BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

October 23, 2001

IN RE:	)	
	)	
AQUA UTILITIES COMPANY, INC.	)	**Docket No. 00-01105**
COMPLIANCE AUDIT	)	

NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE REGULATORY AUTHORITY

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, Energy and Water Division of the Tennessee Regulatory Authority gives notice of its filing of the Aqua Utilities Company, Inc.'s Compliance Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Aqua Utilities Company, Inc. (the "Company").

2. The Staff began its audit on January 17, 2001 and the completed its audit of same on October 22, 2001.

3. On September 25, 2001, the Energy and Water Division issued its preliminary compliance audit findings to the Company, and on October 12, 2001, the Company responded thereto.

4. The preliminary compliance audit report was modified to reflect the Company's responses and a final compliance audit report (the "Report") resulted therefrom.

The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

Butch Phillips
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 23rd day of October, 2001, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. James Clausel
President
Aqua Utilities, Inc.
706 Main Street
Savannah, Tennessee 38372

Butch Phillips

Butch Phillips

COMPLIANCE AUDIT REPORT

OF

<u>AQUA UTILITIES COMPANY, INC.</u>

DOCKET NO. 00-01105

PREPARED BY

<u>TENNESSEE REGULATORY AUTHORITY</u>

ENERGY AND WATER DIVISION

October, 2001

<u>EXHIBIT A</u>

COMPLIANCE AUDIT

AQUA UTILITIES COMPANY, INC.

DOCKET NO. 00-01105

TABLE OF CONTENTS

I. INTRODUCTION

The subject of this audit is Aqua Utilities Company, Inc. ("Company" or "Aqua") compliance with the Rules and Regulations of the Tennessee Regulatory Authority ("TRA" or the "Authority"). At the direction of the Energy and Water Division's Chief, Michael Horne, the compliance audit was performed by Butch Phillips and David McClanahan of the Energy and Water Division.

II. BACKGROUND

Aqua is a small water and wastewater system located on Pickwick Landing Lake near Savannah, Tennessee in Hardin County. It is owned solely by Mr. James E. Clausel. The company currently has approximately 149 water and 118 wastewater customers.

The company was originally owned and operated by Mr. E. Bernard Blasingame. Mr. Blasingame obtained a Certificate of Public Convenience and Necessity from the Tennessee Public Service Commission ("TPSC") in 1990 (TPSC Docket No. 90-04334). Mr. Blasingame sold the utility system sometime during 1996 to Mr. Clausel. Mr. Clausel owns and operates a real estate development company named Montana Land Company, LLC ("Montana"). Aqua's service territory consists of property developed by Montana.

The service area is largely undeveloped and can support several additional customers. No service complaints regarding the Company have been filed with this Authority.

The Authority Staff conducted a on-site audit of the Company's books and records at the Company's accountant's office (Williams, Jerrolds, Godwin & Nichols, PLLC) located at 706 Main Street, Savannah, Tennessee. The Staff's findings and recommendations resulting from the audit can be found in section VI of this report.

III. JURISDICTION OF THE TENNESSEE REGULATORY AUTHORITY

Tennessee Code Annotated (T.C.A.) gives jurisdiction and control over public utilities to the Tennessee Regulatory Authority. T.C.A. §65-4-104 states that:

> The [A]uthority has general supervisory and regulatory power, jurisdiction, and control over all public utilities, and also over their property, property rights, facilities, and franchises, so far as may be necessary for the purpose of carrying out the provisions of this chapter.

Further, T.C.A. §65-4-105 grants the same power to the Authority with reference to all public utilities within its jurisdiction as chapters 3 and 5 of Title 65 of the T.C.A. have conferred on the Department of Transportation's oversight of the railroads or the Department of Safety's oversight of transportation companies. By virtue of T.C.A. §65-3-108, this power includes the right to audit:

> The department is given full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

The Energy and Water Division of the TRA is responsible for auditing those companies under the Division's jurisdiction to ensure that each company is abiding by the above-stated statute as well as the Rules and Regulations of the Authority.

IV. SCOPE OF AUDIT

The Staff examined Aqua's books and records for the twelve months ended December 31, 2000, and conducted tests of accounts as it considered necessary to determine if the Company is following the Uniform System of Accounts for Class C Water and Wastewater utilities along with TRA rules, regulations, and other directives.

