

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: October 7, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110208-WS
Company Name: L.P. Utilities Corporation
Company Code: WS860
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 11-200-1-2

RECEIVED-FPSC
OCT - 7 PM 1:53
COMMISSION 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 no confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

07343 OCT-7 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

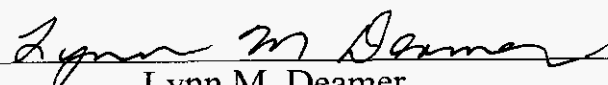
L.P. Utilities Corporation
Staff Assisted Rate Case

12 Months Ended December 31, 2010

Docket No. 110208-WS
Audit Control No. 11-200-1-2
October 7, 2011



Intesar Terkawi
Audit Manager



Lynn M. Deamer
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 July 15, 2011. We have applied these procedures to the attached exhibits prepared by the audit staff in support of L. P. Utilities Corporation's request for a Staff Assisted Rate Case in Docket No. 110208-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 and the report is intended only for internal Commission use.

Objectives and Procedures

GENERAL

Definitions

The term “Utility” used within this report refers to L. P. Utilities Corporation.

The test year is the 12 months ended December 31, 2010.

The last rate proceeding that established balances for Rate Base was Docket 020010-WS. Order No. PSC-02-1739-PAA-WS was issued December 10, 2002.

Utility Books and Records

Objective: The objective was to determine that the Utility maintains its accounts and records in compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) as adopted by the Florida Public Service Commission.

Procedures: We reviewed the Utility’s accounting systems. Finding 1 discusses our findings and recommendations for the Utility’s accounting system.

Rate Base

Utility Plant in Service

Objectives: The objectives were 1) to determine that property exists and is owned by the Utility, 2) to determine that additions to Utility Plant in Service (UPIS) are authentic, recorded at original cost, and classified in compliance with Commission rules and the NARUC USOA, and 3) to verify that retirements of UPIS are made when a replacement item was placed in service.

Procedures: Beginning with the water and wastewater UPIS balances as of December 31, 2001 that was established in Docket 020010-WS, we added UPIS additions for the period January 1, 2002 through December 31, 2010 to obtain the audit balance as of December 31, 2010. We scheduled retirements to UPIS when a capital item was removed or replaced. We toured the Utility plant sites to observe whether asset additions were completed and to ascertain if additional asset retirements or additions were needed. Audit Finding 2 discusses our findings and recommended UPIS balance as of December 31, 2010.

Land and Land Rights

Objectives: The objectives were to determine that the Utility's land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We determined the water and wastewater land balances as of December 31, 2010. We agreed these balances to the order issued in Docket 020010-WS. We verified that there were no changes to utility land since the last rate case proceeding.

Contributions-in-Aid-of-Construction

Objectives: The objectives were 1) to determine that additions to Contributions-in-Aid-of-Construction (CIAC) were recorded in compliance with Commission rules and the NARUC USOA, and 2) to determine that all donated property is accounted for and recorded as CIAC.

Procedures: We determined the Utility's CIAC balances as of December 31, 2010 that was established in Docket 020010-WS. We compiled additions to CIAC for the period January 1, 2002 through December 31, 2010 to determine the Utility's CIAC balance for this rate case proceeding. We reviewed the Utility's 2005 through 2010 Federal Income Tax returns for unrecorded cash and property contributions. Finding 4 discusses our findings and the CIAC balance as of December 31, 2010.

Accumulated Depreciation

Objectives: The objectives were 1) to determine that accruals to accumulated depreciation are recorded in compliance with Commission rules and the NARUC USOA, 2) to verify that depreciation accruals are calculated using the Commission's authorized rates, and 3) to verify that retirements are recorded.

Procedures: We determined the Utility's accumulated depreciation balances as of December 31, 2010 that were established in Docket 020010-WS. We compiled accumulated depreciation accruals for the period January 1, 2002 through December 31, 2010 to determine the Utility's accumulated depreciation balances for this proceeding. We scheduled retirements to accumulated depreciation when a capital item was removed or replaced. Finding 3 discusses our findings and recommended balances for accumulated depreciation as of December 31, 2010.

Accumulated Amortization of CIAC

Objective: The objective was to determine that accruals to accumulated amortization of CIAC were recorded in compliance with the NARUC USOA, and the Commission rules.

