CONFIDENTIAL

COMPANY:	FPUC - GAS
TITLE:	NOTES FROM BOARD OF DIRECTORS MINUTES
PERIOD:	YEAR END 12/31/02
DATE:	AUGUST 15, 2003
AUDITOR:	RKY
WP NO.	8

KW 12/9/03

030438-EI

Compensation Committee Meeting 3/4/02

Compensation Committee : Rudy Schupp, Richard Hitchins, Paul L. Maddock, Jr. Also present was Jack English. The discussions revolved around the computations of cash incentive computations for 2001 for each of the four senior executives. Also, showed the actual incentives vs. the maximum potential. Also discussed the strategic plan goals behind several of the incentive compensation goals. The document was approved. The document was not included in the BOD minutes.

Special Directors Meeting 3/5/02

All board members were present: John T. English, Ellen Benoit, Richard Hitching, Paul Maddock Jr., Rudy Schupp. Also, Jack Brown, Secretary. Resolution for Preferred and Common stock dividends payable April 1, 2002 to holders at March 15, 2002. $1.1875 per preferred share and $.185 per common share.

Discussion and resolutions for Annual meeting to be held May 14, 2002 and designate Paul Maddock Jr. as candidate for office of director and resolved that Paul L Maddock be appointed to service on Audit Committee.
Received report of the compensation committee.
Resolved to authorize changes to the Pension Plan in order to conform to IRS Regs.

Board Compensation Meeting 4/16/02

Compensation Committee present along with Jack English. Discussion revolved around the subject of long-term, non-cash incentive compensation. Committee discovered that FPU is not competitive with peer group in this area because it lacks such programs. A plan was presented for review and determine the appropriate next steps. Plan not included in the BOD minutes. No action taken.

Annual Stockholders Meeting, 5/14/02

The 2001 annual report prepared by D&T was presented. Elected Paul L Maddock as director expiring 2005 annual meeting of the stockholders.

Special Directors Meeting 6/4/02

All members of the board were present along with Jack Brown Secretary. The officers of the company were elected. J.T English Pres and CEO, Charles L. Stein, Sr.VP and COO, Jack R. Brown, VP and Secretary and George M. Bachman CFO and Treasurer.

CONFIDENTIAL DECLASSIFIED (entire DN) 8-17-05

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Resolved the authorize a 4 for 3 stock split, in the form of stock dividend for common stock for stockholders of record on June 14, 2002. Also Resolution for Preferred and Common stock dividends payable July 1, 2002 to holders at June 14, 2002. $1.1875 per preferred share and $.1425 per common share.

Resolved to appoint D&T as outsider auditors. Discussion of the results of the Compensation Committee's research regarding LT, Non-cash incentive program. Discussion of the various attributes and plan design alternatives. The compensation will meet and formulate a plan to present to the board prior to the 8.27.02 board meeting.

__Special Directors Meeting 8/27/02__

All directors present along with J. English and Jack Brown.
Resolved to declare dividend for Preferred and Common stock dividends payable October 1, 2002 to holders at Sept 13, 2002. $1.1875 per preferred share and $.1425 per common share.

George Bachman appointed adm secretary of the audit committee replacing Jack Brown. A report presented by the audit committee re second quarter financials.

1 Discussion and resolution regarding the equity offering to provide financing up to $15,000,000 not done
2 net proceeds. Also report from the Compensation committee re LT, non cash incentive
3 program. No action on program.

__Special Directors Meeting 9/27/02__

All directors present plus Jack Brown and John English.
Discussion re modifying 401k to permit in-service withdrawals after 59-1/2, resolved to adopt Attachment B to the plan effective upon execution. NO attachment B in the BOD minutes.

Resolved to purchase Nature Coast Gas for $490,000 cash and assume the mortgage of approx $210,000.

__Executive Committee of BOD , 11/2/02__

Purpose of meeting to consider preliminary investigation of potential sale of water division to City of Fernandina beach.

__Special Directors Meeting, 11/22/02 and 11/25/02__

All members present along with Charles Stein, Jack Brown and George Bachman.
Discussion regarding the sale of the water division took place. Resolved to sell of $18,950,000 cash and $7,500,000 to be paid during the ensuing seven years. Resolved to enter into an agreement.

__Special Directors Meeting, 12/3/2002__

Resolved to declare dividend for Preferred and Common stock dividends payable January 2, 2003 to holders at Dec 13, 2002. $1.1875 per preferred share and $.1425 per common share.

Discussion for 2003 estimates of revenues, expenses, earnings and amounts budgeted for capital expenditure. Resolved that capital budget for 2003 was $8,032,600.

