

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: October 1, 2002
TO: Division of Economic Regulation (Fitch/Merta)
FROM: Division of Auditing and Safety (Vandiver) W
RE: **Docket No.** 010087-WS; **Company Name:** Sun Communities Finance, LLC/ d/b/a Water Oak Utility; **Audit Purpose:** audit rate base, capital structure and net operating income for the test year ending December 31, 2001; **Audit Control No.** 02-009-3-2

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
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DOCUMENT NUMBER 10535

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

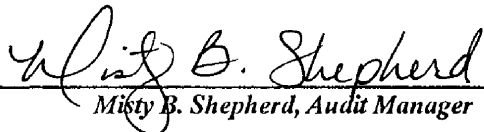
Orlando District Office

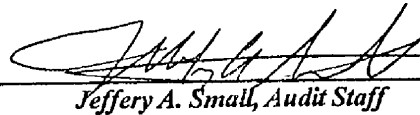
**SUN COMMUNITIES FINANCE, LLC.
d/b/a WATER OAK UTILITY**

REUSE CASE

HISTORICAL PERIOD ENDED DECEMBER 31, 2001

**DOCKET NO. 010087-WS
AUDIT CONTROL NO. 02-009-3-2**


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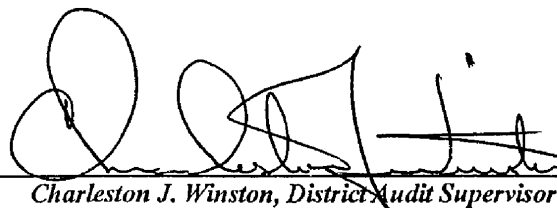

Charleston J. Winston, District Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

September 18, 2002

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, 2001, for Sun Communities Finance, LLC, d/b/a Water Oak Utility. The attached schedules were assembled by the audit staff as part of our work in the utility's Reuse Case, Docket No. 010087-WS.

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's water and wastewater contributions-in-aid-of-construction (CIAC) balances are understated by \$1,928 and \$1,071, respectively, and accumulated amortization of CIAC is overstated by \$272 for water and understated by \$565 for wastewater, as of December 31, 2001.

The utility's water and wastewater accumulated depreciation balances are overstated by \$4,344 and \$10,979, respectively, as of December 31, 2001. Depreciation expense is understated by \$434 and \$18, for water and wastewater, respectively, for the 12-month period ended December 31, 2001.

The utility's wastewater revenue is understated by \$44,158, for the 12-month period ended December 31, 2001.

The utility's water and wastewater operating and maintenance expenses are overstated by \$2,649 and \$4,023, respectively, for the 12-month period ended December 31, 2001. Working capital balances were calculated to be \$14,630 and \$19,700 for water and wastewater, respectively.

The utility's water and wastewater taxes other than income balances are understated by \$9,208 and \$2,144, respectively. The utility owes additional Regulatory Assessment Fees of \$1,544 for wastewater, for the 12-month period ended December 31, 2001.

The utility's wastewater deferred revenues balance, as required by Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, is overstated by \$21,887, and accrued interest of this balance is understated by \$1,427, as of December 31, 2001.

SUMMARY OF SIGNIFICANT PROCEDURES

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

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

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 utility management.

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

RATE BASE: Compiled and verified utility plant-in-service (UPIS) and accumulated depreciation (AD) additions as of December 31, 2001. Reconciled rate base balances authorized in Order No. PSC-01-2480-PCO-WS, issued December 20, 2001, to the utility's general ledger. Compiled and verified contributions-in-aid-of-construction (CIAC) and accumulated amortization (AA) additions as of December 31, 2001. Calculated a working capital balance as of December 31, 2001, using one-eighth of operation and maintenance expenses. Assembled rate base exhibits as of December 31, 2001.

NET OPERATING INCOME: Compiled and verified utility revenue and operating and maintenance (O&M) accounts for the 12-month period ended December 31, 2001. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of O&M expenses and scanned the invoices and other supporting documentation. Tested the calculation of depreciation and amortization expenses. Scanned supporting documentation for taxes other than income and income taxes. Assembled net operating income exhibits for the 12-month period ended December 31, 2001.