The Staff then developed schedules showing the Company's correct level of income, expenses, plant, depreciation, and rate base for the year ended December 31, 2000. These schedules are attached as Exhibit 1 through Exhibit 3B to this report.

V. STAFF SUMMARY

The Company has not come under review by this Agency since 1993 (Docket No. 93-03426. The Company has never sought to have its rates amended since the utility was formed. Aqua has serious accounting difficulties with respect to regulatory matters. The Company is not materially in compliance with regulatory procedures as required by this agency. The Staff believes that the current owner, Mr. James Clausel, at the time of ownership transfer, failed to educate himself to understand and adhere to the Authority's regulatory processes.

The Company needs to have its financial records in compliance with TRA directives as soon as possible. The Staff has outlined the material deficiencies in this report and will work with the Company to ensure compliance. Mr. Clausel has access to outside accounting personnel to assist him in maintaining financial compliance.

The Company also has shown a lack of proper management by not filing a petition for approval of a transfer of authority when it changed ownership during 1996, as required by T. C. A. § 65-4-113. Aqua should be directed to file a petition for approval of a transfer to provide utility services as soon as possible.

The Staff is very concerned by the inter-mingling of record keeping between Aqua and Mr. Clausel's other non-regulated businesses, primarily Montana. The Company is currently unable to provide accurate financial statements in acordance with NARUC guidelines. There are no long-term notes payables and, indeed, money was borrowed during 1992 (TPSC Docket No. 92-15874). Also, loans for temporary working funds are routinely made between Montana and Aqua with no interest expense or liability being recorded. The Company is consistently in need of working funds, indicating that rate relief may be needed; however, the records are in such disarray that making an assessment of the Company in the normal manner would be extremely difficult. There is no plant recorded on Aqua's books. A development of several acres with many homes currently occupied and miles of pipe in the ground, and more being installed regularly, should have some plant recorded. Financial statements, provided currently to the TRA, are incorrectly stated because of the findings mentioned below in Section VI. No accruals of certain expenses, such as interest expense, are being made. Misclassifications of expenses, and no amortizations, are all contributing to the lack of credibility in Aqua's current financial statements.

The Staff is also concerned about the working relationship between the companies owned by Mr. Clausel and his primary sub-contractor who installs all utility plant, including service lines for all customers. The Company's customers, it appears, are not given the opportunity to hire whoever they wish to install the initial tap lines that they pay for and own. As stated in the findings below, Aqua has the right to require that any equipment installed for the purpose of interconnecting with its system meets specific engineering standards, provided that regulatory approval is obtained; but it does not have the right to force its customers to use only one contractor when others may be available. The Staff believes the customers should be allowed to choose whoever they wish to install the tap lines as long as the tap lines meet the utility's engineering standards. The Company should also cease the practice of acting as an agent for the ratepayer for installing the service lines that the ratepayer is responsible for. It should only charge $250, plus any additional costs associated with installing the tap from the meter to the utility mains, as stated in its approved rules and regulations.

Notwithstanding the concerns stated above, the Staff believes that Aqua is currently providing adequate customer service. However, we also believe that a major change in the way the business is managed is essential to the long-term health of the Company. We believe that the management of the business should take every opportunity to learn what is required and make every effort to follow TRA Rules.

VI. AUDIT FINDINGS

FINDING # 1:

Exception

The Company does not keep its books in accordance with the Uniform System of Accounts.

Discussion

TRA Rule 1220-4-1-.11(1)(g) for Class A, B, and C water companies requires utilities to follow the Uniform System of Accounts (USOA) as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC). This uniform record keeping insures the integrity, reliability and comparability among similar companies of financial data contained in financial reports submitted to the Authority. It provides the TRA one of its most useful regulatory tools for establishing just and reasonable rates. We noted the following exceptions to the USOA:

a. The Company's chart of accounts does not comply with the USOA.
b. Many entries in the Company's books are not kept "in such a manner to support fully the facts pertaining to such entries."[1]

This finding has no effect on rates that the company is authorized to charge.

Recommendation

We recommend that the Company make the necessary changes in its accounting methods and procedures to comply with the USOA for Class C Water Utilities, beginning with calendar year 2001. The Company should also provide Staff with evidence of compliance no later than thirty days after the Directors' approval of this finding.

