

ORIGINAL



# Public Service Commission

State of Florida

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

**DATE:** November 29, 2000  
**TO:** Division of Economic Regulation (Charles Walker)  
**FROM:** Division of Regulatory Oversight (Vandiver) *CV*  
**RE:** Docket No. 001382-WS; Pennbrooke Utilities, Inc.  
 Audit Report; Staff-assisted Rate Case  
 Audit Control No. 00-278-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)  
 Orlando District Office (Winston)  
 ✓ Division of Records and Reporting  
 Division of Legal Services

Frank H. Haas  
 Pennbrooke Utilities, Inc.  
 146 Horizon Court  
 Lakeland, FL 33813-1742

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FPSC-RECORDS/REPORTING



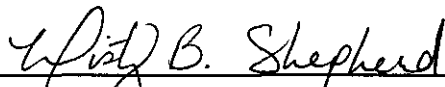
**FLORIDA PUBLIC SERVICE COMMISSION**  
**DIVISION OF REGULATORY OVERSIGHT**  
**BUREAU OF AUDITING SERVICES**


*Orlando District Office*


**PENNBROOKE UTILITIES, INC.**

**STAFF-ASSISTED RATE CASE**  
**HISTORICAL TEST YEAR ENDED SEPTEMBER 30, 2000**

**DOCKET NO. 001382-WS**  
**AUDIT CONTROL NO. 00-278-3-1**

  
\_\_\_\_\_  
*Misty B. Shepherd, Audit Manager*

  
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*Thomas E. Stambaugh, Audit Staff*

  
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*Charleston J. Winston, Audit Staff/Supervisor*

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**DIVISION OF REGULATORY OVERSIGHT  
AUDITOR'S REPORT**

**NOVEMBER 9, 2000**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare the accompanying Rate Base, Net Operating Income, and Capital Structure schedules for the historical 12-month period ended September 30, 2000, for Pennbrooke Utilities, Inc. These schedules were prepared by the FPSC auditors as part of our work in Docket No. 001382-WS.

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**

Utility-plant-in-service (UPIS) balances are understated by \$45,712 and \$1,600 for water and wastewater, respectively. Accumulated depreciation balances are understated by \$2,238 for water and overstated by \$4,225 for wastewater.

Contributions-in-aid-of-construction (CIAC) are understated by \$36,000 for water and properly stated for wastewater. Accumulated amortization of CIAC balances are understated by \$8,362 and \$5,482 for water and wastewater, respectively.

Based on a billing analysis water revenues should be increased by \$5,316 and wastewater should be increased by \$6,379.

Water expenses should be reduced by \$10,592 and wastewater reduced by \$3,530 due to misclassifications.

Water expenses should be reduced by \$5,398 due to amortization of a major repair.

Purchase Power Expenses should be reduced by \$2,240 for water and \$2,660 for wastewater due to misclassifications.

Contractual Services should be increased by \$429 for water and \$429 for wastewater to properly record outside accounting fees for utility operations.

Testing Expense should be reduced by \$1,391 for water and \$1,391 for wastewater to remove cost associated with a capital asset purchase that was improperly recorded as an O&M expense..

Taxes Other Than Income should be increased by \$8,379 for water and \$5,088 for wastewater for various adjustments.

Long-term Debt should be increased by \$71,076 due to misclassification.

## 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 the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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

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

**Reviewed** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**Verify** - The item was tested for accuracy and compared to the substantiating documentation.

**RATE BASE:** Examined account balances for utility-plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from May 1992. Reconciled rate base balances authorized in Commission Order No. PSC-93-0194-FOF-WS, issued February 9, 1993, to the May 1992 general ledger balance. Examined supporting documentation for sample plant and CIAC additions selected using auditor judgment. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations. Computed the working capital allowance using one-eighth of operation and maintenance expenses.

**NET OPERATING INCOME:** Compiled and reviewed utility revenue and operation and maintenance accounts for the year ended September 30, 1999. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Verified a judgmental sample of operation and maintenance expenses and examined the invoices and other supporting documentation. Tested the calculation of depreciation expense. Examined support for taxes other than income and income taxes.

**CAPITAL STRUCTURE:** Compiled components of the capital structure for the year ended September 30, 1999. Agreed interest rates to the terms of the debt agreement.

