ORIGINAL

DOCKET NO. 991643-SU: Petition for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

WITNESS: **Direct Testimony Of Thomas E. Stambaugh,** Appearing On Behalf Of Staff

DATE FILED: August 28, 2000

DIRECT TESTIMONY OF THOMAS E. STAMBAUGH

Q. Please state your name and business address.

A. My name is Thomas E. Stambaugh and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida, 33609.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst IV in the Division of Regulatory Oversight.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since November, 1984.

Q. Briefly review your educational and professional background.

A. In 1965, I received a degree in Business Administration with a major in Industrial Management from Southern Methodist University. In 1976, I received a Degree in Accounting from the University of South Florida. I performed industrial accounting work until 1981, when I was hired by the Florida Department of Health and Rehabilitative Services (HRS) as an accountant. After three years with HRS, I began work for the Florida Public Service Commission. I attained the Certified Internal Auditor designation in 1989.

Q. Please describe your current responsibilities.

A. Currently, I am a Regulatory Analyst IV with the responsibilities of planning and directing the more complicated financial, special, and investigative audits, including audits of affiliate transactions. I also am responsible for creating audit work programs to meet a specific audit purpose and integrating the electronic data processing applications into these programs.

Q. Have you presented expert testimony before this Commission or any other regulatory agency?

A. Yes. I testified in the Jasmine Lakes Utilities' rate case, Docket No. 920148-S.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Aloha Utilities, Inc.: Seven Springs wastewater system, Docket No. 991643-SU, and to testify specifically regarding the four audit exceptions and audit disclosures 1 - 6, 9, and 10. The audit report is filed with my testimony and is identified as TES-1.

Q. Was this audit report prepared by you or under your supervision?

A. Yes, I was the audit manager in charge of this audit.

Q. Please review the work you and the audit staff performed in this audit.

A. We compiled Rate Base and tested the balances of Plant-in-Service by reviewing capital work orders. We calculated accumulated depreciation using currently approved rates and tested Contributions-in-Aid-of-Construction (CIAC) and Amortization of CIAC. We also audited the working capital allowance which was calculated by the utility on the balance sheet method and allocated among its divisions on the basis of Operating and Maintenance (O&M) expense. We compiled revenue and expenses, tested specific customer bills to verify that approved rates were in use, recomputed revenues using approved tariffs and company-provided gallonage sales, verified O&M expenses, and performed audit test work of payments to vendors to verify booked expenses. We also recalculated depreciation expense and analyzed taxes other than income. We compiled the capital structure of Aloha Utilities and traced amounts and interest rates to supporting documents.

Q. Please review the audit exceptions in the audit report.

A. Audit Exceptions disclose substantial non-compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), a Commission rule or order, and formal company policy. Audit Exceptions also disclose company exhibits that do not represent company books and records and company failure to provide underlying records or documentation to support the general ledger or exhibits.

Audit Exception No. 1 discusses plant additions. In 1997, the utility made an adjustment to capitalize certain transactions which were originally classified as O&M expense between the years 1980 and 1991. The effect of this adjustment was to add $232,262 to plant accounts and $68,671 to accumulated depreciation. Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Docket No. 970536-WS, removed these items and stated that "Pursuant to Rule 25-30.110(5)(d), Florida Administrative Code, the utility certified that its annual reports from 1980 to 1991 fairly presented the financial condition and results of operations for each of those years. We believe that it is inappropriate to capitalize these amounts several years after the fact. We have relied on these reports for purposes of monitoring the utility's earnings level and are precluded by the prohibition against retroactive ratemaking from going back and looking at those prior years to determine if overearnings existed. Therefore, the utility shall be precluded from taking previously expensed items from prior years and changing its accounting treatment." However, the Commission recognized the utility's disagreement with its decision, and provided that the matter could be revisited later.

The utility did not make any adjustment to remove these items from rate base. The portion of the suggested plant additions relating to the Seven Springs wastewater system is $127,232 and the associated accumulated depreciation is $51,517. The effect of expensing these items in previous years was to reduce the utility's NOI in those years. If the utility is permitted to recover the depreciation expense related to this capitalization of previous years expenses, it will in a sense be recovering these costs twice, using depreciation expense as the recovery vehicle this time, as compared to O&M expense used in previous years. Determining whether the act of capitalizing these transactions would have caused an over earnings situation in a prior year(s) cannot be determined without a detailed investigation of utility financial statements and federal income tax returns. Allowing this utility to increase its rate base for items previously expensed would be giving a "green light" for any utility to manipulate its earnings reports in years that it is over earning and then capitalizing these items to increase rate base in another year when this is more beneficial.

While the Commission often corrects errors in utility accounting for plant additions, it is not a practice of the Commission to restate prior years' earnings. During audit field work, Commission auditors are required to analyze plant additions since the most recent audit of rate base to verify the accuracy of the additions. However, expenses for the <u>test year only</u> are analyzed to verify the accuracy of the O&M expenses as a component of net operating income for the test year. Expenses and revenues are not normally analyzed for previous years. It is not Commission practice to audit the expenses of previous years because these years are not used to determine current year net operating income. Therefore, the act of the CPA firm going back over previous years to reclassify expenses as plant additions is not consistent with Commission audit practice.

The utility has already received the benefit of these transactions through net operating income and reductions to income tax. Even the exhibit to the utility's response to the audit indicates that the utility continued to earn a positive net operating income while these items were recognized as expenses and that the lowest return the utility achieved while expensing these items was 7.67%. To now reclassify these expenses to plant would provide a dual benefit to the utility for these expenditures. Therefore, I recommend that these transactions should be removed from rate base as was required in the previous order.

Audit Exception No. 2 discuses Allowance for Funds Used During Construction (AFUDC). Order No. 22206, issued November 26, 1989, in Docket No. 891113-WS, set an AFUDC rate of 14.71%. This rate was changed to 9.08% in Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Docket No. 970536-WS. The effective date of the change was January 1, 1999. At the effective date of a change in AFUDC rate, the utility must change its AFUDC rate for existing projects from the formerly authorized rate to the new rate. As of January 1, 1999, the utility had three ongoing Construction Work In Progress (CWIP) projects in place: the Wastewater Treatment Plant Expansion, the Little Road project and Reclaimed Water, Phase III. Audit calculations reveal that the utility changed the AFUDC rate for the Little Road project and for the Reclaimed Water - Phase III project. However, the utility did not change the AFUDC rate for the Wastewater Treatment Plant Expansion to the new AFUDC rate prescribed at January 1, 1999. As a result, the utility will over-recover AFUDC during the life of the project in the amount of $122,524. Since the Wastewater Treatment Plant Expansion was posted to several plant accounts, the chart in the audit report shows the amount by account and year. The total adjustment for the historic test year is $6,733 and for the intermediate year is $115,791, for a total adjustment of $122,524.

