

State of Florida



ORIGINAL

Public Service Commission

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CLERK

**DATE:** October 25, 2006

**TO:** Stephen B. Fletcher, Professional Accountant Specialist, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

**RE:** **Docket No:** 060258-WS **Company Name:** Sanlando Utilities Corporation  
**Audit Purpose:** File and Suspend Rate Case Investigation  
**Audit Control No:** 06-209-2-6

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
 Division of Commission Clerk & Administrative Services (2)  
 Division of Competitive Markets and Enforcement (Harvey)  
 General Counsel  
 Office of Public Counsel

- CMP \_\_\_\_\_ Mr. Patrick C. Flynn, Regional Director
  - COM \_\_\_\_\_ Sanlando Utilities Corporation
  - CTR \_\_\_\_\_ 200 Weathersfield Avenue
  - ECR \_\_\_\_\_ Altamonte Springs, FL 33714-4027
  - GCL \_\_\_\_\_ Steve Lubertozi, Director, Regulatory Accounting
  - OPC \_\_\_\_\_ Sanlando Utilities Corporation
  - RCA \_\_\_\_\_ 2335 Sanders Road
  - SCR \_\_\_\_\_ Northbrook, IL 60062
  - SGA \_\_\_\_\_ Valerie L. Lord
  - SEC \_\_\_\_\_ Rose Law Firm
  - OTH \_\_\_\_\_ 2180 W. State Rd 434, Suite 2118
- Longwood, FL 32779

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING

Tampa District Office

SANLANDO UTILITIES CORPORATION

FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2005

DOCKET NO. 060258-WS  
AUDIT CONTROL NO. 06-209-2-6

Jeffery A. Small, Audit Manager

Robert A. Freeman, Audit Staff

Gabriela M. Leon, Audit Staff

Intesar Terkawi, Audit Staff

Kathryn L. Welch, Audit Staff

Gennarro Jackson, II, Audit Staff

Jocelyn Y. Stephens, Audit Staff

Ruth K. Young, Audit Staff

Joseph W. Rohrbacher, District Supervisor

DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**OCTOBER 16, 2006**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 26, 2006. We have applied these procedures to the attached schedules which were prepared by Sanlando Utilities Corporation in support of its filing for rate relief in Docket No. 060258-WS.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### RATE BASE

#### General

*Objective:* To determine that the utility's filing represents its recorded results from continuing operations.

*Procedures:* We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2005 and verified that adjustments required in Order Nos. PSC-00-0111-PAA-WS, issued January 12, 2000, and PSC-00-2097-AS-WS, issued November 6, 2000, were recorded. Audit Finding No. 1 discusses our adjustments to correct the utility's adjustment to 1997 UPIS and CIAC balances to record the prior order's rate base balance. Audit Finding No. 2 discusses our adjustments to correct the utility's adjustment to 1998 UPIS balances to record the prior order's rate base balance.

#### Utility-Plant-in-Service (UPIS)

*Objective:* To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

*Procedures:* We sampled UPIS additions for the period January 1, 1998 through December 31, 2005 for compliance with the stated objectives above. We verified whether the utility properly recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were properly recorded. We sampled construction project additions and the corresponding source documentation. We verified that the utility used Commission approved AFUDC rates and traced the capitalized salaries to individual employee time sheets. Audit Finding No. 3 discusses our adjustments to remove unapproved organization cost. Audit Finding No. 4 discusses our adjustment to retire UPIS that was replaced. Audit Finding No. 5 discusses our adjustment to remove unapproved AFUDC accruals. Audit Finding No. 6 discusses our adjustment to include and allocate a dump truck that is recorded on the books of a subsidiary utility system but is used by Sanlando.

#### Land and Land Rights

*Objective:* To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

*Procedures:* We verified that there have been no changes to utility land since its last rate proceeding by searching the county's public records. We obtained the deeds for land additions if applicable and verified that they were recorded at original cost. We examined other additions to land to determine if they were properly recorded in the land account. Audit Finding No. 7 discusses our adjustment to remove unsupported land additions. Audit Finding No. 17 provides information on the sale of utility land. Audit Finding No. 22 provides information on a utility agreement that may provide a future benefit or create an obligation on utility operations.

### Contributions-in-Aid-of-Construction (CIAC)

*Objective:* To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and insure that all donated property is properly accounted for and recorded as CIAC and UPIS.

*Procedures:* We sampled CIAC additions for the period January 1, 1998 through December 31, 2005 for compliance with the stated objectives above. We scanned the utility's cash receipts records for unrecorded cash and property. We reviewed developer agreements for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory to look for new developments that may have included contributed property. Audit Finding No. 8 discusses our adjustment to correct the utility's CIAC balances because the utility double booked the overearnings in 1997 and 1998 required by the Commission. Audit Finding No. 18 provides information on the utility's 2003 CIAC adjusting journal entry that was made to allocate CIAC based on specific UPIS account balances. Audit Finding No. 19 provides information on potential unrecorded CIAC from our review of developer agreements.

### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

*Procedures:* We traced the accumulated depreciation schedules to the corresponding UPIS schedules. We verified that the utility used Commission authorized rates to depreciate its UPIS accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified whether the utility properly recorded retirements to accumulated depreciation when the corresponding UPIS was removed or replaced. We recalculated a sample of accumulated depreciation account balances as of December 31, 2005. Audit Finding No. 1 discusses our adjustments to correct the utility's adjustment to 1997 UPIS balance and the corresponding effect on accumulated depreciation. Audit Finding No. 2 discusses our adjustments to correct the utility's adjustment to 1998 UPIS balances and the corresponding effect on accumulated depreciation. Audit Adjustment No. 3 discusses our adjustments to remove unapproved organization cost and the corresponding effect on accumulated depreciation. Audit Finding No. 4 discusses our adjustment to retire UPIS that was replaced and the corresponding effect on accumulated depreciation. Audit Finding No. 5 discusses our adjustment to remove unapproved AFUDC accruals and the corresponding effect on accumulated depreciation. Audit Finding No. 9 discusses our adjustment to include the accumulated amortization balance for the utility's computer system that was left out of the filing. Audit Finding No. 14 discusses our adjustment to depreciation expense balances and the corresponding effect on accumulated depreciation.

### Accumulated Amortization of CIAC

*Objective:* To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC amortization expense accruals are properly recorded and

calculated based on the rates and method used in the utility's last rate proceeding.

*Procedures:* We traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified whether the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. We recalculated a sample of accumulated amortization of CIAC account balances as of December 31, 2005. Audit Finding No. 1 discusses our adjustments to correct the utility's adjustment to 1997 CIAC balances and the corresponding effect on accumulated amortization of CIAC. Audit Finding No. 8 discusses our adjustment to correct the utility's CIAC balances and the corresponding effect on accumulated amortization of CIAC. Audit Finding No. 15 discusses our adjustment to CIAC amortization expense balances and the corresponding effect on accumulated amortization of CIAC.

#### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

*Procedures:* We recalculated the utility's working capital balance as of December 31, 2005. Audit Finding No. 11 discusses our adjustment to correct and allocate the utility's working capital allowance to balances reported in its general ledger.

#### Other Rate Base Items

*Objective:* To determine that other component balances affecting rate base are properly stated and authorized by Commission rules or prior orders.

*Procedures:* Determine that adjustments to include allocated rate base from subsidiary operations are properly reported in the filing. Audit Finding No. 10 discusses our adjustments to WSC allocated rate base balances based on the affiliate transaction investigation performed in Docket. No. 060253-WS.

### **NET OPERATING INCOME**

#### General

*Objective:* To determine that the utility's filing represents its results from continuing operations.

*Procedures:* We reconciled the following individual component net operating income balances to the utility's general ledger for the 12-month period ended December 31, 2005.

#### Revenues

*Objective:* To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

*Procedures:* We traced revenues to the general ledger and utility billing registers and selected a sample of customer bills from each customer rate class on a random basis and recalculated the bills using the Commission approved tariff rates.

### Operation and Maintenance Expenses (O&M)

*Objective:* To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

*Procedures:* We sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, water or wastewater classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives are met. Audit Finding No. 12 discusses our adjustments to O&M expense balances because the items were either non-recurring in nature or no supporting documentation was provided. Audit Finding No. 13 discusses our adjustments to the allocated WSC O&M expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 23 provides information on a new continuing maintenance plan for wastewater services.

### Taxes-Other-Than-Income (TOTI)

*Objective:* To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

*Procedures:* We obtained the regulatory assessment fee filings and reconciled them to the general ledger. We obtained the property tax bills for review and to determine if the amount booked reflects the discount amount. Audit Finding No. 16 discusses our adjustments to regulatory assessment fees and property tax balances.

### Depreciation Expense

*Objective:* To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of UPIS assets and amortization of CIAC assets for ongoing utility operations.

*Procedures:* We recalculated a sample of UPIS depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense. Audit Finding No. 1 discusses our adjustments to correct the utility's adjustment to 1997 UPIS and CIAC balances and the corresponding effect on net depreciation expense. Audit Finding No. 2 discusses our adjustments to correct the utility's adjustment to 1998 UPIS balances and the corresponding effect on depreciation expense. Audit Adjustment No. 3 discusses our adjustments to remove unapproved organization cost and the corresponding effect on depreciation expense. Audit Finding No. 4 discusses our adjustment to retire UPIS that was replaced and the corresponding effect on depreciation expense. Audit Finding No. 5 discusses our adjustment to remove unapproved AFUDC accruals and the corresponding effect on depreciation expense. Audit Finding No. 8 discusses our adjustment to correct the utility's CIAC balances and the corresponding effect on CIAC amortization expense. Audit Finding No. 14 discusses our adjustment to depreciation expense balances because the utility did not always use the rates established by Rule 25-30.140 F.A.C. Audit Finding No. 15 discusses our adjustment to CIAC amortization expense balances because the utility did not always use the rates established by Rule 25-30.140 F.A.C.



## CAPITAL STRUCTURE

### General

*Objective:* To determine the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations.

*Procedures:* We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2005. Audit Finding No. 20 provides information on the utility's capital structure component balances that were determined in the affiliate transaction investigation performed in Docket No. 060253-WS.

### Long-Term-Debt

*Objective:* To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

*Procedures:* We traced long-term debt balances to the original documents and verified the terms and interest rate of each note payable.

### Short-Term-Debt

*Objective:* To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

*Procedures:* We traced short-term debt balances to the original documents and verified the terms and interest rate and period. We recalculated test year interest expense.

### Accumulated Deferred Income Taxes

*Objective:* To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

*Procedures:* Recalculated a sample of deferred tax balances for the period to using Commission authorized rates and federal tax rates. Audit Finding No. 21 provides information on the utility's deferred tax balances.

### Customer Deposits

*Objective:* To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

*Procedures:* We traced a sample of customer deposit balances to supporting documentation and verified that customer deposits were refunded and credited with interest payments in compliance with Commission rules.

## AUDIT FINDING NO. 1

### SUBJECT: ADJUSTMENT TO 1997 RATE CASE BALANCES

**SUMMARY:** The utility's 13-month average water and wastewater rate base should be overstated by \$53,622 and \$51,552, respectively, as of December 31, 2005.

**STATEMENT OF FACT:** Order No. PSC-00-0111-PAA-WS, established the following transfer balances for the indicated utility accounts.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                | Balance        |
|----------------------|--------------------|----------------------------------|----------------|
| 2711000              | 271                | Water - CIAC                     | (\$10,330,055) |
| 2721000              | 271                | Wastewater - CIAC                | (\$10,405,584) |
| 2722000              | 272                | Water - Acc/Amortz. Of CIAC      | \$4,482,760    |
| 2723000              | 272                | Wastewater - Acc/Amortz. Of CIAC | \$5,587,752    |
| 3446095              | 344                | Water - Laboratory Equip.        | \$4,316        |
| 3971000              | 397                | Water - Misc. Equip.             | \$12,709       |

The utility posted the following balances in its 1998 general ledger to record the acquisition of Sanlando.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                | Balance        |
|----------------------|--------------------|----------------------------------|----------------|
| 2711000              | 271                | Water - CIAC                     | (\$10,572,529) |
| 2721000              | 271                | Wastewater - CIAC                | (\$10,638,917) |
| 2722000              | 272                | Water - Acc/Amortz. Of CIAC      | \$4,725,234    |
| 2723000              | 272                | Wastewater - Acc/Amortz. Of CIAC | \$5,821,085    |
| 3466097              | 344                | Water - Communication Equip.     | \$17,025       |

The differences between the water and wastewater CIAC and accumulated amortization of CIAC is \$242,474 and \$233,333, respectively. These balances represent two CIAC escrow accounts, the grossed-up cash contribution amount and the income tax payable on amounts collected, that were not included in the transfer balances in the above-mentioned order. The utility amortized the water and wastewater escrow account cash balances which were included within the combined water and wastewater CIAC accounts. The adjustment to the CIAC accounts is offsetting, however, because the utility continued to amortize the escrow account balances it causes accumulated amortization of CIAC to be overstated for all subsequent periods since 1998 and it overstates the test year CIAC amortization expense. Therefore, adjustments to the accumulated amortization of CIAC and CIAC amortization expense balances are needed.

The differences between Acct. Nos. 3446095, 3466097 and 3971000 is because the utility recorded the entire order balance in its communication equipment account. The adjustment to the asset accounts is offsetting, however, because the accounts have different depreciation rates, adjustments to the accumulated depreciation and depreciation expense balances are needed.

Our calculations of the adjustments are displayed on the following pages.

**EFFECT ON GENERAL LEDGER:** The following journal entries should be made to correct the utility's general ledger balances.

Adjustments to CIAC

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                | Debit     | Credit    |
|----------------------|--------------------|----------------------------------|-----------|-----------|
| 2151000              | 215                | Retained Earnings                | \$96,228  |           |
| 2711***              | 271                | CIAC - Water                     | \$242,474 |           |
| 2721***              | 271                | CIAC - Wastewater                | \$233,333 |           |
| 2722***              | 272                | Acc/Amortz. of CIAC - Water      |           | \$300,636 |
| 2723***              | 272                | Acc/Amortz. of CIAC - Wastewater |           | \$284,885 |
| 4071***              | 407                | CIAC Amortz. Exp. - Water        | \$7,142   |           |
| 4073***              | 407                | CIAC Amortz. Exp. - Wastewater   | \$6,344   |           |

Acct. No. 2722\*\*\* of \$300,636 = \$242,474 + \$58,162

Acct. No. 2723\*\*\* of \$284,885 = \$233,333 + \$51,552

See the schedule on the following page for the specific CIAC, Acc/Amortz. Of CIAC and CIAC Amortz. Exp. sub-account adjustments.

Adjustments to utility plant in service.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                | Debit    | Credit   |
|----------------------|--------------------|----------------------------------|----------|----------|
| 1083095              | 108                | Acc/Dep - Laboratory Equip.      |          | \$2,302  |
| 1083097              | 108                | Acc/Dep - Communication Equip.   | \$13,621 |          |
|                      | 108                | Acc/Dep - Misc. Equip.           |          | \$6,778  |
| 2151000              | 215                | Retained Earnings                |          | \$3,973  |
| 3446095              | 344                | Laboratory Equip.                | \$4,316  |          |
| 3466097              | 346                | Communication Equip.             |          | \$17,026 |
|                      | 347                | Misc. Equip.                     | \$12,710 |          |
| 4032095              | 403                | Dep. Exp. - Laboratory Equip.    | \$288    |          |
| 4032097              | 403                | Dep. Exp. - Communication Equip. |          | \$1,703  |
|                      | 403                | Dep. Exp. - Misc. Equip.         | \$847    |          |

**EFFECT ON FILING:** The utility's 13-month average water and wastewater rate base should be reduced by \$53,622 (\$300,636 - \$242,474 - \$4,540) and \$51,552, (\$284,885 - \$233,333) respectively, as of December 31, 2005. The utility's water and wastewater net depreciation expense balances should be increased by \$6,574 (\$7,142 - \$568) and \$6,344, respectively, for the 12-month period ended December 31, 2005.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Amount        | Dep.<br>Rate | Dep. Exp.<br>Adjustment | Depreciation<br>Years | Acc/Dep<br>Adjustment |
|----------------------|--------------------|---------------|--------------|-------------------------|-----------------------|-----------------------|
| 3446095              | 344                | \$4,316       | 6.67%        | \$288                   | 8                     | \$2,302               |
|                      | 346                | (17,026)      | 10.00%       | (1,703)                 | 8                     | (13,621)              |
| 3466097              | 347                | <u>12,710</u> | 6.67%        | <u>847</u>              | 8                     | <u>6,778</u>          |
| Total Adjustment     |                    | \$0           |              | (\$568)                 |                       | (\$4,540)             |

13-Month average adjustment equals year end adjustment

| Utility                |                        | CIAC             | 2003     | Composite Amortization Rate Applied 1998-2003 |               |               |               |   |               | Amortz.             | 2004    | 2005           | Acc/Amortz.     | Utility   |
|------------------------|------------------------|------------------|----------|---|---------------|---------------|---------------|---|---------------|---------------------|---------|----------------|-----------------|-----------|
| Acct. No.              | CIAC Water             | Adjust.          | Alloc. % | 3.00%<br>1998                                 | 3.00%<br>1999 | 3.01%<br>2000 | 3.02%<br>2001 | 3.02%<br>2002   | 3.04%<br>2003 | rate for<br>2004-05 | Amortz. | Amortz.        | Adjustment      | Acct. No. |
| 2711011                | CIAC - Structures      | \$630            | 0.26%    | \$19  | \$19          | \$19          | \$19          | \$19  | \$19          | 2.50%               | \$16    | \$16           | \$146           | 2722011   |
| 2711021                | CIAC - Pumping Equip.  | 242              | 0.10%    | 7   | 7             | 7             | 7             | 7   | 7             | 3.13%               | 8       | 8              | 59              | 2722021   |
| 2711031                | CIAC - Struct. TP      | 4,534            | 1.87%    | 136   | 136           | 137           | 137           | 137   | 138           | 3.13%               | 142     | 142            | 1,105           | 2722031   |
| 2711014                | CIAC - Wells & Springs | 11,833           | 4.88%    | 355   | 355           | 356           | 358           | 358   | 359           | 3.34%               | 395     | 395            | 2,931           | 2722014   |
| 2711025                | CIAC - Elec. Pumping   | 21,386           | 8.82%    | 642   | 642           | 644           | 647           | 647   | 649           | 5.00%               | 1,070   | 1,070          | 6,010           | 2722025   |
| 2711032                | CIAC - Treatment       | 5,698            | 2.35%    | 171   | 171           | 172           | 172           | 172   | 173           | 4.55%               | 259     | 259            | 1,549           | 2722032   |
| 2711042                | CIAC - Distribution    | 18,477           | 7.62%    | 554   | 554           | 557           | 559           | 559   | 561           | 2.70%               | 499     | 499            | 4,341           | 2722042   |
| 2711043                | CIAC - T&D Mains       | 126,887          | 52.33%   | 3,807   | 3,807         | 3,822         | 3,837         | 3,837   | 3,852         | 2.33%               | 2,954   | 2,954          | 28,869          | 2722043   |
| 2711045                | CIAC - Services        | 20,271           | 8.36%    | 608   | 608           | 611           | 613           | 613   | 615           | 2.50%               | 506     | 506            | 4,680           | 2722045   |
| 2711046                | CIAC - Meters          | 19,834           | 8.18%    | 595   | 595           | 597           | 600           | 600   | 602           | 5.00%               | 993     | 993            | 5,574           | 2722046   |
| 2711047                | CIAC - Meter Install.  | 703              | 0.29%    | 21  | 21            | 21            | 21            | 21  | 21            | 5.00%               | 35      | 35             | 198             | 2722047   |
| 2711048                | CIAC - Hydrants        | 11,978           | 4.94%    | 359   | 359           | 361           | 362           | 362   | 364           | 2.22%               | 266     | 266            | 2,699           | 2722048   |
|                        |                        | \$242,474        | 100.00%  | \$7,274                                       | \$7,274       | \$7,303       | \$7,332       | \$7,332   | \$7,362       |                     | \$7,142 | \$7,142        | \$58,162        |           |
| CIAC Water Adjustments |                        | <u>\$242,474</u> |          | Reverse 1998 journal entry to CIAC            |               |               |               | Remove cumulative effect on 2005 Amort. Exp. and Acc/Amortz |               |                     |         | <u>\$7,142</u> | <u>\$58,162</u> |           |

| Utility                     |                        | CIAC             | 2003     | Composite Amortization Rate Applied 1998-2003 |               |               |               |   |               | Amortz.             | 2004    | 2005           | Acc/Amortz.     | Utility   |
|-----------------------------|------------------------|------------------|----------|---|---------------|---------------|---------------|---|---------------|---------------------|---------|----------------|-----------------|-----------|
| Acct. No.                   | CIAC Wastewater        | Adjust.          | Alloc. % | 2.88%<br>1998                                 | 2.88%<br>1999 | 2.76%<br>2000 | 2.76%<br>2001 | 2.76%<br>2002   | 2.62%<br>2003 | rate for<br>2004-05 | Amortz. | Amortz.        | Adjustment      | Acct. No. |
| 2721003                     | CIAC - Structures      | 4,387            | 1.88%    | 126   | 126           | 121           | 121           | 121   | 115           | 3.13%               | 137     | 137            | 1,005           | 2723003   |
| 2721005                     | CIAC - Treatment Plant | 75,483           | 32.35%   | 2,174   | 2,174         | 2,083         | 2,083         | 2,083   | 1,975         | 2.86%               | 2,156   | 2,156          | 16,884          | 2723005   |
| 2721006                     | CIAC - Service Lines   | 1,190            | 0.51%    | 34  | 34            | 33            | 33            | 33  | 31            | 3.34%               | 40      | 40             | 278             | 2723006   |
| 2721007                     | CIAC - Force Mains     | 1,330            | 0.57%    | 38  | 38            | 37            | 37            | 37  | 35            | 3.34%               | 44      | 44             | 310             | 2723007   |
| 2721008                     | CIAC - Gravity Mains   | 112,093          | 48.04%   | 3,228   | 3,228         | 3,094         | 3,094         | 3,094   | 2,932         | 2.22%               | 2,488   | 2,488          | 23,647          | 2723008   |
| 2721009                     | CIAC - Outfall Lines   | 10,617           | 4.55%    | 306   | 306           | 293           | 293           | 293   | 278           | 3.34%               | 354     | 354            | 2,477           | 2723009   |
| 2721011                     | CIAC - Lift Station    | \$27,603         | 11.83%   | \$795   | \$795         | \$762         | \$762         | \$762   | \$722         | 4.00%               | \$1,103 | \$1,103        | \$6,804         | 2723011   |
| 2721098                     | CIAC - Manholes        | 630              | 0.27%    | 18  | 18            | 17            | 17            | 17  | 16            | 3.34%               | 21      | 21             | 147             | 2723098   |
|                             |                        | \$233,333        | 100.00%  | \$6,720                                       | \$6,720       | \$6,440       | \$6,440       | \$6,440   | \$6,104       |                     | \$6,344 | \$6,344        | \$51,552        |           |
| CIAC Wastewater Adjustments |                        | <u>\$233,333</u> |          | Reverse 1998 journal entry to CIAC            |               |               |               | Remove cumulative effect on 2005 Amort. Exp. and Acc/Amortz |               |                     |         | <u>\$6,344</u> | <u>\$51,552</u> |           |

In 2003 the utility redistributed its CIAC account balances based on the percentage of UPIS. The above schedule incorporates that allocation in its calculations.