Discussed the D&T report of the third quarter.

Audit Committee Meeting 2/24/03
Discussion of the internal audit report regarding information technology. **PSC Note:Obtain the internal audit report.** Discussion re the external auditors. D&T vs. BDO Seidman. Decision delayed until March meeting.

Compensation Committee Meeting 2/24/02
All members present. Distributed info which described in detail the computations of the cash incentive for fiscal year 2002 for each of the four officers. The total ash incentive awards was $64,870 for 2002. The committee recommenced the following contingent upon the sale of the water division.

1. All employees except the fourteen of the senior management team and increase of an additional 1-1/2 percent to the previously approved 1-1/2%.

2. All fourteen members of the senior management team a 3% increase except for George Bachman who is to be awarded an increase to $130,000 per year.

All effective Jan 1, 2003.

3. Suggested amending directors fee to $700 for any meeting.

Special Directors Meeting 3/4/03
All directors present along with Jack Brown. Resolved to declare dividend for Preferred and Common stock dividends payable April 1, 2003 to holders at March 14, 03. $1.1875 per preferred share and $.1425 per common share.

Discussion and resolution to move the banking and line of credit relationship to Bank of America from Sun Trust. Checks for 2500 or under have to be signed by one person over t2500 signed by two people. J.English, C. Stein, Jack Brown, George Bachman, Cheryl Martin.
Resolved that payroll account be signed by one of the above.

Resolutions re the sale of the water assets to City of Fernandina Beach that each appropriate person is authorized to perform necessary transactions to effect the sale.

Resolved to increase the directors fee to $700 for each meeting. Resolved to award cash incentives to four senior members a total of $64,870. Resolved that executive officer agreement be extended for three years.

Audit committee meeting 3/14/03
Present from the committee Hitchins, Maddock, Schupp. Also Bachman, J English and Bonnie Erdek to keep the record.

D&T discussed the year end audit. The over earning issue in the gas company and the sale of the

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water assets was discussed.

D&T pointed out the following items:

1. Inventory Reconciliation - Right now inventory every two years because very labor intensive and do not have the manpower. D&T recommended annually. It was decided that the expensive bins could be counted which would represent 80% of the total inventory. This will be looked into and reported back to the board.

2. Company should evaluate the adequacy of senior personnel to comply with Sarbanes-Oxley. Mr. Bachman said that the plan includes getting an Assistant Controller.

3. D&T said the Sarbanes-Oxley requires significant management attention. Head of audit committee says working with internal auditor on this and are awaiting cost structure for phase I.

Management was excused and the audit committee met with D&T only. D&T was asked if there was anything the committee should know. D&T responded that there was no indication of any anything unusual, and that Bachman and Martin do a tremendous job.

D&T left and management returned to meeting
Discussion ensued regarding the hiring of D&T vs. BDO Seidman. The audit committee selected BDO Seidman and it was determined that the audit committee was empowered to make this decision.

Audit Committee Meeting 5/12/03
All members were present along with Bachman and English.
Also present were Bob Watts and Dale Buschman of BDO Seidman for part of the meeting.

The new external auditors stressed the importance of standardizing an agenda that the audit committee could follow quarterly so that no issues are overlooked, and stated that BDO would furnish guidance concerning setting up and running the audit committee. Management left and the audit committee met with BDO. The audit committee stressed that they wanted to hear of any irregularities or problems encountered. The internal auditors were brought in for discussion without company management. Audit Committee asked internal auditors to work in tandem to produce the most efficient audit. The audit committee asked the internal auditors for guidance concerning whistle blowing procedures. Internal audit suggested that the committee contact a labor attorney.

Auditors left and management came back.

Update by Internal Auditor concerning audits of the It and Customer Information Systems. In all cases Internal Audit reported that management either implemented or is in the process of implementing internal audits recommendation. The next focus is the Sarbanes Oxley internal control. The first phase is assessment and second the preparation of documentation. It was moved to proceed with the first stage of Sarbanes-Oxley. It was also determined that internal audit would proceed with focus on the procurement process after phase two cost of the S-O is

FPUC - Electric
Rate Case
AUS: 03-274-4-1 Dkt: #030438-EI
TYE: 12/31/04
Title: B of D Minutes

KW 12/9/03
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COMPANY: FPUC - GAS
TITLE: REVIEW OF EXTERNAL AUDITORS WORKING PAPERS
PERIOD: YEAR END 12/31/02
DATE: AUGUST 13, 2003
AUDITOR: RKY

