

State of Florida



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

---

**DATE:** December 16, 2002  
**TO:** Division of Economic Regulation (Revell)  
**FROM:** Division of Auditing and Safety (Vandiver) *W*  
**RE:** **Docket No.** 020409-SU; **Company Name:** Utilities, Inc. of Sandalhaven ; **Audit Purpose:** Rate Case; **Audit Control No.** 02-282-3-1

---

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 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

Carl J. Wenz, Vice President - Regulatory  
Utilities, Inc. of Florida  
200 Weathersfield Avenue  
Altamonte Springs, FL 32714-4099

Mr. Martin Friedman, Esq.  
Rose Law Firm  
650 S. North Lake Blvd., Suite 420  
Altamonte Springs, FL 32701

Mr. Donald Rasmussen, Vice President  
Utilities, Inc. of Sandalhaven  
200 Weathersfield Avenue  
Altamonte Springs, FL 32714-4099

DOCUMENT NUMBER-DATE

13690 DEC 16 8

FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*Miami District Office*

**UTILITIES INC. OF SANDALHAVEN  
RATE CASE**

**YEAR ENDED DECEMBER 31, 2001**

**DOCKET NO. 020409-SU**

**AUDIT CONTROL NO. 02-282-3-1**

A handwritten signature in cursive script, appearing to read "Kathy L. Welch".

*Kathy L. Welch, Audit Manager*

A handwritten signature in cursive script, appearing to read "Yen Ngo".

*Yen Ngo, Audit Staff*

A handwritten signature in cursive script, appearing to read "Jeff Small".

*Jeff Small, Audit Staff*

A handwritten signature in cursive script, appearing to read "Ray Grant".

*Ray Grant, Audit Staff*

A handwritten signature in cursive script, appearing to read "Iliana Piedra".

*Iliana Piedra*

*Professional Accountant Specialist*

## INDEX

I.	Opinion and Scope Limitation	1
II.	Summary of Significant Procedures	2
III.	Audit Exceptions	3
	Audit Exception No. 1-Land	3
	Audit Exception No. 2-Water Service Corp. Rate Base	5
	Audit Exception No. 3-Organization and Franchise Costs	6
	Audit Exception No. 4-Plant Account Correction	7
	Audit Exception No. 5-AFUDC	8
	Audit Exception No. 6-CIAC Verification	9
	Audit Exception No. 7-Depreciation and Amortization	10
	Audit Exception No. 8-Cost of Capital	13
	Audit Exception No. 9-Adjustments to Operating Income	15
	Audit Exception No. 10-Miscellaneous Exp. Adjustments	18
	Audit Exception No. 11-Taxes Other Than Income	19
IV.	Audit Disclosures	20
	Audit Disclosure No. 1-Retirements	20
V.	Company Prepared Exhibits	21
	Rate Base	22
	Cost of Capital	23
	Net Operating Income	24

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

**DECEMBER 11, 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 Utilities Inc. of Sandalhaven. These schedules were prepared by the company as part of its petition for rate relief in docket number 020409-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.

## **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 amount were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amount 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 the substantiating documentation.

**RATE BASE:** Examined rate base. Performed a record search for all deeds related to the land sales. Tested plant additions to invoices. Recalculated Allowance for Funds Used During Construction. Attempted to recalculate Contributions in Aid of Construction. Recalculated Depreciation and Amortization. Reviewed adjustments to rate base for reasonableness. Verified Water Service Corp. and Utilities Inc. of Florida allocations.

**COST OF CAPITAL:** Examined Cost of Capital. Recalculated cost of capital using the audit of affiliate transactions.

**NET OPERATING INCOME:** Examined revenue. Tested random bills for use of tariff. Recalculated billing analysis from billing summaries. Examined expenses. Traced major amounts to invoices. Obtained supporting documentation for taxes other than income taxes. Verified Water Service Corp. and Utilities Inc. of Florida allocations.

## **AUDIT EXCEPTION NO. 1**

### **SUBJECT: LAND**

**STATEMENT OF FACT:** The utility pays real estate taxes on two parcels of land. One is for the wastewater treatment plant land and one is for a vacant parcel adjacent to the plant.

The property tax account for the vacant parcel is 0081049-800170-0 and the tax for the year was \$99.12 showing an assessed value of \$4,400. The second parcel of land is for tax account 00810049-800175-5 and had taxes of \$613.24 and is the land the plant sits on. The assessed value of the land is \$31,528. Both parcels have been recorded on the same deed.

