



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

DATE: December 12, 2002
TO: Division of Economic Regulation (Boutwell)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 020344-SU; **Company Name:** Key Haven Utility Corporation; **Audit Purpose:** Compile and audit the Utility's Monroe County wastewater systems rate base, capital structure, and net operating income for the test year ending December 31, 2001; **Audit Control No.** 02-249-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

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

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Miami District Office

**KEY HAVEN UTILITY CORP.
RATE CASE**

YEAR ENDED DECEMBER 31, 2001

DOCKET NO. 020344-SU

AUDIT CONTROL NO. 02-249-4-1

A handwritten signature in cursive script, reading "Gabriela Leon", written over a horizontal line.

*Gabriela Leon
Audit Manager*

A handwritten signature in cursive script, reading "Iliana Piedra", written over a horizontal line.

*Iliana Piedra
Audit Staff*

A handwritten signature in cursive script, reading "Kathy L. Welch", written over a horizontal line.

*Kathy L. Welch
Miami District Audit Supervisor*

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

December 6, 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, cost of capital and net operating income for the year ending December 31, 2001. These schedules were prepared by the utility as part of its filing in support of Docket No. 020344-SU.

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

SUMMARY OF SIGNIFICANT PROCEDURES

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

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

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

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

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

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

Verified - The item was tested for accuracy and compared to substantiating documentation.

RATE BASE: Plant additions since the last rate case were tested to source documentation. A tour of the plant was performed to review for retirements. Contributions in Aid of Construction were tested by comparing new customers times the tariff rate and looking for unrecorded CIAC by reviewing deposits for all years and reviewing the agreements with the customers. Accumulated depreciation and amortization were recalculated. Land deeds were found and compared to the rate base cost.

EXPENSES: An analytical review of the expenses was performed. Revenue was traced to the tariff amount. Material expenses were traced to source documentation. Allocations of salary and rent were reviewed and traced to source documents.

COST OF CAPITAL: Debt was traced to loan statements. Equity was traced to the general ledger and rates were traced to Commission orders. The general ledger was reviewed for deferred taxes.

AUDIT EXCEPTION NO. 1

SUBJECT: STAFF RECALCULATION OF PLANT AND ACCUMULATED DEPRECIATION

STATEMENT OF FACT: Plant in service in the filing schedule A-4 is \$1,895,112 for test year ended 12/31/01. This amount includes land of \$5,666.

Accumulated depreciation in filing schedule A-8 at 12/31/01 is \$643,442 and depreciation expense in filing schedule B-14 is \$51,167.

Accumulated amortization of Contribution in Aid of Construction in the filing schedule A-13 is \$243,834, and its related amortization in the filing schedule B-14 is \$12,705.

Until 2001 the annual reports did not trace to the general ledgers, however, in 2001 the company corrected the general ledger to reflect the correct balance on the annual report.

OPINION: The company has provided backup for major additions since the last rate case. Staff has prepared a schedule showing the differences between plant using the annual reports and audited plant since the last rate case. (See the attached schedule). The overall net effect shows plant being overstated in the filing by \$2,411 (Plant at 12/31/01 per filing and books \$1,895,112 less plant per staff's calculation of \$1,892,700.13).

The major differences were attributed to unsupported 1996 additions of \$1,084.02, to the company having more backup of additions in 1998 than what was recorded in the filing by \$3,913.68, and unsupported additions in 1999 of \$5,240.24.

Plant in Service should be reduced by \$2,411.00.

Accumulated depreciation and depreciation expense as recalculated by staff at 12/31/01 amount to \$706,356.88 and \$67,494.49 respectively. (See the attached schedule) .

This represents a difference between filing and staff's calculation in accumulated depreciation of \$62,914.88 (\$643,442-\$706,356.88) and \$16,327.49 (\$51,167-\$67,494.49) in depreciation expense. Average Accumulated depreciation as calculated by staff is \$672,609.63, and the average accumulated depreciation per filing is \$617,858.50, a difference of \$54,751.13.

The difference is due mainly to the company using a 22.88 year life for account 380, Treatment and Disposal Equipment instead of the 18 year life required by Rule 25-30.140 of the Florida Administrative Code..

We have not made these adjustments to accumulated depreciation and depreciation expense because as discussed in Audit Disclosure No. 1, the account includes the concrete structure of the wastewater plant and not only the equipment considered by the rule. Therefore, the company using a longer life is probably more reasonable than using the rule.

Accumulated amortization of Contribution in Aid of Construction in staff's calculation as of 12/31/01 is \$226,752.10. The difference between the filing and staff's calculation is \$17,081.90 (\$243,834-\$226,752.10). The difference in average accumulated amortization of CIAC between the filing and staff is \$15,957.03 (\$237,481.50-\$221,524.47). (See the attached schedule).