Procedures: We determined the Utility's accumulated amortization of CIAC balances as of December 31, 2010 that were established in Docket 020010-WS. We compiled accumulated amortization of CIAC accruals for the period January 1, 2002 through December 31, 2010 to determine the Utility's accumulated amortization of CIAC balances for this proceeding. Finding 5 discusses our findings and recommended balances for accumulated amortization of CIAC as of December 31, 2010.

Working Capital

Objective: The objective was to calculate the working capital allowance in compliance with Commission rules.

Procedures: We calculated the Utility's working capital allowance for the test year using one-eighth of operation and maintenance expense as required by Commission Rule 30.433(2), Florida Administrative Code (F.A.C.).

Net Operating Income

Revenues

Objective: The objective was to determine that revenues were recorded in compliance with Commission rules and are based on the Commission approved tariff rates.

Procedures: We were not able to compile the Utility revenues, nor provide a billing analysis, as the Utility was not able to provide a billing register for the test year. We traced a sample of customer bills to the tariff. Finding 7 discusses our findings and recommended revenue.

Operation and Maintenance Expense

Objective: The objective was to determine that operation and maintenance expenses (O&M) were representative of ongoing Utility's operations, and recorded in compliance with the NARUC USOA, and the Commission rules.

Procedures: We compiled O&M items from the Utility's general ledger and vendor invoice file. We reviewed all Utility invoices for amount, period, classification, NARUC account, and recurring nature. Finding 8 discusses our findings and the recommended O&M expense for the test year.

Federal Income Tax

Objective: The objectives were 1) to determine that the Federal Income Taxes were correctly calculated, and 2) to determine that the taxes due were paid to the Internal Revenue Service (IRS).

Procedures: We traced the revenue recorded on the Tax Form 1120S to the Utility's annual reports for the last five years. We were not able to verify that the Federal Income Taxes due were paid to the Federal authorities because the Utility's status is an S-Corporation and net income or loss passes through to the individual shareholders. Therefore, no tax expense was calculated or paid at the corporate level.

Taxes Other than Income

Objective: The objective was to determine that Taxes Other Than Income (TOTI) tax expense was recorded in compliance with NARUC USOA, and the Commission rules.

Procedures: We compiled TOTI expense items from the Utility's general ledger and vendor invoice file. We reviewed all Utility tax invoices for amount, period, classification, NARUC

account, and recurring nature. Finding 9 discusses our findings and recommended TOTI expense for the test year.

Depreciation and Amortization Expenses

Objectives: The objectives were 1) to determine that depreciation expense and amortization expense were recorded in compliance with Commission rules and 2) to determine that they accurately represent the depreciation of UPIS and the amortization of CIAC.

Procedures: We calculated depreciation expense and amortization expense using the UPIS and CIAC balances determined in Findings 2 and 4 and the approved depreciation rates or calculated composite rates where applicable. Findings 2 and 5 discuss our findings and recommended depreciation expense as well as the recommended amortization expense for the test year.

Capital Structure

General

Objective: The objective was to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are recorded in compliance with Commission rules.

Procedures: Consistent with Order PSC-02-1739-PAA-WS, we used the capital structure of Highvest, an affiliated company, to which the Utility owes a mortgage payable of \$409,959, to determine the Utility's capital structure. Finding 6 discusses our findings and recommended capital structure.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Rule 25-30.115, F.A.C., requires utilities to maintain their books and records in conformity with the NARUC USOA. The Utility's books and records are not maintained in accordance with the Rule.

NARUC, Class C, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

The utility does not maintain its books and records using the accrual method of accounting. The account numbers are not in conformity with NARUC.

Effect on the General Ledger: None

Finding 2: Utility Plant in Service

Audit Analysis: The Utility's General Ledger reports water and wastewater UPIS balances of \$469,295 and \$377,807, respectively as of December 31, 2010.

Order No. PSC-02-1739-PAA-WS established water and wastewater balances of \$495,419 and \$383,353, respectively, as of December 31, 2001. The Utility did not adjust water and wastewater UPIS balances to the Commission Order.

Based on our adjustments discussed below, the Utility's UPIS are \$497,217 for water and \$383,998 for wastewater, as of December 31, 2010. The simple average water and wastewater UPIS balances for the test year are \$496,318 and \$383,676 respectively.