The current deed is on book 1692 page 325 and was a transfer from Sandalhaven Utility, Inc. to Utilities Inc. of Sandalhaven. The transfer was recorded at \$100,000. The land was previously owned by Fiddler's Green Condominiums and transferred in 1996 to Sandalhaven Utility for \$70,000 (Book 1541, page 1547). The same parcel was also transferred from CHP Utilities to Sandalhaven on the same day for \$70,000. Deeds for the same transfer were also recorded 11/10/98 for \$35,000. No explanation could be found why the same parcel was transferred to the same party three times from two separate companies at two separate times. All had the same legal description. Fiddlers Green bought the land from SFSC in September 1987 and SFSC bought the land in 1985 from Eugene and Helene Schwartz and Melvin and Vilma Steinbaum.

The land was part of a larger parcel that was transferred from Gasparilla Pines Assoc.. Inc. to Eugene and Helene Schwartz and Melvin and Vilma Steinbaum in September 1979. Although the deed does not show the price and minimum doc stamps were paid, it shows a mortgage related to the sale. The mortgage shows a release price per acre of \$7,771.90 for this tract of land. The plant was built in 1975. The Gasparilla Pines purchase of the land could not be found because tax records were minimal for that time period. The tax roll indexes were searched but no record could be found. Although the price is only the mortgaged amount of the land, and actual price of the land may have been higher, it is also four years after the land was first placed in public service and had probably appreciated. Using the \$7,771.90 per acre, the land value would be \$16,709.58 for the 2.15 acres described in the deed.

In 1991 an appraisal was done that valued the land at \$225,000 based on comparables that appeared to be for land that faced the main road and would therefore be more valuable. This appraisal was based on 1.58 acres, not the 2.15 actually deeded to the utility. Based on the 1979 mortgage, the value in 1979 was \$16,709.58 for the 2.15 acres. The tax assessor is currently estimating the value at \$35,966. The land value in 1998 when transferred from CHP was \$35,000. Utilities Inc. used \$100,000 as the price for the deed and not the \$225,000 shown on the ledger.

The utility also attempted to purchase land for a possible plant expansion in 2000. The company paid \$1,000 deposit for a \$55,000 piece of property from the trust of Donald W. Joiner. The property was never purchased but the \$1,000 was originally recorded in construction work in process and transferred to Account 380, treatment plant.

**OPINION:** The mortgage note shows the closest price to the actual time the plant was placed in service. This would record the cost at \$16,709.58 instead of the \$225,000 actually recorded. Since we have the mortgage note instead of the actual sales price, the most the land should be valued at is \$35,000 which is the amount the land was transferred at in 1998 and close to the current tax appraisal.

**AUDIT EXCEPTION NO. 2**

**SUBJECT: WATER SERVICE CORP. RATE BASE**

**STATEMENT OF FACT:** The company included an allocation for Utilities Inc. of Florida's rate base in the general ledger but did not include an allocation of Water Service Corporation's Rate Base. According to the audit of affiliate transactions, (Audit Control No. 02-1122-3-1), the rate base after adjustments that relates to Sandalhaven is \$12,207.

**OPINION:** The rate base of \$12,207 for Water Service Corp. should be added to the company rate base schedule.

Audit adjustments were made to Utilities Inc. of Florida's rate base in the audit of the five counties. These adjustments have an immaterial effect on Sandalhaven because the percentage allocated was minimal. Therefore, these adjustments have not been made.



### **AUDIT EXCEPTION NO. 3**

#### **SUBJECT: ORGANIZATION COSTS AND FRANCHISE COSTS**

**STATEMENT OF FACT:** Organization costs of \$59,899.97 were charged to account 3511001 in the general ledger since the transfer to Utilities, Inc. of Sandalhaven. Franchise costs of \$12,590.72 were charged to account 3521020.

Of the \$59,899.97 of organization costs, \$9,899.97 were for capitalized time of Don Rasmussen, Andy Dopuch and Carl Wenz. The remaining \$50,000 was a commission for the sale paid to Kace, Inc.

The franchise fees of \$12,590.72 included \$1,828.23 of legal bills that related to establishing the actual territory of the utility. The remaining \$10,762.49 related to adjusting journal entries. The company was asked for source documentation for the largest of these journal entries and supporting documentation was never provided.

The NARUC chart of accounts allows fees and expenses for mergers or consolidations in Organization costs. Reasonable costs to incur franchisees, consents or certificates of permission are allowed to be charged to Franchises.

**OPINION:** The company could not support \$10,762.49 charged to franchise costs and it should be removed along with the associated depreciation. Capitalized time and the commission paid for the sale should be reviewed for reasonableness. Depreciation was computed at 2.5% in exception 7. For 2001 this is \$269 that depreciation expense should be reduced. Using 2.5 years for accumulated depreciation amounts to an adjustment for \$673.

