



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: December 17, 2009

TO: Tonya Linn, Regulatory Analyst II, Division of Economic Regulation

FROM: Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DM*

RE: Docket No.: 090402-WS
 Company Name: Salando Utilities, Co.
 Company Code: WS397
 Audit Purpose: Rate Case
 Audit Control No: 09-281-4-1

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

DNM/ip
Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

RECEIVED-FPSC
09 DEC 18 PM 3:18
COMMISSION
CLERK

DOCUMENT NUMBER-DATE
12078 DEC 18 08
FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Miami District Office

SANLANDO UTILITIES, INC.

RATE CASE

AS OF DECEMBER 31, 2008

DOCKET NO. 090402-WS
AUDIT CONTROL NO. 09-281-4-1

Bety Mc

Bety Maitre, Audit Manager

Gabriela Leon

Gabriela Leon, Audit Staff

Iliana Piedra

Iliana Piedra, Audit Staff

Jeffery Small

Jeffery Small, Audit Staff

Yen Ngo

Yen Ngo, Audit Staff

Kathy Welch

Kathy Welch, District Audit Supervisor

DOCUMENT NUMBER - DATE

12078 DEC 18 8

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

| AUDITOR'S REPORT | PAGE |
|--|------|
| I. PURPOSE | 1 |
| II. OBJECTIVES AND PROCEDURES | 2 |
| III. AUDIT FINDINGS | |
| 1. ORDERED ADJUSTMENTS NOT BOOKED | 6 |
| 2. PLANT SAMPLE | 7 |
| 3. LACK OF PROFORMA SUPPORT FOR PLANT | 11 |
| 4. ERROR IN PROFORMA ADJUSTMENT TO CHANGE ERC'S | 12 |
| 5. ERRORS IN COMMON PLANT ALLOCATION AND DEPRECIATION | 14 |
| 6. SAMPLE ERRORS FOR NORTHBROOK PLANT | 16 |
| 7. ACCUMULATED AMORTIZATION OF CIAC BEGINNING BALANCES | 17 |
| 8. ACCUMULATED AMORTIZATION OF CIAC SERVICE LINES | 18 |
| 9. WORKING CAPITAL ALLOWANCE | 19 |
| 10. EQUITY RATE | 21 |
| 11. PAYROLL INCREASES | 22 |
| 12. EMPLOYEE NOT REPLACED | 23 |
| 13. 401K COSTS | 24 |
| 14. RATE CASE EXPENSE | 25 |
| 15. HEADQUARTERS SAMPLES | 26 |
| 16. POSSIBLE DEFERRED MAINTENANCE | 29 |
| 17. OPERATING AND MAINTENANCE SAMPLE | 30 |
| 18. REAL ESTATE AND PROPERTY TAXES | 32 |
| 19. GENERAL EXP. ALLOC. TO REAL ESTATE AND PERSONAL PROP. | 33 |
| 20. REGULATORY ASSESSMENT FEE | 34 |
| IV. EXHIBITS | |
| 1. RATE BASE | 37 |
| 2. COST OF CAPITAL | 39 |
| 3. NET OPERATING INCOME | 40 |

DOCUMENT NUMBER-DATE

12078 DEC 18 8

FPSC-COMMISSION CLERK

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT**

December 11, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

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. We have applied these procedures to the attached schedules which were prepared by Sanlando Utilities, Inc. in support of its filing for rate relief in Docket No. 090402-WS.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended 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, 2007 and 2008 and verified that adjustments required in Order No. PSC-07-0205-PAA-WS, were recorded.

Utility-Plant-in-Service

Objective: To determine that property exists and is owned by the utility. To determine that additions to plant 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 plant were made when a replacement item was put in service.

Procedures: We sampled plant additions for the period January 1, 2006 through December 31, 2008 for compliance with the stated objectives above. We verified whether the utility properly recorded retirements to plant 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. We determined that at the end of 2008, there was a credit balance in construction work in process. This credit balance was not included in rate base because the entire construction work in process balance was eliminated. We were unable to determine if plant in service is overstated by this amount and have asked the analyst to follow up on this problem. We tested the allocations of plant allocated from both the Illinois and Florida headquarters and tested the additions made since the 2007 headquarters audit.

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 has been no change to utility land since its last rate proceeding by searching the county's public records.

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 plant in service.

Procedures: We sampled CIAC additions for the period January 1, 2006 through December 31, 2008 for compliance with the stated objectives above. 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.

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 plant schedules. We verified that the utility used Commission authorized rates to depreciate its plant 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 plant was removed or replaced. We recalculated a sample of accumulated depreciation account balances from January 1, 2006 to December 31, 2008. We tested the allocations of accumulated depreciation allocated from both the Illinois and Florida headquarters and tested the additions made since the 2007 headquarters audit.

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 that 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 from January 1, 2006 to December 31, 2008.

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 calculation.

NET OPERATING INCOME

General

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

Procedures: We reconciled the individual components of net operating income to the utility's general ledger for the 12-month period ended December 31, 2008.

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 utility's general ledger and we reconciled the billing summaries to the utility's revenue reports. We recalculated bills to make sure they were billed in accordance with the tariff.

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, classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives are met. We reviewed the allocations of both Illinois and Florida headquarters expenses and sampled the expenses charged through the allocations.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that taxes other than income tax expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We obtained the regulatory assessment fee (RAF) 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.

Depreciation Expense

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

Procedures: We recalculated a sample of 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.

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 parent company general ledger as of December 31, 2008. We verified debt to the notes and short term debt to bank statements.

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 using Commission authorized rates and federal tax rates.

AUDIT FINDING NO. 1

SUBJECT: ORDERED ADJUSTMENTS NOT BOOKED

AUDIT ANALYSIS: The utility did not book the Commission Ordered adjustments in the last rate Order PSC-07-0205-PAA-WS. However, an adjustment was included in the filing to account for the adjustments. In preparing its adjustments to this filing, the utility did not include wastewater audit finding number four to Retire Utility Plant in Service in the amount of \$(23,619) and the associated depreciation expense. The depreciation expense was calculated as follows.

| ACCOUNT | ADJUSTMENT | RATE | DEPRECIATION | ANNUAL |
|---|------------|--------|--------------|------------------|
| 255.1400 | \$ | 23,619 | 5.56% | \$ 1,312 |
| YEARS | | | | 13.50 |
| ACCUMULATED DEPRECIATION BOOKED SINCE ENTRY SHOULD HAVE BEEN MADE | | | | <u>17,714.25</u> |
| ENTRY THAT SHOULD HAVE BEEN MADE AT RETIREMENT | | | | <u>23,619.00</u> |
| | | | | <u>41,333.25</u> |

EFFECT ON THE GENERAL LEDGER: The following entries are needed to fully comply with the last rate case.

| NARUC | DESCRIPTION | DEBIT | CREDIT |
|-------|---|------------------|------------------|
| 380 | TREAT & DISPOSAL EQUIP | | \$ 23,619 |
| 108 | TREAT & DISPOSAL EQUIP ACCUMULATED DEP. | \$ 41,333 | |
| 403 | TREAT & DISPOSAL EQUIP DEP. EXPENSE | | \$ 1,312 |
| 215 | RETAINED EARNINGS | | \$16,402 |
| | TOTAL | \$ 41,333 | \$ 41,333 |

EFFECT ON THE FILING: Average wastewater plant should be decreased by \$23,619. Average wastewater accumulated depreciation should be reduced by \$41,333 for the retirement and the depreciation expense in the test year. Wastewater depreciation expense should be decreased by \$1,312.

AUDIT FINDING NO. 2

SUBJECT: PLANT SAMPLE

AUDIT ANALYSIS: A sample of entries was selected from the Sanlando ledger to be traced to supporting documentation. The schedule on the following page shows invoices that were requested as part of our audit samples and should be removed along with the associated depreciation. The entries are being removed because the utility was unable to provide sufficient support; the entries should have been expensed; or the entries are associated with an affiliated company.

The second schedule calculates the accumulated depreciation. The third schedule that follows calculates the 13-month average effect.

| NARUC | YEAR | Acc No. | Account Description | Amount | DESCRIPTION | REASON | WASTE- WATER | WATER |
|-----------|--------|---------|---|-----------------------|---|---------------|-----------------|------------------|
| 303 | Jul-07 | 1045 | reCLASS ROSE sUNSTROM & BENTLEY | \$ 331 | Legals fees for UIF 2007 Territory Extension matters | Affiliate | | |
| 303 | Jul-07 | 1045 | reCLASS ROSE sUNSTROM & BENTLEY | \$ 566 | Legals fees for Lake Unity Services, Inc/misc matters - Development Agreements for Presco, Tuscany, & Barrington | Affiliate | | |
| TOTAL 303 | | | | \$ 897 | | | | |
| 311 | Nov-08 | 1105 | TAMPA ARMATURE WORKS INC | \$ 5,361 | | Not Provided | | |
| 311 | Aug-08 | 1110 | FLORIDA ARMATURE WORKS, INC. | \$ 3,580 | | PO never paid | | |
| TOTAL 311 | | | | \$ 8,941 | | | | |
| 330 | Aug-06 | 1120 | 25982*18208*FERGUSON | \$ 6,137 | Electric Valve operators | Duplicate | | |
| 333 | Dec-07 | 1130 | SUNSTATE METER & SUPPLY, INC | \$ 1,312 | | Not Provided | | |
| 335 | Apr-08 | 1145 | SUNSHINE BUILDING AND WATER | \$ 4,450 \$ 21,737 | | PO never paid | | \$ 21,737 |
| 354 | Nov-08 | 1295 | F.J. NUGENT & ASSOCIATES INC | \$ 4,048 | | PO never paid | | |
| 354 | May-08 | 1295 | ITT FLYGT FLORIDA ARMATURE | \$ 6,303 | | PO never paid | | |
| 354 | Dec-07 | 1295 | WORKS, INC. | \$ 1,886 | | Not Provided | | |
| 354 | Dec-07 | 1295 | ITT FLYGT | \$ 2,675 | Parts and labor to rebuild pump | | | |
| | | | | \$ 14,912 | Sewer shut off for dispatch and elder valve installation - various locations | | | |
| 360 | Apr-08 | 1345 | SUNSHINE BUILDING AND CAPTIME SUSPENSE | \$ 4,245 | | Affiliate | | |
| 361 | Aug-08 | 1350 | CLEANUP FLORIDA ARMATURE | \$ 5,640 | | Not Provided | | |
| 371 | Aug-08 | 1380 | WORKS, INC. PRISTINE WATER | \$ 2,001 | | PO never paid | | |
| 389 | Jan-08 | 1440 | SOLUTIONS | \$ 12,000 | | PO never paid | | |
| 397 | May-08 | 1490 | INC WASTEWATER | \$ 385 \$ 39,183 | Bobcat loader maintenance | Expensed | | \$ 39,183 |
| 343 | Jun-06 | 1190 | 18961*17088*DAVIDS T | \$ 1,284 | 2006 Triple Crown Trailer | Unsupported | | |
| 346 | Feb-06 | 1205 | 9563*17161*RADIO SHA BOTH ALLOCATED 56.29% WATER 43.71% WASTEWATER | \$ 225 \$ 1,509 | | Not Provided | | \$ 849 \$ 659.63 |
| TOTAL | | | | \$ 62,428 | | | \$ 22,586 | \$ 39,842 |

