State of Florida

Public Service Commission

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

DATE: September 12, 2002
TO: Division of Economic Regulation (Merta)
FROM: Division of Auditing and Safety (Vandiver) DW
RE: **Docket No.** 020439-SU; **Company Name:** Sanibel Bayous Utility Corp.; **Audit Purpose:** Staff Assisted Rate Case; **Audit Control No.** 02-148-4-1

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, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Gary Winrow
Sanibel Bayous Utility Corp.
15560 McGregor Blvd., Suite 8
Fort Myers, FL 33908-2547

Public Service Commission

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

MIAMI DISTRICT OFFICE

SANIBEL BAYOUS UTILITY CORP.
STAFF ASSISTED RATE CASE

YEAR ENDED MARCH 31, 2002

DOCKET NO. 020439-SU

AUDIT CONTROL NO. 02-148-4-1

Kathy L. Welch

Kathy L. Welch, Audit Manager

Ruth K. Young

Ruth K. Young
Professional Accountant Specialist

INDEX

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

September 9, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit to prepare the accompanying schedules of Rate Base, Net Operating Income and Cost of Capital as of March 31, 2002 for Sanibel Bayous Utility Company as part of our work in Docket No. 020439-SU.

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 PROCEDURES

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

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

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

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verified - The items were tested for accuracy, and compared to the substantiating documentation.

RATE BASE: Attempted to obtain supporting documentation for plant additions by reviewing old annual reports and ledgers. Interviewed owners. Toured plant facilities. No original cost information was obtained and an original cost study is being done by Commission staff engineers. Land deeds were reviewed at the courthouse and property costs and acreage determined. Accumulated depreciation used by the company, was recomputed. CIAC was examined by tracing to deposit books and contracts that could be found.

Tax return plant was reconciled to the books. Accumulated amortization was recomputed using revised balances. Interviewed customers to determine if there was any other CIAC.

COST OF CAPITAL: Computed return on equity using Commission orders.

NET OPERATING INCOME: Determined revenue from deposit slips. Determined customers that should be billed based on a tour of the lots and maps. Determined revenue based on current lots using tariff, 2000 rates and 2001 rates. Determined amount over-billed based on a comparison of 2001 billings to what would have been billed using rates charged in early 2000.

Scheduled all checks for the test year. Reviewed invoices for all and reviewed with Commission engineers for reasonableness. Obtained additional costs that are expected to be incurred in the future. Attempted to obtain support for management fee. Calculated gross receipts tax. Prepared net operating income schedule.

AUDIT EXCEPTION NO. 1

SUBJECT: PLANT IN SERVICE

STATEMENT OF FACT: Bill Broeder, the original owner and land developer, built the original plant and lines in 1973. There were two lift stations, the plant that was enclosed in a wood structure and the lines. In 1988, Gary Winrow wanted to develop Heron's Landing Phase I and II. To hook up to the Sanibel Bayou wastewater system, the City of Sanibel required him to do some plant upgrades, do TV viewing on the original lines and repair them. He also redid all the lines in the landing because the original did not conform to his new layout. For the work he did Mr. Winrow was given a 50% ownership.

No additions were capitalized since 1988 according to the annual reports. Mr. Broeder was called in Colorado to get the original source documentation. He believes all records were thrown away when he retired and closed his office. Mr. Winrow was asked several times to provide invoices for the additions he made. They were never provided.

Three lift stations are connected to the wastewater plant. The third lift station was added when Blind Pass Condo added on to the system. The condo maintains it and pays the electric on it. No agreement could be found to tell us whether the lift station is owned by the condominium association or the utility.

The wood structure surrounding the treatment plant was demolished this year.

The company could not provide any invoices that support the company's investment in plant.

The company has provided a letter from Johnson Engineering that discusses the Florida Department of Environmental Protection's suggestion to install a surge tank. Johnson estimates the cost at $25,000. No contract has been entered for the tank. The company also estimates that it will cost them $9,500 for a fence to be placed around the plant. The estimate from SW Florida Fencing was received over the phone and based on 550 feet of fence at $17/square foot. The company also provided an estimate for lift station overhaul which is expected to cost $12,858.74. These amounts should be considered as proforma additions when the original cost study is completed.

OPINION: The Commission staff engineers are preparing an original cost study to determine the actual value of the plant. Depreciation will have to be recomputed based on these numbers. Additions in the test year were $591.54 for a hookup and $1,425.70 for a new grinder pump. These amounts should be included in the study. A debit is also needed to Accumulated Depreciation for $5,003.62 for cost of removal of the building surrounding the plant.

AUDIT EXCEPTION NO. 2

SUBJECT: LAND

STATEMENT OF FACT: Bill Broeder's company, Nationwide Realty Corp. bought the land the utility uses on October 20, 1969. He bought 220 acres of land for $561,000 or about $2,550 an acre.