**AUDIT EXCEPTION NO. 4**

**SUBJECT: PLANT ACCOUNT CORRECTION**

**STATEMENT OF FACT:** The company charged a blower costing \$4,755.04 to account 3937054 in its ledger and account 393 Tools, in its filing. The blower should actually have been charged to account 380, Treatment and Disposal Equipment.

**OPINION:** Although this has no net effect on plant, it does effect depreciation since the rates for the two accounts are different. Depreciation should be at the 5.56% rate required by rule 25-30.140, F.A.C for treatment and disposal equipment and not the 6.25% rate used for tools. This results in a decrease to accumulated depreciation of \$82.02 and a decrease to depreciation expense of \$32.81.

**AUDIT EXCEPTION NO. 5**

**SUBJECT: ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)**

**STATEMENT OF FACT:** The utility capitalized \$16,553 of AFUDC as follows:

1999	839.00
2000	6,852.00
2001	2,010.00
TOTAL	9,701.00

Of this amount, \$2,255 was charged to account 354 in 2001. The rest was charged to account 380, \$7,374 in 2000 and \$72 in 2001.

Rates used can be found in filing schedule A-15.

The company has never received approval to capitalize AFUDC.

Rule 25-30.116 (5), F.A.C. requires:

“No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.”

Although Utilities, Inc. has received orders granting permission to charge AFUDC for other divisions, it has not requested a rate for this division.

**OPINION:** The company did not obtain approval to charge AFUDC and according to the rule, the \$9,701 should be removed.

Depreciation on account 354 was computed at 3.13% in an exception to this report. Since a half year was taken in 2001, depreciation for account 354 on the \$2,255 would be \$35.29. Depreciation on account 380 was 5.56%. Depreciation in 2000 would have been \$205.00. Depreciation in 2001 for account 380 would have been \$412 for a total accumulated depreciation amount of \$617.

## **AUDIT EXCEPTION NO. 6**

### **SUBJECT: CIAC VERIFICATION**

**STATEMENT OF FACT:** The company was asked to provide the number of customers by class for each year so we could estimate the increase to Contributions in Aid of Construction (CIAC) by multiplying the tariff rate times the increase. The first request was on October 24, 2002 in audit request 1. Request 3, dated November 7, 2002, reiterated that the information was not provided in the answers to request 1. On November 14, 2002 an e-mail was sent that stated the customer equivalents provided was not sufficient and again asked for the number of customers broken down by residential, multi-family and commercial for 1999 and 2000. Numerous phone calls repeated this request. The company has only provided Customer Equivalent information instead of number of customers. Therefore, we were unable to verify the increase to CIAC.

## **AUDIT EXCEPTION NO. 7**

### **SUBJECT: DEPRECIATION AND AMORTIZATION**

**STATEMENT OF FACT:** The transfer audit used a cutoff date of September 30, 1998. The utility did not record any depreciation or amortization for September 30, 1998 to December 31, 1998. Filing A-8, Depreciation and A-13 are both blank for those years.

The filing schedule A-8 for Accumulated Depreciation only shows \$3,268 for depreciation for 1999 which is only a partial year. Rates used do not agree with rates in Rule 25-30.140.

**OPINION:** Accumulated depreciation was computed by staff on the attached schedule. The difference between depreciation expense for the period 9/98 to 12/01 is \$92,407.15. This would change average accumulated depreciation from \$565,289 to \$649,721.64 which is an increase to accumulated depreciation of \$84,432.64. Depreciation expense should be increased by \$15,949.02.

Accumulated amortization follows on the next schedule. A composite rate was determined for depreciable plant excluding land, organization and franchise. These rates were multiplied by CIAC balances, using a half year for additions. The total accumulated amortization is \$656,822.07 which is \$40,858.07 more than the \$615,964 charged by the company. The average is \$626,881.60 which is \$35,127.60 more than the \$591,754 charged by the company. Amortization expense increases by \$11,460.94.

COMPANY: UTILITIES INC. OF SANDALHAVEN  
 TITLE: PLANT ADDITIONS BY YEAR FROM G/L PRINTOUT  
 TEST YEAR: DECEMBER 31, 2001  
 AUDITOR: KATHY L. WELCH  
 DATE: OCTOBER 29, 2001

