

TENNESSEE REGULATORY AUTHORITY



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TRA DOCKET ROOM

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

July 6, 2006

Mr. William W. Geary
President
Hickory Star Water Company
6171 W. Century Blvd., Suite 100
Los Angeles, CA 90045

100-00170

RE: Compliance Audit of Hickory Star Water Company for the period January 1, 2005 through December 31, 2005.

Dear Mr. Geary:

The TRA Utilities Division is in the process of conducting a compliance audit of Hickory Star Water Company. Field work at the Company's location took place June 20-22. Certain financial information was not available during that visit. Therefore, in order to complete the audit, we need the following additional information. Please respond to this Staff Data Request by July 14, 2006.

1. Please explain why Hickory Star Water Company does not use NARUC's Uniformed System of Accounts for the company's accounting system as required in TRA rule 1220-4-1-.11(1)(g) and (h).
2. Please provide a list of Company assets at 12/31/05 with the original cost, current book value and estimated life of each.
3. Please provide a depreciation schedule for 2005 and explain the depreciation method(s) used for the year.
4. Please provide a reconciliation of each line item reported on the income statement in the Company's 2005 annual report (page F-3) to the General Ledger at December 31, 2005 provided in this audit.
5. Why is customer # W24 charged a flat rate of \$650 per month for sewage service instead of the TRA approved tariff rates for sewerage service? How long has customer # W24 been paying \$650 per month for sewerage service?

6. Customer # WC56 was charged the minimum \$15 for sewage service from 8/16/05 through 9/16/05 (October billing). This customer, however, used 5600 gallons of water during the month. Our calculation based on this usage results in a billing amount of \$32.76. A review of several months showed that this customer consistently used over 2000 gallons each month, yet was charged only the minimum \$15. Please explain.
7. Please explain the Company's methodology for determining labor expense.
8. Are tap fees included as part of the Company's operating revenue? If not, explain the accounting treatment for these fees.
9. During 2005, were there any expenses booked that are non-recurring (will not be incurred again during the next two (2) years)? If so, please identify the expense, date and amount of each.
10. Please provide a copy of the Company's property tax return for 2005.

The following questions relate to the Company's 2005 General Ledger transactions:

11. Please explain the prepaid insurance entries recorded, including the type of insurance, when it is paid and how it is expensed.
12. Please explain in detail the two transactions recorded in GL account "Advance From Owner," totaling \$85,000. If this is a loan to the utility, provide a copy of the loan agreement.
13. Please explain each transaction recorded in GL account "Accounts Payable-Other." If applicable, provide a copy of the corresponding invoice for each transaction.
14. Please explain each transaction recorded in GL account "Accounts Payable – Sales Tax" which is identified as "MGMT FEE" in the transaction description. An example of these entries is "03/05 COMB PYMT W ACC MGMT FEE 10/04" (Debit \$171.33).
15. Please explain why there are two separate GL accounts for water (4700-001 and 5006-000) and two separate accounts for sewer (4700-002 and 5007-000).

16. Please explain the transactions labeled "Management Fees" recorded in GL account 5405-000 and "Consulting Fees" recorded in GL account 5415-000. Provide copies of all applicable invoices.
17. Please explain the transactions labeled "Legal Fees" recorded in GL account 425-000. Provide copies of all applicable invoices.
18. Please explain the transactions labeled "Accounting & Auditing" recorded in GL account 5430-000 and how they are calculated.

Thank you for cooperation in this matter. If you have any questions regarding this request, before responding please contact Gary Lamb at 1-800-342-2336 ext. 172 or Ron Graham at ext. 164.

Sincerely,



Darlene Standley
Chief

Utilities Division

Hickory Star Data Request (6-29-06)