WP NO. 9

Included in D&T working papers is the new internal auditor's proposed audit plan. The name of the new internal auditor is Crowe Chizek. **Obtain a copy of the plan from FPUC.** Included in Gas audit 9-1/1

Included in the working papers is a detailed corporate structure organization chart including all employees of the company as of January 14, 2003. **Obtain the corporate structure for the year end 2002 and the latest for 2003 from FPUC.**

Significant events and/or unusual transactions identified by D&T -

1. Sold The water assets to the City of Fernandina Beach for about $24,600,000 on or about December 4, 2002. Later say* 18.5 mill - see below
2. July 1, 2002, effected a 4:3 stock split as a stock dividend. Date of record was 6/14/02.
3. FPUC acquired Nature Coast Utilities, a propane gas service distribution company for about $700,000 in a cash for stock transaction.

Specific risks identified.

1. Effect of 4:3 stock split.
2. Identify intangible assets in connection with acquisition of Nature Coast Propane.
3. Recording of unbilled revenues in the right period.

9-1/2

Obtain annual report for 20002 and 10-k for 2002.
Obtain copy of Feb 19, 2003 letter from D&T to the Audit Committee, including Appendix A, which shows the summary of uncorrected financial misstatements. Make sure to look at adjustment to deferred assets.
Obtain copy of Feb 19, 2003 letter rom D&T regarding the company's internal control.

Analytical Review

Increase in utility plant for entire company by 13 million primarily due to normal growth and the Lake Work Generation Project of $8 million - Lake Worth relates to natural gas.

Increase of receivables in part by the acquisition of new propane and natural gas divisions, new assessment of late fees in NE Fl (electric and cold weather in December increased customer costs.

Natural gas revenues declined mostly due to commercial customers transferring to transportation only. Results in less customers for sales of gas.

Electric revenues increased because of demand and consumption.

Decrease in cost of fuel for natural gas services. Goes along with decrease in natural gas revenues.

Total company operating expenses increased by $3.4 million, Adm expense 1.3 million. Primarily due to claims for general liability and medical self-insurance. The remaining is due to bad debt expense, increase in cost of line location in the gas segment, and increased in the propane segment.

Increase in depreciation expense goes along with accum depre. In part due to the acquisition in late 2001.

Decrease in interest expense on short term debt because of LTD being taken out to reduce STD.

Gross profit increase primarily due to the pipeline contract with Lake Work generation facility and acquisition of Atlantic Utility and Nature Coast.

Items to take Place in 2003 Dec 2, 2002 FPU entered into an agreement to see it water utility. Closing is to take place on or before March 31, 2003 and currently scheduled for March 27, 2003. Per FAS 144 as of Dec 31, 2002 the water assets are classified as held for sale and presented as a discontinued operation in the financial statement. Depreciation expense is required to be expensed through the ~~sale date. **How does the profit effect each division in 2003? From WP 2330.**~~

Litigation Issues From Akerman Senterfitt to D&T, Feb 14,2003. does not affect electric

1. West Palm Beach Site - Additional soil investigation is planned of Jan/Feb 03 to assist in prep of feasibility study to evaluate remedial alternatives for the site. Estimate 355,000 to complete additional field work and feasibility study. A revised preliminary estimate for remediation costs for this site is $4,354,000.

2. Sanford Site - FPUC agreed to pay 13/7% of the cost for a remedial investigation/feasibility study. FPUC is involved with four other prior owners and operators of the site. FPUC anticipates the consent decree with EPA to be signed in Early Spring 2003 to implement remedy of the site. Final cost of remedy will exceed $6,000,000 originally provided. FPUC 's part is 10.5% of the current cap of $6,000.000. Doesn't anticipate more because the excess is on sites that FPUC did not own.

3. Insurance Claims. In 1997 settled on 4.3 million for certain environmental costs. In 1999 settled for an additional $7,630. Also recovering thru the PSC $2.4 million over a ten year period.

4. Sale of Water assets - The purchase price is the sum of $18,950,000, payable in cash at closing, plus $7,500,000 in annual installments through Feb 15, 2010. Closing date one or before March 31, 2003. Set for March 27.

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Uncollectibles Debtor to the gas division, Lakeworth Generation defaulted on its Dec 02 payment, therefore outstanding balance was provided for in full. The balance owed by LWG on 12/3102 was $109,423. Payment plan shows FPUC received $30,000 on 11603. Therefore provision should be $79,423 (109,423-30000).