## Exception No. 1

**Subject:**       **Reclassified Utility-Plant-in-Service (UPIS)**

**Statement of Fact:** Pennbrooke Utilities, Inc. reported balances of \$1,110,101 and \$1,693,393 for water and wastewater accumulated plant, respectively, as of September 30, 2000. The following additions are included in these balances.

- 1) \$37,000 in 1996, for a generator located at the water treatment plant
- 2) \$7,000 in 1997, \$1,400 in 1998, and \$11,880 in 2000, for fire hydrants
- 3) \$52,871 in 1996, \$28,000 in 1997, and \$46,000 in 2000, for lift stations

The utility reported accumulated depreciation balances of \$412,581 and \$369,409 for water and wastewater, respectively, as of September 30, 2000. The utility calculates its depreciation expense and the corresponding accumulated depreciation addition by applying the depreciation rate to its year end UPIS balances.

**Recommendation:** The utility misclassified the above-mentioned additions. Audit staff has determined the following adjustments to UPIS and associated accumulated depreciation.

- 1)       Increase Account 310 Power Generation Equipment by \$37,000.  
          Decrease Account 320 Water Treatment Plant by \$37,000.  
          Increase Account 108 Accumulated Depreciation by \$1,968.
- 2)       Increase Account 335 Hydrants by \$20,280, (7,000+1,400+11,880).  
          Decrease Account 333 Services by \$20,280.  
          Decrease Account 108 Accumulated Depreciation by \$140.
- 3)       Increase Account 360 Collection Sewer Force by \$126,871, (52,871+28,000+46,000).  
          Decrease Account 354 Structures and Improvements by \$52,871.  
          Decrease Account 361 Collection Sewers Gravity by \$74,000, (28,000+46,000).  
          Increase Account 108 Accumulated Depreciation by \$1,674.

See Schedule A on the following page for details on accumulated depreciation adjustments.

Additionally, audit staff recalculated accumulated depreciation by converting to a 12-month test year that applied a half-year convention to UPIS additions for the period ended September 30, 2000. Audit staffs calculation results in a decrease to accumulated depreciation of \$939 and \$5,947 for water and wastewater, respectively.

The Commission should require the utility to make the above-mentioned adjustments to reclassify the additions to their proper NARUC accounts.

The Commission should further require the utility to make the above-mentioned adjustments to accumulated depreciation to properly state depreciation for these additions.

**Exception No. 1, contd.**

**Schedule A**

**Item 1**

Acc.	Amount	Rate	1996	1997	1998	1999	2000(a)	Total
310	\$37,000	5.88%	\$2,175.60	\$2,175.60	\$2,175.60	\$2,175.60	\$1,631.70	\$10,334.10
320	(37,000)	4.76%	(1,761.20)	(1,761.20)	(1,761.20)	(1,761.20)	(1,320.90)	<u>(8,365.70)</u>
								\$1,968.40

**Item 2**

Acc.	Amount	Rate	1996	1997	1998	1999	2000(a)	Total
333	(\$7,000)	2.86%		(\$200.20)	(\$200.20)	(\$200.20)	(\$150.15)	(\$750.75)
335	7,000	2.50%		175.00	175.00	175.00	131.25	656.25
333	(1,400)	2.86%			(40.04)	(40.04)	(30.03)	(110.11)
335	1,400	2.50%			35.00	35.00	26.25	96.25
331	(11,880)	2.86%					(254.83)	(254.83)
335	11,880	2.50%					222.75	<u>222.75</u>
								(\$140.44)

**Item 3**

Acc.	Amount	Rate	1996	1997	1998	1999	2000(a)	Total
354	(\$52,871)	3.70%	(\$1,956.23)	(\$1,956.23)	(\$1,956.23)	(\$1,956.23)	(\$1,467.17)	(\$9,292.09)
360	52,871	3.70%	1,956.23	1,956.23	1,956.23	1,956.23	1,467.17	9,292.09
361	(28,000)	2.50%		(700.00)	(700.00)	(700.00)	(525.00)	(2,625.00)
360	28,000	3.70%		1,036.00	1,036.00	1,036.00	777.00	3,885.00
361	(46,000)	2.50%					(862.50)	(862.50)
360	46,000	3.70%					1,276.50	<u>1,276.50</u>
								\$1,674.00

(a) Depreciation is calculated for 9-month period ended September 30, 2000



**Exception No. 2**

**Subject: Construction Work-in-Progress (CWIP) Transfer**

**Statement of Fact:** Pennbrooke Utilities, Inc. reported a balance of \$49,771 in its CWIP account as of September 30, 2000. This balance included \$40,100 for a high service pump. During the plant tour on October 31, 2000, audit staff observed the new high service pump located at the water treatment plant. In discussions with the plant operator, it was confirmed that the pump had been placed into service in early 2000.

