

State of Florida



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Public Service Commission

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

DATE: February 2, 2012
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110257-WS
Company Name: Sanlando Utilities Corporation
Company Code: WS397
Audit Purpose: Rate Case
Audit Control No: 11-315-4-1

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 were confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER - DATE

00681 FEB-2 2012

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Sanlando Utilities, Inc.
Rate Case (PAA)

Twelve Months Ended December 31, 2010

Docket No. 110257-WS
Audit Control No. 11-315-4-1
January 31, 2012

Handwritten signature of Iliana H. Piedra in cursive script.

Iliana H. Piedra
Audit Manager

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Gabriela M. Leon
Audit Staff

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Bety Maitre
Audit Staff

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Yen N. Ngo
Audit Staff

Handwritten signature of Kathy Welch in cursive script.

Kathy Welch
Reviewer

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Purpose

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 dated November 10, 2011. We have applied these procedures to the attached schedules prepared by Sanlando Utilities, Inc. in support of its filing for rate relief in Docket No. 110257-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Utility Information

Sanlando is a Class A utility that provides water and wastewater services in Seminole County, Florida. In the 2010 test year, the Utility had \$3,516,995 in water revenue and \$3,456,533 in wastewater revenue. The term "Company" refers to Utilities, Inc., the parent of Sanlando Utilities Inc. (Utility).

Regulatory Proceedings

The Utility has filed a rate case with the test year ended December 31, 2010. The Utility's last rate case order PSC-10-0423-PAA-WS was issued July 1, 2010 in Docket No. 090402-WS.

Utility Books and Records

Objectives: To determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's accounting systems. The Utility does not use NARUC account numbers in its ledgers but maintains a conversion table and converts its filings into NARUC accounts.

Rate Base

Objectives: Our objective was to determine that the Utility's adjustments to rate base were correct and supported by adequate audit evidence.

Procedures: We obtained supporting documentation for the adjustments to rate base and verified the assumptions used.

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine that property exists and is owned by the Utility and that plant additions are authentic, recorded at cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of plant were made when a replacement item was put in service, and 3) Verify that the adjustments to plant in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the water and wastewater plant balances as of December 31, 2008 that were established in Docket 090402-WS. We reviewed and sampled additions to plant for the period January 1, 2009 through December 31, 2010, to verify the plant balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the Utility plant site to observe whether plant additions were completed and in service, and to ascertain if a retirement was needed.

Land & Land Rights

Objectives: Our objectives were to: 1) Determine that Utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the land balances as of December 31, 2008 that were established in Docket 090402-WS. No land was added since the last rate case.

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

Objectives: Our objectives were to: 1) Determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in the general ledger, and 4) Verify that retirements are properly recorded.

Procedures: We determined the CIAC balances as of December 31, 2008 that were established in Docket 090402-WS. We reviewed and sampled additions to CIAC for the period January 1, 2009 through December 31, 2010, to verify the Utility's CIAC balances for this rate case proceeding. We reviewed the Income Tax returns for unrecorded cash and property contributions.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We determined the accumulated depreciation balances as of December 31, 2008 that were established in Docket 090402-WS. We reviewed and sampled additions to accumulated depreciation balances for the period January 1, 2009 through December 31, 2010, to verify the Utility's accumulated depreciation balances for this proceeding. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We determined the accumulated amortization of CIAC balances as of December 31, 2008 that was established in Docket 090402-WS. We reviewed and sampled additions to accumulated amortization of CIAC for the period January 1, 2009 through December 31, 2010, to verify the Utility's accumulated amortization of CIAC balances for this proceeding.

Working Capital

Objectives: Our objective was to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We verified the Utility's calculation of working capital balances as of December 31, 2010, using the formula method and traced the components to the general ledger.

Net Operating Income

Operating Revenue

Objectives: Our objective was to determine that Utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We verified the Utility's revenues for the 12-month period ending December 31, 2010, by tracing them to the Utility's general ledger and billing register system. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with NARUC USOA and Commission rules and are representative of ongoing utility operations.

Procedures: We verified water and wastewater operating and maintenance expenses for the 12-month period ending December 31, 2010, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature.

We reviewed related party allocations from Utilities, Inc. for payroll and services provided from its headquarters in Northbrook, Illinois, its regional operations, and its Altamonte Springs, Florida office.

Taxes Other than Income

Objectives: Our objective was to determine that taxes other than income expenses are properly recorded in compliance with Commission rules and are reasonable for ongoing Utility operations.

Procedures: We verified water and wastewater taxes other than income tax expenses for the 12-month period ending December 31, 2010, by tracing invoiced taxes to original source documentation. We reviewed the 2010 regulatory assessment fee returns and no exceptions were noted.

Depreciation and CIAC Amortization Expense

Objectives: Our objectives were to verify that depreciation and amortization of CIAC expense accruals are calculated using the Commission's authorized rates.

Procedures: We recalculated depreciation and amortization of CIAC expense using the rates in Commission Rule 25-30.140, F.A.C.

Capital Structure

Objectives: Our objective was to determine that the components of the Utility's capital structure are properly recorded and the respective cost rates used to arrive at the overall weighted cost of capital are properly presented in compliance with Commission requirements.

Procedures: We reviewed the cost of capital components allocated from Utilities, Inc. headquarters in Northbrook, Illinois. Customer deposits and deferred taxes were reconciled to the general ledger.

Audit Findings

Finding 1: Depreciation Restatement

Audit Analysis: The Utility made several adjustments to plant and accumulated depreciation in its Depreciation Restatement. The Depreciation Restatement was prepared by the Utility to recalculate depreciation expense based on plant that was adjusted for Commission ordered adjustments and using the correct depreciation rates. The filing was adjusted for this restatement in the Adjustments to Rate Base and the Adjustments to Net Operating Income. However, these adjustments were not booked. If the ledger is not adjusted these differences will be carried forward. Therefore, the adjustment should be booked. The ledger at December 31, 2010, excluding allocations, was compared to the Depreciation Restatement to determine the adjustments that need to be made.

Effect on the General Ledger: As of December 31, 2010, the entry on the following page should be made to the books.

Effect on the Filing: There is no effect on the filing.

Entry to Correct Ledger for Restatement

Co. Acct.	NARUC	Account Description	Debit (Credit)
1055	304.3	Structures & Improvements - Water Treatment	\$ (122,370.75)
1065	304.5	Structures & Improvements - Water General	\$ (14,591.31)
1080	307.2	Wells & Springs	\$ 9,254.56
1100	311.2	Pumping Equipment Electric - Source of Supply	\$ 82,419.54
1105	311.3	Pumping Equipment Electric - Water Treatment	\$ 20,831.32
1110	311.4	Pumping Equipment Electric - Transmission & Distribution	\$ (82,405.57)
1120	330.4	Distribution Reservoirs & Standpipes	\$ 6,137.00
1135	334.4	Meters	\$ 4,924.26
1295	354.3	Structures & Improvements - Lift Station	\$ 1,434.00
1300	354.4	Structures & Improvements - Wastewater Treatment	\$ 10,993.70
1315	354.7	Structures & Improvements - Wastewater General	\$ (10,993.70)
1345	360.2	Collection Sewers - Force	\$ 11,596.66
1350	361.2	Collection Sewers - Gravity	\$ (29,599.87)
1353	361.2	Manholes	\$ 3,083.90
1360	363.2	Services to Customers	\$ 15,512.76
1380	371.3	Pumping Equipment - Wastewater Pump	\$ 2,001.00
1400	380.4	Treatment & Disposal - Wastewater Treatment	\$ 23,620.00
1440	389.4	Other Miscellaneous Plant - Wastewater Treatment	\$ (480.48)
3720	271	CIAC - Wastewater Plant Modification Fee	\$ (21,337.00)
1835	108	Acc. Dep. Organization - Water	\$ 20.00
1840	108	Acc. Dep. Franchises - Water	\$ 4,623.37
1845	108	Acc. Dep. Structures & Improvements - Source of Supply	\$ 170,863.44
1850	108	Acc. Dep. Structures & Improvements - Water Treatment	\$ (176,382.07)
1860	108	Acc. Dep. Structures & Improvements - Water General	\$ 133,770.65
1875	108	Acc. Dep. Wells & Springs	\$ 1,856.25
1880	108	Acc. Dep. Infiltration Galleries	\$ 1,787.42
1885	108	Acc. Dep. Supply Mains	\$ 1.21
1890	108	Acc. Dep. Power Generation Equipment	\$ (18.36)
1895	108	Acc. Dep. Pumping Equipment Electric - Source of Supply	\$ (343.40)
1900	108	Acc. Dep. Pumping Equipment Electric - Water Treatment	\$ (363.48)
1905	108	Acc. Dep. Pumping Equipment Electric - Transmission & Distribution	\$ (0.04)
1910	108	Acc. Dep. Water Treatment Equipment	\$ 12.72
1915	108	Acc. Dep. Distribution Reservoirs & Standpipes	\$ 1,432.70
1920	108	Acc. Dep. Transmission & Distribution Mains	\$ 11,770.10
1925	108	Acc. Dep. Services	\$ (599.10)
1930	108	Acc. Dep. Meters	\$ (35,556.95)
1935	108	Acc. Dep. Meter Installations	\$ (18.27)
1940	108	Acc. Dep. Hydrants	\$ (67.07)
1945	108	Acc. Dep. Backflow Prevention Devices	\$ (6.30)
1960	108	Acc. Dep. Other Miscellaneous Plant - Water Treatment	\$ (32.87)
1965	108	Acc. Dep. Other Miscellaneous Plant - Transmission & Distribution	\$ (397.27)
1970	108	Acc. Dep. Office Structures & Improvements	\$ (6.57)
1975	108	Acc. Dep. Office Furniture & Equipment	\$ 503.51
1985	108	Acc. Dep. Tools, Shop, & Garage Equipment	\$ 1,774.90
1990	108	Acc. Dep. Laboratory Equipment	\$ (3,073.69)
1995	108	Acc. Dep. Power Operated Equipment	\$ (106.92)
2000	108	Acc. Dep. Communication Equipment	\$ 4,661.98
2005	108	Acc. Dep. Miscellaneous Equipment	\$ (3,070.22)
2030	108	Acc. Dep. Other Tangible Plant - Water	\$ (82.21)
2040	108	Acc. Dep. Franchises - Wastewater	\$ 4,237.24
2050	108	Acc. Dep. Structures & Improvements - Collection	\$ (9.76)
2055	108	Acc. Dep. Structures & Improvements - Lift Station	\$ (5,548.70)
2060	108	Acc. Dep. Structures & Improvements - Wastewater Treatment	\$ (294,558.95)
2075	108	Acc. Dep. Structures & Improvements - Wastewater General	\$ 295,320.92