Audit Exception No. 3 discusses test year expenses that should have been capitalized. During the test year, the utility expensed three items that should have been capitalized. The first item is a breathing apparatus for $1,118, the second item is a hydromatic pump for $3,661, and the third item is for vacuum regulators for $6,837. These items are fixed or plant assets and should be reclassified from expense accounts to plant accounts. Plant assets generally are acquired for use in operations and have relatively long lives. Because these assets provide benefit to future periods, they should be recorded in the appropriate plant accounts at historical cost. The assets should then be depreciated over the service life as provided in Rule 25-30.140, Florida Administrative Code.

Audit Exception No. 4 discusses the disposition of excess rate case expense. Commission Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Docket No. 950615-SU, allowed the utility to recover $205,777 of rate case expense. The utility deferred $237,178 of rate case expense in account 186.008. In 1999, the utility expensed the difference of $31,401 evenly across three expense accounts: 731.054 (Contractual Services-Engineering), 732.084 (Contractual Services-Accounting), and 733.084 (Contractual Services-Legal). This excess amount, of $31,401, was not allowed by the prior order and should not be included as an above the line expense. Instead, the utility should have expensed this amount below the line.

Q. Please review the audit disclosures in the audit report.

A. Audit Disclosure No. 1 discusses the wastewater land account. The total land balance for the Seven Springs wastewater division per the utility's books at December 31, 1997 was $588,030. Based on our previous undocketed Earnings Audit and the Supplemental Land Audit, we determined the land balance should be $536,824, a reduction of $51,206. Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Docket No. 970536-WS, required the land balance be reduced by $39,086, a difference of $12,120. The previous audit indicated that this adjustment should have been made to the Seven Springs wastewater system. It appears that the staff recommendation inadvertently made this adjustment to the Aloha Gardens wastewater system. The utility adjusted its books to reflect the order. Therefore, I recommend that this be corrected. An additional $12,120 should be removed from the land balance in the Seven Springs wastewater system to correct this error and the $12,120 should be added back to the balance of the Aloha Gardens wastewater system land account.

Audit Disclosure No. 2 discusses the usefulness of the land under the power lines. The utility owns three parcels of land next to the wastewater treatment plant which it states it owns for use as a reuse water spray field. The land next to the wastewater treatment plant totals about 58 acres and is composed of two purchases. The total cost to the utility was $341,097. The first purchase, which totals 26.25 acres, is rectangular in shape and is located east of and next to the wastewater treatment plant. The land was bought from an unrelated party in 1987 for $143,445, or $5,465 per acre. The second purchase, Parcels A and B, are narrow and have Florida Power Corporation (FPC) electrical transmission lines running through their entire length. Parcel A, which runs East and West, is bounded by homes to the north and woods to the south. FPC operates a 230,000 volt transmission line through Parcel A. FPC paid $21,287 for the easement through Parcel A. Parcel B, which runs north and south, is bounded by homes on the west side and a school on the east side. FPC operates a 115,000 volt transmission line through Parcel B. FPC paid $70,919 for the easement through Parcel B. In the Second Purchase, the utility bought Parcel A and Parcel B in 1989 from a related party, Tahitian Development. The land in the Second Purchase cost the utility an average of $7,059 per acre, or a difference of $1,594 compared to the First Purchase. Further, Parcel A cost the utility $8,989 per acre, while Parcel B cost the utility $3,757 per acre. Visual observation reveals no difference in relative usefulness of either piece of land. They are adjacent to each other. Each has a wastewater collection line running under it, and a power line running over it. Parcel A also has a Florida Gas Transmission line and a FPC substation at the East end. We also toured the property and did not see either the First Purchase or the Second Purchase in use as a spray field. None of this property has a spray head system installed. Further, the utility does not own a portable spray head system which it can tow to the property for reuse water spraying. As part of the audit field work, we asked the utility why it had not installed a spray head system on the land. The utility responded that it could not use its spray field system until its expanded wastewater treatment plant was certified to be operational by the Florida Department of Environmental Protection (DEP). Until that certification was received, the utility did not want to spend any more money on reuse plant. Until the utility actually installs a spray head system on the land to make it usable as a spray field, the land does not contribute to the performance of utility service and does not provide benefit to the rate payer.

Audit Disclosure No. 3 discusses working capital and the utility's methodology for calculating the working capital allowance included in the MFRs.

Audit Disclosure No. 4 discusses payroll expense. The payroll expense for the test year for the utility president was $122,595 and for the vice-president was $68,250. The percentage of time spent as an officer of Aloha Utility was 100% for the president and 20% for the vice-president. Expanding the vice-president's salary to 100% equates to an annual rate of pay of $341,250. In Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Docket No. 970536-WS, the Commission stated "we do not believe that Aloha's vice president warrants a greater annualized salary than the president." It then ordered a reduction of the vice president's salary to an amount equal to 20 percent of the president's pay. The order also reduced corresponding benefits and payroll tax accounts.

I believe that the salary allowable for rate making purposes should reflect the benefit which the vice-president brings to the utility. As she spends 20% of her time on utility business, or approximately one work day per week, I believe that an annualized salary capped at 20% of the president's annual pay is a fair determination of payroll expense for rate making purposes. I also recommend that similar adjustments to the utility's salary, benefits, and payroll tax accounts should be made for the test year. This adjustment results in a decrease to the salary expense of $43,731. Since this amount relates to the entire utility, an allocation of the adjustment should be made to the Seven Springs wastewater system. The utility used an allocation percentage of 35.46% in its MFRs which would result in an adjustment amount of $15,507. Comparing the salary adjustment to total salaries and applying the result to payroll taxes and benefits results in an adjustment to that expense of $1,392.