**Recommendation:** Audit staff has determined the following adjustments to properly transfer the high service pump, which is currently in service at the water plant, from CWIP to UPIS and to increase accumulated depreciation to account for test year depreciation on the pump.

- Increase Account 311 Pumping Equipment by \$40,100.
- Decrease Account 105 Construction Work-in-Progress by \$40,100.
- Increase Account 108 Accumulated Depreciation by \$1,179.

The Commission should require the utility to make the above-mentioned adjustments to properly account for the new pump.

### **Audit Exception No. 3**

**Subject: Contributions-in-Aid-of-Construction (CIAC) and CIAC Amortization**

**Statement of Facts:** Pennbrooke Utilities, Inc. reported balances of \$506,217 and \$903,277 for water CIAC and wastewater CIAC, respectively, as of September 30, 2000. The utility also reported balances of \$105,071 and \$184,932 for accumulated water CIAC amortization and accumulated wastewater CIAC amortization, respectively, as of September 30, 2000.

The utility reported balances of \$25,942 and \$38,724 as amortization expense of CIAC for water and wastewater operations respectively for the 12-month period ended September 30, 2000.

The utility's approved water tariff includes a meter installation fee of \$75, per new connection, that should be charged to CIAC. The utility does not collect such a fee from its new customers. Since its last rate case, the utility has added 480 (648 - 178) new customers.

The utility calculates CIAC amortization based on a composite rate determined by dividing depreciation expense by year end gross plant.

**Recommendation:** Based on the above-mentioned meter installation fees, audit staff has calculated an increase of \$36,000 ( $\$75 \times 480$ ) to water CIAC. As a result of this adjustment and the effects of audit adjustments made to UPIS in Exceptions Nos. 1, 2, 5, 7, and 9 on the composite rate used to determine amortization expense, audit staff has calculated increases of \$8,362 and \$5,482 to water CIAC accumulated amortization and wastewater CIAC accumulated amortization, respectively.

Correspondingly, audit staff calculated amortization of CIAC expense of \$18,631 and \$34,669 for water and wastewater operations respectively, based on the previously mentioned audit adjustments. This will reduce the utility's amortization of CIAC expense by \$7,311 and \$4,055 for water and wastewater, respectively, for the 12-month period ended September 30, 2000. ( $\$25,942 - \$18,631 = \$7,311$ ) ( $\$38,724 - \$34,669 = \$4,055$ )

The Commission should require the utility to make the above-mentioned adjustments to properly restate CIAC and its associated accumulated amortization.

**Exception No. 4**

**Subject: Water and Wastewater Revenues**

**Statement of Fact:** The utility recorded \$195,574 for water revenues and \$100,434 for wastewater revenues for the 12-month period ended September 30, 2000.

**Recommendation:** The audit staff has determined revenues of \$200,890 for water and \$106,813 for wastewater. Water revenues should be increased by \$5,316 (\$200,890 - \$195,574). Wastewater revenues should be increased by \$6,379 (\$106,813 - \$100,434). The increase to revenues are for unsupported adjustments.

**Exception No. 5**

**Subject: Misclassified Expenses**

**Statement of Fact:** The utility recorded \$10,591.76 for water and \$3,529.93 for wastewater in expenses for various items.

**Recommendation:** The above amounts should be reclassified as shown below.

**Water**

<u>Invoice Date</u>	<u>Amount Per Utility</u>	<u>Reclassify to Plant</u>	<u>Non-Utility Expense</u>
02/03/00	203.45	203.45	
03/11/00	1,711.33	1,711.33	
03/23/00	736.08	736.08	
03/31/00	6,830.19		
04/24/00	352.75	352.75	
05/17/00	<u>757.96</u>	<u>0.00</u>	<u>757.96</u>
Total:	<u>\$10,591.76</u>	<u>\$3,003.61</u>	<u>\$757.96</u>

**Wastewater**

06/30/00	\$209.00	\$209.00	
03/31/00	\$3,320.93		
Total:	<u>\$3,529.93</u>	<u>\$209.00</u>	

The \$2,650.86 (203.45 + 1,711.33 + 736.08) was for meters and should be reclassified to Account No. 334, Meters and Meter Installations. The adjustment to depreciation expense and accumulated depreciation is \$78.