CALCULATION OF ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

| NARUC | YEAR | Amount | RATE | DEP. EXP. | YEARS | ACC. DEP. |
|-------|------|------------------|--------|-----------------|-------|-----------------|
| 303 | 2007 | \$ 331 | 0.00% | \$ - | 1.5 | \$ - |
| 303 | 2007 | \$ 566 | 0.00% | \$ - | 1.5 | \$ - |
| | | <u>\$ 897</u> | | | | |
| 311 | 2008 | \$ 5,361 | 5.00% | \$ 268 | 0.5 | \$ 134 |
| 311 | 2008 | \$ 3,580 | 5.00% | \$ 179 | 0.5 | \$ 90 |
| | | <u>\$ 8,941</u> | | <u>\$ 447</u> | | <u>\$ 224</u> |
| 330 | 2006 | \$ 6,137 | 2.70% | \$ 166 | 2.5 | \$ 414 |
| 333 | 2007 | \$ 1,312 | 2.50% | \$ 33 | 1.5 | \$ 49 |
| 335 | 2008 | \$ 4,450 | 2.22% | \$ 99 | 0.5 | \$ 49 |
| | | <u>\$ 21,737</u> | | <u>\$ 744</u> | | <u>\$ 736</u> |
| | | | | | | |
| 354 | 2008 | \$ 4,048 | 4.00% | \$ 162 | 0.5 | \$ 81 |
| 354 | 2008 | \$ 6,303 | 4.00% | \$ 252 | 0.5 | \$ 126 |
| 354 | 2007 | \$ 1,886 | 4.00% | \$ 75 | 1.5 | \$ 113 |
| 354 | 2007 | \$ 2,675 | 4.00% | \$ 107 | 1.5 | \$ 161 |
| | | <u>\$ 14,912</u> | | <u>\$ 596</u> | | <u>\$ 481</u> |
| 360 | 2008 | \$ 4,245 | 2.63% | \$ 112 | 0.5 | \$ 56 |
| 361 | 2008 | \$ 5,640 | 2.22% | \$ 125 | 0.5 | \$ 63 |
| 371 | 2008 | \$ 2,001 | 5.56% | \$ 111 | 0.5 | \$ 56 |
| 389 | 2008 | \$ 12,000 | 5.56% | \$ 667 | 0.5 | \$ 333 |
| 397 | 2008 | \$ 385 | 6.67% | \$ 26 | 0.5 | \$ 13 |
| | | <u>\$ 39,183</u> | | <u>\$ 1,637</u> | | <u>\$ 1,001</u> |
| 343 | 2006 | \$ 1,284 | 6.25% | \$ 80 | 2.5 | \$ 201 |
| 346 | 2006 | \$ 225 | 10.00% | \$ 22 | 2.5 | \$ 56 |
| | | <u>\$ 1,509</u> | | <u>\$ 103</u> | | <u>\$ 257</u> |
| | | <u>\$ 62,428</u> | | <u>\$ 2,484</u> | | <u>\$ 1,994</u> |

NOTE: ACCT. 343 AND 346 WERE ALLOCATED AT 56.29 WATER AND 43.71 WASTEWATER

| | WATER | WASTEWATER |
|------------------------|------------------|------------------|
| WATER PLANT | 21,736.57 | |
| WASTEWATER PLANT | | 39,182.80 |
| COMMON PLANT ALLOCATED | 849.47 | 659.63 |
| TOTAL PLANT | <u>22,586.04</u> | <u>39,842.43</u> |
| | | |
| WATER DEP. EXP. | 744.34 | |
| WASTEWATER DEP. EXP. | | 736.37 |
| COMMON DEP. EXP. | 57.84 | 437.49 |
| | <u>802.17</u> | <u>1,173.86</u> |
| | | |
| WATER ACC. DEP. | 736.37 | |
| WASTEWATER ACC. DEP. | | 1,000.89 |
| COMMON PLANT ALLOCATED | 57.84 | 112.28 |
| TOTAL ACC. DEP. | <u>794.20</u> | <u>1,113.17</u> |

CALCULATION OF 13-MONTH AVERAGE

| | ^12/07 | ^1/08 | ^2/08 | ^3/08 | ^4/08 | ^5/08 | ^6/08 | ^7/08 | ^8/08 | ^9/08 | ^10/08 | ^11/08 | ^12/08 | AVERAGE |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| WATER PLANT | 9,195 | 9,195 | 9,195 | 9,195 | 13,645 | 13,645 | 13,645 | 13,645 | 17,225 | 17,225 | 17,225 | 22,586 | 22,586 | 14,477 |
| WW PLANT | 5,221 | 17,221 | 17,221 | 17,221 | 21,466 | 28,154 | 28,154 | 28,154 | 35,795 | 35,795 | 35,795 | 39,843 | 39,843 | 26,914 |
| | | | | | | | | | | | | | | |
| WATER ACC. DEP. | 361 | 404 | 447 | 491 | 534 | 577 | 621 | 664 | 707 | 751 | 794 | 837 | 881 | 621 |
| WATER ACC. DEP. | 203 | 279 | 355 | 431 | 507 | 582 | 658 | 734 | 810 | 886 | 962 | 1,037 | 1,113 | 658 |

EFFECT ON THE GENERAL LEDGER: The following entries should be posted to the general ledger.

| NARUC DESCRIPTION | DEBIT | CREDIT |
|---|------------------|------------------|
| 303 LAND | | \$ 897 |
| 311 ELECTRIC PUMPEQUIP. | | \$ 8,941 |
| 330 DIST RESV & STANDPIPES | | \$ 6,137 |
| 333 SERVICES | | \$ 1,312 |
| 335 HYDRANTS | | \$ 4,450 |
| 343 TOOLS | | \$ 1,284 |
| 346 COMMUNICATION EQ. | | \$ 225 |
| 360 SEWER FORCE MAIN/SRVC LINES | | \$ 4,245 |
| 361 COLLECTION SEWER GRAVITY | | \$ 5,460 |
| 354 STRUCT/IMPRV PUM PPLT LS | | \$ 14,912 |
| 371 PUMPING EQUIPMENT | | \$ 2,001 |
| 389 OTHER PLANT AND MISC. EQ. | | \$ 12,000 |
| 397 MISC. EQ. | | \$ 385 |
| 403 ELECTRIC PUMPEQUIP. DEP. EXP. | | \$ 447 |
| 403 DIST RESV & STANDPIPES DEP. EXP. | | \$ 166 |
| 403 SERVICES DEP. EXP. | | \$ 33 |
| 403 HYDRANTS DEP. EXP. | | \$ 99 |
| 403 TOOLS DEP. EXP. | | \$ 80 |
| 403 COMMUNICATION EQ. DEP. EXP. | | \$ 22 |
| 403 SEWER FORCE MAIN/SRVC LINES DEP. EXP. | | \$ 596 |
| 403 COLLECTION SEWER GRAVITY DEP. EXP. | | \$ 112 |
| 403 STRUCT/IMPRV PUM PPLT LS DEP. EXP. | | \$ 125 |
| 403 PUMPING EQUIPMENT DEP. EXP. | | \$ 111 |
| 403 OTHER PLANT AND MISC. EQ. DEP. EXP. | | \$ 667 |
| 403 MISC. EQ. DEP. EXP. | | \$ 26 |
| 108 ELECTRIC PUMPEQUIP. ACC. DEP. | \$ 224 | |
| 108 DIST RESV & STANDPIPES ACC. DEP. | \$ 414 | |
| 108 SERVICES ACC. DEP. | \$ 49 | |
| 108 HYDRANTS ACC. DEP. | \$ 49 | |
| 108 TOOLS ACC. DEP. | \$ 201 | |
| 108 COMMUNICATION EQ. ACC. DEP. | \$ 56 | |
| 108 SEWER FORCE MAIN/SRVC LINES ACC. DEP. | \$ 481 | |
| 108 COLLECTION SEWER GRAVITY ACC. DEP. | \$ 56 | |
| 108 STRUCT/IMPRV PUM PPLT LS ACC. DEP. | \$ 63 | |
| 108 PUMPING EQUIPMENT ACC. DEP. | \$ 56 | |
| 108 OTHER PLANT AND MISC. EQ. ACC. DEP. | \$ 333 | |
| 108 MISC. EQ. ACC. DEP. | \$ 12 | |
| 775 WASTEWATER-OTHER MAINT EXP | \$ 385 | |
| 145 A/R AFFILIATE RECEIVABLE | \$ 5,142 | |
| 215 RETAINED EARNINGS | \$ 57,212 | |
| TOTAL | \$ 64,733 | \$ 64,733 |

EFFECT ON THE FILING: Average water plant should be reduced by \$14,477. Average water accumulated depreciation should be reduced by \$621. Water depreciation expense should be reduced by \$802.

Average wastewater plant should be reduced by \$26,914. Average wastewater accumulated depreciation should be reduced by \$658. Wastewater depreciation expense should be reduced by \$1,174.