CAPITAL STRUCTURE: Compiled and verified the components of the utility parent's capital structure as of December 31, 2001. Assembled capital structure exhibits as of December 31, 2001.

OTHER: Scanned and verified the Regulatory Assessment Fee returns for the year 2001.

Exception No. 1

Subject: Books and Records

Statement of Fact: Sun Communities Finance, LLC, d/b/a Water Oak Utility, is a Class C water and wastewater facility located in Lake County. The utility provides water and wastewater service to approximately 850 customers.

Rule 25-30.110 (1)(a), Florida Administrative Code, (F.A.C.), requires all water and wastewater utilities to maintain their records in conformity with the “Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities” as issued by the National Association of Regulatory Utility Commissions. These regulations require continuing plant inventory records showing description, location, and cost. These records are required to be kept for the life of the asset plus six years.

Rule 25-30.145(b), F.A.C., Audit Access to Records, states as follows:

“Reasonable access means that company responses to audit requests for access to records shall be fully provided within the time frame established by the auditor.”

The audit staff issued Document Request No. 17 on August 8, 2002, in an effort to obtain supporting documentation regarding meters currently in service and requested the information be provided by August 15, 2002. The utility response was received August 28, 2002.

Recommendation: Upon receiving Document Request No. 17, the utility asked for an additional three weeks to respond, stating that it would take a “substantial number of staff hours to accumulate the data requested.” The audit staff denied this request with the belief that if the utility had maintained its records in accordance with the rule above, the information would have been readily available. Therefore, one week was a sufficient amount of time to be allocated to this request.

The utility’s difficulties in providing the information requested caused delays in the audit process that should not have occurred had the company maintained its records in conformance with the rules cited above.

The Commission should require the utility to maintain its books and records in a manner that would enable them to be in compliance with the rules cited above.

Exception No. 2

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

Statement of Fact: The utility reported CIAC balances of \$123,436 and \$211,822 for water and wastewater, respectively, as of December 31, 2001. The utility also reported AA of CIAC balances of \$52,891 and \$71,983 for water and wastewater, respectively, as of December 31, 2001.

The utility currently serves 821 residential and 29 general service water customers and 821 residential and 9 general service wastewater customers.

Commission Order No. 18255, issued October 6, 1987, waived the collection of CIAC charges as part of a stipulated agreement between the utility's former owners and the original developer. Prior Commission Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, reinstated the CIAC requirement and identified 745 residential water and wastewater customers as of December 31, 1998.

The utility's approved tariff, effective January 8, 2001, established service availability charges of \$141 and meter installation fees of \$100 for the water plant connections and service availability charges of \$153 for the wastewater plant connections.

Recommendation: The utility provided the audit staff with a schedule of new meter installations that showed an increase of 23 in 1999 and 20 in 2000 residential water and wastewater customers, who did not incur CIAC charges based on the Order stated above. During 2001, after the reinstatement of charges, the utility recorded additions to CIAC of \$6,266 and \$3,978 for 26 new water and wastewater customers, respectively.

These additions increase the total number of customer connections to 814 (745+23+20+26). The utility's billing register indicates that service was provided to 821 customers as of December 31, 2001. The audit staff has imputed additions to CIAC of \$1,928 and \$1,071 for water and wastewater, respectively, for the remaining seven (821 - 814) customer connections.

The utility used incorrect rates to calculate its CIAC amortization expense for the years 1999, 2000, and 2001. The audit staff took into account the adjustments calculated above to the test year CIAC and recalculated AA for these years using the composite rate of 3.10 percent. This calculation resulted in a decrease of \$272 to water AA and an increase of \$565 to wastewater AA, as of December 31, 2001. The effect on test year amortization expense results in a decrease of \$126 for water and an increase of \$170 for wastewater.

The Commission should require the utility to increase its CIAC balances by \$1,928 and \$1,071 for water and wastewater, respectively, to decrease AA of CIAC by \$272 for water and to increase AA of CIAC by \$565 for wastewater, as of December 31, 2001, based on the audit findings described above.

The Commission should also require the utility to decrease amortization expense by \$126 for water and increase amortization expense by \$170 for wastewater, for the 12-month period ended December 31, 2001.