Entry to Correct Ledger for Restatement Continued

Object #	NARUC	Account Description	Debit (Credit)
2080	108	Acc. Dep. Power Generation Equipment - Collection	\$ 41.62
2090	108	Acc. Dep. Power Generation Equipment - Wastewater Treatment	\$ (52.55)
2105	108	Acc. Dep. Collection Sewers - Force	\$ 13,956.76
2110	108	Acc. Dep. Collection Sewers - Gravity	\$ (1,162.02)
2113	108	Acc. Dep. Manholes	\$ (9,869.29)
2120	108	Acc. Dep. Services to Customers	\$ (10,977.01)
2125	108	Acc. Dep. Flow Measure Devices	\$ (25.66)
2140	108	Acc. Dep. Pumping Equipment - Wastewater Pump	\$ (46.02)
2145	108	Acc. Dep. Pumping Equipment - Reclaimed Water Treatment	\$ (36.46)
2160	108	Acc. Dep. Treatment & Disposal - Wastewater Treatment	\$ (45,059.62)
2190	108	Acc. Dep. Other Miscellaneous Plant - Wastewater Collection	\$ (21.26)
2195	108	Acc. Dep. Other Miscellaneous Plant - Wastewater Pump	\$ (1,072.03)
2200	108	Acc. Dep. Other Miscellaneous Plant - Wastewater Treatment	\$ (463.09)
2205	108	Acc. Dep. Other Miscellaneous Plant - Wastewater Treatment	\$ (56.79)
2220	108	Acc. Dep. Office Furniture & Equipment	\$ 3,735.00
2230	108	Acc. Dep. Tools, Shop, & Garage Equipment	\$ 4,879.31
2235	108	Acc. Dep. Laboratory Equipment	\$ (3.86)
2240	108	Acc. Dep. Power Operated Equipment	\$ (21.63)
2245	108	Acc. Dep. Communication Equipment	\$ 7,822.96
2250	108	Acc. Dep. Miscellaneous Equipment	\$ 18,333.98
2275	108	Acc. Dep. Reuse Meter Installations	\$ (6.48)
2280	108	Acc. Dep. Reuse Distribution Reservoirs	\$ 27.24
2285	108	Acc. Dep. Reuse Transmission & Distribution Mains	\$ 15,505.40
3810	108	Acc. Amt. CIAC - Structures & Improvements - Source of Supply	\$ (2,053.94)
3815	108	Acc. Amt. CIAC - Structures & Improvements - Water Treatment	\$ (316.25)
3840	108	Acc. Amt. CIAC - Wells & Springs	\$ (789.12)
3860	108	Acc. Amt. CIAC - Electric Pump Equipment - Source of Supply	\$ 19,247.58
3865	108	Acc. Amt. CIAC - Electric Pump Equipment - Water Treatment	\$ (21,386.00)
3870	108	Acc. Amt. CIAC - Electric Pump Equipment - Transmission & Distribution	\$ (6,792.00)
3875	108	Acc. Amt. CIAC - Water Treatment Equipment	\$ (24,863.07)
3880	108	Acc. Amt. CIAC - Distribution Reservoirs & Standpipes	\$ 7,645.08
3885	108	Acc. Amt. CIAC - Transmission & Distribution Mains	\$ (84,579.29)
3890	108	Acc. Amt. CIAC - Service Lines	\$ (1,013.31)
3895	108	Acc. Amt. CIAC - Meters	\$ (1,983.71)
3900	108	Acc. Amt. CIAC - Meter Installations	\$ (70.33)
3905	108	Acc. Amt. CIAC - Hydrants	\$ 4,293.38
3975	108	Acc. Amt. CIAC - Other Tangible Plant - Water	\$ (7,914.54)
3980	108	Acc. Amt. CIAC - Water Tap	\$ 2,183.92
3995	108	Acc. Amt. CIAC - Water Reservation of Capacity Fee	\$ 8.34
4000	108	Acc. Amt. CIAC - Water Plant Modification Fee	\$ 40.07
4005	108	Acc. Amt. CIAC - Water Plant Meter Fee	\$ 60.55
4050	108	Acc. Amt. CIAC - Structures & Improvements - Lift Station	\$ 1,588.27
4055	108	Acc. Amt. CIAC - Structures & Improvements - Wastewater Treatment	\$ 206,260.24
4070	108	Acc. Amt. CIAC - Structures & Improvements - Wastewater General	\$ (201,426.74)
4100	108	Acc. Amt. CIAC - Force Mains	\$ (7,749.88)
4105	108	Acc. Amt. CIAC - Gravity Mains	\$ (12,143.37)
4107	108	Acc. Amt. CIAC - Manholes	\$ 11,483.46
4115	108	Acc. Amt. CIAC - Services to Customers	\$ 6,009.83
4155	108	Acc. Amt. CIAC - Treatment & Disposal - Wastewater Treatment	\$ (135,673.66)
4175	108	Acc. Amt. CIAC - Treatment & Disposal - Wastewater Treatment	\$ (708.04)
4265	108	Acc. Amt. CIAC - Wastewater Tap	\$ 909.29
4275	108	Acc. Amt. CIAC - Wastewater Reservation of Capacity Fee	\$ (23.70)
4280	108	Acc. Amt. CIAC - Wastewater Plant Modification Fee	\$ 618.52

Entry to Correct Ledger for Restatement Continued

Co. Acct.	NARUC	Account Description	Debit (Credit)
6445	403	Dep. Exp. Organization - Water	\$ (12.00)
6450	403	Dep. Exp. Franchises - Water	\$ (124,524.12)
6455	403	Dep. Exp. Structures & Improvements - Source of Supply	\$ (170,348.18)
6460	403	Dep. Exp. Structures & Improvements - Water Treatment	\$ 2,281,823.22
6470	403	Dep. Exp. Structures & Improvements - Water General	\$ (66,152.76)
6485	403	Dep. Exp. Wells & Springs	\$ (69.58)
6490	403	Dep. Exp. Infiltration Galleries	\$ 234.00
6500	403	Dep. Exp. Power Generation Equipment	\$ (2,082,048.01)
6505	403	Dep. Exp. Pumping Equipment Electric - Source of Supply	\$ 343.41
6510	403	Dep. Exp. Pumping Equipment Electric - Water Treatment	\$ 49,750.92
6520	403	Dep. Exp. Water Treatment Equipment	\$ (459.30)
6525	403	Dep. Exp. Distribution Reservoirs & Standpipes	\$ (34,914.99)
6530	403	Dep. Exp. Transmission & Distribution Mains	\$ (191,512.71)
6535	403	Dep. Exp. Services	\$ (201.17)
6540	403	Dep. Exp. Meters	\$ 55,424.76
6545	403	Dep. Exp. Meter Installations	\$ (140.50)
6550	403	Dep. Exp. Hydrants	\$ (28.63)
6555	403	Dep. Exp. Backflow Prevention Devices	\$ (9.00)
6570	403	Dep. Exp. Other Miscellaneous Plant - Water Treatment	\$ (54.02)
6575	403	Dep. Exp. Other Miscellaneous Plant - Transmission & Distribution	\$ (7.46)
6580	403	Dep. Exp. Office Structures & Improvements	\$ (8.48)
6585	403	Dep. Exp. Office Furniture & Equipment	\$ (1,396.17)
6595	403	Dep. Exp. Tools, Shop, & Garage Equipment	\$ (9,216.53)
6600	403	Dep. Exp. Laboratory Equipment	\$ 43.75
6605	403	Dep. Exp. Power Operated Equipment	\$ 86.04
6610	403	Dep. Exp. Communication Equipment	\$ (16,194.31)
6615	403	Dep. Exp. Miscellaneous Equipment	\$ 4,743.72
6620	403	Dep. Exp. Other Tangible Plant - Water	\$ 386,428.83
6640	403	Dep. Exp. Organization - Wastewater	\$ 197,270.00
6645	403	Dep. Exp. Franchises - Wastewater	\$ (66,175.38)
6655	403	Dep. Exp. Structures & Improvements - Collection	\$ 9.76
6660	403	Dep. Exp. Structures & Improvements - Lift Station	\$ (66,738.00)
6665	403	Dep. Exp. Structures & Improvements - Wastewater Treatment	\$ 1,430,044.70
6680	403	Dep. Exp. Structures & Improvements - Wastewater General	\$ (1,426,052.18)
6685	403	Dep. Exp. Power Generation Equipment - Collection	\$ (29.07)
6695	403	Dep. Exp. Power Generation Equipment - Wastewater Treatment	\$ 29.18
6710	403	Dep. Exp. Collection Sewers - Force	\$ (222,294.95)
6715	403	Dep. Exp. Collection Sewers - Gravity	\$ (17,800.80)
6717	403	Dep. Exp. Manholes	\$ 117,014.64
6725	403	Dep. Exp. Services to Customers	\$ 224,348.13
6730	403	Dep. Exp. Flow Measure Devices	\$ (76.05)
6745	403	Dep. Exp. Pumping Equipment - Wastewater Pump	\$ (2,209.91)
6750	403	Dep. Exp. Pumping Equipment - Reclaimed Water Treatment	\$ (24.24)
6765	403	Dep. Exp. Treatment & Disposal - Wastewater Treatment	\$ (70,093.14)
6785	403	Dep. Exp. Outfall Lines	\$ (20.95)
6795	403	Dep. Exp. Other Miscellaneous Plant - Wastewater Collection	\$ (63.97)
6800	403	Dep. Exp. Other Miscellaneous Plant - Wastewater Pump	\$ (169.33)
6805	403	Dep. Exp. Other Miscellaneous Plant - Wastewater Treatment	\$ (404.03)
6810	403	Dep. Exp. Other Miscellaneous Plant - Wastewater Treatment	\$ (136.10)
6825	403	Dep. Exp. Office Furniture & Equipment	\$ 6,181.88