AUDIT FINDING NO. 3

SUBJECT: LACK OF PROFORMA SUPPORT FOR PLANT

AUDIT ANALYSIS: The utility included Pro Forma plant additions for water and wastewater in the amounts of \$142,500 and \$687,500, respectively. However, the utility could only provide support for the water plant's well pump replacement projects.

| PRO FORMA DESCRIPTION | AMOUNT | | |
|---|-------------------------|-------------------|-------------------|
| | WATER | WASTE | TOTAL |
| 311.3 Replace Well Pumps 1A, 3, 5, 7 | \$ 80,000 | | |
| 354.4 Electrical Improvements Design Wekiva WWTP | | \$ 75,000 | |
| 331.4 Water Main Relocations SR 434 / Sr 434 east of I-4 | \$ 62,500 | | |
| 360.2 Force Main Relocations SR 434 east of I-4 | | \$ 62,500 | |
| 380.4 Nitrogen removal Treatment Design Des Pinar / Wekiva | | \$ 50,000 | |
| 380.4 Des Pinar WWTP upgrade for Nitrogen removal Treatment | | \$ 500,000 | |
| | TOTAL \$ 142,500 | \$ 687,500 | \$ 830,000 |

EFFECT ON THE GENERAL LEDGER: There is no effect on the general ledger.

EFFECT ON THE FILING: This finding is for informational purposes only.

AUDIT FINDING NO. 4

SUBJECT: ERROR IN PROFORMA ADJUSTMENT TO CHANGE ERC'S

AUDIT ANALYSIS: The utility's new accounting system automatically allocates each account in Division 102-Northbrooke Headquarters, Division 802-Florida Regional Costs, and Division 855-Florida State costs each month using the monthly input ERC's for the applicable region. In 2009, the utility sold some of its systems which changed the ERC allocations. The utility personnel then took the costs for these divisions and re-allocated them using the new ERC calculations and planned to include the increase over what was in the ledger in 2008 in the proforma adjustments in the filing. However, in computing this adjustment, instead of using what was actually booked for rate base items, they used the yearly activity which only consisted of the additions for the year. Therefore, they increased rate base in the adjustments for more than the entire beginning balance of the plant allocated times the new ERC's. The following schedule shows the differences between what the utility used in its proforma calculation and what was actually in the ledger.

| Obj Acct | Description | 13-Month Average | Restated Avg. Per Co. | Proforma Using Correct Ledger | Proforma Made By Company | Difference |
|----------|-----------------------------|-----------------------|--------------------------|-------------------------------------|--------------------------------|-------------------------|
| 1045 | LAND & LAND RIGHTS GEN PLT | \$5,673.52 | \$7,023.00 | \$1,349.48 | \$6,507.00 | (\$5,157.52) |
| 1055 | STRUCT & IMPRV WTR TRT PLT | \$52.06 | | (\$52.06) | | (\$52.06) |
| 1065 | STRUCT & IMPRV GEN PLT | \$90.12 | | (\$90.12) | | (\$90.12) |
| 1175 | OFFICE STRUCT & IMPRV | \$232,654.19 | \$405,452.00 | \$172,797.81 | \$373,540.00 | (\$200,742.19) |
| 1180 | OFFICE FURN & EQPT | \$93,032.85 | \$138,651.00 | \$45,618.15 | \$128,023.00 | (\$82,404.85) |
| 1190 | TOOL SHOP & MISC EQPT | \$17,643.32 | \$64,322.00 | \$46,678.68 | \$60,138.00 | (\$13,459.32) |
| 1195 | LAB EQPT | | \$822.00 | \$822.00 | \$822.00 | \$0.00 |
| 1205 | COMMUNICATION EQPT | \$21,543.88 | \$45,631.00 | \$24,087.12 | \$43,668.00 | (\$19,580.88) |
| 1320 | POWER GEN EQUIP COLL PLT | \$60.30 | | (\$60.30) | | (\$60.30) |
| 1460 | OFFICE FURN & EQPT | \$6.56 | | (\$6.56) | | (\$6.56) |
| 1470 | TOOL SHOP & MISC EQPT | \$78.55 | | (\$78.55) | (\$8.00) | (\$70.55) |
| 1580 | MAINFRAME COMPUTER WTR | \$36,248.33 | \$18,802.00 | (\$17,446.33) | \$15,314.00 | (\$32,760.33) |
| 1585 | MINI COMPUTERS WTR | \$130,528.94 | \$145,796.00 | \$15,267.06 | \$130,771.00 | (\$115,503.94) |
| 1590 | COMP SYS COST WTR | \$1,004,422.55 | \$1,254,096.00 | \$249,673.45 | \$1,131,454.00 | (\$881,780.55) |
| 1595 | MICRO SYS COST WTR | \$34,322.73 | \$37,053.00 | \$2,730.27 | \$33,674.00 | (\$30,943.73) |
| | | <u>\$1,576,357.90</u> | <u>\$2,117,648.00</u> | <u>\$541,290.10</u> | <u>\$1,923,903.00</u> | <u>(\$1,382,612.90)</u> |
| 1970 | ACC DEPR-OFFICE STRUCTURE | (\$91,284.76) | (\$139,698.00) | (\$48,413.24) | (\$128,973.00) | \$80,559.76 |
| 1975 | ACC DEPR-OFFICE FURN/EQPT | (\$73,716.24) | (\$104,650.00) | (\$30,933.76) | (\$96,732.00) | \$65,798.24 |
| 1985 | ACC DEPR-TOOL SHOP & MISC | (\$12,549.51) | (\$43,424.00) | (\$30,874.49) | (\$40,460.00) | \$9,585.51 |
| 1990 | ACC DEPR-LAB EQUIP | | (\$642.00) | (\$642.00) | (\$642.00) | \$0.00 |
| 2000 | ACC DEPR-COMMUNICATION EQP | (\$21,765.95) | (\$18,946.00) | \$2,819.95 | (\$16,954.00) | \$19,773.95 |
| 2001 | ACC DEPR-COMMUNICATION EQP | | (\$26,738.00) | (\$26,738.00) | (\$26,738.00) | \$0.00 |
| 2230 | ACC DEPR-TOOL SHOP & MISC | (\$3.45) | | \$3.45 | \$1.00 | \$2.45 |
| 2320 | ACC DEPR-MAINFRAME COMP WTR | (\$32,967.17) | (\$17,795.00) | \$15,172.17 | (\$14,352.00) | \$29,524.17 |
| 2325 | ACC DEPR-MINI COMP WTR | (\$91,542.54) | (\$95,041.00) | (\$3,498.46) | (\$84,364.00) | \$80,865.54 |
| 2330 | COMP SYS AMORTIZATION WTR | (\$124,624.80) | (\$35,287.00) | \$89,337.80 | (\$17,087.00) | \$106,424.80 |
| 2335 | MICRO SYS AMORTIZATION WTR | (\$20,487.82) | (\$17,272.00) | \$3,215.82 | (\$14,957.00) | \$18,172.82 |
| | | <u>(\$468,942.25)</u> | <u>(\$499,493.00)</u> | <u>(\$30,550.75)</u> | <u>(\$441,258.00)</u> | <u>\$410,707.25</u> |
| | | <u>\$2,683,773.56</u> | <u>\$3,735,803.00</u> | <u>\$1,052,029.44</u> | <u>\$3,406,548.00</u> | <u>(\$971,905.65)</u> |

The utility adjustment made to plant in service should be reduced by \$1,382,613 and the adjustment to accumulated depreciation should be reduced by \$410,707. Fifty-six percent of these costs were allocated to water ((\$774,263) for water plant and \$229,996 to water accumulated depreciation) and forty-four percent to wastewater ((\$608,350) for wastewater plant and \$180,711 accumulated depreciation wastewater).

EFFECT ON THE GENERAL LEDGER: The utility only made the adjustment to the filing and therefore, no adjustment is necessary to the ledger.

EFFECT ON THE FILING: Plant in service should be reduced by \$1,382,613 (\$774,263 water and \$608,350 wastewater) and accumulated depreciation should be reduced by \$410,707 (\$229,996 water and \$180,711 wastewater).

AUDIT FINDING NO. 5

SUBJECT: ERRORS IN COMMON PLANT ALLOCATION AND DEPRECIATION RATES

AUDIT ANALYSIS: In 2008, the utility installed new general ledger software (Project Phoenix) and new billing software (CC & B). The ending ledger balance of \$21,617,487 was recorded as \$21,364,569. In the allocations from headquarters that were adjusted in both the rate base and net operating income proformas, the utility included an incorrect balance for the new software installed in 2008.

In addition, the utility does not use depreciation rates from Rule 25-30.140, F.A.C. to depreciate the headquarters assets. The rule requires computers to be depreciated at six years. It does not make a separate requirement for software. The utility depreciated its mainframe over five years, its mini computers over three years, and some of the software over three years. The Project Phoenix and CC & B software was depreciated at eight years. This is a major software addition that probably will not be redone for many years and probably has a longer life than eight years. In the calculations that follow, we did not change the rate from eight to six years. A longer life is probably more appropriate for this asset than a shorter one. The utility also depreciated office furniture over 10 years instead of 15 and telephones at 15 years instead of 10. Staff recomputed depreciation since the last rate case. If the assets were fully depreciated by December 31, 2007, no change was made. The comparison of staff's computations using the rule compared to the utility computations follow.

| | Asset At 12/31/2007 | Asset At 12/31/2008 | 13-Month Average | 13-Mth Avg. Per Company | Difference |
|------------------------|---------------------------|---------------------------|---------------------|-------------------------------|--------------|
| MAINFRAME 5 YEARS | \$187,704.73 | \$194,181.10 | \$191,690.00 | \$191,690.00 | \$0.19 |
| A/D MAINFRAME | (\$137,312.69) | (\$169,136.51) | (\$153,100.00) | (\$179,098.00) | \$25,997.95 |
| MAINFRAME DEP. EXP. | | \$32,004.00 | | | |
| MINI COMP. 3 YEARS | \$623,522.54 | \$694,224.87 | \$653,154.54 | \$653,155.00 | (\$0.46) |
| A/D MINI COMPUTERS | (\$305,019.73) | (\$376,399.23) | (\$339,349.00) | (\$445,211.00) | \$105,861.18 |
| MINI COMP. DEP. EXP. | | \$71,379.00 | | | \$0.00 |
| SOFTWARE 8 YEARS | \$20,152.31 | \$21,617,486.75 | \$17,049,757.95 | \$16,858,827.00 | \$190,930.95 |
| A/D SOFTWARE | (\$12,074.71) | (\$1,364,427.15) | (\$376,750.00) | (\$372,495.00) | (\$4,255.92) |
| DEP. EXP. SOFTWARE | | \$1,352,352.00 | | | |
| SOFTWARE 3 YEARS | \$400,338.96 | \$460,942.80 | \$446,082.00 | \$446,083.00 | (\$0.20) |
| A/D SOFTWARE | (\$75,680.00) | (\$142,235.78) | (\$107,792.00) | (\$182,873.00) | \$75,080.57 |
| DEP. EXP. SOFTWARE | | \$66,556.00 | | | |
| A/D OFFICE FURNITURE | | | (\$1,090,017.00) | (\$1,119,212.00) | \$29,194.64 |
| DEP. EXP. OFFICE FURN. | | | | | |
| A/D TELEPHONES | | | (\$113,035.94) | (\$107,937.00) | (\$5,098.94) |
| DEP. EXP. TELEPHONES | | | | | |

| | 13-MONTH | SANLANDO |
|------------------------------------|----------------|--------------|
| DIFFERENCE IN PLANT | \$190,930.48 | \$14,109.76 |
| DIFFERENCE IN ACC. DEP. | \$226,779.40 | \$16,759.00 |
| DIFFERENCE IN DEPRECIATION EXPENSE | (\$106,402.40) | (\$7,863.14) |
| PERCENT SANLANDO | | 7.39% |

EFFECT ON THE GENERAL LEDGER: The ledger is not effected because the depreciation calculations by the company are done only for the filing.