We compiled UPIS additions from January 1, 2002 through December 31, 2010 for water and wastewater. We started with the UPIS balances established in the Utility's last rate case proceeding. We then posted additions and retirements to UPIS in succeeding years when capital items were added or replaced. We reclassified plant additions to the correct NARUC USOA account when necessary. We toured the Utility's water and wastewater plant sites and lift stations to observe and ascertain the condition and existence of the Utility's assets.

Our analysis for the adjustments stated in Table 1 and Table 2 are below.

- 1) Account 301 – Organization is increased by \$414, as the Utility did not adjust to the Commission's last order in Docket 020010-WS.
- 2) Account 310 – Power Generation Equipment is increased by \$2,506 based on the following adjustments.
 - a. We have increased the account by \$2,146, as the Utility did not adjust to the Commission's last order.
 - b. We have increased the account by \$360, which represents the difference between plant addition of \$1,440 that was reclassified from O&M and a retirement of \$1,080 for a replacement of alarm box in 2010.
- 3) Account 334 – Meter & Meter Installation is increased by \$27,663 based on the following adjustments.
 - a. We have increased the account by \$27,543, as the Utility did not adjust to the Commission's last order.
 - b. We have increased the account by \$120, which represents the cost of six meter boxes that was reclassified from O&M to the Plant in service Account.
- 4) Account 336 – Backflow Prevention Devices is increased by \$620, which represents the cost of pressure relief valve that was reclassified from O&M account.
- 5) Account 340 – Office Furniture & Equipment is decreased by \$3,281 due to the following adjustments.

- a. We have decreased the account by \$946 as the Utility did not adjust to the Commission' last order
 - b. We have removed \$2,335 as the Utility posted \$3,033, which represents the cost of three computers in Account 340. We removed the cost of two computers of \$1,691 as non-utility expense. We allocated 52% (\$698) of the cost of one computer and accessories of \$1,343 to Account 340.
- 6) Account 351 – Organization is increased by \$346, as the Utility did not adjust to the Commission's last order.
 - 7) Account 380 – Treatment and Disposal Equipment is increased by \$5,200, as the Utility did not adjust to the Commission's last order.
 - 8) Account 390 – Office Furniture & Equipment is increased by \$645, which represents the 48% wastewater allocation of a computer and accessories costs of \$1,343 that the Utility posted in Account 340.

Table 1
Water Plant Balance
As of December 31, 2010

Acct No.	Account Description	Balance Per Utility	Adjustment	Balance Per Audit
301	Organization	-	\$414	\$414
304	Structure and Improvement	\$66,428	-	66,428
307	Wells & Springs	41,707	-	41,707
309	Supply Mains	1,040	-	1,040
310	Power Generation Equipment	7,200	2,506	9,706
330	Distribution Reservoirs & Standpipes	32,416	-	32,416
331	Transmission & Distribution Mains	206,312	-	206,312
333	Services	58,563	-	58,563
334	Meter & Meter Installation	45,032	27,663	72,695
335	Hydrants	5,364	-	5,364
336	Backflow Prevention Devices	1,254	620	1,874
340	Office Furniture & Equipment	3,979	(3,281)	698
	Total UPIS	\$469,295	\$27,922	\$497,217

Table 2
Wastewater Plant Balance
As of December 31, 2010

Acct No.	Account Description	Balance Per Utility	Adjustment	Balance Per Audit
351	Organization	-	\$346	\$346
354	Structure & Improvement	42,176	-	42,176
360	Collection Sewers – Force	11,557	-	11,557
361	Collection Sewers – Gravity	141,605	-	141,605
362	Special Collecting Structures	1,040	-	1,040
363	Services to Customers	111,860	-	111,860
380	Treatment & Disposal Equipment	68,622	5,200	73,822
390	Office Furniture & Equipment	-	645	645
393	Tools, Shop & Garage Equipments	947	-	947
	Total UPIS	\$377,807	\$6,191	\$383,998

Effect on the General Ledger: The UPIS balance for water and wastewater should be increased by \$27,922 and \$6,192 respectively, as of December 31, 2010.

Finding 3: Accumulated Depreciation

Audit Analysis: The Utility's General Ledger reflects water and wastewater accumulated depreciation balances of \$247,281 and \$271,991, respectively as of December 31, 2010. The Utility reported water depreciation expense of \$9,633 and wastewater depreciation expense of \$12,940 for the test year ended December 31, 2010.