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: The utility's records indicate accumulated depreciation balances of \$142,663 and \$334,467 for water and wastewater, respectively, as of December 31, 2001.

Utility records also indicate depreciation expense of \$10,864 and \$20,810 for water and wastewater, respectively, for the 12-month period ended December 31, 2001.

Order No. PSC-00-1301-CO-WS, issued July 19, 2000, required the utility to adjust accumulated depreciation to reflect balances of \$114,392 and \$262,148 for water and wastewater, respectively, as of December 31, 1998.

The utility adjusted December 31, 1998, accumulated depreciation balances to \$119,585 and \$275,329 for water and wastewater, respectively, in accordance with audit recommendations made in Docket No. 990243-WU.

Recommendation: Although the utility recorded adjustments that were recommended in the prior audit, these adjustments did not equate to the adjustments required by the Order. Therefore, the utility should reduce accumulated depreciation by \$5,193 for water and \$13,181 for wastewater, to be in compliance with the requirements set forth in the above-mentioned Order.

During the years 1999, 2000, and 2001, the audit staff determined that the utility had incorporated incorrect rates in its calculation of depreciation expense. The audit staff recalculated depreciation expense for these three years using rates prescribed by Rule 25-30.140, F.A.C. This finding results in an increase of \$849 and \$2,202 to water and wastewater accumulated depreciation, respectively, as of December 31, 2001. This finding also results in an increase to depreciation expense of \$434 and \$18 for water and wastewater, respectively, for the 12-month period ended December 31, 2001.

The Commission should require the utility to reduce its accumulated depreciation by \$4,344 (\$849 - \$5,193) and \$10,979 (\$2,202 - \$13,181) for water and wastewater, respectively, as of December 31, 2001. It should also require the utility to increase depreciation expense by \$434 and \$18 for water and wastewater, respectively, for the 12-month period ended December 31, 2001, based on the audit findings described above.

Exception No. 4

Subject: Revenues

Statement of Fact: The utility recorded \$118,070 and \$133,445 for water and wastewater revenues, respectively, in its general ledger for the 12-month period ended December 31, 2001.

The above wastewater revenue amount represents the net amount of wastewater revenues collected after deferring \$40,018 or approximately 23.07 percent of wastewater revenues as required in Order No. PSC-00-1165-PAA-WS.

Order No. PSC-00-1165-PAA established the following tariff rates for wastewater service.

Residential Wastewater Service

<u>Meter Size</u>	<u>Base Facility Charge</u>	<u>*Gallonge Charge</u>
All Meter Sizes	\$7.65	\$2.07

General Service Wastewater Service

<u>Meter Size</u>	<u>Base Facility Charge</u>	<u>*Gallonge Charge</u>
5/8" x 3/4"	\$7.56	\$2.50
3/4"	\$11.48	
1"	\$19.12	
1½"	\$38.25	
2"	\$61.21	
3"	\$122.40	
4"	\$191.26	
6"	\$382.53	

* Per 1,000 gallons. Residential wastewater service was capped at 6,000 gallons.

Recommendation: The utility's wastewater revenues are understated by \$44,158 in its general ledger for the 12-month period ended December 31, 2001, based on the following audit staff findings.

The utility should have included the \$40,018 of deferred revenues as wastewater revenues for reporting purposes and the RAFs calculations for the 12-month period ended December 31, 2001.

The utility's wastewater revenues are understated by \$4,141, because the utility calculated general service wastewater revenues of \$1,892 using its residential tariff rate. The audit staff calculated general service wastewater revenues of \$6,033 using the utility's general service tariff rate as detailed in the schedule on the following page.

Exception No. 4, continued

<u>Meter Size</u>	<u>12-Month Usage</u>	<u>Gallon Charge(a)</u>	<u>12-Month BFC(b)</u>	<u>Per Audit</u>
5/8"	108,834	\$272	\$363	\$635
1"	0	0	0	0
1 ½"	342,800	857	918	1,775
2"	567,770	1,419	2,204	3,623
3"	0	0	0	0
Per audit total				6,033
Per co. G/L				<u>1,892</u>
Audit adjustment				\$4,141

- a. 12-month usage times \$2.50 per thousand gallons
- b. 5/8" 4 customers times \$7.56 BFC times 12 months service = \$362.88
- 1½" 2 customers times \$38.25 BFC times 12 months service = \$918.00
- 2" 3 customers times \$61.21 BFC times 12 months service = \$2,203.56

The Commission should require the utility to increase wastewater revenue by \$44,158, for the 12-month period ended December 31, 2001, based on the audit staff findings described above.