He sold his first lot in 1973. He deeded a parcel of land to the utility in 1975. According to the property assessors office, the land that relates to the deed is a parcel of 4.5 acres. The deed shows $10 and the 55 cents of documentary stamps were on the deed. The books show land at $22,907. Mr. Winrow has signed and had notarized a statement that the utility owns the land. Based on the staff engineers review, the plant and ponds occupy 3.07 acres. Using the original cost of the land, 3.07 acres cost $7,828.50. Using the 4.5 acres, the land would be valued at $11,475.

More land must have been transferred to Sanibel Bayou in the early years before the courthouse maintained its computer records since in 1988, Sanibel Bayou sold several parcels of land to National Investment and Development Company, another Bill Broeder company.

Mr. Broeder had agreed to provide contracts with his customers in 1973 that would show what the land sold for at the time the plant was placed in service. He later claimed he could not locate any of the information.

Commission staff engineers will provide the land cost as part of their original cost study.

AUDIT EXCEPTION NO. 3

SUBJECT: CIAC

STATEMENT OF FACT: The utility tariff does not provide for contributions in aid of construction (CIAC). The company's annual reports show $6,300 of CIAC being recorded in 1977. However, this amount was never carried forward and as of 1981, the company did not have a CIAC balance. We are missing annual reports from 1982 to 1984, but the 1985 report shows a beginning balance of $37,851. No increase was made for CIAC in the annual reports from 1994 forward. After the staff inquiries were made, the company prepared a schedule to retroactively adjust the increases in CIAC based on a schedule of how many hookups were made each year since 1988. According to the company president, Mr. Gary Winrow, the company has been charging $2,667 per connection since he became involved in the utility which was 1988. This amount was traced to contracts and was found in deposit slips going back to 1996. Deposit slips and sales contracts for lots prior to this time were requested but never provided. The original owner, Mr. Bill Broeder, claims to have destroyed the information when he retired.

OPINION: The annual report, the company revised schedule and the deposit slips all show different amounts of CIAC for the years available. Therefore, the only reliable documentation is the deposit slips. However, these could only be found from 1996 forward. Based on the annual reports, it appears that the company was charging some amount of CIAC back to 1977. Because the company did not provide old documents, an actual amount collected prior to 1988 could not be determined. To calculate the estimated CIAC for residential homes excluding the Ridge, the following steps were performed:

1. For years 1996 through March 2002, amounts from deposit slips were used.

2. For years 1988 through 1995, CIAC was imputed using the company schedule of connections times the $2,667 rate.

3. For the years prior to 1995, the number of current connections less the connections found or imputed in items 1 and 2 were multiplied by the $2,667 rate and averaged over four years. Even though the plant was started in 1977, this was done because 1984 is the first year we show CIAC in the annual report and because, according to Mr. Broeder, very few customers were sold homes in the early years.

The attached schedule shows the amounts using all three sources. CIAC according to the above staff methodology is $344,043.

Based on the customer list, there were 129 residential units in Sanibel Bayou and Heron's Landing, 28 residential units in the Ridge plus a bath house, two bath houses in the Landings, and 108 units at Blind Pass Condo. According to Mr. Broeder, he developed both the Ridge and Blind Pass Condo and never recorded CIAC for it. Since we could not obtain sales agreements, we could not determine if any property should be considered contributed or if Mr. Broeder did charge any of the homeowners any CIAC. No CIAC was imputed for the Ridge (28 residential units and a bath house) and Blind Pass Condo (108 condo units) but we cannot determine that it was not collected. The company was not able to provide any documentation that proved that it was not collected.

If CIAC was imputed on the 28 Ridge units and the 108 condo units at $2,667 each, an additional $362,712 would be added to CIAC.

When the original cost study is done on plant, it may show that the company is over-contributed. A determination needs to be made on whether the amounts collected should be refunded since there is no provision in the tariff.

COMPARISON CIAC FROM ALL SOURCES:

	PER STAFF ABOVE	ANNUAL REPORTS	COMPANY REVISED SCHEDULE	NUMBER OF CONNECTIONS BY YEAR	METHODOLOGY FOR STAFF COMPUTATION
1975					
1976	0				
1977	0	6,300			
1978	0				
1979	0				
1980	0				
1981	0				
1982	0				
1983	0				
1984	35,338	31,551		13.25	53 UNNACOUNTED FOR CONNECTIONS x $2,667 AVERAGED OVER 4 YEARS
1985	35,338	2,600		13.25	53 UNNACOUNTED FOR CONNECTIONS x $2,667 AVERAGED OVER 4 YEARS
1986	35,338	3,600		13.25	53 UNNACOUNTED FOR CONNECTIONS x $2,667 AVERAGED OVER 4 YEARS
1987	35,338	20,700		13.25	53 UNNACOUNTED FOR CONNECTIONS x $2,667 AVERAGED OVER 4 YEARS
1988	24,003	64,751		9.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1989	29,337	18,250		11.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1990	5,334	7,075		2.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1991	5,334	2,625		2.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1992	13,335	18,375		5.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1993	10,668	7,875	118,951	4.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1994	2,667	0	2,625	1.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1995	5,334	0	5,250	2.00	PER COMPANY SCHEDULE OF CONNECTIONS X $2,667
1996	13,335	0	18,375	5.00	PER DEPOSIT SLIPS
1997	8,001	0	13,125	3.00	PER DEPOSIT SLIPS
1998	26,670	0	23,625	10.00	PER DEPOSIT SLIPS
1999	13,335	0	13,125	5.00	PER DEPOSIT SLIPS
2000	18,669	0	15,750	7.00	PER DEPOSIT SLIPS
2001	21,336	0	15,750	8.00	PER DEPOSIT SLIPS
2002	5,334	0		2.00	PER DEPOSIT SLIPS
TOTAL	**344,043**	**183,702**	**226,576**	**129.00**	