We determined the audit balance of Accumulated Depreciation to be \$271,735 for water and \$255,436 for wastewater, as of December 31, 2010. The simple average water and wastewater Accumulated Depreciation balances are \$263,694 and \$251,012. The depreciation expense for water and wastewater are \$17,161 and \$8,848. The water and wastewater adjustments of \$24,454 ((\$7,941) + \$32,395), and (\$16,555) ((\$8,585 + (\$7,970))) includes (\$7,941), and (\$8,585) adjustments to the Commission Order No. PSC-02-1739-PAA-WS. The adjustments of \$32,395 and (\$7,970) are due to our Plant in Service adjustments explained in Finding. 2, and due to using the depreciation rates prescribed in Commission Rule 25-30-140, F.A.C.

**Table 1
Water Accumulated Depreciation
As of December 31, 2010**

Acct No.	Account Description	Balance per Utility	Adjustment	Balance Per Audit
301.	Organization	-	\$98	\$98
304.	Structure & Improvement	\$22,466	26,753	49,219
307.	Wells & Springs	40,924	(19,818)	21,106
309.	Supply Mains	1,040	(667)	374
310.	Power Generation Equipments	3,566	643	4,209
330	Distribution Reservoirs & Standpipes	9,820	10,562	20,382
331.	Transmission & Distribution Mains	62,953	29,701	92,654
333	Services	55,148	(21,217)	33,931
334.	Meter & Meter Installation	43,674	2,283	45,957
335.	Hydrants	5,364	(2,581)	2,783
336.	Backflow Prevention Devices	1,254	(291)	963
340.	Office Furniture & Equipment	1,040	(982)	58
341.	Transportation Equipment	32	(32)	-
	Total	\$247,281	\$24,454	\$271,735

Table 2
Wastewater Accumulated Depreciation
As of December 31, 2010

Acct No.	Account Description	Balance per Utility	Adjustment	Balance Per Audit
351.	Organization	-	\$82	\$82
354.	Structure & Improvement	\$15,610	16,785	32,395
360.	Collection Sewers - Force	17,774	(9,318)	8,456
361.	Collection Sewers - Gravity	39,576	33,780	73,356
362.	Special Collecting Structures	38,020	(37,697)	323
363.	Services to Customers	32,032	34,285	66,317
364.	Flow Measuring Devices	34,391	(34,391)	-
380.	Treatment & Disposal Equipment	45,770	28,052	73,822
389.	Other Plant & Misc. Equipment	48,156	(48,156)	
390.	Office Furniture & Equipment	-	22	22
393.	Tools, Shop, Garage Equipment	630	33	663
395.	Power Operated Equipment	32	(32)	-
	Total	\$271,991	(\$16,555)	\$255,436

Effect on the General Ledger: The Utility should adjust its general ledger to the audited accumulated depreciation balances determined above. The accumulated depreciation balance for water should be increased by \$24,454 and the accumulated depreciation balance for wastewater should be decreased by \$16,555 as of December 31, 2010. We also determined that water depreciation expense should be increased by \$7,528 and wastewater depreciation expense should be decreased by \$4,092.

Finding 4: Contributions-in-Aid-of-Construction

Audit Analysis: The Utility's General Ledger reflects CIAC balances of \$204,307 and \$65,600 for water and wastewater, respectively as of December 31, 2010.

Order No. PSC-02-1739-PAA-WS established water and wastewater CIAC balances of \$234,915 and \$65,600 respectively, as of December 31, 2001. The Utility did not adjust the water CIAC balance to the Commission Order.

We compiled CIAC additions for the period January 1, 2002, through December 31, 2010, to determine the Utility's CIAC balances as of December 31, 2010. We used information from the Utility's 2002-2010 annual reports, and from its authorized service availability tariff, and revenue to determine the CIAC additions since its last rate proceedings.

Our water CIAC adjustment of \$120,078 consists of \$30,608 adjustment to the above stated Commission Order, and \$89,470 for CIAC additions that the Utility did not record. Our wastewater CIAC adjustment of \$90,800 represents CIAC additions that the Utility did not record. Simple average CIAC for water and wastewater are \$322,440 and \$154,600.

