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TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
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Public Service Commission

September 9, 1999

Mr. Carl J. Wenz
Sanlando Utilities Corporation
% Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6196

**Re: Docket No. 980670-WS; Sanlando Utilities Corporation
Overearnings Investigation Audit Report; Period Ended December 31, 1997
Audit Control No. 98-334-3-1**

Mr. Wenz:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

- AFA _____
- APP _____
- CAF _____
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- EAG _____
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- MAS _____
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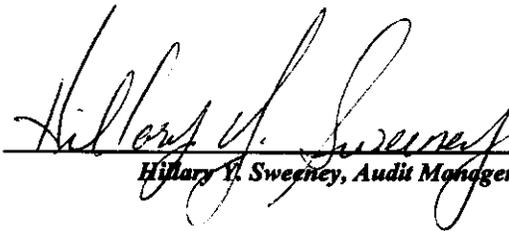
FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES***

Orlando District Office

**SANLANDO UTILITIES CORPORATION
OVEREARNINGS INVESTIGATION AUDIT
PERIOD ENDED DECEMBER 31, 1997**

**DOCKET NO. 980670-WS
AUDIT CONTROL NO. 98-334-3-1**



Hillary Y. Sweeney, Audit Manager



Robert F. Dodrill, Sr., Audit Staff



Charleston J. Winston, Audit Staff/District Audit Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

AUGUST 20, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 1997, for Sanlando Utilities, Inc. These schedules were prepared by the audit staff as part of the Overearnings Investigation in Docket No. 980670-WS. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing an overearnings audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

Land should be reduced by \$40,000 and the amount reclassified to property held for future use.

Reduce water and wastewater plant-in-service by \$229,156 and \$158,945, respectively, for plant that should have been expensed or retired. The recalculation of accumulated depreciation requires a decrease in water by \$66,996 and an increase in wastewater by \$40,149.

Contributions-in-Aid-of-Construction (CIAC) should be increased by \$7,449 and \$95,559 for water and wastewater, respectively, to reconcile to the prior Order and to include unrecorded CIAC. The recalculation of accumulated amortization of CIAC requires an increase in water by \$195,630 and a decrease in wastewater by \$456,089.

The utility recorded 100 percent of salaries (\$94,893.70 water and \$114,627.24 wastewater) for three employees who work for both Sanlando and Greater Construction Company (GCC).

The president, Lester Mandell, works 60 hours per month and receives a monthly salary of \$4,500 with an annual bonus of \$60,000, for a total salary of \$114,000.

The utility recorded nonutility expenses of \$17,198.10 and \$21,845.32 for water and wastewater in Accounts 604 and 704, Employee Pensions & Benefits (EP&B), respectively. Also, the utility recorded 100 percent of EP&B (\$4,963.20 water and \$6,317.04 wastewater) for three employees who work for both Sanlando and GCC.

The invoices provided for legal fees totaling \$26,696.87 (Account 633) and \$59,275.10 (Account 733), Contractual Services - Legal Fees did not contain sufficient documentation as to the services provided.

The attorney for the utility, Mr. John Lowndes, is a shareholder and serves as a director and trustee for Sanlando.

The utility pays each director an annual fee of \$25,000 for an annual expense of \$150,000.

Monthly management fees of \$6,800 cover services from the president, Mr. Robert Mandell, and chief financial officer, Steve Hiss, of GCC. Mr. Mandell is a member of the Board of Directors. Steve Hiss serves as assistant secretary/treasurer, and according to the annual report, he receives no compensation.

The utility paid water and wastewater office rent expense of \$149,380.56 (\$64,233.76 and \$85,146.80, respectively) to a related party.

The utility misclassified expenses for an officer's car to Transportation Expense Account 650 (\$1,455.86) and Account 750 (\$1,574.55).

The purchase of Sanlando by Utilities, Inc. causes an estimated reduction in operations and maintenance expenses of \$632,831 for water and \$818,415 for wastewater.

The utility could not provide support documentation for \$109,329 of its debt.