Company Response

Aqua Utilities will make the necessary changes to bring in compliance its books to where they are in accordance with the Uniform System of Accounts.

[1] National Association of Regulatory Utility Commissioners "1996 Uniform System of Accounts for Class C Water Utilities", Accounting Instructions, page 8, section 2., paragraph B.

FINDING # 2:

Exception

Aqua intermingled its records with those of Montana. This has resulted in no plant or liabilities being recorded on Aqua's books. It is impossible to produce a balance sheet that accurately reflects the Company's assets.

Recommendation:

The Staff recommends that Aqua be required to correct the intermingling of records. The Staff recommends all plant be recorded correctly and all loans and notes be recorded on the Company's records and that a balance sheet be produced and maintained on an ongoing basis. We recommend that not only costs be separated from Montana's books but also volumes, such as number of feet of pipe, number of lift stations, pumps, etc.

Discussion:

There has been continual intermingling of record keeping between Aqua and Montana for several years. This result is that Aqua cannot produce an accurate balance sheet. No plant is recorded on the books, even the amounts ordered in Docket No. 90-04334 (discussed in Finding # 6). Even if the rate base has no net value, all capitalized expenses should be recorded as utility plant. No debt is recorded on the books except some working capital loans. Aqua should take the necessary measures to determine in the future that all utility transactions are recorded on the books. If Montana Land Company pays for a new main and donates it to the Company, it still should be recorded on Aqua's books. The same is true for all liabilities and expenses.

Given the condition of Aqua's financial records, the Staff feels that it should be in compliance with the above Order before any rate case is filed by Aqua.

Company Response:

Company will comply with recommendation.

FINDING # 3:

Exception

The Company did not seek approval for debt acquired during 1996.

Discussion:

On September 30, 1996, Mr. Clausel entered into a loan agreement with Columbus Bank and Trust Company ("Columbus"), a Georgia banking corporation to assume liability for the debt acquired during 1992 (TPSC Docket No. 92-15874) by Mr. Blasingame, the previous owner. The assets of Montana were pledged as the primary collateral with Aqua's assets being secondary. The loan payments are solely being made by Montana. T. C. A. 65-4-109 requires that all debt with a maturity beyond one year be approved by this Authority. Aqua did not seek approval for this debt.

Pursuant to the Order issued in TPSC Docket No. 90-04334, the developer bore the cost of constructing the utility plant initially. In TPSC Docket No. 92-15874 an Order was issued to approve debt related to the construction of the utility's capitalized plant even though the Order in TPSC Docket No. 90-04334 stated that the developer was to bear that cost, not Aqua.

Recommendation:

Since the utility did not have to bear the cost of construction at the inception of its operations then no portion of the debt acquired by Montana should be attributed to Aqua. The Company should be directed to remove the lien against its assets since the debt is related to Montana's operations only.

Aqua should provide proof to the Authority Staff that this has been done within sixty (60) days after the Director's approval of this finding.

Company Response:

We desire to explore this issue further. It was our understanding at the date of Montana's acquisition of this project in 1996 that the Aqua debt was a result of plant construction, hence the designation of Aqua's assets as the collateral for the debt. We were not aware of orders issued in Docket No.'s 90-04334 instructing the developer to bear the cost of plant intially or the subsequent order No. 92-15874 approving debt relating to the construction of the plant.

Our understanding seems to correspond more in line with Docket No. 92-15874 which approved this debt. We aren't sure what assets the bank will accept as collateral substitution, if indeed they are willing to accept any at all. We were unaware of T. C. A.

65-4-109 requiring all debt with a maturity to be approved. It seems this issue would have been addressed in 1992 at the time of the debt issuance.

Accordingly, we were informed during the course of this process that the debt should be removed from Montana's books and recorded on the records of Aqua.

FINDING # 4:

Exception

The Company has authorized members of its accounting firm, Williams, Jerrolds, Godwin & Nichols, PLLC to sign Company checks from the Company's bank account.

