ 30
2	DO	\$ 14	\$ 28
21	Formatting Fees	\$ 15	\$ 315
	Total		\$ 2,614
	G/L Total		\$ 1,067
	Adjustment		\$ 1,547

Annual Wastewater Plant Testing Cost

No. of Test	Test	Cost	Total Cost
24	CBOD	\$ 22	\$ 528
156	TSS	\$ 15	\$ 2,340
160	Fecal	\$ 13	\$ 2,080
16	Nitrate	\$ 18	\$ 288
4	TDS	\$ 14	\$ 56
4	Arsenic	\$ 19	\$ 76
4	Chloride	\$ 15	\$ 60
4	Cadmium	\$ 19	\$ 76
4	Chromium	\$ 19	\$ 76
4	Lead	\$ 23	\$ 92
4	Total Coli form	\$ 13	\$ 52
4	Sulfate	\$ 15	\$ 60
4	Turbidity	\$ 14	\$ 56
4	Specific Conductivity	\$ 15	\$ 60
4	DO	\$ 14	\$ 56
	Total		\$ 5,956
	G/L Total		\$ 6,169
	Total		\$ (213)

Additional Testing Needed Every Three Years Water

No. of Test	Test	Cost	Total Cost
1	rads 226/228/ gross alpha	\$ 271	\$ 271
1	Soc, Voc	\$ 835	\$ 835
1	Pri/sec inorganics	\$ 434	\$ 434
10	Lead	\$ 23	\$ 230
10	Copper	\$ 23	\$ 230
2	Formatting fees	\$ 15	\$ 30
	Total		\$ 2,030
	Amortization Period		3
	Amortization Amount		\$ 677

Additional Testing Needed Every Two Years Wastewater

No. of Test	Test	Cost	Total Cost
1	TCLP Metals	\$ 225	\$ 225
	Amortization Period		2
	Amortization Amount		\$ 113

Miscellaneous Water Plant Testing Cost

No. of Test	Test	Cost	Total Cost
12	Total Coli form	\$ 13	\$ 156
	Total		\$ 156

Proforma Deep Injection Well Annual Testing Cost-Wastewater

No. of Test	Test	Cost	Total Cost
60	Ammonia	\$ 19	\$ 1,140
24	Chloride	\$ 15	\$ 360
36	Nitrate	\$ 18	\$ 648
36	Nitrite	\$ 18	\$ 648
24	PH	\$ 13	\$ 312
24	Specific Conductivity	\$ 15	\$ 360
24	Sulfate	\$ 15	\$ 360
24	TDS	\$ 14	\$ 336
60	Total Kjeldahl Nitrogen	\$ 25	\$ 1,500
60	Total Nitrogen	\$ 18	\$ 1,080
24	Total Organic Carbon	\$ 45	\$ 1,080
24	Total Phosphorus	\$ 19	\$ 456
24	Fecal Coli form	\$ 12	\$ 288
	Total		\$ 8,568

Finding 23: Allocation of Affiliate Costs

Audit Analysis: The Utility did not recognize or allocate cost from related parties. We reviewed supporting documentation, conducted lower of cost or market analysis, and determined if the cost were reasonable. In determining the estimated cost of related party transactions, we did not calculate the return on affiliate assets that the Utility should have to bear. The asset information was not readily available. However, each affiliate should still be entitled to a return on its investment.

Useppa Inn and Dock's Transportation division provides two services to the Utility: island transportation and solid waste transportation. The island transportation operates 5 days per week. The utility uses the barge to transport chemicals every six weeks and materials once a month from Pine Island Commercial Marina. The Utility uses one pallet each for chemicals and materials. The barge holds approximately 12 pallets. We have estimated the allocation of costs from the Transportation Division.

Description	Amount	
Annualized Cost of Transportation Division	\$ 171,768	
Number of Round Trips	260	
Cost Per Round Trip	\$ 661	
Space Allocation	14.58%	Note A
Utility Cost Per Month	\$ 96	
Per Year	\$ 1,156	
Allocations		
Water	\$ 578	
Wastewater	\$ 578	
Note A: 12 material and 9 chemical pallets/year of 144 total pallets/year		

Useppa Inn and Dock's Bocilla Marina division provides Shoreport services to the Utility. Shoreport is the delivery drop-off/pick-up point and island delivery services for packages and mail. Below we estimate the cost of Shoreport services for the Utility.