Analysis of FPU Utility Ucollectibles

Beginning Bal	(90,211)
Current Yr Provision	(355,355)
write Offs	273,034
Recoveries	(105,642)
Ending Balance	(278,174)

Information in D&T working papers indicates that delinquent accounts receivable that are unpaid after 90 days are written-off/fully allowed for. D&T testes the write offs and found that the accounts written of were at least 90 days old and unpaid.

Unbilled Revenue

In a narrative, the method of computing unbilled revenues for FPU is as follows:
FPU computes the unbilled units multiplied by the base revenue factor. Unbilled units are computed as units available for sale (purchases less company usage and units unaccounted or) less units sold. The Base revenue factor is computed as based revenues (total revenues less: Fuel and conservation, GRT and Franchise tax, GSLD, Inter-Energy, Transp, OSS and Customer Charge Revenues) divided by unit sales. Customer charges are fixed fees that do not fluctuate based on usage. The client then includes ½ of these charges in unbilled revenues ((e.,g.½ customer charges plus (unbilled units*base revenue factor) = total unbilled revenues).

D&T performed a reasonable test for unbilled revenues at 12/31/02 for divisions 115,121 and 123 combined. D&T' s reasonable test had an expectation of 1,408,036 unbilled revenues receivable and the recorded unbilled revenue was 1,372,298; a difference of (35,688).

Prepayment and Deferred charges analytical review

All the following are for the entire utility without Flo-Gas.
Prepaid General Liability increase 62.3% from 297,090 to 482,104. (100.1650.2)
Prepayment Pensions increased from 2,271,164 to 2,430,124 (100.1650.3)
Prepaid Other from 58,956 to 69,696 (100.1650.4)
Prepaid Ins - workers comp from 130,497 to 153,356 (100.1650.5)

Account 121.1900.111 Accum Def Tax-def gain from 0 to 121,220
Account 121.1900.112 Accum Def Tax-Self Insur Fed from 30,217 to 277,758
Account 123 same from 9,643 to 85,028
General Liability went down
Account 121.131- Accum Def Tax - uncollectible from 6,786 to 66,325
Account 121.129 - Accum Def Tax - Environmental from 2,052,999 to 2,129,618

Misc Deferred Debits

Account 121.1860.4 Misc Def Debit -AEP from 560,817 to 1,538,018. Includes costs or area expansion projects increased by 975,000 (306,000 for costs for existing projects and 608,000 for 10 new projects. The other 60,000 is related to interest and collection related to ending balance. Account 123,1860.32 Misc Def Debit - Conversion Costs from 60,950 to 99,514

For the Area Expansion deferred debit, D&T includes a schedule as of Dec 02 for Central and South Fl. "AEP Reconciliation Summary" This schedule was prepared by the company. **Obtain a copy.**

Capitalization Policy Cost of individual items of tools and equipment under $500 is charged to expense. Items $500 and over for Gas are capitalized and $1,000 and over for electric. **What about individual items of tools and equipment for electric?**

Testing of Accumulated Depreciation and Depreciation expense. PSC said OK to amortize 240,000 per year for 10 years ending Feb 28,2001 for contamination assessment costs and remediation cost incurred and expected. It was determined by FPUC attorneys that more would be needed and a monthly accrual of 20,000 was required beginning aug 1,2002. 100,000 was raised by year end 2002. **PSC Note:** The company backs this amortization out of the surveillance report ending 12/31/02 saying that it was not approved and recommended to them not to include it by Commission staff.

The depreciation expense account included amortization of gain on sale of property. Sale of $158, 194 over five years beginning April 1, 2002. Total for 2002 is 23,729. (15819/60*9). **PSC Note:** Check this out and see what division it relates to.

CIAC Net effect , if contribution is permanent, is to reduce utility plant and related depreciation expense. Amounts subject to refund are carried as Customer Advances, in a deferred credit account, until refunded. If anticipated revenues are not met over a 4-5 yr period than refund expires and may be retained by FPU and becomes CIAC. D&T tested the water division. **PSC Note:** Determine if there are any in the gas or electric division and test. CIAC is net of plant if any

Accounts Payable Test of A/P for expenses related to 2002 showed no discrepancies. Last check written in 2002 was No. 180292 and first check in Jan 03 was 180293.
Review of invoices showed an adjusting journal entry needed to be made because an accrual for AON consulting services were not made for services received in FY 2002. Dr. Exp 19,482 and Cr Accrued liability 19,483. PSC Note: Determine how this affects Gas and/or Electric. allocated

Interest on Customer Deposits Authorized Rate as of April 25, 1994. 6% on general deposits and 7% on non residential deposits which the company elected not to refund.