AUDIT EXCEPTION NO. 4

SUBJECT: AMORTIZATION OF CIAC

STATEMENT OF FACT: The company used remaining life amortization since they could not determine the years the CIAC was added. They arrived at an amortization amount of $69,490 at 12/31/01.

Based on the CIAC determined in another exception, the amortization was re-computed using the composite depreciation rate each year based on the company provided depreciation schedule. A schedule of the amortization is attached. The balance at 12/31/01 was $108,959.22. This would increase the company's amortization by $39,468.75. Accumulated amortization as of 3/31/02 according to the attached schedule is $111,297.64.

Amortization expense for the test year is $9,298.90.

SANIBEL BAYOUS
AMORTIZATION OF CIAC WITH CORRECTIONS
TEST YEAR ENDED MAY 31, 2002

	INCREASE		CIAC	DEPRECIATION RATE	AMORTIZATION FOR YEAR	CUMULATIVE AMORTIZATION	# OF CONNECTIONS
1975				1.275%	0.00	0.00	
1976	0			2.550%	0.00	0.00	
1977	0			2.550%	0.00	0.00	
1978	0			2.550%	0.00	0.00	
1979	0			2.550%	0.00	0.00	
1980	0			2.550%	0.00	0.00	
1981	0			2.550%	0.00	0.00	
1982	0			2.550%	0.00	0.00	
1983	0			2.570%	0.00	0.00	
1984	35,338	E	35,338	2.430%	858.71	858.71	
1985	35,338	E	70,676	2.840%	2,007.18	2,865.89	
1986	35,338	E	106,013	2.830%	3,000.17	5,866.07	
1987	35,338	E	141,351	2.840%	4,014.37	9,880.43	
1988	24,003	D	165,354	2.840%	4,696.05	14,576.49	9
1989	29,337	D	194,691	2.530%	4,925.68	19,502.17	11
1990	5,334	D	200,025	3.090%	6,180.77	25,682.94	2
1991	5,334	D	205,359	3.090%	6,345.59	32,028.54	2
1992	13,335	D	218,694	3.090%	6,757.64	38,786.18	5
1993	10,668	D	229,362	2.980%	6,834.99	45,621.17	4
1994	2,667	D	232,029	2.880%	6,682.44	52,303.60	1
1995	5,334	D	237,363	2.880%	6,836.05	59,139.66	2
1996	13,335	A	250,698	2.880%	7,220.10	66,359.76	5
1997	8,001	A	258,699	2.880%	7,450.53	73,810.29	3
1998	26,670	A	285,369	2.880%	8,218.63	82,028.92	10
1999	13,335	A	298,704	2.870%	8,572.80	90,601.72	5
2000	18,669	C	317,373	2.860%	9,076.87	99,678.59	7
2001	21,336	B	338,709	2.740%	9,280.63	108,959.22	8
3/31/02	2,667	A	341,376	2.740%	2,338.43	111,297.64	1
6/30/02	2,667	A	344,043	2.740%	2,356.69	113,654.34	1
PER COMPANY			226,576			69,490.47	76
			PER BILLING EXCL. RIDGE AND BLIND PASS/POOL HOUSES				129
DIFFERENCE AT 3/31/02						41,807.17	53
AMORTIZATION EXPENSE TEST YEAR					9,298.90		

NOTE A: PER DEPOSIT BOOKS
NOTE B: PER DEPOSIT BOOKS $21,336
NOTE C: PER DEPOSIT BOOKS $18,669
NOTE D: USED $2,667 CHARGED PER GARY WINROW SINCE HE BECAME INVOLVED IN 1998 TIMES NUMBER OF CONNECTIONS PROVIDED BY GUASTELLA
NOTE E: USED 53 CONNECTIONS THAT NO CIAC WAS RECORDED FOR AT 2667 FOR $141,351. AVERAGED AMOUNT OVER FOUR YEARS SINCE THAT IS FIRST TIME CIAC WAS RECORDED AND CARRIED FORWARD IN ANNUAL REPORT $6,300 WAS MENTIONED AS CIAC IN THE 1977 ANNUAL REPORT BUT WAS NEVER CARRIED FORWARD. THEREFORE, IT IS BELIEVED THAT CIAC WAS CHARGED BACK TO INCEPTION BUT NEVER ACCURATELY REPORTED. NO CIAC WAS IMPUTED FOR THE RIDGE OR BLIND PASS.