EFFECT ON THE FILING: Plant should be increased by \$14,110 in Sanlando. If the depreciation rates are changed because of the rule, Accumulated Depreciation should be reduced (debited) by \$16,759 for Sanlando and depreciation expense should be reduced \$7,863 for Sanlando. Fifty-six percent of these costs were allocated to water and forty-four percent to wastewater.

AUDIT FINDING NO. 6

SUBJECT: SAMPLE ERRORS FOR NORTHBROOK PLANT

AUDIT ANALYSIS: Two problems were found with the sample taken of the plant additions for the Northbrook plant which are allocated to each division.

| ACT. | DATE | PAYEE | AMOUNT | SIMPLE AVERAGE | 13-MONTH AVERAGE | DEPRECIATION EXPENSE | ACC. DEP. | SIMPLE AVERAGE | 13-MONTH AVERAGE |
|------------|------|------------|----------------------|----------------------|----------------------|-------------------------|-------------------|-------------------|---------------------|
| 102.1175 | 2/08 | REN. CONC. | (\$1,060.00) | (\$530.00) | (\$896.92) | (\$97.17) | \$97.17 | \$48.58 | \$82.22 |
| 102.159 | 3/08 | COMP SYST | (\$85,146.39) | (\$42,573.20) | (\$65,497.22) | (\$8,869.42) | \$8,869.42 | \$4,434.71 | \$6,822.63 |
| | | | <u>(\$86,206.39)</u> | <u>(\$43,103.20)</u> | <u>(\$66,394.15)</u> | <u>(\$8,966.58)</u> | <u>\$8,966.58</u> | <u>\$4,483.29</u> | <u>\$6,904.85</u> |
| LONGWOOD | | 0.62% | | (\$265.30) | | (\$55.19) | | \$27.59 | |
| PENNBROOKE | | 0.96% | | (\$412.33) | | (\$85.77) | | \$42.89 | |
| SANLANDO | | 7.39% | | | (\$4,906.53) | (\$662.63) | | | \$510.27 |

EFFECT ON THE GENERAL LEDGER: Division 102-Northbrook plant should be reduced for the \$86,206. The allocations and depreciation are calculated for the filing only and should not be adjusted.

EFFECT ON THE FILING: Plant should be reduced by \$265 for Longwood, \$412 for Pennbrooke, and \$4,906 for Sanlando. Accumulated Depreciation should be reduced (debited) by \$28 for Longwood, \$43 for Pennbrooke, and \$510 for Sanlando. Depreciation expense should be reduced by \$55 for Longwood, \$86 for Pennbrooke, and \$663 for Sanlando. Fifty-six percent of these costs were allocated to water and forty-four percent to wastewater.

AUDIT FINDING NO. 7

SUBJECT: ACCUMULATED AMORTIZATION OF CIAC BEGINNING BALANCES

AUDIT ANALYSIS: Because the utility did not book the entries needed to adjust for the last rate order, the utility adjusted the CIAC and Accumulated Amortization in the filing. They prepared a schedule which was supposed to start at the beginning ledger balances plus the adjustments and then calculate the amortization each year through 2008. In preparing the schedule, the utility posted the order adjustments to CIAC as a debit to CIAC and a credit to Accumulated Amortization. The order did not require Accumulated Amortization be adjusted for these amounts. The following company adjustments need to be removed from the Accumulated Amortization Balances. The error does not affect amortization expense.

| | |
|--|---------------------|
| ACC. AMORT. STRUCTURES AND IMPROV. WATER TREATMENT | \$4,534.00 |
| ACC. AMORT. WELLS AND SPRINGS | \$11,833.00 |
| ACC. AMORT. ELECTRIC PUMPING EQ. | \$21,386.00 |
| ACC. AMORT. DIST. RESERVOIRS | \$18,477.00 |
| ACC. AMORT. TRANSMISSION AND DISTRIBUTION MAINS | \$126,887.00 |
| ACC. AMORT. SERVICE LINES | \$20,271.00 |
| ACC. AMORT. METERS | \$19,834.00 |
| ACC. AMORT. METER INSTALLATION | \$703.00 |
| ACC. AMORT. HYDRANTS | \$11,978.00 |
| TOTAL WATER CORRECTION | <u>\$235,903.00</u> |
| ACC. AMORT. PUMP LIFT STATIONS | \$27,603.00 |
| ACC. AMORT. WASTEWATER TREATMENT | \$4,387.00 |
| ACC. AMORT. FORCE MAINS | \$1,330.00 |
| ACC. AMORT. GRAVITY MAINS | \$112,093.00 |
| ACC. AMORT. MANHOLES | \$630.00 |
| ACC. AMORT. SERVICES | \$1,190.00 |
| ACC. AMORT. WASTEWATER TREATMENT | \$75,483.00 |
| ACC. AMORT. OUFALL LINES | \$10,617.00 |
| | <u>\$233,333.00</u> |

EFFECT ON THE GENERAL LEDGER: The calculation was only included in the filing. However, the utility should be required to book the entries from the last order.

EFFECT ON THE FILING: Average Accumulated Amortization of CIAC-Water should be increased (debited) by \$235,903. Average Accumulated Amortization of CIAC-Wastewater should be increased (debited) by \$233,333.

AUDIT FINDING NO. 8

SUBJECT: ACCUMULATED AMORTIZATION OF CIAC SERVICE LINES

AUDIT ANALYSIS: The adjustment to Accumulated Amortization of CIAC on the Company's filing Schedule A-1 for (\$144,788) included an adjustment to CIAC Service Lines. This adjustment incorrectly calculated the accumulated amortization service lines using a rate of 30 years. According to the Rule 25.30-140, F.A.C., the depreciation rate for this account is 40 years. The calculated adjustment using 30 years is (\$50,899) from 2005 to 2008 and the adjustment using the correct depreciation rate is (\$42,380) a difference of \$8,519. Depreciation for service lines and amortization expense for CIAC service lines were correctly calculated at 40 years.

| <u>Account</u> | <u>Description</u> | <u>Year /Month</u> | <u>CIAC Balanc e</u> | <u>Acc. Am ortion</u> |
|------------------------|-----------------------|--------------------|----------------------|-----------------------|
| 255.3 345 | CIAC - Servic e Lines | 2005 | (\$902,874.14) | \$57 5,402.28 |
| 255.3 345 | CIAC - Servic e Lines | 2006 | (\$902,874.14) | \$59 7,974.14 |
| 255.3 345 | CIAC - Servic e Lines | Jan-07 | (\$902,874.14) | \$59 9,855.13 |
| 255.3 345 | CIAC - Servic e Lines | Feb-07 | (\$902,874.14) | \$60 1,736.11 |
| 255.3 345 | CIAC - Servic e Lines | Mar-07 | (\$902,874.14) | \$60 3,617.10 |
| 255.3 345 | CIAC - Servic e Lines | Apr-07 | (\$902,874.14) | \$60 5,498.09 |
| 255.3 345 | CIAC - Servic e Lines | May-07 | (\$902,874.14) | \$60 7,379.08 |
| 255.3 345 | CIAC - Servic e Lines | Jun-07 | (\$902,874.14) | \$60 9,260.07 |
| 255.3 345 | CIAC - Servic e Lines | Jul-07 | (\$944,201.14) | \$61 1,227.15 |
| 255.3 345 | CIAC - Servic e Lines | Aug-07 | (\$944,201.14) | \$61 3,194.24 |
| 255.3 345 | CIAC - Servic e Lines | Sep-07 | (\$944,201.14) | \$61 5,161.32 |
| 255.3 345 | CIAC - Servic e Lines | Oct-07 | (\$944,201.14) | \$61 7,128.41 |
| 255.3 345 | CIAC - Servic e Lines | Nov-07 | (\$944,201.14) | \$61 9,095.49 |
| 255.3 345 | CIAC - Servic e Lines | Dec-07 | (\$944,201.14) | \$62 1,062.58 |
| 255.3 345 | CIAC - Servic e Lines | Jan-08 | (\$944,201.14) | \$62 3,029.67 |
| 255.3 345 | CIAC - Servic e Lines | Feb-08 | (\$944,201.14) | \$62 4,996.75 |
| 255.3 345 | CIAC - Servic e Lines | Mar-08 | (\$944,201.14) | \$62 6,963.84 |
| 255.3 345 | CIAC - Servic e Lines | Apr-08 | (\$944,201.14) | \$62 8,930.92 |
| 255.3 345 | CIAC - Servic e Lines | May-08 | (\$944,201.14) | \$63 0,898.01 |
| 255.3 345 | CIAC - Servic e Lines | Jun-08 | (\$944,201.14) | \$63 2,865.09 |
| 255.3 345 | CIAC - Servic e Lines | Jul-08 | (\$944,201.14) | \$63 4,832.18 |
| 255.3 345 | CIAC - Servic e Lines | Aug-08 | (\$944,201.14) | \$63 6,799.27 |
| 255.3 345 | CIAC - Servic e Lines | Sep-08 | (\$944,201.14) | \$63 8,766.35 |
| 255.3 345 | CIAC - Servic e Lines | Oct-08 | (\$944,201.14) | \$64 0,733.44 |
| 255.3 345 | CIAC - Servic e Lines | Nov-08 | (\$944,201.14) | \$64 2,700.52 |
| 255.3 345 | CIAC - Servic e Lines | Dec-08 | (\$944,201.14) | \$64 4,667.61 |
| month average staff | | | | \$63 2,865.09 |
| th average per company | | | | \$62 4,346.00 |
| Differ enc e | | | | \$8,519.09 |

EFFECT ON GENERAL LEDGER: The company has not recorded any of the Adjustments on its books. It needs to record the entire entry it made to its filing with this correction.