The utility forfeited discounts of \$511 by not paying its real estate taxes on the earliest due date.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances. 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:

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

Verified - The items were tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled account balances for utility-plant-in-service (UPIS), land and land rights, plant held for future use, contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for the period ended December 31, 1997. Verified a judgmental sample of plant additions since the last rate case. Recomputed accumulated depreciation and accumulated amortization for the period ended December 31, 1997.

NET OPERATING INCOME: Compiled utility revenue, operating and maintenance (O &M) expenses and taxes other than income for the year ended December 31, 1997. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of operating and maintenance expenses and traced to the invoices and other supporting documentation. Recalculated depreciation expense and amortization expense. Chose a judgmental sample of taxes other than income and traced to the invoices and other supporting documentation. Recalculated the utility's income taxes.

CAPITAL STRUCTURE: Compiled components of the capital structure for the year ended December 31, 1997. Agreed interest expense to the terms of the debt agreements. Confirmed note balances at December 31, 1997, with bank invoices.

OTHER: Determined whether any extraordinary circumstances surrounding the purchase and transfer of utility assets would necessitate an acquisition adjustment.

Exception No. 1

Subject: Land Held for Future Use

Statement of Fact: The utility purchased Des Pinar Lot No. 5 in 1994 for \$40,000. The lot contains a well, Site No. 2B, which was capped off and unused. Per the company representative, there are no definite plans for bringing the well into service.

Recommendation: The \$40,000 of land for Well Site No 2B should be reclassified to Account 103, Land Held for Future.

Exception No. 2

Subject: Utility Plant-In-Service

Statement of Fact: The utility capitalized both new plant additions and items which were replacing existing retirement units. Also, the utility capitalized items that should have been expensed. No retirement entries were made for the replaced plant.

Some plant additions were made for the cost of rehabilitating existing plant.

Recommendation: The associated retirements were calculated at 75 percent of replacement per staff engineer.

The amount per audit below was derived from an analysis of documents obtained during fieldwork and summarized for each of the years from 1992 through 1997. Any amounts to be retired or expensed were summarized and transferred to the master plant schedule.

| | <u>Water</u> | <u>Wastewater</u> |
|----------------------------------|-------------------|-------------------|
| Plant per Sanlando trial balance | \$12,095,185 | \$13,510,685 |
| Less amount per audit | <u>11,866,029</u> | <u>13,351,740</u> |
| Audit reduction required | \$229,156 | \$158,945 |

The utility plant totals for water and wastewater should be reduced by \$229,156 and \$158,945, respectively. These adjustments are based on the use of the 12/31/91 ending projected plant balances per Commission Order No. 23809.

Alternative Recommendation:

| | <u>Water</u> | <u>Wastewater</u> |
|--|--------------|-------------------|
| Plant per Sanlando trial balance @ 12/31/97 | \$12,095,185 | \$13,510,685 |
| Adjustment to remove retirements not taken | (184,119) | (145,251) |
| Adjustment to remove expense items capitalized | (27,087) | (37,350) |
| Adjustment to correct accounting error | <u>784</u> | <u>57</u> |
| Total utility plant-in-service @12/31/97 | \$11,884,763 | \$13,328,141 |

Utility plant should be reduced by \$210,422 (\$184,119 + \$27,087 - \$784) for water and \$182,544 (\$145,251 + \$37,350 - \$57) for wastewater. These adjustments are based on the use of 12/31/89 ending historical plant balances per the audit.

Exception No. 3

Subject: Contributions-In-Aid-of-Construction (CIAC) and Associated Accumulated Amortization of CIAC

Statement of Facts: The utility recorded accumulated CIAC of \$10,329,076 for water and \$10,405,584 for wastewater and associated amortization of CIAC of \$4,482,769 for water and \$5,587,766 for wastewater.

Recommendation: Based on the CIAC beginning balances from Commission Order No. 23809, issued November 27, 1990, and the audited additions, CIAC should be increased by \$7,449 and \$95,559 for water and wastewater, respectively. Accumulated amortization of CIAC should be increased by \$195,630 and decreased by \$456,089 for the water and wastewater, respectively.