**AUDIT FINDING NO. 2**

**SUBJECT: ADJUSTMENT TO 1998 RATE BASE ADDITIONS**

**SUMMARY:** The utility's water and wastewater 13-month average rate base balances are overstated by \$220,579 and understated by \$137,260, respectively as of December 31, 2005.

**STATEMENT OF FACT:** Order No. PSC-00-0111-PAA-WS, established specific rate base balances for the utility as of December 31, 1997. The utility posted the transfer balances to its general ledger in October 1998 plus all of the additional activity for the period January through October 1998. The utility could not provide adequate supporting documentation for the differences between the balance approved in the transfer order and the balance posted to its general ledger for the following rate base accounts.

| Utility          |                              | Balance per Order    | Balance per Utility  |                   |
|------------------|------------------------------|----------------------|----------------------|-------------------|
| <u>Acct. No.</u> | <u>Acct. Description</u>     | <u>at 12/31/1997</u> | <u>at 10/31/1998</u> | <u>Difference</u> |
| 1052091          | Water Plant in Process       | \$201,080            | \$257,826            | \$56,746          |
| 3305042          | Dist Resv & Stndpipes        | \$914,186            | \$953,503            | \$39,317          |
| 3345046          | Meters                       | \$911,284            | \$917,058            | \$5,774           |
| 3406091          | Office Furniture & Equipment | \$62,333             | \$66,157             | \$3,823           |
| 3466094          | Tools, Shop and Equipment    | \$83,648             | \$97,850             | \$14,202          |
| 3804005          | Sewage Treatment Plant       | \$3,791,765          | \$3,794,046          | \$2,281           |
| 3907091          | Office Furniture & Equipment | \$53,143             | \$56,127             | \$2,983           |
| 3937094          | Tools, Shop and Equipment    | \$12,570             | \$13,794             | \$1,224           |
| 3967097          | Communication Equipment      | \$16,003             | \$29,280             | \$13,277          |

The differences indicated above appear to be additions for the period January 1998 through October 1998. The utility provided a schedule that displayed its rate base balances as of June 1998 and additions through September 1998. The schedule, however, was inadequate in detail and lacked additional documentation to support the 1998 additions discussed above.

The following balances to the indicated accounts should be removed from rate base because the utility could not provide supporting documentation.

| Utility                      |                                      | UPIS              | Dep.        | Dep. Exp.         |              | Acc/Dep           |
|------------------------------|--------------------------------------|-------------------|-------------|-------------------|--------------|-------------------|
| <u>Acct. No.</u>             | <u>Acct. Description</u>             | <u>Adjustment</u> | <u>Rate</u> | <u>Adjustment</u> | <u>Years</u> | <u>Adjustment</u> |
| 3305042                      | 1083042 Dist Resv & Stndpipes        | (\$39,317)        | 2.70%       | (\$1,062)         | 7.5          | (\$7,962)         |
| 3345046                      | 1083046 Meters                       | (5,774)           | 5.00%       | (289)             | 7.5          | (2,167)           |
| 3406091                      | 1083091 Office Furniture & Equipment | (3,823)           | 6.72%       | (257)             | 7.5          | (1,927)           |
| 3466094                      | 1083094 Tools, Shop and Equipment    | (14,202)          | 6.25%       | (888)             | 7.5          | (6,659)           |
| Total Water Adjustments      |                                      | (\$63,117)        |             | (\$2,495)         |              | (\$18,715)        |
| 3804005                      | 1084005 Sewage Treatment Plant       | (\$2,281)         | 2.86%       | (65)              | 7.5          | (\$488)           |
| 3907091                      | 1084091 Office Furniture & Equipment | (2,983)           | 6.67%       | (199)             | 7.5          | (1,493)           |
| 3937094                      | 1084094 Tools, Shop and Equipment    | (1,224)           | 6.25%       | (77)              | 7.5          | (574)             |
| 3967097                      | 1084097 Communication Equipment      | (13,277)          | 10.00%      | (1,327)           | 7.5          | (9,954)           |
| Total Wastewater Adjustments |                                      | (\$19,765)        |             | (\$1,668)         |              | (\$12,509)        |

The balance for construction work in process (CWIP) was established at \$201,080 at transfer and was displayed as \$33,507 for water and \$167,573 for wastewater in the above mentioned order. As stated above, it appears that the utility posted additions to this account in 1998 which we could not substantiate because of inadequate supporting documentation. The difference of \$56,746 should be removed.

The utility's 1999 general ledger indicates that a construction project was closed out to Acct. No. 3315043 - T&D Mains in December 1999 for \$257,000. The project described above is the only utility project of that size that was active at that time. It appears that the utility posted the entire CWIP balance into Acct. No. 1052091 - Water Plant In Process without differentiating the balance between water and wastewater accounts. When the project was completed the utility posted the entire balance to its water system. It appears reasonable that a project of that magnitude would be for utility infrastructure such as T&D mains. However, the project should have been split between water and wastewater accounts as indicated to the balances approved in the order.

The following balances to the indicated accounts are adjusted to correct the 1998 CWIP transfer balance and to distribute the construction project to the proper water and wastewater accounts.

| Utility          |                                  |  | UPIS              | Dep.        | Dep. Exp.         |              | Acc/Dep           |
|------------------|----------------------------------|--|-------------------|-------------|-------------------|--------------|-------------------|
| <u>Acct. No.</u> | <u>Acct. Description</u>         |  | <u>Adjustment</u> | <u>Rate</u> | <u>Adjustment</u> | <u>Years</u> | <u>Adjustment</u> |
| 3315043          | 1083042 T&D Mains                |  | (\$223,493)       | 2.33%       | (\$5,198)         | 6.5          | (\$33,784)        |
| 3612008          | 1084005 Sewer Mains              |  | <u>\$167,573</u>  | 2.22%       | 3,724             | 6.5          | \$24,205          |
|                  | Total adjustment to CWIP balance |  | (\$55,920)        |             |                   |              |                   |

$$(\$223,493) = \$33,507 - \$275,000$$

**EFFECT ON GENERAL LEDGER:** The following journal entries should be made to correct the utility's general ledger balances.

### Water Adjustment Entries

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                       | Debit     | Credit    |
|----------------------|--------------------|---|-----------|-----------|
| 1083042              | 108                | Acc/Dep - Dist Resv & Stndpipes         | \$7,962   |           |
| 1083043              | 108                | Acc/Dep - T&D Mains                     | \$33,784  |           |
| 1083046              | 108                | Acc/Dep - Meters                        | \$2,167   |           |
| 1083091              | 108                | Acc/Dep - Office Furniture & Equipment  | \$1,927   |           |
| 1083094              | 108                | Acc/Dep - Tools, Shop and Equipment     | \$6,659   |           |
| 2151000              | 215                | Retained Earnings                       | \$241,804 |           |
| 3305042              | 330                | Dist Resv & Stndpipes                   |           | \$39,317  |
| 3315043              | 331                | T&D Mains                               |           | \$223,493 |
| 3345046              | 334                | Meters                                  |           | \$5,774   |
| 3406091              | 340                | Office Furniture & Equipment            |           | \$3,823   |
| 3466094              | 346                | Tools, Shop and Equipment               |           | \$14,202  |
| 4032042              | 403                | Dep. Exp - Dist Resv & Stndpipes        |           | \$1,062   |
| 4032043              | 403                | Dep. Exp - T&D Mains                    |           | \$5,198   |
| 4032046              | 403                | Dep. Exp - Meters                       |           | \$289     |
| 4032091              | 403                | Dep. Exp - Office Furniture & Equipment |           | \$257     |
| 4032094              | 403                | Dep. Exp - Tools, Shop and Equipment    |           | \$888     |

### Wastewater Adjustment Entries

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                        | Debit     | Credit    |
|----------------------|--------------------|--|-----------|-----------|
| 1084005              | 108                | Acc/Dep - Sewage Treatment Plant         | \$488     |           |
| 1084008              | 108                | Acc/Dep - Sewer Mains                    |           | \$24,205  |
| 1084091              | 108                | Acc/Dep - Office Furniture & Equipment   | \$1,493   |           |
| 1084094              | 108                | Acc/Dep - Tools, Shop and Equipment      | \$574     |           |
| 1084097              | 108                | Acc/Dep - Communication Equipment        | \$9,954   |           |
| 2151000              | 215                | Retained Earnings                        |           | \$138,168 |
| 3612008              | 361                | Sewer Mains                              | \$167,573 |           |
| 3804005              | 380                | Sewage Treatment Plant                   |           | \$2,281   |
| 3907091              | 390                | Office Furniture & Equipment             |           | \$2,983   |
| 3937094              | 393                | Tools, Shop and Equipment                |           | \$1,224   |
| 3967097              | 396                | Communication Equipment                  |           | \$13,277  |
| 4033005              | 403                | Dep. Exp. - Sewage Treatment Plant       |           | \$65      |
| 4033008              | 403                | Dep. Exp. - Sewer Mains                  | \$3,724   |           |
| 4033091              | 403                | Dep. Exp. - Office Furniture & Equipment |           | \$199     |
| 4033094              | 403                | Dep. Exp. - Tools, Shop and Equipment    |           | \$77      |
| 4033097              | 403                | Dep. Exp. - Communication Equipment      |           | \$1,327   |

**EFFECT ON FILING:** The utility's water and wastewater 13-month average rate base balances should be reduced by \$220,579 and increased by \$137,260, respectively as of December 31, 2005. The utility's water and wastewater depreciation expense balances should be reduced by \$7,693 and increased by \$2,056 for the 12-month period ended December 31, 2005.

| <u>Water System</u>  | <u>Dec-04</u> | <u>Dec-05</u> | <u>13-Month<br/>Average</u> | <u>Dep. Expense<br/>Adjustment</u> |
|----------------------|---------------|---------------|-----------------------------|------------------------------------|
| UPIS                 | (\$63,117)    | (\$63,117)    | (\$63,117)                  | (\$2,495)                          |
| UPIS                 | (223,493)     | (223,493)     | (223,493)                   | <u>(5,198)</u>                     |
| Acc/Dep              | 16,220        | 18,715        | 17,468                      |                                    |
| Acc/Dep              | <u>28,586</u> | <u>33,784</u> | <u>48,563</u>               |                                    |
| Rate Base Adjustment | (\$241,804)   | (\$234,111)   | (\$220,579)                 | (\$7,693)                          |

| <u>Wastewater System</u> | <u>Dec-04</u>   | <u>Dec-05</u>   | <u>13-Month<br/>Average</u> | <u>Dep. Expense<br/>Adjustment</u> |
|--------------------------|-----------------|-----------------|-----------------------------|------------------------------------|
| UPIS                     | (\$19,765)      | (\$19,765)      | (\$19,765)                  | (\$1,668)                          |
| UPIS                     | 167,573         | 167,573         | 167,573                     | <u>3,724</u>                       |
| Acc/Dep                  | 10,841          | 12,509          | 11,675                      |                                    |
| Acc/Dep                  | <u>(20,241)</u> | <u>(24,205)</u> | <u>(22,223)</u>             |                                    |
| Rate Base Adjustment     | \$138,408       | \$136,112       | \$137,260                   | \$2,056                            |



### AUDIT FINDING NO. 3

#### SUBJECT: ADJUSTMENT ORGANIZATION COST AND FRANCHISE FEES

**SUMMARY:** The utility's water and wastewater average rate base balances are overstated by \$140,959 and \$86,282, respectively, as of December 31, 2005

**STATEMENT OF FACT:** In its filing, the utility included 13-month average water and wastewater balances of \$1,145 and \$865, respectively, for organization cost. The filing also includes 13-month average water and wastewater balances of \$224,833 and \$87,919, respectively, for franchise fees. None of the above balances were approved in the utility's last rate case proceeding in Docket No. 98067-WS.

The utility, however, did not include the corresponding accumulated depreciation and depreciation expense account general ledger balances for these accounts in the filing.

The utility's general ledger reflects the following accumulated depreciation and depreciation expense balances for organization cost and franchise fees for the periods indicated.

| System  | Utility<br>Acct. No. | Acct. Description             | Balance<br>Dec-04 | Balance<br>Dec-05 | 13-Month<br>Average |
|---------|----------------------|-------------------------------|-------------------|-------------------|---------------------|
| Water   | 3011001              | Oranization Cost              | \$480             | \$480             | \$1,145 *           |
| Water   | 3021002              | Franchise Fees                | 217,765           | 232,519           | 224,833             |
|         |                      |                               | \$218,245         | \$232,999         | \$225,978           |
| Water   | 1083001              | Acc/Dep - Oranization Cost    | (\$28,035)        | (\$33,348)        | (\$30,692)          |
| Water   | 108****              | Acc/Dep - Franchise Fees      | 0                 | 0                 | 0                   |
|         |                      |                               | (\$28,035)        | (\$33,348)        | (\$30,692)          |
| Water   | 4032001              | Dep. Exp. - Organization Cost |                   | \$5,313           |                     |
| Water   | 4032***              | Dep. Exp. - Franchise         |                   | 0                 |                     |
|         |                      |                               |                   | \$5,313           |                     |
| W/Water | 3511001              | Oranization Cost              | \$429             | \$429             | \$865 *             |
| W/Water | 3521020              | Franchise Fees                | 87,919            | 87,919            | 87,919              |
|         |                      |                               | \$88,348          | \$88,348          | \$88,784            |
| W/Water | 1084001              | Acc/Dep - Oranization Cost    | (\$53)            | (\$64)            | (\$59)              |
| W/Water | 1084020              | Acc/Dep - Franchise Fees      | (13,330)          | (15,524)          | (14,427)            |
|         |                      |                               | (\$13,383)        | (\$15,588)        | (\$14,486)          |
| W/Water | 4033001              | Dep. Exp. - Organization Cost |                   | \$11              |                     |
| W/Water | 4033020              | Dep. Exp. - Franchise         |                   | 2,194             |                     |
|         |                      |                               |                   | \$2,205           |                     |

\* The 13-month average calculation is skewed because of offsetting debits and credits in June and July of 2005.

The NARUC Uniform System of Accounts established that the balance for organization cost is limited to the original cost incurred that is incident to organizing the utility and putting it into readiness to conduct business. Additionally, Order No. PSC-03-0647-WS, issued, May 28, 2003, determined that costs incurred related to the purchase of a utility system are to be treated as acquisition cost and not organization or franchise cost.

The utility's 2004 addition of \$480 to water organization cost and its 1999 addition of \$429 to wastewater organization cost should be removed per the NARUC rule and Commission order cited above.

The utility's 1998 additions to water and wastewater franchise fees of \$132,445 and \$84,737 should be removed because they appear to include legal and consulting fees paid by the utility to purchase and secure the transfer of the utility at that time. We were not able to complete a full review of these costs because the utility was unable to provide the supporting documentation.

The following schedules provides the details and calculations by the audit staff to remove the organization cost and unsupported franchise fees along with the corresponding effect on accumulated depreciation and depreciation expense balances.

**EFFECT ON GENERAL LEDGER:** The following journal entries should be made to correct the utility's general ledger balances. The first entry removes unapproved and unsupported organization cost and franchise fees. The second entry records the cumulative effect of the asset balance adjustments.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description       | Debit     | Credit    |
|----------------------|--------------------|-------------------------|-----------|-----------|
|                      | 121                | Non Utility Investments | \$217,662 |           |
| 2150000              | 215                | Retained Earnings       | \$909     |           |
| 3011001              | 301                | Organization Water      |           | \$480     |
| 3021002              | 302                | Franchise Water         |           | \$132,925 |
| 3511001              | 351                | Organization Wastewater |           | \$429     |
| 3521020              | 352                | Franchise Wastewater    |           | \$84,737  |

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                           | Debit    | Credit   |
|----------------------|--------------------|---|----------|----------|
| 1083001              | 108                | Acc. Dep. Org. & Franchise Water            | \$10,171 |          |
| 1084001              | 108                | Acc. Dep. Org. Wastewater                   | \$64     |          |
| 1084020              | 108                | Acc. Dep. Franchise Wastewater              | \$14,805 |          |
| 4032001              | 403                | Depreciation Expense Org. & Franchise Water |          | \$3,330  |
| 4033001              | 403                | Depreciation Expense Org. Wastewater        |          | \$11     |
| 4033020              | 403                | Depreciation Expense Franchise Wastewater   |          | \$2,115  |
| 2150000              | 215                | Retained Earnings                           |          | \$19,585 |

**EFFECT ON FILING:** The utility's water and wastewater 13-month average rate base balances should be reduced by \$140,959 (\$131,780 + \$9,179) and \$86,282, (\$85,602 + \$680) respectively, as of December 31, 2005. The utility's water and wastewater depreciation expense balances should be reduced by \$3,330 and \$2,126, (\$2,115 + \$11) respectively, for the 12-month period ended December 31, 2005.

| Utility<br>Acct. No.                           | Acct. Description          | Balance<br>Dec-04 | Balance<br>Dec-05 | 13-Month<br>Average | Utility<br>Acct. No. | Balance<br>Dec-04 | Balance<br>Dec-05 | 13-Month<br>Average |
|--|----------------------------|-------------------|-------------------|---------------------|----------------------|-------------------|-------------------|---------------------|
| Water<br>3011001                               | Organization - Per Utility | \$480             | \$480             | \$1,145             | Water<br>1083001     | \$0               | \$0               | \$0                 |
|  | Organization - Per Audit   | <u>0</u>          | <u>0</u>          | <u>0</u>            |                      | <u>0</u>          | <u>0</u>          | <u>0</u>            |
|  | Adjustment                 | \$480             | \$480             | \$1,145             |                      | \$0               | \$0               | \$0                 |
| Water<br>3021002                               | Franchise - Per Utility    | \$217,765         | \$232,519         | \$224,883           | Water<br>1083001     | \$0               | \$0               | \$0                 |
|  | Franchise - Per Audit      | <u>84,840</u>     | <u>99,594</u>     | <u>91,958</u>       |                      | <u>(8,187)</u>    | <u>(10,171)</u>   | <u>(9,179)</u>      |
|  | Adjustment                 | (\$132,925)       | (\$132,925)       | (\$132,925)         |                      | (\$8,187)         | (\$10,171)        | (\$9,179)           |
| 13-Month Average Adjustment to Water Rate Base |                            |                   |                   | <u>(\$131,780)</u>  | <u>(\$9,179)</u>     |                   |                   |                     |
| W/Water<br>3511001                             | Organization - Per Utility | \$429             | \$429             | \$865               | W/Water<br>1084001   | \$0               | \$0               | \$0                 |
|  | Organization - Per Audit   | <u>0</u>          | <u>0</u>          | <u>0</u>            |                      | <u>0</u>          | <u>0</u>          | <u>0</u>            |
|  | Adjustment                 | (\$429)           | (\$429)           | (\$865)             |                      | \$0               | \$0               | \$0                 |
| W/Water<br>3521020                             | Franchise - Per Utility    | \$87,919          | \$87,919          | \$87,919            | W/Water<br>1084020   | \$0               | \$0               | \$0                 |
|  | Franchise - Per Audit      | <u>3,182</u>      | <u>3,182</u>      | <u>3,182</u>        |                      | <u>(640)</u>      | <u>(719)</u>      | <u>(680)</u>        |
|  | Adjustment                 | (\$84,737)        | (\$84,737)        | (\$84,737)          |                      | (\$640)           | (\$719)           | (\$680)             |
| 13-Month Average Adjustment to Water Rate Base |                            |                   |                   | <u>(\$85,602)</u>   | <u>(\$680)</u>       |                   |                   |                     |