EFFECT ON FILING: Accumulated Amortization of CIAC Service lines should be increased (debited) by \$8,519.00 on the Company's filing.

AUDIT FINDING NO. 9

SUBJECT: WORKING CAPITAL ALLOWANCE

AUDIT ANALYSIS: The Utility computed the working capital allowance to be \$299,835 for water and \$372,639 for wastewater. Working capital allowance should not include customer deposits because it is included in cost of capital. Deferred Rate Case Exp is the portion of the current rate case that has not been amortized. Staff has recalculated the proper working capital allowance to be \$688,355 (\$307,085 for water and \$378,270 for wastewater).

SANLANDO UTILITIES CORP
UNAMORTIZED RATE CASE EXPENSE
TEST YEAR ENDED DECEMBER 31, 2008

| Month | Rate Case Exp | Monthly Amtz | Unamrtz Bal |
|--------|---------------|-----------------------------|-------------|
| Apr-07 | \$ 155,900 | \$ 3,248 | \$ 152,652 |
| May-07 | \$ 152,652 | \$ 3,248 | \$ 149,404 |
| Jun-07 | \$ 149,404 | \$ 3,248 | \$ 146,156 |
| Jul-07 | \$ 146,156 | \$ 3,248 | \$ 142,908 |
| Aug-07 | \$ 142,908 | \$ 3,248 | \$ 139,660 |
| Sep-07 | \$ 139,660 | \$ 3,248 | \$ 136,413 |
| Oct-07 | \$ 136,413 | \$ 3,248 | \$ 133,165 |
| Nov-07 | \$ 133,165 | \$ 3,248 | \$ 129,917 |
| Dec-07 | \$ 129,917 | \$ 3,248 | \$ 126,669 |
| Jan-08 | \$ 126,669 | \$ 3,248 | \$ 123,421 |
| Feb-08 | \$ 123,421 | \$ 3,248 | \$ 120,173 |
| Mar-08 | \$ 120,173 | \$ 3,248 | \$ 116,925 |
| Apr-08 | \$ 116,925 | \$ 3,248 | \$ 113,677 |
| May-08 | \$ 113,677 | \$ 3,248 | \$ 110,429 |
| Jun-08 | \$ 110,429 | \$ 3,248 | \$ 107,181 |
| Jul-08 | \$ 107,181 | \$ 3,248 | \$ 103,933 |
| Aug-08 | \$ 103,933 | \$ 3,248 | \$ 100,685 |
| Sep-08 | \$ 100,685 | \$ 3,248 | \$ 97,438 |
| Oct-08 | \$ 97,438 | \$ 3,248 | \$ 94,190 |
| Nov-08 | \$ 94,190 | \$ 3,248 | \$ 90,942 |
| Dec-08 | \$ 90,942 | \$ 3,248 | \$ 87,694 |
| | | 13 MONTH AVERAGE | |
| | | \$ 107,181 | |

SANLANDO UTILITIES CORP
 WORKING CAPITAL
 TEST YEAR ENDED DECEMBER 31, 2008

| | | Per Staff | | Per Utility | | Difference | | |
|--|---|----------------|----------------|----------------|----------------|----------------|--------------|--------------|
| | | 13 | | | | | | |
| | | MONTH | Water | Wastewater | Water | Wastewater | Water | Wastewater |
| <u>Current & Accrued Assets</u> | | | | | | | | |
| Cash | A | 14,362 | 6,764 | 7,598 | 6,764 | 7,598 | (0) | (0) |
| Accounts Rec'b - trade | A | 831,186 | 391,459 | 439,726 | 391,459 | 439,726 | 0 | 0 |
| Allowance for Bad Debts | A | - | - | - | - | - | - | - |
| Materials & Supplies | B | 12,636 | 6,143 | 6,493 | 6,143 | 6,493 | 0 | 0 |
| Miscellaneous Current & Accrued Assets | C | 34,045 | 19,163 | 14,882 | 19,163 | 14,881 | 0 | 0 |
| Unamortized Rate Case Exp | C | 107,181 | 60,330 | 46,852 | 99,928 | 77,603 | (39,598) | (30,751) |
| <u>Current & Accrued Liabilities</u> | | | | | | | | |
| Accounts Payable | C | (100,164) | (56,380) | (43,784) | (55,834) | (43,360) | (546) | (424) |
| Customer Deposits | C | - | - | - | (48,840) | (37,929) | 48,840 | 37,929 |
| Accrued Taxes | C | (212,683) | (119,714) | (92,969) | (119,714) | (92,969) | 0 | 0 |
| Accrued Interest | C | - | - | - | 1,500 | 1,165 | (1,500) | (1,165) |
| Misc. Current and Accrued Liabilities | C | (1,208) | (680) | (528) | (734) | (570) | 54 | 42 |
| Total | | 685,355 | 307,085 | 378,270 | 299,834 | 372,639 | 7,251 | 5,631 |

A- Allocated based on revenues

| | |
|----|----------------|
| W | 47.10% |
| WW | 52.90% |
| | <u>100.00%</u> |

B- Allocated based on gross plant

| | |
|----|----------------|
| W | 48.61% |
| WW | 51.39% |
| | <u>100.00%</u> |

C- Allocated based on ERC

| | |
|----|----------------|
| W | 56.29% |
| WW | 43.71% |
| | <u>100.00%</u> |

EFFECT ON GENERAL LEDGER: There is no effect on the general ledger.

EFFECT ON FILING: Working Capital Allowance will increase by \$7,251 for water and \$5,631 for wastewater. Unamortized rate case expense will need to be recalculated at the end of the proceeding.

AUDIT FINDING NO. 10

SUBJECT: EQUITY RATE

AUDIT ANALYSIS: Commission Order PSC-09-0430-PAA-WS, established a formula to calculate equity rates for water and wastewater utilities. Using the formula in the order, the equity rate should be 11.17%. $(8.58\% + 1.087/4192)$ The utility filing includes equity at 11.24%.

EFFECT ON THE LEDGER: Equity rates are only calculated for the filing.

EFFECT ON THE FILING: Return on equity should be reduced to 11.17% and the overall return reduced to 8.11%.

AUDIT FINDING NO. 11

SUBJECT: PAYROLL INCREASES

AUDIT ANALYSIS: The utility used 2009 salaries to prepare the filing. It added a 2.25% salary increase for September 2009 of \$29,926 and a 3.5% salary increase for April 2010 of \$47,394, totaling \$77,320. These amounts are included in salary expenses in the filing. Fifty-six percent of these costs were allocated to water (\$43,299) and forty-four percent to wastewater (\$34,021).

EFFECT ON GENERAL LEDGER: This finding is included for informational purposes only.

EFFECT ON THE FILING: This finding is included for informational purposes only.

AUDIT FINDING NO. 12

SUBJECT: EMPLOYEE NOT REPLACED

AUDIT ANALYSIS: Salaries and benefits include a billing specialist who is no longer at the company and will not be replaced. The salary was allocated to Sanlando at 7.3928%. The total salary included was \$4,752 with \$602 in benefits. Fifty-six percent of these costs were allocated to water (\$2,998) and forty-four percent to wastewater (\$2,356).

EFFECT ON THE GENERAL LEDGER: The salaries were calculated for the proforma and therefore, this finding has no effect on the ledger.

EFFECT ON THE FILING: Expenses should be reduced by \$2,998 for water and \$2,356 for wastewater.

AUDIT FINDING NO. 13

SUBJECT: 401K COSTS

AUDIT ANALYSIS: The utility added 4% of total projected salaries to expenses for 401K costs. The actual contributions made to the 401K plan amounted to 2.73% of total Utilities, Inc. salaries. Total salaries projected for Sanlando were \$1,401,506. The amount of 401K included in the filing was \$54,713. The salaries times 2.73% equals \$38,261. The difference between the actual rate contributed and the filing of \$16,452 should be removed from expenses. Fifty-six percent of these costs were allocated to water (\$9,213) and forty-four percent to wastewater (\$7,239).

EFFECT ON THE GENERAL LEDGER: This finding does not effect the ledger since the utility adjusted salaries and benefits for the filing only.

EFFECT ON THE FILING: Expenses should be reduced by \$16,452, \$9,213 for water and \$7,239 for wastewater.

AUDIT FINDING NO. 14

SUBJECT: RATE CASE EXPENSE

AUDIT ANALYSIS: The balance of unamortized rate case expense on the utility's books does not agree with what was required by Commission Order PSC-07-0205-PAA-WS, issued March 7, 2008. As a result, staff computed the unamortized portion of the last rate case expense to be \$87,694. The order stated that \$155,900 should be amortized over four years or \$38,975 a year. Staff began amortization of rate case expense in April, 2007. The utility expensed \$59,611 in the test year. Most of the current unamortized balance will be amortized by the time rates are in effect.

The utility estimates \$236,709 for the current rate case expenses or \$59,177 amortized over four years. However, in making its adjustment to the filing, they did not remove any of the \$59,611 in test year expense.

| | | | | |
|--------------------------|----------------|---|---|----------------------|
| Est Curr RC Exp | | \$236,709.00 | | |
| Amtz Over # Yrs | | 4 | | |
| Annual Exp | | <u>\$59,177.25</u> | | |
| ERC Allocation %: | | Per Staff Adjusted Balance | Per Utility Adjusted Balance | Difference |
| W | 56.29% | \$33,310.87 | \$66,863.00 | (\$33,552.13) |
| WW | 43.71% | \$25,866.38 | \$51,925.00 | (\$26,058.62) |
| Total | <u>100.00%</u> | <u>\$59,177.25</u> | <u>\$118,788.00</u> | <u>(\$59,610.75)</u> |

EFFECT ON THE GENERAL LEDGER: Since rate case amortization expense was adjusted in the filing, there is no effect on the general ledger.

