

State of Florida



Public Service Commission

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

DATE: August 20, 2001
TO: Division of Economic Regulation (Davis) 1
FROM: Division of Regulatory Oversight (Vandiver) a
RE: Docket No. 992015-WU; Sunshine Utilities of Central Florida, Inc.; Audit
Purpose: Determine Rate Base; Audit Control No.00-025-3-1

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 Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Legal Services

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Sunshine Utilities of Central Florida, Inc.
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Belle View, FL 34420-5531

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Tallahassee, FL 32302

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



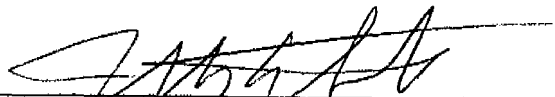
FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*


Orlando District Office

**SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
LIMITED PROCEEDING TO AUDIT RATE BASE,
CAPITAL STRUCTURE AND NET OPERATING INCOME
HISTORICAL PERIOD ENDED DECEMBER 31, 2000**

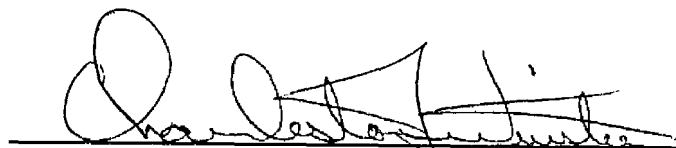
**DOCKET NO. 992015-WU
AUDIT CONTROL NO. 00-025-3-1**



Jeffery A. Small, Audit Manager



Duane Chamberlin, Audit Staff



Charleston J. Winston, District Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

August 7, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 2000, for Sunshine Utilities of Central Florida, Inc. These schedules were assembled by the audit staff as part of our work in the utility's application for a Limited Proceeding to Recover Cost of Water System Improvements in Docket No. 992015-WU.

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 FINDINGS

The utility-plant-in-service (UPIS) is overstated by \$24,074 and accumulated depreciation (AD) is understated by \$4,243 as of December 31, 2000.

The utility's contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC (AA) are understated by \$16,010 and \$496, respectively, as of December 31, 2000.

The utility's operating and maintenance (O&M) expenses are overstated by \$42,625 for the 12-month period ended December 31, 2000.

The utility's working capital is overstated by \$5,326 as of December 31, 2000.

The utility's equity balance should be reduced by \$180,609 and the resulting weighted cost of capital is 8.30 percent as of December 31, 2000.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, the utility's books and records since its last rate proceeding in Docket No. 900386-WU, which we believe is 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.

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

Assembled - Presented in Commission-required format financial information that was provided to the audit staff and is the representation of company management.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for errors or inconsistencies.

Examined - 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.

Company - Business operations in Marion County (regulated) and Citrus County (nonregulated)

Utility - Business operations in Marion County (regulated)

RATE BASE: Compiled and verified account balances for utility-plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), construction-work-in-progress (CWIP), accumulated depreciation (AD), and accumulated amortization of CIAC, from May 30, 1990. Reconciled rate base balances authorized in Commission Orders Nos. 25722 and PSC-94-0738-WU, issued February 13, 1992, and June 15, 1994, respectively, to the utility's general ledger balance. Examined and verified an auditor selected sample of supporting documentation for additions to UPIS, CIAC, and CWIP using auditor judgment as of December 31, 2000. Compiled working capital. Tested additions to accumulated depreciation and accumulated amortization of CIAC for proper rates and calculations. Assembled the rate base schedule as of December 31, 2000.

NET OPERATING INCOME: Compiled utility revenue and operating and maintenance accounts for the 12-month period ended December 31, 2000. Prepared utility billing analysis and tested utility revenues for reasonableness. Recalculated a sample of customers' bills to verify the utility is charging rates authorized by the Commission tariff. Examined and verified auditor selected sample of supporting documentation for operating and maintenance expenses using auditor judgment for the 12-month period ended December 31, 2000. Tested the calculation of depreciation expense and amortization of CIAC expense. Examined and verified supporting documentation for taxes other than income. Verified the utility's 2000 Regulatory Assessment Fee returns filed with the Commission. Assembled the net operating income schedule for the 12-month period ended December 31, 2000.