Discussion

In a Company-supplied response to a Staff data request, Aqua stated that Mark Godwin and Kerry Williams were authorized signers on the bank account of Aqua. The response also stated that this was necessary to pay recurring and emergency expenses that may arise. The Staff is greatly concerned that persons other than Company employees were allowed to sign checks on the behalf of the Company. Allowing other parties not associated with the Company to authorize disbursements can lead to potentially fraudulent activity. Also, this behavior tends to exhibit lack of daily management on the part of the Company. Aqua, as a regulated entity, has a fiduciary duty to its ratepayers. As such, no outside parties must be allowed to make these types of actions.

Recommendation

The Company should remove all outside parties from its bank accounts immediately. The Staff also requests that proof of compliance be submitted to the Authority within thirty (30) days after approval of this finding .

Company Response:

Aqua Utilities has removed all outside paties from its bank accounts.

FINDING # 5:

Exception

The Company did not seek approval for the transfer of its Certificate of Public Necessity and Convenience ("CCN") at the time the Company was sold to Mr. Clausel.

Discussion

During the on-site visit, we asked the Company to supply the Staff with any documentation in connection with the CCN transfer. They could not provide any documentation and further stated that they believe no such petition was ever filed with this Authority. The Staff has searched the Authority's records and has not found any petition on file that requests authorization of the transfer from Mr. Blasingame to Mr. Clausel. With no evidence to indicate that a petition was filed seeking approval of the transfer, the Company is not in compliance with T. C. A. § 65-4-113.

Recommendation

We recommend that the Company file with this Authority a petition requesting the approval of transfer of a CCN within thirty (30) days after approval of this finding.

Company Response

Will comply by requesting approval of transfer of the CCN.

FINDING # 6:

Exception

The Company did not comply with the directives of TPSC Order No. 90-04334.

Discussion

In TPSC Order No. 90-04334, the Company was directed to record $453,000 in capitalized plant costs. The allocation between water and wastewater was $203,000 and $250,000, respectively. The plant costs were also to be borne by the developer at no cost to the Company resulting in contributed capital to the Company. Aqua has failed to make these entries on its books. The Company has also failed to make the associated charges to Accumulated Depreciation and CIAC Amortization.

The impact of making the required accounting entries on the Company's books has no effect on its rate base. It is recommended that these amounts be recorded in NARUC Account Nos. 304 (water) and 354 (wastewater). The associated accumulated depreciation and amortization is discussed in a subsequent finding.

Recommendation

We recommend that the Company comply with the directives of TPSC Order No. 90-04334 and Staff recommendations.

Company Response

Will comply by making the necessary accounting entries.

FINDING # 7:

Exception

The Company has a $250 tapping fee contained in its approved tariff. The tariff also contains language to the effect that, if the cost of the tap is more than $250, then the ratepayer will pay that additional cost.

The Company arranges to have the lines from the home to the utility main installed on the behalf of the ratepayer. Aqua does not take possession of the installed lines and, thus, the lines are the responsibility of the homeowner. Aqua also only uses one contractor to install these lines, Storey Utility Contractors, Inc. The utility charges each ratepayer $4,000 for the line installation (both water and wastewater combined). However, Company-supplied invoices billed by the contractorindicated charges from $325 to $3,650 for these services to the Company. The remaining $350 to $3,675 is considered "profit" by Aqua. The Company has no Contributions in Aid of Construction recorded on its books.

During 2000, the Company recorded $67,300 and $61,525 in tap fee revenue and expense, respectively. The difference results in a $5,775 over-collection of tap installation costs.

Discussion

The Company, under its tariff, is only allowed to charge $250 plus any additional costs that the Company bears to install the tap. Aqua is not permitted to make a "profit" in this case. Tap fees that are authorized by a regulatory agency are not intended to allow the utility to make a profit, but only to assist the utility with initial plant cost that the utility has to incur at start-up. In TPSC Order No. 90-04334, all plant costs were to be absorbed by the developer. Thus, the Company is fortunate not to be saddled with this cost, as would be the norm.

The Company should have charged only $3,650, the amount charged by Storey Utility Contractors, Inc., to each ratepayer for the line installation. The additional $350 should be charged to Contributions in Aid of Construction and split evenly between water and wastewater. Since the utility does not own the lines on the customers' property and is not responsible for maintaining the lines, the Staff considers this amount to be non-utility in nature, and the $3,650 should be recorded in the non-utility income and expense accounts.