Amortization expense at 12/31/01 as calculated by staff is \$10,455.27. The difference between the filing and staff's calculation is \$2,249.73 (\$12,705-\$10,455.27).

The difference in amortization of CIAC occurs because the composite rate uses the depreciation we computed that is attached to this exception. Since we believe there is a reasonable explanation for the depreciation difference, the difference in CIAC amortization is also reasonable.

PER ANNUAL REPORTS

353.00 Land and Land Rights
 361.00 Collection Sewers-Gravity
 370.00 Receiving Wells
 371.00 Pumping Equipment
 380.00 Treatment and Disposal
 398.00 Other Tangible Plant

1993	1994 additions	1994	1995 additions	1995	1996 additions	1996	1997 additions
\$5,666.00		\$5,666.00		\$5,666.00		\$5,666.00	
\$429,198.00	\$39,300.00	\$468,498.00	\$17,633.00	\$486,131.00	\$19,421.00	\$505,552.00	
\$10,400.00		\$10,400.00		\$10,400.00		\$10,400.00	
\$29,468.00	\$12,164.42	\$41,632.42		\$41,632.42		\$41,632.42	
\$599,538.00		\$599,538.00		\$599,538.00		\$599,538.00	
\$0.00	\$725.00	\$725.00		\$725.00		\$725.00	
\$1,074,270.00	\$52,189.42	\$1,126,459.42	\$17,633.00	\$1,144,092.42	\$19,421.00	\$1,163,513.42	\$0.00

PER STAFF

353.00 Land and Land Rights
 361.00 Collection Sewers-Gravity
 370.00 Receiving Wells
 371.00 Pumping Equipment
 380.00 Treatment and Disposal
 398.00 Other Tangible Plant
 TOTAL PER STAFF

1993	1994 additions	1994	1995 additions	1995	1996 additions	1996	1997 additions
\$5,666.00		\$5,666.00		\$5,666.00		\$5,666.00	
\$429,198.62	\$39,300.00	\$468,498.62	\$17,633.00	\$486,131.62	\$18,336.74	\$504,468.36	
\$10,400.00		\$10,400.00		\$10,400.00		\$10,400.00	
\$29,467.57	\$12,164.42	\$41,631.99		\$41,631.99		\$41,631.99	
\$599,538.05		\$599,538.05		\$599,538.05		\$599,538.05	
\$0.00	\$725.00	\$725.00		\$725.00		\$725.00	
\$1,074,270.24	\$52,189.42	\$1,126,459.66	\$17,633.00	\$1,144,092.66	\$18,336.74	\$1,162,429.40	

PER ANNUAL REPORTS

	1997	1998 additions	1998	1999 additions	1999	2000 additions	2000	2001 additions	2001	average beg + ending
353.00 Land and Land Rights	\$5,666.00		\$5,666.00		\$5,666.00		\$5,666.00		\$5,666.00	
361.00 Collection Sewers-Gravity	\$505,552.00	\$12,139.00	\$517,691.00	\$7,370.00	\$525,061.00		\$525,061.00	\$439,305.00	\$964,366.00	
370.00 Receiving Wells	\$10,400.00		\$10,400.00		\$10,400.00		\$10,400.00		\$10,400.00	
371.00 Pumping Equipment	\$41,632.42	\$2,382.00	\$44,014.42		\$44,014.42		\$44,014.42		\$44,014.42	
380.00 Treatment and Disposal	\$599,538.00		\$599,538.00	\$268,652.00	\$868,190.00		\$868,190.00	\$1,750.00	\$869,940.00	
398.00 Other Tangible Plant	\$725.00	\$0.00	\$725.00	\$0.00	\$725.00		\$725.00	\$0.00	\$725.00	
	\$1,163,513.42	\$14,521.00	\$1,178,034.42	\$276,022.00	\$1,454,056.42		\$1,454,056.42	\$441,055.00	\$1,895,111.42	\$1,674,583.92

PER STAFF

	1997	1998 additions	1998	1999 additions	1999	2000 additions	2000	2001 additions	2001	average beg + ending
353.00 Land and Land Rights	\$5,666.00		\$5,666.00		\$5,666.00		\$5,666.00		\$5,666.00	
361.00 Collection Sewers-Gravity	\$504,468.36		\$504,468.36	\$26,095.39	\$530,563.75		\$530,563.75	\$432,293.03	\$962,856.78	
370.00 Receiving Wells	\$10,400.00		\$10,400.00		\$10,400.00		\$10,400.00		\$10,400.00	
371.00 Pumping Equipment	\$41,631.99		\$41,631.99		\$41,631.99		\$41,631.99		\$41,631.99	
380.00 Treatment and Disposal	\$599,538.05	\$18,434.68	\$617,972.73	\$244,686.37	\$862,659.10		\$862,659.10	\$8,761.26	\$871,420.36	
398.00 Other Tangible Plant	\$725.00		\$725.00		\$725.00		\$725.00		\$725.00	
TOTAL PER STAFF	\$1,162,429.40	\$18,434.68	\$1,180,864.08	\$270,781.76	\$1,451,645.84		\$1,451,645.84	\$441,054.29	\$1,892,700.13	\$1,672,172.99