Entry to Correct Ledger for Restatement Continued

Object #	NARUC	Account Description	Debit (Credit)
6835	403	Dep. Exp. Tools, Shop, & Garage Equipment	\$ 9,148.80
6840	403	Dep. Exp. Laboratory Equipment	\$ 3.86
6845	403	Dep. Exp. Power Operated Equipment	\$ 21.63
6850	403	Dep. Exp. Communication Equipment	\$ 12,721.64
6855	403	Dep. Exp. Miscellaneous Equipment	\$ (6,617.24)
6875	403	Dep. Exp. Reuse Services	\$ (28.05)
6880	403	Dep. Exp. Reuse Meter Installations	\$ 3.67
6885	403	Dep. Exp. Reuse Distribution Reservoirs	\$ (27.12)
6890	403	Dep. Exp. Reuse Transmission & Distribution Mains	\$ (278,370.77)
6985	403	Amt. Exp. CIAC - Organization - Water	\$ 257,839.00
6995	403	Amt. Exp. CIAC - Structures & Improvements - Source of Supply	\$ 652.56
7000	403	Amt. Exp. CIAC - Structures & Improvements - Water Treatment	\$ 6,265.26
7025	403	Amt. Exp. CIAC - Wells & Springs	\$ 16,395.47
7045	403	Amt. Exp. CIAC - Electric Pump Equipment - Source of Supply	\$ (11,266.68)
7050	403	Amt. Exp. CIAC - Electric Pump Equipment - Water Treatment	\$ 21,386.00
7060	403	Amt. Exp. CIAC - Water Treatment Equipment	\$ 10,639.42
7065	403	Amt. Exp. CIAC - Distribution Reservoirs & Standpipes	\$ (19,924.56)
7070	403	Amt. Exp. CIAC - Transmission & Distribution Mains	\$ 46,805.01
7075	403	Amt. Exp. CIAC - Service Lines	\$ 30,022.82
7080	403	Amt. Exp. CIAC - Meters	\$ 26,092.69
7085	403	Amt. Exp. CIAC - Meter Installations	\$ 930.12
7090	403	Amt. Exp. CIAC - Hydrants	\$ 9,645.86
7160	403	Amt. Exp. CIAC - Other Tangible Plant - Water	\$ 4,366.92
7165	403	Amt. Exp. CIAC - Water Tap	\$ (96,149.00)
7175	403	Amt. Exp. CIAC - Water Reservation of Capacity Fee	\$ 2.54
7180	403	Amt. Exp. CIAC - Water Plant Modification Fee	\$ 14.77
7185	403	Amt. Exp. CIAC - Water Plant Meter Fee	\$ 35.04
7225	403	Amt. Exp. CIAC - Structures & Improvements - Lift Station	\$ (32,880.79)
7230	403	Amt. Exp. CIAC - Structures & Improvements - WW Treatment	\$ 506,719.88
7245	403	Amt. Exp. CIAC - Structures & Improvements - Wastewater General	\$ 104,223.84
7275	403	Amt. Exp. CIAC - Force Mains	\$ 50,614.33
7280	403	Amt. Exp. CIAC - Gravity Mains	\$ 225,327.76
7283	403	Amt. Exp. CIAC - Manholes	\$ (136,045.36)
7290	403	Amt. Exp. CIAC - Services to Customers	\$ (43,032.89)
7330	403	Amt. Exp. CIAC - Treatment & Disposal - Wastewater Treatment	\$ 114,092.32
7350	403	Amt. Exp. CIAC - Treatment & Disposal - Wastewater Treatment	\$ 38,279.96
7430	403	Amt. Exp. CIAC - Wastewater Tap	\$ (28,182.01)
7440	403	Amt. Exp. CIAC - Wastewater Reservation of Capacity Fee	\$ (27.03)
7445	403	Amt. Exp. CIAC - Wastewater Plant Modification Fee	\$ 20,661.05
7470	403	Amt. Exp. CIAC - Reuse Services	\$ 3,629.01
4998	215	Retained Earnings	\$ (816,894.96)

Finding 2: Commission Ordered Adjustments

Audit Analysis: The Utility booked most of the Commission Ordered Adjustments from Order PSC-10-0423-PAA-WS. However, in its filing, the Utility prepared the depreciation restatement discussed in Finding 1 and inadvertently removed some of the adjustments. Staff determined the effect of these adjustments on year-end and 13-month average plant, accumulated depreciation, depreciation expense, and accumulated amortization of CIAC. Since Finding 1 adjusts the books to the restatement, the year-end effect of these adjustments needs to be booked to the ledger. The schedules on the following page detail the effect on the filing.

Effect on the General Ledger: As of December 31, 2010, the following entry needs to be made to the ledger:

Co. Acct.	NARUC	Account Description	Debit/Credit
1120	330.4	Distribution Reservoirs & Standpipes	\$ (6,136.88)
1130	333.4	Services	\$ (1,312.42)
1210	347.5/397.7	Miscellaneous Equipment Water	\$ 3,920.23
1295	354.3	Structures & Improvements - Lift Station	\$ (10,863.54)
1350	361.2	Collection Sewers - Gravity	\$ (5,639.87)
1380	371.3	Pumping Equipment - Wastewater Pump	\$ (2,000.71)
1400	371.3	Treatment & Disposal Wastewater Treatment	\$ 9,299.23
1440	389.4	Other Miscellaneous Plant - Wastewater Treatment	\$ (12,000.00)
1470	343.5/393.7	Tools, Shop, & Garage Equipment Water	\$ (1,284.18)
1485	346.5/396.7	Communication Equipment Water	\$ (224.97)
1490	347.5/397.7	Miscellaneous Equipment Water	\$ 400.00
4998	215	Retained Earnings	\$ 25,843.11
1845	108	Acc. Dep. Structures & Improvements - Source of Supply	\$ (170,845.50)
1915	108	Acc. Dep. Distribution Reservoirs & Standpipes	\$ 731.80
1925	108	Acc. Dep. Services	\$ 100.59
1985	108	Acc. Dep. Tools, Shop, & Garage Equipment Water	\$ 154.08
2005	108	Acc. Dep. Miscellaneous Equipment Water	\$ (814.40)
2055	108	Acc. Dep. Structures & Improvements - Lift Station	\$ 869.00
2105	108	Acc. Dep. Collection Sewers - Force	\$ (259.59)
2060	108	Acc. Dep. Structures and Improvements Wastewater Treatment	\$ 329.00
2110	108	Acc. Dep. Collection Sewers - Gravity	\$ (72.54)
2140	108	Acc. Dep. Pumping Equipment - Wastewater Pump	\$ 259.56
2160	108	Acc. Dep. Treatment & Disposal Wastewater Treatment	\$ 27,606.91
2200	108	Acc. Dep. Other Miscellaneous Plant - Wastewater Treatment	\$ 1,945.78
2230	108	Acc. Dep. Tools, Shop, & Garage Equipment Water	\$ 89.64
2245	108	Acc. Dep. Communication Equipment Water	\$ 194.97
2250	108	Acc. Dep. Miscellaneous Equipment Water	\$ (53.55)
2280	108	Acc. Dep. Reuse Distribution Reservoirs	\$ (27.55)
3810	108	Acc. Amt. CIAC - Structures & Improvements - Source of Supply	\$ 1,992.65
3875	108	Acc. Amt. CIAC - Water Treatment Equipment	\$ 36,863.15
3880	108	Acc. Amt. CIAC - Distribution Reservoirs & Standpipes	\$ (12,471.59)
3885	108	Acc. Amt. CIAC - Transmission & Distribution Mains	\$ 43,696.32
3890	108	Acc. Amt. CIAC - Service Lines	\$ (3,934.05)
3895	108	Acc. Amt. CIAC - Meters	\$ (62,999.55)
3905	108	Acc. Amt. CIAC - Hydrants	\$ (4,777.28)
4280	108	Acc. Amt. CIAC - Wastewater Plant Modification Fee	\$ (640.37)
4998	215	Retained Earnings	\$ 142,062.51
6525	408	Dep. Exp. Distribution Reservoirs & Standpipes	\$ (165.86)
6535	408	Dep. Exp. Services	\$ (32.81)
6615	408	Dep. Exp. Miscellaneous Equipment Water	\$ 220.20
6855	408	Dep. Exp. Miscellaneous Equipment Water	\$ 14.98
6615	408	Dep. Exp. Miscellaneous Equipment Wastewater	\$ 171.82
6600	408	Dep. Exp. Structures & Improvements - Lift Station	\$ (434.54)
6715	408	Dep. Exp. Collection Sewers - Gravity	\$ (125.33)
6745	408	Dep. Exp. Pumping Equipment - Wastewater Pump	\$ (111.15)
6765	408	Dep. Exp. Treatment and Disposal Wastewater Treat.	\$ 516.62
6805	408	Dep. Exp. Other Miscellaneous Plant - Wastewater Treatment	\$ (666.67)
6855	408	Dep. Exp. Miscellaneous Equipment Wastewater	\$ 11.69
4998	215	Retained Earnings	\$ 601.05

Effect on the Filing: Average water plant should be reduced (credited) by \$4,152. Average wastewater plant should be reduced (credited) by \$21,691. Average water accumulated depreciation should be increased (credited) by \$169,796. Average wastewater accumulated depreciation should be decreased (credited) by \$30,138. Average water accumulated amortization of CIAC should be reduced (debited) by \$1,630. Average wastewater accumulated amortization of CIAC should be increased (debited) by \$74,843. Water depreciation expense should be increased (debited) by \$36.51. Wastewater depreciation expense should be decreased (credited) by \$638.