CIAC

| | <u>Water</u> | <u>Wastewater</u> |
|---------------------------------|-------------------|-------------------|
| CIAC Per Sanlando trial balance | \$10,329,076 | \$10,405,584 |
| Less: Amount per audit | <u>10,336,525</u> | <u>10,501,183</u> |
| Audit addition required | (\$7,449) | (\$95,599) |

AMORTIZATION OF CIAC

| | <u>Water</u> | <u>Wastewater</u> |
|------------------------------|------------------|-------------------|
| CIAC Amort. Per Sanlando G/L | \$4,482,769 | \$5,587,766 |
| Less: Amount per audit | <u>4,678,399</u> | <u>5,131,677</u> |
| Audit addition required | \$195,630 | (\$456,089) |

Exception No. 4

Subject: Accumulated Depreciation

Statement of Fact: The utility recorded accumulated depreciation of \$5,557,309 for water and \$7,086,453 for wastewater.

Recommendation: Using the rates prescribed in Commission Rule No. 25-30.140, F.A.C., and the beginning balances established in Commission Order No. 23809, audit staff recomputed accumulated depreciation to reflect the adjustments recommended in Exception No. 2. Accumulated depreciation for water and wastewater should be decreased by \$66,996 and increased by \$40,149, respectively.

Exception No. 5

Subject: Salaries and Wages

Statement of Fact: During the 1997 test year, Hampton Conley, Roxanne Stratton, and W. Harrison performed duties for Sanlando and GCC. The utility recorded 100 percent of salaries for the three employees.

| | <u>Water</u> | <u>Wastewater</u> | <u>Annual Salary</u> |
|------------------|------------------|-------------------|----------------------|
| Hampton Conley | \$55,067.06 | \$70,085.36 | \$125,152.42 |
| Roxanne Stratton | 12,621.00 | 9,916.50 | 22,537.50 |
| W. Harrison | <u>27,205.64</u> | <u>34,625.36</u> | <u>61,831.00</u> |
| | \$94,893.70 | \$114,627.24 | \$209,520.92 |

Recommendation: Salaries for these employees should be shared by both companies. Auditor recommends that 50 percent of the salaries for these employees be removed from Accounts 601 (\$19,913.32), 701 (\$22,270.93), 603 (\$27,533.53), and 703 (\$35,042.68).

Exception No. 6

Subject: Employee Pensions & Benefits (EP & B)

Statement of Fact: Sanlando recorded \$4,963.20 and \$6,317.04 in Accounts 604.02 and 704.02, respectively, for health insurance for Roxanne Stratton, Hampton Conley, and Wendell Harrison.

Reclassification

Sanlando recorded the following expenses in Accounts 604 and 704:

| | <u>Account 604</u> | <u>Account 704</u> |
|-----------------------------------|------------------------|------------------------|
| Training & Professional Education | \$5,252.88 | \$5,206.87 |
| Hepatitis shots | <u>114.83</u> | <u>146.17</u> |
| Total | \$5,367.71 | \$5,353.04 |

Nonutility Expenses

Sanlando recorded the following expenses in Accounts 604.04 and 704.04:

| | <u>Birthday & Anniversary</u> | <u>Ladies' Trip</u> | <u>Men's Trip</u> | <u>Picnic</u> | <u>Turkey Cook</u> | <u>Total</u> |
|-------------------|---------------------------------------|-------------------------|-----------------------|---------------|------------------------|--------------|
| Water | \$849.72 | \$4,980.09 | \$8,324.05 | \$3,017.25 | \$26.99 | \$17,198.10 |
| Wastewater | 1,038.17 | 6,338.23 | 10,526.84 | 3,907.30 | 34.78 | 21,845.32 |

Recommendation: Consistent with Exception No. 5, Accounts 604.02 and 704.02 should be reduced by 50 percent (\$2,481.69 and \$3,158.52, respectively) to show the costs divided between both companies.

Reclassification

The \$5,367.71 and \$5,353.04 should be removed from Accounts 604 and 704 and reclassified to Accounts 675 and 775, respectively.

Nonutility Expenses

The auditor recommends that \$39,043.42, (\$17,198.10 + \$21,845.32) be removed from O & M and reclassified to Account 426, Miscellaneous Nonutility Expense.