CAPITAL STRUCTURE: Compiled and assembled components of the utility's capital structure for the year ended December 31, 2000.

OTHER: Read the Board of Directors' Minutes through December 31, 2000. Scanned the utility's 1990 through 2000 federal income tax returns for items related to regulatory issues.

Exception No. 1

Subject: Utility-Plant-in-Service (UPIS) and Accumulated Depreciation (AD)

Statement of Fact: Utility records indicate balances of \$2,040,637 and \$939,442 for UPIS and its associated AD as of December 31, 2000, respectively.

NARUC, Class B, Balance Sheet, Account 186 A. (8) includes other debit balances, the proper final disposition of which is uncertain, and unusual or extraordinary expenses, not included in other accounts which are in the process of being written off.

On March 31, 1997, the utility recorded the following general journal entry in its books which closed out Account No. 252, Advances for Construction.

<u>Acct. No.</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
331.04	T&D Mains	\$9,038.60	
252.07	Advances for Construction		\$9,038.60

The utility informed the audit staff that a 1993 Dodge van placed in service in 1993 is currently for sale and will be removed from UPIS.

Rule 25-30.140, Florida Administrative Code (F.A.C.), prescribes average service lives for each class of utility asset.

Recommendation: The utility's UPIS should be reduced by \$24,074 (\$9,039 + \$15,036) and AD should be increased by \$4,243 (\$20,067 - \$788 - \$15,036), with balancing entries that reduce depreciation expense and retained earnings by \$2,716 (\$210 + \$2,506) and \$21,995 (\$20,067 + \$2,506 - \$578), respectively, and increase miscellaneous deferred debits by \$9,038.60 based on the audit staff's findings and calculations that follow.

- 1) The \$9,038.60 charged to Account No. 331 identified above does not represent any purchased plant assets. Account No. 252 should normally reflect a credit balance which was not the case in this issue. Utility documents suggest that the previous debit balance in Account No. 252 was the result of a dispute between the utility and the developer that remitted the advance payment to the utility in the early 1990's. The developer may have been overcompensated which could explain the abnormal debit balance in the account. The \$9,038.60 should be removed from Account No. 331 and recorded in Account No. 186.07 until the Commission determines the proper accounting treatment for this issue per the NARUC rule cited above.
- 2) The 1993 Dodge van should be retired from UPIS and AD at its original cost of \$15,036.
- 3) The utility's last rate proceeding incorporated the Commission's depreciation rates established by Rule 25-30.140, F.A.C. The utility changed its rates to the rule rates in 1994. However, its AD is understated by \$20,067, because it improperly calculated its depreciation expense for Account No. 341, Transportation Equipment in 1995 through 1997.

Exception No. 1, continued

The Commission should require the utility to make the following adjustments to its books and records per the audit staff's findings discussed above.

Audit Finding No. 1

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Accumulated Depreciation	\$788.25	
186.07	Miscellaneous Deferred Debit	\$9,038.60	
215.00	Retained Earnings		\$578.05
331.04	T&D Mains		\$9,038.60
403.00	Depreciation Expenses		\$210.20

To remove and reclassify \$9,038.60 from UPIS and accumulated depreciation and its corresponding effect on test year depreciation expense See calculations in Note A below.

Audit Finding No. 2

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Accumulated Depreciation	\$15,036.00	
215.00	Retained Earnings	\$2,506.00	
341.00	Transportation Equipment		\$15,036.00
403.00	Depreciation Expenses		\$2,506.00

To remove \$15,036 from UPIS and its corresponding effect on accumulated depreciation and test year depreciation expense See calculations in Note B below.

Audit Finding No. 3

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Accumulated Depreciation		\$20,067.17
215.00	Retained Earnings	\$20,067.17	

To correct depreciation expense calculation errors in 1995, 1996 and 1997 and its corresponding effect on accumulated depreciation See calculations in Note C below.

Note A Accumulated depreciation accruals are \$788.25 (\$157.65 + \$210.20 + \$210.20 + \$210.20) for 1997 through 2000, respectively. Test year depreciation expense is \$210.20. The remaining balance of \$578.05 (\$758.25 - \$210.20) should be booked to retained earnings.