Description	Amount	
Annualized Expenses	\$ 49,592	
Time allocation	0.63%	Note A
Utility Cost	\$ 310	
Allocation		
Water	\$ 155	
Wastewater	\$ 155	
Note A: (1 hour/1 month*1 month/160 hours)		

Useppa Inn and Dock's Bocilla Marina division also provides the Utility with parking services. Bocilla Marina charges \$8 per day or \$75 per month for parking. The Utility believes its costs should include 100% of three employee's and 15% of two employee's \$900 annual parking cost. Below, we compared Bocilla Marina's parking cost to outside vendors. The \$900 annual fee appears to be excessive because land is a non-depreciable asset and annual maintenance cost

appears to be low. The net operating income schedules attached to this report include the \$64 for each water and wastewater calculated below.

Parking Expense Lower of Cost or Market Analysis

Vendors	Annual Amount	Annual Amount
Bokeelia (\$10/Day)	\$ 3,650	
Lee County (\$60/Year)		\$ 60
Lee County Commerical (\$200/Year)		\$ 200
Average Cost	\$ 3,650	\$ 130
Bocilla Marina (\$8/Day and \$75/Mo)	\$ 2,920	\$ 900
Bocilla Marina Annual Cost		
Description	At Cost	
Annualized Marina Cost	\$ 27,438	
No. of Spaces	68	
% of Lot Full	75.00%	Note A
Average No. of Spaces Filled	51	
Months	12	
Annualized No. of Parkers	\$ 612	
Expense/space	\$ 45	
# of Employees	5	
Cost for 5 employees	\$ 224	
Employee's Avg. Time	57.00%	
Total Utility Expense	\$ 128	
Allocation		
Water	\$ 64	
Wastewater	\$ 64	
Note A: Average of 100% full 6 Mo./Year and 50% full 6 Mo./Year		

Useppa Inn and Dock's Marina division provides two services to the utility: boat dockage and boat transportation. Each employee of the Utility has to be transported to the island and back daily and the Utility should be allocated a portion of boat transportation cost. On the next page, we compared the Marina's cost to outside cost. However, in determining the Marina costs, we could not determine the investment in boats or docks of the Company. Based on the comparison with other transportation companies, the most reasonable cost is the friends and family rate of \$9 which has been requested by the Utility. This would increase expenses by \$17,949 or \$8,974 for each water and wastewater. We have used this computation in the attached schedules pending the analysts review.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Water and wastewater operating and maintenance expenses should each increase by \$9,771 (\$578+\$155+\$64+\$8,974).

Employee Boat Transportation Lower of Cost or Market Analysis

Other Vendors	Rate					
Tropic Star Water Taxi	\$ 150	/hr				
Bokeelia Water Taxi	\$ 75	/trip				
Average Cost	\$ 113	max of 6 people				
# of Trips	2					
Total Daily Market Rate	\$ 225					
# of Days	365					
Annual Cost	\$ 82,125					
Useppa Inn & Dock	Rate		Special Rate		Friends & Family Rate	
Marina	\$ 18	/trip/person	\$ 75	/trip	\$ 9	
# of Utility's	5				5	
Affiliate Charge	\$ 90		\$ 75		\$ 45	
# of Trips	2		2		2	
Total Daily Affiliate Charge	\$ 180		\$ 150		\$ 90	Comparable to Market
Total Payroll Allocation	57.00%		57.00%		57.00%	
Utility Daily Allocation	\$ 103		\$ 86		\$ 51	
# of Days	365		365		365	
Annual Cost	\$ 37,449		\$ 31,208		\$ 18,725	Reasonable
Transportation Cost Per Books	(Charged at \$18/trip)				776	
Difference					\$ 17,949	
	At Cost					
Annualized Cost w/o Return	\$ 230,745					
Annualized No. of Trips	3,644					
Cost Per Trip	\$ 63		31%			
Per Trip % Utility	31.25%	5 emp./16 capacity				
Per One Trip for 5 Emp.	\$ 20					
Payroll Allocation	57.00%	% of payroll utility				
Utility Cost Per Trip	\$ 11					
# of Trips	730	(2 per day times 365 days)				
Annual Cost	\$ 8,234	W/O Return on Boat				
Allocations						
Water	\$ 4,116.91				\$ 8,974	
Wastewater	\$ 4,116.91				\$ 8,974	

Finding 24: Allocation of Headquarter Cost

Audit Analysis: The Utility did not recognize or allocate all common costs. We reviewed supporting documentation and determined if allocations were reasonable.