Exception No. 7

Subject: Contractual Services - Reclassifications

Statement of Fact: Sanlando recorded expenses for contractual services in the accounts listed below.

| Contractual Services | | | | |
|-----------------------------|----------------------------------|----------------------------------|------------------------------|------------------------------|
| | Engineering Acct. 631 | Engineering Acct. 731 | Testing Acct. 635 | Testing Acct. 735 |
| Testing | \$23,326.45 | \$31,028.81 | \$0.00 | \$0.00 |
| Consulting | | | 2,067.00 | 1,833.00 |
| Treated Sewage | 0.00 | 0.00 | 0.00 | 58,744.89 |
| Garbage Service | 0.00 | 0.00 | 1,569.28 | 1,391.45 |
| Maintenance | 0.00 | 0.00 | 5,634.71 | 2,431.93 |
| Total | \$23,326.45 | \$31,028.81 | \$9,270.99 | \$64,401.27 |

Recommendation: The above expenses should be reclassified as follows to the correct accounting errors:

| Contractual Services | | | | | | |
|-----------------------------|---------------------------|---------------------------|------------------------------|------------------------------|----------------------------|----------------------------|
| | Mgmt Acct. 634 | Mgmt Acct. 734 | Testing Acct. 635 | Testing Acct. 735 | Other Acct. 636 | Other Acct. 736 |
| Testing | \$0.00 | \$0.00 | \$23,326.45 | \$31,028.81 | \$0.00 | \$0.00 |
| Consulting | 2,067.00 | 1,833.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Treated Sewage | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 58,744.89 |
| Garbage Service | 0.00 | 0.00 | 0.00 | 0.00 | 1,569.28 | 1,391.45 |
| Maintenance | 0.00 | 0.00 | 0.00 | 0.00 | 5,634.71 | 2,431.93 |
| Total | \$2,067.00 | \$1,833.00 | \$23,326.45 | \$31,028.81 | \$7,203.99 | \$62,568.27 |

Exception No. 8

Subject: Reclassification of Directors' Fees

Statement of Fact: The utility pays an annual fee of \$25,000 to each director for a total of \$150,000 in Directors' fees. The auditor was unable to determine the amount of times the Directors met.

Sanlando booked Directors' fees in the amounts of \$79,500 to Account 634 and \$70,500 to Account 734, Contractual Services - Management Fees.

Recommendation: Per the Uniform System of Accounts (USofA), Directors' fees and expenses are to be recorded in Accounts 675 and 775, Miscellaneous Expense. The utility should reclassify \$79,500 and \$70,500 to Accounts 675 and 775.

Exception No. 9

Subject: Legal Expense - Unsupported Documentation

Statement of Fact: Contractual Services -Legal fees are recorded in the general ledger in the amounts of \$26,696.87 (Account 633) and \$59,275.10 (Account 733) for water and wastewater, respectively. However, the time spent on each item are not included on the invoice.

Mr. John Lowndes, the attorney representing Sanlando, is a shareholder and director of the utility. He is also a trustee for the utility's profit-sharing plan (PSP). In addition, Mr. Lowndes is a limited partner in Kensington Ltd., the lessor of the office building to Sanlando.

Commission Order No. 23809 states:

. . . The fact that the attorney is a related party requires an even greater degree of scrutiny to assure that expenses are incurred on an arm's length basis The utility is placed on notice that in future rate proceedings it must provide greater detail to justify contract or outside legal service.

Recommendation: The utility should be required to reduce Accounts 633 and 733 by \$26,696.87 and \$59,275.10, respectively.

Exception No. 10

Subject: Transportation Expense

Statement of Fact: The utility allocated truck expenses of \$2,170.76 and \$3,266.16 to Accounts 675.72 and 775.72, Miscellaneous Expense, respectively.

Nonutility Expense

Sanlando booked expenses for an officer's car in the amounts of \$1,455.86 and \$1,574.55 to Accounts 650 and 750, respectively.

Recommendation: The utility should reclassify \$2,170.76 to Account 650 and \$3,266.16 to Account 750, Transportation Expense.

Nonutility Expense

The expenses for the officer's car do not directly relate to the operation of the utility. Therefore, the utility should reclassify the \$3,030.41 (\$1,455.86 + \$1,574.55) to Account 426, Miscellaneous Nonutility Expense.