The \$6,830.19 should have been recorded in water and the \$3,320.93 to wastewater Taxes Other Than Income (TOTI) for Regulatory Assessment Fees. Exception No. 10 allows for these amounts by computing Regulatory Assessment Fees on adjusted revenues.

The \$352.75 amount is a part of the installation of the high-pressure service pump and should be reclassified to Account No. 311, Pumping Equipment. The adjustment to depreciation expense and accumulated depreciation is \$10.

The \$757.96 transaction is an expenditure for a 1 ½-inch valve. This valve is a nonutility expenditure according to the staff engineer and should be reclassified to Account No. 426, Miscellaneous Nonutility Expenses.

The \$209 is for a set of steps for the wastewater plant and should be reclassified to Account No. 354, Structures and Improvements. The adjustment to depreciation expense and accumulated depreciation is \$4.

**Exception No. 6**

**Subject: Repairs and Maintenance Expenses**

**Statement of Fact:** The utility maintains an expense account for both water and wastewater which it titles Repairs and Maintenance. In these accounts, the utility classifies expenditures that are incurred by the contract plant operator which are over and above the monthly contract operator fees. The amounts that the utility recorded are \$9,512.92 for water and \$6,172.50 for wastewater for the period ending September 30, 2000.

The Repairs and Maintenance account does not exist in the Uniform System of Accounts (USOA).

Commission Rule 25-30.433(8), Florida Administrative Code, (F.A.C.), states "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

**Recommendation:** For water, \$6,748 of the above \$9,512.92 amount should be amortized over a five-year period or \$1,349.60 ( $\$6,748 / 5$ ) per year since it was for materials for a major repair on a well pump. The \$1,349.60 should be reclassified to Account No. 620, Materials and Supplies. The balance of \$5,398.40 ( $\$6,748 - \$1,349.60$ ) should be reclassified to Account No. 186, Miscellaneous Deferred Debits and amortized over the remaining four years.

The remainder \$2,764.92 ( $\$9,512.92 - \$6,748$ ) should also be reclassified to Account No. 620, Materials and Supplies for the purchase of various materials and supplies for the water utility.

For wastewater, \$1,372.50 of the above \$6,172.50 should be reclassified to Account No. 720, Materials and Supplies for the purchase of various materials and supplies for the wastewater utility.

The remainder \$4,800 ( $\$6,172.50 - \$1,372.50$ ) should be reclassified to Account No. 711, Sludge Removal Expense since it was for sludge hauling.

**Exception No. 7**

**Subject: Purchased Power Expenses**

**Statement of Fact:** The utility recorded \$18,195.72 to water and \$17,873.21 to wastewater for purchased power expenses for the period ended September 30, 2000.

**Recommendation:** The above amounts should be adjusted as shown below.

**Water**

	<u>Adjustments</u>	
Amount per Utility		\$18,195.72
Reclassified to Account 334, Meters(a)	(1,216.93)	
Reclassified from Account 715, Purchased Power(b)	1,127.49	
Reclassified to Account 426, Misc. Nonutility Expenses (c)	<u>(2,151.00)</u>	
Total adjustments:	<u>(\$2,240.44)</u>	<u>(\$2,240.44)</u>
Balance per audit:		<u>\$15,955.28</u>

**Wastewater**

	<u>Adjustments</u>	
Amount per Utility		\$17,873.21
Reclassified to Account 615, Purchased Power(d)	(1,127.49)	
Reclassified to Account 426, Misc. Nonutility Expenses (e)	<u>(1,532.82)</u>	
Total adjustments:	<u>(\$2,660.31)</u>	<u>(\$2,660.31)</u>
Balance per audit:		<u>\$15,212.90</u>

**FOOTNOTES:**

- (a) The amount was for the purchase of water meters and should be reclassified to Account No. 334, Meters and Meter Installations. The adjustment to depreciation expense and accumulated depreciation is \$36.
- (b)&(d) The amount was misclassified to wastewater that should have been recorded in water, Account No. 615, Purchased Power.
- (c)&(e) For both water and wastewater, the amounts were for nonutility payments and should be recorded in Account No. 426, Miscellaneous Nonutility Expenses.