| Utility Acct. No. | Acct. Description      | Balance 12/31/97 | Add 1998  | Balance 12/31/98 | Add 1999 | Balance 12/31/99 | Add 2000 | Balance 12/31/00 | Add 2001 | Balance 12/31/01 | Add 2002 | Balance 12/31/02 | Add 2003 | Balance 12/31/03 | Add 2004 | Balance 12/31/04 | Add 2005 | Balance 12/31/05 |
|-------------------|------------------------|------------------|-----------|------------------|----------|------------------|----------|------------------|----------|------------------|----------|------------------|----------|------------------|----------|------------------|----------|------------------|
| 3011001           | Organization           | \$0              | \$0       | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$480    | \$480            | \$0      | \$480            |
|                   | Staff Adjustment       | 0                | 0         | 0                | 0        | 0                | 0        | 0                | 0        | 0                | 0        | 0                | 0        | 0                | (480)    | (480)            | 0        | (480)            |
|                   | Net Organization Water | \$0              | \$0       | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              |
| 3021002           | Franchise              | \$0              | \$132,445 | \$132,445        | \$42,122 | \$174,567        | \$24,928 | \$199,495        | \$0      | \$199,495        | \$0      | \$199,495        | \$1,472  | \$200,967        | \$16,798 | \$217,765        | \$14,754 | \$232,519        |
|                   | Staff Adjustment       | 0                | (132,445) | (132,445)        | 0        | (132,445)        | 0        | (132,445)        | 0        | (132,445)        | 0        | (132,445)        | 0        | (132,445)        | (480)    | (132,925)        | 0        | (132,925)        |
|                   | Net Franchise Water    | \$0              | \$0       | \$0              | \$42,122 | \$42,122         | \$24,928 | \$67,050         | \$0      | \$67,050         | \$0      | \$67,050         | \$1,472  | \$68,522         | \$16,318 | \$84,840         | \$14,754 | \$99,594         |
| 3511001           | Organization           | \$0              | \$0       | \$0              | \$429    | \$429            | \$0      | \$429            | \$0      | \$429            | \$0      | \$429            | \$0      | \$429            | \$0      | \$429            | \$0      | \$429            |
|                   | Staff Adjustment       | 0                | 0         | 0                | (429)    | (429)            | 0        | (429)            | 0        | (429)            | 0        | (429)            | 0        | (429)            | 0        | (429)            | 0        | (429)            |
|                   | Net Organization WW    | \$0              | \$0       | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              | \$0      | \$0              |
| 3521020           | Franchises             | \$0              | \$84,737  | \$84,737         | \$3,182  | \$87,919         | \$0      | \$87,919         | \$0      | \$87,919         | \$0      | \$87,919         | \$0      | \$87,919         | \$0      | \$87,919         | \$0      | \$87,919         |
|                   | Staff Adjustment       | 0                | (84,737)  | (84,737)         | 0        | (84,737)         | 0        | (84,737)         | 0        | (84,737)         | 0        | (84,737)         | 0        | (84,737)         | 0        | (84,737)         | 0        | (84,737)         |
|                   | Net Franchise WW       | \$0              | \$0       | \$0              | \$3,182  | \$3,182          | \$0      | \$3,182          | \$0      | \$3,182          | \$0      | \$3,182          | \$0      | \$3,182          | \$0      | \$3,182          | \$0      | \$3,182          |

| Utility Acct. No. | Acct. Description      | Balance 12/31/97 | Add 1998 | Balance 12/31/98 | Add 1999  | Balance 12/31/99 | Add 2000  | Balance 12/31/00 | Add 2001  | Balance 12/31/01 | Add 2002  | Balance 12/31/02 | Add 2003  | Balance 12/31/03 | Add 2004  | Balance 12/31/04 | Add 2005   | Balance 12/31/05 |
|-------------------|------------------------|------------------|----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|------------|------------------|
| 1083001           | Organization           | \$0              | \$0      | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0        | \$0              |
|                   | Staff Adjustment       | 0                | 0        | 0                | 0         | 0                | 0         | 0                | 0         | 0                | 0         | 0                | 0         | 0                | 6         | 6                | 12         | 18               |
|                   | Net Organization Water | \$0              | \$0      | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$6       | \$6              | \$12       | \$18             |
| 1083001           | Franchise              | \$0              | \$0      | \$0              | (\$3,362) | (\$3,362)        | (\$4,399) | (\$7,761)        | (\$5,027) | (\$12,788)       | (\$5,027) | (\$17,816)       | (\$5,027) | (\$22,843)       | (\$5,192) | (\$28,035)       | (\$5,313)  | (\$33,348)       |
|                   | Staff Adjustment       | 0                | 0        | 0                | 3,306     | 3,306            | 3,306     | 6,612            | 3,306     | 9,917            | 3,306     | 13,223           | 3,306     | 16,529           | 3,312     | 19,841           | 3,318      | 23,159           |
|                   | Net Franchise Water    | \$0              | \$0      | \$0              | (\$56)    | (\$56)           | (\$1,093) | (\$1,150)        | (\$1,721) | (\$2,871)        | (\$1,722) | (\$4,592)        | (\$1,721) | (\$6,314)        | (\$1,880) | (\$8,194)        | (\$1,995)  | (\$10,189)       |
|                   | Plus Organization      |                  |          |                  |           |                  |           |                  |           |                  |           |                  |           | 6                | 6         | 12               | 18         |                  |
|                   | Net to account 1083001 |                  |          |                  |           |                  |           |                  |           |                  |           |                  |           | (\$1,874)        | (\$8,188) | (\$1,983)        | (\$10,171) |                  |
| 1084001           | Organization           | \$0              | \$0      | \$0              | \$0       | \$0              | (\$11)    | (\$11)           | (\$11)    | (\$21)           | (\$11)    | (\$32)           | (\$11)    | (\$43)           | (\$11)    | (\$53)           | (\$11)     | (\$64)           |
|                   | Staff Adjustment       | 0                | 0        | 0                | 0         | 0                | 11        | 11               | 11        | 21               | 11        | 32               | 11        | 43               | 11        | 54               | 11         | 64               |
|                   | Net Organization WW    | \$0              | \$0      | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0       | \$0              | \$0        | \$0              |
| 1084020           | Franchises             | \$0              | \$0      | \$0              | (\$2,358) | (\$2,358)        | (\$2,194) | (\$4,552)        | (\$2,194) | (\$6,747)        | (\$2,194) | (\$8,941)        | (\$2,194) | (\$11,135)       | (\$2,194) | (\$13,330)       | (\$2,194)  | (\$15,524)       |
|                   | Staff Adjustment       | 0                | 0        | 0                | 2,115     | 2,115            | 2,115     | 4,230            | 2,115     | 6,345            | 2,115     | 8,460            | 2,115     | 10,575           | 2,115     | 12,690           | 2,115      | 14,805           |
|                   | Net Franchise WW       | \$0              | \$0      | \$0              | (\$243)   | (\$243)          | (\$79)    | (\$322)          | (\$79)    | (\$401)          | (\$79)    | (\$481)          | (\$79)    | (\$560)          | (\$79)    | (\$640)          | (\$79)     | (\$719)          |

\* The utility included the Organization depreciation balance as part of Franchise Fee accumulated depreciation.

**AUDIT FINDING NO. 4**

**SUBJECT: ADJUSTMENT TO RETIRE UTILITY PLANT IN SERVICE**

**SUMMARY:** The utility's 13-month average wastewater rate base balance is understated by \$3,942 as of December 31, 2005.

**STATEMENT OF FACT:** The utility recorded two capital additions to utility plant in service that should have included a corresponding retirement amount. The utility's policy is to retire 75 percent of the capital assets purchase price when the original cost can not be determined.

The utility recorded the following invoices to its construction project ledger in 1999. The invoices were requested as part of our audit sample of UPIS additions for the period 1998 through 2005.

| <u>Construction Project No.</u> | <u>Invoice Ref. No. and Vendor</u> | <u>Amount</u> | <u>Total Project</u> | <u>Activity</u>  |
|---------------------------------|------------------------------------|---------------|----------------------|--|
| 116-99-07                       | 16172*09128*Sunshine               | \$9,998       | \$10,554             | Replace 16" steel pipe connecting the three Wekiva W/Water plants including supports and connections |
| 116-99-12                       | 2414*09128*Thompson                | \$17,074      | \$20,938             | Electrical work at Wekiva W/Water plant to replace blower starter on #2 blower                       |

Project No. 116-99-07 was closed out and posted to Acct. No. 3804005 in December 1999 and Project No. 116-99-12 was closed out and posted to the same account in December 2000.

The schedule below calculates the retirements and the corresponding cumulative effect on the utility's rate base balance.

| <u>Project</u>   | <u>Year Placed in Service</u> | <u>Utility Acct. No.</u> | <u>NARUC Acct. No.</u> | <u>Amount</u> | <u>75% Retirement</u> | <u>Dep. Rate</u> | <u>Dep. Exp. Adjustment</u> | <u>Depreciation Years</u> | <u>Acc/Dep Adjustment</u> |
|------------------|-------------------------------|--------------------------|------------------------|---------------|-----------------------|------------------|-----------------------------|---------------------------|---------------------------|
| 1169907          | 1999                          | 3804005                  | 380                    | \$10,554      | (\$7,916)             | 2.86%            | (\$226)                     | 6.5                       | (\$1,471)                 |
| 1169912          | 2000                          | 3804005                  | 380                    | \$20,938      | (\$15,704)            | 2.86%            | (\$449)                     | 5.5                       | (\$2,470)                 |
| Total Adjustment |                               |                          |                        |               | <u>(\$23,619)</u>     |                  | <u>(\$676)</u>              |                           | <u>(\$3,942)</u>          |

13-Month average adjustment equals year end adjustment

**EFFECT ON GENERAL LEDGER:** The following journal entries should be made to correct the utility's general ledger balances.

| <u>Utility Acct. No.</u> | <u>NARUC Acct. No.</u> | <u>Acct. Description</u>               | <u>Debit</u> | <u>Credit</u> |
|--------------------------|------------------------|--|--------------|---------------|
| 1084005                  | 108                    | Acc/Dep - Wastewater Treatment Plant   | \$27,561     |               |
| 2151000                  | 215                    | Retained Earnings                      |              | \$3,266       |
| 3804005                  | 380                    | Wastewater Treatment Plant             |              | \$23,619      |
| 4033005                  | 403                    | Dep. Exp. - Wastewater Treatment Plant |              | \$676         |

Acct. No. 1084005 adjustment of \$27,561 = \$23,619 + \$3,942

**EFFECT ON FILING:** The utility's 13-month average wastewater rate base balance should be increased by \$3,942 (\$27,561 - \$23,619) as of December 31, 2005. Additionally, the utility's wastewater depreciation expense balance should be reduced by \$676 for the 12-month period ended December 31, 2005.

## AUDIT FINDING NO. 5

### SUBJECT: ADJUSTMENT TO REMOVE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

**SUMMARY:** The utility's 13-month average water and wastewater rate base balances are overstated by \$13,943 (\$15,620 - \$1,677) and \$301,732 (\$329,233 - \$27,501), respectively, as of December 31, 2005.

**STATEMENT OF FACT:** The utility's records indicate that it accrued AFUDC on construction projects during the period 2000 - 2001. The rate that the utility used was approved for a sister subsidiary, Utilities Inc. of Florida. A search of Commission records indicates that the utility did not receive an approved AFUDC rate until one was established in Order No. PSC-04-0262-PAA-WS dated March 8, 2004, which determined a uniform rate for all of the Utilities, Inc. Florida systems. The uniform AFUDC rate became effective January 1, 2002 and was not allowed to be applied retroactively.

Rule 25-30.116 (5), F.A.C. states that no utility can charge or change an AFUDC rate without prior Commission approval.

The utility's AFUDC accruals to construction projects for the periods 2000 and 2001 that were posted to UPIS along with the cumulative effect on the corresponding accumulated depreciation and depreciation expense account balances should be removed. The following schedules show the amount of AFUDC charged to the respective construction projects, the account the project was closed to and the calculation of the corresponding accumulated depreciation and depreciation expense adjustments that are required.

#### Water Projects

| Project No.            | Year Posted to UPIS | Utility Acct. No. | NARUC Acct. No. | Years in Service | AFUDC Adjustment  | Dep. Rate | Dep. Exp. Adjustment | Acc/Dep Adjustment |
|------------------------|---------------------|-------------------|-----------------|------------------|-------------------|-----------|----------------------|--------------------|
| IDC#115-00-03          | 2000                | 3113025           | 311             | 5.5              | (\$261)           | 5.00%     | (\$13)               | (\$72)             |
| IDC#115-99-11          | 2000                | 3113025           | 311             | 5.5              | (299)             | 5.00%     | (15)                 | (82)               |
|                        |                     |                   |                 |                  | (\$560)           |           | (\$28)               | (\$154)            |
| IDC#115-01-02          | 2004                | 3204032           | 320             | 1.5              | (\$94)            | 4.55%     | (\$4)                | (\$6)              |
| IDC#115-00-01          | 2000                | 3305042           | 330             | 5.5              | (\$148)           | 2.70%     | (\$4)                | (\$22)             |
| IDC#115-00-05          | 2000                | 3305042           | 330             | 5.5              | (100)             | 2.70%     | (3)                  | (15)               |
|                        |                     |                   |                 |                  | (\$248)           |           | (\$7)                | (\$37)             |
| IDC#115-00-02          | 2001                | 3315043           | 331             | 4.5              | (\$7,339)         | 2.33%     | (\$171)              | (\$769)            |
| IDC#115-00-04          | 2002                | 3315043           | 331             | 3.5              | (2,104)           | 2.33%     | (49)                 | (171)              |
| IDC#115-01-01          | 2001                | 3315043           | 331             | 4.5              | (338)             | 2.33%     | (8)                  | (35)               |
| IDC#115-00-04          | 2002                | 3315043           | 331             | 3.5              | (650)             | 2.33%     | (15)                 | (53)               |
| IDC#115-00-06          | 2000                | 3315043           | 331             | 5.5              | (57)              | 2.33%     | (1)                  | (7)                |
| IDC#115-00-02          | 2001                | 3315043           | 331             | 4.5              | (4,228)           | 2.33%     | (98)                 | (443)              |
|                        |                     |                   |                 |                  | (\$14,716)        |           | (\$343)              | (\$1,479)          |
| IDC#115-99-13          | 2000                | 3335045           | 333             | 5.5              | (\$2)             | 2.50%     | (\$0)                | (\$0)              |
| Total Water Adjustment |                     |                   |                 |                  | <u>(\$15,620)</u> |           | <u>(\$382)</u>       | <u>(\$1,677)</u>   |

Wastewater Projects

| Project No.                 | Year Posted<br>to UPIS | Utility<br>Acct. No. | NARUC<br>Acct. No. | Years in<br>Service | AFUDC<br>Adjustment | Dep.<br>Rate | Dep. Exp.<br>Adjustment | Acc/Dep<br>Adjustment |
|-----------------------------|------------------------|----------------------|--------------------|---------------------|---------------------|--------------|-------------------------|-----------------------|
| IDC#116-00-07               | 2001                   | 3542011              | 354                | 4.5                 | (\$3,814)           | 3.34%        | (\$127)                 | (\$573)               |
| IDC#116-00-02               | 2000                   | 3542011              | 354                | 5.5                 | (666)               | 3.34%        | (22)                    | (122)                 |
| IDC#116-00-03               | 2000                   | 3542011              | 354                | 5.5                 | (82)                | 3.34%        | (3)                     | (15)                  |
| IDC#116-00-07               | 2001                   | 3542011              | 354                | 4.5                 | <u>(1,095)</u>      | 3.34%        | <u>(37)</u>             | <u>(164)</u>          |
|                             |                        |                      |                    |                     | (\$5,657)           |              | (\$189)                 | (\$874)               |
| IDC#116-01-04               | 2001                   | 3602007              | 360                | 4.5                 | (\$70)              | 3.34%        | (\$2)                   | (\$11)                |
| IDC#116-00-06               | 2002                   | 3752008              | 375                | 3.5                 | (\$303,517)         | 2.33%        | (\$7,072)               | (\$24,752)            |
| IDC#116-00-06               | 2002                   | 3752008              | 375                | 3.5                 | <u>(16,390)</u>     | 2.33%        | <u>(382)</u>            | <u>(1,337)</u>        |
|                             |                        |                      |                    |                     | (\$319,907)         |              | (\$7,454)               | (\$26,088)            |
| IDC#116-00-05               | 2001                   | 3804005              | 380                | 4.5                 | (\$143)             | 2.86%        | (\$4)                   | (\$18)                |
| IDC#116-01-02               | 2001                   | 3804005              | 380                | 4.5                 | (809)               | 2.86%        | (23)                    | (104)                 |
| IDC#116-01-05               | 2001                   | 3804005              | 380                | 4.5                 | (286)               | 2.86%        | (8)                     | (37)                  |
| IDC#116-99-10               | 2000                   | 3804005              | 380                | 5.5                 | (61)                | 2.86%        | (2)                     | (10)                  |
| IDC#116-00-01               | 2000                   | 3804005              | 380                | 5.5                 | (2,042)             | 2.86%        | (58)                    | (321)                 |
| IDC#116-00-04               | 2000                   | 3804005              | 380                | 5.5                 | (213)               | 2.86%        | (6)                     | (33)                  |
| IDC#116-99-14               | 2000                   | 3804005              | 380                | 3.5                 | <u>(45)</u>         | 2.86%        | <u>(1)</u>              | <u>(4)</u>            |
|                             |                        |                      |                    |                     | (\$3,599)           |              | (\$103)                 | (\$527)               |
| Total Wastewater Adjustment |                        |                      |                    |                     | <u>(\$329,233)</u>  |              | <u>(\$7,748)</u>        | <u>(\$27,501)</u>     |

**EFFECT ON GENERAL LEDGER:** The following journal entries should be made to correct the utility's general ledger balances.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Acct. Description                      | Debit     | Credit    |
|----------------------|--------------------|--|-----------|-----------|
| 1083025              | 108                | Acc/Dep - Pumping Equipment            | \$154     |           |
| 1083032              | 108                | Acc/Dep - Water Treatment Equip.       | \$6       |           |
| 1083042              | 108                | Acc/Dep - Distr. Reservoirs & Stand.   | \$37      |           |
| 1083043              | 108                | Acc/Dep - T&D Mains                    | \$1,479   |           |
| 1084011              | 108                | Acc/Dep - Lift Stations                | \$874     |           |
| 1084005              | 108                | Acc/Dep - Treatment & Disposal         | \$527     |           |
| 1084007              | 108                | Acc/Dep - Sewer Services               | \$11      |           |
| 1085008              | 108                | Acc/Dep - Reuse T&D Mains              | \$26,088  |           |
| 2151000              | 215                | Retained Earnings                      | \$323,807 |           |
| 3113025              | 311                | Pumping Equipment                      |           | \$560     |
| 3204032              | 320                | Water Treatment Equip.                 |           | \$94      |
| 3305042              | 330                | Distr. Reservoirs & Stand.             |           | \$248     |
| 3315043              | 331                | T&D Mains                              |           | \$14,716  |
| 3335045              | 333                | Water Services                         |           | \$2       |
| 3542011              | 354                | Lift Stations                          |           | \$5,657   |
| 3602007              | 360                | Sewer Services                         |           | \$70      |
| 3752008              | 375                | Reuse T&D Mains                        |           | \$319,907 |
| 3804005              | 380                | Treatment & Disposal                   |           | \$3,599   |
| 4032025              | 403                | Dep. Exp. - Pumping Equipment          |           | \$28      |
| 4032032              | 403                | Dep. Exp. - Water Treatment Equip.     |           | \$4       |
| 4032042              | 403                | Dep. Exp. - Distr. Reservoirs & Stand. |           | \$7       |
| 4032043              | 403                | Dep. Exp. - T&D Mains                  |           | \$343     |
| 4033005              | 403                | Dep. Exp. - Treatment & Disposal       |           | \$103     |
| 4033007              | 403                | Dep. Exp. - Sewer Services             |           | \$2       |
| 4033011              | 403                | Dep. Exp. - Lift Stations              |           | \$189     |
| 4037008              | 403                | Dep. Exp. - Reuse T&D Mains            |           | \$7,454   |



**EFFECT ON FILING:** The utility's 13-month average water and wastewater rate base balances should be reduced by \$13,943 (\$15,620 - \$1,677) and \$301,732 (\$329,233 - \$27,501), respectively, as of December 31, 2005. The utility's water and wastewater depreciation expense balances should be reduced by \$382 and \$7,748, respectively, for the 12-month period ended December 31, 2005.

**AUDIT FINDING NO. 6**

**SUBJECT: ADJUSTMENT TO ALLOCATE TRANSPORTATION EQUIPMENT**

**SUMMARY:** The utility's 13-month average water and wastewater rate base balances are understated by \$16,158 and \$12,354, respectively, as of December 31, 2005

**STATEMENT OF FACT:** The audit staff, at the request of The Division of Economic Regulation, performed an audit of Alafaya Utilities, Inc., a sister subsidiary of Sanlando Utilities, Corp. in Docket No. 060256-SU. The scope of the audit included a review of Alafaya's rate base components as of December 31, 2005. The audit report, issued October 6, 2006, included specific adjustments that reduced Alafaya's rate base by allocating a percentage of the original cost, accumulated depreciation and test year depreciation expense for a dump truck purchased in 2004 to Sanlando Utilities Corp. based on estimated use.