The CEO and the comptroller are the only Utility employees enrolled in the Company's health insurance program. Each one allocates 15% of their time to the Utility. The policy of the Company is to pay half of the cost of the employee's cost. The annual cost to the Company for health insurance is \$4,322 for each of the two employees. Water and wastewater operating and maintenance expenses should each increase by \$648.

Title	Annual Cost	Payroll Allocation	Utility Cost	Water Allocation	Wastewater Allocation
CEO	\$ 4,322	15.00%	\$ 648		
Comptroller	\$ 4,322	15.00%	\$ 648		
Total Cost	\$ 8,644		\$ 1,296	\$ 648	\$ 648

The comptroller and manger participates in the Company's 401K retirement plan. Under the plan, the Company matches the employee's contributions up to 2% of salary. Total expenses to match Utility employees' contributions are \$1,981. Staff allocated total costs of \$784 based on payroll distributions for each employee. Water and wastewater should each bear \$392 of the cost.

Title	Cost	Payroll Allocation	Utility Cost	Water Allocation	Wastewater Allocation
Utility Manager	\$ 650	90.00%	\$ 584		
Comptroller	\$ 1,331	15.00%	\$ 200		
Total Cost	\$ 1,981		\$ 784	\$ 392	\$ 392

The Utility contracts out all Information Technology work to Computer Know How. This vendor is on call and services all 30 of the Company's computers. Utility employees use four out of the 30 computers. Annual maintenance expense for 30 computers is \$17,299 or \$577 per computer. It costs \$2,308 annually to maintain four computers. Staff allocated the cost based on payroll and determined the Utility should bear \$562 for each, water and wastewater.

Title	Cost	Payroll Allocation	Utility Cost	Water Allocation	Wastewater Allocation
Utility Manager	\$ 577	90.00%	\$ 519		
Admin. Assistant	\$ 577	75.00%	\$ 432		
Comptroller	\$ 577	15.00%	\$ 86		
CEO	\$ 577	15.00%	\$ 86		
Total Cost	\$ 2,307		\$ 1,124	\$ 562	\$ 562

The Cyma accounting and billing software utilized by the Company and the Utility is installed on five computers. The Company pays \$1,428 annually or \$286 per computer to maintain the accounting software. The software is installed on two of the Utility employee's computers. Water and wastewater expenses should each be increased by \$129.

Software Maintenance Exp. Allocation

Description	Cost	Payroll Allocation	Utility Cost	Water Allocation	Wastewater Allocation
Admin. Assistant	\$ 286	75.00%	\$ 215		
Comptroller	\$ 286	15.00%	\$ 43		
Total Cost	\$ 572		\$ 258	\$ 129	\$ 129

The Utility receives housekeeping and pest control services for the office space leased by the Utility. The Utility's housekeeping expense is \$18 per week. The pest control cost to the Utility is \$38 per month. Total housekeeping and pest control cost are \$936 (\$18 times 52 weeks) and \$456 (\$38 times 12 months) for the year. Water and wastewater miscellaneous expenses should each increase by \$696 $((\$936 + \$456) * .50$ for each water and wastewater).

The postage machine lease and related annual property taxes for the Company's Pitney Bowes postage machine is \$1,848. The Utility's estimated cost allocation is based on volume. At 15%, the Utility's annual expense would be \$277 $(\$1,848 * .15)$ or \$139 for each, water and wastewater.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Operation and maintenance expense should increase by \$2,566 $(\$648 + \$392 + \$562 + 129 + \$696 + \$139)$ for each, water and wastewater.