**Exception No. 8**

**Subject: Contractual Services**

**Statement of Fact:** The utility recorded \$5,306.00 for water and \$9,056.92 for wastewater in contractual services expenses.

**Recommendation:** The utility should have included an additional \$2,479.50 in each account, water and wastewater, for the services of the utility meter reader. These amounts were included in the Wages and Salaries - Employees accounts. Further, the utility had incurred a charge of \$858.50 for preparation of the utility's tax return by an outside CPA firm. This amount was recorded in a nonutility account. The amount was divided equally between water and wastewater, \$429.25 to each system and, should be added to contractual services for water and wastewater.

The above amounts should be recorded as shown below.

**Water:**

Increase Account No. 630, Contractual Services	\$2,479.50	
Decrease Account No. 601, Salaries and Wages		\$2,479.50
Increase Account No. 630, Contractual Services	\$429.25	
Decrease Account No. 426, Misc. Nonutility Expenses		\$429.25

**Wastewater:**

Increase Account No. 730, Contractual Services	\$2,479.50	
Decrease Account No. 701, Salaries and Wages		\$2,479.50
Increase Account No. 730, Contractual Services	\$429.25	
Decrease Account No. 426, Misc. Nonutility Expenses		\$429.25

The above adjustments will increase O&M Expenses by \$429.25 for water and \$429.25 for wastewater.

**Exception No. 9**

**Subject: Testing Expenses**

**Statement of Fact:** In December 1999, the utility recorded \$1,391 for water and \$1,391 for wastewater to Account No. 675, Miscellaneous Expenses - Testing Expenses for a pipe and line locating machine.

**Recommendation:** The above amounts should be reclassified to plant-in-service since they will serve several accounting periods. The accounts should be adjusted as shown below.

**Water**

Increase Account No. 343, Tools, Shop and Garage Equipment	\$1,391
Decrease Account No. 675, Misc. Expenses - Testing	\$1,391

The adjustment to depreciation expense and accumulated depreciation is \$43. The associated depreciation expense for the above water plant adjustment and Exception Nos. 1, 2, 5, and 7 is \$133.

**Wastewater**

Increase Account No. 393, Tools, Shop and Garage Equipment	\$1,391
Decrease Account No. 775, Misc. Expenses - Testing	\$1,391

The adjustment to depreciation expense and accumulated depreciation is \$43. The associated depreciation expense for the above wastewater plant adjustment and Exception No. 5 is \$18,549.



**Exception No. 10**

**Subject: Taxes Other Than Income**

**Statement of Fact:** The utility reported \$21,735 for the water system and \$16,061 for the wastewater system for Taxes Other Than Income (TOTI) for the period ended September 30, 2000.

**Recommendation:** The audit staff recommends that water TOTI be increased by \$8,379 and that wastewater TOTI be increased by \$5,088 as shown below.

Water

	<u>Adjustments</u>	
Amount per Utility		\$21,735
Exception No. 4 (200,890 x 4.5%) tax rate	9,040	
Exception No. 8 (2,479.50 x 7.65%) tax rate	(190)	
Misclassified taxes should be in wastewater.	<u>(471)</u>	
Total adjustments:	<u>8,379</u>	8,379
Balance per audit:		<u>\$30,114</u>

Wastewater

	<u>Adjustments</u>	
Amount per Utility		\$16,061
Exception No. 4 (106,813 x 4.5%) tax rate	4,807	
Exception No. 8 (2,479.50 x 7.65%) tax rate	(190)	
Taxes mistakenly recorded in water	<u>471</u>	
Total adjustments:	<u>5,088</u>	5,088
Balance per audit:		<u>\$21,149</u>

**Exception No. 11**

**Subject: Capital Structure**

**Statement of Fact:** The utility recorded \$71,076 of long-term debt to accounts payable. The debt agreement was entered into on July 1, 1993. Presently, this debt is interest free.

In accordance with NARUC, Account No. 224, Long-term Debt, "This account shall include all notes, conditional sales contracts or other evidences of indebtedness payable more than one year from date of issue."

**Recommendation:** The above amount of \$71,076 should be reclassified to Account No. 224, Long-term Debt and be included in the utility's capital structure at no cost.

**Disclosure No. 1**

**Subject: Abandoned Sprayfield**

**Statement of Facts:** Pennbrooke Utilities, Inc. reported balances of \$45,853 and \$7,187 for UPIS Account 382, Outfall Sewer Lines, and its associated accumulated depreciation, respectively, as of September 30, 2000.