Furthermore, the Staff believes that although Aqua is doing so as a courtesy to the ratepayers it should discontinue the practice of arranging the line installation that it does not own located on the customer's property. The ratepayers should be allowed to contract on their own to have these lines installed to Aqua's specifications. The ratepayers should be responsible for insuring that their lines are ready to tap into the utility main. Staff would like to add that Aqua has the right to charge a connection fee, which may include the cost of someone inspecting to ensure that the ratepayer-owned portion complies with Aqua's engineering requirements. Any connection fee should be addressed in the Company's tariff before it is charged.

Recommendation

We recommend that the Company cease immediately the collection of funds beyond the charge for installing the lines. The ratepayers should be allowed to choose a contractor to install their lines on their property and conduct the transaction between themselves and the contractor only.

By the Company's own admission, it has collected additional tap fees beyond its costs without authorization since 1996. The Staff was able to ascertain that, during 2000, $5,775 was over-collected for both water and wastewater combined. There are two remedies to correct the over-collection. First, the Company should identify the affected customers who were erroneously charged and refund the over-collections. Second, the Company should record the over-collected amount as Contributions in Aid of Construction.

Given the financial condition of the Company, the Staff recommends that the over-collected amount be recorded as Contributions in Aid of Construction and split evenly ($5,775/2 = $2,887.50) between water and wastewater.

If any of the cost of equipment to install the tap lines belongs to the utility, it should be capitalized and depreciated over its expected useful life.

Company Response

Will record as C. I. A. C. However, management is concerned about the quality of equipment, construction and installation ratepayers will use in connecting to Aqua's facilities. One of many many concerns is that reduced pressure backflow preventors may not be installed by the ratepayer.

FINDING # 8:

Exception

The Company currently charges a $250 fee for installation of an additional water meter for irrigation purposes. The Company does not have a charge identified in its tariff for irrigation purposes.

Discussion

At the request of a ratepayer, the Company will install an irrigation meter. The installation is performed by Storey Utility Contractors, Inc., which charges $150 to $250 to Aqua for each installation. The Company is not authorized to charge a fee specifically for irrigation meter installation. T. C. A. § 65-5-201, authorizes this agency to set the rates of a utility.

Recommendation

We recommend that the Company seek approval to charge an irrigation meter fee and file an amended tariff to reflect the irrigation meter charge.

Company Response

Company will comply with recommendation.

FINDING # 9:

Exception

The Company recorded $4,650 in repair expense during 2000. This expenditure was for the replacement of a lift station pump.

Discussion

The replacement should have been capitalized. TRA Rule 1220-4-1-.11(1)(g) for Class A, B, and C water companies requires utilities to follow the Uniform System of Accounts (USOA) as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC). NARUC Account No. 370-Receiving Wells states: "this account shall include the cost of constructing wells at pumping stations, or at the junction points along the collecting system, used for intercepting wastewater for clearing and screening, transfer to a pumping well or otherwise further convey it along the collecting system to the treatment plant or point of final discharge. ... This account shall include the cost installed of pumping equipment driven by electric power or diesel engines." Also, per NARUC, when retiring an item of capitalized plant, the historical cost of the original is to be credited from the corresponding plant along with an equal amount of accumulated depreciation.

The Company provided no historical cost. The Staff believes that, in this case, presuming the replaced lift station pump was placed into service during 1990 and discounting the present value of the replacement pump to 1990 value is appropriate. The discounted 1990 value is $3,141.35.

Recommendation

We recommend that the Company make the required entries and provide proof that it has complied with Staff's directives by no later than thirty (30) days after approval of this finding.

Company Response

Company will comply with recommendation.

FINDING # 10:

Exception

The Company expensed $250 for tax return preparation services during 1999. Aqua is a subchapter "S" Corporation.

Discussion

For ratemaking purposes, recovery of this type of expense is not allowed through rates charged to ratepayers. When an entity is organized in such a manner, all of the net income or loss is reported by each shareholder on their individual personal income tax return(s). Thus, the individual shareholder is paying the tax liability or gaining the tax benefit at their level. Since the cost related to the utility cannot be identified, it is generally not allowed to be recovered for ratemaking purposes.

Recommendation

We recommend that the $250, which the Company allocated evenly between water and wastewater, be disallowed for ratemaking purposes and an entry be made to non-utility expenses to reflect the proper accounting treatment. In the future, this expense should not be paid by the utility, but by Mr. Clausel personally.