DIFFERENCES between annual reports and staff's calculation

	1993	1994 ADDITIONS	1994	1995 additions	1995	1996 additions	1996	1997 additions
353.00 Land and Land Rights	0.00	0.00	0.00	0.00	\$0.00	0.00	\$0.00	0.00
361.00 Collection Sewers-Gravity	(0.62)	0.00	(0.62)	0.00	(\$0.62)	1,084.26	\$1,083.64	0.00
370.00 Receiving Wells	0.00	0.00	0.00	0.00	\$0.00	0.00	\$0.00	0.00
371.00 Pumping Equipment	0.43	0.00	0.43	0.00	\$0.43	0.00	\$0.43	0.00
380.00 Treatment and Disposal	(0.05)	0.00	(0.05)	0.00	(\$0.05)	0.00	(\$0.05)	0.00
398.00 Other Tangible Plant	0.00	0.00	0.00	0.00	\$0.00	0.00	\$0.00	0.00
TOTAL DIFFERENCES	(\$0.24)	\$0.00	(\$0.24)	\$0.00	(\$0.24)	\$1,084.26	\$1,084.02	\$0.00

DEPRECIATION USING STAFF'S NUMBERS

Account	Description	DEPRECIATION LIVES	1993	1994 additions	1994	1995 additions	1995	1996 additions	1996	1997 additions
353.00	Land and Land Rights									
361.00	Collection Sewers-Gravity	45.00	\$81,562.00	\$9,974.41	\$91,536.41	\$10,607.00	\$102,143.42	\$11,006.67	\$113,150.08	\$11,210.41
370.00	Receiving Wells	30.00	\$2,026.00	\$346.67	\$2,372.67	\$346.67	\$2,719.33	\$346.67	\$3,066.00	\$346.67
371.00	Pumping Equipment	18.00	\$5,713.00	\$1,974.99	\$7,687.99	\$2,312.89	\$10,000.88	\$2,312.89	\$12,313.76	\$2,312.89
380.00	Treatment and Disposal	18.00	\$197,407.00	\$33,307.67	\$230,714.67	\$33,307.67	\$264,022.34	\$33,307.67	\$297,330.01	\$33,307.67
398.00	Other Tangible Plant	10.00		\$36.25	\$36.25	\$72.50	\$108.75	\$72.50	\$181.25	\$72.50
	Total		\$286,708.00	\$45,639.99	\$332,347.99	\$46,646.73	\$378,994.71	\$47,046.39	\$426,041.11	\$47,250.13

FORMULA used for the calculation depreciation expense is as follows:

$$\frac{\text{yearly plant balances per account}}{\text{divided by each account lives}} \quad \text{plus} \quad \frac{\text{each yearly addition}}{\text{divided by each account lives}} \quad (\text{DIVIDED BY } 2)$$

EXAMPLE
 1993 plant = \$429,198.62
 divided by account 361
 with a 45 year life
1994 additions = \$39,300
 divided by account 361
 with a 45 year life

\$9,537.75	plus	\$873.33		\$436.67
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\$9,537.75
\$436.67

\$9,974.42

	1997	1998 additions	1998	1999 additions	1999	2000 additions	2000	2001 additions	2001	AVERAGE BEG./END
353.00 Land and Land Rights	\$0.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	
361.00 Collection Sewers-Gravity	\$1,083.64	12,139.00	\$13,222.64	(18,725.39)	(\$5,502.75)	0.00	(\$5,502.75)	7,011.97	\$1,509.22	
370.00 Receiving Wells	\$0.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	
371.00 Pumping Equipment	\$0.43	2,382.00	\$2,382.43	0.00	\$2,382.43	0.00	\$2,382.43	0.00	\$2,382.43	
380.00 Treatment and Disposal	(\$0.05)	(18,434.68)	(\$18,434.73)	23,965.63	\$5,530.90	0.00	\$5,530.90	(7,011.26)	(\$1,480.36)	
398.00 Other Tangible Plant	\$0.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	0.00	\$0.00	
TOTAL DIFFERENCES	\$1,084.02	(\$3,913.68)	(\$2,829.66)	\$5,240.24	\$2,410.58	\$0.00	\$2,410.58	\$0.71	\$2,411.29	\$2,410.93