The above balances include \$28,626 of UPIS additions and \$4,487(a) of accumulated depreciation additions as of September 30, 2000, for the construction of a sprayfield in 1996 for effluent disposal. During the plant tour, the utility plant operator informed the audit staff that, as of the current year, the utility was no longer using the sprayfield and had no intentions of using it in the future. The utility's current method of effluent disposal involves the usage of four perk ponds.

$$(a) \{((\$28,626 \times 3.3\%) \times 4 \text{ years}) + (((\$28,626 \times 3.3\%)/12 \text{ months}) \times 9 \text{ months}) = \$4,487\}$$

Rule 25-30.140 (7), F.A.C., states,

Prior to the date of retirement of major installations, the Commission may approve capital recovery schedules to correct associated calculated deficiencies in recovery where a utility demonstrates that retirement of the installation or group of installations is prudent and the associated investment will not be recovered by the time of retirement through the normal depreciation process.

**Recommendation:** Audit staff is of the opinion that this constitutes a retirement of a major installation and should be treated as such, per the rule cited above.

**EXHIBIT I**

**PENNBROOKE UTILITIES, INC.  
DOCKET NO. 001382-WU  
RATE BASE-WATER  
AS OF SEPTEMBER 30, 2000**

(a)	(b)	(c)	(d)	(e)	(e)
DESCRIPTION	BALANCE PER UTILITY BOOKS	AUDIT EXCEPTIONS	REFER TO(1)	BALANCE PER AUDIT	AVERAGE BALANCE PER AUDIT
UTILITY-PLANT-IN-SERVICE	\$1,110,101	\$45,712	(2)	\$1,155,813	\$1,071,646
LAND	21,115	0		21,115	21,115
ACCUMULATED DEPRECIATION	(412,581)	(2,238)	(3)	(414,818)	(393,974)
CIAC	(506,218)	(36,000)	AE3	(542,218)	(479,107)
AMORTIZATION OF CIAC	105,071	8,362	AE3	113,433	104,118
CONSTRUCTION WORK-IN- PROGRESS	49,771	(40,100)	AE2	9,671	4,835
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,464</u>	(4)	<u>5,464</u>	<u>5,464</u>
<b>TOTAL</b>	<b><u>\$367,259</u></b>	<b><u>(\$18,800)</u></b>		<b><u>\$348,460</u></b>	<b><u>\$334,097</u></b>

**FOOTNOTES:**

- (1) *Audit adjustments do not include audit disclosures.*
- (2) *AE2 \$40,100 + AE5 \$3,004 + AE7 \$1,217 + AE9 \$1,391*
- (3) *AE1 (\$1,968 - \$140 - \$939) + AE2 \$1,179 + AE5 (\$78+ \$10) + AE7 \$36 + AE9 \$43*
- (4) *Working Capital was calculated at 1/8 O&M expense per Commission policy.*
- (5) *Small differences are attributed to rounding errors.*

**EXHIBIT II**

**PENNBROOKE UTILITIES, INC.  
DOCKET NO. 001382-WU  
RATE BASE-WASTEWATER  
AS OF SEPTEMBER 30, 2000**

(a)	(b)	(c)	(d)	(e)	(e)
DESCRIPTION	BALANCE PER UTILITY BOOKS	AUDIT EXCEPTIONS	REFER TO(1)	BALANCE PER AUDIT	AVERAGE BALANCE PER AUDIT
UTILITY-PLANT-IN-SERVICE	\$1,693,393	\$1,600	(2)	\$1,694,993	\$1,429,239
LAND	57,035	0		57,035	57,035
ACCUMULATED DEPRECIATION	(369,409)	4,225	(3)	(365,184)	(333,186)
CIAC	(903,278)	0		(903,278)	(782,566)
AMORTIZATION OF CIAC	184,932	5,482	AE3	190,414	\$173,079
CONSTRUCTION WORK-IN- PROGRESS	0	0		0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,251</u>	(4)	<u>5,251</u>	<u>5,251</u>
TOTAL	<u>\$662,673</u>	<u>\$16,558</u>		<u>\$679,231</u>	<u>\$548,852</u>

**FOOTNOTES:**

- (1) Audit adjustments do not include audit disclosures.
- (2) AE5 \$209 + AE9 \$1,391
- (3) AE1 \$1,674 - \$5,947 AE5 \$4 + AE9 \$43
- (4) Working Capital was calculated at 1/8 O&M expense per Commission policy.
- (5) Small differences are attributed to rounding errors.