Finding 25: Taxes Other than Income Proforma

Audit Analysis: We recalculated property taxes below. We traced personal and real property taxes of \$13,236 to the 2010 tax bills. For the 2011 tax year, taxes have decreased to \$12,585. Property taxes are split 50/50 between water and wastewater. In addition, the Utility's water tank is not recorded under the Utility. The land lies on the parent Company's territory. Using the approximate area of the tank to total area of the parent Company's land, we allocated \$21 of the parent's taxes to the Utility. The water and wastewater property taxes are overstated by \$315 each.

Water Tank Tax Allocation		
Description	Amount	
Acres in Parcel	58.80	
Sq.Ft. in 1 Acre	43,560.00	
Total Sq.Ft.	2,561,328.00	
Tank Sq.Ft.	1,662.00	
% of Utility's Property to Total Property	0.06%	A
UID 2011 Taxes on Parcel	\$ 32,455	
% of Utility's Property to Total Property	0.06%	A
Utility's Portion of Taxes	\$ 21	B
Utility's 2011 Tax Billed		
Utility's Real Estate Taxes	\$ 6,691	
Utility's Tangible Taxes	\$ 5,894	
Utility's Portion of Taxes	\$ 21	B
Total Taxes Billed	\$ 12,606	
R/E Taxes included in Test Year	\$ 13,236	
Tax Adjustment	\$ (629)	
Tax Adj. Per System (50/50 split)	\$ (315)	

The Utility recorded payroll taxes of \$6,111 and \$6,111. We recalculated the taxes using annualized wages for the test year. Payroll taxes are split 50/50 to water and wastewater. Payroll taxes should be reduced by \$799 for each, water and wastewater.

Description	FUTA	SUTA	Social Security	Medicare	Per Staff	Per Utility	Adj.
Taxable Wages	\$ 7,000	\$ 8,500					
Number of Utility Employees	\$ 5	\$ 5					
Total Taxable Wages	\$ 35,000	\$ 42,500					
Utility Avg. Payroll Percentage	57.00%	57.00%					
Utility's Share of Taxable Wages	\$ 19,950	\$ 24,225	\$ 119,674	\$ 119,674			
Tax Rate	0.80%	5.40%	6.20%	1.45%			
Utility's Allocation	\$ 160	\$ 1,308	\$ 7,420	\$ 1,735			
Water Allocation	\$ 80	\$ 654	\$ 3,710	\$ 868	\$ 5,311	\$ 6,110	\$ (799)
Wastewater Allocation	\$ 80	\$ 654	\$ 3,710	\$ 868	\$ 5,311	\$ 6,110	\$ (799)

Effect on the General Ledger: There is no effect on the general ledger.

Effect on the Filing: Proforma water and wastewater taxes other than income taxes expenses should each decrease by \$1,114 ((\$799) + (\$315)).

Finding 26: Long Term Debt and Cost Rate

Audit Analysis: The Utility entered into a five year line of credit agreement with Southwest Capital Bank in March 2010. The total fees paid to acquire the new debt were \$1,729 (\$864 average). Initially, the Utility used a line of credit to payoff its high rate long term debt in the amount of \$40,617. By August 2010, the Utility paid off the balance on the line of credit. Total interest paid during the test year is \$72. The Utility plans to use the line of credit to complete its proforma projects. Therefore, we have increased the debt on the attached cost of capital schedule in Exhibit 5 for the proforma additions of \$141,969 (\$43,769 of water additions and \$98,200 of wastewater additions).

The Utility recorded the line of credit and the origination fees together in Account 232.001, NP Southwest Capital Bank. The loan origination should have been deferred and amortized over the life of the note. Below, we compute the proper balance for the line of credit and average unamortized debt expense. We have used the actual cost rate in the test year for the line of credit of 6.18%. The analyst may want to consider adjusting this rate to take into effect future interest rate changes.