Exception No. 11

Subject: Nonutility Expense

Statement of Fact: Sanlando recorded charitable donations and contributions to Accounts 675 and 775, Miscellaneous Expense totaling \$255.96 and \$210.64, respectively.

Recommendation: These amounts should be removed from O & M and reclassified to Account 426, Miscellaneous Nonutility Expenses.

Exception No. 12

Subject: Real Estate Taxes - Discounts

Statement of Fact: The utility did not pay some of its real estate taxes on the earliest due date thereby forfeiting any discounts. The difference between the discount and the amount paid is shown below:

| <u>Amount Paid</u> | <u>Discount Amount</u> | <u>Difference</u> |
|--------------------|------------------------|-------------------|
| \$14,915.84 | \$14,762.06 | \$153.78 |
| 5,978.42 | 5,916.79 | 61.63 |
| 946.56 | 936.80 | 9.76 |
| 672.48 | 665.55 | 6.93 |
| 1,415.47 | 1,400.88 | 14.59 |
| 3,051.46 | 3,020.00 | 31.46 |
| 38.02 | 37.63 | 0.39 |
| 153.60 | 152.02 | 1.58 |
| 12.66 | 12.53 | 0.13 |
| 239.71 | 237.24 | 2.47 |
| 21,692.69 | 21,469.06 | 223.63 |
| <u>403.49</u> | <u>399.33</u> | <u>4.16</u> |
| <u>\$49,520.40</u> | <u>\$49,009.89</u> | <u>\$510.51</u> |

Recommendation: The above amount of \$510.51 should be removed from taxes other than income. This should reduce water by \$168.47 and wastewater by \$342.04.

Exception No. 13

Subject: Debt Agreements

Statement of Fact: The utility did not provide the debt agreements or other supporting documentation for some of its debt as listed below.

| <u>Vendor</u> | <u>Amount</u> |
|---------------|----------------|
| First Union | 455 |
| First Union | 1,344 |
| First Union | 3,765 |
| First Union | 5,908 |
| First Union | 11,651 |
| First Union | 12,640 |
| First Union | 12,172 |
| First Union | 12,217 |
| First Union | 12,217 |
| First Union | 17,033 |
| First Union | <u>19,927</u> |
| Total: | <u>109,329</u> |

Recommendation: The above-listed debt items should be removed from the utility's capital structure for lack of support documentation.

DISCLOSURES

Disclosure No. 1

Subject: Audit Suspended

Statement of Fact: The Sanlando overearnings investigation audit was suspended on May 6, 1999, by the Division of Water and Wastewater. The last day of fieldwork coincided with the suspension date. However, there were some outstanding document requests.

There has been no additional discovery since the suspension date. This audit report is the product of the work papers created during the audit staff's investigation.

Disclosure No. 2

Subject: Related Party Rent Expense

Statement of Fact: Sanlando recorded office rent expense of \$149,380.56 (\$64,233.76 and \$85,146.80, water and wastewater, respectively). The lease covers 5,774 square feet of rented area along with 20 parking spaces for an annual per square foot cost of \$25.80. Sanlando has a Class A lease with Kensington Park, Ltd. (a related party). Under the terms of this lease,

. . . The lessee shall pay for all utilities used by it in connection with its occupancy of the premises during the term hereof including, without limitation, all water, sewer, gases, electricity and telephone utilities. The Lessee shall pay its prorata share of all real estate taxes assessed against the Lessor's Entire Property during the term hereof. . . .

In the limited scope audit Docket No. 971186-SU, performed in 1998, the auditor's investigation revealed that the 1996 and 1997 current market value for base overall rental rate for the Longwood/Lake Mary area is \$13.59 per square foot. (For base rental property, the tenant pays all related expenses such as property tax and maintenance expense.) The auditor's conclusion was based on a study performed by Cushman & Wakefield and interviews with neighboring tenants and property managers of comparable office buildings and space. As a result of the auditor's research, a recommendation was made to reduce total rent expense by \$79,053 to reflect the current market rental rate.