**EXHIBIT III**

**PENNBROOKE UTILITIES, INC.  
DOCKET NO. 001382-WS  
STAFF-ASSISTED RATE CASE  
NET OPERATING INCOME-WATER  
PERIOD ENDED SEPTEMBER 30, 2000**

(a) DESCRIPTION	(b) PER UTILITY	(c) AUDIT EXCEPTION	(d) REFER TO(1)	(e) PER AUDIT
OPERATING REVENUES	\$195,574	\$5,316	AE4	\$200,890
OPERATING EXPENSES:				
O&M EXPENSE	62,905	(19,193)	(3)	43,712
DEPRECIATION EXPENSE	41,555	133	AE9	41,688
AMORTIZATION OF CIAC	(25,942)	7,311	AE3	(18,631)
TAXES OTHER THAN INCOME	21,735	8,379	AE10	30,114
INCOME TAX EXPENSE(3)	0	0		0
<b>TOTAL OPERATING EXPENSE</b>	<b>\$100,253</b>	<b>(\$3,370)</b>		<b>\$96,883</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>\$95,321</b>	<b>\$8,686</b>		<b>\$104,007</b>

**FOOTNOTES:**

- (1) *Audit adjustments do not include audit disclosures.*
- (2) *-AE5 \$10,591.76 - AE6 \$5,398.40 - AE7 \$2,240.44 + AE8 \$429.25 - AE9 \$1,391.00*
- (3) *The utility incurred no income tax expense for 1999.*
- (4) *Small differences are attributed to rounding errors.*

**EXHIBIT IV**

**PENNBROOKE UTILITIES, INC.  
DOCKET NO. 001382-WS  
STAFF-ASSISTED RATE CASE  
NET OPERATING INCOME-WASTEWATER  
PERIOD ENDED SEPTEMBER 30, 2000**

(a) DESCRIPTION	(b) PER UTILITY	(c) AUDIT EXCEPTION	(d) REFER TO(1)	(e) PER AUDIT
OPERATING REVENUES	\$100,434	\$6,379	AE4	\$106,813
OPERATING EXPENSES:				
O&M EXPENSE	49,161	(7,152)	(3)	42,009
DEPRECIATION EXPENSE	45,446	18,549	AE9	63,995
AMORTIZATION OF CLAC	(38,724)	4,055	AE3	(34,669)
TAXES OTHER THAN INCOME	16,061	5,088	AE10	21,149
INCOME TAX EXPENSE (3)	0	0		0
<b>TOTAL OPERATING EXPENSE</b>	<b>\$71,944</b>	<b>\$20,540</b>		<b>\$92,484</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>\$28,490</b>	<b>(\$14,161)</b>		<b>\$14,329</b>

**FOOTNOTES:**

- (1) *Audit adjustments do not include audit disclosures.*
- (2) *-AE5 \$3,529.93 - AE7 \$2,660.31 + AE8 \$429.25 - AE9 \$1,391.00*
- (3) *The utility incurred no income tax expense for 1999.*
- (4) *Small differences are attributed to rounding errors.*

**EXHIBIT V**

**PENNBROOKE UTILITIES, INC.  
DOCKET NO. 001382-WS  
CAPITAL STRUCTURE  
AS OF SEPTEMBER 30, 2000**

DESCRIPTION	PER COMPANY(2)	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT(2)	RATIO	COST RATE(3)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	(\$349,438)	\$0		(\$349,438)	(63.67)%	9.94%	(6.40)%
LONG-TERM DEBT	\$827,228	\$0		\$827,228	150.72%	10.50%	16.61%
LONG-TERM DEBT	\$0	\$71,076	AE11	\$71,076	12.95%	0.00%	0.00%
CUSTOMER DEPOSITS	\$0	\$0		\$0	0.00%	6.00%	0.00%
<b>TOTAL</b>	<b>\$477,790</b>	<b>\$71,076</b>		<b>\$548,866</b>	<b>100.00%</b>		<b>10.21%</b>

**FOOTNOTES:**

- (1) Audit adjustments do not include audit disclosures.
- (2) Common equity amount is from company's General Ledger.
- (3) Cost rate for common equity established in Order No. PSC-00-1162-PAA-WS, issued June 26, 2000
- (4) Small differences are attributed to rounding errors.