Exception No. 5

Subject: Operating and Maintenance Expense (O&M)

Statement of Fact: The utility reported operating and maintenance expense balances of \$119,687 and \$161,625 for water and wastewater, respectively, for the 12-month period ended December 31, 2001.

Prior audit, Docket No. 990243-WS, made adjustments to the water and wastewater purchased power accounts to remove an allocated portion of expenses related to nonutility services. Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, approved all audit-recommended adjustments to purchased power made in Docket No. 990243-WS.

Rule 25-30.115 (1), F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USOA).

NARUC, USOA for Class C Utilities, Account 426-Miscellaneous Nonutility Expenses, Item 13 states:

“Preliminary survey and investigation expenses related to abandoned projects, when not written off to the appropriate operating expense account.”

Recommendation: Purchased power balances included amounts for meters that were previously identified in the prior audit, Docket No. 990243-WU, as servicing more than utility operations. Meter No. 70401080 services Lift Station No. One. It also services a fountain pump, entranceway lights, security guardhouse and gate system. The prior audit determined a 40 percent allocation for wastewater and 60 percent for nonutility. Meter No. 55292755 services the water plant building as well as a cable TV facility located at the plant site. The prior audit determined a 10 percent allocation for water and 90 percent for nonutility. Meter No. 23374348 services two nonutility maintenance buildings, and it provides no benefit to the utility. The prior audit determined 0 percent utility allocation. The utility included 100 percent of these bills to O&M. This finding reduces water O&M by \$2,160 and wastewater O&M by \$2,582, for the 12-month period ended December 31, 2001, as detailed below.

	Per Company (100%)	Audit Allocation	Per Audit	Adjustment
Meter No. 55292755	\$2,399.72	10%	\$239.97	(\$2,159.75)
Total Account No. 615 Adjustment				<u>(2,159.75)</u>
Meter No. 70401080	4,192.03	40%	1,676.81	(2,515.22)
Meter No. 23374348	66.52	0%	0.00	<u>(66.52)</u>
Total Account No. 715 Adjustment				<u>(\$2,581.74)</u>

Exception No. 5, continued

During examination of the utility invoices, the audit staff found various expenses related to the planned sale of the utility to Lady Lake had been included in O&M expenses. These amounts should be removed because they were preliminary in nature, and the sale was never completed. This results in a decrease to water and wastewater O&M expenses in the amounts of \$489 and \$1,441, respectively.

The Commission should require the utility to reduce its O&M balances by \$2,649 ($\$2,160 + \489) and \$4,023 ($\$2,582 + \$1,441$) for water and wastewater, respectively, for the 12-month period ended December 31, 2001, based on the adjustments described above.

Additionally, the audit staff calculated working capital balances, using 1/8 of O&M, of \$14,630 and \$19,700 for water and wastewater, respectively, as of December 31, 2001.

Exception No. 6

Subject: Conservation Expense

Statement of Fact: Prior Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, required the utility to spend a minimum of \$49,400 on approved expenses related to conservation activities. The Order also required the utility to submit semiannual reports, detailing the expenditures made in the conservation program, for the two years following the issuance of the final Order in Docket No. 990243-WS.

The Consummating Order No. PSC-00-1301-CO-WS for the above-mentioned docket was issued on July 19, 2000. In accordance with Order No. PSC-00-1165-PAA-WS, the utility submitted conservation reports that detailed expenses of \$31,459 for the six-month period January 2001 through June 2001, and \$20,269 for the six-month period July 2001 through December 2001, for an annual expense of \$51,728 incurred during 2001.

Recommendation: Expenses of \$6,600 and \$5,031 which related to the utility's wastewater reuse project were included in the utility's semiannual filings. The Order stated above did not include reuse project expenses as part of the conservation program.