Audit Disclosure No. 5 discusses errors resulting from the computer system conversion. The utility replaced its general ledger software system in July of

1999 with a new general ledger software system. The company stated that during the mid-year conversion of accounts payable, differences arose between the detail and the general ledger. These differences were assumed related to Seven Springs and a journal entry was made to several Seven Springs expense accounts totaling $4,348. General utility policy is that when an expense cannot be specifically identified and charged directly to the appropriate division of the utility, it should be allocated to all the systems based on ERC's. The ERC split between the systems results in the following percentages for each of Aloha's four divisions: Aloha Gardens Water- 14%; Aloha Gardens Wastewater- 14%; Seven Springs Water- 36%; Seven Springs Wastewater- 36%. Absent clear evidence to suggest that these expenses resulting from the computer system conversion were attributable to Seven Springs only, the ERC allocation method should have been used. I recommend that the Seven Springs wastewater chemicals expense account and the materials/supplies account should each be reduced by $1,087 to reflect this adjustment.

Audit Disclosure No. 6 discusses expenses related to DEP Enforcement Action. The DEP had alleged that Aloha's wastewater treatment plant had effluent discharges exceeding its design treatment capacity. On March 9, 1999, Aloha and DEP settled the allegations, each acknowledging and agreeing that the other party has admitted no liability or wrongdoing in respect to the allegations. Aloha was required to pay DEP $18,400 as part of this settlement. The audit report indicates that the utility incurred $27,400 of legal fees related to DEP's enforcement action during the test year. In its response to the audit report, the utility submitted copies of invoices that indicate $9,875 of these expenses were not related to the DEP enforcement action but were normal, recurring expenses. I have reviewed these copies and agree with the utility that the amount of the legal expenses related to the DEP enforcement action should be reduced to $17,525. The utility also paid the $18,400 settlement fee during the test year. These appear to be legitimate utility expenses, as there was no finding of wrongdoing on the utility's part. They also appear to be non-recurring expenses. Rule 25-30.433(8), Florida Administrative Code, requires that non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified. Therefore, I recommend that the utility reclassify these costs to a deferred account and amortize them over a 5-year period. This results in a decrease to account 733.084 (Contractual Services-Legal) of $17,525, a decrease to account 775.084 (Miscellaneous Expense) of $18,400 and a resulting increase to account 186 (Deferred Expenses) of $35,925. To record one year's amortization, an expense of $7,185 should be recognized.

Audit Disclosure No. 9 discusses bank loan costs. During the test year, the utility expensed various legal fees associated with securing a $5,200,000 NationsBank loan to finance the expansion of the Seven Springs Wastewater plant. At the end of the test year, the utility reviewed these expenses and reclassified $24,829 of them to a prepaid expense account. The reclassification from an expense account to a prepaid expense account appears to be proper. However, during the audit, $2,581 of additional like expenses were discovered that had not been reclassified. To be consistent, an adjustment should be made to move $2,581 from account 733.084 (Contractual Services-Legal) to account 162.008 (Prepaid Loan Costs.)

Audit Disclosure No. 10 discusses recoverable personal property taxes. The utility included in its MFRs personal property taxes of $251,231 for 1999,

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING

TAMPA DISTRICT OFFICE

ALOHA UTILITIES, INC.

WASTEWATER RATE CASE

FOR THE HISTORICAL TEST YEAR ENDED SEPTEMBER 30, 1999

Docket No. 991643-SU
Audit Control No. 00-074-2-1

Thomas E. Stambaugh, Audit Manager

Vincent C. Aldridge, Audit Staff

James A. McPherson, Audit Supervisor

$346,589 for 2000, and $364,804 for 2001. These amounts were calculated without regard to early payment discounts. The utility should not be permitted to recover more than the minimum amount of property tax required to be paid. By Order No. PSC-99-1917-PAA-WS, dated September 28, 1999, in Docket No. 970536-WS, the Commission found that "the utility did not take the available discounts in November. . . . Because of the utility's decision not to take all the available discounts, it is unfair for ratepayers to bear these additional expenses."

In order to calculate the proper amount of tax, I used the methodology described on MFR Schedule G-1, page 8 of 8. The utility states the "tangible personal property taxes were projected based on the plant balances, excluding land and transportation equipment, less accumulated depreciation." I used the book values of plant as of January 1, 1999 ($16,745,200) and compared this amount to the total tax of $324,317 (two tax bills of $10,817 and $313,500) and developed an effective millage rate of 1.93677. I believe that using the actual tax bills and plant balances is an appropriate way to determine the tax expense. The audit report included as Exhibit TES-1 provides a schedule which details my proposed adjustment. This schedule indicates a reduction to personal property tax of $23,134 for 1999, $22,564 for 2000, and $23,819 for 2001.

Q. Do you have anything to add to your testimony?

A. Yes. Many of these adjustments are to the historical test year ended September 30, 1999. Any escalation factors, such as growth or inflation, that were applied to these items should also be removed.

Q. Does this conclude your testimony?

A. Yes, it does.

DOCKET NO. 991643-SU: Petition for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

WITNESS: **Direct Testimony Of Thomas E. Stambaugh,** Appearing On Behalf Of Staff

EXHIBIT: TES-1

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DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT

MAY 19, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income and Capital Structure for the historical twelve month period ended September 30, 1999, the intermediate twelve month period ended September 30, 2000, and the projected twelve month period ended September 30, 2001, for Aloha Utilities, Inc. These schedules were prepared as part of a rate case filing for the Seven Springs Wastewater Division. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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

SUMMARY OF SIGNIFICANT FINDINGS

The Utility did not remove from its Rate Base the invoices which had been disallowed in the previous Earnings Investigation. The utility used an old AFUDC rate for the Wastewater Treatment Plant Expansion in its MFRs. The utility expensed several items that should have been capitalized. The utility expensed rate case expense disallowed in FPSC Order 97-280-FOF-WS, issued March 12, 1997.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled Rate Base. Tested the balances of Plant in Service by reviewing capital work orders on a judgmental basis. Calculated accumulated depreciation using currently approved rates. Tested Contributions in Aid of Construction (CIAC) and Amortization of CIAC. Audited the working capital allowance which was calculated by the Utility on the balance sheet method and allocated among its divisions on the basis of Operating and Maintenance (O&M) expense.

NET OPERATING INCOME: Compiled revenue and expenses. Tested specific customer bills to verify that approved rates were in use. Recomputed revenues using approved tariffs and company-provided gallonage sales. Verified O&M expenses. Performed audit test work of payments to vendors to verify booked expenses. Recalculated depreciation expense. Analyzed taxes other than income.

CAPITAL STRUCTURE: Compiled the capital structure of Aloha Utilities. Traced amounts and interest rates to supporting documents.