Company Response

We don't contest whether the charges for preparing the corporate tax return should be allowed to be recovered through rates charged to ratepayers; that is determined by your rules. However, it is a commonly accepted practice that all U. S. corporations pay their own legal and accounting fees for services rendered that corporation. Since the U. S. tax code requires the corporation to prepare and file a return it seems quite unusual to disallow that same company to pay for its own compliance services. For this reason, and others, it seems unfair to ask Mr. Clausel to pay for this service personally. What would the result be if the company had 75 shareholders, would they divvy the cost among themselves?

FINDING # 11:

Exception

The Company did not record any accumulated depreciation or amortization related to capital expenditures.

Discussion

As discussed earlier, the Company failed to capitalize certain items on its books. The associated depreciation and amortization charges were not made as well. The Staff calculated the accumulated depreciation to be $55,825 for water and $68,831 for wastewater. The Staff also calculated the CIAC amortization to be $55,897 for water $68,696 for wastewater. These calculations correct all previous findings contained in this report and are for the period at December 31, 2000.

Recommendation

We recommend that Aqua make the above entries to comply with the TRA's directives.

Company Response

Company will comply with recommendation.

EXHIBIT 1

Aqua Utilities Company, Inc. Income Statement For Year-Ended December 31, 2000

NARUC Acct. No.		Annual Report A/	Company Records B/	Debit		Credit		TRA Staff Revised C/
	Gross Revenue:							
460.1	Metered Res. Water Sales		21,712.33					21,712.33
474.0	Other Water Revenues		33,650.00	33,650.00				-
								-
	Total Gross Revenue	-	55,362.33					21,712.33
601.0	Salaries & Wages - Employees	-	-					-
603.0	Salaries & Wages - Officers, Etc.	-	-					-
604.0	Employee Pensions & Benefits	-	-					-
610.0	Purchased Water	-	17,282.91					17,282.91
615.0	Purchased Power		2,582.09					2,582.09
616.0	Fuel for Power Production		391.65					391.65
618.0	Chemicals							-
620.0	Materials and Supplies							-
630.0	Contractual Services - Billing							-
631.0	Contractural Services - Professional		45,362.00			30,887.50	D/	14,474.50
635.0	Contractural Services - Testing							-
636.0	Contractural Services - Other							-
640.0	Rents							-
650.0	Transportation Expenses							-
655.0	Insurance Expense		350.50					350.50
665.0	Regulatory Commission Expenses							-
670.0	Bad Debt Expense							-
675.0	Miscellaneous Expenses		2,962.14					2,962.14
	Operation Expenses	-	68,931.29					38,043.79
403.0	Depreciation Expense			5,025.00	E/			5,025.00
407.0	Amortization Expense (CIAC)					(5,147.00)	E/	(5,147.00)
236.0	Taxes Other Than Income		397.00					397.00
	Total Operating Expenses	-	69,328.29					38,318.79
	NET OPERATING INCOME	-	(13,965.96)					(16,606.46)
	Other Income:							
421.0	Nonutility Income					30,762.50	D/	30,762.50
	Other Deductions:							
426.0	Misc. Nonutility Expenses			30,887.50	D/			30,887.50
	NET INCOME/(LOSS)	-	**(13,965.96)**					**(16,731.46)**

A/ Company did not file a 2000 annual report at the time of audit.
B/ Revised expenses as reflected in Company's general ledger. Staff attempted to cross-reference with the NARUC Accts.
C/ Income Statement as revised by TRA Staff during Compliance Audit.
D/ Expenses reclassified to satisfy the Uniform System of Accounts.
E/ Depreciation and Amortization expense revised to reflect Authority ordered (Dkt. 90-04334) & accounting entry for contributed plant.