ACCOUNT PER G/L	ACCOUNT PER MFR A-6		RATE BASE AT TRANSFER	ADDITIONS G/L 1999	BALANCE AT 12/31/99	ADDITIONS G/L 2000	BALANCE AT 12/31/00	ADDITIONS G/L 2001	BALANCE AT 12/31/01
340.00	398.50	OTHER TANGIBLE		1,496.00	1,496.00	(111.00)	1,385.00	(169.00)	1,216.00
348.00	398.50	OTHER TANGIBLE		10,659.00	10,659.00	(145.00)	10,514.00	3,487.00	14,001.00
352.00	352.10	FRANCHISE	12,478.00	12,590.72	25,068.72		25,068.72		25,068.72
351.00	351.10	ORG. COSTS	17,020.63	59,899.97	76,920.60		76,920.60		76,920.60
353.00	353.40	LAND	225,000.00		225,000.00		225,000.00		225,000.00
371.00	371.30	LIFT STATIONS	300,082.00	5,635.96	305,717.96	3,246.56	308,964.52	62,740.36	371,704.88
354.00	354.40	STRUCTURES T & D	249,118.60		249,118.60	252.50	249,371.10		249,371.10
363.20	363.20	SERVICES	70,689.51	3,065.00	73,754.51	2,777.50	76,532.01	357.00	76,889.01
360.00	360.20	FORCE MAINS	94,651.75		94,651.75		94,651.75		94,651.75
361.00	361.20	GRAVITY MAINS	420,274.23	732.25	421,006.48	75.75	421,082.23	1,147.50	422,229.73
362.00	361.20	MANHOLES	122,379.50		122,379.50		122,379.50		122,379.50
360.20	360.40		94,307.36	9,529.65	103,837.01	137,225.60	241,062.61	15,051.79	256,114.40
390.00	390.50					388.39	388.39	18.16	406.55
393.00	393.50	TOOLS		3,376.04	3,376.04	6,197.33	9,573.37	4,454.00	14,027.37
394.00	394.50	LAB EQUIP		208.54	208.54	3,559.29	3,767.83		3,767.83
<b>TOTAL</b>			<b>1,606,001.58</b>	<b>107,193.13</b>	<b>1,713,194.71</b>	<b>153,466.92</b>	<b>1,866,661.63</b>	<b>87,086.81</b>	<b>1,953,748.44</b>

DEPRECIATION

ACCOUNT PER G/L	ACCOUNT PER MFR A-6		RATES PER RULE 25-30.140	ADDITIONS 9/98-12/98	ADDITIONS 1999		ADDITIONS G/L 2000		ADDITIONS G/L 2001	TOTAL
340.00	398.50	OTHER TANGIBLE								
348.00	398.50	OTHER TANGIBLE								
352.00	352.10	FRANCHISE	2.50%	77.99	469.33		626.72		626.72	
351.00	351.10	ORG. COSTS	2.50%	106.38	1,174.27		1,923.02		1,923.02	
353.00	353.40	LAND		0.00	0.00		0.00		0.00	
371.00	371.30	LIFT STATIONS	5.56%	4,167.81	16,827.78		17,074.51		18,907.48	
354.00	354.40	STRUCTURES T & D	3.13%	1,946.24	7,784.96		7,788.90		7,792.85	
363.20	363.20	SERVICES	2.50%	441.81	1,805.55		1,878.58		1,917.76	
360.00	360.20	FORCE MAINS	3.33%	788.76	3,155.06		3,155.06		3,155.06	
361.00	361.20	GRAVITY MAINS	2.22%	2,334.86	9,347.56		9,356.54		9,370.13	
362.00	361.20	MANHOLES	3.33%	1,019.83	4,079.32		4,079.32		4,079.32	
360.20	360.40		5.56%	1,309.82	5,504.01		9,580.55		13,810.47	
390.00	390.50		6.67%	0.00	0.00		12.95		26.50	
393.00	393.50	TOOLS	6.25%	0.00	105.50		404.67		737.52	
394.00	394.50	LAB EQUIP	6.67%	0.00	6.95		132.55		251.19	
<b>TOTAL</b>				<b>12,193.50</b>	<b>50,260.28</b>		<b>56,013.35</b>		<b>62,598.02</b>	
		UIF ALLOCATION	NOTE A		2,374.00		2,374.00		2,374.00	
		WSC ALLOCATION	NOTE A		985.00		985.00		985.00	
		LESS WSC ADJUSTMENT FROM AFF. AUDIT			(318.00)		(318.00)		(318.00)	
		TOTAL WITH AFFILIATE ADJS		<b>12,193.50</b>	<b>53,301.28</b>		<b>59,054.35</b>		<b>65,639.02</b>	<b>190,188.15</b>
		TOTAL PER FILING A-8		0.00	3,268.00		44,823.00		49,690.00	97,781.00
		DIFFERENCE		<b>12,193.50</b>	<b>50,033.28</b>		<b>14,231.35</b>		<b>15,949.02</b>	<b>92,407.15</b>

NOTE A: ONLY HAD 2001 FOR UIF AND WSC. USED IT FOR OTHER YEARS SINCE DIFFERENCE WOULD BE IMMATERIAL

NOTE B: COMPANY USED ANOTHER NUMBER FOR DEPRECIATION EXP.