Effect on the General Ledger: The Utility should increase its water and wastewater CIAC balances by \$120,078 and \$90,800 as of December 31, 2010.

Finding 5: Accumulated Amortization of CIAC

Audit Analysis: The Utility's annual reports and general ledger reported \$90,977 and \$34,473 balances for both water and wastewater Accumulated Amortization of CIAC as of December 31, 2010.

Order No. PSC-02-1739-PAA-WS established water and wastewater Accumulated Amortization of CIAC of \$37,274 and \$19,911 as of December 31, 2010.

We calculated water and wastewater accumulated amortization of CIAC to be \$125,374 and \$47,521 as of December 31, 2010. The test year Amortization of CIAC for water and wastewater are \$11,220 and \$3,597, respectively.

Effect on the General Ledger: The Utility should increase water and wastewater Accumulated Amortization of CIAC by \$34,397 and \$13,048, respectively as of December 31, 2010. In addition, water and wastewater CIAC amortization expense should be increased \$5,052 and \$1,269 for water and wastewater, respectively.

Finding 6: Capital Structure

Audit Analysis: The majority of the Utility's debt comes from Highvest Corporation. Therefore, Highvest Corporation's capital structure has been used to calculate the utility's rate of return. This is consistent with the order issued in the last rate proceeding. Highvest Corporation's balance sheet reflects long-term liabilities of \$5,338,651, Common stock of \$6,000 and Retained Earning of \$892,122. The Utility does not charge customer deposits

The interest rate of the long-term liabilities is 10%. We calculated the cost of capital to be 9.92%.

Effect on the General Ledger: None

Finding 7: Operating Revenue

Audit Analysis: The Utility's general ledger reflects water and wastewater revenue of \$74,269 and \$61,014 for the test year ended December 31, 2010.

We are not able to recalculate the revenue because the Utility did not provide the billing register for the test year.

We did examine a sample of customer's bills and found that the Utility charged a base facility charge for a 3" meter size to customers with a 2" meter size, and charged a base facility charge for a 2" meter size to customers with a 1.5" meter size. The Utility has three general customers with meter sizes of 1.5", and five general customers with a meter size of 2". We calculated the revenue for these customers and found that the revenue should be decreased by \$543($\$30.13 - \15.06)*3*12, for the 1.5" meter size customers, and by \$1,084 ($\$48.20 - \30.13)*5*12 for the 2" meter size customers. The Utility should refund their 1.5" and 2" customers the above stated amounts.

Effect on the General Ledger: Decrease water revenue by \$1,627($\$543 + \$1,084$).

Finding 8: Operations and Maintenance Expense

Audit Analysis: The Utility's general ledger shows water and wastewater operation and maintenance (O&M) expense balances of \$59,414 and \$39,998, respectively for the test year.

We calculated the O & M expenses to be \$35,432 and \$62,927 respectively, for water and wastewater. The calculations and our analysis of these adjustments are explained in the following adjustments and shown in the tables below.

- 1) Account 601 – Salaries & Wages-Employees is overstated by \$14,100. The Utility included water allocation of management service fees in the Account. We reclassified the amount to Account 636 – Contractual Services-Other.
- 2) Account 615 – Purchased Power is overstated by \$568(\$3,617 - \$4,185). We compiled all water electric bills to be \$4,185.
- 3) Account 631 – Contractual Services-Professional is overstated by \$4,236(\$1,875 - \$6,111). The Utility included in the account the water allocation of the billing costs. We removed the billing costs of \$789 as the billing duties are part of the Management Service Agreement. We compiled the invoices to be \$1,086.
- 4) Account 635 – Contractual Services-Testing is understated by \$4,553(\$9,685-\$5,132). We compiled the testing invoices to be \$9,685.
- 5) Account 636 – Contractual Services-Other is understated by \$19,098. We reclassified \$14,400 from Account 601, added \$1,200 additional management service fees, and compiled testing and analysis invoices of \$3,498.
- 6) Account 640 – Rent is overstated by \$2,012 for lack of support.
- 7) Account 655 – Insurance Expense is overstated by \$311 for lack of support.
- 8) Account 675 – Miscellaneous Expense is overstated by \$26,406(\$2,180+\$24,226). We reclassified \$2,180 (\$1,440+\$120+\$620) to plant in service accounts. The utility was unable to support \$24,226.
- 9) Account 701 – Salaries & Wages-Employees is overstated by \$8,880. The Utility included wastewater allocation of management service fees in the Account. We reclassified the amount to Account 736 – Contractual Services-Other.
- 10) Account 715 – Purchased Power is understated by \$5,035(\$8,586 - \$3,551). We compiled all water electric bills to be \$8,586.
- 11) Account 716 – Fuel for Power Production is overstated by \$7,055. We reclassified \$7,055 to Account 715.