13-Month Average Plant Calculation

Co. Acct.	NARUC	Account Description	13-Month Avg. Plant
1120	330.4	Distribution Reservoirs & Standpipes	\$ (6,136.88)
1130	333.4	Services	\$ (1,312.42)
1210	347.5/397.7	Miscellaneous Equipment Water	\$ 2,201.99
1210	347.5/397.7	Miscellaneous Equipment Wastewater	\$ 1,718.24
1470	343.5/393.7	Tools, Shop, & Garage Equipment Water	\$ (721.32)
1485	346.5/396.7	Communication Equipment Water	\$ (126.37)
1490	347.5/397.7	Miscellaneous Equipment Water	\$ 224.68
			\$ (4,152.07)
1295	354.3	Structures & Improvements - Lift Station	\$ (10,863.54)
1350	361.2	Collection Sewers - Gravity	\$ (5,639.87)
1380	371.3	Pumping Equipment - Wastewater Pump	\$ (2,000.71)
1400	371.3	Treatment & Disposal Wastewater Treatment	\$ 9,299.23
1440	389.4	Other Miscellaneous Plant - Wastewater Treatment	\$ (12,000.00)
1470	343.5/393.7	Tools, Shop, & Garage Equipment Wastewater	\$ (562.86)
1485	346.5/396.7	Communication Equipment Wastewater	\$ (98.60)
1490	347.5/397.7	Miscellaneous Equipment Wastewater	\$ 175.32
			\$ (21,691.04)

13-Month Average Accumulated Depreciation Calculation

Co.	NARUC	Account Description	13-Month Avg. Acc. Dep.
1845	108	Acc. Dep. Structures & Improvements - Source of Supply	\$ (170,398.21)
1915	108	Acc. Dep. Distribution Reservoirs & Standpipes	\$ 648.87
1925	108	Acc. Dep. Services	\$ 84.81
1985	108	Acc. Dep. Tools, Shop, & Garage Equipment Water	\$ 86.55
2005	108	Acc. Dep. Miscellaneous Equipment Water	\$ (347.35)
2230	108	Acc. Dep. Tools, Shop, & Garage Equipment Water	\$ 50.35
2245	108	Acc. Dep. Communication Equipment Water	\$ 109.51
2250	108	Acc. Dep. Miscellaneous Equipment Water	\$ (30.08)
			\$ (169,795.54)
1985	108	Acc. Dep. Tools, Shop, & Garage Equipment Wastewater	\$ 67.53
2005	108	Acc. Dep. Miscellaneous Equipment Wastewater	\$ (271.04)
2055	108	Acc. Dep. Structures & Improvements - Lift Station	\$ 651.71
2060	108	Acc. Dep. Structures & Improvements - Wastewater Treatment Plant	\$ 329.00
2105	108	Acc. Dep. Collection Sewers - Force	\$ (259.59)
2110	108	Acc. Dep. Collection Sewers - Gravity	\$ (135.20)
2140	108	Acc. Dep. Pumping Equipment - Wastewater Pump	\$ 203.98
2160	108	Acc. Dep. Treatment and Disposal Wastewater	\$ 27,865.22
2200	108	Acc. Dep. Other Miscellaneous Plant - Wastewater Treatment	\$ 1,612.44
2230	108	Acc. Dep. Tools, Shop, & Garage Equipment Water	\$ 39.29
2245	108	Acc. Dep. Communication Equipment Wastewater	\$ 85.46
2250	108	Acc. Dep. Miscellaneous Equipment Wastewater	\$ (23.47)
2280	108	Acc. Dep. Reuse Distribution Reservoirs	\$ (27.55)
			\$ 30,137.79

13-Month Average Accumulated Amortization of CIAC Calculation

Co. Acct.	NARUC	Account Description		13-Month Avg. Acc. Amortization
3810	108	Acc. Amt.	CIAC - Structures & Improvements - Source of Supply	\$ 1,992.65
3875	108	Acc. Amt.	CIAC - Water Treatment Equipment	\$ 36,863.15
3880	108	Acc. Amt.	CIAC - Distribution Reservoirs & Standpipes	\$ (12,471.59)
3885	108	Acc. Amt.	CIAC - Transmission & Distribution Mains	\$ 43,696.32
3890	108	Acc. Amt.	CIAC - Service Lines	\$ (3,934.05)
3895	108	Acc. Amt.	CIAC - Meters	\$ (62,999.55)
3905	108	Acc. Amt.	CIAC - Hydrants	\$ (4,777.28)
				\$ (1,630.35)
4155	108	Acc. Amt.	CIAC - Treatment & Disposal - Wastewater Treatment	\$ 75,483.17
4280	108	Acc. Amt.	CIAC - Wastewater Plant Modification Fee	\$ (640.37)
				\$ 74,842.80

Depreciation Expense Calculation

Co. Acct.	NARUC	Account Description		Debit/Credit
6525	408	Dep. Exp.	Distribution Reservoirs & Standpipes	\$ (165.86)
6535	408	Dep. Exp.	Services	\$ (32.81)
6615	408	Dep. Exp.	Miscellaneous Equipment Water	\$ 220.20
6855	408	Dep. Exp.	Miscellaneous Equipment Water	\$ 14.98
				\$ 36.51
6615	408	Dep. Exp.	Miscellaneous Equipment Wastewater	\$ 171.82
6600	408	Dep. Exp.	Structures & Improvements - Lift Station	\$ (434.54)
6715	408	Dep. Exp.	Collection Sewers - Gravity	\$ (125.33)
6745	408	Dep. Exp.	Pumping Equipment - Wastewater Pump	\$ (111.15)
6765	408	Dep. Exp.	Treatment and Disposal Wastewater Treat.	\$ 516.62
6805	408	Dep. Exp.	Other Miscellaneous Plant - Wastewater Treatment	\$ (666.67)
6855	408	Dep. Exp.	Miscellaneous Equipment Wastewater	\$ 11.69
				\$ (637.55)

Finding 3: Allocations from Headquarter- Rate Base

Audit Analysis: The Utility made an adjustment to plant in service and accumulated depreciation for parent allocations from its Illinois Headquarters and the Florida Altamonte Springs Office. For its Illinois Headquarter allocation, the Utility used an ERC report which excluded certain companies because they were expected to be sold. The utilities were not sold. Therefore, the allocation factor for Sanlando Utilities, Inc. was overstated since there were more utilities to allocate the headquarter costs to. The Utility used an allocation factor of 7.96%. We recalculated the allocation factor to be 7.79% when the additional utilities were included. The difference is allocated to 56.17% to water and 43.83% to wastewater. The Florida Altamonte Springs allocations were not affected since the utilities that were expected to be sold were out of state.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: Average Plant should be decreased (credited) by \$27,018 and \$21,081 for water and wastewater, respectively. Average Accumulated Depreciation should be decreased (debited) by \$9,122 and \$7,117 for water and wastewater, respectively. Working Capital should be decreased (credited) by \$19 for water and by \$15 for wastewater.

Computation of Differences in Rate Base Due to a Decreased ERC Allocation Factor

RATE BASE	Revised Adj. Total	Revised Adj. Water	Revised Adj. Wastewater	MFR Adj. Total	MFR Adj. Water	MFR Adj. Wastewater	Difference Adj. Total	Difference Adj. Water	Difference Adj. Wastewater
Plant	\$ (99,628)	\$ (87,429)	\$ (12,199)	\$ (51,529)	\$ (60,411)	\$ 8,882	\$ (48,099)	\$ (27,018)	\$ (21,081)
Accum. Dep.	\$ 171,046	\$ 104,471	\$ 66,576	\$ 154,808	\$ 95,349	\$ 59,459	\$ 16,238	\$ 9,122	\$ 7,117
Working Capital	\$ 2,663	\$ 1,496	\$ 1,167	\$ 2,697	\$ 1,515	\$ 1,182	\$ (34)	\$ (19)	\$ (15)
Total	\$ 71,418	\$ 17,042	\$ 54,376	\$ 103,279	\$ 34,938	\$ 68,341	\$ (31,861)	\$ (17,896)	\$ (13,965)

Finding 4: Ordered Adjustments for Project Phoenix Not Booked

Audit Analysis: Project Phoenix is the Company’s financial, customer care, and billing system, which became operational in December 2008. In Order PSC-10-0407-PAA-SU, the Commission established that the total cost for Project Phoenix at December 31, 2008 was \$21,617,487 and required the Company to deduct \$1,724,166 from the total cost of Project Phoenix, reducing it to \$19,893,321, before allocating costs to the remaining UI subsidiaries. In the Affiliate Audit of Utilities Inc. Docket 110153-SU, the Company provided a restatement schedule for all computer balances on its books to take into account the ordered adjustments of the past. The schedule showed that the Company did not make the adjustment ordered for Project Phoenix. The Company’s restatement schedule shows the Project Phoenix balance at December 31, 2008 to be \$21,545,555. The difference between the Company’s balance and the ordered amount is \$1,652,234.

The amount of allocated cost, received by Sanlando Utilities, Inc., is based on its ERC ratio to the total ERCs at the corporate level. The revised allocation from the Illinois office (corporate level) is 7.79% at December 2010 based on an earlier Finding in this report. The allocation to water and wastewater is 56.17% and 43.83%, respectively.

The schedule following this finding shows the calculation of the adjustment to plant, accumulated depreciation, and depreciation expense needed to comply with the Order and the adjustment to Sanlando Utilities, Inc. allocated rate base and expense accounts. In the Order stated above, Project Phoenix’s depreciable life was changed from eight to ten years. However, the Company has continued to depreciate the project over eight years. In Finding 8, we adjusted the accumulated depreciation and depreciation expense on Project Phoenix from eight to ten years to comply with the Order. However, the schedule below removes depreciation for the reduction in plant using the ten year depreciable life to avoid duplicating the adjustment.

Effect on the General Ledger: The following adjustment corrects the Company’s ledger as of December 31, 2010. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Co. No.	Co. Acct.	NARUC Acct.	Account Description	Debit	Credit
102	1590	340.5	Computer System Cost		\$ 1,652,234
102	2330	108.1	Computer System Acc. Dep.	\$ 330,447	
102	4998	215	Retained Earnings	\$ 1,321,787	
			Total	\$ 1,652,234	\$ 1,652,234

Effect on the Filing: Average Plant should be decreased (credited) by \$72,296 and \$56,413 for water and wastewater, respectively. Average Accumulated Depreciation should be decreased (debited) by \$10,844 and \$8,462 for water and wastewater, respectively. Depreciation expense should be reduced (credited) by \$7,230 and \$5,641 for water and wastewater, respectively.