OTHER: The auditors reviewed a copy of the Internal Revenue Service letter to the Utility after the IRS audit of the 1996 federal income tax return, read the minutes of the meetings of the Board of Directors and performed analytical review of O&M expense. These tasks were performed to aid in determining the scope and level of risk of the audit.

Exception No. 1

Subject: Plant Additions

Statement of Fact: In 1997 the utility made an adjustment to capitalize certain transactions which were originally classified as Operations and Maintenance (O&M) expense between the years 1980 and 1991. The effect of this adjustment was to add $232,262 to plant accounts, $68,671 to accumulated depreciation and to increase the 1997 depreciation expense by $9,961. In our previous audit we recommended these items be removed from rate base. FPSC Order 99-1917-PAA-WS, dated September 28, 1999 agreed with us saying "...plant, accumulated depreciation, and depreciation for each of the Utility's systems shall be reduced as follows:". However, the FPSC recognized the Utility's disagreement with its decision, and provided that the matter could be revisited later. The utility did not make any adjustment to remove these items from rate base.

Opinion: The portion of the suggested plant additions relating to the Seven Springs Wastewater system is $127,232 with associated accumulated depreciation of $51,517. FPSC auditor calculations, carried forward from FPSC Order PSC-99-1917-PAA-WS, would add $5,006 in depreciation expense for the nine month period ended September 30, 1998, and $6,675 for each of the twelve month periods ended September 30, 1999, September 30, 2000 and September 30, 2001.

If the Utility is permitted to recover the depreciation expense related to this capitalization of previous years expenses, it will in a sense be recovering these costs twice, using depreciation expense as the recovery vehicle this time, as compared to O&M expense used in previous years. The effect of expensing these items in previous years was to reduce the utility's NOI in those years. Whether the act of capitalizing these transactions would have caused an over earnings situation in a prior year(s) cannot be determined without detailed investigation of Utility financial statements and federal income tax returns.

The Utility has identified transactions which were originally expensed and now seeks to include these items in its rate base. Allowing this utility to increase its rate base for items previously expensed would be giving a "green light" for any utility to manipulate its earnings reports in years that it is over earning and then capitalizing these items to increase rate base in another year when this is more beneficial.

Recommendation: These transactions should be removed from rate base as was required in the previous order.

Exception No. 2

Subject: Allowance for Funds Used During Construction (AFUDC)

Statement of Fact: The FPSC determined that the AFUDC rate for Aloha Utilities should change from 14.71% to 9.08%. The 14.71% rate was set in FPSC Order No. 22206, issued November 26, 1989, and was changed to 9.08% in Order PSC-99-1917-PAA-WS, issued September 28, 1999. The effective date of the change was January 1, 1999. At the effective date of a change in AFUDC rate, the Utility must change its AFUDC rate for existing projects from the formerly authorized rate to the new rate. As of January 1, 1999, the Utility had three ongoing Construction Work In Progress (CWIP) projects in place: the Wastewater Treatment Plant Expansion, the Little Road project and Reclaimed Water, Phase III.

Recommendation: Auditor calculations reveal that the Utility changed the AFUDC rate for the Little Road project and for the Reclaimed Water - Phase III project. However, the Utility did not change the AFUDC rate for the Wastewater Treatment Plant Expansion to the new AFUDC rate prescribed at January 1, 1999. As a result, the Utility will over-recover AFUDC during the life of the project in the amount of $122,524. Since the Wastewater Treatment Plant Expansion was posted to several plant accounts, the following chart shows the amount by account and year.

Acct No	Account Title	Historic Year	Intermed. Year	Total
354.3	Structures & improvements	$665	$11,441	$12,106
354.5	Structures & Improvements	371	6,379	6,750
354.6	Structures & Improvements	1,120	19,254	20,374
355.6	Power Generation Equip.	497	8,544	9,041
367.6	Reuse Meters/Installations	194	3,336	3,530
371.3	Pump Equip - Sys. Pumping	1,747	30,051	31,798
374.5	Reuse Distrib. Reservoirs	307	5,287	5,594
380.5	Treatment/Disposal - Reclaim	1,097	18,859	19,956
381.5	Plant Sewers - Treat/Disposal	735	12,641	13,376
	Total	$6,733	$115,791	$122,524

Exception No. 3

Subject: Items Expensed That Should Have Been Capitalized

Statement of Fact: During the test year, the utility expensed three items that should have been capitalized.

Recommendation: The following three items are fixed or plant assets and should be reclassified from expense accounts to plant accounts. Plant assets generally are acquired for use in operations and have relatively long lives. Because these assets provide benefit to future periods, they are recorded in the appropriate plant accounts at historical cost. The assets are then depreciated over the service life as provided in Rule 25-30.140, Florida Administrative Code.

Item	Account	Description	Debit	Credit
Breathing Apparatus	720.014	Material/Supplies		1,118
	389.xxx	Other Plant/Misc Equip	1,118	
Hydromatic Pump	720.044	Material/Supplies		3,661
	371.xxx	Pumping Equipment	3,661	
Vacuum Regulators	720.104	Material/Supplies		6,837
	389.xxx	Other Plant/Misc Equip	6,837	
		Total:	11,616	11,616

Exception No. 4

Subject: Disposition of Excess Rate Case Expenses

Statement of Fact: FPSC Order No. 97-0280-FOF-WS, issued March 12, 1997, permitted the utility to recover $205,777 of rate case expense.

Recommendation: The utility had deferred $237,178 of rate case expense in account 186.008. In 1999, the utility expensed the difference of $31,401 evenly across three expense accounts as follows:

Account	Description	Debit	Credit
731.054	Cont Serv-Eng	10,467	
732.084	Cont Serv-Acc	10,467	
733.084	Cont Serv-Legal	10,467	
186.008	Deferred Rate Case Exp		31,401

This excess amount of $31,401 is not recoverable for ratemakeing purposes and should not be included as an above the line expense. Instead the utility should have expensed this amount below the line. The following adjustment should be made:

Account	Description	Debit	Credit
731.054	Cont Serv-Eng		10,467
732.084	Cont Serv-Acc		10,467
733.084	Cont Serv-Legal		10,467
426.xxx	Non-Utility Expense	31,401	

Disclosure No. 1

Subject: Wastewater Land Account

Statement of Fact: The total land balance for the Seven Springs Wastewater division per the utility's books at December 31, 1997 was $588,030. Based on our undocketed Earnings Audit and the Supplemental Land Audit, we determined the land balance should be $536,824, a reduction of $51,206. FPSC Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, stated the land balance should be reduced by $39,086, a difference of $12,120. The Utility adjusted its land balance in 1999 to agree with the FPSC Order.