Account	Description	DEPRECIATION LIVES	1997	1998 additions	1998	1999 additions	1999	2000 additions	2000	2001 additions	2001	AVERAGE BEG./END
353.00	Land and Land Rights											
361.00	Collection Sewers-Gravity	45.00	\$124,360.49	\$11,210.41	\$135,570.90	\$11,500.36	\$147,071.26	\$11,790.31	\$158,861.56	\$16,593.56	\$175,455.12	
370.00	Receiving Wells	30.00	\$3,412.67	\$346.67	\$3,759.33	\$346.67	\$4,106.00	\$346.67	\$4,452.67	\$346.67	\$4,799.33	
371.00	Pumping Equipment	18.00	\$14,626.65	\$2,312.89	\$16,939.54	\$2,312.89	\$19,252.43	\$2,312.89	\$21,565.32	\$2,312.89	\$23,878.21	
380.00	Treatment and Disposal	18.00	\$330,637.68	\$33,819.74	\$364,457.42	\$41,128.66	\$405,586.08	\$47,925.51	\$453,511.59	\$48,168.87	\$501,680.46	
398.00	Other Tangible Plant	10.00	\$253.75	\$72.50	\$326.25	\$72.50	\$398.75	\$72.50	\$471.25	\$72.50	\$543.75	
	Total		\$473,291.24	\$47,762.21	\$521,053.45	\$55,361.07	\$576,414.52	\$62,447.87	\$638,862.38	\$67,494.49	\$706,356.88	\$672,609.63

DEPRECIATION EXPENSE AND ACCUMULATED DEPRECIATION PER COMPANY \$592,275.00 \$51,167.00 \$643,442.00 \$617,858.50
DIFFERENCE \$46,587.38 \$16,327.49 \$62,914.88

\$67,494.49 3.577% composite rate
\$1,887,034.13
\$1,892,700.13
(\$5,666.00)
\$1,887,034.13

AMORTIZATION OF CIAC AND ACCUMULATED AMORTIZATION OF CIAC PER STAFF'S CALCULATION

Acc. amtz. of CIAC 1993	1994 amtz. of CIAC	Acc. amtz. of CIAC 1994	1995 amtz. of CIAC	Acc. amtz. of CIAC 1995	1996 amtz. of CIAC	Acc. amtz. of CIAC 1996	1997 amtz. of CIAC
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\$149,378.00 \$8,982.92 \$158,360.92 \$8,982.92 \$167,343.84 \$9,330.60 \$176,674.44 \$9,591.90

Rate of 3.577% was used.

AMORTIZATION OF CIAC AND ACCUMULATED CIAC PER FILING

Acc. amtz. of CIAC 1993	1994 amtz. of CIAC	Acc. amtz. of CIAC 1994	1995 amtz. of CIAC	Acc. amtz. of CIAC 1995	1996 amtz. of CIAC	Acc. amtz. of CIAC 1996	1997 amtz. of CIAC
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\$149,378.00 \$10,651.00 \$160,029.00 \$11,079.00 \$171,108.00 \$11,403.00 \$182,511.00 \$11,754.00

DIFFERENCE
BETWEEN FILING
AND STAFF

\$0.00 \$1,668.08 \$1,668.08 \$2,096.08 \$3,764.16 \$2,072.40 \$5,836.56 \$2,162.10

Acc. amtz. of CIAC 1997	1998 amtz. of CIAC	Acc. amtz of CIAC 1998	1999 amtz. of CIAC	Acc. amtz of CIAC 1999	2000 amtz. of CIAC	2000	2001 amtz. of CIAC	2001	AVERAGE BEG AND ENDING BALANCES
\$186,266.35	\$9,939.59	\$196,205.94	\$9,977.47	\$206,183.41	\$10,113.43	\$216,296.84	\$10,455.27	\$226,752.10	\$221,524.47

Acc. amtz. of CIAC 1997	1998 amtz. of CIAC	Acc. amtz of CIAC 1998	1999 amtz. of CIAC	Acc. amtz of CIAC 1999	2000 amtz. of CIAC	2000	2001 amtz. of CIAC	2001	
\$194,265.00	\$12,104.00	\$206,369.00	\$12,330.00	\$218,699.00	\$12,430.00	\$231,129.00	\$12,705.00	\$243,834.00	\$237,481.50
\$7,998.65	\$2,164.41	\$10,163.06	\$2,352.53	\$12,515.59	\$2,316.57	\$14,832.16	\$2,249.73	\$17,081.90	\$15,957.03

DIFFERENCE
BETWEEN FILING
AND STAFF

AUDIT EXCEPTION NO. 2

SUBJECT: ABANDONED PLANT

STATEMENT OF FACT: The rate base schedule A-2, in the filing, includes a non-used and useful adjustment that is actually for an abandoned plant. The amount of \$47,757 (Cost of \$325,474 less accumulated depreciation of \$277,717) was removed from rate base.