Note B Test year depreciation expense is \$2,506. (\$15,036/6-year service life)

Note C Accumulated depreciation adjustment is the difference between utility's calculation and audit staff's calculation of depreciation accruals for years 1995 through 1997.

<u>Year</u>	<u>Per Utility</u>	<u>Per Audit</u>	<u>Adjustment</u>
1995	\$3,246.00	\$13,785.17	\$10,539.17
1996	\$506.00	\$14,291.08	\$13,785.08
1997	\$16,730.00	\$12,472.92	(\$4,257.08)
			\$20,067.17

Exception No. 2

Subject: Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization (AA)

Statement of Fact: Utility records indicate balances of \$1,554,934 and \$614,095 for CIAC and, its associated AA as of December 31, 2000, respectively.

NARUC, Class B, Balance Sheet, Account 252 includes advances by or in behalf of customers for construction which are to be refunded either wholly or in part. When a person is refunded the entire amount to which he is entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to Account 271, Contributions-in-Aid-of-Construction.

Utility records indicate the following balances in Account No. 252, Advances for Construction.

<u>Acct. No.</u>	<u>Development</u>	<u>Last Activity</u>	<u>Lots Left</u>	<u>Balance</u>
251.01	Boulder Hill	Aug. 1989	yes - inactive	\$286.31
252.03	Florida Heights	Oct. 1986	yes - inactive	\$4,500.00
252.04	Fore Oaks	Mar. 1997	yes - inactive	\$526.54
252.08	Lake Weir Pines	unknown	unknown	(\$759.60)
252.09	Stonehill	Mar. 1993	yes - inactive	\$556.24
252.11	Sunlight Acres	unknown	unknown	(\$69.00)
252.16	Cool Breeze	unknown	unknown	\$9,500.00
252.17	Lake Bryant	Nov. 1998	no - inactive	<u>\$1,469.20</u>
				\$16,009.69

Recommendation: The utility's CIAC and AA should be increased by \$16,010 and \$496, respectively, with balancing entries that reduce advances for construction and retained earnings by \$16,010 and \$496, respectively, to transfer the inactive advances for construction balances per the NARUC rule cited above.

The Commission should require the utility to make the following adjustments to its books and records per the audit staff's finding discussed above.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
252.00	Advances for Construction	\$16,009.69	
271.00	CIAC		\$16,009.69
272.00	Accumulated Amortization of CIAC	\$496.30	
404.00	Amortization of CIAC Expense		\$496.30

To close out \$16,009.69 from advances for construction and its corresponding effect on accumulated amortization and test year amortization expense (\$16,009.69 x 3.1% = \$496.30)

Exception No. 3

Subject: Operating and Maintenance (O&M) Expenses

Statement of Fact: Utility records indicate a balance of \$658,989 for O&M expenses during the 12-month period ended December 31, 2000. Additionally, the utility calculated its working capital requirement as \$82,372 ($\$658,989/8$) based on the Commission's policy of using one-eighth of O&M expenses.

Rule 25-30.433 (8), F.A.C., requires that non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.

Prior Order No. 24484, issued on May 7, 1991, established the use of a customer percentage ratio to allocate common plant between Marion County (regulated) and Citrus County (nonregulated) operations. The utility's 2000 Annual Report indicates it provided water service to 3,013 customers of which 2,869 or 95.22 percent were located in Marion County.

NARUC, Class B, Income Accounts, Account 426 includes all expenses other than expenses of utility operations and interest expense. Specifically, this account also includes penalties or fines for violations of statutes pertaining to regulation.

The company recorded direct utility cost for the following amounts in the indicated accounts.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Utility</u>
620.00	Materials and Supplies	\$24,841.70
635.00	Contractual Services - Testing	\$69,235.15

The company recorded common costs for the following amounts in the indicated accounts.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Company</u>	<u>Utility</u>
632.00	Contractual Services - Accounting	\$7,794.85	\$7,794.85
650.00	Transportation Expenses	\$19,584.96	\$18,952.02
656.00	Insurance - Automobile	\$4,115.18	\$4,115.18
657.00	Insurance - General Liability	\$94.71	\$94.71
658.00	Insurance - Workman's Compensation	\$7,158.64	\$7,158.64
675.00	Miscellaneous Expenses - Office	\$28,339.38	\$27,402.01

Recommendation: The utility's O&M expenses and working capital for the 12-month period ended December 31, 2000, should be reduced by \$42,625 and \$5,326 ($\$82,372 - \$77,046$), respectively, with a balancing entry that reduces retained earnings by \$42,625 for the following audit staff's findings.