Lester Mandell is the president of Sanlando and is a general partner for Kensington Park. Mr. Mandell's signature is on the amendments to the lease representing both the Lessor and Lessee dating back to 1984. Prior to 1984, the agent for the Lessor was Mr. Jack Lazar, a former shareholder in Sanlando.

Commission Order No. 23809 gave notice to Sanlando of the Commission's policy and apprehension toward related party transactions.

Disclosure No. 3

Subject: Related Party Management Services

Statement of Fact: Monthly management fees of \$6,800 cover services from the president, Mr. Robert Mandell, and chief financial officer, Steve Hiss, of GCC. Mr. Mandell is a member of the Board of Directors. Steve Hiss serves as assistant secretary/treasurer, and according to the annual report, he receives no compensation.

Management services included monthly review of internal financial statements and operations, capital budget, review of external financial statements, annual FPSC and CIAC reports, and other filings, etc. During 1997, Sanlando had two full-time CPAs in its employ as chief and senior accountants.

Disclosure No. 4

Subject: Reduced Operations and Maintenance (O&M) Expense

Statement of Fact: In 1998, Utilities, Inc. purchased Sanlando Utilities Corporation through a stock exchange.

Recommendation: O&M expense will be directly affected by decreases in the following accounts:

| Description | Water | Wastewater | Total |
|--|-----------------------|-----------------------|-------------------------|
| Salaries - Employees | (\$222,419.64) | (\$275,141.19) | (\$497,560.83) |
| Salaries - Officers | (99,805.20) | (138,269.75) | (238,074.95) |
| Employee Pensions & Benefits | (58,860.79) | (75,324.90) | (136,097.67) |
| Purchased Power - Rented Office Bldg. | (5,016.68) | (6,390.66) | (11,407.34) |
| Contractual Svcs.- Engineering | (28,777.70) | (53,674.56) | (82,452.26) |
| Contractual Svcs.- Accounting | (3,972.00) | (4,428.00) | (8,400.00) |
| Contractual Svcs.- Legal | (26,996.87) | (59,275.10) | (86,271.97) |
| Contractual Svcs.- Management | (122,748.00) | (108,852.00) | (231,600.00) |
| Rent | <u>(64,233.76)</u> | <u>(85,146.80)</u> | <u>(149,380.56)</u> |
| Total reduction | (\$632,830.64) | (\$808,414.94) | (\$1,441,245.58) |

NOTE: The above reductions do not take into account amounts that will be allocated to Sanlando from the parent Water Service Corporation or Utilities, Inc. of Florida.

*Audit Exceptions Nos. 5, 6 and 9 through 11 and Audit Disclosures Nos. 2 through 5 are included in the above adjustments.

Disclosure No. 5

Subject No: President's Salary

Statement of Fact: The president, Lester Mandell, works 60 hours per month and receives a monthly salary of \$4,500 with an annual bonus of \$60,000, for a total salary of \$114,000. As president of the company, Mr. Mandell is not required to turn in a time sheet, nor is there a contractual agreement available for the terms of his employment. Mr. Mandell is also Chairman of the Board of Directors and receives a \$25,000 salary for that position.

Audit Disclosure No. 6

Subject: Pro Forma Plant

Statement of Fact: Commission Order No. 23809 allowed the utility pro forma plant additions for 1990 and 1991 of \$151,790 for water and \$1,670,354 for wastewater.

Recommendation: The audit staff has determined that actual plant additions for 1990 and 1991 are as listed below:

| 1990 and 1991 Plant Additions | | |
|--------------------------------------|------------------|--------------------|
| Item | Water | Wastewater |
| Per audit | \$170,523 | \$1,441,009 |
| Less: pro forma additions | <u>(151,790)</u> | <u>(1,670,354)</u> |
| Difference | <u>\$18,733</u> | <u>(\$229,345)</u> |

The utility's plant-in-service should be increased by \$18,733 for water and decreased by \$229,345 for wastewater to correct pro forma amounts included in the above Order.