OPINION: The abandoned plant should be retired from the books. According to the Naruc Chart of Accounts the retirement should be recorded as follows:

"If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property."

Therefore, the entry would be:

Accumulated Depreciation	\$325,474	
Plant in Service		\$325,474

The company used and useful adjustment should be removed, therefore increasing rate base by \$47,757.

AUDIT EXCEPTION NO. 3

SUBJECT: ELECTRIC BILL EXPENSES

STATEMENT OF FACT: Total electric expenses in the filing in schedule B-6 were \$23,194.23.

OPINION: After reviewing the electric bills it was determined that the total from the bills was \$22,676.91. This represents a difference between what's on the filing and actual expenses of \$517.32. The utility should reduce electric expenses by \$517.32.

ELECTRIC EXPENSES PER STAFF'S CALCULATION

COST:	METER #	ADDRESS	READ DATE	READ DATE	READ DATE	READ DATE	READ DATE	READ DATE	READ DATE	
			DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY
			BILL DUE	BILL DUE	BILL DUE	BILL DUE	BILL DUE	BILL DUE	BILL DUE	
			JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	AUGUST	
	27447	2 KEY HAVEN RD. LS 2	\$16.71	\$18.73	\$16.41	\$15.11	\$18.29	\$16.68	\$35.49	\$19.99
	41656	320 B DRIFTWOOD DR. LS 4	\$9.28	\$8.33	\$8.15	\$8.09	\$8.09	\$8.21	\$8.34	\$8.61
	34443	30 ALLAMANDA TERR LS 1	\$42.10	\$51.15	\$41.73	\$44.82	\$47.53	\$41.50	\$50.23	\$48.95
	35995	152 B KEYHAVEN PLANT	\$1,217.72	\$1,687.82	\$1,636.52	\$1,487.01	\$1,676.74	\$1,568.18	\$1,735.24	\$2,287.82
13	19935	KEY HAVEN RD LS 3	\$29.52	\$40.31	\$32.36	\$37.82	\$40.40	\$34.75	\$39.41	\$85.00
			\$1,316.33	\$1,806.34	\$1,735.17	\$1,592.85	\$1,791.05	\$1,669.32	\$1,868.71	\$747,552.27
KWH:										
	27447	2 KEY HAVEN RD. LS 2	82	105	67	64	90	77	230	91
	41656	320 B DRIFTWOOD DR. LS 4	14	10	4	7	7	8	9	8
	34443	30 ALLAMANDA TERR LS 1	310	401	260	306	328	279	350	325
	35995	152 B KEYHAVEN PLANT	12,012	17,285	13,579	13,000	15,018	13,787	15,411	20,624
	19935	KEY HAVEN RD LS 3	192	302	73	249	270	224	262	629.00
			12,610	18,103	13,983	13,626	15,713	14,375	16,262	21,677

COST:		READ DATE	READ DATE	READ DATE	READ DATE	TOTAL
METER #	ADDRESS	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	USING
		BILL DUE	BILL DUE	BILL DUE	BILL DUE	BILL DUE
		SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	DATE
27447	2 KEY HAVEN RD. LS 2	\$20.86	\$20.49	\$33.06	\$25.30	\$257.12
41656	320 B DRIFTWOOD DR. LS 4	\$8.44	\$9.27	\$13.30	\$14.27	\$112.38
34443	30 ALLAMANDA TERR LS 1	\$36.03	\$55.64	\$76.39	\$63.22	\$599.29
35995	152 B KEYHAVEN PLANT	\$2,469.88	\$1,890.34	\$1,728.32	\$1,685.79	\$21,071.38
19935	KEY HAVEN RD LS 3	\$69.84	\$121.96	\$64.94	\$40.43	\$636.74
		\$2,605.05	\$2,097.70	\$1,916.01	\$1,829.01	\$22,676.91
KWH:						
27447	2 KEY HAVEN RD. LS 2	113	111	230	172	1,432.00
41656	320 B DRIFTWOOD DR. LS 4	10	17	54	67	215.00
34443	30 ALLAMANDA TERR LS 1	322	405	616	533	4,435.00
35995	152 B KEYHAVEN PLANT	23,396	17,372	16,915	17,841	196,240.00
19935	KEY HAVEN RD LS 3	519	960	514	316	4,509.67
		24,360	18,865	18,329	18,929	206,832

Per account 715 on the books and 715 on the filing \$23,194.23

difference (\$517.32)

AUDIT EXCEPTION NO. 4

SUBJECT: TAXES OTHER THAN INCOME

STATEMENT OF FACT: Payroll taxes according to schedule B-15 of the filing are \$2,231. Real Estate and Personal Property Taxes are \$653.00. Payroll taxes on the general ledger were \$652.72 (\$56.00 for FUTA and \$596.70 for payroll). Real Estate and Personal Taxes in the general ledger amount to \$2,230.92 (\$404.81 for intangible taxes and \$1,826.11 for property taxes).