- 12) Account 731 – Contractual Services-Professional is overstated by \$3,242(\$2,000+\$728+\$514). The Utility included in this account the wastewater allocation of the billing costs. We removed the billing costs of \$728 as the billing duties are part of the Management Service Agreement. The wastewater permit renewal is \$2,500. Since this should be amortized over five years, we reduced this to \$500 for the test year and deferred \$2,000. The remainder was unsupported by invoice, thus we removed it.
- 13) Account 735 – Contractual Services-Testing is understated by \$11,736(\$13,773-\$2,037). We compiled the testing invoices to be \$13,773.
- 14) Account 736 – Contractual Services-Other is understated by \$26,441(\$27,782-\$1,341). We reclassified \$8,880 from Account 701, added \$5,600 additional management service fees, and compiled other contractual services of \$13,302.
- 15) Account 755 – Insurance Expense is overstated by \$207 for lack of support.
- 16) Account 775 – Miscellaneous Expense is overstated by \$10,386 for lack of support.

The working capital for water and wastewater is \$4,429 and \$7,866.

Table 1
Water Expenses
For the Year Ended December 31, 2010

Acct. No.	Per Utility Balance	Audit Adjustment	Audited Amounts
601.00	\$14,100	(\$14,100)	-
615.00	4,185	(\$568)	\$3,617
631.00	6,111	(\$4236)	1,875
635.00	5,132	4,553	9,685
636.00		19,098	19,098
640.00	2,012	(2,012)	-
655.00	311	(311)	-
675.00	27,563	(26,406)	1,157
Total	\$59,414	(\$23,982)	\$35,432

Table 2
Wastewater Expenses
For the Year Ended December 31, 2011

Acct. No.	Per Utility Balance	Audit Adjustment	Audited Amounts
701.00	\$8,880	(\$8,880)	-
711.00	-	9,488	\$9,488
715.00	3,551	4,035	8,586
716.00	7,055-	(7,055)	0
731.00	5,473	(3,242)	2,231
735.00	2,037	11,736	13,773
736.00	1,341	26,441	27,782
755.00	207	(207)	-
775.00	11,454	(10,386)	1,068
Total	\$39,998	\$22,929	\$62,927

Effect on the General Ledger: Decrease water expenses by \$23,982 and increase wastewater expenses by \$22,929.

Finding 9: Taxes Other than Income

Audit Analysis: The Utility reported water and wastewater Taxes Other Than Income of \$9,906 and \$6,749 for the test year ended December 31, 2010. Included in the Taxes Other Than Income amounts are water and wastewater Regulatory Assessment Fees of \$3,342 and \$2,746. The Utility provided property tax bills of \$2,289 and \$3,070 for water and wastewater. We verified the amounts by checking on line property tax records.

Based on Finding 7 we reduced the water Regulatory Assessment Fee by \$73(\$1,627*4.5%)

Our calculation of the property taxes and Regulatory Assessment Fees are displayed in the following schedules.

**Water
TOTI
For the period ended December 31, 2010**

Tax Description	Per Utility	Adjustments	Per Audit
Property Taxes	\$6,564	(\$4,275)	\$2,289
Regulatory Assessment Fees	\$3,342	(73)	3,269
Total	\$9,906	(\$4,348)	\$5,558

**Wastewater
TOTI
For the period ended December 31, 2010**

Tax Description	Per Utility	Adjustments	Per Audit
Property Taxes	\$4,003	(\$933)	\$3,070
Regulatory Assessment Fees	2,746	0	2,746
Total	\$6,749	(\$933)	\$5,816

Effect on the General Ledger: Decrease water and wastewater TOTI by \$4,348, and \$933 respectively.