Customer Advances for Construction Total customer advances received in 2002 was $568,842, of that the amounts that pertained to gas were Costco $76,000 on 2/1/502 and UF Fluid $81,000 on 5/28/02. All the rest refers to water.

Accrued Insurance When auditing the electric divisions, check order 00-1883-PAA-EI, Docket 001147-EI which details the storm damage annual accrual for Fernandina. And PSC 00-1685-PAA-EI, Docket No. 001146.EI which details the storm reserve accrual for Marianna. 59-1

D&T workpapers include schedules prepared by FPUC which are Compilations of ~~medial~~ medical insurance detail for employees and retirees, and general liability claims report for 2002. **If do not obtain for this overearnings audit, obtain for rate cases.**

Insurance Policies If do not obtain for overearnings, make sure to obtain for rate cases: 43 + 59

1. Directors and officers Liability
2. Fiduciary Liability
3. Crime
4. Property
5. Excess Liability
   a. First Layer -AEGIS
   b. Second Layer - EIM
6. Workers Comp.

Pension and Other Postretirement benefits. Letter dated January 20, 2003 from AON to George Bachman enclosing Disclosure of Pension and Other Postretirement Benefits. This will be an issue in the gas and electric rate cases. **~~Need to obtain for both.~~** OK reviewed 2003

Revenue D&T tested base revenue by determining the 12/31/01 Average unit price (base revenue divided by units sols = Avg. Unit price, and determining the units sold in 12/31/02 and applying the Avg. Unit price from 12/31/01. The expected revenue for 12/3/02 was compared to the recorded revenue. The difference was below D&T threshold for materiality. Of $31.5 million, the difference was $28,453. 41

Operating Expenses D&T found that the A&G expenses for 2002 were over its materiality threshold of expected expenses and had to investigate. The primary reasons were increased claims for general liability, medical self-insurance, works comp (as a result of increased payroll and slightly higher rates and increased pension expense (as a result of economic condition and market decline.) Also Misc general expense increase 137,886.
Other Expenses Increase in bad debt expense because of Lake Worth generation plant 79,423.
Ad Valorem taxes D&T tested to the payment noting the check amount and date of payment. Concluded that amounts were reasonably expensed in 2002.

Property Sold in 2002 Gas
Deland Office Property Sales Price was 325,000, cost of sales 37,595. Net Proceeds was 287,404.89. Calculated net gain of $186,110.43. **Obtain company's calculation of gain and back up. Where is this booked?**
Delray Beach Property Net Proceeds $590,392. Net Gain 529,230.58. Allocated to Natural Gas at 84% or 444,553.69. **Obtain company' calculation of gain and back up. Where is this booked?**
Both of these appear to be related to gas. Check on this.

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Internal Audits Completed by Crowe Chizek as of 08/22/2003:

- Information Systems General Controls Review
- Customer Information System Post Implementation Review

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Deloitte & Touche LLP
Certified Public Accountants
Suite 900
1645 Palm Beach Lakes Boulevard
West Palm Beach, FL 33401-2221

Tel: (561) 687-4000
Fax: (561) 687-4061
www.us.deloitte.com

Deloitte & Touche

February 25, 2002 AUDIT COMMITtee Letter

The Audit Committee
Florida Public Utilities
West Palm Beach, Florida

Dear Audit Committee Members:

We have audited the consolidated financial statements of Florida Public Utilities Company and its wholly owned subsidiary, Flo-Gas Corporation (the "Company") for the year ended December 31, 2001, and have issued our report thereon dated February 25, 2002.

Our professional standards require that we communicate at least annually with you regarding all relationships between our Firm and the Company that, in our professional judgment, may reasonably be thought to bear on our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since February 16, 2001, the date of our last letter.

We are not aware of any relationships between our Firm and the Company that, in our professional judgment, may reasonably be thought to bear on our independence arising subsequent to February 16, 2001, the date of our last letter.

We hereby confirm that as of February 25, 2002, we are independent accountants with respect to the Company, within the meaning of the Securities Acts administered by the Securities and Exchange Commission.

OTHER MATTERS

Our professional standards also require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America ("generally accepted auditing standards") has been described to you in our engagement letter dated May 22, 2001. As described in that letter, those standards require, among other things, that we obtain a sufficient understanding of the Company's internal control to enable us to properly plan our audit and to determine the nature, timing, and extent of audit procedures to be performed. We have issued a separate report to you, also dated February 25, 2002, containing our comments on the Company's internal control.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in the notes to the consolidated financial statements. During the year ended December 31, 2001, there were no significant changes in previously adopted accounting policies or their application.