Utility personnel indicated that the dump truck is primarily used at Alafaya, Sanlando Utilities Corp. and Utilities, Inc. of Florida approximately 18.43 percent, 53.57 percent and 28.0 percent respectively, during the test year. The depreciation rate is 16.67 percent per Rule 25-30.140 F.A.C. An allocation of the dump truck based on its original cost and estimated use provided by the utility is calculated below.

| <u>As of 12/31/2005</u> | <u>Percentage</u> | <u>Original Cost</u> | <u>Accumulated Depreciation</u> | <u>Depreciation Expense</u> |
|-------------------------|-------------------|----------------------|---------------------------------|-----------------------------|
| Totals                  | <u>100.00%</u>    | <u>\$63,869</u>      | <u>\$15,971</u> *               | \$10,647                    |
| Alafya                  | 18.37%            | \$11,733             | \$2,934                         | \$1,956                     |
| Sanlando                | 53.57%            | \$34,215             | \$8,555                         | \$5,704                     |
| UIF                     | 28.00%            | \$17,922             | \$4,481                         | \$2,988                     |

\* Based on 1.5 years of annual depreciation expense accruals

**EFFECT ON GENERAL LEDGER:** The following entries are needed to correct the utility's general ledger balances to properly record the dump truck allocation discussed above. Allocations between water and wastewater systems are done for rate case proceedings.

| NARUC            |   |              |               |
|------------------|---|--------------|---------------|
| <u>Acct. No.</u> | <u>Account Description</u>              | <u>Debit</u> | <u>Credit</u> |
| 1082000          | Acc/Dep - Transportation Equipment      |              | \$8,555       |
| 2151000          | Retained Earnings                       |              | \$31,364      |
| 3917000          | Transportation Equipment                | \$34,215     |               |
| 4032092          | Dep. Expense - Transportation Equipment | \$5,704      |               |

**EFFECT ON FILING:** The utility's 13-month average water and wastewater rate base balances should be increased by \$16,158 and \$12,354, respectively, as of December 31, 2005 and water and wastewater depreciation expense balances should be increased by \$3,232 and \$2,472 for the 12-month period ended December 31, 2005.

| Utility Acct. No. | NARUC Acct. No. | Account Description                     | Total     | Water     | W/Water   |
|-------------------|-----------------|---|-----------|-----------|-----------|
| 1082000           | 108             | Acc/Dep - Transportation Equipment      | (\$8,555) | (\$4,848) | (\$3,707) |
| 3917000           | 341/391         | Transportation Equipment                | \$34,215  | \$19,390  | \$14,825  |
| 4032092           | 403             | Dep. Expense - Transportation Equipment | \$5,704   | \$3,232   | \$2,472   |
|                   |                 | Sanlando Customers                      | 100.00%   | 56.67%    | 43.33%    |

| <u>Water</u> | <u>Dec-04</u> | <u>Jan-05</u> | <u>Feb-05</u> | <u>Mar-05</u> | <u>Apr-05</u> | <u>May-05</u> | <u>Jun-05</u> | <u>Jul-05</u> | <u>Aug-05</u> | <u>Sep-05</u> | <u>Oct-05</u> | <u>Nov-05</u> | <u>Dec-05</u> | 13-Month Average |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|
| UPIS         | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390      | \$19,390         |
| Acc/Dep      | (1,616)       | (1,885)       | (2,155)       | (2,424)       | (2,693)       | (2,963)       | (3,232)       | (3,501)       | (3,771)       | (4,040)       | (4,309)       | (4,579)       | (4,848)       | (3,232)          |
| Net          | \$17,774      | \$17,505      | \$17,235      | \$16,966      | \$16,697      | \$16,427      | \$16,158      | \$15,889      | \$15,619      | \$15,350      | \$15,081      | \$14,811      | \$14,542      | \$16,158         |

| <u>W/Water</u> | <u>Dec-04</u> | <u>Jan-05</u> | <u>Feb-05</u> | <u>Mar-05</u> | <u>Apr-05</u> | <u>May-05</u> | <u>Jun-05</u> | <u>Jul-05</u> | <u>Aug-05</u> | <u>Sep-05</u> | <u>Oct-05</u> | <u>Nov-05</u> | <u>Dec-05</u> | 13-Month Average |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------------|
| UPIS           | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825      | \$14,825         |
| Acc/Dep        | (1,237)       | (1,442)       | (1,648)       | (1,854)       | (2,059)       | (2,265)       | (2,471)       | (2,677)       | (2,883)       | (3,089)       | (3,295)       | (3,501)       | (3,707)       | (2,472)          |
| Net            | \$13,588      | \$13,383      | \$13,177      | \$12,971      | \$12,766      | \$12,560      | \$12,354      | \$12,148      | \$11,942      | \$11,736      | \$11,530      | \$11,324      | \$11,118      | \$12,354         |

**AUDIT FINDING NO. 7**

**SUBJECT: ADJUSTMENT TO LAND**

**SUMMARY:** The utility's 13-month average water rate base is overstated by \$6,800 as of December 31, 2005.

**STATEMENT OF FACT:** The utility posted a \$5,000 amount to Acct. No. 3036010 - Land & Land Rights in 1998 that it said was for the acquisition of an easement to relocate a water main. In addition, the utility posted an invoice for \$1,800 in 1999 for an appraisal of property that it was interested in purchasing.

The utility could not provide any original source documentation, other than the journal entry, to support the \$5,000 easement acquisition discussed above and it never purchased the property that was appraised in 1999.

The balance in Acct. No. 3036010 should be reduced by \$6,800 because of the reasons stated above.

**EFFECT ON GENERAL LEDGER:** The following entries are needed to correct the utility's general ledger balances.

| <u>Utility</u><br><u>Acct. No.</u> | <u>NARUC</u><br><u>Acct. No.</u> | <u>Account Description</u>          | <u>Debit</u> | <u>Credit</u> |
|------------------------------------|----------------------------------|-------------------------------------|--------------|---------------|
| 2151000                            | 215                              | Retained Earnings                   | \$6,800      |               |
| 3034030                            | 303                              | Land & Land Rights (Treatment Plt.) |              | \$5,000       |
| 3036010                            | 303                              | Land & Land Rights                  |              | \$1,800       |

**EFFECT ON FILING:** The utility's water land balance should be reduced by \$6,800 as of December 31, 2005. The 13-month average adjustment equals the year end adjustment because it should be applied to year end 2004 and 2005 balances.

**AUDIT FINDING NO. 8**

**SUBJECT: ADJUSTMENT TO CONTRIBUTION IN AID OF CONSTRUCTION**

**SUMMARY:** The utility's 13-month average water and wastewater rate base balances are overstated by \$266,012 and \$361,515, respectively, as of December 31, 2005.

**STATEMENT OF FACT:** Order Nos. PSC-00-011-PAA-WS and PSC-00-1263-PAA-WS, issued July, 10, 2000, required the utility to credit contributions in aid of construction (CIAC) for water and wastewater overearnings of \$138,460 and \$260,432 in 1997 and 1998 and \$407,009 in 1999. The second order did not specify the distribution between the water and wastewater CIAC credit amount. The utility posted the combined credits to water and wastewater CIAC for \$340,475 and \$465,423 in 2000 after the orders were issued.

In 2005, the utility posted adjustments to water and wastewater CIAC balances for the above orders a second time and included adjustments to accumulated amortization of CIAC and CIAC amortization expense for the cumulative effect since year 2000.

The utility's 2005 adjustment needs to be reversed to eliminate the duplicate entry.

**EFFECT ON GENERAL LEDGER:** The following entries are needed to correct the utility's general ledger balances.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Account Description              | Debit     | Credit    |
|----------------------|--------------------|----------------------------------|-----------|-----------|
| 2151000              | 215                | Retained Earnings                |           | \$649,900 |
| 2711000              | 271                | Water - CIAC                     | \$340,475 |           |
| 2721000              | 271                | Wastewater - CIAC                | \$465,423 |           |
| 2722000              | 272                | Water - Acc/Amortz. Of CIAC      |           | \$74,463  |
| 2723000              | 272                | Wastewater - Acc/Amortz. Of CIAC |           | \$103,908 |
| 4071000              | 407                | Water -CIAC Amortz. Exp.         | \$8,829   |           |
| 4073000              | 407                | Wastewater -CIAC Amortz. Exp.    | \$13,544  |           |

**EFFECT ON FILING:** The utility's 13-month average water and wastewater rate base balances should be reduced by \$266,012 (\$340,475 - \$74,463) and \$361,515, (\$465,423 - \$103,908) respectively, as of December 31, 2005. The utility's net depreciation expense balances should be increased by \$8,829 and \$13,544, respectively, for the 12-month period ended December 31, 2005. The 13-month average adjustments are the total adjustment because the utility included the adjustments in its 13-month average calculation as if it was posted prior to December 2004.

**AUDIT FINDING NO. 9**

**SUBJECT: ADJUSTMENT TO ACCUMULATED DEPRECIATION**

**SUMMARY:** The utility's 13-month average water and wastewater rate base balances are overstated by \$9,344 and understated by \$7,144, respectively, as of December 31, 2005.

**STATEMENT OF FACT:** The utility's general ledger reflects the following balances in the indicated accounts for its main frame computer system.

| Utility          |                          |               |               | 13-Month       |
|------------------|--------------------------|---------------|---------------|----------------|
| <u>Acct. No.</u> | <u>Acct. Description</u> | <u>Dec-04</u> | <u>Dec-05</u> | <u>Average</u> |
| 3406110          | Computer System Cost     | \$20,295      | \$20,295      | \$20,295       |
| 3406150          | Computer System Amort.   | (\$15,219)    | (\$17,756)    | (\$16,488)     |
| 6369009          | Computer Amortization    |               | \$2,537       |                |

The 13-month average balance was calculated based on monthly general ledger activity.

The utility's filing included the balance for Acct. No. 3406110 in Acct. No. 348 - Other Tangible Plant for water rate base while Acct. No. 6369009 was allocated between water and wastewater to O&M expense Acct. Nos. 635 and 735 - Contractual Services. Although the amortization expense balance should have been included as depreciation expense in the filing, changing the amount from O&M expense to depreciation expense does not affect net operating income.

The utility, however, should have included the corresponding accumulated amortization account in the filing and it should be allocated between water and wastewater operations as the utility did for the amortization expense balance.

**EFFECT ON GENERAL LEDGER:** There is no effect on the general ledger because the allocation between water and wastewater operations is for rate filing purposes only.

**EFFECT ON FILING:** The utility's 13-month average water and wastewater rate base balances should be reduced by \$9,344 and increased by \$7,144, respectively, as of December 31, 2005. No expense adjustment is needed because it was already allocated between water and wastewater operations for the test year.

|                             |                   |                  |                  |
|-----------------------------|-------------------|------------------|------------------|
| Customers                   | 100.00%           | 56.67%           | 43.33%           |
| <u>Per Audit</u>            | <u>Total</u>      | <u>Water</u>     | <u>W/Water</u>   |
| Computer System             | \$20,295          | \$11,501         | \$8,794          |
| Acc/Amortz.- Computer       | <u>(16,488)</u>   | <u>(9,344)</u>   | <u>(7,144)</u>   |
|                             | \$3,807           | \$2,157          | \$1,650          |
| <u>Per Utility Filing</u>   |                   |                  |                  |
| Computer System             | \$20,295          | \$11,501         | \$8,794          |
| Acc/Amortz.- Computer       | <u>0</u>          | <u>0</u>         | <u>0</u>         |
|                             | \$20,295          | \$11,501         | \$8,794          |
| 13-Month Average Adjustment | <u>(\$16,488)</u> | <u>(\$9,344)</u> | <u>(\$7,144)</u> |

## AUDIT FINDING NO. 10

### SUBJECT: ADJUSTMENT TO ALLOCATED WSC RATE BASE

**SUMMARY:** The utility's allocated 13-month average net rate base from Water Service Corporation (WSC) is \$135,675 as of December 31, 2005. The balance should be further allocated to water and wastewater operations for \$76,886 and \$58,788, respectively.

**STATEMENT OF FACT:** WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common rate base to each subsidiary utility throughout the United States. Sanlando Utilities Corp. received \$110,575, which is the 13-month average amount as of December 31, 2005. The allocation is net of accumulated depreciation and accumulated deferred income taxes or approximately 6.35 percent of the total WSC average net rate base of \$1,740,155. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC rate base components that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that increased Sanlando Utilities Corp. allocated 13-month average WSC rate base allocation by \$25,099 to \$135,674.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Sanlando Utilities Corp. allocated 13-month average WSC rate base balance of \$135,674 for this proceeding.

**EFFECT ON GENERAL LEDGER:** None, because WSC only allocates its net rate base for rate case proceedings.

**EFFECT ON FILING:** Increase the utility's 13-month average water and wastewater rate base balances by \$14,224 and \$10,875, respectively, for the 12-month period ended December 31, 2005.

| 13-Month Average                | Total<br>Amount | Water         | Allocation<br>Percent | W/Water       | Allocation<br>Percent |
|---------------------------------|-----------------|---------------|-----------------------|---------------|-----------------------|
| Per Utility Allocated Rate Base | \$110,575       | \$62,663      | 56.67%                | \$47,912      | 43.33%                |
| Per Audit Allocated Rate Base   | <u>135,674</u>  | <u>76,886</u> | 56.67%                | <u>58,788</u> | 43.33%                |
| Audit Adjustment                | \$25,099        | \$14,224      |                       | \$10,875      |                       |

Small differences are due to rounding

**AUDIT FINDING NO. 11**

**SUBJECT: ADJUSTMENT TO WORKING CAPITAL**

**SUMMARY:** The utility's 13-month average water and wastewater rate base are understated by \$122,069 and \$44,621, respectively, as of December 31, 2005.

**STATEMENT OF FACT:** The utility's filing reflects a 13-month average working capital allowance of \$407,181 as of December 31, 2005, which is allocated to water and wastewater rate base in the amounts of \$115,186 and 291,995, respectively.

Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, determined that Utilities, Inc. of Florida, a sister subsidiary of Sanlando Utilities Corp., should allocate its working capital balance between water and wastewater operations based on the respective percentage of its operation and maintenance expense balances.

The utility's water and wastewater working capital balances are understated by \$122,069 and \$44,621, respectively, as of December 31, 2005, because of the following audit staff determinations.

1. The utility's working capital calculation includes \$123,053 of customer deposits which should be removed because they are a component of the utility's capital structure.
2. The utility's balances for accounts receivable, deferred debits, materials and supplies, miscellaneous accrued assets, and accrued taxes do not reconcile to its general ledger balance and(or) the 13-month average calculation.
3. The utility allocated its working capital allowance between water and wastewater rate base using a combination of revenues, customers and gross plant percentages rather than O&M expense percentage which was used for a subsidiary system in the above-mentioned order.

The audit staff's adjustments are indicated below and our calculations are displayed on the following page.

| <u>13-Month Average Working Capital</u>      | <u>Total</u>   | <u>Water</u>   | <u>Wastewater</u> |
|--|----------------|----------------|-------------------|
| Per Audit Calculation                        | \$573,871      | \$237,255      | \$336,616         |
| Per Utility Filing (MFR Schedules A-1 & A-2) | <u>407,181</u> | <u>115,186</u> | <u>291,995</u>    |
| Audit Adjustment                             | \$166,690      | \$122,069      | \$44,621          |

**EFFECT ON GENERAL LEDGER:** None, because a working capital adjustment is only calculated for rate case proceedings.

**EFFECT ON FILING:** The utility's water and wastewater 13-month average rate base should be increased by \$122,069 and \$44,621, respectively, as of December 31, 2005.



|   | General Ledger<br>Ending Balance<br>@12/31/2005 | 13-Month<br>Average<br>Balance | Water            | W/Water          |
|---|---|--------------------------------|------------------|------------------|
| <b>Current &amp; Accrued Assets</b>       |   |                                |                  |                  |
| Cash                                      | \$0   | (\$35)                         | (\$14)           | (\$21)           |
| Special Deposits                          | 250   | 212                            | 88               | 124              |
| Accounts & Notes Receivable               | 704,177   | 643,234                        | 265,932          | 377,302          |
| Deferred Debits - Rate Case Expense       | 0   | 0                              | 0                | 0                |
| Deferred Debits - Other                   | 31,149  | 40,599                         | 16,785           | 23,814           |
| Materials & Supplies                      | 12,636  | 12,636                         | 5,224            | 7,412            |
| Miscellaneous                             | 0   | 1,865                          | 771              | 1,094            |
| <b>Current &amp; Accrued Liabilities</b>  |   |                                |                  |                  |
| Accounts Payable                          | (38,725)  | (16,768)                       | (6,932)          | (9,836)          |
| Accrued Taxes                             | (115,000)                                       | (115,000)                      | (47,544)         | (67,456)         |
| Accrued Interest                          | 5,031   | 7,128                          | 2,947            | 4,181            |
| Miscellaneous                             | 0   | 0                              | 0                | 0                |
| <b>Working Capital</b>                    | <b>\$599,518</b>                                | <b>\$573,871</b>               | <b>\$237,255</b> | <b>\$336,616</b> |
| Allocated based on O&M Expense Percentage |   |                                |                  |                  |
| Water O&M Expense (MFR B-1, Revised)      | \$1,408,097                                     | 41.34%                         | \$237,255        |                  |
| W/Water O&M Expense (MFR B-2, Revised)    | <u>1,997,793</u>                                | 58.66%                         | <u>336,616</u>   |                  |
|   | \$3,405,890                                     |                                | \$573,871        |                  |

**Working Capital - 13-Month Average**

|  | Per MFR   | Adjustment | Per Audit | Explanation for Adjustment |
|--|-----------|------------|-----------|----------------------------|
| <b>Current &amp; Accrued Assets</b>      |           |            |           |                            |
| Cash                                     | (\$35)    | \$0        | (\$35)    |                            |
| Special Deposits                         | 212       | 0          | 212       |                            |
| Accounts & Notes Receivable              | 643,196   | 38         | 643,234   | Adjust to G/L balance      |
| Deferred Debits                          | 0         | 40,599     | 40,599    | Adjust to G/L balance      |
| Materials & Supplies                     | 11,664    | 972        | 12,636    | Adjust to G/L balance      |
| Miscellaneous                            | 933       | 932        | 1,865     | Adjust to G/L balance      |
| <b>Current &amp; Accrued Liabilities</b> |           |            |           |                            |
| Accounts Payable                         | (16,768)  | 0          | (16,768)  |                            |
| Customer Deposits                        | (123,053) | 123,053    | 0         | Remove                     |
| Accrued Taxes                            | (116,096) | 1,096      | (115,000) | Adjust to G/L balance      |
| Accrued Interest                         | 7,128     | 0          | 7,128     |                            |
| <b>Working Capital</b>                   |           |            |           |                            |
| 13-Month Average                         | \$407,181 | \$166,690  | \$573,871 |                            |

## AUDIT FINDING NO. 12

### SUBJECT: ADJUSTMENT TO O&M EXPENSE

**SUMMARY:** The utility's water and wastewater O&M expense balances are overstated by \$50,005 and \$240, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The audit staff's sample of test year O&M expense accounts determined that the following invoices, posted by the utility in its 2005 general ledger, were recorded in error or they are not supported by adequate documentation.

| Item No. | Utility Acct. No. | NARUC Acct. No. | Invoice Ref# and Vendor | Total Amount | 56.67% Water Amount | 43.33% W/Water Amount |
|----------|-------------------|-----------------|-------------------------|--------------|---------------------|-----------------------|
| 1        | 6501030           | 650/750         | 81250*13603*Bobcat of   | \$2,137      | \$1,211             | \$926                 |
| 2        | 6755070           | 620             | 85330*13098*CPH Engin   | 7,500        | 7,500               | 0                     |
| 3        | 6755090           | 620             | 82247*14641*Fields &    | 3,400        | 3,400               | 0                     |
| 4        | 6755090           | 620             | 80951*14187*Nortrax     | 4,517        | 4,517               | 0                     |
| 5        | 6755090           | 620             | Close W/O 115-04-09     | 29,601       | 29,601              | 0                     |
| 6        | 6759081           | 620             | 74476*00831*Locke Well  | 3,775        | 3,775               | 0                     |
| 6        | 6759081           | 620             | 75260*18025*Aabot Fence | 1,562        | 1,562               | 0                     |
| 6        | 6759081           | 620             | 99662*13095*Green's     | 3,291        | 3,291               | 0                     |
| 7        | 7754006           | 720             | 77609*11789*B&B Steel   | <u>1,500</u> | 0                   | <u>1,500</u>          |
|          |                   |                 |                         | \$57,283     | \$54,857            | \$2,426               |

The audit staff has determined the following concerning the above utility invoices.

- 1) The invoice in Item No. 1 relates to the utility's purchase of four new tires for a new BobCat that was previously bought. The original tires did not adequately fulfill the needs for the utility's use of the BobCat so they had to be replaced. The utility should have posted the new tires to the transportation account where the BobCat was originally recorded and depreciated them using the required Commission rate.
- 2) The invoice in Item No. 2 relates to engineering fees incurred for the five year renewal of the utility's wastewater groundwater permit. The entire amount should have been posted to a deferred asset account and amortized to wastewater O&M expense over the five year permit period.
- 3) The invoice in Item No. 3 relates to a major maintenance repair of a tractor that is used to maintain the wastewater percolation ponds as well as other utility operations. The tractor is recorded in the transportation account and allocated between water and wastewater operations. Major repairs such as these would not be of a recurring nature and should be posted to a deferred asset account and amortized to water and wastewater O&M expenses over five years.
- 4) The invoice in Item No. 4 relates to removal and disposal of construction debris that had accumulated over the years as the utility repaired and maintained systems. Major expenses such as these would not be of a recurring nature and should be posted to a deferred asset account and amortized to water and wastewater O&M expenses over five years.
- 5) The work order referenced in Item No. 5 relates to the costs incurred by the utility to clean up a fuel spill at the Wekiva plant in 2004. The utility opened Construction Project No. 115-04-09 in 2004 and recorded an invoice for \$27,974 from Aradaman & Associates. The difference of \$1,627 (\$29,601 -

\$27,974) is for \$471 of capitalized labor and \$1,156 of allowance for funds used during construction (ADUDC) that were also posted in 2004. In December 2005 the utility decided to transfer the balance of the construction project account to O&M expense rather than an asset account. Since the project was not capitalized the AFUDC accrual should be removed. The balance of \$28,445 (\$29,601 - \$1,156) should be posted to a deferred asset account and amortized over ten years since it is a non-recurring and highly unusual expense.