EXHIBIT I**SANLANDO UTILITIES, INC.
OVEREARNINGS INVESTIGATION
DOCKET NO. 980670-WS
RATE BASE - WATER
PERIOD ENDED DECEMBER 31, 1997**

| (a) DESCRIPTION | (b) PER COMPANY | (c) AUDIT EXCEPTION | (d) REFER TO | (e) PER AUDIT |
|---------------------------|-----------------------|---------------------------|--------------------|---------------------|
| UTILITY PLANT-IN-SERVICE | \$12,095,185 | (\$229,156) | E2 | \$11,866,029 |
| CWIP | 33,507 | 0 | | 33,507 |
| LAND | 116,578 | (40,000) | E1 | 76,578 |
| PLANT HELD FOR FUTURE USE | 0 | 40,000 | E1 | 40,000 |
| CIAC | (10,329,076) | (7,449) | E3 | (10,336,525) |
| AMORTIZATION OF CIAC | 4,482,769 | 195,630 | E3 | 4,678,399 |
| ACCUMULATED DEPRECIATION- | (5,557,309) | 66,996 | E4 | (5,490,313) |
| WORKING CAPITAL | 0 | 0 | | 0 |
| TOTAL | \$841,654 | \$26,021 | | \$867,675 |

REQUIRED FOOTNOTES:

- (1) Small differences are due to rounding.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working capital was calculated at 1/8 O&M expense per Commission policy.

EXHIBIT II

**SANLANDO UTILITIES, INC.
OVEREARNINGS INVESTIGATION
DOCKET NO.980670-WS
RATE BASE - WASTEWATER
PERIOD ENDED DECEMBER 31, 1997**

| (a) | (b) | (c) | (d) | (e) |
|---------------------------|--------------------|--------------------|-------------|--------------------|
| DESCRIPTION | PER COMPANY | AUDIT EXCEPTION | REFER TO | PER AUDIT |
| UTILITY PLANT-IN-SERVICE | \$13,510,685 | (\$158,945) | E2 | \$13,351,740 |
| CWIP | 167,573 | 0 | | 167,573 |
| LAND | 202,552 | 0 | | 202,552 |
| PLANT HELD FOR FUTURE USE | 0 | 0 | | 0 |
| CIAC | (10,405,584) | (95,599) | E3 | (10,501,183) |
| AMORTIZATION OF CIAC | 5,587,752 | (456,075) | E3 | 5,131,677 |
| ACCUMULATED DEPRECIATION | (7,079,969) | (46,633) | E4 | (7,126,602) |
| WORKING CAPITAL | 0 | 0 | | 0 |
| TOTAL | \$1,983,009 | (\$757,252) | | \$1,225,757 |

REQUIRED FOOTNOTES:

- (1) Small differences are due to rounding.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working capital was calculated at 1/8 O&M expense per Commission policy.

EXHIBIT III

**SANLANDO UTILITIES, INC.
OVEREARNINGS INVESTIGATION
DOCKET NO. 980670-WS
NET OPERATING INCOME - WATER
PERIOD ENDED DECEMBER 31, 1997**

| (a) | (b) | (c) | (d) | (e) |
|-----------------------------|------------------|--------------------|----------------|------------------|
| DESCRIPTION | PER COMPANY | AUDIT EXCEPTION | REFER TO(1) | PER AUDIT |
| OPERATING REVENUES | \$2,034,193 | \$0 | | \$2,034,193 |
| OPERATING EXPENSES: | | | | |
| O&M EXPENSE | 1,711,834 | (93,035) | E5-11 | 1,618,799 |
| DEPRECIATION EXPENSE | 369,772 | 27,011 | | 396,783 |
| TAXES OTHER THAN INCOME | 166,208 | (168) | E12 | 166,040 |
| INCOME TAX EXPENSE | (774) | 0 | | (774) |
| AMORTIZATION EXPENSE | <u>(290,112)</u> | <u>(36,252)</u> | | <u>(346,364)</u> |
| TOTAL OPERATING EXPENSE | <u>1,956,928</u> | <u>(122,444)</u> | | <u>1,834,484</u> |
| NET OPERATING INCOME (LOSS) | <u>\$77,265</u> | <u>\$122,444</u> | | <u>\$199,709</u> |

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) Small differences are due to rounding errors.