Recommendation: An additional $12,120 should be removed from the land balance in the Seven Springs wastewater system. The FPSC Order incorrectly directed the removal of that amount from the Aloha Gardens wastewater system land account. The $12,120 should be added back to the balance of the Aloha Gardens wastewater system land account.

Seven Springs Wastewater Land Balance at December 31, 1997:	$588,030
Amount Removed by the Utility	($39,086)
Sub-Total	$548,944
Additional Adjustment	($12,120)
Remainder	$536,824

Disclosure No. 2

Subject: Usefulness of Land Under Power Lines

Statement of Fact: The Utility owns three parcels of land next to the wastewater treatment plant which it states it owns for use as a reuse water spray field.

The land next to the wastewater treatment plant totals about 58 acres and is composed of two purchases. The total cost to the Utility was $341,097. The total is organized as follows:

Land Item	Purchase Price	Date Purchased	Acreage	Price Per Acre	Seller
First Purchase	$143,445	1987	26.25 acres	$5,465	Unrelated Party
Second Purchase					
Parcel A	$149,220	1989	16.6 acres	$8,989	Tahitian Development
Parcel B	$42,835	1989	11.4 acres	$3,757	Tahitian Development
Appraisal	$5,597	1989			
Sub-Total	$197,652		28.0	$7,059	
Total	$341,097		54.25	$6,287	

The First Purchase, which totals 26.25 acres, is rectangular in shape and is located East of and next to the wastewater treatment plant. This land is covered with trees. The land was bought from an unrelated party.

The Second Purchase, Parcels A and B, are narrow and have Florida Power Corp (FPC) electrical transmission lines running through their entire length. Parcel A, which runs East and West, is bounded by homes to the North and woods to the South. FPC operates a 230,000 volt transmission line through Parcel A. FPC paid $21,287 for the easement through Parcel A. Parcel B, which runs North and South, is bounded by homes on the West side and a school on the East side. FPC operates a 115,000 volt transmission line through Parcel B. FPC paid $70,919 for the easement through Parcel B.

The land in the First Purchase cost the Utility $5,465 per acre. In the Second Purchase, the Utility bought Parcel A and Parcel B in 1989 from a related party, Tahitian Development. The land in the Second Purchase cost the Utility an average of $7,059 per acre, or a difference of $1,594 compared to the First Purchase. Further, Parcel A cost the Utility $8,989 per acre, while Parcel B cost the Utility $3,757 per acre. Visual observation reveals no difference in relative usefulness of either piece of land. They are close to each other. Each has a wastewater collection line running under it, and a powerline running over it. Parcel A also has a Florida Gas Transmission line and a FPC substation at the East end.

Disclosure No. 2 (Continued)

The FPSC auditors toured the property and did not see either the First Purchase or the Second Purchase in use as a spray field. None this property has a sprayhead system installed. Further, the Utility does not own a portable sprayhead system which it can tow to the property for reuse water spraying. The FPSC auditors asked the Utility why it had not installed a sprayhead system on the land. The Utility responded that it could not use its spray field system until its expanded wastewater treatment plant was certified to be operational by the Florida Department of Environmental Protection. Until that certification was received, the Utility did not want to spend any more money on reuse plant.

Recommendation: To our knowledge, the Utility does not "own or control" the Mitchell or Speer land on which the current sprayfields exist. The Utility does own the land under the Florida Power transmission lines on which no spray field exists. Until the Utility actually installs a sprayhead system on the land to make it usable as a sprayfield, the land does not contribute to the performance of utility service and does not provide benefit to the rate payer.

Disclosure No. 3

Subject: Working Capital

Statement of Fact: Rule 25-30.433 (2) Florida Administrative Code, requires the use of the balance sheet approach when calculating working capital for Class A water and wastewater utilities. The results of using that method are shown below.

Recommendation: Current assets and current liabilities are stated on a Utility-wide basis instead of belonging to a particular operating system. The Utility prorated the total working capital to each operating system on the basis of O&M expense for each system. This method is consistent with the methodology of prorating working capital in the previous audit. The FPSC auditors analyzed the balance sheet components of working capital total. Operations and Maintenance expense was compiled by system to validate the allocation by system.

In the previous audit, the Utility included interest-earning cash accounts in its calculation of working capital. In FPSC Order PSC-99-1917-PAA-WS, the Commission disallowed the use of the cash accounts in the calculation of working capital. In the present rate case audit, the Utility has included an average cash balance of $555,738 in the calculation of working capital and has included the interest as other revenue.

The dollar amounts of working capital stated by the balance-sheet method in total and for each division are:

	Historical Year 1999 Balance Sheet Method:
Total	$637,066
Aloha Gardens	
Water	$51,731
Wastewater	$122,826
Seven Springs	
Water	$205,517
Wastewater	$256,992

Disclosure No. 4

Subject: Payroll Expense

Statement of Fact: The payroll expense for the following officers for the test year was:

President	$122,595
Vice President	$ 68,250

The percentage of time spent as an officer of Aloha Utility was:

President	100%
Vice President	20%

Recommendation: FPSC Order 99-1917-PAA-WS, issued September 28, 1999, stated that "we do not believe that Aloha's vice president warrants a greater annualized salary than the president." It then ordered a reduction of the vice president's salary to an amount equal to 20 percent of the president's pay. The order also reduced corresponding benefit and payroll tax accounts. Similar adjustments to the Utility's Salary, Benefits and Payroll Tax accounts should be made for the test year as follows:

20% of the President's salary =	$122,595 x 20%=	$24,519

Vice President's Salary:	$68,250
Maximum Vice President's Salary Allowed:	24,519
Total Utility Salary Adjustment:	$43,731

Since the above amounts relate to the entire utility, an allocation of the adjustment must be made to Seven Springs Wastewater. The utility used an allocation percentage of 35.46% in its MFRs.