COMPANY: UTILITIES INC. OF SANDALHAVEN  
 TITLE: PLANT ADDITIONS BY YEAR FROM G/L PRINTOUT  
 TEST YEAR: DECEMBER 31, 2001  
 AUDITOR: KATHY L. WELCH  
 DATE: OCTOBER 29, 2001

ACCOUNT PER G/L	ACCOUNT PER MFR A-6		RATE BASE AT TRANSFER	ADDITIONS G/L 1999	BALANCE AT 12/31/99	ADDITIONS G/L 2000	BALANCE AT 12/31/00	ADDITIONS G/L 2001	BALANCE AT 12/31/01	GL ACCOUNT
371.00	371.30	LIFT STATIONS	300,082.00	5,635.96	305,717.96	3,246.56	308,964.52	62,740.36	371,704.88	354.00
354.00	354.40	STRUCTURES T & D	249,118.60		249,118.60	252.50	249,371.10		249,371.10	354.00
363.20	363.20	SERVICES	70,689.51	3,065.00	73,754.51	2,777.50	76,532.01	357.00	76,889.01	360.00
360.00	360.20	FORCE MAINS	94,651.75		94,651.75		94,651.75		94,651.75	360.00
361.00	361.20	GRAVITY MAINS	420,274.23	732.25	421,006.48	75.75	421,082.23	1,147.50	422,229.73	361.00
362.00	361.20	MANHOLES	122,379.50		122,379.50		122,379.50		122,379.50	361.00
360.20	380.40		94,307.36	9,529.65	103,837.01	137,225.60	241,062.61	15,051.79	256,114.40	380.00
390.00	390.50					388.39	388.39	18.16	406.55	390.00
393.00	393.50	TOOLS		3,376.04	3,376.04	6,197.33	9,573.37	4,454.00	14,027.37	393.00
394.00	394.50	LAB EQUIP		208.54	208.54	3,559.29	3,767.83		3,767.83	394.00
<b>TOTAL</b>			<b>1,351,502.95</b>	<b>22,547.44</b>	<b>1,374,050.39</b>	<b>153,722.92</b>	<b>1,527,773.31</b>	<b>83,768.81</b>	<b>1,611,542.12</b>	

DEPRECIATION

ACCOUNT PER G/L	ACCOUNT PER MFR A-6		RATES PER RULE 25-30.140	ADDITIONS 9/98-12/98	ADDITIONS 1999		ADDITIONS G/L 2000		ADDITIONS G/L 2001	TOTAL	GL ACCOUNT
371.00	371.30	LIFT STATIONS	5.56%	4,167.81	16,827.78		17,074.51		18,907.48		354.00
354.00	354.40	STRUCTURES T & D	3.13%	1,946.24	7,784.96		7,788.90		7,792.85		354.00
363.20	363.20	SERVICES	2.50%	441.81	1,805.55		1,878.58		1,917.76		360.00
360.00	360.20	FORCE MAINS	3.33%	788.76	3,155.06		3,155.06		3,155.06		360.00
361.00	361.20	GRAVITY MAINS	2.22%	2,334.86	9,347.56		9,356.54		9,370.13		361.00
362.00	361.20	MANHOLES	3.33%	1,019.83	4,079.32		4,079.32		4,079.32		361.00
360.20	380.40		5.56%	1,309.82	5,504.01		9,580.55		13,810.47		380.00
390.00	390.50		6.67%	0.00	0.00		12.95		26.50		390.00
393.00	393.50	TOOLS	6.25%	0.00	105.50		404.67		737.52		393.00
394.00	394.50	LAB EQUIP	6.67%	0.00	6.95		132.55		251.19		394.00
<b>TOTAL</b>				<b>12,009.13</b>	<b>48,616.68</b>		<b>53,463.62</b>		<b>60,048.28</b>		

COMPOSITE RATE

	BAL 9/98	0.89%	3.54%	BAL 99	3.50%	BAL 00	3.73%	BAL 01
CIAC	1,539,376.00	0.00	64,550.00	1,603,926.00	1,250.00	1,605,176.00	3,750.00	1,608,926.00
AMORTIZATION USING COMPOSITE	471,504.00	13,678.52	55,608.19	540,790.72	56,150.41	596,941.13	59,880.94	656,822.07
AMORTIZATION PER COMPANY		0.00	47,715.00		48,325.00		48,420.00	
DIFFERENCE		13,678.52	7,893.19	21,571.72	7,825.41	29,397.13	11,460.94	40,858.07

**AUDIT EXCEPTION NO. 8**

**SUBJECT: COST OF CAPITAL**

**STATEMENT OF FACT:** Exception number 10 in the audit of affiliated transactions, control number 02-122-3-1 made several corrections to the filing of the parent company consolidated rate of return schedules. The balances from this audit were adjusted for the beginning and ending average customer deposits of \$7,875 to arrive at a rate of return of 8.34%. The company revised schedule shows 9.16% which is .82% higher.