Line of Credit Loan - Principle Balance by Staff					Amortization Expense Calculation by Staff		
Date	Principal Pymt	Ending Bal.	Per Co.	Adj.	Description	Amount	
March-10		\$ 40,617			New Debt Expense	\$ 1,729	A
April-10	\$ (10,000)	\$ 30,617			Amortization Period (Mo.)	60	
May-10	\$ (10,000)	\$ 20,617			Monthly Expense	\$ 29	C
June-10	\$ (10,000)	\$ 10,617					
Balance at June 2010		\$ 10,617	\$ 12,346	\$ 1,729			
July-10	\$ (6,000)	\$ 4,617					
August-10	\$ (4,617)	\$ -					
Balance at June 2011		\$ -	\$ -	\$ -			
Average		\$ 5,309	\$ 6,173	\$ (864)			

Unamortized Debt Expense Average by Staff		
Description	Amount	
Total Debt Expense	\$ 1,729	A
Amortized Debt Exp	\$ (115)	(C*4 Mo.)
Balance at June 2010	\$ 1,613	
Amortized Debt Exp	\$ (346)	(C*12 Mo.)
Balance at June 2011	\$ 1,268	
Unamort. Debt Avg.	\$ 1,440	B

Loan	Utility Avg. Bal.	Adj.	Adj. Avg.	Unamort. Debt Exp.	Net Loan Bal.	Cost Rate
Southwest Capital Bank	\$ 6,173	\$ 141,105	\$ 147,278	\$ (1,440)	\$ 148,718	6.18%

Effect on the General Ledger: The following adjustment is needed to correct the Company's ledger. Since the books will be closed when the order is issued, the adjustment to debt amortization expense should be recorded to retained earnings:

Acct.	Acct. Description	Debit	Credit
181	Unamortized Debt Expense	\$ 1,268	
345	Retained Earnings		\$ 1,268
	Total	\$ 1,268	\$ 1,268

Effect on the Filing: Average long term debt should decrease by \$864. The cost rate for the Southwest Capital Bank loan should be 6.18%.

Exhibits

Exhibit 1: Average Rate Base Water 6/30/10-6/30/11

No.	Rate Base Component	Average Per Utility	Staff Adjustments		Average Per Staff	Proforma Adjustments		Staff Average w/ Proforma
1	Utility Plant In Service	\$ 562,718	\$ (17)	Finding 1		\$ 43,769	Finding 5	
			\$ (1,524)	Finding 2				
			\$ (4,669)	Finding 3				
			\$ (1,509)	Finding 4				
			\$ 839	Finding 11				
	Total Utility Plant In Service	\$ 562,718	\$ (6,880)		\$ 555,838	\$ 43,769		\$ 599,607
2	Land & Land Rights	\$ 10,463	\$ -		\$ 10,463	\$ -		\$ 10,463
3	Non-Used And Useful Components	\$ -	\$ -		\$ -	\$ -		\$ -
4	CIAC	\$ (225,670)	\$ -		\$ (225,670)	\$ -		\$ (225,670)
5	Acquisition Adjustment	\$ -	\$ -		\$ -	\$ -		\$ -
6	Accumulated Depreciation	\$ (345,940)	\$ (10,420)	Finding 1		\$ (1,731)	Finding 5	
			\$ 28	Finding 2				
			\$ 5,234	Finding 3				
			\$ 400	Finding 4				
			\$ (32,898)	Finding 7				
			\$ (31)	Finding 11				
	Total Accumulated Depreciation	\$ (345,940)	\$ (37,687)		\$ (383,627)	\$ (1,731)		\$ (385,358)
7	Accumulated Amortization of CIAC	\$ 205,551	\$ 1,597	Finding 1				
			\$ (21,148)	Finding 8				
			\$ (648)	Finding 9				
	Total Accumulated Depreciation	\$ 205,551	\$ (20,199)		\$ 185,352	\$ -		\$ 185,352
8	Amortization Of Acquisition Adj.	\$ -	\$ -		\$ -	\$ -		\$ -
9	Working Capital Allowance	\$ 15,172	\$ 1,168		\$ 16,340	\$ 307		\$ 16,646
10	Water Rate Base	\$ 222,294	\$ (63,598)		\$ 158,695	\$ 42,345		\$ 201,040