Project Phoenix Reconciliation

Description	Amount
Project Phoenix Total Cost Per Order	\$ 21,617,487
Ordered Adjustments Per Order	\$ (1,724,166)
Difference	\$ 19,893,321
Project Phoenix Total Cost Per Company	\$ (21,545,555)
Adjustment to Correct Beginning Balance	\$ (1,652,234)

Calculation of Depreciation

Co. Acct. No.	Date	Debit	Explanation	Beg. Bal. Adjustment	Life (Year)	Adjustment to Dep. Exp/RE Co. Acct. 6920	Mths.	Adj. to Acc. Dep. Co. Acct. 2330
1590	12/31/2008	\$ 1,724,166.00	Ordered Adjustment	\$ (1,652,234)	10	\$ (165,223)	24	\$ 330,447
Sanlando Allocation					7.79%	\$ (12,871)		
					Water	\$ (7,230)		
					Wastewater	\$ (5,641)		

Calculation of 13-Month Average

Date	Plant Adjustment	Times 7.79% allocation	Acc. Dep. Adjustment	Times 7.79% Allocation
Dec-09	\$ (1,652,234)	\$ (128,709)	\$ 165,223	\$ 12,871
Jan-10	\$ (1,652,234)	\$ (128,709)	\$ 178,992	\$ 13,943
Feb-10	\$ (1,652,234)	\$ (128,709)	\$ 192,760	\$ 15,016
Mar-10	\$ (1,652,234)	\$ (128,709)	\$ 206,529	\$ 16,089
Apr-10	\$ (1,652,234)	\$ (128,709)	\$ 220,297	\$ 17,161
May-10	\$ (1,652,234)	\$ (128,709)	\$ 234,066	\$ 18,234
Jun-10	\$ (1,652,234)	\$ (128,709)	\$ 247,834	\$ 19,306
Jul-10	\$ (1,652,234)	\$ (128,709)	\$ 261,603	\$ 20,379
Aug-10	\$ (1,652,234)	\$ (128,709)	\$ 275,372	\$ 21,451
Sep-10	\$ (1,652,234)	\$ (128,709)	\$ 289,140	\$ 22,524
Oct-10	\$ (1,652,234)	\$ (128,709)	\$ 302,909	\$ 23,597
Nov-10	\$ (1,652,234)	\$ (128,709)	\$ 316,677	\$ 24,669
Dec-10	\$ (1,652,234)	\$ (128,709)	\$ 330,446	\$ 25,742
TOTAL	\$ (21,479,042)	\$ (1,673,217)	\$ 3,221,848	\$ 250,982
13 MONTH AVERAGE	\$ (1,652,234)	\$ (128,709)	\$ 247,834.46	\$ 19,306
Water	56.17%		\$ (72,296)	\$ 10,844
Wastewater	43.83%		\$ (56,413)	\$ 8,462

Finding 5: Depreciation Life of Project Phoenix

Audit Analysis: In Order PSC-10-0407-PAA-SU, the Company was directed to change the depreciation life for Project Phoenix from eight years to ten years. During our audit of affiliate transactions in Docket 110153-SU, we determined that the Company is still using eight years.

The Company has also overstated the depreciation expense for this account by \$3,527. This was included in the depreciation expense account in June, but it was not included in the accumulated depreciation account. The amount of allocated cost received by Sanlando Utilities, Inc., is based on its ERC ratio to the total ERCs at the corporate level. The revised allocation from the Illinois office is 7.79% for December 2010. The allocation to water and wastewater is 56.17% and 43.83%, respectively.

The schedule following this finding shows the calculation for accumulated depreciation and depreciation expense adjustments to correct the accrual balances for Headquarters and Sanlando Utilities, Inc.

Effect on the General Ledger: The following adjustment is recommended to correct the Illinois general ledger balance at December 31, 2010. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Div.	Co. Acct.	NARUC Acct.	Account Description	Debit	Credit
102	2330	108.1	Computer System Acc. Dep.	\$ 1,372,368	
102	4998	215	Retained Earnings		\$ 1,372,368
			Total	\$ 1,372,368	\$ 1,372,368

Effect on the Filing: Average Accumulated Depreciation should be reduced (debited) by \$47,900 and \$37,377 for water and wastewater, respectively. Depreciation Expense should be reduced (credited) by \$24,299 and \$18,961 for water and wastewater, respectively.

Computation of Depreciation at 10 Years Instead of 8

Co. No.	Description	Plant Balance	Life (Year)	Dep. Exp./RE	Acct.	Acc. Dep.	Acct.
102	2008 Balance with Restated Dep. Per Staff	\$ 21,545,555	10	\$ 2,154,556	6920	\$ (5,397,056)	2330
	2009	\$ 513,062		\$ 51,306	6920	\$ (76,959)	2330
	2010	\$ 338,666		\$ 16,933	6920	\$ (16,933)	2330
	Total @ 10 Yrs. Per Staff	\$ 22,397,283		\$ 2,222,795		\$ (5,490,949)	
	2008 Balance Per Co.	\$ 21,545,555	8	\$ 2,692,825	6920	\$ (6,745,951)	2330
	2009	\$ 513,062		\$ 64,133	6920	\$ (96,199)	2330
	2010	\$ 338,666		\$ 21,167	6920	\$ (21,167)	2330
	Total @ 8 Yrs. Per Co.	\$ 22,397,283		\$ 2,778,125		\$ (6,863,316)	
	Adjustment			\$ (555,330)		\$ 1,372,368	
	Sanlando allocation		7.79%	\$ (43,260)			
	Water		56.17%	\$ (24,299)			
	Wastewater		43.83%	\$ (18,961)			

Computation of 13-Month Average

Date	Acc. Dep. Adjustment	Times 7.79% allocation
Dec. 2009	\$ 817,038	\$ 63,647
Jan. 2010	\$ 863,316	\$ 67,252
Feb. 2010	\$ 909,593	\$ 70,857
Mar. 2010	\$ 955,871	\$ 74,462
Apr. 2010	\$ 1,002,148	\$ 78,067
May. 2010	\$ 1,048,426	\$ 81,672
June. 2010	\$ 1,094,703	\$ 85,277
July. 2010	\$ 1,140,981	\$ 88,882
Aug. 2010	\$ 1,187,258	\$ 92,487
Sept. 2010	\$ 1,233,536	\$ 96,092
Oct. 2010	\$ 1,279,813	\$ 99,697
Nov. 2010	\$ 1,326,091	\$ 103,302
Dec. 2010	\$ 1,372,368	\$ 106,907
	\$ 14,231,142	\$ 1,108,606
13- month average	\$ 1,094,703	\$ 85,277
Water	56.17%	\$ 47,900
Wastewater	43.83%	\$ 37,377

Finding 6: Retirements Not Booked

Audit Analysis: As a result of our sample of plant additions, we determined that there were several retirements that were not recorded by the Utility. The Utility agreed that retirements should have been recorded when the new assets were installed. The amounts of the retirements were calculated using 75% of the cost of the new addition in accordance with the Commission policy. The accumulated depreciation and depreciation expense related to these assets also need to be removed. The schedule following this finding details the accounts, the vendor for the new addition, and the amounts with the associated depreciation for each item.

Effect on the General Ledger: The adjustment on the following page is needed to correct the ledger at December 31, 2010. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Company Account	NARUC	Description	Debit	Credit
1105	311.3	Pumping Equipment Water Treatment Plant		\$ 11,793.88
1130	333.4	Services- Water		\$ 5,833.67
1345	360.2	Sewer Force Main		\$ 2,737.50
1350	361.2	Sewer Gravity Main		\$ 4,505.63
1380	371.3	Pumping Equipment Wastewater Pump		\$ 40,861.18
1400	380.4	Treatment & Disposal Wastewater Treatment		\$ 17,667.04
1900	108	Acc. Depreciation-Pumping Equip. WTP	\$ 12,578.21	
1925	108	Acc. Depreciation- Services	\$ 5,992.62	
2105	108	Acc. Depreciation - Sewer Force Main	\$ 2,805.44	
2110	108	Acc. Depreciation - Sewer Gravity Main	\$ 4,614.10	
2140	108	Acc. Depr.-Pumping Equipment WW	\$ 44,068.15	
2160	108	Acc. Depr. Treatment & Disposal WW	\$ 19,221.08	
4998	215	Retained Earnings		\$ 5,880.70

Effect on the Filing: Average Water Plant should be reduced by \$17,043. Average Water Accumulated Depreciation should be reduced by \$17,622. Water depreciation expense should be reduced by \$723. Average Wastewater Plant should be reduced by \$63,592. Average Wastewater Accumulated Depreciation should be reduced by \$66,826 and Wastewater depreciation expense should also be reduced by \$3,362.