OPINION: It appears that the company reversed payroll taxes and property taxes. In addition, if the actual amount of payroll that was recorded in the filing, were multiplied by the 7.65% FICA rate, payroll taxes would be higher than the \$652.72 recorded in the ledger. Payroll of \$12,000 multiplied by the FICA rate totals \$918.00 (\$12,000*.0765).

Payroll taxes should be decreased by \$1,313.00 (\$2,231-\$918) and Real Estate and Personal Property taxes should be increased by \$1,577.98 (\$653.00-\$2,230.92).

Intangible taxes of \$404.81 should be removed from Taxes Other Than Income because it is a stockholder's expense and does not relate to utility assets.

The net effect is a decrease of \$239.89.

AUDIT EXCEPTION NO. 5

SUBJECT: ADJUSTMENT TO PLANT IN SERVICE

STATEMENT OF FACT: Included in the filing schedule A-4 is an adjustment to decrease Plant for \$4,802 in 1994. This adjustment is to balance plant to agree with the Order.

OPINION: The ending balance in the last audit is \$1,087,114. The last order adjusted plant by \$8,042. This nets to \$1,079,072 which is the starting balance used in schedule A-4. Therefore, this adjustment is not needed, and plant in the filing should be increased by \$4,802.

AUDIT DISCLOSURE NO. 1

SUBJECT: PLANT

STATEMENT OF FACT: In its year 2000 plant additions, the company included a contract totaling \$238,456.03 from O'Brien Environmental Services, Inc. for the construction of a wastewater treatment plant. This amount was recorded in account 380 Treatment and Disposal. The contract did not break down the components of the plant and therefore, the company did not allocate the contract to the proper NARUC accounts.

OPINION: Not detailing the plant to the proper accounts could affect depreciation expense and accumulated depreciation.

AUDIT DISCLOSURE NO. 2

SUBJECT: RETURN ON COMMON EQUITY

STATEMENT OF FACT: Cost of Capital in the filing schedule A-8 included an 11.34% return on common equity. This rate agrees with Commission Order PSC-01-2514-FOF-WS dated December 24, 2001 for companies with equity ratios less than 40%. The new order PSC-02-1252-CO-WS, dated September 11, 2002, shows a return on common equity for companies with an equity ratio of less than 40% of 11.10%.

AUDIT DISCLOSURE NO. 3

SUBJECT: ACCUMULATED DEFERRED INCOME TAXES

STATEMENT OF FACT: The company has included in schedule C-6 a computation of accumulated deferred income taxes, however, this computation is not included in their cost of capital calculation in schedule D-1 or in their books.

OPINION: The explanation provided by the company is as follows:

“Deferred taxes were calculated because they were included in the company’s previous rate case, and result in a net deferred tax asset. However, the deferred taxes are not included in rate base, nor is an income tax provision being requested as the local CPA (Randy Moore) believes that the deferred taxes are not realizable and the valuation allowance reduces the deferred tax to zero.”

AUDIT DISCLOSURE NO. 4

SUBJECT: ADJUSTMENT TO NET OPERATING INCOME

STATEMENT OF FACT: The company has included in B-3 an adjustment for \$24,858.00 for the removal of Vactor major maintenance expenses. This amount represents the entire account 725 on the general ledger and which appears as account 720 in the filing, schedule B-6. The balance the company used included many normal maintenance items such lift station repairs, repair of fences, wastewater treatment plant repair, chlorine chamber repairs, etc. These expenses have been amortized in the filing over 5 years amounting to \$4,971.60 ($\$24,858/5$).

OPINION: Based on invoices, Vactor expenses were \$9,256.00. Of this amount, \$3,010 was transferred to plant by the company. Therefore, only \$6,245.72 remained in expenses. Amortizing over five years, the yearly amortization of the \$6,245.72 would be \$1,249.14.

If Vactor expenses were reduced to actual costs, the adjustment on schedule B-3 would be reduced by \$18,612.28 ($\$24,858 - \$6,245.72$) and the amortization should be reduced by \$3,722.46, ($\$4,971.60 - \$1,249.14$). This results in an decrease to Net Operating Income of \$14,889.82.

AUDIT DISCLOSURE NO. 5

SUBJECT: MISCELLANEOUS EXPENSES

STATEMENT OF FACT: The company has included \$1,500 in account 775 Miscellaneous Expense in the filing schedule B-6. This amount was paid to Southernmost Insurance Agency for overhead costs.

OPINION: Overhead costs were already included as part of the costs in schedule 1 and schedule 2 attached to Audit Disclosure 7 for rent expense.