Exception No. 3, continued

- 1) The utility included a one-time \$48,000 salary bonus in Account No. 635 Contractual Services - Testing that was paid to the company's president for his services. Per Rule 25-30.433(8), F.A.C., cited above, this cost should have been recorded in a deferred asset account and amortized over five years. The audit staff's adjustment removes \$48,000 from Account No. 635 and allocates \$9,600 (1/5 of \$48,000) to Account No. 603, Salaries and Wages - Officers. The balance of \$32,800 (\$48,000-\$9,600) should be recorded to Account No. 186, Miscellaneous Deferred Debits and amortized over the remaining four-year period.

- 2) The utility included \$1,200 in Account No. 620, Material & Supplies and \$600 in Account No. 675 Miscellaneous Expenses - Office that were paid to the St. Johns Water Management District to renew several consumptive use permits (CUP). Utility personnel stated that the CUPs were renewed for three years. Per Rule 25-30.433(8), F.A.C., cited above, this cost should have been recorded in a deferred asset account and amortized over three years. The audit staff's adjustment removes \$1,200 from Account No. 620 and retains the original \$600 (1/3 of \$1,800) in Account 675 as the allocated portion for the total CUP cost of \$1,800 (\$1,200 + \$600). The balance of \$1,200 (\$1,800-\$600) should be recorded to Account No. 186, Miscellaneous Deferred Debits and amortized over the remaining two-year period.

- 3) The utility included \$663 in Account No. 620, Material & Supplies that was paid to a contractor to seal the driveway of a house and the parking lot of the building where the utility rents office space. The utility's office lease is silent concerning this issue. The audit staff's adjustment removes \$663 from Account No. 620 per the NARUC rule cited above. The audit staff believes that the cost of sealing the building parking lot is the responsibility of the building owner and not the utility. Additionally, the invoice is silent about whether the driveway that was sealed was a personal residence or a utility customer.

- 4) The company recorded costs that benefit regulated and nonregulated operations for Marion and Citrus Counties in Accounts Nos. 632, 650, 656, 657, 658, and 675 as displayed above. For the 12-month period ended December 31, 2000 the company allocated a portion of these costs to Marion County operations using various amounts from 94.7 percent to 100.0 percent, with an average of 96.8 percent. The audit staff's adjustment allocates 95.22 percent of company cost, per the Commission Order cited above, to utility operations in Marion County after the inclusion of the audit staff's adjustments to those costs in Accounts Nos. 632 and 675 as calculated and discussed below.

<u>Acct. No.</u>	<u>Per Company</u>	<u>Audit Adjustment</u>	<u>Adjusted Company</u>	<u>Utility Percentage</u>	<u>Per Audit</u>	<u>Per Utility</u>	<u>Total Audit Adjustment</u>
632	\$7,794.85	a (\$200.00)	\$7,594.85	95.22%	\$7,231.87	\$7,794.85	(\$562.98)
650	\$19,584.96		\$19,584.96	95.22%	\$18,648.94	\$18,952.02	(\$303.08)
656	\$4,115.18		\$4,115.18	95.22%	\$3,918.50	\$4,115.18	(\$196.68)
657	\$94.71		\$94.71	95.22%	\$90.18	\$94.71	(\$4.53)
658	\$7,158.64		\$7,158.64	95.22%	\$6,816.51	\$7,158.64	(\$342.13)
675	\$28,339.38	b (\$562.32)	\$27,777.06	95.22%	\$26,449.51	\$27,402.01	(\$952.50)

Exception No. 3, continued

- a) The company included \$200 in Account No. 632, Contractual Services - Accounting that was paid to its accounting firm for the preparation of the company officers' federal income tax return. The audit staff's adjustment removes \$200 from Account No. 632, per the NARUC rule cited above. The audit staff believes that the cost of preparing the officers' federal income tax return is a personal cost that should not be borne by the utility's customers.
 - b) The company included \$562 in Account No. 675, Miscellaneous Expenses - Office that was paid to the Florida Department of Revenue for penalties assessed on its 1999 Intangible Tax Return. The audit staff adjustment removes \$562 per the NARUC rule cited above.
- 5) The audit staff calculates the utility's working capital to be \$77,045 $(\{\$658,989 - \$42,625\}/8)$.