- 6) The invoices in Item No. 6 relate to utility costs incurred for the 2004 hurricane season and paid in 2005 and costs incurred for the 2005 hurricane season. The invoices reviewed totaled \$8,628, however, the balance in the account was \$10,024 for the test year 2005. Major expenses such as these would not be of a recurring nature and should be posted to a deferred asset account and amortized to water and wastewater O&M expenses over four years. This was the case for another utility system in Order No. PSC-06-0170A-PAA-WS, issued March 1, 2006.
- 7) The invoice in Item No. 7 relates to recorded costs for an invoice that the utility was not able to provide when requested and should be removed.

The following adjustments are needed to correct the utility's books and records per the audit staff determinations above.

| Item No. | Utility<br>Acct. No. | NARUC<br>Acct. No. | Amount     | Water      | Wastewater |
|----------|----------------------|--------------------|------------|------------|------------|
|          | 6501030              | 650/750            | (\$2,137)  | (\$1,211)  | (\$926)    |
| 1        | 3917000              | 341/391            | \$2,137    | \$1,211    | \$926      |
|          | 4032092              | 403                | \$178      | \$101      | \$77       |
|          | 1082000              | 108                | (\$178)    | (\$101)    | (\$77)     |
|          | 6755070              | 620                | (\$7,500)  | (\$7,500)  | \$0        |
| 2        | 6759080              | 720                | \$1,500    | \$0        | \$1,500    |
|          | 1862***              | 186                | \$7,500    | \$0        | \$7,500    |
|          | 1865***              | 186                | (\$1,500)  | \$0        | (\$1,500)  |
|          | 6755090              | 620                | (\$3,400)  | (\$3,400)  | \$0        |
| 3        | 6759080              | 620/720            | \$680      | \$385      | \$295      |
|          | 1862***              | 186                | \$3,400    | \$1,927    | \$1,473    |
|          | 1865***              | 186                | (\$680)    | (\$385)    | (\$295)    |
|          | 6755090              | 620                | (\$4,517)  | (\$4,517)  | \$0        |
| 4        | 6759080              | 620/720            | \$903      | \$512      | \$391      |
|          | 1862***              | 186                | \$4,517    | \$2,560    | \$1,957    |
|          | 1865***              | 186                | (\$903)    | (\$512)    | (\$391)    |
|          | 6755090              | 620                | (\$29,601) | (\$29,601) | \$0        |
| 5        | 6759080              | 620                | \$2,845    | \$2,845    | \$0        |
|          | 1862***              | 186                | \$28,445   | \$28,445   | \$0        |
|          | 1865***              | 186                | (\$2,845)  | (\$2,845)  | \$0        |
|          | 6759081              | 620                | (\$10,024) | (\$10,024) | \$0        |
| 6        | 6759080              | 620                | \$2,506    | \$2,506    | \$0        |
|          | 1862***              | 186                | \$10,024   | \$10,024   | \$0        |
|          | 1865***              | 186                | (\$2,506)  | (\$2,506)  | \$0        |
| 7        | 7754006              | 720                | (\$1,500)  | \$0        | (\$1,500)  |

**EFFECT ON GENERAL LEDGER:** The following entries are needed to correct the utility's general ledger balances.

| Utility          | NARUC            |   |              |               |
|------------------|------------------|---|--------------|---------------|
| <u>Acct. No.</u> | <u>Acct. No.</u> | <u>Account Description</u>                | <u>Debit</u> | <u>Credit</u> |
| 1082000          | 108              | Water Acc/Dep - Transportation Equip.     |              | \$151         |
| 1082000          | 108              | W/Water Acc/Dep - Transportation Equip.   |              | \$116         |
| 1862***          | 186              | Deferred Assets                           | \$45,452     |               |
| 1865***          | 186              | Acc/Amortz. of Deferred Assets            |              | \$8,085       |
| 2151000          | 215              | Retained Earnings                         | \$10,741     |               |
| 3917000          | 341              | Water - Transportation Equip.             | \$1,211      |               |
| 3917000          | 391              | W/Water Transportation Equip.             | \$926        |               |
| 4032092          | 403              | W/Water Dep. Exp. - Transportation Equip. | \$151        |               |
| 4032092          | 403              | Water Dep. Exp. - Transportation Equip.   | \$116        |               |
| 6501030          | 650              | Water - Transportation Exp.               |              | \$1,211       |
| 6501030          | 750              | W/Water - Transportation Exp.             |              | \$926         |
| 6755070          | 620              | Water - Materials & Supplies              |              | \$7,500       |
| 6755090          | 620              | Water - Materials & Supplies              |              | \$37,518      |
| 6759080          | 620              | Water - Materials & Supplies              | \$6,248      |               |
| 6759080          | 720              | W/Water - Materials & Supplies            | \$2,186      |               |
| 6759081          | 620              | Water - Materials & Supplies              |              | \$10,024      |
| 7544006          | 720              | W/Water - Materials & Supplies            |              | \$1,500       |

**EFFECT ON FILING:** The utility's water and wastewater O&M expense balances should be reduced by \$50,005 and \$240, respectively, for the 12-month period ended December 31, 2005. The utility's 13-month average rate base balances should be increased by \$780 and \$597, respectively, as of December 31, 2005 and water and wastewater depreciation expense balances should be increased by \$116 and \$151, respectively for the 12-month period ended December 31, 2005. The utility's 13-month average water and wastewater working capital allowance should be increased by \$7,209 and \$10,229, respectively as of December 31, 2005. (\$17,438 x 41.34% water and 58.66% wastewater allocation per Audit Finding No. 11 of this report)

**O&M Expense Adjustments**

| Utility          | NARUC            |               |              |                   | Water          | W/Water        |
|------------------|------------------|---------------|--------------|-------------------|----------------|----------------|
| <u>Acct. No.</u> | <u>Acct. No.</u> | <u>Amount</u> | <u>Water</u> | <u>Wastewater</u> | <u>6759080</u> | <u>6759080</u> |
| 6501030          | 650/750          | (\$2,137)     | (\$1,211)    | (\$926)           |                |                |
| 6755070          | 620              | (7,500)       | (7,500)      | 0                 |                |                |
| 6759080          | 720              | 1,500         | 0            | 1,500             |                | \$1,500        |
| 6755090          | 620              | (3,400)       | (3,400)      | 0                 |                |                |
| 6759080          | 620/720          | 680           | 385          | 295               | \$385          | 295            |
| 6755090          | 620              | (4,517)       | (4,517)      | 0                 |                |                |
| 6759080          | 620/720          | 903           | 512          | 391               | 512            | 391            |
| 6755090          | 620              | (29,601)      | (29,601)     | 0                 |                |                |
| 6759080          | 620              | 2,845         | 2,845        | 0                 | 2,845          |                |
| 6759081          | 620              | (10,024)      | (10,024)     | 0                 |                |                |
| 6759080          | 620              | 2,506         | 2,506        | 0                 | 2,506          |                |
| 7754006          | 720              | (1,500)       | 0            | (1,500)           |                |                |
|                  |                  | (\$50,245)    | (\$50,005)   | (\$240)           | \$6,248        | \$2,186        |

Rate Base and Dep. Expense Adjustment

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Amount  | Water   | Wastewater |
|----------------------|--------------------|---------|---------|------------|
| 2000                 | 108                | (\$267) | (\$151) | (\$116)    |
| 3917000              | 341/391            | \$2,137 | \$1,211 | \$926      |
| 4032092              | 403                | \$267   | \$151   | \$116      |

13-Month average calculation of rate base adjustment

| Utility<br>Acct. No. | Dec-04 | Jan-05 | Feb-05 | Mar-05 | Apr-05  | May-05  | Jun-05  | Jul-05  | Aug-05  | Sep-05  | Oct-05  | Nov-05  | Dec-05  | 13-Month<br>Average |
|----------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------------------|
| 3917000              | \$0    | \$0    | \$0    | \$0    | \$2,137 | \$2,137 | \$2,137 | \$2,137 | \$2,137 | \$2,137 | \$2,137 | \$2,137 | \$2,137 | \$1,479             |
| 1082000              | 0      | 0      | 0      | 0      | (30)    | (59)    | (89)    | (119)   | (148)   | (178)   | (208)   | (237)   | (267)   | (103)               |
|                      | \$0    | \$0    | \$0    | \$0    | \$2,107 | \$2,078 | \$2,048 | \$2,018 | \$1,989 | \$1,959 | \$1,929 | \$1,900 | \$1,870 | \$1,377             |
|                      |        |        |        |        |         |         |         |         |         |         |         |         |         |                     |
|                      |        |        |        |        |         |         |         |         | Water   |         | 56.67%  | \$1,211 | (\$151) | \$780               |
|                      |        |        |        |        |         |         |         |         | W/Water |         | 43.33%  | 926     | (116)   | 597                 |
|                      |        |        |        |        |         |         |         |         |         |         |         | \$2,137 | (\$267) | \$1,377             |

Deferred Asset Adjustments

| Utility<br>Acct. No.                | NARUC<br>Acct. No. | Posted | Amount   | Water    | Wastewater |
|-------------------------------------|--------------------|--------|----------|----------|------------|
| 1862***                             | 186                | May-05 | \$7,500  | \$0      | \$7,500    |
| 1865***                             | 186                |        | (1,500)  | 0        | (1,500)    |
| 1862***                             | 186                | Apr-05 | 3,400    | 1,927    | 1,473      |
| 1865***                             | 186                |        | (680)    | (385)    | (295)      |
| 1862***                             | 186                | Apr-05 | 4,517    | 2,560    | 1,957      |
| 1865***                             | 186                |        | (903)    | (512)    | (391)      |
| 1862***                             | 186                | Jul-05 | 28,445   | 28,445   | 0          |
| 1865***                             | 186                |        | (2,845)  | (2,845)  | 0          |
| 1862***                             | 186                | Nov-05 | 10,024   | 10,024   | 0          |
| 1865***                             | 186                |        | (2,506)  | (2,506)  | 0          |
| Total Adjustment to Deferred Assets |                    |        | \$45,452 | \$36,708 | \$8,744    |

13-Month average calculation of deferred asset balances

| Utility<br>Acct. No. | Dec-04 | Jan-05  | Feb-05  | Mar-05   | Apr-05   | May-05   | Jun-05   | Jul-05   | Aug-05   | Sep-05   | Oct-05   | Nov-05   | Dec-05   | 13-Month<br>Average |
|----------------------|--------|---------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------------------|
| 1862***              | \$0    | \$0     | \$0     | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$7,500  | \$5,769             |
| 1865***              | 0      | 0       | 0       | (150)    | (300)    | (450)    | (600)    | (750)    | (900)    | (1,050)  | (1,200)  | (1,350)  | (1,500)  | (635)               |
| 1862***              | 0      | 0       | 0       | 0        | 3,400    | 3,400    | 3,400    | 3,400    | 3,400    | 3,400    | 3,400    | 3,400    | 3,400    | 2,354               |
| 1865***              | 0      | 0       | 0       | 0        | (76)     | (151)    | (227)    | (302)    | (378)    | (453)    | (529)    | (604)    | (680)    | (262)               |
| 1862***              | 0      | 0       | 0       | 0        | 4,517    | 4,517    | 4,517    | 4,517    | 4,517    | 4,517    | 4,517    | 4,517    | 4,517    | 3,127               |
| 1865***              | 0      | 0       | 0       | 0        | (100)    | (201)    | (301)    | (401)    | (502)    | (602)    | (702)    | (803)    | (903)    | (347)               |
| 1862***              | 0      | 0       | 0       | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 28,445   | 2,188               |
| 1865***              | 0      | 0       | 0       | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | (2,845)  | (219)               |
| 1862***              | 0      | 3,775   | 5,337   | 5,337    | 5,337    | 5,337    | 5,337    | 5,625    | 6,210    | 6,210    | 6,210    | 10,025   | 10,025   | 5,751               |
| 1865***              | 0      | 0       | 0       | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | (1,253)  | (2,506)  | (289)               |
|                      | \$0    | \$3,775 | \$5,337 | \$12,687 | \$20,279 | \$19,953 | \$19,627 | \$19,588 | \$19,848 | \$19,522 | \$19,196 | \$21,431 | \$45,453 | \$17,438            |

**AUDIT FINDING NO. 13**

**SUBJECT: ADJUSTMENT TO ALLOCATED WSC EXPENSE**

**SUMMARY:** The utility's allocated common operating expense from Water Service Corporation (WSC) is \$464,844 for the 12-month period ended December 31, 2005.

**STATEMENT OF FACTS:** WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common operating expenses to each subsidiary utility throughout the United States. Sanlando Utilities Corporation received \$481,539 or approximately 6.30 percent of \$7,644,705 in total WSC common expenses for the 12-month period ended December 31, 2005. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC common expenses that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that reduced Sanlando Utilities Corporation's allocated common expenses by \$16,695 to \$464,844.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Sanlando Utilities Corporation's allocated average WSC common expenses is \$464,844 for this proceeding. See audit staffs calculations on the following page.

**EFFECT ON THE GENERAL LEDGER:**

| G/L Acct. | Description            | Debit    | Credit  |
|-----------|------------------------|----------|---------|
| 2151000   | Retained Earnings      | \$13,597 |         |
| 4032098   | Dep. Exp. - Computer   |          | \$643   |
| 4191010   | Interest Income        | \$9      |         |
| 4272090   | Interest Expense       | \$3,089  |         |
| 6329002   | Audit Fees             |          | \$5,603 |
| 6369009   | Amtz. Exp. - Computer  |          | \$117   |
| 6599090   | Insurance Exp. - Other |          | \$7,770 |
| 6759005   | Postage Fees           |          | \$2,562 |

**EFFECT ON THE FILINGS:** The utility's water and wastewater O&M expense balances are overstated by \$9,740 and \$6,955, respectively, for the 12-month period ended December 31, 2005.

| Sanlando<br>Allocation Schedules |   | Per Company      |                | Adjustment      |                  | Per Audit        |                  |
|----------------------------------|---|------------------|----------------|-----------------|------------------|------------------|------------------|
|                                  |   | WSC Expense      | Sanlando       | WSC Expense     | Sanlando         | WSC Expense      | Sanlando         |
| SE51                             | Allocated Computer  | \$545,445        | \$33,255       | (\$12,634)      | (\$760)          | \$532,811        | \$32,495         |
| SE52                             | Allocated Insurance   | 2,114,495        | 113,914        | (156,711)       | (7,770)          | 1,957,784        | 106,144          |
| SE60                             | Allocated General   | <u>4,984,765</u> | <u>334,370</u> | <u>(74,972)</u> | <u>(5,067)</u>   | <u>4,909,793</u> | <u>329,303</u>   |
|                                  | Per G/L   | \$7,644,705      | \$481,539      | (\$244,317)     | (\$13,597)       | \$7,400,388      | \$467,942        |
|                                  | Remove interest income and expense not included in the filing |                  |                |                 | <u>(\$3,098)</u> |                  | <u>(\$3,098)</u> |
|                                  | Per MFR   |                  |                |                 | (\$16,695)       |                  | \$464,844        |

SE51

| Acct No. |                  | Per Utility  | Adjustment   | Per Audit  |
|----------|------------------|--------------|--------------|------------|
| 4032098  | Dep. - Computer  | \$7,548      | (\$117)      | \$7,431    |
| 6369009  | Amtz. - Computer | <u>1,556</u> | <u>(643)</u> | <u>913</u> |
|          |                  | \$9,104      | (\$760)      | \$8,344    |

SE52

| Acct No. |                   | Per Utility | Adjustment | Per Audit |
|----------|-------------------|-------------|------------|-----------|
| 6599090  | Insurance - Other | \$113,914   | (\$7,770)  | \$106,144 |

SE60

| Acct No. |                  | Per Utility  | Adjustment     | Per Audit    |
|----------|------------------|--------------|----------------|--------------|
| 4191010  | Interest Income  | (\$9)        | \$9            | \$0          |
| 4272090  | Interest Expense | (3,089)      | 3,089          | 0            |
| 6329002  | Audit Fees       | 16,461       | (5,603)        | 10,858       |
| 6759005  | Postage Fees     | <u>4,862</u> | <u>(2,562)</u> | <u>2,300</u> |
|          |                  | \$18,225     | (\$5,067)      | \$13,158     |

| Acct No. |  | MFR<br>Acct. No. | Adjustment     | MFR B-12        | MFR B-12          |
|----------|--|------------------|----------------|-----------------|-------------------|
|          |  |                  |                | 56.67%<br>Water | 43.33%<br>W/Water |
| 4032098  | Dep. - Computer                        | 403 *            | (\$643)        | (\$643)         | \$0               |
| 4191010  | Interest Income                        | 426 **           | 0              | 0               | 0                 |
| 4272090  | Interest Expense                       | 419/427 **       | 0              | 0               | 0                 |
| 6329002  | Audit Fees                             | 632/732          | (5,603)        | (3,175)         | (2,428)           |
| 6369090  | Amtz. - Computer                       | 636/736          | (117)          | (66)            | (51)              |
| 6599090  | Insurance - Other                      | 659/759          | (7,770)        | (4,403)         | (3,367)           |
| 6759005  | Postage Fees                           | 675/775          | <u>(2,562)</u> | <u>(1,452)</u>  | <u>(1,110)</u>    |
|          |  |                  | (\$16,052)     | (\$9,097)       | (\$6,955)         |
|          | Total WSC allocated expense adjustment |                  | (\$16,695)     | (\$9,740)       | (\$6,955)         |

\* This account was only charged to water operations per the reconciliation schedule provided with the MFRs.

\*\* Per utility these two allocations from WSC are not carried forward into the MFR filing so no adjustment is needed.

## **AUDIT FINDING NO. 14**

### **SUBJECT: ADJUSTMENT TO DEPRECIATION EXPENSE**

**SUMMARY:** The utility's water and wastewater accumulated depreciation and depreciation expense balances are understated by \$24,210 and \$33,952, each, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACT:** The utility records depreciation accruals monthly but the recorded amount is based on the beginning balance of plant and is not trued up at year end.

Rule 25-30.140, F.A.C., requires the use of specific rates for each utility plant in service (UPIS) account. The utility provided a depreciation schedule that computed depreciation accruals based on its 2005 beginning UPIS sub-account balances for the year and it multiplied each account balance times the corresponding monthly depreciation rate. The utility reported some account activity to its UPIS account balances in July 2005 in its depreciation schedules, however the activity could not be reconciled to the general ledger.

Additionally the utility's depreciation schedule addressed the balances included for the transportation equipment account. Depreciation accruals, when recomputed by the audit staff, on the account balances using the required rule rates was substantially lower than the depreciation reported in the utility's filing.

The schedules on the following pages detail the differences between the audit staff's calculated depreciation accruals and the amounts reported in the utility's filing. Allocated depreciation balances from subsidiary operations are not included in these schedules because they were audited separately in the affiliate transaction investigation in Docket No. 060253-WS. Only the 2005 test year was affected because that is the year that the utility booked the adjustments for its last rate case in Docket No. 98067-WS. The utility's adjustments only affected the 2005 beginning balance and not the July 2005 activity. The audit staff's schedule computes depreciation accruals on transportation equipment using the required rule rate which is substantially higher than the rate used by the utility in its filing and is the major reason for the difference.

**EFFECT ON GENERAL LEDGER:** The utility's water and wastewater accumulated depreciation and net depreciation expense balances should be increased by \$24,210 and \$33,953, each, respectively, for the 12-month period ended December 31, 2005. See the audit staff's calculations that follow for details.

**EFFECT ON FILING:** The utility's 13-month average water and wastewater rate base should be reduced by \$12,105 ( $\$24,210/2$ ) and \$16,977, ( $\$33,953/2$ ) respectively, as of December 31, 2005. The net depreciation expense adjustments are the same amounts discussed above.

The 13-month average rate base calculation is approximately one-half of the total accumulated depreciation adjustment because we used the half-year convention method to calculate the depreciation expense adjustment.



Water Accumulated Depreciation and Depreciation Expense Adjustments

| Utility                                     |                   | Accumulated Depreciaiton | Depreciation Expense |                                |
|---|-------------------|--------------------------|----------------------|--------------------------------|
| Acct. Nos.                                  | Acct. Description |                          | Debit                | Credit                         |
| 1083021                                     | 4032021           | Structures Pumping       | \$11                 | \$11                           |
| 1083011                                     | 4032011           | Structures Source        | \$2                  | \$2                            |
| 1083031                                     | 4032031           | Str. Water Treatment     | 2                    | 2                              |
| 1083014                                     | 4032014           | Wells                    | 183                  | 183                            |
| 1083025                                     | 4032025           | Electric Pumping Eq.     | 1,522                | 1,522                          |
| 1083032                                     | 4032032           | Water Treat. Equip.      | 11                   | 11                             |
| 1083042                                     | 4032042           | Distribution Reservoirs  | 211                  | 211                            |
| 1083043                                     | 4032043           | Mains                    | 957                  | 957                            |
| 1083045                                     | 4032045           | Service Lines            | 204                  | 204                            |
| 1083046                                     | 4032046           | Meters                   | 324                  | 324                            |
| 1083047                                     | 4032047           | Meter Installation       | 336                  | 336                            |
| 1083048                                     | 4032048           | Hydrants                 | 95                   | 95                             |
| 1083090                                     | 4032090           | Office Structures        | 4                    | 4                              |
| 1083091                                     | 4032091           | Office Furniture         | 15                   | 15                             |
| 1083095                                     | 4032095           | Lab Eq.                  | 35                   | 35                             |
| 1083094                                     | 4032094           | Tools                    | 322                  | 322                            |
| 108   | 403               | Other Plant              | 2,236                | 2,236                          |
| 1082000                                     | 4032092           | Transportation Eq.       | 17,742               | 17,742                         |
| Total Water Acc/Dep. & Dep. Exp. Adjustment |                   | <u>\$2</u>               | <u>\$24,212</u>      | <u>\$24,212</u>                |
| Total Adjustment                            |                   | Inc. Acc/Dep             | <u>\$24,210</u>      | Inc. Dep. Exp. <u>\$24,210</u> |

See the schedule that follows for the specific audit staff calculations.