Computation of 13-Month Average

	Plant		Accumulated Depreciation	
	Water	Wastewater	Water	Wastewater
Beginning Balance	\$ (16,783.79)	\$ (50,067.31)	\$ 17,003.81	\$ 51,643.04
January	\$ (16,783.79)	\$ (57,878.19)	\$ 17,063.35	\$ 59,702.38
February	\$ (16,783.79)	\$ (61,037.19)	\$ 17,122.89	\$ 63,124.47
March	\$ (16,783.79)	\$ (65,771.94)	\$ 17,182.42	\$ 68,144.23
April	\$ (16,783.79)	\$ (65,771.94)	\$ 17,241.96	\$ 68,429.23
May	\$ (16,783.79)	\$ (65,771.94)	\$ 17,301.50	\$ 68,714.24
June	\$ (16,783.79)	\$ (65,771.94)	\$ 17,361.04	\$ 68,999.25
July	\$ (16,783.79)	\$ (65,771.94)	\$ 17,420.57	\$ 69,284.26
August	\$ (16,783.79)	\$ (65,771.94)	\$ 17,480.11	\$ 69,569.27
September	\$ (17,627.54)	\$ (65,771.94)	\$ 18,385.16	\$ 69,854.28
October	\$ (17,627.54)	\$ (65,771.94)	\$ 18,446.46	\$ 70,139.28
November	\$ (17,627.54)	\$ (65,771.94)	\$ 18,507.75	\$ 70,424.29
December	\$ (17,627.54)	\$ (65,771.94)	\$ 18,570.79	\$ 70,709.37
TOTAL	\$ (221,564.27)	\$ (826,702.09)	\$ 229,087.80	\$ 868,737.58
13-MONTH AVERAGE	\$ (17,043.41)	\$ (63,592.47)	\$ 17,622.14	\$ 66,825.97

Calculation of Water Retirements

Co.	Co. Acct.	Vendor	Date	Invoice Amount	Plant Adjustment 75%	NARUC Plant Account	Retirement Acc. Dep	Acct. A/D	Year Life	Monthly Dep. Exp.	Depreciation Expense 2010	Mths.	Change in A/D related to Plant Removal	Retained Earnings Acct. #	Retained Earnings
255	1105	KW CONTROLS INC	3/6/2009	\$ 3,062.07	\$ (2,296.55)	311.3	\$ 2,296.55	1900	20	\$ (9.57)	\$ (114.83)	22	\$ 210.52	4998/215	\$ 95.69
255	1105	FLORIDA ARMATURE WORKS, INC.	6/22/2009	\$ 3,165.06	\$ (2,373.80)	311.3	\$ 2,373.80	1900	20	\$ (9.89)	\$ (118.69)	19	\$ 187.93	4998/215	\$ 69.24
255	1105	FLORIDA ARMATURE WORKS, INC.	12/21/2009	\$ 4,627.86	\$ (3,470.90)	311.3	\$ 3,470.90	1900	20	\$ (14.46)	\$ (173.54)	13	\$ 188.01	4998/215	\$ 14.46
255	1105	TAMPA ARMATURE WORKS INC	12/21/2009	\$ 4,870.17	\$ (3,652.63)	311.3	\$ 3,652.63	1900	20	\$ (15.22)	\$ (182.63)	13	\$ 197.85	4998/215	\$ 15.22
255	1130	SUNSHINE BUILDING AND	9/17/2009	\$ 1,500.00	\$ (1,125.00)	333.4	\$ 1,125.00	1925	40	\$ (2.34)	\$ (28.13)	16	\$ 37.50	4998/215	\$ 9.38
255	1130	SUNSTATE METER & SUPPLY, INC	10/26/2009	\$ 1,210.42	\$ (907.82)	333.4	\$ 907.82	1925	40	\$ (1.89)	\$ (22.70)	15	\$ 28.37	4998/215	\$ 5.67
255	1130	SUNSHINE BUILDING AND	11/25/2009	\$ 2,687.36	\$ (2,015.52)	333.4	\$ 2,015.52	1925	40	\$ (4.20)	\$ (50.39)	14	\$ 58.79	4998/215	\$ 8.40
255	1130	SUNSHINE BUILDING AND	12/17/2009	\$ 1,255.44	\$ (941.58)	333.4	\$ 941.58	1925	40	\$ (1.96)	\$ (23.54)	13	\$ 25.50	4998/215	\$ 1.96
255	1130	SUNSHINE BUILDING AND	8/12/2010	\$ 1,125.00	\$ (843.75)	333.4	\$ 843.75	1925	40	\$ (1.76)	\$ (8.79)	5	\$ 8.79	4998/215	\$ -
		Total Water		\$ 23,503.38	\$ (17,627.54)		\$ 17,627.54			\$ (61.29)	\$ (723.23)		\$ 943.25		\$ 220.02

Calculation of Wastewater Retirements

Co.	Co. Acct.	Vendor	Date	Invoice Amount	Plant Adjustment 75%	NARUC Plant Account	Retirement Acc. Dep	Acct. A/D	Year Life	Monthly Dep. Exp.	Depreciation Expense 2010	Mths.	Change in A/D related to Plant Removal	Retained Earnings Acct. #	Retained Earnings
255	1350	SUNSHINE BUILDING AND	12/1/2009	\$ 6,007.50	\$ (4,505.63)	361.2	\$ 4,505.63	2110	45	\$ (8.34)	\$ (100.13)	13	\$ 108.47	4998/215	\$ 8.34
255	1380	PROGRESS ENERGY FLORIDA, INC.	2/17/2009	\$ 3,335.02	\$ (2,501.27)	371.3	\$ 2,501.27	2140	18	\$ (11.58)	\$ (138.96)	23	\$ 266.34	4998/215	\$ 127.38
255	1380	FLORIDA ARMATURE WORKS, INC.	4/22/2009	\$ 3,732.16	\$ (2,799.12)	371.3	\$ 2,799.12	2140	18	\$ (12.96)	\$ (155.51)	21	\$ 272.14	4998/215	\$ 116.63
255	1380	FLORIDA ARMATURE WORKS, INC.	5/5/2009	\$ 8,549.30	\$ (6,411.98)	371.3	\$ 6,411.98	2140	18	\$ (29.69)	\$ (356.22)	20	\$ 593.70	4998/215	\$ 237.48
255	1380	FLORIDA ARMATURE WORKS, INC.	5/19/2009	\$ 6,887.59	\$ (5,165.69)	371.3	\$ 5,165.69	2140	18	\$ (23.92)	\$ (286.98)	20	\$ 478.30	4998/215	\$ 191.32
255	1380	SUNSHINE BUILDING AND	6/4/2009	\$ 5,000.00	\$ (3,750.00)	371.3	\$ 3,750.00	2140	18	\$ (17.36)	\$ (208.33)	19	\$ 329.86	4998/215	\$ 121.53
255	1380	F.J. NUGENT & ASSOCIATES INC	6/23/2009	\$ 3,780.00	\$ (2,835.00)	371.3	\$ 2,835.00	2140	18	\$ (13.13)	\$ (157.50)	19	\$ 249.38	4998/215	\$ 91.88
255	1380	F.J. NUGENT & ASSOCIATES INC	6/29/2009	\$ 2,043.80	\$ (1,532.85)	371.3	\$ 1,532.85	2140	18	\$ (7.10)	\$ (85.16)	19	\$ 134.83	4998/216	\$ 49.68
255	1380	SUNSHINE BUILDING AND	6/29/2009	\$ 1,850.00	\$ (1,387.50)	371.3	\$ 1,387.50	2140	18	\$ (6.42)	\$ (77.08)	19	\$ 122.05	4998/215	\$ 44.97
255	1380	THOMPSON ELECTRIC COMPANY	11/19/2009	\$ 2,015.00	\$ (1,511.25)	371.3	\$ 1,511.25	2140	18	\$ (7.00)	\$ (83.96)	14	\$ 97.95	4998/215	\$ 13.99
255	1400	NORTRAX EQUIPMENT CO.	6/16/2009	\$ 3,516.39	\$ (2,637.29)	380.4	\$ 2,637.29	2160	18	\$ (12.21)	\$ (146.52)	19	\$ 231.98	4998/215	\$ 85.47
255	1400	RILEY & COMPANY, INC.	6/23/2009	\$ 20,039.66	\$ (15,029.75)	380.4	\$ 15,029.75	2160	18	\$ (69.58)	\$ (834.99)	19	\$ 1,322.06	4998/215	\$ 487.08
255	1345	SUNSHINE BUILDING AND	1/22/2010	\$ 3,650.00	\$ (2,737.50)	360.2	\$ 2,737.50	2105	40	\$ (5.70)	\$ (68.44)	12	\$ 68.44	4998/215	\$ -
255	1380	F.J. NUGENT & ASSOCIATES INC	1/27/2010	\$ 3,454.50	\$ (2,590.88)	371.3	\$ 2,590.88	2140	18	\$ (11.99)	\$ (143.94)	12	\$ 143.94	4998/215	\$ -
255	1380	TAMPA ARMATURE WORKS INC	1/29/2010	\$ 3,310.00	\$ (2,482.50)	371.3	\$ 2,482.50	2140	18	\$ (11.49)	\$ (137.92)	12	\$ 137.92	4998/215	\$ -
255	1380	F.J. NUGENT & ASSOCIATES INC	2/11/2010	\$ 4,212.00	\$ (3,159.00)	371.3	\$ 3,159.00	2140	18	\$ (14.63)	\$ (160.88)	11	\$ 160.88	4998/215	\$ -
255	1380	FLORIDA ARMATURE WORKS, INC.	3/9/2010	\$ 6,313.00	\$ (4,734.75)	371.3	\$ 4,734.75	2140	18	\$ (21.92)	\$ (219.20)	10	\$ 219.20	4998/215	\$ -
		Total Wastewater		\$ 87,695.92	\$ (65,771.94)		\$ 65,771.94			\$ (285.01)	\$ (3,361.70)		\$ 4,937.43		\$ 1,575.74

Finding 7: Capitalized Items

Audit Analysis: As a result of our sample of plant additions, we determined that there was an item that should have been expensed during 2009 that was capitalized. The Utility agrees that it was incorrectly classified. The accumulated depreciation and depreciation expense related to this asset also needs to be removed. The schedule on the following page details the invoice and the depreciation adjustment.

Effect on the General Ledger: The following entry is needed to correct the ledger at December 31, 2010:

Co. Acct.	NARUC Acct.	Title	Amount
1095	310.2	Power Generation Equipment	\$ (1,100.00)
1350	361.2	Gravity Mains	\$ (2,288.74)
2110	108.1	Acc. Dep. -Gravity Mains	\$ 76.29
1890	108.1	Acc. Dep. - Power Generation Equipment	\$ 82.50
4998	215	Retained Earnings	\$ 3,229.95

Effect on the Filing: Average Water Plant at December 31, 2010 should be reduced by \$1,100.00. Average Water Accumulated Depreciation should be reduced by \$55. Water Depreciation Expenses should be reduced by \$55. Average Wastewater Plant at December 31, 2010 should be decreased by \$2,288.74. Average Wastewater Accumulated Depreciation should be reduced by \$51. Wastewater Depreciation Expense should be reduced by \$51.