AUDIT DISCLOSURE NO. 6

SUBJECT: BILLING

STATEMENT OF FACT: The utility has included \$100 a month in proforma expenses for the cost of obtaining the gallonage billings each month from the water company. Several other costs will be incurred in using rates based on gallons instead of the flat rate currently charged.

OPINION: The company will now need to bill monthly instead of sending out a packet every six months. Additional labor costs will be incurred to determine the bill amounts and handle customer complaints when meter readings are incorrect. Additional costs will be incurred for software to prepare the billing. There will also be additional postcard or paper and envelope costs and additional postage. None of these items were included in the filing. The costs were requested from the company but not received.

AUDIT DISCLOSURE NO. 7

SUBJECT: RENT EXPENSE

STATEMENT OF FACT: The company's methodology used to calculate rent expense is as follows:

The company took \$21 per square foot, which is an average of estimates from a real estate broker, and multiplied it by 300 square feet to arrive at \$6,300.00. Another \$472.50 was added for sales tax totaling \$6,772.50.

To this amount the company has added a percent of property taxes and insurance. A portion of water, electric and sewer expenses were also added to this calculation.

The company charged \$8,000 as yearly rent expense. The calculation the company provided can be found on schedule 1 attached to this disclosure.

OPINION: The calculation the company uses relates more to a management fee allocation of common costs than rent. The management fee in the filing only consists of Mr. Lujan's salary.

After reviewing the above costs it was found that the correct square footage is 285.25 sq. ft. and that space is used half the time on utility business. Therefore, the correct percent is 8.97% (142.625 sq ft. divided by 1590 total square feet on the first floor). The company used 18.9% to allocate the common expenses.

Property taxes were \$5,076.37, not the \$5,287.89 used by the company.

The company took property taxes and insurance and multiplied it by 18.97% instead of the 8.97% as calculated by staff as the space for utility. The building has two floors and the utility does not use the upstairs floor. These costs should be allocated to the upstairs as well. The water, electric and sewer bills should all be allocated based on the 8.97% versus the 18.9% the company used. Mr. Lujan left the waste management bill of \$70.00 a month off his calculation. The corrections are provided on schedule 1 next to the company numbers. Using the corrections would reduce the \$8,000 by \$4,074.09.

Although the estimate for \$21 square feet was backed up by real estate company estimates, the building is owned by the family which makes it an affiliate transaction. When we have a lease with an affiliate we usually use the lower of cost or market to determine the rent allocated. To determine cost we would allocate a return on the building plus taxes, depreciation and insurance instead of using a cost per square foot. However, the building was not on the books of Southernmost Insurance, the affiliate the utility shares space with. Since the \$8,000 was actually an allocation of costs, the Southernmost Insurance income statement was reviewed for common costs. These costs were allocated based on payroll since the utility also shares common parts of the building such as entrance, bathrooms and kitchen area. A return on investment was added for leasehold improvements that were on

the balance sheet. This calculation can be found on schedule 2 attached to this disclosure. This methodology shows the \$8,000 to be overstated by \$2,792.96. However, this does not include a return on investment for the actual building itself. If a return were added, the \$8,000 would probably be reasonable.

SCHEDULE 1

RENT EXPENSE

PER COMPANY'S METHODOLOGY

\$21.00	Per square foot
<u>300</u>	Square feet
\$6,300.00	
\$472.50	Sales Tax
<u>\$6,772.50</u>	
\$5,287.89	Property taxes on the building
\$2,094.00	Insurance fire, liability
\$1,763.00	Insurance wind
<u>\$9,144.89</u>	
18.9%	percent-total area related to the utility
<u>\$1,728.38</u>	
\$37.27	Water
\$392.22	Electric
\$60.23	Sewer
<u>\$489.72</u>	

\$8,990.60 (\$6,772.50+\$1,728.38+\$489.72)

Yearly rent per filing is \$8,000.00

PER COMPANY'S METHODOLOGY USING AUDITED COSTS

\$21.00	Per square foot	
<u>143</u>		285.25 (square feet used times 50% time allocation)
\$3,003.00		
\$225.23	sales tax	
<u>\$3,228.23</u>		
\$5,076.37	Actual property taxes	
\$2,094.21	Insurance fire, liability	
\$1,763.00	Insurance wind	
\$839.88	Waste Management	
<u>\$9,773.46</u>		
\$4,886.73	total costs divided by 2 (company used 1/2 building)	
8.970%	percent area related to utility	utility space
<u>\$438.34</u>		total sq ft <u>142.625</u> 8.970%
		downstairs <u>1590</u>
\$497.22	Total Water	
\$2,075.28	Total Electric	
\$318.72	Total Sewer	
<u>\$2,891.22</u>		
8.970%		
<u>\$259.34</u>		

\$3,925.91 (3,228.23+\$438.34+\$259.34)

\$8,000.00

(\$4,074.09) difference between the company's methodology using correct data and the filing expense.