Exhibits

Exhibit 1: Rate Base

Water Rate Base

As of 12 Months Ended December 31, 2010

DESCRIPTION	SIMPLE AVERAGE PER UTILITY	ADJUSTMENT	REFER TO	SIMPLE AVERAGE PER AUDIT
UTILITY PLANT IN SERVICE	\$467,779	\$28,539	F 2	\$496,318
LAND AND LAND RIGHTS	20,598	0		20,598
CONTRIBUTION IN-AID-OF- CONSTRUCTION (CIAC)	(204,307)	(118,133)	F 4	(322,440)
ACCUMULATED DEPRECAIION	(242,465)	(21,229)	F 3	(263,694)
ACCUMULATED AMORTIZATION OF CIAC	87,893	(14,617)	F 5	73,276
WORKING CAPITAL		4,429	F 8	4,429
TOTAL	\$129,498	(\$121,011)		\$8,487

Wastewater Rate Base

As of 12 Months Ended December 31, 2010

DESCRIPTION	SIMPLE AVERAGE PER UTILITY	ADJUSTMENT	REFER TO	SIMPLE AVERAGE PER AUDIT
UTILITY PLANT IN SERVICE	\$377,807	\$5,869	F 2	\$383,676
LAND AND LAND RIGHTS	36,000	0		36,000
CONTRIBUTION IN-AID-OF-CONSTRUCTION (CIAC)	(65,600)	(89,000)	F 4	(154,600)
ACCUMULATED DEPRECAIION	(265,521)	14,509	F 3	(251,012)
ACCUMULATED AMORTIZATION OF CIAC	33,309	12,413	F 5	45,722
WORKING CAPITAL		7,866	F 8	\$7,866
TOTAL	\$115,995	(\$48,343)		\$67,652

Exhibit 2: Net Operating Income

Water Net Operating Income

For the 12 Months Ended December 31, 2010

DESCRIPTION	PER UTILITY	ADJUSTMENT	REFER TO	PER AUDIT
OPERATING REVENUES	\$74,269	(\$1,627)	F 7	\$72,642
OPERATING EXPENSES:				
O & M EXPENSE	59,414	(23,982)	F 8	35,432
DEPRECIATION EXPENSE	9,633	7,528	F 2	17,161
CIAC AMORTIZATION	6,168	5,052	F 4	11,220
TAXES OTHER THAN INCOME	9,906	(4,348)	F 9	5,558
TOTAL OPERATING EXPENSES	85,121	(15,750)		69,371
NET OPERATING INCOME (LOSS)	(\$10,852)	\$14,123		\$3,271

Wastewater Net Operating Income

For the 12 Months Ended December 31, 2010

DESCRIPTION	PER UTILITY	ADJUSTMENT	REFER TO	PER AUDIT
OPERATING REVENUES	\$61,014	\$0	F 7	\$61,014
OPERATING EXPENSES:				
O & M EXPENSE	39,998	22,929	F 8	62,927
DEPRECIATION EXPENSE	12,940	(4,092)	F 2	8,848
CIAC AMORTIZATION	2,328	1,269	F 5	3,597
TAXES OTHER THAN INCOME	6,749	(933)	F 9	5,816
TOTAL OPERATING EXPENSES	\$62,015	\$19,173		\$81,188
NET OPERATING INCOME (LOSS)	(\$1,001)	(\$19,173)		(\$20,174)

Exhibit 3: Capital Structure

Water and Wastewater Combined

As of December 31, 2010

Class of Capital	Simple Average Per Utility	Simple Average Per Audit	Audit Adjustment	Ratio	Cost Rate	Weighted Cost
LONG TERM LIABILITY	\$5,338,651	\$5,338,651	\$0	85.60%	10.00%	8.56%
COMMON STOCK	\$6,000	\$6,000	\$0	0.10%	9.49%	0.01%
RETAINED EARNINGS	\$892,122	\$892,122	\$0	14.30%	9.49%	1.36%
TOTAL CAPITAL	\$6,236,773	\$6,236,773	\$0	100.00%		9.92%

As per order PSC-10-0401-PAA-WS, issued June 18, 2010:

Leverage Formula:

Return on Common Equity = 7.46% + 1.356/Equity Ratio

Where Equity Ratio = Common Equity / (Common Equity + Preferred Equity + Long-Term and Short-Term Debt)

Range: 8.82% @ 100% equity to 10.85% @ 40% equity