The conservation program did include a meter replacement program in which the utility was required to replace approximately 15 meters a month at an average cost of \$80 per meter for an estimated annual cost of \$14,400 per year. In its semiannual filings, the utility reported replacing 20 meters per month at an average cost of \$100 for parts, plus \$9.75 for labor per meter. This provided an annual expense of \$26,340 reported by the utility and the replacement of 240 meters. Upon examination of these expenses, the audit staff determined that the utility actually replaced 225 meters during 2001 at an average cost of \$55 per meter and an annual expense of \$12,451.

The utility did not follow the requirements set forth in Order No. PSC-00-1165-PAA-WS. Based on the above information, the audit staff calculated that the utility spent \$26,208 on conservation-related activities, \$23,192 less than the \$49,400 minimum amount required in the Order, as detailed in Schedule A on the following page of this report.

Since the purpose of implementing a conservation program, as set forth in the above Order, was to mitigate the effects of the utility's overearnings, as determined in Docket No. 990243-WS, the final disposition of this finding is deferred to the analyst in Tallahassee.

Exception No. 6, continued

Schedule A

	Per Company Filing	Per Order Requirements	Difference	Per Audit
Meter replacement (annual) (See note below.)	\$26,340	\$14,400	(\$1,949)	\$12,451
Reuse project (Jan-June)	6,600	0	0	0
Reuse project (July-Dec)	5,031	0	0	0
Other approved expenses (annual)	13,757	35,000	(21,243)	13,757
Total conservation expenses	\$51,728	\$49,400	(\$23,192)	\$26,208

Note: Calculation of meter costs

Company 240 meters * \$109.75 = \$26,340
 Audit 225 meters * \$55.34 = \$12,451
 Order No. PSC-00-1165-PAA-WS = \$14,400

Exception No. 7

Subject: Taxes Other Than Income (TOTI)

Statement of Fact: The utility's Annual Report stated TOTI balances of \$12,654 and \$14,582 for water and wastewater, respectively, for the 12-month period ended December 31, 2001. These balances included \$5,313 in Regulatory Assessment Fees (RAFs), \$4,323 in property taxes, and \$3,018 in payroll taxes for water, and \$6,004 in RAFs, \$5,858 in property taxes, and \$2,720 in payroll taxes for wastewater.

The utility remitted RAFs of \$5,340 and \$6,448 for water and wastewater, respectively, for the 12-month period ended December 31, 2001.

The utility also remitted water usage taxes to the Town of Lady Lake in the amount of \$9,208 for the 12-month period ended December 31, 2001.

The utility remitted property taxes during the year 2001 to Lake County in the amounts of \$306.38 and \$533.66 for water and wastewater, respectively.

Recommendation: The utility did not include the \$9,208 taxes paid to the Town of Lady Lake in its TOTI balance.

The utility paid RAFs of \$5,340 and \$6,448, but it recorded \$5,313 and \$6,004, for water and wastewater, respectively. Exception No. 4 of this report adjusted the utility wastewater revenues. Based on adjusted revenues, audit staff calculated \$7,992 in RAFs for wastewater. This adjustment results in an increase to wastewater TOTI of \$1,988 (\$7,992 - \$6,004).

Upon investigation of the Lake County property tax records for the utility, the audit staff found two additional tax bills that should have been included in the utility's expenses. The bills identified a 5.51-acre parcel of land and a 3.25-acre parcel of land which were both originally used by the wastewater system as a sprayfield and have now been converted to the perk pond currently in service. These tax bills were in the amounts of \$98 and \$58 for the respective parcels of land and result in an increase to wastewater TOTI of \$156 for the 12-month period ended December 31, 2001.

The Commission should require the utility to increase its TOTI balances by \$9,208 and \$2,144 (\$1,988 + \$156), for water and wastewater, respectively, for the 12-month period ended December 31, 2001, per the adjustments discussed above.

The Commission should further require the utility to remit the additional RAFs of \$1,543.86 (\$7,992.14 - \$6448.28) for wastewater, for the 12-month period ended December 31, 2001.

Exception No. 8

Subject: Deferred Revenues

Statement of Fact: Commission Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, stated the following.