**OPINION:** The revised cost schedule follows this exception. It is based on the corrections from audit 02-122-3-1.



UTILITIES, INC.  
PARENT COMPANY CONSOLIDATED COST OF CAPITAL SANDALHAVEN  
TEST YEAR ENDED DECEMBER 31, 2001  
BY KATHY WELCH 8/02/02

	BALANCE 12/31/01	BALANCE 12/31/00	13-MONTH AVERAGE	% OF TOTAL W/O DEPOSITS	RECONCILED TO RATE BASE	% OF TOTAL WITH DEPOSITS	COST RATE	WEIGHTED COST
LONG TERM DEBT	70,345,623	73,757,982	72,690,352	40.91%	94,464	39.56%	8.630%	3.414%
SHORT TERM DEBT	23,801,000	7,517,000	13,245,115	7.45%	17,213	7.21%	5.180%	0.373%
COMMON EQUITY	76,392,765	69,945,301	73,384,644	41.30%	95,366	39.94%	10.914%	4.358%
ACC. DEF. FIT NET OF REG. ASSET	16,173,472	16,366,079	16,345,859	9.20%	21,242	8.90%	0.000%	0.000%
ACCUMULATED DEFERRED SIT	548,106	727,237	714,538	0.40%	929	0.39%	0.000%	0.000%
UNAMORTIZED ITC	1,300,000	1,336,501	1,318,251	0.74%	1,713	0.72%	0.000%	0.000%
<b>TOTAL BEFORE DEPOSITS</b>	<b>188,560,966</b>	<b>169,650,100</b>	<b>177,698,759</b>	<b>100.00%</b>	<b>230,927</b>	<b>96.70%</b>		<b>8.15%</b>
CUSTOMER DEPOSITS					7,875	3.30%	6.000%	0.198%
<b>TOTAL</b>					<b>238,802</b>	<b>100.00%</b>		<b>8.34%</b>
							PER COMPANY DIFFERENCE	9.160% -0.817%
EQUITY RATIO	COMMON EQUITY		95,366					
	EQUITY AND LT AND ST DEBT		207,043		46.06%			
CALCULATION OF EQUITY RATE PER ORDER PSC-02-1252-CO-WS					9.650%			
0.00582/EQUITY RATIO					1.264%			
					<b>10.914%</b>			

## **AUDIT EXCEPTION NO. 9**

### **SUBJECT: ADJUSTMENTS TO OPERATING EXPENSES**

**STATEMENT OF FACT:** The company increased salaries by \$15,751 on filing schedule B-3 for increases in salaries. The company also increased costs allocated from Water Service Corp. by \$858 for a projected increase in costs based on the prior year's increase.

**OPINION:** The company calculation of the \$15,751 increase in salaries included two part time employees salaries annualized to a yearly amount. The employees are still working part time. Reduction of their salaries to the actual annualized 2002 payroll amount reduces the proforma salaries by \$24,948.15 which is more than the \$15,751 adjustment. FICA taxes on the difference in salaries is \$1,908.53. The company increased taxes by \$1,335. This creates an additional reduction of \$573.53. Salaries should be decreased by \$24,948.15 and taxes by \$1,908.53.

The Water Service Corporation expenses appear to be decreasing because of a large employee turnover and an increase would probably not be appropriate and should be removed.

In addition, adjustments from the affiliate audit, control number 02-122-3-1 should be made. The company reduce operating expenses by \$2,032, depreciation expenses by \$318, and taxes other than income by \$971. The \$318 adjustment to depreciation expense is already included in the schedule attached to the depreciation adjustment and thus already included in the adjustment in that exception. A schedule showing the amounts per the company and the audited amounts follows this exception.