On January 1, 2001, the Company adopted Financial Accounting Standard ("SFAS") No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended. The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The effects of applying SFAS Nos. 133, as amended, were not material to the Company's financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combination initiated after June 30, 2001 and eliminates the pooling-of-interests method of accounting. SFAS No. 142 specifies that, among other things, intangible assets with an indefinite useful life and goodwill will no longer be amortized. The standard requires goodwill to be assessed for impairment at least annually and written down to fair value if considered impaired. The effects of adopting SFAS No. 141 and No. 142 on the recent acquisitions required use of the purchase method of accounting and resulted in goodwill that will be tested for impairment beginning in fiscal 2002.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2002 financial statements include the insurance reserves under the Company's self insurance program. The basis for our conclusion as to the reasonableness of these estimates when considered in the context of the financial statements taken as a whole, as expressed in our auditors' report, is our development of an independent expectation of the estimates to corroborate management estimates.

The Company has several contamination sites in various stages of assessment investigation. The Company has been granted rate relief of approximately $2.4 million for costs and interim anticipated remediation costs incurred and expected to be incurred. Additionally, negotiations with major insurance carriers regarding environmental impacts resulted in settlements proceeds of approximately $4.3 million. To the extent such rate relief and insurance proceeds are not sufficient, the Company anticipates that it will be able to recover such costs, as well as future compliance costs, through additional rate relief and/or insurance. In addition, to the extent such rate relief and insurance proceeds are more than sufficient, the Company anticipates that it will be subject to possible future rate reductions or customer refunds, or that it will petition the Florida Public Service Commission to allow any such excess to be transferred to the Company's storm damage reserve or be used to reduce the depreciation reserve deficiency, if any.

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AUDIT ADJUSTMENTS

Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. In addition, we are obligated by generally accepted auditing standards to inform you of any adjustments arising from the audit that could, in our judgment, either individually or the aggregate, have a significant effect on the Company's financial reporting process. All proposed audit adjustments (whether recorded or uncorrected) were reviewed with management and were determined, individually or in the aggregate, not to have a significant effect on the financial reporting process.

In addition, we are obligated by generally accepted auditing standards to inform you about uncorrected misstatements (regardless of whether they have a significant effect on the financial reporting process) aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A schedule of the uncorrected misstatements has been attached to this letter as Appendix A.

OTHER INFORMATION IN THE ANNUAL REPORT TO SHAREHOLDERS AND ON FORM 10-K

When audited financial statements are included in documents containing other information, such as the Company's Annual Report to Shareholders and on Form 10-K, generally accepted auditing standards require that we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the other information in the Company's Annual Report to Shareholders and on Form 10-K and have inquired as to the methods of measurement and presentation of such information. If we had noted a material inconsistency, or if we had obtained any knowledge of a material misstatement of fact in the other information, we would have discussed this matter with management and, if appropriate, with the audit committee.

MANAGEMENT ADVISORY SERVICES

The Company did not engage us to perform any management advisory services during 2001.

* * * * * *

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

We look forward to discussing with you the matters addressed in this letter, as well as other matters that may be of interest to you at our upcoming meeting on March 11, 2002. We will be prepared to answer any questions you may have regarding our independence, as well as other matters.

Yours truly,

Deloitte & Touche LLP

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APPENDIX A
Effect of Passed Adjustments for FYE 2001
(Dollars are in thousands)
BALANCE SHEET

	As Reported FYE 2001	Uncorrected Misstatements Increase/(Decrease)		Results if Misstatements are Corrected
ASSETS				
Utility Plant				
Utility Plant	$ 151,656	36	<A>	$ 151,692
Less Accumulated depreciation	54,327			54,327
Net utility plant	97,329	36		97,365
Current Assets				
Cash	3,196	(16)	<B>	3,180
Accounts Receivable	7,169			7,169
Allowance for uncollectible accounts	(131)	(14)	<C>	(145)
Unbilled Receivable	1,482			1,482
Inventories (at average or unit cost)	3,343	(55)	<D>	3,288
Prepayments and deferrals	670	1	<E>	671
Under recovery of fuel costs	-			-
Under recovery of conservation and unbundling	343	20	<F>	363
Total current assets	16,074	(66)		16,008
Other Assets				
Investments held in escrow for environmental costs	3,416	(26)	<G>	3,390
Restricted bond proceeds	8,008			8,008
Deferred charges	9,261	42	<H>	9,303
Goodwill	5,901	52	<I>	5,953
Total other assets	26,586	68		26,654
Total	$ 139,989	38		$ 140,027
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common shareholders' equity	$ 29,329	(2)	<J>	$ 29,327
Preferred stock	600			600
Long-term debt	52,500			52,500
Total capitalization	82,429	(2)		82,427
Current Liabilities				
Notes payable	20,430			20,430
Accounts payable	5,637	7	<K>	5,644
Insurance accrued	2,257	(91)	<L>	2,166
Interest accrued	877	25	<M>	902
Other accruals and payables	3,186	109	<N>	3,295
Over recovery of fuel costs	1,800			1,800
Customer deposits	4,454			4,454
Total current liabilities	38,641	50		38,691
Other liabilities				
Deferred income taxes	7,308			7,308
Unamortized investment tax credits	861			861
Environmental liability	5,237	(10)	<O>	5,227
Regulatory tax liabilities	1,548			1,548
Customer advances for construction	2,011			2,011
Storm damage	1,954			1,954
Total other liabilities	18,919	(10)		18,909
Total	$ 139,989	38		$ 140,027