. . . the utility shall be allowed to defer all overearnings associated with its wastewater system, to be applied to the cost of its future reuse system. . . . Upon issuance of the final order, the utility shall defer 23.07% of monthly wastewater billings and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate. Once we approve the utility's reuse project plan, the deferred earnings and accrued interest shall be booked to CIAC.

Commission Order No. PSC-00-1301-CO-WS, issued July 19, 2000, stated "ORDERED by the Florida Public Service Commission that Order No. PSC-00-1165-PAA-WS has become effective and final."

For the year 2000, the company recorded deferred revenues of \$39,218. For the year 2001, the company recorded deferred revenues of \$40,018.

Recommendation: For the year 2000, the audit staff calculated deferred revenues from August 2000 in accordance with the above Order No. PSC-00-1301-CO-WS. The company calculated deferred revenues from January 2000.

Exception No. 4 adjusted revenues for the year 2001 therefore requiring an adjustment to deferred revenues.

The company did not record any interest associated with the deferred revenues in accordance with the above Commission Order No. PSC-00-1165-PAA-WS.

The Commission should require the company to record the following adjustments.

Year	Per Company	Recommended Adjustment	Per Audit	Accrued Interest Per Audit
2000	\$39,218	(\$22,842)	\$16,376	\$89
2001	40,018	955	40,973	1,338
Total	\$79,236	(\$21,887)	\$57,349	\$1,427

See Schedules A and B on the following pages for additional information.

As of December 31, 2001, the Commission had not approved the utility's reuse project plan as stated in the above Order No. PSC-00-1165-PAA-WS.

Exception No.8
Schedule A

2001 Month	Per Company Wastewater	Adjustment Per Audit	Revenue Per Audit	Deferred Revenue Percent	Deferred Revenue Per Audit	Deferred Revenue 2000+2001	Interest Rates*	Interest
						\$16,376.21		\$0.00
January	\$14,484.68	\$402.63	\$14,887.31	23.07%	\$3,434.50	19,810.71	6.025%	98.86
February	13,958.07	364.78	14,322.85	23.07%	3,304.28	23,114.99	5.350%	103.18
March	14,602.09	288.64	14,890.73	23.07%	3,435.29	26,550.28	5.075%	112.23
April	14,430.79	342.10	14,772.89	23.07%	3,408.11	29,958.39	4.685%	117.59
May	15,177.48	411.29	15,588.77	23.07%	3,596.33	33,554.72	4.155%	116.90
June	15,376.62	330.25	15,706.87	23.07%	3,623.57	37,178.29	3.870%	119.84
July	14,410.66	352.23	14,762.89	23.07%	3,405.80	40,584.09	3.775%	127.15
August	13,761.61	325.49	14,087.10	23.07%	3,249.89	43,833.98	3.610%	131.91
September	14,550.91	314.89	14,865.80	23.07%	3,429.54	47,263.52	3.070%	120.11
October	13,121.54	364.15	13,485.69	23.07%	3,111.15	50,374.67	2.445%	102.71
November	14,626.39	328.95	14,955.34	23.07%	3,450.20	53,824.87	2.130%	95.74
December	<u>14,961.97</u>	<u>314.84</u>	<u>15,276.81</u>	23.07%	<u>3,524.36</u>	57,349.23	1.910%	<u>91.28</u>
	174,121.63	\$4,140.21	177,603.02		40,973.02			\$1,337.76
Def.Rev. per Co.	<u>(40,018.00)</u>				<u>40,018.00</u>	Deferred revenue per. co.		
	\$133,444.63				\$955.02			

* Interest Ratio divided by 12

Exception No. 8
Schedule B

2000 Month	Per Company	Deferred Revenue Percent	Deferred Revenue	Accumulated Revenue	Interest Rates*	Interest
August	\$13,764.42	23.07%	\$3,175.45	\$3,175.45	6.490%	\$17.17
September	13,894.88	23.07%	3,205.55	6,381.00	6.490%	17.34
October	13,521.86	23.07%	3,119.49	9,500.49	6.495%	16.86
November	14,895.27	23.07%	3,436.34	12,936.83	6.570%	18.81
December	14,908.44	23.07%	<u>3,439.38</u>	16,376.21	6.575%	<u>18.84</u>
			<u>\$16,376.21</u>			<u>\$89.05</u>