Wastewater Accumulated Depreciation and Depreciation Expense Adjustments

| Utility  |                   | Accumulated Depreciaiton | Depreciation Expense |                                |
|--|-------------------|--------------------------|----------------------|--------------------------------|
| Acct. Nos.                                       | Acct. Description |                          | Debit                | Credit                         |
| 1084011  | 4033011           | Lift Stations            | \$14,897             | \$14,897                       |
| 1084003  | 4033003           | Buildings                | 126,905              | 126,905                        |
| 1084006  | 4033006           | Services                 | \$875                | \$875                          |
| 1085006  | 4037006           | Reuse Services           | 28                   | 28                             |
| 1084007  | 4033007           | Force Mains              | 3                    | 3                              |
| 1084008  | 4033008           | Gravity Mains            | 202                  | 202                            |
| 1084010  | 4033010           | Manholes                 | 17                   | 17                             |
| 1085008  | 4037008           | Reuse Trans. & Dist. Eq. | 262                  | 262                            |
| 1084005  | 4033005           | Sewer Treatment Plant    | 124,760              | 124,760                        |
| 1084009  | 4033009           | Outfall Lines            | 19                   | 19                             |
| 1084091  | 4033091           | Office Furniture         | 3                    | 3                              |
| 1082000  | 4032092           | Transportation           | 17,742               | 17,742                         |
| 1084094  | 4033094           | Tools                    | 37                   | 37                             |
| 1084097  | 4033097           | Communication Eq.        | 4                    | 4                              |
| Total Wastewater Acc/Dep. & Dep. Exp. Adjustment |                   | <u>\$125,901</u>         | <u>\$159,854</u>     | <u>\$159,854</u>               |
| Total Adjustment                                 |                   | Inc. Acc/Dep             | <u>\$33,953</u>      | Inc. Dep. Exp. <u>\$33,953</u> |

See the schedule that follows for the specific audit staff calculations.



Utility Plant in Service and Depreciation Expense Adjustments

| Utility                   | NARUC     | Rule           | Balance  | Adjustment    | Net         | 2005          | Balance   | Dep.          | Per           |               | Dep. Exp. | Adjusting | Acc/Dep    | Adjusting |           |
|---------------------------|-----------|----------------|----------|---------------|-------------|---------------|-----------|---------------|---------------|---------------|-----------|-----------|------------|-----------|-----------|
| Acct. No.                 | Acct. No. | Dep. Rate      | 12/31/04 | for 2001      | Beg. Bal    | Additions     | 12/31/05  | Exp.          | Filing        | Difference    | Acct. No. | Entry     | Acct. No.  | Entry     |           |
| 3511001                   | 351       | Organization   | 2.50%    | \$429         | \$0         | \$429         | \$6       | \$429         | Not in Filing | Not in Filing | \$0       | 1084001   | \$0        | 4033001   | \$0       |
| 3521020                   | 352       | Franchise      | 2.50%    | 87,919        | 0           | 87,919        | 0         | 87,919        | Not in Filing | Not in Filing | 0         | 1084020   | 0          | 4033020   | 0         |
| 3537002                   | 353       | Land           | -na-     | 202,552       | 0           | 202,552       | 0         | 202,552       | -na-          | -na-          | 0         | -na-      | -na-       | -na-      | -na-      |
| 3542011                   | 354       | Lift Station   | 4.00%    | 2,035,889     | 0           | 2,035,889     | 91,522    | 2,127,411     | 83,266        | 68,369        | 14,897    | 1084011   | (14,897)   | 4033011   | 14,897    |
| 3547003                   | 354       | Building       | 3.13%    | 266,024       | 4,061,555   | 4,327,579     | 0         | 4,327,579     | 135,237       | 8,332         | 126,905   | 1084003   | (126,905)  | 4033003   | 126,905   |
| 3602006                   | 360       | Services       | 2.63%    | 127,482       | 0           | 127,482       | 2,083     | 129,565       | 3,382         | 4,257         | (875)     | 1084006   | 875        | 4033006   | (875)     |
| 3612007                   | 360       | Force          | 3.33%    | 83,119        | 0           | 83,119        | 521       | 83,640        | 2,779         | 2,777         | 3         | 1084007   | (3)        | 4033007   | 3         |
| 3612008                   | 361       | Gravity        | 2.22%    | 6,461,072     | 470,202     | 6,931,274     | 7,194     | 6,938,468     | 154,108       | 153,907       | 202       | 1084008   | (202)      | 4033008   | 202       |
| 3612010                   | 361       | Manholes       | 3.33%    | 88,109        | 0           | 88,109        | 1,155     | 89,265        | 2,956         | 2,940         | 17        | 1084010   | (17)       | 4033010   | 17        |
| 3662006                   | 366       | Reuse Services | 2.63%    | 756           | 0           | 756           | 12,444    | 13,200        | 184           | 156           | 28        | 1085006   | (28)       | 4037006   | 28        |
| 3675046                   | 367       | Reuse Meter    | 5.00%    | 2,685         | 0           | 2,685         | 4,481     | 7,166         | 246           | 246           | (0)       | 1085046   | 0          | 4037046   | (0)       |
| 3752008                   | 375       | Reuse T & D    | 2.33%    | 6,687,974     | 0           | 6,687,974     | 674       | 6,688,648     | 155,570       | 155,832       | (262)     | 1085008   | 262        | 4037008   | (262)     |
| 3804005                   | 380       | Stp            | 5.55%    | 4,802,974     | (4,061,555) | 741,420       | 156,236   | 897,656       | 45,484        | 170,245       | (124,760) | 1084005   | 124,760    | 4033005   | (124,760) |
| 3824009                   | 382       | Outfall Lines  | 3.33%    | 644,005       | 0           | 644,005       | 0         | 644,005       | 21,465        | 21,445        | 19        | 1084009   | (19)       | 4033009   | 19        |
| 3907091                   | 390       | Furniture      | 6.67%    | 57,823        | 0           | 57,823        | 0         | 57,823        | 3,854         | 3,858         | (3)       | 1084091   | 3          | 4033091   | (3)       |
| 3917000                   | 391       | Transp.        | 16.67%   | 331,877       | 0           | 331,877       | (606)     | 331,271       | 55,262        | 37,520        | 17,742    | 1082000   | (17,742)   | 4032092   | 17,742    |
| 3937094                   | 393       | Tools          | 6.25%    | 79,577        | 0           | 79,577        | 1,921     | 81,498        | 5,034         | 4,996         | 37        | 1084094   | (37)       | 4033094   | 37        |
| 3967097                   | 398       | Communication  | 10.00%   | <u>97,021</u> | <u>0</u>    | <u>97,021</u> | <u>0</u>  | <u>97,021</u> | <u>9,702</u>  | <u>9,698</u>  | <u>4</u>  | 1084097   | (4)        | 4033097   | 4         |
|                           |           |                |          | \$22,057,289  | \$470,202   | \$22,527,491  | \$277,624 | \$22,805,115  | \$678,530     | \$644,578     | \$33,953  |           | (\$33,953) |           | \$33,953  |
| Total Balances per Filing |           |                |          |               |             |               |           | \$22,805,115  |               | \$644,577     |           |           |            |           |           |

## **AUDIT FINDING NO. 15**

### **SUBJECT: ADJUSTMENT TO CIAC AMORTIZATION EXPENSE**

**SUMMARY:** The utility's water and wastewater accumulated amortization of CIAC and CIAC amortization expense balances are understated by \$1,773 and \$1,659, each, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACTS:** The utility records CIAC amortization expense accruals monthly but the recorded amount is based on the beginning balance of plant and is not trued up at year end.

Rule 25-30.140, F.A.C., requires the use of specific rates for each utility plant in service (UPIS) account and the corresponding CIAC accounts. The utility provided a depreciation schedule that computed depreciation accruals based on its 2005 beginning UPIS sub-account balances for the year and it multiplied each account balance times the corresponding monthly depreciation rate. The utility reported some account activity to its UPIS account balances in July, 2005, however the activity could not be reconciled to the general ledger. The utility's depreciation schedule did not adequately compute depreciation accruals on the July 2005 activity.

The schedules on the following pages details the differences between the audit staff's calculated CIAC amortization accruals and the amounts reported in the utility's filing. The audit staff's composite amortization rate for CIAC accruals was computed using the adjusted depreciation expense balances in the Audit Finding 14 of this report.

**EFFECT ON GENERAL LEDGER:** The utility's water and wastewater accumulated amortization of CIAC and net CIAC amortization expense balances should be increased by \$1,773 and \$1,659, each, respectively, for the 12-month period ended December 31, 2005. See the audit staff's calculations that follow for details.

**EFFECT ON THE FILING:** The utility's 13-month average water and wastewater rate base should be reduced by \$887 ( $\$1,773/2$ ) and \$830, ( $\$1,659/2$ ) respectively, as of December 31, 2005. The net depreciation expense adjustments are the same amounts discussed above.

The 13-month average rate base calculation is approximately one-half of the total accumulated amortization of CIAC adjustment because we used the half-year convention method to calculate the CIAC amortization expense adjustment.

Water Accumulated Amortization and Amortization Expense Adjustments

| Utility                |                              | Accumulated Amortz. of CIAC |           | CIAC Amortz. Exp.  |           |
|------------------------|------------------------------|-----------------------------|-----------|--------------------|-----------|
| Acct. Nos.             | Acct. Description            | Debit                       | Credit    | Debit              | Credit    |
| 2722011                | 4071011 CIAC Structures      |                             | \$182     | \$182              |           |
| 2722000                | 4071000 CIAC Undistributed   | \$1,523                     |           |                    | \$1,523   |
| 2722010                | 4071010 CIAC Water Cash      | 479                         |           |                    | 479       |
| 2722031                | 4071031 CIAC Structures      | 4                           |           |                    | 4         |
| 2722014                | 4071014 CIAC Wells & Springs | 32                          |           |                    | 32        |
| 2722025                | 4071025 CIAC El. Pumping     | 38                          |           |                    | 38        |
| 2722032                | 4071032 CIAC Treatment Eq.   |                             | 5         | 5                  |           |
| 2722043                | 4071043 CIAC Trans. & Dist.  |                             | 116       | 116                |           |
| 2722046                | 4071045 CIAC Services        |                             | 37        | 37                 |           |
| 2722046                | 4071046 CIAC Meters          | 36                          |           |                    | 36        |
| 2722047                | 4071047 CIAC Meter Instal.   | 1                           |           |                    | 1         |
| Total Water Adjustment |                              | \$2,113                     | \$340     | \$340              | \$2,113   |
| Total Adjustment       |                              | Inc. Acc/Amortz.            | (\$1,773) | Inc. Amortz.. Exp. | (\$1,773) |

See the schedule that follows for the specific audit staff calculations.

Wastewater Accumulated Amortization and Amortization Expense Adjustments

| Utility                     |                                  | Accumulated Amortz. Of CIAC |                  | CIAC Amortz. Exp. |                  |
|-----------------------------|----------------------------------|-----------------------------|------------------|-------------------|------------------|
| Acct. Nos.                  | Acct. Description                | Debit                       | Credit           | Debit             | Credit           |
| 2723000                     | 4073000 CIAC Undistributed       |                             | \$7,261          | \$7,261           |                  |
| 2723003                     | 4073003 CIAC Building and Struc. | \$95,455                    |                  |                   | \$95,455         |
| 2723005                     | 4073005 CIAC WW Treatment Plant  |                             | 96,767           | 96,767            |                  |
| 2723006                     | 4073006 CIAC Services            |                             | 581              | 581               |                  |
| 2723007                     | 4073007 CIAC Force Mains         | 2                           |                  |                   | 2                |
| 2723008                     | 4073008 CIAC Gravity             | 124                         |                  |                   | 124              |
| 2723009                     | 4073009 CIAC Outfall Lines       | 16                          |                  |                   | 16               |
| 2723011                     | 4073011 CIAC Lift Station        | 10,361                      |                  |                   | 10,361           |
| 2723010                     | 4073010 CIAC Cash                | 307                         |                  |                   | 307              |
| 2723098                     | 4073098 CIAC Manholes            | 3                           |                  |                   | 3                |
| Total Wastewater Adjustment |                                  | <u>\$106,268</u>            | <u>\$104,609</u> | <u>\$104,609</u>  | <u>\$106,268</u> |
| Total Adjustment            |                                  | Inc. Acc/Dep                | (\$1,659)        | Inc. Dep. Exp.    | (\$1,659)        |

See the schedule that follows for the specific audit staff calculations.

Water - Accumulated Amortization of CIAC and CIAC Amortization Expense Adjustment

| Utility          | NARUC            | Amortz.                    | G/L Balance | 2004              | Adj. G/L Bal.  | 2,005.00          | G/L Balance      | Calculated        | Amortz. Exp        |                   | Acc/Amortz.       | Amortz. Exp      |                   |                  |                   |
|------------------|------------------|----------------------------|-------------|-------------------|----------------|-------------------|------------------|-------------------|--------------------|-------------------|-------------------|------------------|-------------------|------------------|-------------------|
| <u>Acct. No.</u> | <u>Acct. No.</u> | <u>Acct. Description</u>   | <u>Rate</u> | <u>12/31/2004</u> | <u>Adjust.</u> | <u>12/31/2004</u> | <u>Additions</u> | <u>12/31/2005</u> | <u>Amortz. Exp</u> | <u>per Filing</u> | <u>Difference</u> | <u>Acct. No.</u> | <u>Adjustment</u> | <u>Acct. No.</u> | <u>Adjustment</u> |
| 2711011          | 271              | CIAC - Structures          | 2.50%       | (28,725)          | 0              | (28,725)          | 0                | (28,725)          | (717)              | (899)             | 182               | 2722011          | (182)             | 4071011          | 182               |
| 2711000          | 271              | CIAC - Water Ciac Undist.  | 2.98%       | (43,668)          | (340,475)      | (384,143)         | 0                | (384,143)         | (11,444)           | (9,921)           | (1,523)           | 2722000          | 1,523             | 4071000          | (1,523)           |
| 2711010          | 271              | CIAC - Water Ciac Tax      | 2.98%       | (54,679)          | 0              | (54,679)          | (34,599)         | (89,278)          | (2,144)            | (1,665)           | (479)             | 2722010          | 479               | 4071010          | (479)             |
| 2711021          | 271              | CIAC - Pumping             | 3.13%       | (11,159)          | 0              | (11,159)          | 0                | (11,159)          | (350)              | (349)             | (0)               | 2722021          | 0                 | 4071021          | (0)               |
| 2711031          | 271              | CIAC - Structures Tp       | 3.13%       | (203,616)         | 0              | (203,616)         | 0                | (203,616)         | (6,377)            | (6,373)           | (4)               | 2722031          | 4                 | 4071031          | (4)               |
| 2711014          | 271              | CIAC - Wells And Springs   | 3.34%       | (531,892)         | 0              | (531,892)         | 0                | (531,892)         | (17,744)           | (17,712)          | (32)              | 2722014          | 32                | 4071014          | (32)              |
| 2711025          | 271              | CIAC - Electric Pumping    | 5.00%       | (960,655)         | 0              | (960,655)         | 0                | (960,655)         | (48,071)           | (48,033)          | (38)              | 2722025          | 38                | 4071025          | (38)              |
| 2711032          | 271              | CIAC - Treatment Eq.       | 4.55%       | (256,069)         | 0              | (256,069)         | 0                | (256,069)         | (11,646)           | (11,651)          | 5                 | 2722032          | (5)               | 4071032          | 5                 |
| 2711042          | 271              | CIAC - Distr. Res.         | 2.70%       | (830,775)         | 0              | (830,775)         | 0                | (830,775)         | (22,431)           | (22,431)          | (0)               | 2722042          | 0                 | 4071042          | (0)               |
| 2711043          | 271              | CIAC - T & D Mains         | 2.33%       | (5,784,505)       | 0              | (5,784,505)       | 0                | (5,784,505)       | (134,663)          | (134,779)         | 116               | 2722043          | (116)             | 4071043          | 116               |
| 2711045          | 271              | CIAC - Services            | 2.50%       | (923,145)         | 0              | (923,145)         | 0                | (923,145)         | (23,042)           | (23,079)          | 37                | 2722046          | (37)              | 4071045          | 37                |
| 2711046          | 271              | CIAC - Meters              | 5.00%       | (891,082)         | 0              | (891,082)         | 0                | (891,082)         | (44,590)           | (44,554)          | (36)              | 2722046          | 36                | 4071046          | (36)              |
| 2711047          | 271              | CIAC - Meter Installations | 5.00%       | (31,933)          | 0              | (31,933)          | 0                | (31,933)          | (1,598)            | (1,597)           | (1)               | 2722047          | 1                 | 4071047          | (1)               |
| 2711048          | 271              | CIAC - Hydrants            | 2.22%       | (551,513)         | 0              | (551,513)         | 0                | (551,513)         | (12,244)           | (12,244)          | 0                 | 2722048          | 0                 | 4071048          | 0                 |
|                  |                  |                            |             | (11,103,415)      | (340,475)      | (11,443,890)      | (34,599)         | (11,478,488)      | (337,060)          | (335,286)         | (1,773)           |                  | 1,773             |                  | 1,773             |

Wastewater - Accumulated Amortization of CIAC and CIAC Amortization Expense Adjustment

| Utility          | NARUC            | Amortz.                  | G/L Balance | 2004              | Adj. G/L Bal.  | 2,005.00          | G/L Balance      | Calculated        | Amortz. Exp        |                   | Acc/Amortz.       | Amortz. Exp      |                   |                  |                   |
|------------------|------------------|--------------------------|-------------|-------------------|----------------|-------------------|------------------|-------------------|--------------------|-------------------|-------------------|------------------|-------------------|------------------|-------------------|
| <u>Acct. No.</u> | <u>Acct. No.</u> | <u>Acct. Description</u> | <u>Rate</u> | <u>12/31/2004</u> | <u>Adjust.</u> | <u>12/31/2004</u> | <u>Additions</u> | <u>12/31/2005</u> | <u>Amortz. Exp</u> | <u>per Filing</u> | <u>Difference</u> | <u>Acct. No.</u> | <u>Adjustment</u> | <u>Acct. No.</u> | <u>Adjustment</u> |
| 2721000          | 271              | CIAC - Undistributed     | 1.40%       | (21,928)          | (465,423)      | (487,352)         | 0                | (487,352)         | (6,830)            | (14,091)          | 7,261             | 2723000          | (7,261)           | 4073000          | 7,261             |
| 2721063          | 271              | CIAC - Building          | 3.13%       | (213,854)         | (3,090,697)    | (3,304,551)       | 0                | (3,304,551)       | (103,267)          | (7,812)           | (95,455)          | 2723003          | 95,455            | 4073003          | (95,455)          |
| 2721005          | 271              | CIAC - Sewer Treat. Plt. | 5.55%       | (3,680,129)       | 3,090,697      | (589,433)         | 0                | (589,433)         | (32,714)           | (129,480)         | 96,767            | 2723005          | (96,767)          | 4073005          | 96,767            |
| 2721006          | 271              | CIAC - Services          | 2.63%       | (83,237)          | 0              | (83,237)          | 0                | (83,237)          | (2,190)            | (2,772)           | 581               | 2723006          | (581)             | 4073006          | 581               |
| 2721007          | 271              | CIAC - Force Mains       | 3.33%       | (64,573)          | 0              | (64,573)          | 0                | (64,573)          | (2,152)            | (2,150)           | (2)               | 2723007          | 2                 | 4073007          | (2)               |
| 2721008          | 271              | CIAC - Gravity           | 2.22%       | (5,592,608)       | 0              | (5,592,608)       | 0                | (5,592,608)       | (124,280)          | (124,156)         | (124)             | 2723008          | 124               | 4073008          | (124)             |
| 2721009          | 271              | CIAC - Outfall Lines     | 3.33%       | (517,709)         | 0              | (517,709)         | 0                | (517,709)         | (17,255)           | (17,240)          | (16)              | 2723009          | 16                | 4073009          | (16)              |
| 2721011          | 271              | CIAC - Lift Station      | 4.00%       | (1,546,415)       | 0              | (1,546,415)       | 0                | (1,546,415)       | (61,857)           | (51,496)          | (10,361)          | 2723011          | 10,361            | 4073011          | (10,361)          |
| 2721010          | 271              | CIAC - Sewer Tax         | 1.40%       | (47,991)          | 0              | (47,991)          | (6,835)          | (54,826)          | (720)              | (414)             | (307)             | 2723010          | 307               | 4073010          | (307)             |
| 2721098          | 271              | CIAC - Manholes          | 3.33%       | (101,798)         | 0              | (101,798)         | 0                | (101,798)         | (3,393)            | (3,390)           | (3)               | 2723098          | 3                 | 4073098          | (3)               |
|                  |                  |                          |             | (11,831,891)      | (463,419)      | (12,297,315)      | (4,830)          | (12,303,785)      | (354,659)          | (353,000)         | (1,659)           |                  | 1,659             |                  | (1,659)           |

**AUDIT FINDING NO. 16**

**SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME**

**SUMMARY:** The utility's water and wastewater Taxes Other Than Income (TOTI) balances are understated by \$3,289 and \$4,112, respectively, for the 12-month period ended December 31, 2005.

**STATEMENT OF FACTS:** The utility's filing reflects balances of \$227,119 and \$305,428 for water and wastewater TOTI, respectively, for the 12-month period ended December 31, 2005. The utility filing also included test year adjustments to these balances; however, the adjustments were for rate case purposes and not related to historical operations.

| System     | RAFs           | Payroll Taxes | Real Estate Taxes | Total            |
|------------|----------------|---------------|-------------------|------------------|
| Water      | \$89,605       | \$48,118      | \$89,396          | \$227,119        |
| Wastewater | <u>143,497</u> | <u>39,036</u> | <u>122,895</u>    | <u>\$305,428</u> |
|            | \$233,102      | \$87,154      | \$212,291         | \$532,547        |

The utility's water and wastewater RAF balances are understated by \$2,610 and \$4,790, respectively, based on the following audit staff determinations.