AUDIT EXCEPTION NO. 5

SUBJECT: REVENUE REFUND

STATEMENT OF FACT: The company was asked for billing registers but claimed it did not maintain them. Deposit slips from 1/2000 to 6/2002 were reviewed to determine revenue collected since revenue billed could not be determined.

The tariff rates were $12 a month residential and $10 a month multi-family.

It was determined that in early 2000 single family homes excluding the Ridge were being charged $42 per quarter for service. The 28 homes plus a bathhouse at the Ridge were charged $417 a month and Blind Pass Condo's 108 units were charged $1,296 per month. There were also two pool houses being charged at $29/month each for part of the year and $25 a month for the first four months of 2000. Because we could not obtain deposit slips earlier than 1996, we could not determine when the company first changed its rates from the tariff rates.

In the third quarter of 2000, the company changed its rates to $50/quarter for residential, $497 for the 28 homes in the Ridge, and $174 per quarter for the pool houses.

As a result of Tallahassee staff's investigation into possible over-earnings, the company did not charge the homeowners for the fourth quarter of 2001. They did, however, charge the Ridge, Blind Pass, and the pool houses. In February 2002, the company reduced the rate for the Ridge to $417. All other rates were maintained in spite of the agreement reached with staff to reduce rates to the 2000 amounts.

Because of an inaccurate list of customers names and addresses, the company did not bill all of its customers. In addition, some customers were charged for 12 months (the Ridge, Blind Pass, and the pool houses) and some for 9 months (Bayou and Heron's Landing). Therefore, we could not use the actual revenues received in 2001 to determine the over-billing.

Because the company did not have a billing register to show what should have been billed the fourth quarter of 2001, to determine the amount over-billed, it was necessary to determine what revenue would have been collected if the customers were billed the fourth quarter. The actual number of customers that the company received revenue from for the first three quarters was averaged and a number of customers imputed for the fourth quarter. This imputed number of customers was multiplied by both the tariff rates and the rates used in early 2000 to determine what would have been billed if the rate increase had not taken place for each assumption. This was compared to the amount actually billed to determine the over-billing for 2001.

For the year 2000 and 2002, the actual customers billed were multiplied by the tariff rates and by the rate used prior to the increased rate to determine the over-billing using each assumption. A summary of the differences by year follow on the next pages.

If the customers that paid had been billed at the tariff rates from January 2000 to June 2002, they would have been billed $20,877.27 less than was actually charged in spite not paying for one quarter. If they had been billed at the rates charged in early 2000 from January 2000 to June 2002, they would have been billed $4,797,27 less than actually charged in spite of the refund already given. In addition, the company charged $750 in late fees ($25 each) from January 2000 to June 2002 that were not allowed in its tariff

A few of the homes found on the tour were not found on the billing list. One of these was the real estate office at the entrance to the property.

Karen Warrick of Island Water Association was asked to provide gallonage usage for the customers. She needed a letter from Gary Winrow requesting the information. He sent a letter to Karen asking her to forward the meter readings on August 6, 2002. When these readings were not received by September 5, Ms. Warrick was contacted. She reported calling Mr. Winrow on August 14 and telling him the information couldn't be provided because it was confidential. He never notified us that the report would not be coming. When Ms. Warrick realized the information was for a government agency, she agreed that we were exempt from the rule requiring releases from each customer and agreed to provide the information for a fee of $100. Mr. Winrow was contacted and agreed to take a check to Island Water. The report has been received but it does not include all customers. The list will be compared to the company billing and an additional request made. When it is received, the billing analysis will be forwarded as a supplement to this audit.

SANIBEL BAYOU UTILITY COMPANY
SUMMARY OF AMOUNT OVERBILLED BY YEAR
TEST YEAR ENDED MARCH 31, 2002

		BASED ON TARIFF	BASED ON OLD 2000 RATES	REVENUES COLLECTED
	2000	10,627.54	4,255.54	43,315.54
	2001	5,409.73	(1,178.27)	39,393.73
AS OF 6/02		4,840.00	1,720.00	21,244.00
		20,877.27	**4,797.27**	**103,953.27**

SANIBEL BAYOUS UTILITY COMPANY
ANALYSIS OF REVENUE OVERCOLLECTED IN 2000
TEST YEAR ENDED MARCH 30, 2002
BY KATHY WELCH 8/13/02

	CUSTOMERS ALL MONTHS PAID IN 2000	TARIFF RATE	REVENUES AT TARIFF	RATE BILLED BEFORE INC.	REVENUES AT 2000 BILL RATE	REVENUES COLLECTED IN 2000
SANIBEL BAYOUS N&S AND HERONS L.	1272	12.00	15,264.00	14.00	17,808.00	20,249.54
THE RIDGE INCLUDING BATH HOUSE	348	12.00	4,176.00	14.38	5,004.00	5,724.00
TOTAL SINGLE FAMILY	1620		19,440.00		22,812.00	25,973.54
BATH HOUSES HERON'S LANDING	24	12.00	288.00	29.00	696.00	782.00
BLIND PASS CONDO'S	1296	10.00	12,960.00	12.00	15,552.00	16,560.00
REAL ESTATE OFFICE	0	12.00	0.00	14.00	0.00	0.00
TOTAL CUSTOMERS	2940		32,688.00		39,060.00	43,315.54
REVENUE COLLECTED			43,315.54		43,315.54	
DIFFERENCE OVERBILLED IN 2002			10,627.54		4,255.54	