13-Month Average Calculation

Months	Water Acc. Dep.	Wastewater Acc. Dep.
12/31/2009	\$ 28	\$ 25
1/31/2010	\$ 32	\$ 30
2/28/2010	\$ 37	\$ 34
3/31/2010	\$ 41	\$ 38
4/30/2010	\$ 46	\$ 42
5/31/2010	\$ 50	\$ 47
6/30/2010	\$ 55	\$ 51
7/31/2010	\$ 60	\$ 55
8/31/2010	\$ 64	\$ 59
9/30/2010	\$ 69	\$ 64
10/31/2010	\$ 73	\$ 68
11/30/2010	\$ 78	\$ 72
12/31/2010	\$ 83	\$ 76
Total	\$ 715	\$ 661
13-Month Average	\$ 55	\$ 51

Items That Should Have Expensed

NARUC	Co Acct.	Vendor	Date	Amount	Transfer to Expense	Description	Months Depreciated	Depreciation Rate	Accumulated Depreciation	Acc. Dep. Account	Test Year Depreciation	Depreciation Exp. Acct.	Retained Earnings
310.2	1095	PARAMOUNT POWER INC.	7/31/2009	\$ 1,100.00	\$ (1,100.00)	Annual service & coolant for the emergency power system.	18	5.00%	\$ 82.50	1890	\$ (55.00)	6500	\$ 1,072.50
361.2	1350	SUNSHINE BUILDING	7/15/2009	\$ 2,288.74	\$ (2,288.74)	Stop leaks in Wekiva	18	2.22%	\$ 76.29	2110	\$ (50.86)	6715	\$ 2,314.17
		Total Adjustment to Retained Earnings			\$ (3,388.74)				\$ 158.79		\$ (105.86)		\$ 3,386.67

Finding 8: Sludge Equipment

Audit Analysis: In 2009, Bio-Tech, Inc., a subsidiary of Utilities, Inc. purchased five “Sludge Mate Roll Off’s” (Sluice Box) which cost \$187,028. Capitalized labor associated with the pilot study of this equipment was \$2,579.27 making the total cost \$189,607.27. These boxes appear to have been installed in 2009 although the cost was not transferred to the individual utilities until June 2010. Based on the invoices and capitalized labor, the cost of each box was \$37,921. Sanlando shares one of these boxes with Longwood. Therefore, they should have been charged for one half of a box or \$18,960. The charge to the ledger was \$27,675. Therefore, wastewater plant is overstated by \$8,715. Depreciation recorded on this additional amount was \$244 (\$8,715*5.56%/12*6 months).

The Sluice Box has reduced sludge hauling expenses from \$184,747 in the test year to \$146,683 in 2011, or a reduction of \$38,064. This reduction was not recorded in the proforma adjustments.

Effect on the General Ledger: The following entry should have been made to the ledger at December 31, 2010:

Utility Account	NARUC Account	Title	Debit/(Credit) Adjustment
4100	380.4	Treatment and Disposal Equipment Plant	\$ (8,715.00)
2160	108.1	Acc. Dep. Treatment and Disposal Eq.	\$ 214.00
6765	403	Depreciation Expense Treatment and Disposal	\$ (214.00)
2710	146	Account Receivable Associated Companies	\$ 8,715.00

Effect on the Filing: Average wastewater plant and accumulated depreciation should be reduced by \$8,715 and \$214, respectively. Wastewater expense should be reduced by \$38,064. Depreciation expense should be reduced by \$214.

Finding 9: Working Capital Allowance

Audit Analysis: The Utility has included the customer deposit balance of \$29,641 for water and \$24,008 for wastewater in the working capital allowance. Customer deposits should not be included in the working capital calculation. The Utility did properly include customer deposits in the calculation of cost of capital.

Effect on the General Ledger: Working capital was only computed for the filing. Therefore, no entry is needed to the ledger.

Effect on the Filing: The average working capital allowance should be increased by \$29,641 for water and \$24,008 for wastewater.

Finding 10: Common Plant Allocations

Audit Analysis: The Utility included an adjustment to allocate common plant between water and wastewater on Schedule A-3. The adjustment was supposed to allocate the common plant 56.17% to water and 43.83% to sewer. However, in allocating accounts that were in the filing as wastewater accounts the Utility allocated 43.83% to water instead of the appropriate allocation of 56.17%. The schedule on the following page computes the differences.

Effect on the General Ledger: This finding relates to a proforma adjustment and does not get recorded in the ledger.

Effect on the Filing: Average water plant should be increased by \$40,536 (debit) and wastewater plant decreased by \$40,536 (credit).

13-Month Average Common Plant Allocations

Account	Title	Per Filing Water	Per Filing Wastewater	Per Staff Water	Per Staff Wastewater	Difference Water	Difference Wastewater
340.5/390.7	Off. Furn. & Equip.	\$ (998,168)	\$ 998,168	\$ (990,865)	\$ 990,865	\$ 7,303	\$ (7,303)
343.5/393.7	Tools, Shop & Gar.Equip.	\$ (123,126)	\$ 123,126	\$ (112,818)	\$ 112,818	\$ 10,308	\$ (10,308)
344.5/394.7	Laboratory Equip.	\$ (9,617)	\$ 9,617	\$ (9,564)	\$ 9,564	\$ 53	\$ (53)
345.5/397.7	Power Operated Equip.	\$ (238)	\$ 238	\$ (178)	\$ 178	\$ 60	\$ (60)
346.5/396.7	Communication Equip.	\$ (11,704)	\$ 11,704	\$ 322	\$ (322)	\$ 12,026	\$ (12,026)
347.5/397.7	Miscellaneous Equip.	\$ 35,579	\$ (35,579)	\$ 46,365	\$ (46,365)	\$ 10,786	\$ (10,786)
	Total	\$ (1,107,274)	\$ 1,107,274	\$ (1,066,738)	\$ 1,066,738	\$ 40,536	\$ (40,536)

Finding 11: Proforma Retirement

Audit Analysis: The Utility has included an adjustment to reduce (debit) accumulated depreciation in rate base on Schedule A-3 for \$291,750 for the wastewater treatment plant filter replacement. The Utility recorded the retirement amount as a credit to plant of \$372,564 on Schedule A-3. The retirement amount represents 75% of the proforma addition to plant of \$496,752. The Commission policy has been to retire the assets at 75% of the cost of the new addition if the original cost cannot be determined. The adjustment to accumulated depreciation should be the same amount as the credit to plant of \$372,564 unless some salvage was expected to be received for the assets being retired. According to the Utility, there will not be any.

Effect on the General Ledger: This finding relates to a proforma adjustment and does not get recorded in the ledger.

Effect on the Filing: Wastewater accumulated depreciation should be decreased (debited) by \$80,814.

Finding 12: Allocations from Headquarter – Net Operating Income

Audit Analysis: The Utility made an adjustment to depreciation, operating and maintenance expenses, taxes other than income, salaries, benefits and payroll taxes for parent allocations from its Illinois Headquarters and the Florida Altamonte Springs Office. For its Illinois Headquarter allocation, the Utility used an ERC report which excluded certain companies because they were expected to be sold. The utilities were not sold. Therefore, the allocation factor for Sanlando Utilities, Inc. was overstated since there were more utilities to allocate the headquarter costs to. The Utility used an allocation factor of 7.96%. We recalculated the allocation factor to be 7.79% when the additional utilities were included. The difference is allocated 56.17% to water and 43.83% to wastewater. The Florida allocations were not affected since the utilities that were expected to be sold were out of state.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: Depreciation Expense should be decreased by \$2,863 and \$2,234 for water and wastewater, respectively. Operating and Maintenance Expenses should be decreased by \$12,080 and \$9,446 for water and wastewater, respectively. Taxes other than Income should be decreased by \$449 and for water and \$350 wastewater, respectively.

Computation of Differences in Expense Allocations Excluding Salaries Due to a Decrease in the ERC Calculation

Account	Revised Adj. Total	Revised Adj. Water	Revised Adj. Wastewater	MFR Adj. Total	MFR Adj. Water	MFR Adj. Wastewater	Difference Adj. Total	Difference Adj. Water	Difference Adj. Wastewater
Depreciation Expense-Other	\$ (7,058)	\$ (3,965)	\$ (3,094)	\$ (1,970)	\$ (1,107)	\$ (863)	\$ (5,088)	\$ (2,858)	\$ (2,230)
Operation and Maintenance Expenses	\$ 28,466	\$ 15,989	\$ 12,476	\$ 40,221	\$ 22,582	\$ 17,639	\$ (11,755)	\$ (6,593)	\$ (5,163)
Taxes Other Than Income	\$ 163	\$ 91	\$ 71	\$ 322	\$ 181	\$ 141	\$ (159)	\$ (89)	\$ (70)
Total	\$ 21,570	\$ 12,116	\$ 9,454	\$ 38,573	\$ 21,656	\$ 16,917	\$ (17,003)	\$ (9,540)	\$ (7,463)

Computation of Differences in Salary File Due to a Decrease in the ERC Calculation

Account	Revised Adj. Total	Revised Adj. Water	Revised Adj. Wastewater	MFR Total	MFR Adj. Water	MFR Adj. Wastewater	Difference Adj. Total	Difference Adj. Water	Difference Adj. Wastewater
Salaries and Wages (O & M)	\$ 123,200	\$ 69,203	\$ 53,997	\$ 129,284	\$ 72,620	\$ 56,664	\$ (6,084)	\$ (3,417)	\$ (2,667)
Salaries and Wages Officers (O & M)	\$ 5,766	\$ 3,239	\$ 2,527	\$ 7,874	\$ 4,423	\$ 3,451	\$ (2,108)	\$ (1,184)	\$ (924)
Employee Pensions and Benefits (O & M)	\$ (20,935)	\$ (10,987)	\$ (9,948)	\$ (19,368)	\$ (10,107)	\$ (9,261)	\$ (1,567)	\$ (880)	\$ (687)
Payroll Taxes (Taxes Other Than Income)	\$ (14,206)	\$ (7,980)	\$ (6,226)	\$ (13,566)	\$ (7,620)	\$ (5,946)	\$ (640)	\$ (360)	\$ (280)
Transportation Expense (O & M)	\$ (15,389)	\$ (8,644)	\$ (6,745)	\$ (15,378)	\$ (8,638)	\$ (6,740)	\$ (11)	\$ (6)	\$ (5)
Depreciation Expense	\$ (22,839)	\$ (12,829)	\$ (10,010)	\$ (22,830)	\$ (12,824)	\$ (10,006)	\$ (9)	\$ (5)	\$ (4)
Total	\$ 55,597	\$ 32,002	\$ 23,595	\$ 66,016	\$ 37,854	\$ 28,162	\$ (10,419)	\$ (5,852)	\$ (4,567)

Finding 13: Proforma Deferred Maintenance

Audit Analysis: The Utility has included an adjustment to Net Operating Income on Schedule B-3 for \$33,000 for a project at the Wekiva wastewater treatment plant. The original estimate for the project was \$165,000 and was amortized over five years.