SCHEDULE 2**RENT EXPENSE METHOD 2**

Southernmost Insurance expenses that relate to all companies for shared costs:

	\$7,792.30	Auto
	\$13,887.32	Computer
	\$1,217.13	Depreciation
	\$5,250.41	Equipment rental
	\$7,083.63	Office expense
	\$3,212.32	Repairs and Maintenance
	\$4,004.20	Utilities
	<u>\$42,447.31</u>	Total Expenses
	10.81%	Payroll allocation
	<u>\$4,588.55</u>	Utility share using payroll allocation
		Utility share of insurance on the building
	\$173.00	$(\$2,094.21 + \$1,763) / 2$ times 8.97%
		Utility share of taxes
	\$227.68	$(\$5,076.37 / 2)$ times 8.97%
		Return on Investment
	<u>\$217.81</u>	SEE NOTE (A)
	\$5,207.04	Total utility
	<u>\$8,000.00</u>	Charged by the company
	<u>(\$2,792.96)</u>	Rent overstated amount

NOTE (A)	\$21,435.00	Leasehold improvements such as computer, furniture, etc. net of depreciation
	9.40%	times 9.04% return on investment
	<u>\$2,014.89</u>	
	10.81%	times payroll allocation
	<u>\$217.81</u>	

NOTE (B) This calculation does not include any return on the building itself. The building is owned by the family and is not on the Southernmost Insurance Ledger. Inclusion of some rent for the building would bring the amount over the \$8,000 charged.

COMPANY EXHIBITS

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Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Key Haven Utility Corporation
 Docket No.: 020344-SU
 Schedule Year Ended: December 31, 2001
 Interim Final
 Historic Projected

Schedule: A-2 (a)
 Page 1 of 1
 Preparer: CJN & W

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 1,668,919		\$ 1,668,919	A-6
2	Utility Land & Land Rights	5,666		5,666	A-6
3	Less: Non-Used & Useful Plant	(47,757)		(47,757)	A-7
4	Construction Work in Progress				-
5	Less: Accumulated Depreciation	(617,860)		(617,860)	A-10
6	Less: CIAC	(308,379)		(308,379)	A-12
7	Accumulated Amortization of CIAC	237,482		237,482	A-14
8	Acquisition Adjustments				-
9	Accum. Amort. of Acq. Adjustments				-
10	Advances For Construction				A-16
11	Working Capital Allowance	<u>22,974</u>	<u>(3,107) (A)</u>	<u>19,867</u>	A-17
12	Total Rate Base	<u>\$ 961,045</u>	<u>\$ (3,107)</u>	<u>\$ 957,938</u>	

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Key Haven Utility Corporation
 Docket No.: 020344-SU
 Test Year Ended: December 31, 2001
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: CJN & W

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 237,181	\$ 3,926 (A)	\$ 241,107	\$ 89,516 (F)	\$ 330,623	B-4, E-13
2	Operation & Maintenance	183,795	(24,858) (B)	158,937	26,800 (G)	185,737	B-5, B-3
3	Depreciation, net of CIAC Am	38,462	(7,997) (C)	30,465		30,465	B-13, B-3
4	Amortization		6,532 (D)	6,532		6,532	B-3
5	Taxes Other Than Income	13,707	177 (E)	13,884	4,028 (H)	17,912	B-15, B-3
6	Provision for Income Taxes		-	-	-	-	C-1, B-3
7	OPERATING EXPENSES	235,964	(26,146)	209,818	30,828	240,646	
8	NET OPERATING INCOME	\$ 1,217	\$ 30,072	\$ 31,289	\$ 58,688	\$ 89,977	
9	RATE BASE	\$ 961,045		\$ 961,288		\$ 961,288	
10	RATE OF RETURN	0.13 %		3.25 %		9.36 %	

Schedule of Requested Cost of Capital (Final Rates)
Beginning and End of Year Average

Florida Public Service Commission

Company: Key Haven Utility Corporation
Docket No.: 020344-SU
Test Year Ended: December 31, 2001
Schedule Year Ended: December 31, 2001
Historic [X] or Projected []

Schedule: D-1
Page 1 of 1
Preparer: CJN & W

Subsidiary [] or Consolidated []

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1)	(2)	(3)	(4)
		Total Capital	Ratio	Cost Rate	Weighted Cost
1	Long-Term Debt	679,919	70.73 %	8.54 %	6.04 %
2	Short-Term Debt				
3	Preferred Stock				
4	Customer Deposits				
5	Common Equity	281,369	29.27	11.34	3.32
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax				
8	Other (Explain)				
9	Total	<u>961,288</u>	<u>100.00 %</u>		<u>9.36 %</u>