Company: Utilities Inc. of Sandalhaven  
 Title: **Projected Salaries**  
 Period 12 Months Ended December 2001

	Employees	Actual Salary To Date 12/9/2002	Avg Bi Weekly Salary 2002	Actual Salary Annualized 2002	Projected Salary 2002	Difference
PT	Chandler, Matthew R	\$12,377.00	\$476.04	\$13,329.08	\$25,896.00	(\$12,566.92)
PT	Raponi, Ann Margret	\$12,607.00	\$484.88	\$13,576.77	\$25,958.00	(\$12,381.23)
	<b>Total</b>	<b>\$24,984.00</b>	<b>\$960.92</b>	<b>\$26,905.85</b>	<b>\$51,854.00</b>	<b>(\$24,948.15)</b>
	<b>PROFORMA INCREASE</b>					<b>15,751.00</b>
	<b>ADDITIONAL DECREASE TO PAYROLL NEEDED</b>					<b>(9,197.15)</b>
	<b>FICA ON TOTAL DECREASE</b>					<b>(1,908.53)</b>
	<b>PAYROLL TAX INCREASE IN PROFORMA</b>					<b>1,335.00</b>
	<b>ADDITIONAL DECREASE NEEDED TO PAYROLL TAXES</b>					<b>(573.53)</b>

Company: Utilities, Inc. of Sandalhaven  
 Title: Analysis of Expenses  
 Period: TYE 12/31/01

TITLE	WSC EXPENSES		DIFFERENCE
	PER AUDIT	PER COMPANY	
Salaries Office	2,759	3,105	(346)
Salaries customer Service	0	0	0
Agency Expense	27	27	0
Audit Fees	650	718	(68)
Temp. Employees	28	28	0
Employ. Finder Fees	0	118	(118)
Directors Fees	326	634	(308)
Tax Return Review	306	303	3
Other OUtside Services	26	67	(41)
Health Ins. Reimb.	917	917	0
Employee Ins. Deduction	(157)	(157)	0
Health Costs & Other	11	11	0
Dental Ins. Reimb.	57	57	0
Pension	126	324	(198)
Health Ins. Premiums	117	117	0
Dental Premiums	6	6	0
Term Life Ins.	23	23	0
ESOP	145	406	(261)
Disability Insurance	13	13	0
Other Emp. Pens & Ben.	22	22	0
Publ Subscriptions	27	27	0
Answering Service	0	0	0
Printing & Blueprints	100	100	0
Xerox	37	37	0
Off Supply Stores	211	211	0
Office Emp. Exp.	11	11	0
Cleaning Supplies	18	18	0
Memberships	2	2	0
Other Office Expense	7	7	0
Office Telephone	49	49	0
Office Electric	137	137	0
Office Gas	39	39	0
Office Utilities Other	15	18	(3)
Office Cleaning	134	134	0
Landscape, Mowing, Snow	94	94	0
Office Garbage Removal	7	7	0
Repair Off Mach & Heat	27	27	0
Other Office Maint.	331	331	0
Employee Ed	24	24	0
Office Education/Training	22	61	(39)
Meals	4	4	0
Bank Service Charges	891	891	0
Other Misc. Gen	49	49	0
<b>Insurance</b>	<b>4,742</b>	<b>5,327</b>	<b>(585)</b>
Computer Salaries	1,208	1,276	(68)
OUtside Computer Cons	210	210	0
Computer Maint.	369	369	0
Computer Amort. & Prog.	227	227	0
Microfilming	67	67	0
	<b>14,461</b>	<b>16,493</b>	<b>(2,032)</b>
Depreciation Office	320	320	0
Depreciation Furn.	333	333	0
Depreciation Computer	0	318	(318)
Depreciation Telephone	14	14	0
	<b>667</b>	<b>985</b>	<b>(318)</b>
Real Estate Tax	281	281	0
Fica Tax	263	1,234	(971)
Suta	41	41	0
Futa	9	9	0
	<b>594</b>	<b>1,565</b>	<b>(971)</b>
Interest Expense	0	2,043	(2,043)
Misc. Income	(82)	(82)	0
Short Term Interest Exp.	0	(47)	47
	<b>(82)</b>	<b>1,914</b>	<b>(1,996)</b>

**AUDIT EXCEPTION NO. 10**

**SUBJECT: MISCELLANEOUS EXPENSE ADJUSTMENTS**

**STATEMENT OF FACT:** The utility included 13 months of water bills in the test year in account 710. The amount relating to December 2000 is \$115.43.

The company accrued bills from Waste Management in account 775 that included past due bills. Actual bills were \$66.43 a month or \$797.16 a year. The amount recorded was \$1,295.46. Therefore, \$498.30 was recorded for prior month's balances.

The company charged \$7,019.36 of legal bills from Buhr and Associates, P.A. to account 773. These costs related to research for who owned lines in one section of the development.

Prepaid costs include \$83.33 for six month for costs that are fully amortized and will not be recurring. This amounts to \$501.96. An additional \$166.67 is expensed each month related to a prepaid invoice of \$2,000. This invoice was requested and never received. This amounts to the entire \$2,000.