EFFECT ON THE FILING: The rate case expense for water and wastewater should be reduced by \$33,552 and \$26,059, respectively.

AUDIT FINDING NO. 15

SUBJECT: HEADQUARTERS SAMPLES

AUDIT ANALYSIS: A sample of entries charged from the Northbrook Division 102 and the Altamonte Springs Division 855 were selected to be traced to supporting documentation. The utility implemented a new ledger and accounting system this year. They were unable to obtain supporting documentation for many of the entries. In addition, some of the entries should have been capitalized or removed because they would not be re-occurring during the time period the rates would be implemented. A schedule of the entries and the reasons for their removal are on the following page. The allocation rates used in the adjustments to the filing were used.

EFFECT ON THE GENERAL LEDGER: There is no effect since these entries are to expense and they do not get carried forward to future audits.

EFFECT ON THE FILING: Expenses for Sanlando should be reduced by \$75,180 for water and \$58,360 for wastewater.

| ACCOUNT | PAYEE | DATE | DESCRIPTION | ADJ. | SANLANDO WATER ALLOCATION RATE | SANLANDO WASTEW. ALLOCATION RATE | SANLANDO WATER ALLOCATION AMOUNT | SANLANDO WASTEW. ALLOCATION AMOUNT |
|---------------------|--------------------------------|------------|---|--------------|---|---|---|---|
| DIVISION 102 | | | | | | | | |
| 102100.573 | DEC 2008 RECLASS ASSETS | 12/31/2008 | not provided 53 hours at \$155 for Oracle installation -Should be capital project | (149,720.15) | 4.16% | 3.23% | (6,228.36) | (4,835.96) |
| 102100.573 | ASHWOOD COMPUTER CO INC | 3/7/2008 | Phoenix | (8,215.00) | 4.16% | 3.23% | (341.74) | (265.34) |
| 102104.573 | IP SOFT | 5/6/2008 | PO was never vouchered. Remove | (425,475.60) | 4.16% | 3.23% | (17,699.78) | (13,742.86) |
| 102100.574 | WRO - MICROSOFT LISC | 12/31/2008 | not provided | (139,400.56) | 4.16% | 3.23% | (5,799.06) | (4,502.64) |
| 102100.574 | 002*AP.INVD*03*75 | 11/30/2008 | not provided | (4,418.82) | 4.16% | 3.23% | (183.82) | (142.73) |
| 102100.574 | 002*AP.INVD*03*75 | 9/30/2008 | not provided | (4,418.82) | 4.16% | 3.23% | (183.82) | (142.73) |
| 102100.574 | Summarized Depreciation Transa | 5/31/2008 | not provided Deployment solutions foundations training aug. 4-8 Not | (8,964.95) | 4.16% | 3.23% | (372.94) | (289.57) |
| 102104.582 | ARLINGTON COMPUTER PRODUCTS | 7/28/2008 | Recurring | (2,395.00) | 4.16% | 3.23% | (99.63) | (77.36) |
| 102101.600 | FINANCE STUDY 08/08 | 9/21/2008 | not provided | (3,750.00) | 4.16% | 3.23% | (156.00) | (121.13) |
| 102100.601 | WSC SE6.A WSC WORKPAPERS | 11/30/2008 | not provided | (42,541.65) | 4.16% | 3.23% | (1,769.73) | (1,374.10) |
| 102100.601 | PRICEWATERHOUSECOOPERS LLP | 6/17/2008 | 2007 audit of Utilities Inc. of Georgia. Should be charged directly | (18,500.00) | 4.16% | 3.23% | (769.60) | (597.55) |
| 102100.601 | MV PREPAID TO EXP | 11/30/2008 | not provided | (125,857.00) | 4.16% | 3.23% | (5,235.65) | (4,065.18) |
| 102100.602 | ACCRUE 2008 LEGAL FEES | 12/31/2008 | not provided Consent orders Mid County and Labrador. Should be charged | (7,273.41) | 4.16% | 3.23% | (302.57) | (234.93) |
| 102106.602 | SQUIRE, SANDERS & DEMPSEY LLP | 8/20/2008 | directly Consent orders Mid County and Labrador. Should be charged | (2,890.78) | 4.16% | 3.23% | (120.26) | (93.37) |
| 102106.602 | LAW OFFICE OF DAVID BEERS P.A. | 8/20/2008 | directly Consent orders Mid County and Labrador. Should be charged | (1,330.64) | 4.16% | 3.23% | (55.35) | (42.98) |
| 102106.602 | SQUIRE, SANDERS & DEMPSEY LLP | 8/20/2008 | directly Consent orders Mid County and Labrador. Should be charged | (6,068.50) | 4.16% | 3.23% | (252.45) | (196.01) |
| 102106.602 | SQUIRE, SANDERS & DEMPSEY LLP | 3/18/2008 | directly Consultant fee final implementation project Phoenix Should be | (2,271.83) | 4.16% | 3.23% | (94.51) | (73.38) |
| 102100.605 | DELGADO, DANIEL | 4/4/2008 | capital. Assistance on PWC audit before hired full time. -since salary is | (5,000.00) | 4.16% | 3.23% | (208.00) | (161.50) |
| 102100.605 | Haynes Jr, John S | 1/17/2008 | annualized, non-recurring Assistance on PWC audit before hired full time. -since salary is | (7,200.00) | 4.16% | 3.23% | (299.52) | (232.56) |
| 102101.605 | Haynes Jr, John S | 5/2/2008 | annualized, non-recurring Financial model services through Jan. 08. Developed a model that | (11,700.00) | 4.16% | 3.23% | (486.72) | (377.91) |
| 102101.605 | MALCOLM PIRNIE, INC | 3/25/2008 | helps in strategic planning and forecasting Not Recurring per co. | (49,956.21) | 4.16% | 3.23% | (2,078.18) | (1,613.59) |
| 102102.607 | HUNTON & WILLIAMS | 12/31/2008 | Carolina Water Service General Rep. Should be charged directly. | (4,724.91) | 4.16% | 3.23% | (196.56) | (152.61) |

| ACCOUNT | PAYEE | DATE | DESCRIPTION | ADJ. | SANLANDO WATER ALLOCATION RATE | SANLANDO WASTEW. ALLOCATION RATE | SANLANDO WATER ALLOCATION AMOUNT | SANLANDO WASTEW. ALLOCATION AMOUNT |
|---------------------|--------------------------|------------|--|-----------------------|---|---|---|---|
| DIVISION 102 | | | | | | | | |
| 102100.618 | CITICARD PAYMENTS 09/1 | 11/30/2008 | not provided | (8,282.58) | 4.16% | 3.23% | (344.56) | (267.53) |
| 102100.619 | Schumacher, Lawrence N | 3/7/2008 | Two coach air tickets from Chicago to New York-for CEO and wife for meeting with Highstar. Remove wife's ticket. | (1,235.00) | 4.16% | 3.23% | (51.38) | (39.89) |
| 102100.635 | FINDERS FEE-SLOBODAN | 12/31/2008 | Amortization of finders fee of 61,200 over 1 year. Did not provide invoice-Don't know who for? | (5,111.94) | 4.16% | 3.23% | (212.66) | (165.12) |
| 102100.635 | FINDERS FEE-SLOBODAN | 11/30/2008 | Amortization of finders fee of 61,200 over 1 year. Did not provide invoice-Don't know who for? | (5,111.95) | 4.16% | 3.23% | (212.66) | (165.12) |
| 102100.635 | RELOCATION | 10/31/2008 | Asked for more info 11/24/09-Never Received | (25,000.00) | 4.16% | 3.23% | (1,040.00) | (807.50) |
| 102100.635 | RELOCATION-J.HOY / J.JOI | 10/31/2008 | Asked for more info 11/24/09-Never Received | (5,253.56) | 4.16% | 3.23% | (218.55) | (169.69) |
| 102100.635 | RELOCATION-J.HOY / J.JOI | 7/31/2008 | Asked for more info 11/24/09-Never Received | (5,253.56) | 4.16% | 3.23% | (218.55) | (169.69) |
| 102100.635 | FINDERS FEE-T.ISAACS/ O. | 6/30/2008 | Asked for more info 11/24/09-Never Received | (19,472.00) | 4.16% | 3.23% | (810.04) | (628.95) |
| 102100.635 | JUNE DEFERRED ASSET W | 6/30/2008 | Asked for more info 11/24/09-Never Received | (12,062.27) | 4.16% | 3.23% | (501.79) | (389.61) |
| 102100.635 | WSC DEFERRED EMPLOYM | 6/30/2008 | Asked for more info 11/24/09-Never Received | (54,980.00) | 4.16% | 3.23% | (2,287.17) | (1,775.85) |
| 102100.635 | WSC DEFERRED EMPLOYM | 6/30/2008 | Asked for more info 11/24/09-Never Received | (19,500.00) | 4.16% | 3.23% | (811.20) | (629.85) |
| 102100.635 | RELOCATION-J.HOY / J.JOI | 6/30/2008 | Asked for more info 11/24/09-Never Received | (42,063.06) | 4.16% | 3.23% | (1,749.82) | (1,358.64) |
| 102100.635 | JUNE REVERSE WSC DEFE | 6/30/2008 | Asked for more info 11/24/09-Never Received | 36,094.33 | 4.16% | 3.23% | 1,501.52 | 1,165.85 |
| 102100.635 | WSC DEFERRED EMPLOYM | 6/30/2008 | Asked for more info 11/24/09-Never Received | (60,244.00) | 4.16% | 3.23% | (2,506.15) | (1,945.88) |
| 102100.638 | SYLVESTER ASSOCIATES | 10/2/2008 | no invoice provided | (4,400.00) | 4.16% | 3.23% | (183.04) | (142.12) |
| 102100.658 | WATER PLANT-CONVERTI | 6/30/2008 | Asked what this was for? | (3,394.63) | 4.16% | 3.23% | (141.22) | (109.65) |
| | | | | <u>(1,267,344.05)</u> | | | <u>(52,721.51)</u> | <u>(40,935.21)</u> |
| DIVISION 855 | | | | | | | | |
| 855100.588 | TRICOMM BUSINESS PROJ | 11/20/2008 | not provided | (1,279.07) | 12.58% | 9.76% | (160.91) | (124.84) |
| 855100.590 | SE90 BU 252109 SEPT RECI | 9/30/2008 | not provided | (2,546.85) | 12.58% | 9.76% | (320.39) | (248.57) |
| 855100.590 | SE 90 BU 252109 JUNE REC | 6/30/2008 | not provided | (10,384.50) | 12.58% | 9.76% | (1,306.37) | (1,013.53) |
| 855100.594 | SE 90 BU 252109 YTD REC | 12/31/2008 | not provided | (17,047.87) | 12.58% | 9.76% | (2,144.62) | (1,663.87) |
| 855100.594 | SE 90 BU 252109 JUNE REC | 6/30/2008 | not provided | (124,749.67) | 12.58% | 9.76% | (15,693.51) | (12,175.57) |
| 855100.596 | SE 90 BU 252104 JUNE REC | 6/30/2008 | not provided | (3,436.39) | 12.58% | 9.76% | (432.30) | (335.39) |
| 855100.597 | SE 90 BU 252104 JUNE REC | 6/30/2008 | not provided | (7,050.00) | 12.58% | 9.76% | (886.89) | (688.08) |
| 855100.636 | SE 90 BU 252104 OCT RECI | 10/31/2008 | not provided | (9,360.87) | 16.17% | 12.55% | (1,513.65) | (1,174.79) |
| | | | | <u>(175,855.22)</u> | | | <u>(22,458.64)</u> | <u>(17,424.64)</u> |
| | | | | | | | <u>(75,180.15)</u> | <u>(58,359.85)</u> |