TO DETERMINE AMOUNTS OVERPAID, STAFF COULD NOT USE THE ACTUAL NUMBER OF CUSTOMERS BECAUSE THE COMPANY DID NOT BILL CERTAIN CUSTOMERS.
THEREFORE, WE USED THE NUMBER OF CUSTOMERS THAT PAID TO DETERMINE THE AMOUNT THAT SHOULD HAVE BEEN RECEIVED AND HOW MUCH WAS.
IF THE YEAR 2000 RATE IS ALLOWED, THE COMPANY UNDERCOLLECTED FROM THE CUSTOMERS IT ACTUALLY BILLED. IF THE TARIFF RATE IS USED,
THE COMPANY USED BOTH RATES IN 2000.

SANIBEL BAYOUS UTILITY COMPANY
ANALYSIS OF REVENUE OVERCOLLECTED IN 2001
TEST YEAR ENDED MARCH 30, 2002
BY KATHY WELCH 8/13/02

	CUSTOMERS ALL MONTHS PAID IN 2001	TARIFF RATE	REVENUES AT TARIFF	RATE BILLED BEFORE INC.	REVENUES AT 2000 BILL RATE	RATE AFTER INCREASE	REVENUES USING 2001 RATE
SANIBEL BAYOUS N&S AND HERONS L.	1035	12.00	12,420.00	14.00	14,490.00	16.67	17,250.00
THE RIDGE INCLUDING BATH HOUSE	348	12.00	4,176.00	14.38	5,004.00	17.14	5,964.00
TOTAL SINGLE FAMILY	1383		16,596.00		19,494.00		23,214.00
BATH HOUSES HERON'S LANDING	24	12.00	288.00	29.00	696.00	29.00	696.00
BLIND PASS CONDO'S	1296	10.00	12,960.00	12.00	15,552.00	12.00	15,552.00
REAL ESTATE OFFICE	0	12.00	0.00	14.00	0.00	16.67	0.00
TOTAL CUSTOMERS	2703		29,844.00		35,742.00		39,462.00
IF CO. HAD BILLED 4TH QUARTER	345	12	4,140.00	14	4,830.00		
			33,984.00		40,572.00		
ACTUAL COLLECTED WITHOUT LATE FEES			39,393.73		39,393.73		
DIFFERENCE OVERBILLED (UNDERBILLED)			5,409.73		(1,178.27)		

TO DETERMINE AMOUNTS OVERPAID, STAFF COULD NOT USE THE ACTUAL NUMBER OF CUSTOMERS BECAUSE THE COMPANY DID NOT BILL CERTAIN CUSTOMERS. THEREFORE, WE USED THE NUMBER OF CUSTOMERS THAT PAID TO DETERMINE THE AMOUNT THAT SHOULD HAVE BEEN RECEIVED AND HOW MUCH WAS. IF THE YEAR 2000 RATE IS ALLOWED, THE COMPANY UNDERCOLLECTED FROM THE CUSTOMERS IT ACTUALLY BILLED. IF THE TARIFF RATE IS USED, THEY OVERCOLLECTED. IT SHOULD BE NOTED THAT THE CONDO, THE RIDGE AND THE BATH HOUSES PAID ALL MONTHS.

SANIBEL BAYOUS UTILITY COMPANY
ANALYSIS OF REVENUE OVERCOLLECTED IN 2002
TEST YEAR ENDED MARCH 30, 2002
BY KATHY WELCH 8/13/02

	CUSTOMERS ALL MONTHS PAID IN 2002	TARIFF RATE	REVENUES AT TARIFF	RATE BILLED BEFORE INC.	REVENUES AT 2000 BILL RATE	RATE AFTER INCREASE	REVENUES USING 2001 RATE
SANIBEL BAYOUS N&S AND HERONS L.	615	12.00	7,380.00	14.00	8,610.00	16.67	10,250.00
THE RIDGE INCLUDING BATH HOUSE	116	12.00	1,392.00	14.38	1,668.00 A		1,748.00
TOTAL SINGLE FAMILY	731		8,772.00		10,278.00		11,998.00
BATH HOUSES HERON'S LANDING	6	12.00	72.00	29.00	174.00	29.00	174.00
BLIND PASS CONDO'S	756	10.00	7,560.00	12.00	9,072.00	12.00	9,072.00
REAL ESTATE OFFICE	0	12.00	0.00	14.00	0.00	16.67	0.00
TOTAL CUSTOMERS	1493		16,404.00		19,524.00		21,244.00
COLLECTED			21,244.00		21,244.00		
DIFFERENCE OVERBILLED (UNDERBILLED)			4,840.00		1,720.00		