The Commission should require the utility to make the following adjustments to its books and records per the audit staff's findings discussed above.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
603.00	Salaries & Wages - Officers	\$9,600.00	
620.00	Materials and Supplies		\$1,862.97
632.00	Contractual Services - Accounting		\$562.98
635.00	Contractual Services - Testing		\$48,000.00
650.00	Transportation Expenses		\$303.08
656.00	Insurance - Automobile		\$196.68
657.00	Insurance - General Liability		\$4.53
658.00	Insurance Workman's Compensation		\$342.13
675.00	Miscellaneous Expenses - Office		\$952.50
215.00	Retained Earnings	\$42,624.86	

To allocate general O&M expense using customer percentage ratio and allocate over appropriate periods To remove non-recurring expenses and regulatory penalties

Exception No. 4

Subject: Capital Structure

Statement of Fact: Utility records indicate the following balances in its liability and equity accounts as of December 31, 2000.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Account Balance</u>
201.00	Stock	\$100.00
211.00	Capital	\$421,351.33
215.00	Retained Earnings	\$165,727.49
217.00	Shareholder Distribution	(\$82,503.57)
232.11	Truck Payment	\$4,335.51
232.12	DEP Loan	\$32,500.00
235.00	Customer Deposits	\$34,000.00

NARUC, Balance Sheet, Account 142 B states that this account shall be maintained so as to show separately amounts due on subscriptions to capital stock and from officers and employees, but not include amounts advanced to officers or others as working funds.

Utility records indicated the following 12-month period ended December 31, 2000, and average balance in Account 142, Employee Accounts Receivable.

		<u>Period End</u>	<u>Average</u>
142.04	Emp. Acc./Rec. Vice President	\$21,343.93	\$21,095.24
142.06	Emp. Acc./Rec. President	21,668.68	21,668.68
142.10	Emp. Acc./Rec. President Special	<u>73,225.56</u>	<u>73,225.56</u>
		\$116,238.17	\$115,989.48

Recommendation: The utility's equity balance as of December 31, 2000, should be reduced by \$180,609 and the resulting weighted cost of capital is 8.30 percent based on the following audit staff's findings and calculations.

- 1) The utility's balance in Account No. 211, Other Paid-in-Capital should be reduced by \$115,989 which is the average outstanding balance for the above officer accounts receivables. Audit staff ascertains that the accounts receivable balances are in essence an outstanding interest-free, long-term loan to the utility's officers and should be treated as advances to officers per the NARUC rule cited above. The balances have existed for several years, and there is no supporting documentation or interest provision evident that illustrates the benefit of such loans to the utility's customers. Audit staff maintains that, for rate making purposes, the average outstanding balance of \$115,989 should be treated as a return on owners' equity and be used to offset the balance in the utility's capital account.
- 2) The utility's balance in Account No. 215, Retained Earnings should be reduced by \$64,620 (\$21,995 + \$42,625) which is the sum of the audit staff's recommended adjustments that effect retained earnings in Exceptions Nos. 1 and 3 of this report.

Exception No. 4, continued

- 3) The truck payment is the outstanding balance that will be extinguished in 2001 for the loan that was executed to purchase four 1997 Isuzu pick-up trucks. It should be considered as short-term debt with an interest rate of 9.00 percent.
- 4) The utility received a preconstruction disbursement of \$158,500 from the Department of Environmental Protection (DEP) for its proposed regional water system. A \$32,500 loan was included in that disbursement which the utility was required to repay with 3.05% interest beginning December 15, 2001. Subsequently, the utility and DEP have extended the deferred payment status of the loan and interest payments until June 15, 2002. The audit staff believes that the \$32,500 DEP loan should be considered as long-term debt with an interest cost of 0.00 percent for this proceeding.

The Commission should establish the utility's weighted cost of capital as 8.30 percent based on the above audit staff's findings and calculations that are displayed in Exhibit III on page 18 of this report.