EXHIBIT 2

Aqua Utilities Company, Inc. Income Statement For Year-Ended December 31, 2000

NARUC Acct. No.		Annual Report A/	Company Records B/	Debit		Credit		TRA Staff Revised C/
	Gross Revenue:							
460.1	Metered Residential Sales	-	15,823.32					15,823.32
474.0	Other Revenues -Tap Fees	-	33,650.00	33,650.00				-
408.0	Other Revenues -Misc	-	120.32					120.32
	Total Gross Revenue	-	49,593.64					15,943.64
701.0	Salaries & Wages - Employees		-					-
703.0	Salaries & Wages - Officers, Etc.		-					-
704.0	Employee Pensions & Benefits		-					-
710.0	Purchased Wastewater Treatment		-					-
715.0	Purchased Power		2,582.09					2,582.09
716.0	Fuel for Power Production							-
718.0	Chemicals							-
720.0	Materials and Supplies							-
730.0	Contractual Services - Billing							-
731.0	Contractural Services - Professional		45,362.00			30,887.50	D/	14,474.50
735.0	Contractural Services - Testing							-
736.0	Contractural Services - Other		4,650.00			4,650.00	F/	-
740.0	Rents							-
750.0	Transportation Expenses							-
755.0	Insurance Expense		350.50					350.50
765.0	Regulatory Commission Expenses							-
770.0	Bad Debt Expense							-
775.0	Miscellaneous Expenses		3,353.80					3,353.80
	Operation Expenses	-	56,298.39					20,760.89
403.0	Depreciation Expense			6,331.00	E/			6,331.00
407.0	Amortization Expense (CIAC)					(6,196.00)		(6,196.00)
236.0	Taxes Other Than Income		397.00					397.00
	Total Operating Expenses	-	56,695.39					21,292.89
	NET OPERATING INCOME	-	(7,101.75)					(5,349.25)
	Other Income:							
421.0	Nonutility Income					30,762.50	D/	30,762.50
	Other Deductions:							
426.0	Misc. Nonutility Expenses			30,887.50	D/			30,887.50
	NET INCOME/(LOSS)	-	**(7,101.75)**					**(5,474.25)**

A/ Company did not file a 2000 annual report at the time of audit.
B/ Revised expenses as reflected in Company's general ledger. Staff attempted to cross-reference with the NARUC Accts.
C/ Income Statement as revised by TRA Staff during Compliance Audit.
D/ Expenses reclassified to satisfy the Uniform System of Accounts.
E/ Depreciation and Amortization expense revised to reflect Authority ordered (Dkt. 90-04334) accounting entry for contributed plant & related to expensed lift station pump that was not capitalized.
F/ To reflect the removal of the lift station pump that was incorrectly expensed. Should have been capitalized to plant (Acct. #370).

EXHIBIT 3

AQUA UTILITIES COMPANY, INC. WATER COMPANY RATE BASE

Water And Wastewater Combined

	Year Ended 12/31/00	
Utility Plant in Service	457,650	A/
Accumulated CIAC Amortization	124,593	A/
Working Capital	4,898	B/
Total Additions	587,141	
Accumulated Depreciation	(124,656)	A/
Contributions in Aid of Construction	(458,776)	A/
Customer Deposits	-	C/
Total Deductions	(583,432)	
Rate Base	**3,710**	

A/ Staff corrected balance
B/ One-twelfth of operating expenses
C/ Company choses not to collect a deposit from its customers

EXHIBIT 3A

AQUA UTILITIES COMPANY, INC. WATER COMPANY RATE BASE

	Water Only Year Ended 12/31/00	
Utility Plant in Service	203,000	A/
Accumulated CIAC Amortization	55,897	A/
Working Capital	3,169	B/
Total Additions	262,066	
Accumulated Depreciation	(55,825)	A/
Contributions in Aid of Construction	(205,888)	A/
Customer Deposits	-	C/
Total Deductions	(261,713)	
Rate Base	**353**	

A/ Staff corrected balance
B/ One-twelfth of operating expenses
C/ Company choses not to collect a deposit from its customers

EXHIBIT 3B

AQUA UTILITIES COMPANY, INC. WATER COMPANY RATE BASE

Wastewater Only

	Year Ended 12/31/00	
Utility Plant in Service	254,650	A/
Accumulated CIAC Amortization	68,696	A/
Working Capital	1,729	B/
Total Additions	325,075	
Accumulated Depreciation	(68,831)	A/
Contributions in Aid of Construction	(252,888)	A/
Customer Deposits	-	C/
Total Deductions	(321,719)	
Rate Base	**3,357**	

A/ Staff corrected balance
B/ One-twelfth of operating expenses
C/ Company choses not to collect a deposit from its customers