TO DETERMINE AMOUNTS OVERPAID, STAFF COULD NOT USE THE ACTUAL NUMBER OF CUSTOMERS BECAUSE THE COMPANY DID NOT BILL CERTAIN CUSTOMERS. THEREFORE, WE USED THE NUMBER OF CUSTOMERS THAT PAID TO DETERMINE THE AMOUNT THAT SHOULD HAVE BEEN RECEIVED AND HOW MUCH WAS. IF THE YEAR 2000 RATE IS ALLOWED, THE COMPANY UNDERCOLLECTED FROM THE CUSTOMERS IT ACTUALLY BILLED. IF THE TARIFF RATE IS USED, THEY OVERCOLLECTED. IT SHOULD BE NOTED THAT THE CONDO, THE RIDGE AND THE BATH HOUSES PAID ALL MONTHS.

NOTE A: BILLED $494 ONE MONTH AND $417 THREE MONTHS. NO CASH RECEIVED FOR TWO MONTHS.

AUDIT EXCEPTION NO. 6

SUBJECT: REVENUE PROFORMA

STATEMENT OF FACT: The company billed an amount above the tariff in the test year and did not bill several customers that should have been billed.

OPINION: Revenue was computed using the current connections times the tariff rate. The attached schedule also shows what revenue would be using the rates used in early 2000 by the company and the current rates used by the company. The net operating income schedule shows the effect of both the tariff rates and the current rates.

SANIBEL BAYOUS UTILITY COMPANY
PROFORMA REVENUE
TEST YEAR ENDED MARCH 30, 2002

	CUSTOMERS AT 7/02	TARIFF RATE	PROFORMA REVENUES AT TARIFF	RATE BILLED BEFORE INC.	REVENUES USING RATE BEFORE 2001 INCREASE	RATE AFTER INCREASE	REVENUES USING 2001 RATE
SANIBEL BAYOUS N&S	92	12.00	1,104.00	14.00	1,288.00	16.67	1,533.33
HERONS LANDING	37	12.00	444.00	14.00	518.00	16.67	616.67
THE RIDGE INCLUDING BATH HOUSE	29	12.00	348.00	14.38	417.00	17.14	497.00
TOTAL SINGLE FAMILY	158		1,896.00		2,223.00		2,647.00
BATH HOUSES HERON'S LANDING	2	12.00	24.00	29.00	58.00	29.17	58.33
BLIND PASS CONDO'S	108	10.00	1,080.00	12.00	1,296.00	12.00	1,296.00
REAL ESTATE OFFICE	1	12.00	12.00	14.00	14.00	16.67	16.67
TOTAL CUSTOMERS	269		3,012.00		3,591.00		4,018.00
REVENUE TIMES 12 MONTHS			36,144.00		43,092.00		48,216.04

NOTE: REVENUES WERE COMPUTED USING THREE ASSUMPTIONS. THE FIRST IS THE TARIFF RATE. THE SECOND USES REVENUES USED IN 2000 BEFORE RATE INCREASE WHICH WERE NEVER APPROVED BY THE COMMISSION. THE FINAL COLUMN, ARE REVENUES USING THE CURRENT RATES SHOWS WHAT THE REVENUES WOULD BE IF THE RATE INCREASE MADE BY THE COMPANY HAD BEEN APPROVED.

AUDIT EXCEPTION NO. 7

SUBJECT: DETERMINATION OF EXPENSES

STATEMENT OF FACTS: Checks written from April 1, 2001 to March 31, 2002 were used as a starting point for expenses. The following adjustments were made:

1. The company's CPA has taken over the billing function for the utility. In addition, the CPA firm will be performing more duties now that they have determined that the prior reports were not being done correctly. They have provided an estimate of the costs for maintaining the general ledger, billing the customers, making deposits, preparing the tax returns and the annual reports of $3,800 a year. The actual amount paid in the test year of $1,350 was increased by $2,450.

2. Two months of contract maintenance were not paid during the test year. An additional $1,150 was accrued for these months for a total of $6,900.

3. Gary Winrow and Bill Broeder were each paid $1,200 during the test year. In addition to these amounts, Mr. Winrow was paid $4,793 for loader and backhoe rental for removing vegetation from the ponds. These costs were amortized over five years as part of pond maintenance. The staff engineers are reviewing the reasonableness of this amount. Management fees were estimated as follows:

Gary Winrow 5 hours a week at 49 weeks at $95/hr.	$18,375
Auto-1 trip per week at 40 miles at 32.5 cents/mile	1,274
Office rent-$250 per month	3,000
Office expenses $75 per month	900
Bill Broeder 2 hours a month for 10 months at $100/hr.	2,200
TOTAL	$25,749
Less distributions paid	2,400
Difference	$23,349