Disclosure No. 1

Subject: Communication Expense

Statement of Fact: Utility records indicate a balance of \$27,402 charged to Account No. 675 Miscellaneous Expenses - Office during the 12-month period ended December 31, 2000. The above balance includes \$4,075.70 for cellular and long distance phone service and \$2,915.44 for local wire line phone service.

Section 367.081 (2)(a)1., Florida Statutes (F.S.), states that the Commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the Commission shall consider the value and quality of the service and the cost of providing the service, which shall include operating expenses incurred in the operation of all property used and useful in public service.

NARUC, Class B, Accounting Instruction 2 E, states that all amounts included in the accounts prescribed herein for utility plant and operating expenses shall be just and reasonable and any payments or accruals by the utility in excess of just and reasonable charges shall be included in Account No. 426, Miscellaneous Nonutility Expenses.

Recommendation: The audit staff has determined from utility documentation provided for this engagement that the utility has six cellular telephone lines assigned to two officers and four employees and one cellular phone line designated as a base line that is stationed in the utility's office. Additionally, the utility has three wire lines for local telephone and facsimile service installed in the utility's office. The cellular phone service provides long distance service for all ten telephone lines.

The audit staff has ascertained from employee job descriptions provided for this engagement that the utility has three, or possibly four employees, that may require the use of a cellular telephone for the performance of their duties. (operations manager, two servicemen, and the base unit at the utility's office)

The Commission should determine the reasonableness for the seven cellular and three wire line telephone lines per the state statute and NARUC rule cited above.

The audit staff defers judgment on this issue to the analyst in Tallahassee.

Disclosure No. 2

Subject: Transportation Expenses

Statement of Fact: Utility records indicate balances of \$18,952.02 and \$4,115.18 charged to Account No. 650, Transportation Expenses, and Account No. 656, Insurance - Automobile during the 12-month period ended December 31, 2000.

Additionally, the utility recorded \$4,819 in Account No. 641, Rental Expenses for the lease of a 1997 Ford truck driven by the utility's president.

Section 367.081 (2)(a)1., F.S., states that the Commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the Commission shall consider the value and quality of the service and the cost of providing the service, which shall include operating expenses incurred in the operation of all property used and useful in public service.

NARUC, Class B, Accounting Instruction 2 E, states that all amounts included in the accounts prescribed herein for utility plant and operating expenses shall be just and reasonable and any payments or accruals by the utility in excess of just and reasonable charges shall be included in Account No. 426, Miscellaneous Nonutility Expenses.

The utility owned and operated the following vehicles during the 12-month period ended December 31, 2000.

<u>Vehicle Type</u>	<u>Tag Number</u>	<u>Avg. Yearly Mileage</u>	<u>Owned/Leased</u>
1997 Isuzu pick-up	A44DWY	30,000	owned
1997 Isuzu pick-up	A170DWY	21,000	owned
1997 Isuzu pick-up	A46DWY	23,000	owned
1997 Isuzu pick-up	A45DWY	16,500	owned
1985 Ford pick-up	XUA14K	5,000	owned (set up as pulling rig)
1993 Dodge van	Not given	10,000	owned
1997 Ford pick-up	D80SDH	19,000	leased (see above)

The utility's payroll included the following two officers and seven employees during the 12-month period ended December 31, 2000.

2	Officers (president and vice president)
1	Officer/operations manager
2	Servicemen
1	Meter reader
3	Office staff (office manager, bookkeeper, and billing clerk)

Disclosure No. 2, continued

Recommendation: The audit staff has ascertained from employee job descriptions provided for this engagement that the utility has three, or possibly four employees, that require utility vehicles for the performance of their duties. (operations manager, two servicemen, and meter reader)

Exception No. 2 of this report removes the 1993 Dodge van listed above because of the utility's stated intention to sale the van.

The Commission should determine the reasonableness for the five remaining utility vehicles, excluding the pulling rig, per the state statute and NARUC rule cited above.

Additionally, any adjustment that the Commission makes to the number of vehicles allowable for this rate proceeding should also include corresponding adjustments to utility transportation and automobile insurance expense.

The audit staff defers judgment on this issue to the analyst in Tallahassee.