Note: See attached explanation for adjustments to balance sheet

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APPENDIX A
Effect of Passed Adjustments for FYE 2001
(dollars are in thousands)
INCOME STATEMENT

	As Reported FYE 2001	Uncorrected Misstatements Increase/(Decrease)	Results if Misstatements are Corrected
Revenues			
Electric	$ 39,050		$ 39,050
Natural gas	44,729		44,729
Propane gas	5,399		5,399
Water	2,965		2,965
Total Revenue	92,143	0	92,143
Cost of fuel and taxes based on revenue	59,367		59,367
Operating Margin	32,776	0	32,776
Operating Expense			
Operations	14,718	(39) <P>	14,679
Maintenance	3,165		3,165
Depreciation & amortization	4,839		4,839
Taxes other than income taxes	2,538		2,538
Income tax	1,249	(1) <Q>	1,248
Total Operating expenses	26,509	(40)	26,469
Operating Income	6,267	40	6,307
Interest Charges and Other			
Long-term debt	2,606		2,606
Short-term borrowings	826		826
Customer deposits and other interest	159	42 <R>	201
Other	(376)		(376)
Total interest charges and other	3,215	42	3,257
Net Income	3,052	(2) <S>	3,050
Preferred stock dividends	29		29
Earnings for common stock	$ 3,023	(2)	$ 3,021

Note: See attached explanation for adjustments to income statement

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APPENDIX A
Adjustments to Balance Sheet

	Increase/ (Decrease)
<A> Utility Plant	
Adjust utility plant for materials & supplies inventory	35,623
Total Misstatements	35,623
<B> Cash	
Record payment of August 2001 Employee 401(k) contributions.	(17,872)
Total Misstatements	(17,872)
<C> Allowance Uncollectible Accounts	
Adjust for likely understatement of allowance	(14,186)
Total Misstatements	(14,186)
<D> Inventories	
Reduce inventory based on historical inventory counts	(54,804)
Total Misstatements	(54,804)
<E> Prepayments and Deferrals	
Income tax effect of adjustments	975
Total Misstatements	975
<F> Under Recovery of Conservation	
Adjust for expenses incurred in FY 2001 that related to the under recovery of conservation expenses, a regulatory asset	4,544
Adjust for expenses incurred in FY 2001 that related to the under recovery of conservation expenses, a regulatory asset	15,815
Total Misstatements	20,359
<G> Investments Held in Escrow for Environmental Costs	
Record accrued interest on bonds issued between payment dates	24,855
Record investments at amortized cost ($30,887 pertains to the prior year)	(51,326)
Total Misstatements	(26,471)
<H> Deferred Charges	
Accrue for legal expenditures incurred during FY2001, primarily for acquisitions and environmental costs, a regulatory asset	41,671
Total Misstatements	41,671
<I> Goodwill	
Capitalize legal expenditures incurred during FY2001 related to acquisitions	52,219
Total Misstatements	52,219
<J> Capitalization	
Effect of adjustments on net income	(1,944)
Total Misstatements	(1,944)