1. The utility allocated its total RAF balance to water and wastewater operations based on its corresponding revenues for the period. They should have recorded the specific RAF amounts calculated to each specific system.
2. The utility's combined RAF balance above of \$233,102 includes RAFs calculated for the period July 2004 through December 2004 and does not include the July 2005 through December 2005 combined RAF balance of \$119,395. The utility should have included the proper periods for the filing.

The utility's water and wastewater real estate tax balances are overstated by \$678 and understated by \$678, respectively, because the utility allocated all property taxes based on gross utility plant percentages. The utility should have first recorded the real estate taxes to the specific water or wastewater system being served and then allocate the remaining common property tax balance between water and wastewater systems based on the gross utility plant percentages.

The audit staff calculations are on the following page.

**EFFECT ON GENERAL LEDGER:** The utility's 2005 RAF should be increased by a net \$7,401 to properly record the actual combined water and wastewater RAF for the period. There is no effect on property taxes because it is a reallocation within the same utility system.

**EFFECT ON THE FILING:** The utility's water and wastewater Taxes Other Than Income (TOTI) balances should be increased by \$3,289 and \$4,112, respectively, for the 12-month period ended December 31, 2005.

| Adjustment to RAF | Water    | W/Water  | Total       |                                    |
|-------------------|----------|----------|-------------|------------------------------------|
| Per Audit         | \$46,941 | \$73,962 | \$120,903   | Add Jan-Jun 2005 per RAF filing    |
| Per Utility       | (33,970) | (54,180) | (88,151) *  | Remove Jan-Jun 2005 per RAF filing |
| Per Audit         | 45,420   | 73,975   | 119,395     | Add Jul-Dec 2005 RAF filing        |
| Per Utility       | (55,780) | (88,966) | (144,746) * | Remove Jul-Dec 2004 RAF filing     |
| Audit Adjustment  | \$2,610  | \$4,790  | \$7,401     | Remove 2004 RAF and add 2005 RAF   |

#### Adjustment to Property Tax

|                  |          |           |             |   |
|------------------|----------|-----------|-------------|---|
| Per Audit        | \$10,041 | \$14,365  | \$24,406    | Allocated based on gross UPIS in MFRs         |
| Per Audit        | 1,939    | 2,774     | 4,713       | Allocated based on gross UPIS in MFRs         |
| Per Audit        | 1,104    | 0         | 1,104       | Real Estate Tax Invoice Ref# U92091           |
| Per Audit        | 72,242   | 103,353   | 175,595     | Allocated based on gross UPIS in MFRs         |
| Per Audit        | 0        | 1,724     | 1,724       | Real Estate Tax Invoice Ref# U92094           |
| Per Audit        | 3,653    | 0         | 3,653       | Real Estate Tax Invoice Ref# U92093           |
| Per Audit        | 878      | 0         | 878         | Real Estate Tax Invoice Ref# U92095           |
| Per Audit        | 217      | 0         | 217         | Real Estate Tax Invoice Ref# U92092           |
| Per Company      | (89,396) | (122,895) | (212,291) * | Remove utility allocated property tax balance |
| Audit Adjustment | \$678    | (\$678)   | \$0         |   |

#### Combined Audit Staff Adjustment

|  |         |         |         |
|--|---------|---------|---------|
|  | \$3,289 | \$4,112 | \$7,401 |
|--|---------|---------|---------|

|                |              |              |              |
|----------------|--------------|--------------|--------------|
| UPIS MFR A-5&6 | \$15,922,686 | \$22,805,117 | \$38,727,803 |
| Less Land      | (123,772)    | (202,552)    | (326,324)    |
| Gross UPIS     | \$15,798,914 | \$22,602,565 | \$38,401,479 |
| Percentage     | 41.14%       | 58.86%       | 100.00%      |

\* Allocated based on gross utility plant



**AUDIT FINDING NO. 17**

**SUBJECT: INFORMATION ON THE SALE OF UTILITY LAND**

**SUMMARY:** Rate base may be overstated because utility land was sold and not recorded on the books of Sanlando Utilities Inc.

**STATEMENT OF FACT:** A warranty deed for the sale of utility property between Sanlando Utilities Corp. and Congregation Beth Am was discovered by the audit staff in a search of Seminole County property records. The deed, executed on May 22, 2000, was recorded in Book 3856, Page 1555 and 1556, of the Seminole County Clerk of the Court Official records.

We could not determine if the original cost was included in land in the previous rate case. The sale was recorded in the equipment account (4141040) of Utilities Inc.'s general ledger.

The only document provided by the utility was a copy of the check for the net proceeds of \$56,170. The sale price for the property was calculated to be \$62,500 ( $\$437.50/.70*100$ ) based on the documentary stamps of \$437.50 paid to Seminole County which was recorded on the face of the warranty deed.

**EFFECT ON THE LEDGER:** The general ledger needs to be reduced for the original cost of the land once determined. Additionally, any gain on the sale of utility property should be recorded per NARUC and Commission rules.

**EFFECT ON THE FILING:** Rate Base may be overstated. The exact amount of this overstatement could not be determined because there is no record of the land's original cost.

## **AUDIT FINDING NO. 18**

### **SUBJECT: INFORMATION ON CONTRIBUTIONS IN AID OF CONSTRUCTION**

**SUMMARY:** The utility allocated its Contributions in Aid of Construction (CIAC) in 2003 in order to comply with Rule 25-30.140, F.A.C. which required CIAC for contributed property which can be specifically associated with a corresponding utility plant in service (UPIS) account to be amortized using the same depreciation rates as the UPIS account.

**STATEMENT OF FACTS:** In 2003, the utility made an adjusting journal entry to re-distribute its combined CIAC account balances for its water and wastewater systems into several specific accounts based on the percentage of water and wastewater UPIS account balances excluding organization, franchise, transportation and office equipment account balances. The utility's calculations are displayed on the following two pages.

The utility first determined a balance for undistributed CIAC which represented cash collections. The amount was determined by estimating the total tap fees collected for the utility system. The remaining CIAC balance was then redistributed to specific CIAC sub-accounts based on the allocation methodology described above.

However, the audit staff notes that there are two problems with the utility's calculation.

1. The utility did not book Commission adjustments from the last rate case until 2005 and therefore the plant balances used by the utility to reallocate its CIAC balance did not reflect the Commission balances.
2. The utility allocated the CIAC to all of its UPIS accounts excluding organization, franchise and transportation equipment.

Usually when the utility receives contributed plant from a developer, it consists of service lines, lift stations, and customer service extensions. The utility's allocation method redistributed a portion of its CIAC balance to accounts containing buildings and structures, wells, pumping equipment, treatment plant and sewer lagoons. These accounts are not normally associated with contributed property for wastewater utility systems.

The audit staff defers this issue to the analyst in Tallahassee for final disposition.

**EFFECT ON THE LEDGER:** If the utility's CIAC allocation is recalculated by the analyst, the accumulated amortization of CIAC and CIAC amortization expense balances will all need to be adjusted accordingly.

**EFFECT ON THE FILING:** The total balance for CIAC reflected in the utility's filing will not change. However, the accumulated amortization of CIAC would need to be adjusted along with the 13-month average balance for the test year. Additionally the recalculated amortization of CIAC expense balance will affect the net depreciation expense presented in the utility's filing.

Sanlando-Water

Recalculation of CIAC and Amortization of CIAC

| Acct. Nos |         |  | UPIS                 | UPIS                  | CIAC                    | CIAC                     | CIAC                 | CIAC          | CIAC                 | CIAC                 | CIAC          |
|-----------|---------|--|----------------------|-----------------------|-------------------------|--------------------------|----------------------|---------------|----------------------|----------------------|---------------|
| UPIS      | CIAC    | Acct. Description                          | Balance<br>@12/31/02 | Balance<br>Percentage | Allocation<br>@12/31/02 | Additions<br>Jan-Jun '03 | Balance<br>@12/31/02 | Amtz.<br>Rate | Amtz.<br>Jan-Jun '03 | Amtz.<br>Jul-Dec '03 | Amtz<br>Total |
| 3042011   | 2711011 | Structures & Imp. (Source of Supply)       | \$34,728             | 0.26%                 | \$28,725                | 0                        | \$28,725             | 3.13%         | \$449                | \$449                | \$898         |
| 3043021   | 2711021 | Structures & Imp. (Pumping Plt.)           | 13,491               | 0.10%                 | 11,159                  | 0                        | 11,159               | 3.13%         | 174                  | 174                  | 349           |
| 3044031   | 2711031 | Structures & Imp. (Treatment Plt.)         | 246,168              | 1.87%                 | 203,616                 | 0                        | 203,616              | 3.13%         | 3,181                | 3,181                | 6,363         |
| 3052012   | 2711012 | Collection Reservoirs                      | 0                    | 0.00%                 | 0                       | 0                        | 0                    | 2.00%         | 0                    | 0                    | 0             |
| 3072014   | 2711014 | Wells & Springs                            | 643,049              | 4.88%                 | 531,892                 | 0                        | 531,892              | 3.33%         | 8,865                | 8,865                | 17,730        |
| 3113025   | 2711025 | Pumping Equipment                          | 1,161,418            | 8.82%                 | 960,655                 | 0                        | 960,655              | 5.00%         | 24,016               | 24,016               | 48,033        |
| 3204032   | 2711032 | Treatment Equipment                        | 309,584              | 2.35%                 | 256,069                 | 0                        | 256,069              | 4.55%         | 5,820                | 5,820                | 11,640        |
| 3305042   | 2711042 | Distribution Reservoirs & Standpipes       | 1,004,395            | 7.62%                 | 830,775                 | 0                        | 830,775              | 2.70%         | 11,227               | 11,227               | 22,453        |
| 3315043   | 2711043 | Transmission & Distribution Mains          | 6,892,549            | 52.32%                | 5,701,102               | 0                        | 5,701,102            | 2.33%         | 66,292               | 66,292               | 132,584       |
| 3335045   | 2711045 | Service Lines                              | 1,101,489            | 8.36%                 | 911,085                 | 0                        | 911,085              | 2.50%         | 11,389               | 11,389               | 22,777        |
| 3345046   | 2711046 | Meters                                     | 1,077,007            | 8.18%                 | 890,835                 | 246                      | 891,082              | 5.00%         | 22,271               | 22,277               | 44,548        |
| 3345047   | 2711047 | Meter Installations                        | 33,595               | 0.29%                 | 31,924                  | 9                        | 31,933               | 5.00%         | 798                  | 798                  | 1,596         |
| 3355048   | 2711048 | Hydrants                                   | <u>651,297</u>       | <u>4.94%</u>          | <u>538,714</u>          | <u>149</u>               | <u>538,863</u>       | 2.22%         | 5,986                | 5,987                | <u>11,973</u> |
|           |         |  | \$13,173,769         | 100.00%               | \$10,896,550            | 404                      | \$10,896,954         |               |                      |                      | \$320,943     |
| 271       |         | CIAC Balance per T/B @12/31/02             | \$10,991,536         |                       |                         |                          |                      |               |                      |                      |               |
|           |         | Less Tap Fee portion of CIAC               | (51,090)             |                       |                         |                          |                      |               |                      |                      |               |
|           |         | Less Tap Fee Refunds                       | 3,217                |                       |                         |                          |                      |               |                      |                      |               |
|           |         | Less known CIAC Sub-Acct. Balance          | <u>(47,113)</u>      |                       |                         |                          |                      |               |                      |                      |               |
|           |         | Unidentified CIAC balance                  | \$10,896,550         |                       |                         |                          |                      |               |                      |                      |               |
| 271       |         | CIAC Additions (Jan-Jun '03)               | \$3,015              |                       |                         |                          |                      |               |                      |                      |               |
| 407.6     |         | Amtz. Of CIAC Expense @12/31/03            |                      | \$333,801             |                         |                          |                      |               |                      |                      |               |
|           |         | Less Tap Fees Amtz of CIAC (Jan-Jun '03)   |                      | (728)                 |                         |                          |                      |               |                      |                      |               |
|           |         | Less Tap Fees Amtz of CIAC (Jul-Dec '03)   |                      | (771)                 |                         |                          |                      |               |                      |                      |               |
|           |         | Less known Amtz. Of CIAC Sub-Acct. Balance |                      | <u>(1,102)</u>        |                         |                          |                      |               |                      |                      |               |
|           |         | Unidentified Amtz. Of CIAC balance         |                      | \$331,200             |                         |                          |                      |               |                      |                      |               |
|           |         | Recalculated Amtz. Of CIAC balance above   |                      | <u>(320,943)</u>      |                         |                          |                      |               |                      |                      |               |
|           |         | Retained Earnings Adjustment               |                      | \$10,257              |                         |                          |                      |               |                      |                      |               |

Sanlando-Wastewater

Recalculation of CIAC and Amorization of CIAC

| Acct. Nos |         |  | UPIS              | UPIS               | CIAC                 | CIAC                  | CIAC              | CIAC         | CIAC              | CIAC              | CIAC          |
|-----------|---------|--|-------------------|--------------------|----------------------|-----------------------|-------------------|--------------|-------------------|-------------------|---------------|
| UPIS      | CIAC    | Acct. Description                          | Balance @12/31/02 | Balance Percentage | Allocation @12/31/02 | Additions Jan-Jun '03 | Balance @12/31/02 | Amtz. Rate   | Amtz. Jan-Jun '03 | Amtz. Jul-Dec '03 | Amtz. Total   |
| 3542011   | 2721011 | Lift Station                               | \$1,674,306       | 11.83%             | \$1,345,958          | 0                     | \$1,345,958       | 3.13%        | \$21,031          | \$21,031          | \$42,061      |
| 3547003   | 2721003 | Structures & Imp.                          | 266,024           | 1.88%              | 213,854              | 0                     | 213,854           | 3.13%        | 3,341             | 3,341             | 6,683         |
| 3547012   | 2721012 | Spray Irrigation Facilities                | 0                 | 0.00%              | 0                    | 0                     | 0                 | 3.13%        | 0                 | 0                 | 0             |
| 3602006   | 2721006 | Sewage Service Lines                       | 72,206            | 0.51%              | 58,045               | 0                     | 58,045            | 3.33%        | 967               | 967               | 1,935         |
| 3602007   | 2721007 | Force Mains                                | 80,326            | 0.57%              | 64,573               | 0                     | 64,573            | 3.33%        | 1,076             | 1,076             | 2,152         |
| 3612008   | 2721008 | Sewer Mains                                | 6,797,352         | 48.04%             | 5,464,322            | 0                     | 5,464,322         | 2.22%        | 60,715            | 60,715            | 121,429       |
| 3612010   | 2721098 | Manholes                                   | 38,638            | 0.27%              | 31,060               | 0                     | 31,060            | 2.22%        | 345               | 345               | 690           |
| 3804004   | 2721004 | Sewer Lagoons                              | 0                 | 0.00%              | 0                    | 0                     | 0                 | 2.86%        | 0                 | 0                 | 0             |
| 3804005   | 2721005 | Treatment Plant                            | 4,577,903         | 32.35%             | 3,680,129            | 0                     | 3,680,129         | 2.86%        | 52,573            | 52,573            | 105,147       |
| 3824009   | 2721009 | Outfall Lines                              | <u>644,005</u>    | <u>4.55%</u>       | <u>517,709</u>       | <u>0</u>              | <u>517,709</u>    | <u>3.33%</u> | <u>8,628</u>      | <u>8,628</u>      | <u>17,257</u> |
|           |         |  | \$14,150,761      | 100.00%            | \$11,375,653         | 0                     | \$11,375,653      |              | \$148,677         | \$148,677         | \$297,355     |
| 271       |         | CIAC Balance per T/B @12/31/02             | \$11,569,532      |                    |                      |                       |                   |              |                   |                   |               |
|           |         | Less Tap Fee portion of CIAC               | (20,233)          |                    |                      |                       |                   |              |                   |                   |               |
|           |         | Less Tap Fee Refunds                       | 0                 |                    |                      |                       |                   |              |                   |                   |               |
|           |         | Less known CIAC Sub-Acct. Balance          | <u>(173,646)</u>  |                    |                      |                       |                   |              |                   |                   |               |
|           |         | Unidentified CIAC balance                  | \$11,375,653      |                    |                      |                       |                   |              |                   |                   |               |
| 271       |         | CIAC Additions (Jan-Jun '03)               | \$376             |                    |                      |                       |                   |              |                   |                   |               |
| 407.6     |         | Amtz. Of CIAC Expense @12/31/03            |                   | \$302,931          |                      |                       |                   |              |                   |                   |               |
|           |         | Less Tap Fees Amtz of CIAC (Jan-Jun '03)   |                   | (194)              |                      |                       |                   |              |                   |                   |               |
|           |         | Less Tap Fees Amtz of CIAC (Jul-Dec '03)   |                   | (270)              |                      |                       |                   |              |                   |                   |               |
|           |         | Less known Amtz. Of CIAC Sub-Acct. Balance |                   | <u>(4,719)</u>     |                      |                       |                   |              |                   |                   |               |
|           |         | Unidentified Amtz. Of CIAC balance         |                   | \$297,748          |                      |                       |                   |              |                   |                   |               |
|           |         | Recalculated Amtz. Of CIAC balance above   |                   | <u>(297,355)</u>   |                      |                       |                   |              |                   |                   |               |
|           |         | Retained Earnings Adjustment               |                   | \$393              |                      |                       |                   |              |                   |                   |               |

**AUDIT FINDING NO. 19**

**SUBJECT: POTENTIAL UNRECORDED CIAC**

**SUMMARY:** The utility provided copies of developer agreements that indicated what contributed property has been received since its last rate case proceeding in Docket No. 98067-WS. The utility's records, however, do not reflect additions to utility plant in service (UPIS) or contributions in aid of construction (CIAC) for any of the developer agreements provided.

**STATEMENT OF FACT:** The utility provided the audit staff with a detailed schedule of CIAC and tap fee connections to support its recorded CIAC additions for the years 1998 through 2005 and all developer agreements during that time. Several of the developers' agreements indicated that off-site facilities were being contributed to the utility. The utility had recorded some contributed property in its ledger but not for all of the developer agreements we examined.

The recording of contributed property would have no net effect on the utility's net rate base, and O&M expenses because the asset and expense accounts would offset each other. The NARUC Uniform System of Accounts, however, requires recording all UPIS and CIAC additions to the general ledger.

Below is a list of development agreements discovered that state that UPIS was contributed.

| <u>Date of Agreement</u> | <u>Developer</u>                  |
|--------------------------|-----------------------------------|
| 09/30/98                 | CDL Group Inc.                    |
| 05/30/02                 | Signature Home Construction Inc.  |
| 09/10/03                 | Signature Home Construction Inc.  |
| 02/18/04                 | Wendy's International, Inc.       |
| 02/18/05                 | Graham Construction Company, Inc. |
| 07/25/05                 | Reiche and Silliman, Inc.         |
| 09/22/05                 | Innoest Properties, LLC           |
| 12/01/05                 | P & B Custom Homes, Inc.          |

In addition, the utility does not keep invoices provided by a developer to support the original cost for the UPIS and CIAC addition. For the developers whose property was recorded, the utility could not provide us with any documentation except the actual journal entry.

The audit staff defers this issue to the analyst in Tallahassee for disposition.

**EFFECT ON GENERAL LEDGER:** When an amount of contributed assets is determined, UPIS and CIAC should be increased and the corresponding additions should then be depreciated and amortized at the same rates as prescribed in Rule 25-30.140, F.A.C. and recorded in the appropriate rate base accounts.

**EFFECT ON FILING:** All of the above balances, when determined, would be offsetting so that there is no effect on the filing.

**AUDIT FINDING NO. 20**

**SUBJECT: INFORMATION ON CAPITAL STRUCTURE BALANCES**

**SUMMARY:** The utility's 13-month average capital structure balance is \$232,281,183 as of December 31, 2005 and its cost rate for long-term and short-term debt is 6.58 percent and 5.14 percent, respectively.

**STATEMENT OF FACT:** The utility's filing reflects the following capital structure balances prior to the reconciliation with base as of December 31, 2005.

| Class of Capital         | Prior Year<br>12/31/2004 | Test Year<br>12/31/2005 | 13-Month<br>Average | Cost Rate |
|--------------------------|--------------------------|-------------------------|---------------------|-----------|
| Long Term Debt           | \$112,803,215            | \$135,285,191           | \$133,025,102       | 6.65%     |
| Short Term Debt          | 18,768,000               | 3,926,000               | \$4,522,923         | 5.01%     |
| Common Equity            | 88,963,597               | 92,611,247              | \$91,510,699        | 11.78%    |
| Customer Deposits        | 118,402                  | 125,339                 | \$123,053           | 6.00%     |
| Acc. Deferred Income Tax | <u>42,548</u>            | <u>208,872</u>          | <u>\$125,710</u>    | 0.00%     |
| Totals                   | \$220,695,762            | \$232,156,649           | \$229,307,487       |           |

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the Utilities, Inc., the parent, capital structure component balances as of December 31, 2005. The audit report, issued July 15, 2006, determined the following 13-month average balances for Sanlando's parent, Utilities Inc. as of December 31, 2005.

| Class of Capital            | Prior Year<br>12/31/2004 | Test Year<br>12/31/2005 | 13-Month<br>Average | Cost Rate |
|-----------------------------|--------------------------|-------------------------|---------------------|-----------|
| <b>Parent Level</b>         |                          |                         |                     |           |
| Long Term Debt              | \$112,803,215            | \$135,285,191           | \$133,025,102       | 6.58%     |
| Short Term Debt             | 18,768,000               | 3,926,000               | \$4,403,615         | 5.14%     |
| * Common Equity             | 92,087,507               | 95,673,345              | \$94,603,703        |           |
| <b>Sanlando Level</b>       |                          |                         |                     |           |
| ** Customer Deposits        | 118,402                  | 125,339                 | \$123,053           | 6.00%     |
| ** Acc. Deferred Income Tax | <u>42,548</u>            | <u>208,872</u>          | <u>\$125,710</u>    | 0.00%     |
| Totals                      | \$223,819,672            | \$235,218,747           | \$232,281,183       |           |

\* The cost rate for common equity to be determined after reconciliation to the utility's average rate base.