Total Utility Salary Adjustment:	$43,731
Allocation Percentage:	35.46%
Seven Springs Wastewater Salary Adjustment:	**$15,507**

The percentage of salary adjustments to total salaries can be used to make the corresponding adjustment to Payroll Taxes and Benefits:

Salary Adjustment:	$15,507
Total Salaries:	254,164
Factor to apply to benefits and taxes:	6.10%

Total Benefits:	$87,172
Adjustment factor:	6.10%
Benefits Adjustment:	**$ 5,319**

Total Payroll Tax:	$22,812
Adjustment factor:	6.10%
Payroll Tax Adjustment:	**$ 1,392**

Disclosure No. 5

Subject: Computer System Conversion

Statement of Fact: The utility replaced its general ledger software system in July of 1999 with a new general ledger software system. The company stated that during the mid-year conversion of accounts payable, differences arose between the detail and the general ledger. These differences were assumed related to Seven Springs and an journal entry was made to several Seven Springs expense accounts totaling $4,348.

Recommendation: Where expenses cannot be specifically identified and charged directly to the appropriate division of the utility, utility policy is to allocate these expenses based on ERC's. ERC allocation results in the following percentages for each of Aloha's four divisions: Aloha Gardens Water- 14%; Aloha Gardens Wastewater- 14%; Seven Springs Water- 36%; Seven Springs Wastewater- 36%.

Absent clear evidence to suggest that these expenses were attributable to Seven Springs only, the ERC allocation method should have been used. The following adjustments are recommended:

Account	Description	Debit	Credit
618.013	Chemicals- SSW		1,087
620.013	Materials/Supplies- SSW		1,087
718.054	Chemicals- SSWW		1,087
720.054	Materials/Supplies- SSWW		1,087
675.081	Misc. Exp- AGW	2,174	
775.082	Misc. Exp- AGWW	2,174	

Disclosure No. 6

Subject: DEP Enforcement Action Expenses

Statement of Fact: The Florida Department of Environmental Protection had alleged that Aloha's wastewater treatment plant had effluent discharges exceeding its design treatment capacity. On March 9, 1999, Aloha and DEP settled the allegations, each acknowledging and agreeing that the other party has admitted no liability or wrongdoing in respect to the allegations. Aloha was required to pay DEP $18,400 as part of this settlement.

Recommendation: The Utility incurred $27,400 of legal fees related to DEP's Enforcement Action during the test year. It also paid the $18,400 settlement fee during the test year. These appear to be legitimate utility expenses, as there was no finding of wrongdoing on the utility's part. They also appear to be non-recurring expenses. Rule 25-30.433 (8), Florida Administrative Code states that non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified. Therefore it is recommended that the utility reclassify these costs to a deferred account and amortize them over a 5-year period. Adjustments should be made as follows:

To reclassify DEP Enforcement Action Expenses to deferred account:

Account	Description	Debit	Credit
733.084	Cont Serv- Legal		27,400
775.084	Misc Exp		18,400
186.xxx	Deferred Exp	45,800	

To record one year's amortization of these expenses:

Account	Description	Debit	Credit
733.084	Cont Serv- Legal	5,480	
775.084	Misc Exp	3,680	
186.yyy	Deferred Exp- Amort		9,160

Disclosure No. 7

Subject: Deferred Taxes and Contributed Taxes

Statement of Facts:
The utility has the following accounts listed in its general ledger:

ACCT. NO.	TITLE	G/L BAL. 9-30-98	G/L BAL. 9-30-99	13 MONTH AVERAGE
190-00-0	Def. Tax Asset MF SIT	5,077	6,656	
191-00-0	Def.Tax Asset MF FIT	29,387	38,614	38,639
193-00-0	Def.Tax Asset CIAC SIT	333,016	310,681	
194-00-0	Def.Tax Asset CIAC FIT	1,945,417	1,814,972	2,203,971
	Total	2,312,897	2,170,923	2,242,610
245-00-0	Def.Tax Liability SIT	(3,475)	(3,475)	
246-00-0	Def.Tax Liability FIT	(20,313)	(20,313)	
247-00-0	Def.Tax Liab.Depr. SIT	(47,866)	(75,830)	
248-00-0	Def.Tax Liab.Depr. FIT	(343,948)	(507,403)	
	Total	(415,602)	(607,021)	(475,501)
254-00-0	Contributed Taxes	(2,720,755)	(2,720,755)	
255-10-0	Amort. Of Contr. Taxes	244,301	380,339	
	Total	(2,476,454)	(2,340,416)	(2,418,898)

The utility included the $475,501 Deferred Tax Liabilities in its MFR Capital Structure Schedule D-2(c), but did not include the Deferred Tax Assets or the Contributions in Aid of Construction (CIAC) that was "grossed up" for income taxes in either its capital structure or rate base schedules. Depreciation expense was reduced by $38,622, the current year's contributed tax amortization relating to the Seven Springs Wastewater system.

Rule 25-30.433(3) Florida Administrative Code says that debit deferred taxes shall be offset against credit deferred taxes in the capital structure. Any resulting net debit deferred tax should be included in rate base and any net credit deferred taxes should be included in the capital structure calculation.

Recommendation:
There are several possibilities to handle these accounts in a rate making proceeding. The company accountant choose to offset the net contributed tax against all of the deferred tax assets. The "immaterial" difference ($176,288) was not used and the total deferred credits were included in capital structure at zero cost. One problem with this is that only a portion of the deferred assets relate to grossed up CIAC. A portion ($38,639) relates to Meter Fees that were not grossed up for income taxes. Another problem is what to do with the $176,288 credit balance. In our opinion it should be used to reduce rate base or included as additional zero cost capital.

Disclosure No. 7 (continued)

Another possibility is to follow the rule and net deferred tax assets with deferred tax liabilities. This would result in a debit balance of $1,767,109 which the rule says should be added to rate base. If this method was used, then the entire amount of contributed taxes net of amortization ($2,418,898) should also be included in rate base.

All of the accounts and included amounts shown on the above schedule are totals for the entire Aloha utility. The general ledger does not have sub accounts that allocate these amounts between the four systems. The portion of these accounts relating to the Seven Springs Wastewater system will probably be necessary before any adjustments to the MFR schedules are made.

Disclosure No. 8

Subject: Capital Structure

Statement of Facts:
Note Payable - Included on the utility's long-term debt schedule (MFR Schedule D-5(c)) is a vehicle note payable showing an average balance of $17,760. The utility incorrectly used the actual balance payable at September 30, 1999 instead of the thirteen month average. Audit staff recalculated the actual thirteen month average as $7,203 or a difference of $10,557.