AUDIT FINDING NO. 16

SUBJECT: POSSIBLE DEFERRED MAINTENANCE

AUDIT ANALYSIS: The following expenses appear to extend the life of the plant. The staff engineer should review these costs to determine if they should be deferred or capitalized.

SAN LINDO UTILITIES INC
OPERATING AND MAINTENANCE EXPENSES
TEST YEAR ENDED DECEMBER 31, 2008

| NARUC | UTILITY ACCOUNT | TRANSACTION DESCRIPTION | DOC | AMOUNT | DETAIL | REASON |
|--------------|-----------------|--------------------------|-------|-----------|--|---------------|
| 720 | 255101 6325 | B & B STEEL ERECTORS INC | 13100 | \$ 4,500 | Emergency Repair and Replacement of Drive Unit on Clarifier | Prolongs life |
| 720 | 255101 6325 | B & B STEEL ERECTORS INC | 14513 | \$ 4,800 | Furnish and install stiffener plate on outside of surge tank - top steel plate under the bridge and inlet box was rusted | Prolongs life |
| 720 | 255101 6325 | SUNSHINE BUILDING AND | 26758 | \$ 2,950 | Furnish materials to repair leak in 20" air line at the Wicksia plant | Prolongs life |
| 635/735 | 255103 6260 | HACH CHEMICAL CO | 16947 | \$ 587 | Replaced circuit board, interference filter, installed new maintenance kit, cleaned and checked for proper operation | Prolongs life |
| 620/720 | 255103 6290 | HUNTINGTON COMPANY, THE | 1523 | \$ 3,260 | Power wash all rust on the ceiling of the chlorine room wire brush all bad sections/ mounts that hold ceiling in place/ paint the entire ceiling in black por-15 rust inhibitor paint - roof improvement and drainage system to stop damage from a leaky HVAC system, install new ceiling tile, replaced the rotten plywood on the outside of the building, repaired the fallen soffit at the pump house, Replace the photo cell on the light fixture on the outside of the building to repair the second bad photo cell | Prolongs life |
| 675/775 | 255103 6325 | HUNTINGTON COMPANY, THE | 25004 | \$ 1,463 | | Prolongs life |
| TOTAL | | | | \$ | 17,560 | |

EFFECT ON THE LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: If the engineer decides that these amounts should be deferred, expenses will be reduced.

AUDIT FINDING NO. 17

SUBJECT: OPERATING AND MAINTENANCE SAMPLE

AUDIT ANALYSIS: A sample of operating and maintenance entries booked was selected for testing. The following entries were not provided by the company, recorded in the wrong period, or related to an associated company and therefore should be removed.

| UTILITY NARU | ACCOUNT | TRANSACTION DESCRIPTION | AMOUNT | WATER | WATER | DETAIL | REASON |
|-----------------|-------------|----------------------------|---------------|--------------|---------------|--|----------------------|
| 633 | 255103.6025 | ROSE,SUNDSTROM & BEN | 290 | 290 | | Review and respond to correspondence regarding dismissal | Insufficient Support |
| 675 | 255100.5945 | EMBARQ | 334 | 334 | | Telephone bill for 407-830-1565 | Unsupported |
| 675 | 255100.5960 | C & A SYSTEMS INC | 1,745 | 1,745 | | Installed security system at 144 Ledbury | Not -reoccurring |
| 675 | 255100.5960 | C & A SYSTEMS INC | 1,200 | 1,200 | | Installed security system at Des Pinar 125 Western Fork Rd. | Not -reoccurring |
| 675 | 255100.6310 | L & J SIGNS & AWNINGS 2 | 975 | 975 | | Design, manufacture and install new well sign with U1 logo. Total invoice \$1,950. This is a partial payment. Wekiva plant | Capital Project |
| 711 | 255101.6410 | SHELLEY'S SEPTIC TANKS | 9,873 | | 9,873 | | PO never paid |
| 711 | 255101.6410 | SHELLEY'S SEPTIC TANKS | 9,354 | | 9,354 | | PO never paid |
| 711 | 255101.6410 | SHELLEY'S SEPTIC TANKS | 6,755 | | 6,755 | | PO never paid |
| | | | <u>25,982</u> | <u>0</u> | <u>25,982</u> | | |
| 720 | 255102.6320 | ICI DULUX PAINT CENTER | 356 | | 356 | Black Raspberry ALKYD IND GL EN | Use Unsupported |
| 720 | 255102.6325 | THOMPSON ELECTRIC CO | 2,200 | | 2,200 | PASTEL TNTBSE - two -Sgal | Not Provided |
| | | | <u>2,556</u> | <u>0</u> | <u>2,556</u> | | |
| 775 | 255101.5980 | PROGRESS ENERGY | 785 | | 785 | Conversion of overhead to underground service at Markham Woods Rd. C-9 | Not -reoccurring |
| 620/720 | 255103.6285 | MAINLINE SUPPLY COMP. | 488 | 275 | 213 | | Not Provided |
| 633/733 | 255103.6025 | ROSE,SUNDSTROM & BEN | 3,594 | 2,023 | 1,571 | Legal fees to review case law, prepare for and attend hearing and draft letter on Wekiva Landing Utility | Insufficient Support |
| 675/775 | 255103.5900 | XM SATELLITE RADIO INC | 166 | 93 | 72 | | Unsupported |
| 675/775 | 255103.6310 | SUNBELT RENTALS INC | 223 | 125 | 97 | | Use Unsupported |
| | | | <u>389</u> | <u>219</u> | <u>170</u> | | |
| TOTAL | | | <u>38,337</u> | <u>7,060</u> | <u>31,277</u> | | |

EFFECT ON GENERAL LEDGER: The following entries should be made to the general ledger:

**SANLANDO UTILITIES INC
 OPERATING AND MAINTENANCE EXPENSES
 TEST YEAR ENDED DECEMBER 31, 2008**

| NARUC | | DEBIT | CREDIT |
|--------------|-------------------------|------------------|------------------|
| 633 | CONTRACT SERVICES LEGAL | | \$ 290 |
| 675 | MISC. EXPENSE | | \$ 4,254 |
| 711 | SLUDGE HAULING | | \$ 25,982 |
| 720 | MATERIALS AND SUPPLIES | | \$ 2,556 |
| 775 | MISC. EXPENSE | | \$ 785 |
| 620/720 | MATERIALS AND SUPPLIES | | \$ 488 |
| 633/733 | CONTRACT SERVICES LEGAL | | \$ 3,594 |
| 675/775 | MISC. EXPENSE | | \$ 389 |
| 390 | OFFICE STRUCTURES | \$ 975 | |
| 215 | RETAINED EARNINGS | \$ 37,363 | |
| | | <u>\$ 38,338</u> | <u>\$ 38,338</u> |

EFFECT ON FILING: Operating and maintenance expenses should be reduced by a total of \$38,338. Average water plant should be increased by \$ 150 (\$975 * 2 months divided by 13).

AUDIT FINDING NO. 18

SUBJECT: REAL ESTATE AND PERSONAL PROPERTY TAXES

AUDIT ANALYSIS: The per books test year amount on Schedule B-15 of \$175,474 for water and \$136,269 for wastewater agrees to the company's general ledger amount of \$311,743. However, the general ledger includes a negative balance of \$30,976.91 in account 7550 – Property Other General Tax. This appears to be a tax accrual. The remainder of the general ledger accounts 7545 – Personal Property Tax and 7555 – Real Estate Tax show a balance of \$280,273.05 and \$58,200.22, respectively. These two accounts total \$338,473.27 which agrees with the Personal and Real Estate Property tax bills.

EFFECT ON THE GENERAL LEDGER: None

EFFECT ON THE FILING: Because we could not determine the reason for the credit, this amount should be investigated further. The amount is allocated 56% or \$17,347.07 to water and 44% or \$13,629.84 to wastewater. The allocation is based on the test year per books amounts reflected on Schedule B-15.

AUDIT FINDING NO. 19

SUBJECT: GENERAL EXPENSE ALLOCATIONS TO REAL ESTATE AND PERSONAL PROPERTY TAX

AUDIT ANALYSIS: The utility has included an adjustment of \$3,702 for water and \$2,875 for wastewater on Schedule B-15 related to a General Expense Allocation from Headquarters.

The utility also included an adjustment of \$4,882 for water and \$12,945 for wastewater to increase the Ad Valorem Tax. The adjustment for the Advalorem Tax should only be \$1,180 for water and \$10,070 for wastewater. The adjustment the utility made for the Ad Valorem Tax includes the adjustment for the General Expense Allocation, therefore, including this adjustment twice.

| Adjustment per B-3 | <u>WATER</u> | <u>WASTEWATER</u> |
|---|----------------|-------------------|
| General Expense Allocations from Utilities Inc. | \$3,702 | \$2,875 |
| Ad Valorem Tax | <u>\$1,180</u> | <u>\$10,070</u> |
| | <u>\$4,882</u> | <u>\$12,945</u> |

EFFECT ON GENERAL LEDGER: None.