\*\* These balances do not include other audit adjustments in this report where applicable.

Based on the above-mentioned affiliate audit report findings the 13-month average common equity balance should be increased by \$3,093,004 (\$94,603,703 - \$91,510,699), the long-term debt cost rate should be reduced by 0.07 percent (6.65% - 6.58%) and the short term debt cost rate should be increased by 0.13 percent (5.14% - 5.01%) as of December 31, 2005.

**EFFECT ON GENERAL LEDGER:** None, because capital structure balances are only used in rate case proceedings

**EFFECT ON FILING:** To be determined by the analyst in Tallahassee.

## AUDIT FINDING NO. 21

### SUBJECT: INFORMATION ON DEFERRED TAXES

**SUMMARY:** The utility reports \$208,872 upon its books in net deferred income taxes in 2005. This amount is reported at 13-month average as \$125,710. As a result of our testing as described below, the average balance used in this case should be changed from \$125,710 by \$135,573 to report \$261,283. This amount contains estimates which have been presented to the utility are subject to adjustments based upon further findings during this case.

| <u>Calculations:</u> | <u>Average</u> | <u>Year End</u> |
|----------------------|----------------|-----------------|
| Beginning Balance    | \$125,710      | \$208,872       |
| Deferred Income Tax  |                |                 |
| Corrections          |                |                 |
| State Depreciation   | 17,623         | 17,296          |
| State Intangible     | 17,265         | 17,669          |
| Federal Intangible   | 100,685        | 103,040         |
| Federal Depreciation | <u>Pending</u> | <u>Pending</u>  |
| Total                | \$261,283      | \$346,877       |

**EFFECT ON FILING:** If all the findings are accepted there is no direct effect on rate base or utility income. The capital structure effect is to reduce the provision for equity and debt by \$135,573 and increase deferred taxes by \$135,573.

#### **Deferred Taxes -- Item 1: Accelerated Depreciation -- State of Florida**

When the utility takes tax benefits due to accelerated depreciation, the utility must record deferred income taxes. In this case, the utility failed to record sufficient state deferred taxes in its accounts. The estimated correction at average is \$17,623 and at year end is \$17,296.

#### **EFFECT ON GENERAL LEDGER:**

NARUC

| <u>Acct. No.</u> | <u>Acct. Description</u>             | <u>Debit</u> | <u>Credit</u> |
|------------------|--------------------------------------|--------------|---------------|
| 215              | Retained Earnings                    | \$17,296     |               |
| 190              | State Deferred Taxes -- Depreciation |              | \$17,296      |

#### **Deferred Taxes -- Item 2: Deferred Taxes Intangible Plant -- Federal and State of Florida**

Intangible plant is recorded as an asset in water and sewer plant accounts as either organization plant or as franchise plant. For income tax purposes, this intangible plant is expensed and deferred taxes are recorded. Intangible plant and deferred taxes for intangible plant during the normal course of business are not reduced unless a utility's assets are sold.



Utility intangible plant did not match the expected balance of deferred income taxes. Further the State of Florida deferred taxes had not been properly recorded. The estimated correction to Federal deferred accounts at average is \$100,685 and at year end is \$103,040. The estimated correction to state deferred account is \$17,265 at average and at year end is \$17,669.

**EFFECT ON GENERAL LEDGER:**

NARUC

| <u>Acct. No.</u> | <u>Acct. Description</u>                  | <u>Debit</u> | <u>Credit</u> |
|------------------|---|--------------|---------------|
| 215              | Retained Earnings                         | \$120,706    |               |
| 190              | Federal Deferred Taxes – Intangible Plant |              | \$103,040     |
| 190              | State Deferred Taxes – Intangible Plant   |              | \$17,669      |

**Deferred Taxes -- Item 3: Accelerated Depreciation – Federal**

Accelerated depreciation is a difficult account for a utility to maintain and difficult for the Commission to audit. We found there was a possibility of errors and non utility effects in the account. There was not enough available audit time for staff to verify the details in this account sufficiently to comment the account was free of error, free of non utility effects and reflected necessary Commission adjustments appropriately.

Absent available audit resources, we have asked the utility to present additional information concerning its deferred taxes in this matter. Absent additional audit procedures, we recommend industry staff use reported plant additions, retirements and Commission adjustments along with known state and federal depreciation rates to determine what level for Federal Accumulated Deferred Income Tax is reasonable. Once a Federal Deferred Tax – Accelerated Depreciation level is set, it would be appropriate to revise the estimate presented in item 2: Deferred Taxes -- Accelerated Depreciation State of Florida.

Possible Accounts Affected upon General ledger:

- Retained Earnings
- State Deferred Income Taxes – Depreciation
- Federal Deferred Income Taxes – Depreciation
  - State Non Utility Deferred Income Taxes – Depreciation
  - Federal Non Utility Deferred Income taxes -- Depreciation

**Deferred Taxes -- Item 4: Accounting for Post 2000 Tap Fees**

Treasury Regulation Section 1.118-2(b) (3) excludes customer connection fees from the definition of CIAC for tax purposes. Therefore, Commission staff has advised that subsequent to the year 2000, CIAC in the form of cash tap fees paid to the utility is taxable. This appears to be a significant item in future utility accounting and ratemaking.

The utility records the effects of (1) taxable CIAC and (2) its amortization correctly in its deferred tax accounts, but the also utility reports (3) additional book depreciation in its reports

where no book depreciation exists. Further, it appears that the taxable CIAC effects are at an accelerated rate rather than the straight line rate used by the utility. This reporting does not affect the setting of rates in this case, but it clouds the auditing and determination of deferred taxes and the utility's ongoing and future reports such as annual report schedule F-23 and MFR schedules C-1 and C-2, and C-5. Clarification on this matter is needed.

From the auditor's perspective, it appears the proper accounting for taxable CIAC is to treat the amortization of tax on CIAC as income statement amortization and not provide a corresponding provision for income taxes on this amortization in ratemaking. Treating this item entirely in deferred tax accounts on the balance sheet seems to cause long-lived problems in assessing the impact of taxable CIAC and accelerated depreciation on rates.

**Deferred Taxes -- Item 5: Error in Utility MFR**

Utility information contained in its filing schedules C-1, C-2 and C-5 that report the provision for income taxes did not match utility schedule B-1 or Annual Report Schedule F-23 or Annual Report Schedule F-3. This type of error causes audit inefficiencies. Staff has relied upon annual report schedules during this audit of deferred income taxes.

## AUDIT FINDING NO. 22

### SUBJECT: INFORMATION ON FUTURE UTILITY OBLIGATIONS AND BENEFITS

**SUMMARY:** The utility has entered into a third-party agreement that may entail future benefits or obligations.

**STATEMENT OF FACT:** A Memorandum Agreement between Sanlando Utilities Corp. and The Florida Conference Association of Seventh Day Adventist was discovered by the audit staff in a search of Seminole County property records. The memorandum, executed on December 20, 2002, was recorded in Book 4720 Pages 657-659, of the Seminole County Clerk of the Court Official records.

The utility provided the following response to the audit staff's inquires.

- 1. The Memorandum of Agreement between FCASDA and Sanlando describes a resolution to a problem brought about by a proposed development known as Mirror Lake Commercial Park in 2002. The four lot commercial project is bisected from east to west by the service area boundary line between Sanlando Utilities and Seminole County Environmental Services. The four proposed lots in the commercial park are partially in Sanlando's service area and partly in Seminole County's service area. In 2002, FCASDA orchestrated the purchase and demolition of some single family homes that were situated in the county's service area. They had been the Seminole County's W&S customers. This residential property was rezoned as commercial, and then combined with the undeveloped land owned by FCASDA in Sanlando's W&S service area to create Mirror Lake Commercial Park. Since the commercial property overlapped the two adjacent service areas, Sanlando and Seminole County entered into an agreement with FCASDA wherein Sanlando agreed to provide sewer service to the four lots and Seminole County agreed to provide metered water service, with the meters to be read by Sanlando in order to compute the sewer bills for its customers. FCASDA agreed to pay Sanlando for the loss of four future water customers at a rate of \$1.43/gpd of water capacity at the point in time when the county issued building permits for each of the four lots. To date, no money has been collected from FCASDA and all four lots are vacant. Currently planned use for lot four is a county fire station and a Seven Eleven convenience store is to be located in Lot 1. Lots 2 and 3 are on the market.*
- 2. Sanlando benefited from this arrangement by virtue of providing a resolution to the question of how the property might be served with both water and sewer service even though the commercial park was situated in both service areas. In the absence of a resolution, Sanlando would have lost the opportunity to provide sewer service to four future general service customers and thereby lost the revenue produced from the provision of this service. Sanlando would also have lost an opportunity to make use of existing water and sewer treatment capacity at the Wekiva water and wastewater plants. In addition, the developer agreed to reimburse Sanlando for the loss of four future water customers. In essence, FCASDA agreed to "purchase" the four prospective customers at a rate that would be calculated from the capacity required to serve the property if the property had been situated within Sanlando's service area.*
- 3. No entries have been made in the general ledger because Sanlando has not received any payments. Accounting needs to determine the proper disposition of the proceeds when FCASDA eventually make payment. Since the portion of the park that is within Sanlando's*

*service area is unimproved, there was not any need to replace or retire existing water or sewer services.*

- 4. FCASDA agreed to pay the cost to relocate existing water and sewer facilities that were in conflict with the proposed layout of Mirror Lake Commercial Park. This included the relocation of a 12" water main and a 6" sanitary force main where they crossed Lot 4. The 12" water main serves as a two-way metered emergency interconnect between Sanlando and Seminole County's water systems. The 6" force main conveys raw wastewater from the county's sewer system to Sanlando's collection system as per a bulk sewer agreement between the two parties.*
- 5. I don't envision any costs to Sanlando as a result of this agreement. The obvious benefit will be the collection of future sewer revenue from the provision of sewer service to four future general service customers. Each individual sewer customer will be required to make connection to Sanlando's facilities at its cost.*

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

**AUDIT FINDING NO. 23**

**SUBJECT: INFORMATION ON CONTINUING MAINTENANCE PLAN**

**SUMMARY:** The utility's wastewater O&M expense may be overstated.

**STATEMENT OF FACT:** The utility has established a continuing maintenance plan to televise, video, clean and repair ten percent of its sanitary sewer pipes each year.

In 2005, the utility charged \$89,068 for this project to Acct. No. 7754011 - Sewer Rodding. This account is included in the filing in wastewater Acct. No. 720 - Material and Supplies for the test year.

If the utility does not continue to expend a like amount for each succeeding year after the test year, the associated O&M expense in the filing may be overstated.

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

# EXHIBIT 1

Schedule of Water Rate Base

Florida Public Service Commission

Company: Sanlando Utilities Corporation  
 Docket No.: 060258-WS  
 Schedule Year Ended: 12/31/05  
 Interim  Final   
 Historical  Projected

Schedule: A-1  
 Page 1 of 1  
 Preparer: Scott D. Fogelsanger

Explanation: Provide the calculation of average rate base for the last year, showing all adjustments.

| Line No. | (1)<br>Description                | (2)<br>Average<br>Balance<br>Per Books | (3)<br>Utility<br>Adjustments |         | (4)<br>Adjusted<br>Utility<br>Balance | (5)<br>Supporting<br>Schedule(s) |
|----------|-----------------------------------|--|-------------------------------|---------|---------------------------------------|----------------------------------|
| 1        | Utility Plant in Service          | \$15,392,075                           | \$455,549                     | A,B,C,D | \$15,847,624                          | A-5                              |
| 2        | Utility Land & Land Rights        | 123,772                                | 0                             |         | 123,772                               | A-5                              |
| 3        | Less: Non-Used & Useful Plant     | 0                                      | 0                             |         | 0                                     | A-7                              |
| 4        | Construction Work in Progress     | 0                                      | 0                             |         | 0                                     | -                                |
| 5        | Less: Accumulated Depreciation    | (8,283,471)                            | (21,327)                      | E,F     | (8,304,798)                           | A-9                              |
| 6        | Less: CIAC                        | (11,463,717)                           | 0                             |         | (11,463,717)                          | A-12                             |
| 7        | Accumulated Amortization of CIAC  | 7,208,315                              | 0                             |         | 7,208,315                             | A-14                             |
| 8        | Acquisition Adjustments           | 0                                      | 0                             |         | 0                                     | -                                |
| 9        | Accum. Amort. of Acq. Adjustments | 0                                      | 0                             |         | 0                                     | -                                |
| 10       | Advances For Construction         | 0                                      | 0                             |         | 0                                     | A-16                             |
| 11       | Working Capital Allowance         | 115,186                                | 0                             |         | 115,186                               | A-17                             |
| 12       | Total Rate Base                   | <u>\$3,092,160</u><br>*****            | <u>\$434,222</u><br>*****     |         | <u>\$3,526,382</u><br>*****           |                                  |

# EXHIBIT 2

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Sanlando Utilities Corporation  
 Docket No.: 060258-WS  
 Schedule Year Ended: 12/31/05  
 Interim [ ] Final [x]  
 Historical [x] Projected [ ]

Schedule: A-2  
 Page 1 of 1  
 Preparer: Scott D. Fogelsanger

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments.

| Line No. | (1)<br>Description                | (2)<br>Average Balance Per Books | (3)<br>Utility Adjustments  | (4)<br>Adjusted Utility Balance | (5)<br>Supporting Schedule(s) |
|----------|-----------------------------------|----------------------------------|-----------------------------|---------------------------------|-------------------------------|
| 1        | Utility Plant in Service          | \$22,423,326                     | \$1,088,168 A,B,C,D         | \$23,509,494                    | A-6                           |
| 2        | Utility Land & Land Rights        | 202,552                          | 0                           | 202,552                         | A-6                           |
| 3        | Less: Non-Used & Useful Plant     | 0                                | 0                           | 0                               | A-7                           |
| 4        | Construction Work in Progress     | 0                                | 0                           | 0                               | -                             |
| 5        | Less: Accumulated Depreciation    | (10,546,485)                     | 171,823 E,F                 | (10,374,862)                    | A-10                          |
| 6        | Less: CIAC                        | (12,337,150)                     | 0                           | (12,337,150)                    | A-12                          |
| 7        | Accumulated Amortization of CIAC  | 8,278,582                        | 0                           | 8,278,582                       | A-14                          |
| 8        | Acquisition Adjustments           | 0                                | 0                           | 0                               | -                             |
| 9        | Accum. Amort. of Acq. Adjustments | 0                                | 0                           | 0                               | -                             |
| 10       | Advances For Construction         | 0                                | 0                           | 0                               | A-16                          |
| 11       | Working Capital Allowance         | 291,995                          | 0                           | 291,995                         | A-17                          |
| 12       | Total Rate Base                   | <u>\$8,312,820</u><br>=====      | <u>\$1,257,791</u><br>===== | <u>\$9,570,611</u><br>=====     |                               |

# EXHIBIT 3

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Santando Utilities Corporation  
 Docket No.: D60256-WS  
 Schedule Year Ended: 12/31/05  
 Interim  Final   
 Historical  or Projected

Schedule: B-1 Revised  
 Page 1 of 1  
 Preparer: Scott D. Fogelsanger

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)<br>Description               | (2)<br>Balance Per Books | (3)<br>Utility Test Year Adjustments | (4)<br>Utility Adjusted Test Year | (5)<br>Requested Revenue Adjustment | (6)<br>Requested Annual Revenues | (7)<br>Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1        | OPERATING REVENUES               | \$2,052,466              | \$33,492 A                           | \$2,085,957                       | \$420,905 F                         | \$2,506,862                      | B-4                           |
| 2        | Operation & Maintenance          | \$1,408,097              | \$174,176 B                          | \$1,582,273                       | \$23,847 G                          | \$1,606,120                      | B-5                           |
| 3        | Depreciation, net of CIAC Amort. | 181,254                  | 44,929 C                             | 226,183                           |                                     | 226,183                          | B-13                          |
| 4        | Amortization                     | 6,313                    | 6,600 D                              | 11,913                            |                                     | 11,913                           |                               |
| 5        | Taxes Other Than Income          | 227,119                  | 8,034 E                              | 233,153                           | 21,687 H                            | 254,860                          | B-15                          |
| 6        | Provision for Income Taxes       | 35,074                   |                                      | 35,074                            | 70,658 I                            | 105,762                          | C-1                           |
| 7        | OPERATING EXPENSES               | \$1,856,857              | \$231,739                            | \$2,088,596                       | \$116,232                           | \$2,204,828                      |                               |
| 8        | NET OPERATING INCOME             | \$196,608                | (\$198,247)                          | (\$2,639)                         | \$304,673                           | \$302,034                        |                               |
| 9        | RATE BASE                        | \$3,092,689              |                                      | \$3,526,382                       |                                     | \$3,526,382                      |                               |
| 10       | RATE OF RETURN                   | 6.32%                    |                                      | -0.07%                            |                                     | 8.56%                            |                               |



# EXHIBIT 4

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Seminole Utilities Corporation  
 Docket No.: 080258-WS  
 Schedule Year Ended: 12/31/05  
 Interim  Final   
 Historical  or Projected

Schedule: B-2 Revised  
 Page 1 of 1  
 Preparer: Scott D. Fogelsonger

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)<br>Description               | (2)<br>Balance Per Books | (3)<br>Utility Test Year Adjustments | (4)<br>Utility Adjusted Test Year | (5)<br>Requested Revenue Adjustment | (6)<br>Requested Annual Revenues | (7)<br>Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1        | OPERATING REVENUES               | \$3,287,485              | \$44,199 A                           | \$3,331,684                       | \$691,470 F                         | \$4,023,154                      | B-4                           |
| 2        | Operation & Maintenance          | \$1,997,793              | \$167,948 B                          | \$2,165,741                       | \$18,737 G                          | \$2,184,478                      | B-6                           |
| 3        | Depreciation, net of CIAC Amort. | 291,577                  | 50,953 C                             | 342,530                           |                                     | 342,530                          | B-14                          |
| 4        | Amortization                     | 2,205                    | 24,600 D                             | 26,805                            |                                     | 26,805                           |                               |
| 5        | Taxes Other Than Income          | 305,428                  | 6,852 E                              | 310,980                           | 35,556 H                            | 346,536                          | B-15                          |
| 6        | Provision for Income Taxes       | 126,411                  |                                      | 126,411                           | 176,672 I                           | 303,083                          | C-1                           |
| 7        | OPERATING EXPENSES               | \$2,723,414              | \$249,053                            | \$2,972,467                       | \$230,985                           | \$3,203,452                      |                               |
| 8        | NET OPERATING INCOME             | \$564,071                | (\$204,854)                          | \$359,217                         | \$460,505                           | \$819,722                        |                               |
| 9        | RATE BASE                        | \$8,312,820              |                                      | \$9,570,611                       |                                     | \$9,570,611                      |                               |
| 10       | RATE OF RETURN                   | 6.79%                    |                                      | 3.75%                             |                                     | 8.58%                            |                               |

# EXHIBIT 5

Schedule of Requested Cost of Capital  
Beginning and Year End Average

Florida Public Service Commission

Company: Sanlando Utilities Corporation  
Docket No.: 060258-WS  
Schedule Year Ended: 12/31/05  
Interim  Final   
Historical  Projected

Schedule D-1 Revised  
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Preparer: Kirsten E. Weeks

Explanation: Provide a schedule which calculates the requested cost of capital on a thirteen month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

| Line No. | Class of Capital                | (1) | (2)  | (3)            | (4)       | (5)           |
|----------|---------------------------------|-----|--|----------------|-----------|---------------|
|          |                                 |     | Reconciled to<br>Requested Rate Base<br>AYE 12/31/05 | Ratio          | Cost Rate | Weighted Cost |
| 1        | Long Term Debt                  |     | 7,460,967.00   | 56.97%         | 6.65%     | 3.79%         |
| 2        | Short Term Debt                 |     | 253,110.00   | 1.93%          | 5.01%     | 0.10%         |
| 3        | Preferred Stock                 |     | -  | 0.00%          | 0.00%     | 0.00%         |
| 4        | Common Equity                   |     | 5,134,153.00   | 39.20%         | 11.78%    | 4.62%         |
| 5        | Customer Deposits               |     | 123,053.00   | 0.94%          | 6.00%     | 0.06%         |
| 6        | Tax Credits - Zero Cost         |     | -  | 0.00%          | 0.00%     | 0.00%         |
| 7        | Tax Credits - Weighted Cost     |     | -  | 0.00%          | 0.00%     | 0.00%         |
| 8        | Accumulated Deferred Income Tax |     | 125,710.00   | 0.96%          | 0.00%     | 0.00%         |
| 9        | Other (Explain)                 |     | -  | 0.00%          | 0.00%     | 0.00%         |
| 10       | Total                           |     | <u>13,096,993.00</u>                                 | <u>100.00%</u> |           | <u>8.56%</u>  |

Note: Since the equity ratio is less than 40.00%, an 11.78% cost rate has been used.

Note: Long term debt, short term debt, preferred stock, and common equity are actual for Sanlando Utilities Corp's parent company, Utilities, Inc.

Supporting Schedules: D-2  
Recap Schedules: A-1, A-2