Customer Deposits - The utility included in its reconciliation of capital structure to rate base (MFR Schedule D-2(c)) an amount of customer deposits of $215,795. This amount is the total deposits of all four of the utility's operating systems. The utility did not prorate this amount to rate base as was done with the other components of capital structure.

Retained Earnings - The utility's thirteen month average balance of retained earnings of $1,878,373 was computed based on actual monthly general ledger activity. Many of the utility's largest journal entries are made only at the end of the year. Some of these adjustments are made to record depreciation, CIAC amortization, income tax expense, and amortization of rate case expenses. All of these expenses actually occur during the course of the entire year.

Recommendations:
The thirteen month average balance of notes payable shown on MFR Schedule D-2(c) should be reduced $10,557.

The utility should either prorate total customer deposits to the associated rate base as is done with the other components of capital structure or include only those customer deposits that are directly attributable to the Seven Springs Wastewater system.

We believe a better way to determine each month's balance of retained earnings is to assume that all income and expense occurs evenly throughout the year. The balance of retained earnings at December 31, 1997 was $1,556,376. The utility reported 1998 net income of $180,172 and retained earnings of $1,736,548 at December 31, 1998. Therefore, the balance at September 30, 1998 should be equal to the beginning balance plus 9/12ths of $180,172 or $1,691,504 not the $1,935,054 that the utility used in its computation. Likewise, for the nine months ended September 30, 1999 the utility reports a loss of $62,533 or $6,948 per month. However, in its MFR Schedule A-19(c) the utility shows income of $266,622 for the first eight months and then a large loss of $329,155 in the last month. This method overstates the monthly retained earnings balance every month except at the year end. We have recomputed the thirteen month average balance starting with September 30, 1998 as computed above and have added yearly income or loss as if it were earned evenly throughout the year. Based on this method the thirteen month average of retained earnings would be $1,705,567 or $172,806 less than is shown in the MFR schedules.

Disclosure No. 9

Subject: Bank Loan Costs

Statement of Fact: During the test year, the utility expensed various legal fees associated with securing a $5,200,000 NationsBank loan to finance the expansion of the Seven Springs Wastewater plant. At the end of the test year, the utility reviewed these expenses and reclassified $24,829 of them to a prepaid expense account.

Recommendation: The reclassification from an expense account to a prepaid expense account appears to be proper. However, during the audit, $2,581 of additional like expenses were discovered that had not been reclassified. To be consistent, an adjustment should be made as follows:

Account	Description	Debit	Credit
733.084	Cont Serv- Legal		2,581
162.008	Prepaid Loan Costs	2,581	

Disclosure No. 10

Subject: Recoverable Personal Property Taxes

Statement of Fact: The utility included in its MFRs personal property taxes as follows:

	Test Year Ended	
09/30/1999	09/30/2000	09/30/2001
251,231	346,589	364,804

Recommendation: The utility should not be permitted to recover more than the minimum amount property tax required to be paid. In order to calculate the proper amount of tax, an effective millage rate of 1.93677 should be applied to the total plant amount subject to the tax. The amount of plant that is subject to personal property tax is the total of the plant accounts less land and transportation equipment, net of depreciation. Audit adjustments should be made as follows:

	TYE 9/30/99	TYE 9/30/00	TYE 9/30/01
Total Plant	16,043,711	21,646,202	23,304,015
Less: Accumulated Depreciation	3,686,814	4,349,439	5,138,305
Less: Land	536,824	536,824	536,824
Less: Transportation Equipment	153,501	153,501	153,501
Add: Trans Equip Depreciation	110,608	121,195	130,480
Total plant subj to pers prop tax:	11,777,180	16,727,633	17,605,865
Tax rate for max allowable recovery- .0193677:	0.0193677	0.0193677	0.0193677
Recoverable Personal Property Tax:	228,097	323,976	340,985
Personal Property Taxes per MFRs:	251,231	346,630	364,804
Audit Adjustment to Personal Property Tax:	(23,134)	(22,564)	(23,819)

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Aloha Utilities, Inc.; Seven Springs Wastewater Division
Docket No.: 991643-SU
Schedule Year Ended: September 30, 1999
Interim [X] Final [ ]
Historic [X] Projected [ ]

Schedule: A-2 (C)
Page 1 of 1
Preparer:CJN & W

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) A-3 Utility Adjustments		(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	$ 13,726,891			$ 13,726,891	A-6(C)
2	Utility Land & Land Rights	548,944			548,944	A-6(C)
3	Less: Non-Used & Useful Plant	-			-	A-7(C)
4	Construction Work in Progress					-
5	Less: Accumulated Depreciation	(3,416,846)			(3,416,846)	A-10(C)
6	Less: CIAC	(9,423,903)			(9,423,903)	A-12(C)
7 .	Accumulated Amortization of CIAC	2,535,276			2,535,276	A-14(C)
8	Acquisition Adjustments					-
9	Accum. Amort. of Acq. Adjustments					-
10	Advances For Construction					A-16
11	Working Capital Allowance		256,992	(A)	256,992	A-17(C)
12	Total Rate Base	$ 3,970,362	$ 256,992		$ 4,227,354	

Schedule of Wastewater Net Operating Income

Company: Aloha Utilities, Inc.; Seven Springs Wastewater Division
Docket No.: 991643-SU
Test Year Ended: September 30, 1999
Interim [X] Final [ ]
Historic [X] or Projected [ ]

Schedule: B-2(C)
Page 1 of 1
Preparer:CJN & W

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	$ 2,490,885	$ 29,384 (A)	$ 2,520,270	$ 48,532 (D)	$ 2,568,801	B-4(C), E-2
2	Operation & Maintenance	1,677,897	(100,161) (C)	1,577,736		1,577,736	B-6(C), B-3(C)
3	Depreciation, net of CIAC Amort	174,599	-	174,599		174,599	B-13(C), B-3(C)
4	Amortization (Contributed Taxes)(1)	(38,622)		(38,622)		(38,622)	B-3(C)
5	Taxes Other Than Income	400,644	1,322 (B)	401,966	1,961 (E)	403,927	B-15(C), B-3(C)
6	Provision for Income Taxes	62,667		62,667		62,667	C-1(C), B-3(C)
7	OPERATING EXPENSES	2,277,185	(98,839)	2,178,346	1,961	2,180,307	
8	NET OPERATING INCOME	$ 213,700	$ 128,223	$ 341,923	$ 46,571	$ 388,494	
9	RATE BASE	$ 3,970,362		$ 4,227,354		$ 4,227,354	
10	RATE OF RETURN	5.38 %		8.09 %		9.19 %	