Exhibit 2: Average Rate Base Wastewater 6/30/10-6/30/11

No.	Rate Base Component	Average Per Utility	Staff Adjustments		Average Per Staff	Proforma Adjustments		Average Per Staff W/ Proforma
1	Utility Plant In Service	\$ 521,337	\$ 263	Finding 1		\$ 98,200	Finding 5	
			\$ (11,756)	Finding 3				
			\$ (403)	Finding 4				
			\$ 199	Finding 11				
			\$ 19,733	Finding 12				
	Total Utility Plant In Service	\$ 521,337	\$ 8,036		\$ 529,373	\$ 98,200		\$ 627,573
2	Land & Land Rights	\$ 3,487	\$ -		\$ 3,487			\$ 3,487
3	Non-Used And Useful Components	\$ -	\$ -		\$ -			\$ -
4	CIAC	\$ (230,187)	\$ -		\$ (230,187)			\$ (230,187)
5	Acquisition Adjustment	\$ -	\$ -		\$ -			\$ -
6	Accumulated Depreciation	\$ (339,625)	\$ (3,423)	Finding 1		\$ (3,637)	Finding 5	
			\$ 12,674	Finding 3		\$ (731)	Finding 12	
			\$ 121	Finding 4				
			\$ 15,323	Finding 7				
			\$ (5)	Finding 11				
	Total Accumulated Depreciation	\$ (339,625)	\$ 24,690		\$ (314,935)	\$ (4,368)		\$ (319,303)
7	Accumulated Amortization of CIAC	\$ 230,187	\$ 726	Finding 1				
			\$ 638	Finding 8				
			\$ (4,851)	Finding 9				
	Total Accumulated Depreciation	\$ 230,187	\$ (3,487)		\$ 226,700	\$ -		\$ 226,700
8	Amortization Of Acquisition Adj.	\$ -	\$ -		\$ -			\$ -
9	Working Capital Allowance	\$ 15,153	\$ 245		\$ 15,398	\$ 1,248		\$ 16,646
10	Wastewater Rate Base	\$ 200,352	\$ 29,484		\$ 229,836	\$ 95,080		\$ 324,916

Exhibit 3: Net Operating Income Water - Test Year Ended 6/30/11

No.	Operating Income Component	Test Year Per Utility	Staff Adjustments		Staff Adjusted Test Year	Proforma Adjustments		Staff Adjusted Test Year W/ Proforma
1	Operating Revenues	\$ (164,926)	\$ (222)	Finding 10	\$ (165,148)	\$ -		\$ (165,148)
2	Operation & Maintenance	\$ 121,375.61	\$ (2,239)	Finding 12		\$ 1,957	Finding 17	
			\$ 50	Finding 13		\$ 446	Finding 19	
			\$ 3,492	Finding 16		\$ (628)	Finding 15	
			\$ (3,650)	Finding 18		\$ 677	Finding 21	
			\$ (1,248)	Finding 19				
			\$ (1,781)	Finding 20				
			\$ 2,380	Finding 22				
			\$ 9,771	Finding 23				
			\$ 2,566	Finding 24				
	Total Operation & Maintenance	\$ 121,376	\$ 9,341		\$ 130,717	\$ 2,452		\$ 133,169
3	Depreciation	\$ 26,585	\$ (56)	Finding 2		\$ 1,731	Finding 5	
			\$ (248)	Finding 3				
			\$ (89)	Finding 4				
			\$ (4,170)	Finding 5				
			\$ 31	Finding 11				
	Total Depreciation	\$ 26,585	\$ (4,532)		\$ 22,053	\$ 1,731		\$ 23,784
4	Amortization	\$ (7,026)	\$ 4,517	Finding 8	\$ (2,509)	\$ -		\$ (2,509)
5	Taxes Other Than Income	\$ 20,211	\$ 24	Finding 10	\$ 20,235	\$ (1,114)	Finding 25	\$ 19,121
6	Income Taxes	\$ -	\$ -		\$ -	\$ -		
	Total Operating Expenses	\$ 161,145	\$ 9,350		\$ 170,495	\$ 3,069		\$ 173,564
7	Operating (Income)/Loss	\$ (3,781)			\$ 5,347			\$ 8,416
8	Water Rate Base	\$ 222,294			\$ 158,695			\$ 201,040
9	Rate Of Return	-1.70%			3.37%			4.19%