*Interest Ratio divided by 12

Def. Rev. by Co. 2000	\$39,218.40
Def. Rev. by Audit 2000	<u>16,376.21</u>
Difference	22,842.19
Def. Rev. by Co. 2001	40,018.00
Def. Rev. by Audit 2001	<u>40,973.02</u>
Difference	(955.02)
Int.Rev. per Audit 2001	1,337.76
Int.Rev. per Co.	<u>0.00</u>
Difference:	1,337.76
Int.Rev. per Audit 2000	89.05
Int.Rev. per Co.	<u>0.00</u>
Difference	\$89.05

Disclosure No. 1

Subject: Elimination of Sprayfield

Statement of Fact: The utility records indicate wastewater balances of \$120,500 for land and \$211,822 for CIAC, as of December 31, 2001. These balances include a 30-acre parcel of property identified as the utility's sprayfield that was recorded at a cost of \$90,000.

Utility records also indicate wastewater O&M expenses totaling \$161,625 for the 12-month period ended December 31, 2001. Expenses totaling \$17,638 are included in this amount that are related to mowing the wastewater property which encompasses 42.2 acres of land, including the 30 acres dedicated to the sprayfield.

The utility recorded a TOTI balance of \$14,582 for the wastewater operations. Property taxes totaling \$533.66, which were incurred on the parcel of property identified as the sprayfield, are included in this balance.

Recommendation: The utility is currently in the process of constructing a reuse facility and anticipates completion during the year 2003. Once the reuse facility is on-line, the utility will no longer require the use of the sprayfield. The elimination of the sprayfield would reduce the annual mowing expense by approximately \$12,539 (30 acres/42.2 acres x \$17,638). It would also reduce total TOTI by \$533.66, the amount of property taxes paid on the land.

Final disposition is deferred to the analyst in Tallahassee.

Disclosure No. 2

Subject: Municipal Tax on Water Revenues

Statement of Fact: The utility is located within the municipal taxing authority of the Town of Lady Lake, Florida.

In 2001, the Town of Lady Lake levied a water service tax of 10 percent on each customer bill which was capped at \$1.00 per customer.

The utility collected and remitted \$9,208 of water service taxes for the 12-month period ended December 31, 2001.

On August, 6, 2001, the Lady Lake Town Commission adopted Ordinance No. 2001-29 which changed the above-mentioned water service tax rate to a flat tax of 6 percent of each customer bill as of January 1, 2002.

Recommendation: The effect of the above water service tax rate change would have decreased test year water revenues by \$1,944 and its associated RAF by \$87. ($\$1,944 \times 4.5\%$)

<u>Net Revenues</u>	<u>Test Year Tax</u>	<u>Pro Forma Tax</u>	<u>Increase(Decrease)</u>
\$118,070	\$9,208	\$7,084	(\$1,944)

$$(\$118,070 \times 6.0\% = \$7,084)$$

EXHIBIT I**SUN COMMUNITIES FINANCE, LLC
d/b/a WATER OAK UTILITY
WATER RATE BASE
DOCKET NO. 010087-WS
REUSE CASE
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$309,006	\$0		\$309,006
LAND & LAND RIGHTS	3,050	0		3,050
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(123,436)	(1,928)	E2	(125,364)
ACCUMULATED DEPRECIATION	(142,663)	4,344	E3	(138,319)
ACCUMULATED AMORTIZATION OF CIAC	52,891	(272)	E2	52,619
WORKING CAPITAL(2)	<u>0</u>	<u>14,630</u>	E5	<u>14,630</u>
TOTAL	\$98,848	\$16,774		\$115,622

FOOTNOTES:

1) Small differences can be attributed to rounding errors.

2) Working Capital is calculated as 1/8 of O&M Expenses.