These amounts are included in the attached net operating income schedule. According to a letter from Mr. Winrow dated September 3, 2002, his duties include responding to governmental requests, customer inquiries and complaints, plant changes and modifications, processing invoices and payment of invoices. Mr. Broeder is responsible for long range planning, financial planning and real estate matters. Mr. Winrow was maintaining a small warehouse type office near the entrance to Sanibel Island that he was paying $700 a month for. According to Mr. Winrow, this office was going to be eliminated and he would be working out of his other business office. On May 29, 2002, a request was provided to Mr. Winrow asking for the percent of time spent on utility business for all staff charged through the managment fee. He was also asked for W-2 forms for those people, all actual office costs, postage, benefits, etc. Mr. Winrow was again asked for this information during a meeting on June 13. He was informed he needed to provide actual costs from his other business so they could be allocated. They were never provided. Mr. Winrow was asked to provide other invoices related to plant and to answer other audit requests. His response was that he didn't have time to look for them which resulted in staff performing an original cost study and an extension of the audit due date. Mr. Broeder has been in Colorado for most of this audit and has indicated that he is retired. We were unable to determine the actual time spent by the two officers or obtain supporting documentation for the new office rent. Now that the billing is being performed by the accountant's office, and once the rate case is settled, Mr. Winrow may not be spending five hours a week on utility business. The reasonableness of the time and rates should be reviewed by Tallahassee staff.

4. Electric costs were determined from actual bills for the test year. One meter was eliminated when the building structure surrounding the treatment plant was torn down. The amount billed in the test year for this meter of $164.61 was removed.

5. The company's engineer has estimated permit renewal costs of $5,500 ($1,000 filing fee and $4,500 engineering). The company paid $925.50 to Johnson Engineering for the permit work in the test year. According to Steve Morrison at Johnson, the $4,500 estimated is a minimum still due for the permit. The permit costs need to be amortized over 5 years. The $5,500 plus the $925.50 paid amounts to $6,524.50. These costs amortized over 5 years amounts to $1,285.10 each year.

6. The company estimated an amount for uncollectibles in its filing. Based on review of the cash received, it appears that many customers weren't billed at all or billed to the incorrect name or address which caused problems. Since the accountants office has been doing the billing, only $450 remains outstanding. That amount has been included in net operating income as uncollectible.

7. There were $9,910.92 of costs related to clearing the ponds. Commission engineers estimated that the annual cost of cleaning the ponds should be $1,000. All costs over that amount were amortized over five years according to their recommendation. Therefore, in addition to the $1,000, an additional $1,782.18 was included in expenses. $7,128.74 should be transferred to deferred maintenance.

8. $2,772 was paid for one lift station repair in the test year to EK Phelps. The Commission engineers recommend amortization over three years or $924 a year. $1,848 should be transferred to deferred maintenance.

9. The company paid $1,679 to Guastella Associates, Inc. in the test year. A current balance is now outstanding for $3,549.50 for 15.5 hours of work at an hourly rate of $255. The company also paid the $1,000 fee to the Commission for a total estimated rate case cost of $6,228.50. Amortized over four years, this cost would be $1,557 a year. This amount has been included. The rates charged should be reviewed for reasonableness.

10. The company currently does not have insurance. An estimate from Sutton and Associates for $2,827.90 was provided by the company. A follow up should be made to

make sure that the company actually obtains the insurance. The amount was included in the operating expenses.

11. Gross receipts tax was computed using proforma revenue at 4.5%.

12. The company's depreciation expense was used here pending the original cost study.

13. Amortization expense computed in a previous exception was used.

On June 24, 2002, the company was asked to provide any additional costs it needed to incur for plant improvements or expenses. On September 6, 2002, a list was provided. Rate case expenses, permit renewal costs and the insurance have been included here. The fence and surge tank are discussed in the exception related to plant. The company also discusses $1,500 for removal of trees around the ponds and did provide an invoice dated August 14. Many checks for tree removal and pond clearing were already considered in actual expenses. Commission engineers need to determine if additional costs should be added for this invoice.

AUDIT EXCEPTION NO. 8

SUBJECT: NON-COMPLIANCE WITH RULES

STATEMENT OF FACT: Rule 25-30.110 F.A.C. requires the utility to preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities" as issued by the National Association of Regulatory Utility Commissions, as revised May 1985.

Rule 25-30.115 F.A.C. requires water and wastewater utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts.

Rule 25-30.135 F.A.C. requires the company to maintain for customer inspection upon request during regular business hours at its main in-state business office, a current copy of its tariffs and developer agreements and requires that the company not modify or revise its rates until it receives approval from the Commission.

OPINION: The utility has not maintained its records using the Uniform System of Accounts or maintained its records in accordance with rule 25-30.110. It does not have a copy of its tariff and changed its rates without permission. It is also charging customers for CIAC that is not included in its tariff. The utility should be required to follow the rules and regulations.