Exhibit 4: Net Operating Income Wastewater – Test Year Ended 6/30/11

No.	Operating Income Component	Test Year Per Utility	Staff Adjustments		Staff Adjusted Test Year	Proforma Adjustments		Staff Adjusted Test Year W/ Proforma
1	Operating Revenues	\$ (153,202)	\$ (1,827)	Finding 10	\$ (155,029)			\$ (155,029)
2	Operation & Maintenance	\$ 121,223	\$ (298)	Finding 11		\$ (628)	Finding 15	
			\$ (8,600)	Finding 12		\$ 498	Finding 17	
			\$ 345	Finding 13		\$ 446	Finding 19	
			\$ (2,000)	Finding 14		\$ 677	Finding 21	
			\$ 3,286	Finding 16		\$ 8,568	Finding 22	
			\$ (3,650)	Finding 18				
			\$ (1,248)	Finding 19				
			\$ 1,887	Finding 20				
			\$ (100)	Finding 22				
			\$ 9,771	Finding 23				
			\$ 2,566	Finding 24				
	Total Operation & Maintenance	\$ 121,223	\$ 1,959		\$ 123,182	\$ 10,189		\$ 133,371
3	Depreciation	\$ 19,247	\$ 269	Finding 1		\$ 3,637	Finding 5	
			\$ (572)	Finding 3		\$ 731	Finding 12	
			\$ (27)	Finding 4				
			\$ (3,120)	Finding 7				
			\$ 10	Finding 11				
	Total Depreciation	\$ 19,247	\$ (3,440)		\$ 15,807	\$ 4,368		\$ 20,175
4	Amortization	\$ -	\$ -		\$ -			\$ -
5	Taxes Other Than Income	\$ 19,749	\$ 30	Finding 10	\$ 19,779	\$ (1,848)	Finding 25	\$ 17,931
6	Income Taxes	\$ -	\$ -					
	Total Operating Expenses	\$ 160,219	\$ (1,451)		\$ 158,768	\$ 12,709		\$ 171,477
7	Operating (Income)/Loss	\$ 7,017			\$ 3,739			\$ 16,448
8	Wastewater Rate Base	\$ 200,352			\$ 229,836			\$ 324,916
9	Rate Of Return	3.50%			1.63%			5.06%

Exhibit 5: Capital Structure-Consolidated Utility and Parent

No.	Capital Component	Average Per Utility	Specific Adj.	Avg. Before Pro Rata Adjustment	Pro Rata Adjustment	Average Per Staff	Percent of Total	Cost	Weighted Cost
1	Utility Southwest Capital Mortgage	\$ (6,173)	\$ (141,105)	\$ (147,278)	\$ 3,940	\$ (34,728)	6.60%	6.18%	0.41%
2	Utility Stockholders - Useppa Inn	\$ (797,714)	\$ -	\$ (797,714)	\$ 592,119	\$ (188,099)	35.76%	3.46%	1.24%
3	Parent Stonegate Bank Mortgage	\$ (294,192)	\$ -	\$ (294,192)	\$ 218,369	\$ (69,369)	13.19%	7.19%	0.95%
4	Parent Stonegate Bank Line of Credit	\$ (191,936)	\$ -	\$ (191,936)	\$ 142,468	\$ (45,258)	8.60%	5.00%	0.43%
	Total Long Term Debt	\$ (1,290,015)	\$ (141,105)	\$ (1,431,120)	\$ 956,897	\$ (337,454)	64.16%		3.02%
5	Short Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		
6	Utility Common Stock	\$ (1,000)	\$ -	\$ (1,000)	\$ 742	\$ (236)	0.04%		
7	Utility Paid In Capital	\$ (149,000)	\$ -	\$ (149,000)	\$ 110,598	\$ (35,134)	6.68%		
8	Utility Retained Earnings	\$ 543,049	\$ -	\$ 543,049	\$ (403,088)	\$ 128,049	-24.35%		
9	Parent Paid In Capital	\$ 36,450	\$ -	\$ 36,450	\$ (27,056)	\$ 8,595	-1.63%		
10	Parent Retained Earnings	\$ (1,228,925)	\$ -	\$ (1,228,925)	\$ 912,193	\$ (289,777)	55.10%		
	Total Common Equity	\$ (799,426)	\$ -	\$ (799,426)	\$ 593,389	\$ (188,502)	35.84%	11.16%	4.00%
11	Customer Deposit	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		
12	Income Tax Credit	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		
13	Accum. Deferred Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		
14	Total	\$ (2,089,441)	\$ (141,105)	\$ (2,230,546)	\$ 1,550,286	\$ (525,956)	100.00%		7.02%