Disclosure No. 3

Subject: Officers' Compensation

Statement of Fact: Utility records indicate a balance of \$135,337 charged to Account No. 603 Salaries and Wages - Officers during the 12-month period ended December 31, 2000. Additionally, as discussed in Exception No. 3 of this report, the president was paid a one-time salary bonus of \$48,000 that was recorded in Account No 635, Contractual Services - Testing.

Section 367.081 (2)(a)1., F.S., states that the Commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the Commission shall consider the value and quality of the service and the cost of providing the service, which shall include operating expenses incurred in the operation of all property used and useful in public service.

NARUC, Class B, Accounting Instruction 2 E, states that all amounts included in the accounts prescribed herein for utility plant and operating expenses shall be just and reasonable and any payments or accruals by the utility in excess of just and reasonable charges shall be included in Account No. 426, Miscellaneous Nonutility Expenses.

Recommendation: The total combined officers' salary charged to utility operations is 27.82 percent ($\{ \$135,337 + \$48,000 \} / \$658,989$) of the utility's reported operating and maintenance expenses for the 12-month period ended December 31, 2000.

The audit staff has ascertained from utility documents provided that the duties and responsibilities of the utility's officers have not changed since its last rate proceeding. In that proceeding, Orders Nos. 24484, issued May 7, 1991, and PSC-94-0738-FOF-WU, issued June 15, 1994, included \$90,957 (\$69,055 for the president and \$21,902 for the vice president) as O&M expense.

The Commission should determine the reasonableness for the officers' salaries and the salary bonus per the state statute and NARUC rule cited above.

EXHIBIT I

**SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
RATE BASE
DOCKET NUMBER 992015-WU
LIMITED PROCEEDING
AS OF DECEMBER 31, 2000**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$2,040,637	(\$24,075)	E-1	\$2,016,562
LAND & LAND RIGHTS	61,724	0		61,724
CONSTRUCTION-WORK-IN-PROGRESS	145,905	0		145,905
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(1,554,934)	(16,010)	E-2	(1,570,944)
ACCUMULATED DEPRECIATION	(939,442)	(4,243)	E-1	(943,685)
ACCUMULATED AMORTIZATION OF CIAC	614,095	496	E-2	614,591
WORKING CAPITAL(3)	<u>82,372</u>	<u>(5,326)</u>	E-3	<u>77,046</u>
TOTAL	\$450,357	(\$49,158)		\$401,199

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.
- 3) Working Capital calculated as 1/8 of O&M Expenses.

EXHIBIT II

**SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
NET OPERATING INCOME
DOCKET NUMBER 992015-WU
LIMITED PROCEEDING
12-MONTH PERIOD ENDED DECEMBER 31, 2000**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT(1)
OPERATING REVENUES	\$800,591	\$0		\$800,591
OPERATING EXPENSE:	*****	*****		*****
O&M EXPENSE	(658,989)	42,625	E-3	(616,364)
DEPRECIATION EXPENSE	(77,220)	2,716	E-1	(74,504)
AMORTIZATION EXPENSE	48,684	496	E-2	49,180
TAXES OTHER THAN INCOME	<u>(70,794)</u>	<u>0</u>		<u>(70,794)</u>
TOTAL OPERATING EXPENSE	<u>(\$758,319)</u>	\$45,838		<u>(\$712,481)</u>
NET OPERATING INCOME	\$42,272	\$45,838		\$88,110

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.

EXHIBIT III

**SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
CAPITAL STRUCTURE
DOCKET NUMBER 992015-WU
LIMITED PROCEEDING
AS OF DECEMBER 31, 2000**

Account Description	Per Utility(1)	Audit Adjustment(1)	Refer To(2)	Per Audit(1)	Ratio	Cost Rate	Weighted Cost Rate
Short-term Debt	\$4,336	\$0		\$4,336	1.10%	9.00%	0.10%
Long-term-Debt	32,500	0		32,500	8.23%	0.00%	0.00%
Common Equity	504,675	(180,609)	Note 3	324,066	82.06%	9.37%	7.69%
Customer Deposits	<u>34,000</u>	<u>0</u>		<u>34,000</u>	<u>8.61%</u>	6.00%	0.52%
Total Debt and Equity	\$575,511	(\$180,609)		\$394,902	100.00%		8.30%

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.
- 3) Exception No. 4 (\$115,989 + \$64,620)