EXHIBIT II**SUN COMMUNITIES FINANCE, LLC
d/b/a WATER OAK UTILITY
WASTEWATER RATE BASE
DOCKET NO. 010087-WS
REUSE CASE
AS OF DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$397,116	\$0		\$397,116
LAND & LAND RIGHTS	120,500	0		120,500
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(211,822)	(1,071)	E2	(212,893)
ACCUMULATED DEPRECIATION	(334,467)	10,979	E3	(323,488)
ACCUMULATED AMORTIZATION OF CIAC	71,938	565	E2	72,503
WORKING CAPITAL(2)	<u>0</u>	<u>19,700</u>	E5	<u>19,700</u>
TOTAL	\$43,265	\$30,173		\$73,438

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Working Capital is calculated as 1/8 of O&M Expenses.

EXHIBIT III

**SUN COMMUNITIES FINANCE, LLC
d/b/a WATER OAK UTILITY
WATER NET OPERATING INCOME
DOCKET NO. 010087-WS
REUSE CASE
PERIOD ENDED DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1) -	AUDIT EXCEPTION(1)	REFE R TO	PER AUDIT(1)
REVENUES:				
OPERATING REVENUES	\$118,070	\$0		\$118,070
EXPENSES:				
O&M EXPENSE	119,687	(2,649)	E5	117,038
DEPRECIATION EXPENSE	10,864	433	E3	11,297
AMORTIZATION EXPENSE	(3,885)	126	E2	(3,759)
TAXES OTHER THAN INCOME	12,654	9,208	E7	21,862
TOTAL	\$139,320	\$7,118		\$146,438
NET OPERATING INCOME	(\$21,250)	(\$7,118)		(\$28,368)

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.

EXHIBIT IV

**SUN COMMUNITIES FINANCE, LLC
d/b/a WATER OAK UTILITY
WASTEWATER NET OPERATING INCOME
DOCKET NO. 010087-WS
REUSE CASE
PERIOD ENDED DECEMBER 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
REVENUES:				
GROSS REVENUES	\$133,445	\$44,158	E4	\$177,603
DEFERRED REVENUES	0	(40,973)	E8	(40,973)
TOTAL	133,445	3,185		136,630
EXPENSES:				
O&M EXPENSE	161,625	(4,023)	E5	157,602
DEPRECIATION EXPENSE	20,810	18	E3	20,828
AMORTIZATION EXPENSE	(6,351)	(170)	E2	(6,521)
TAXES OTHER THAN INCOME	14,582	2,144	E7	16,726
TOTAL	\$190,666	(\$2,031)		\$188,635
NET OPERATING INCOME	(\$57,221)	\$5,216		(\$52,005)

FOOTNOTES:

1) Small differences can be attributed to rounding errors.

EXHIBIT V

**SUN COMMUNITIES FINANCE, LLC
d/b/a WATER OAK UTILITY
DOCKET NO. 010087-WS
CAPITAL STRUCTURE
REUSE CASE**

HISTORICAL PERIOD ENDED DECEMBER 31, 2001

DESCRIPTION	PER COMPANY @12/31/01	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT @12/31/01	RATIO	COST RATE(3)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$399,966,908	\$0		\$399,966,908	48.49%	11.00%	5.330%
RETAINED EARNINGS	(45,939,235)	0		(45,939,235)	(5.57)%	11.00%	(0.610)%
OFFICERS' NOTES	(11,003,614)	0		(11,003,614)	(1.33)%	7.66%	(0.100)%
UNEARNED COMPENSATION	(6,998,894)	0		(6,998,894)	(0.85)%	0.00%	0.000%
TREASURY STOCK	(6,384,164)	0		(6,384,164)	(0.77)%	11.00%	(0.080)%
LONG-TERM DEBT	495,198,151	0		495,198,151	60.03%	6.26%	3.760%
DEFERRED REVENUES(4)	79,236	(21,887)	E8	57,349	0.01%	2.33%	0.000%
CUSTOMER DEPOSITS(2)	0			0			0.000%
TOTAL	\$824,918,388	(\$21,887)		\$824,896,501	100.00%		8.300%

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) The company does not collect a customer deposit for service connections.
- 3) Cost rate for common equity established in Order No. PSC-02-0898-PAA-WS, issued July 5, 2002.
- 4) Per Commission Order No. PSC-00-1165-PAA-WS, issued June 27, 2000.