STAFF PREPARED EXHIBITS

Rate Base

Cost of Capital

Net Operating Income

SANIBEL BAYOUS UTILITY COMPANY
RATE BASE
TEST YEAR ENDED MARCH 31, 2002

	BALANCE PER COMPANY	STAFF ADJUSTMENTS	STAFF ADJUSTED BALANCE
LAND	22,907.00	(11,432.00)	11,475.00
PLANT IN SERVICE	341,755.00	0.00	341,755.00
ACCUMULATED DEPRECIATION	(217,253.00)	0.00	(217,253.00)
CONTRIBUTIONS IN AID OF CONSTRUCTION	(226,576.00)	(117,467.00)	(344,043.00)
ACCUMULATED AMORTIZATION CIAC	69,491.00	41,806.64	111,297.64
WORKING CAPITAL		8,327.50	8,327.50
TOTAL RATE BASE	**(9,676.00)**	**(78,764.86)**	**(88,440.86)**

SANIBEL BAYOUS UTILITY CORP.
COST OF CAPITAL
TEST YEAR ENDED MARCH 31, 2002

Equity numbers were not created for the March 31 test year. Used average from the company for December 2000 and 2001. Since balances are 100% equity and no debt or customer deposits, the balances have no effect on the rate.

	December 2000	**December 2001**	**Average**	**Cost Rate**
Capital Stock	(200.00)	(200.00)	(200.00)	
Paid in Capital	(238,007.00)	(332,337.00)	(285,172.00)	
Retained Earnings	68,279.26	131,259.48	99,769.37	
Total	**(169,927.74)**	**(201,277.52)**	**(185,602.63)**	9.9960%

Per Order PSC-01-2514-FOF-WS, if equity range is 40-100%,

Return on Equity =9.10% + .896/equity ration

ROE = 9.10% + .896/100%

ROE = 9.9960

SANIBEL BAYOUS UTILITY COMPANY
NET OPERATING INCOME
TEST YEAR ENDED 3/31/02

		USING CASH	STAFF ADJUSTMENTS	STAFF ADJUSTED BALANCE USING TARIFF	STAFF ADJUSTED BALANCE USING CURRENT RATES
521.10	RESIDENTIAL REVENUE	20,462.99	2,145.01	22,608.00	31,558.32
521.50	MULTI FAMILY REVENUE	15,552.00	(2,592.00)	12,960.00	15,552.00
521.20	COMMERCIAL REVENUE	696.00	(120.00)	576.00	1,105.68
536.00	LATE FEE	275.00	(275.00)	0.00	
536.00	MISC. REVENUE	37.65	(37.65)	0.00	
		37,023.64	**(879.64)**	**36,144.00**	**48,216.00**
711.00	SLUDGE HAULING	3,752.50		3,752.50	3,752.50
715.00	ELECTRIC	7,849.62	(164.61)	7,685.01	7,685.01
718.00	CHEMICALS	3,858.20		3,858.20	3,858.20
730.00	ACCOUNTING	1,350.00	2,450.00	3,800.00	3,800.00
730.00	AMORTIZATION OF DEFERRED L/S REPAIR 3 YRS.	2,772.00	(1,848.00)	924.00	924.00
730.00	POND CLEANING	1,000.00		1,000.00	1,000.00
730.00	AMORTIZATION OF DEFERRED COSTS 5 YRS.	8,910.92	(7,128.74)	1,782.18	1,782.18
730.00	PERMIT COSTS	925.50	359.60	1,285.10	1,285.10
730.00	CONTRACT LABOR	676.50		676.50	676.50
730.00	MAINTENANCE EXPENSE	1,884.13		1,884.13	1,884.13
730.00	LAB ANALYSIS	961.00		961.00	961.00
730.00	BROEDER AND WINROW-MANAGEMENT FEE	2,400.00	23,349.00	25,749.00	25,749.00
730.00	MONTHLY CONTRACT MAINTENANCE	5,750.00	1,150.00	6,900.00	6,900.00
755.00	INSURANCE EXPENSE		2,827.31	2,827.31	2,827.31
765.00	RATE CASE EXPENSE	1,679.00	(1,679.00)	0.00	0.00
765.00	AMORTIZATION OF RATE CASE EXPENSES		1,557.00	1,557.00	1,557.00
770.00	UNCOLLECTIBLES	0.00	450.00	450.00	450.00
775.00	WATER EXPENSE	297.85		297.85	297.85
775.00	MISCELLANEOUS	438.16		438.16	438.16
775.00	OFFICE SUPPLIES	841.08		841.08	841.08
	OPERATING AND MAINTENANCE EXPENSE	**45,346.46**	**21,322.56**	**66,669.02**	**66,669.02**
408.00	GROSS RECEIPTS TAX		1,626.48	1,626.48	2,169.72
408.00	PROPERTY TAX	1,929.95		1,929.95	1,929.95
403.00	DEPRECIATION EXPENSE	10,002.00		10,002.00	10,002.00
407.00	AMORTIZATION EXPENSE	(9,298.90)		(9,298.90)	(9,298.90)
	TOTAL EXPENSES	**47,979.51**	**22,949.04**	**70,928.55**	**71,471.79**
	NET OPERATING INCOME	**(10,955.87)**	**(23,828.68)**	**(34,784.55)**	**(23,255.79)**
	BELOW THE LINE EXPENSE	715.00		715.00	715.00
	NET INCOME	**(11,670.87)**	**(23,828.68)**	**(35,499.55)**	**(23,970.79)**