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<K> Accounts Payable	
Record payment of August 2001 Employee 401(k) contributions.	(17,872)
Accrue for expenses incurred in FY 2001 that related to the under recovery of conservation (a regulatory asset) and other expenses	8,679
Accrue for expenses incurred in FY 2001 that related to the under recovery of conservation, a regulatory asset	15,815
Total Misstatements	6,622
<L> Insurance Accrued	
Reduce Post-Retirement Medical Benefit liability to actuary report	(79,425)
To recognize legal expenditures incurred during FY2001 related to insurance claims	(12,202)
Total Misstatements	(91,627)
<M> Interest Accrued	
Record accrued interest on bonds issued between pymt dates	24,855
Total Misstatements	24,855
<N> Other Accruals and Payables	
Accrue for legal expenditures incurred during FY2001, primarily for acquisitions and environmental costs, a regulatory asset	109,133
Total Misstatements	109,133
<O> Environmental Liability	
Record investments at amortized cost with offset to the environmental liability as related interest income was recorded in such account	(9,525)
Total Misstatements	(9,525)

Adjustments to Income Statement

	Increase/ (Decrease)
<P> Operating Expense - Operations	
Adjust for legal expenditures incurred during FY2001, primarily for acquisitions and environmental costs, a regulatory asset.	3,041
Adjust for operating expenses incurred in FY 2001	4,135
Adjust for likely understatement of allowance	14,186
Adjust expense as a result of adjusting liability to actuary report	(79,425)
Reduce parts inventory based on historical inventory counts	19,181
Total Misstatements	(38,882)
<Q> Income Tax	
Income tax effect of adjustments (income tax benefit)	(975)
Total Misstatements	(975)
<R> Customer Deposits and Other Interest	
Record investment income related to amortization of investment premiums/discounts	41,801
Total Misstatements	41,801
<S> Net Income	
Effect of adjustments on net income	(1,944)
Total Misstatements	(1,944)

Deloitte & Touche LLP
Certified Public Accountants
Suite 900
1645 Palm Beach Lakes Boulevard
West Palm Beach, FL 33401-2221

Tel: (561) 687-4000
Fax: (561) 687-4061
www.us.deloitte.com

Deloitte & Touche

Internal Control Letter

February 25, 2002

The Audit Committee
Florida Public Utilities Company
West Palm Beach, Florida

Dear Members of the Audit Committee:

In planning and performing our audit of the consolidated financial statements of Florida Public Utilities Company and its wholly owned subsidiary, Flo-Gas Corporation (the "Company") for the year ended December 31, 2001 (on which we have issued our report dated February 25, 2002), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the Company's internal control. Such consideration would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Company's internal control and its operations that we consider to be material weaknesses as defined above.

We did note other matters related to the Company's internal control and certain other accounting matters. Our comments are presented in Exhibit I.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the suggestions.

Yours truly,

Deloitte & Touche LLP

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RECONCILIATION OF CASH AND INVESTMENT ACCOUNTS

Observation

We observed the following regarding cash and investment accounts:

- Cash reconciliations had reconciling items that were several months old
- Investments are recorded at cost; however, the related premiums/discounts have not been amortized thereby overstating investment balances by approximately $50,000
- The Company received $24,855 in bond proceeds related to interest payable on the bonds issued between interest payment dates. Although the bank investment statement reflected the investment balance of $24,855, the Company failed to record the investment and the related interest payable in the general ledger.

Recommendation

In order to properly reflect cash and investments in the financial statements, reconciliations should be prepared for all cash and investment accounts and reconciling items should be resolved timely. Premiums and discounts should be tracked for each investment and appropriately amortized against the related interest income.

BUSINESS COMBINATIONS

Observation

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, *Goodwill and Other Intangible Assets,* which is effective for the Company on January 1, 2002, except for goodwill and intangible assets acquired after June 30, 2001, which was immediately subject to the nonamortization provisions of this Statement.

Intangible assets that are determined to have indefinite useful lives must be evaluated at each reporting period to determine whether events and circumstances continue to support an indefinite useful life. An impairment test must be performed annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill must be tested for impairment annually, or during interim periods if events or changes in circumstances indicate that goodwill might be impaired.

Recommendation

In order to audit intangible assets and goodwill, we will require additional information during fiscal 2002. Such information may include, but is not limited to, the following items:

- Support for the identification of reporting units

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- Support for the identification of intangible assets
- Support for the determination of the useful lives of identifiable intangible assets
- Support for the assignment of assets, liabilities and goodwill to reporting units
- Support for the identification of events or circumstances that will trigger an interim impairment test for either goodwill or other intangible assets
- Support for fair value measurements, including external valuations if deemed necessary.

We will work with management during the year to determine the information necessary to implement this new standard, as it relates to the Company's recent acquisitions, in a cost effective manner.

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FPUC - Electric
Rate Case
AUS: 03-274-4-1 Dkt: #030438-EI
TYE: 12/31/04

Title: External Audit

KW 12/9/03
RY