EFFECT ON FILING: Taxes other than income taxes should be decreased by \$3,702 for water and \$2,875 for wastewater.

AUDIT FINDING NO. 20**SUBJECT: REGULATORY ASSESSMENT FEE**

AUDIT ANALYSIS: The per books test year amount on Schedule B-15 of \$146,881 for water and \$165,934 for wastewater agrees to the utility's general ledger amount of \$312,815 in Account 7540 – Regulatory Assessment Fee. This represents the payments for the second six months of 2007 and the first six months of 2008, it also represents a journal entry that may be related to a true up and two regulatory assessment fee payments for a prior year revenue difference. The actual payments related to the 2008 filings total \$137,371 for water and \$155,193 for wastewater or a total of \$292,564. The difference represents an overstatement of \$20,251.

| | <u>WATER</u> | <u>WASTEWATER</u> | |
|--|--------------|-------------------|-----------------------------|
| Regulatory Assessment Fee per 2008 Filings | \$137,371.00 | \$155,193.00 | \$292,564.00 |
| Regulatory Assessment Fee per Account 7540 | | | <u>\$312,815.00</u> |
| Overstatement | | | <u>(\$20,251.00)</u> |
| Overstatement Detail | | | |
| Remove - | | | |
| Journal Entry in 11/17/08 - true up accrual | | | (\$13,359.00) |
| FPSC payment for additional 2007 revenues - water | | | (\$1,455.00) |
| FPSC payment for additional 2007 revenues - wastewater | | | (\$542.00) |
| Remove - | | | |
| Payment for second six months of 2007 - water | | | (\$74,868.72) |
| - wastewater | | | (\$77,770.02) |
| Add - | | | |
| Payment for second six months of 2008 - water | | | \$71,691.00 |
| - wastewater | | | <u>\$76,053.00</u> |
| Total Difference - Overstatement in account | | | <u>(\$20,250.74)</u> |

A proforma for the regulatory assessment fee was made by the utility for the increase in revenues only, not for the total requested revenues. Therefore, this adjustment was not fixed when the proforma was made.

EFFECT ON GENERAL LEDGER: None.

EFFECT ON THE FILING: Taxes other than income taxes should be decreased by \$9,510 for water and by \$10,741 for wastewater. The allocation to water and wastewater is based on the test year per book amounts reflected on Schedule B-15, 47% to water and 53% to wastewater. The utility did not include the proforma rate case expense in the unamortized balance included in working capital.

EXHIBITS

Schedule of Water Rate Base

Florida Public Service Commission

Company: Sanlando Utilities Corp.

Schedule: A-1

Docket No.: 090402-W5

Page 1 of 1

Schedule Year Ended: December 31, 2008

Preparer: Kirsten Weeks

Interim Final

Historic Projected

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

| Line No. | (1) Description | (2) Average Amount Per Books | (3) A-3 Utility Adjustments | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| 1 | Utility Plant in Service | \$ 19,643,029 | \$ (490,836) (A) | \$ 19,152,193 | A-3, A-5 |
| 2 | | | | | |
| 3 | Utility Land & Land Rights | 130,342 | (33,628) (A) | 96,714 | A-3, A-5 |
| 4 | | | | | |
| 5 | Less: Non-Used & Useful Plant | | | - | A-7 |
| 6 | | | | | |
| 7 | Construction Work in Progress | 3,021,010 | (3,021,010) (B) | - | A-3 |
| 8 | | | | | |
| 9 | Less: Accumulated Depreciation | (10,099,856) | 137,467 (C) | (9,962,389) | A-3, A-9 |
| 10 | | | | | |
| 11 | Less: CIAC | (11,951,929) | 582,948 (D) | (11,368,981) | A-12 |
| 12 | | | | | |
| 13 | Accumulated Amortization of CIAC | 8,287,105 | (144,788) (E) | 8,142,317 | A-14 |
| 14 | | | | | |
| 15 | Acquisition Adjustments | | | | - |
| 16 | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | | | | - |
| 18 | | | | | |
| 19 | Advances For Construction | | | | A-16 |
| 20 | | | | | |
| 21 | Working Capital Allowance | | 299,835 (F) | 299,835 | A-17 |
| 22 | | | | | |
| 23 | Total Rate Base | <u>\$ 9,029,701</u> | <u>\$ (2,670,013)</u> | <u>\$ 6,359,688</u> | |

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Sanlando Utilities Corp.
 Docket No.: 090402-WS
 Schedule Year Ended: December 31, 2008
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-2
 Page 1 of 1
 Preparer: Kirsten Weeks

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

| Line No. | (1) Description | (2) Average Amount Per Books | (3) A-3 Utility Adjustments | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| 1 | Utility Plant in Service | \$ 24,962,220 | \$ 2,238,414 (A) | \$ 27,200,634 | A-3, A-6 |
| 2 | | | | | |
| 3 | Utility Land & Land Rights | 203,378 | 6,675 (A) | 210,053 | A-3, A-6 |
| 4 | | | | | |
| 5 | Less: Non-Used & Useful Plant | - | - | - | A-7 |
| 6 | | | | | |
| 7 | Construction Work in Progress | 32,289 | (32,289) (B) | - | A-3 |
| 8 | | | | | |
| 9 | Less: Accumulated Depreciation | (11,968,283) | (484,909) (C) | (12,453,192) | A-3, A-10 |
| 10 | | | | | |
| 11 | Less: CIAC | (13,236,312) | 698,756 (D) | (12,537,556) | A-12 |
| 12 | | | | | |
| 13 | Accumulated Amortization of CIAC | 9,263,728 | 10,206 (E) | 9,273,934 | A-14 |
| 14 | | | | | |
| 15 | Acquisition Adjustments | | | | - |
| 16 | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | | | | - |
| 18 | | | | | |
| 19 | Advances For Construction | | | | A-16 |
| 20 | | | | | |
| 21 | Working Capital Allowance | - | 372,639 (F) | 372,639 | A-17 |
| 22 | | | | | |
| 23 | Total Rate Base | \$ 9,257,020 | \$ 2,809,492 | \$ 12,066,512 | |

Schedule of Requested Cost of Capital
13 Month Average Balance

Florida Public Service Commission

Company: Sanlando Utilities Corp.
Docket No.: 090402-WS
Test Year Ended: December 31, 2008
Interim Final
Historical Projected

Schedule D-1
Page 1 of 1

Preparer: Dan Ciecierski

Explanation: Provide a schedule which calculates the requested cost of capital on a simple 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 Requested Rate Base AYE 12/31/08 | Ratio | Cost Rate | Weighted Cost |
| 1 | Long Term Debt | | \$8,542,907 | 46.36% | 6.65% | 3.08% |
| 2 | Short Term Debt | | 1,885,257 | 10.23% | 4.30% | 0.44% |
| 3 | Preferred Stock | | - | 0.00% | 0.00% | 0.00% |
| 4 | Common Equity | | 7,526,664 | 40.85% | 11.24% | 4.59% |
| 5 | Customer Deposits | | 86,777 | 0.47% | 6.00% | 0.03% |
| 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 | | 384,596 | 2.09% | 0.00% | 0.00% |
| 9 | Other (Explain) | | - | 0.00% | 0.00% | 0.00% |
| 10 | | | | | | |
| 11 | Total | | <u>\$18,426,201</u> | <u>100.00%</u> | | <u>8.14%</u> |

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-090006-WS.

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

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

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Sanlando Utilities Corp.
 Docket No.: 090402-WS
 Test Year Ended: December 31, 2008
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: B-1
 Page 1 of 1
 Preparer: Kirstan Weeks

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

| Line No. | (1) Description | (2) Balance Per Books | (3) Utility Test Year Adjustments | (4) Utility Adjusted Test Year | (5) Requested Revenue Adjustment | (6) Requested Annual Revenues | (7) Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1 | OPERATING REVENUES | \$ 3,061,746 | \$ 111,977 (A) | \$ 3,173,723 | \$ 460,784 (A) | \$ 3,634,507 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 2,195,615 | (118,099) (B) | 2,077,516 | (B) | 2,077,516 | B-5, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 424,469 | (96,931) (C) | 327,537 | (C) | 327,537 | B-13, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | - | - | - | - | - | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 396,002 | 2,384 (D) | 398,385 | 20,735 (D) | 419,120 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | (37,428) | 164,492 (E) | 127,064 | 165,591 (E) | 292,655 | C-1, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 2,978,657 | (48,155) | 2,930,503 | 186,326 | 3,116,829 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | \$ 83,088 | \$ 160,132 | \$ 243,220 | \$ 274,458 | \$ 517,679 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | \$ 9,029,701 | \$ (2,670,013) | \$ 6,359,688 | | \$ 6,359,688 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | 0.92 % | | 3.82 % | | 8.14% | |

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Sanlando Utilities Corp.
 Docket No.: 090402-WS
 Test Year Ended: December 31, 2008
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: Kirsten Weeks

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

| Line No. | (1) Description | (2) Balance Per Books | (3) Utility Test Year Adjustments | (4) Utility Adjusted Test Year | (5) Requested Revenue Adjustment | (6) Requested Annual Revenues | (7) Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1 | OPERATING REVENUES | \$ 3,439,261 | \$ 123,625 (A) | \$ 3,562,886 | \$ 582,806 (A) | \$ 4,145,692 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 1,965,278 | 118,545 | 2,083,822 | (B) | 2,083,822 | B-6, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 352,743 | 187,608 | 540,351 | (C) | 540,351 | B-14, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | | | | | | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 359,429 | 12,655 (D) | 372,084 | 26,226 (D) | 398,310 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | (28,582) | (39,863) (E) | (68,445) | 209,440 (E) | 140,995 | C-1, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 2,648,868 | 278,945 | 2,927,812 | 235,666 | 3,163,478 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | \$ 790,393 | \$ (155,319) | \$ 635,074 | \$ 347,140 | \$ 982,214 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | \$ 9,257,020 | \$ 2,809,492 | \$ 12,066,512 | | \$ 12,066,512 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | 8.54 % | | 5.25 % | | 8.14% | |