EXHIBIT IV

**SANLANDO UTILITIES, INC.
OVEREARNINGS INVESTIGATION
DOCKET NO. 980670-WS
NET OPERATING INCOME - WASTEWATER
PERIOD ENDED DECEMBER 31, 1997**

| (a) | (b) | (c) | (d) | (e) |
|-----------------------------|------------------|--------------------|----------------|------------------|
| DESCRIPTION | PER COMPANY | AUDIT EXCEPTION | REFER TO(1) | PER AUDIT |
| OPERATING REVENUES | \$2,898,138 | \$0 | | \$2,898,138 |
| | ----- | ----- | | ----- |
| OPERATING EXPENSES: | | | | |
| O&M EXPENSE | 2,118,184 | (143,667) | E5-11 | 1,974,517 |
| DEPRECIATION EXPENSE | 499,614 | 36,129 | | 535,743 |
| TAXES OTHER THAN INCOME | 245,852 | (342) | E12 | 245,510 |
| INCOME TAX EXPENSE | 87,881 | 0 | | 87,881 |
| AMORTIZATION EXPENSE | (340,274) | (81,960) | | (422,234) |
| TOTAL OPERATING EXPENSE | <u>2,611,257</u> | <u>(189,840)</u> | | <u>2,421,417</u> |
| NET OPERATING INCOME (LOSS) | <u>\$286,881</u> | <u>\$189,840</u> | | <u>\$476,721</u> |

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) Small differences are due to rounding errors.

EXHIBIT V

**SANLANDO UTILITIES, INC.
OVEREARNINGS INVESTIGATION
DOCKET NO. 980670-WS
CAPITAL STRUCTURE
PERIOD ENDED DECEMBER 31, 1997**

| DESCRIPTION | PER COMPANY | PER EXCEPTION | REFER TO | PER AUDIT | RATIO | COST RATE | WEIGHTED COST OF CAPITAL |
|-----------------------|----------------|------------------|-------------|--------------|---------|--------------|--------------------------------|
| Common Equity | 3,575 | 0 | | \$3,575 | 0.10% | 10.46% | 0.01% |
| Other Paid-in-Capital | 74,750 | 0 | | 74,750 | 1.99% | 10.46% | 0.21% |
| Retained Earnings | 1,404,620 | 0 | | 1,404,620 | 37.35% | 10.46% | 3.91% |
| Reacquired Stock | (1,000,000) | 0 | | (1,000,000) | -26.59% | 10.46% | -2.78% |
| First Union | 455 | (455) | E13 | 0 | 0.00% | 9.51% | 0.00% |
| First Union | 1,344 | (1,344) | E13 | 0 | 0.00% | 10.54% | 0.00% |
| First Union | 3,765 | (3,765) | E13 | 0 | 0.00% | 10.26% | 0.00% |
| First Union | 5,908 | (5,908) | E13 | 0 | 0.00% | 9.08% | 0.00% |
| First Union | 11,651 | (11,651) | E13 | 0 | 0.00% | 9.05% | 0.00% |
| First Union | 12,640 | (12,640) | E13 | 0 | 0.00% | 9.08% | 0.00% |
| First Union | 12,172 | (12,172) | E13 | 0 | 0.00% | 9.32% | 0.00% |
| First Union | 12,217 | (12,217) | E13 | 0 | 0.00% | 9.53% | 0.00% |
| First Union | 12,217 | (12,217) | E13 | 0 | 0.00% | 9.53% | 0.00% |
| First Union | 17,033 | (17,033) | E13 | 0 | 0.00% | 9.26% | 0.00% |
| First Union | 19,927 | (19,927) | E13 | 0 | 0.00% | 9.76% | 0.00% |
| First Union | 2,243,400 | 0 | | 2,243,400 | 59.65% | 8.40% | 5.01% |
| First Union | 863,347 | 0 | | 863,347 | 22.95% | 8.40% | 1.93% |
| Customer Deposits | 171,481 | 0 | | 171,481 | 4.56% | 6.00% | 0.27% |
| Total: | 3,870,502 | (109,329) | | \$3,761,173 | 100.00% | | 8.56% |

REQUIRED FOOTNOTE:

Common equity cost rate of 10.46% is based on FPSC Order No. PSC-97-0660-FOF-WS, issued June 10, 1997.