**OPINION:** Expenses should be reduced by \$115.43 for water, \$498.30 for Waste Management, and \$2,501.96 for amortization of prepaid expenses.

The legal bills are probably not recurring and may need to be deferred.

**AUDIT EXCEPTION NO. 11**

**SUBJECT: TAXES OTHER THAN INCOME TAX**

**STATEMENT OF FACT:** A \$6,893.35 payment of past due personal property tax was made in October of 2001 and included in the \$22,147 of real and personal property taxes shown on MFR B-15. This is included in expenses charged to Net Operating Income.

The company increased payroll taxes on the same schedule by \$1,335 for increases related to payroll changes. However in annualizing payroll, the company did not take into account that several employees were part time and it annualized these as full time. This is discussed and adjusted in Exception 9.

**OPINION:** The prior years personal property tax of \$6,893.35 should be removed from taxes other than income taxes.

**AUDIT DISCLOSURE NO. 1**

**SUBJECT: RETIREMENTS**

**STATEMENT OF FACT:** The company was asked to provide a statement regarding the accuracy of retirements. It was never provided.

**COMPANY PREPARED EXHIBITS**



Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Utilities Inc. of Sandalhaven  
 Docket No.: 020409-SU  
 Schedule Year Ended: December 31, 2001  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: A-2  
 Page 1 of 1  
 Preparer: Seidman, F.

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	\$ 1,685,206	\$ -	\$ 1,685,206	A-6
2	Utility Land & Land Rights	225,000		225,000	A-6
3	Less: Non-Used & Useful Plant		(120,350) A	(120,350)	A-7
4	Construction Work in Progress	8,546	(8,546) B		A-18
5	Less: Accumulated Depreciation	(565,289)		(565,289)	A-10
6	Less: CIAC	(1,607,051)		(1,607,051)	A-12
7	Accumulated Amortization of CIAC	544,039	47,715 C	591,754	A-14, A-3
8	Acquisition Adjustments	448,387	(448,387) D		A-18
9	Accum. Amort. of Acq. Adj.				
10	Advances For Construction				A-16
11	Working Capital Allowance		29,531 E	29,531	A-17, A-3
12	Total Rate Base	\$ 738,837	\$ (500,036)	\$ 238,802	

22

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

Florida Public Service Commission

Company: Utilities Inc. of Sandalhaven  
Docket No.: 020409-SU  
Schedule Year Ended: December 31, 2001  
Historic [X] or Projected [ ]

Schedule: D-1  
Page 1 of 1  
Preparer: Seidman, F.  
Rev. 1, 10/4/02  
Subsidiary [ ] or Consolidated [X]

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.	Class of Capital	(1) Reconciled to Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	103,365	43.28 %	8.82 %	3.8200 %
2	Short-Term Debt	22,455	9.40 %	2.54 %	0.2400 %
3	Preferred Stock				
4	Customer Deposits	8,025	3.36 %	6.00 %	0.20 %
5	Common Equity	104,957	43.96 %	11.14 %	4.90 %
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax				
8	Other (Explain)				
9	<b>Total</b>	<u>238,802</u>	<u>100.00 %</u>		<u>9.16 %</u>

10 Note: Cost of Equity based on Order No. PSC-01-2514-FOF-WS

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Utilities Inc. of Sandalhaven  
 Docket No.: 020409-SU  
 Schedule Year Ended: December 31, 2001  
 Interim [ ] Final [X]  
 Historic [X] or Projected [ ]

Schedule: B-2  
 Page 1 of 1  
 Preparer: Seidman, F.  
 Rev. 1, 10/4/02

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.

24

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	\$ 221,904		\$ 221,904	\$ 115,009 E	\$ 336,914	B-4, E-2
2	Operation & Maintenance	228,069	8,182 A	236,251	30,000 F	266,251	B-5, B-3
3	Depreciation, net of CIAC Amort.	4,507	(4,990) B	(483)		(483)	B-14, B-3
4	Amortization					-	
5	Taxes Other Than Income	37,964	(615) C	37,349	1,152 G	42,501	B-15, B-3
6	Provision for Income Taxes	(32,307)	32,307 D	-	6,771 H	6,771	C-1, B-3
7	OPERATING EXPENSES	238,233	34,884	273,116	41,923	315,040	
8	NET OPERATING INCOME	\$ (16,328)	\$ (34,884)	\$ (51,212)	\$ 73,086	\$ 21,874	
9	RATE BASE	\$ 738,837		\$ 238,802		\$ 238,802	
10	RATE OF RETURN	(0.02) %		(0.21) %		9.16 %	