11 Note (1): Contributed taxes (gross-up of CIAC) is amortized into income after receiving a final Order regarding disposition of funds received.
12 For the period 1/1/87 through 6/12/96, $1,559,864 of gross up was received, and $15,003 has been refunded by Order. The remaining
13 $1,544,861 is being amortized into income over a life of 40 years as follows:

14	Total gross up funds received	$ 1,559,864
15	Less: refunds	15,003
16	Amount to be amortized	1,544,861
17	Amortization rate (100 / 40 years)	2.50
18	Annual Amortization	$ 38,622

Schedule of Requested Cost of Capital (Interim Rates)
Beginning and End of Year Average

Company: Aloha Utilities, Inc.; Seven Springs Wastewater Division
Docket No.: 991643-SU
Test Year Ended: September 30, 1999
Schedule Year Ended: September 30, 1999
Historic [X] or Projected [ ]

Schedule: D-1(C)
Page 1 of 1
Preparer:CJN & W

Subsidiary [ ] or Consolidated [ ]

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

		(1)	(2)	(3)	(4)
Line No.		Total Capital	Ratio	Cost Rate	Weighted Cost
1	Long-Term Debt	$ 2,181,486	51.60 %	10.76 %	5.55 %
2	Short-Term Debt	36,906	0.87	9.03	0.08
3	Preferred Stock	359,035	8.49	9.12	0.77
4	Customer Deposits	215,795	5.10	6.00	0.31
5	Common Equity	1,149,713	27.20	9.12	2.48
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax	284,419	6.73		
8	Other (Explain)				
9	Total	$ 4,227,354	99.99 %		9.19 %
10					
11					
12					

Aloha Utilities, Inc.
Dkt 991643-SU: Rate Case
Summary of Audit Adjustments
Historical Test Year Ended September 30, 1999

Exception No. 1 - Remove Plant Additions Not Approved by Order PSC-99-1917-PAA-WS.

Acct No.	Account Title	Dr.	Cr.
351.2	Franchises		3,095.00
354.4	Struc/Improv - Pumping		1,622.00
360.2	Collection Sewers - Force		4,644.00
371.3	Pump Equip - Sys. Pumping		2,250.00
380.1	Treatment & Disposal Equipment		96,011.00
382.4	Outfall Sewer Lines - Treat/Disp		1,443.00
389.4	Other Plant/Misc Equip		12,005.00
393.5	Tools/Shop/Garage - Genl Plant		6,162.00
403	Depreciation Expense		6,675.00
108.1	Accum. Depr. Seven Sprgs WW	63,199.00	
215	Unappropriated Retained Earnings	70,708.00	

Exception No. 2 - To show the effect of over-recovery of AFUDC:

Acct No.	Account Title	Dr.	Cr.
354.3	Struc/Improv - Pumping		665.00
354.5	Struc/Improv - Genl		371.00
354.6	Struc/Improv - Reclaimed		1,120.00
355.5	Power Generation Equip.		497.00
367.6	Reuse Meters/Installations		194.00
371.3	Pump Equip - System Pumping		1,747.00
374.5	Reuse Distribution Reservoirs		307.00
380.5	Treat/Disposal Equip - Reclaim		1,097.00
381.5	Plant Sewers - Treat/Disposal		735.00
420	AFUDC	6,733.00	

Exception No.3 - To show the effect of expense transactions which should be capitalized:

Acct No.	Account Title	Dr.	Cr.
389	Other Plant and Misc. Equip.	1,118.00	
720.014	Materials & Supplies (Breathing Apparatus)		1,118.00
371	Pumping Equipment	3,661.00	
720.014	Materials & Supplies (Hydromatic Pump)		3,661.00
389	Other Plant and Misc. Equip.	6,837.00	
720.014	Materials & Supplies (Vacuum Regulators)		6,837.00

Exception No. 4 - Disposition of Excess Rate Case Expenses:

Acct No.	Account Title	Dr.	Cr.
426	Non-Utility Expense	31,401.00	
731.054	Contract Services - Engr		10,467.00
732.084	Contract Services - Acctg		10,467.00
733.084	Contract Services - Legal		10,467.00

Aloha Utilities, Inc.
Dkt 991643-SU: Rate Case
Summary of Audit Adjustments
Historical Test Year Ended September 30, 1999

Disclosure No. 1 - To show the effect of incorrectly posted land adjustments:

Acct No.	Account Title	Dr.	Cr.
353	Aloha Gardens WW Land	12,120.00	
353	Seven Springs WW Land		12,120.00

Disclosure No. 4 - Adjustment to Vice-President Salary and Benefits:

Acct No.	Account Title	Dr.	Cr.
426	Non-Utility Expense	22,218.00	
703	Sal/Wage - Officers		15,507.00
704	Benefits - Officers		5,319.00
408.12	Payroll Tax Expense		1,392.00

Disclosure No. 5 - To show unaccounted computer system conversion differences:

Acct No.	Account Title	Dr.	Cr.
675.081	Misc Exp - AG Water	2,174.00	
775.082	Misc Exp - AG Wastewater	2,174.00	
618.013	Chemical Exp - SS Water		1,087.00
620.013	Matls & Supp. - SS Water		1,087.00
718.054	Chemical Exp - SS Wastewater		1,087.00
720.054	Matls & Supp. - SS Wastewater		1,087.00

Disclosure No. 6 - To reclassify DEP enforcement action expenses to a deferred account:

Acct No.	Account Title	Dr.	Cr.
733.084	Contract Svcs - Legal		27,400.00
775.084	Misc Expense		18,400.00
186.xxx	Deferred Expense	45,800.00	

Disclosure No. 6 - To record one year of amortization of the deferred expenses:

Acct No.	Account Title	Dr.	Cr.
733.084	Contract Svcs - Legal	5,480.00	
775.084	Misc Expense	3,680.00	
186.xxx	Deferred Expense - Amortization		9,160.00

Disclosure No. 9 - To reclassify bank loan costs to a deferred account:

Acct No.	Account Title	Dr.	Cr.
733.084	Contract Svcs - Legal		2,581.00
162.008	Prepaid Loan Costs	2,581.00	

Disclosure No. 10 - To adjust recoverable personal property taxes.

Acct No.	Account Title	Dr.	Cr.
426	Non-Utility Expense	23,134.00	
408.13-4	Other Taxes and Licenses		23,134.00