The actual work has been completed and invoiced. The total amount paid for the removal of sand and grit from three round steel tanks including hauling and disposal is \$49,032. The amount related to the test year is \$9,806 if it is amortized over 5 years.

Effect on the General Ledger: This finding relates to a proforma adjustment and does not get recorded in the ledger.

Effect on the Filing: Wastewater expense should be decreased by \$23,194 (credit) to reflect the actual invoiced amount for the work done.

Finding 14: Proforma for Pay Increase

Audit Analysis: The Utility made a proforma adjustment to adjust for a 3% pay increase of \$42,642. The allocated salaries are based on April 2011 payroll plus the 3% increase. The Utility explained the 3% increase represents the merit increase scheduled for 2012. The Utility allocates 56.17% (\$23,952) to water and 43.83% (\$18,690) to wastewater.

For its Illinois Headquarter allocation, the Utility used an ERC report which excluded certain companies; therefore, the allocation factor for Sanlando Utilities, Inc. was overstated. The Utility used an allocation factor of 7.96%. We recalculated the allocation factor to be 7.79% when the additional utilities were included. The difference in the adjustment using the 7.79% allocation is not material.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: This finding is provided for informational purposes.

Finding 15: Removal of Operating Expenses

Audit Analysis: In our audit of affiliate transactions, Docket 110153-SU, we determined that the Illinois Headquarters and Altamonte Springs Headquarters expensed certain charges incorrectly that are allocated to Sanlando Utilities, Inc.

Calculation of Sanlando Allocation

Item #	Company Account	NARUC Account	Amount	Allocation % to Sanlando	Allocation Amount
1	102.101.6010	732	\$ 29,000.00	7.79%	\$ 2,259
3	855.100.5810	775	\$ 1,000.00	33.99%	\$ 340
4	855.100.5890	775	\$ 1,000.00	33.99%	\$ 340
			\$ 31,000.00		\$ 2,939
			Water	56.17%	\$ 1,651
			Wastewater	43.83%	\$ 1,288
2	102.100.7535	408	\$ 16,928.46	7.79%	\$ 1,319
			Water	56.17%	\$ 741
			Wastewater	43.83%	\$ 578

Item 1 - The Illinois headquarters accrued monthly entries for their fees paid to Price Waterhouse Coopers. The accruals included an amount of \$29,000 for Utilities, Inc. of Georgia. This is a direct expense and should not be included in the Florida allocations.

Item 2 - The Illinois headquarters included payments totaling \$16,928.46 to the Nevada Department of Taxation. This is a direct expense and should not be included in the Florida allocations.

Items 3 and 4 - The Florida headquarters costs included \$1,000 in account 5810 and \$1,000 in account 5890; however, they were ultimately removed during 2011. The Company explained these items should not have been recorded in this account.

The amount of allocated costs to Sanlando Utilities, Inc. is based on its ERC ratio to total ERCs at the corporate level. The revised allocation, from the Illinois office to Sanlando Utilities Inc. for December 2010, is 7.79%. The December 2010 allocation from the Florida headquarter office is 33.99% based on Sanlando's ERC ratio to total Florida ERCs. The allocation to water and wastewater is 56.17% and 43.83%, respectively.

Effect on the General Ledger: No entry is made to the general ledger since this will not affect future rate cases.

Effect on the Filing: Operating and Maintenance expense should be reduced by \$1,651 for water and \$1,288 for wastewater. Taxes other than income tax should be reduced by \$741 for water and \$578 for wastewater.

Finding 16: Prepaid – Other Expenses

Audit Analysis: In our audit of affiliate transactions in Docket 110153-SU, we analyzed the Prepaid-Other expense adjustment schedule provided by the Company. Our test of the Company's support revealed the following discrepancies.

Calculation of Amortization

Item No.	Co. Acct.	Prepaid Per Company	Adj. Per Staff	Prepaid Per Staff	Amtz. Per Company	Months	Amtz. Per Staff	Adj. Per Staff
1	102.101.5735	\$ 25,900	\$ (11,203)	\$ 14,697	\$ 19,425	9	\$ 11,023	\$ (8,402)
2	102.101.5735	\$ 30,919	\$ (30,919)	\$ -	\$ 15,459	6	\$ -	\$ (15,459)
3	102.101.5735	\$ 30,796	\$ -	\$ 30,796	\$ 2,566	1	\$ 1,283	\$ (1,283)
		\$ 87,615	\$ (42,122)	\$ 45,494	\$ 37,451		\$ 12,306	\$ (25,145)
							Allocation %	7.79%
							NARUC Acct. 736	\$ (1,959)
				Water	56.17%			\$ (1,100)
				Wastewater	43.83%			\$ (859)

Item 1 - The Illinois Headquarters included \$11,203 in items that were directly related to subsidiaries. This was reported in the last affiliate audit, Audit Control Number 11-004-4-2, of Lake Utility Services, Inc.

Item 2 – The Illinois Headquarters included \$30,918.60 in July 2010 for an item related to a Carolina subsidiary.

Item 3 – The Illinois Headquarters included \$30,796.49 in December 2010 for an item paid to Microsoft Licensing, LP. The Company amortized this item over 12 months; however, the invoice indicates the period should be 2 years or 24 months.

The amount of allocated costs to Sanlando Utilities, Inc. is based on its ratio of 2010 ERCs to total ERCs at the corporate level. The revised allocation from the Illinois office is 7.79%. The allocation to water is 56.17% and to wastewater is 43.83%. (See Finding 3)

Effect on the General Ledger: The following entry is recommended to correct the Company's ledger as of December 31, 2010.

NARUC Account	Account Description	Debit	Credit
186	Prepaid Expense Other		\$ 42,121.60
215	Retained Earnings	\$ 42,121.60	

Effect on the Filing: Operation and Maintenance expense should be reduced by \$1,100 and \$859 for water and wastewater, respectively.

Finding 17: Benefits Adjustment

Audit Analysis: The Utility made an error in its calculation of the adjustment for salary benefits made in MFR Schedule B-3 page 1 of the rate filing. The per book amount used to calculate the adjustment was incorrect for wastewater. The amount used was \$146,969 and it should have been \$145,594. The Utility calculation included the account balance of \$1,374.74 Account 5545 Customer Service Printing, which was not related to benefits. The following shows the calculation of the adjustment using the correct per book amount.

Calculation of Correction to Benefits

		Adjusted Benefits	Per books	Benefits Adjustment
Correct Adjustment	Wastewater	\$ 137,708.00	\$ 145,594.00	\$ (7,886.00)
Per MFR Schedule B-3 page 1 of 4	Wastewater	\$ 137,708.00	\$ 146,969.00	\$ (9,261.00)
Difference				\$ 1,375.00
Based on NARUC 604/704 (Utility accounts 5625-5690)				

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: Wastewater Operating and Maintenance expense should be increased by \$1,375.

Finding 18: Net Operating Income Adjustment Salaries and Benefits

Audit Analysis: The Utility has made an addition error in its calculation of adjustments to Net Operating Income on MFR B-3 page 1 of 4, item 4. The adjustment to annualize salaries was \$46,664 for wastewater. The adjustment should have been \$56,664 based on supporting documentation for the filing.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: Wastewater Operating and Maintenance expense should be increased by \$10,000.

Finding 19: Overstated Expense

Audit Analysis: The Utility recorded \$2,027 for communication service from CenturyLink in account 5945 which was allocated to NARUC accounts 604 and 704 using 56.17% for water and 43.83% for wastewater. The proper amount for this invoice is \$203. Operation and Maintenance expenses should be decreased by \$1,824 ($\$203 + (\$2,027)$) to reflect the actual amount of the invoice.

Effect on the General Ledger: There is no effect in the general ledger since the books have been closed.

Effect on the Filing: Water Operating and Maintenance expense should be decreased by \$1,025. Wastewater Operating and Maintenance expense should be decreased by \$799.

Finding 20: Non-allocated Expense

Audit Analysis: The Utility recorded \$1,235 for a basic chemistry training class for 13 employees in account 5820. This account is allocated between NARUC account 675 and 775 using 56.17% for water and 43.83% for wastewater. Only seven of the employees work for the Sanlando division. Using the payroll distribution, we have recalculated the Utility's share of the training class expense below.

Training Expense Allocation Adjustment

No.	Employee	1/13 of Cost	Utility Payroll %	Utility Allocation
1	T. Keys	\$ 95	100.00%	\$ 95
2	A. Lorenzo	\$ 95	100.00%	\$ 95
3	C. Sudol	\$ 95	100.00%	\$ 95
4	D. Hasty	\$ 95	81.36%	\$ 77
5	A. Bailey	\$ 95	100.00%	\$ 95
6	A. Finch	\$ 95	100.00%	\$ 95
7	N. Caver	\$ 95	69.27%	\$ 66
		Total Utility Allocation		\$ 618
			Per Books	\$ 1,235
			Adjustment	\$ (617)
		Water	56.17%	\$ (347)
		Wastewater	43.83%	\$ (270)

Operation and Maintenance expenses should be decreased by \$617 to reflect the Utility's actual share of the training expense.

Effect on the General Ledger: There is no effect in the general ledger since the books have been closed.

Effect on the Filing: Water Operating and Maintenance expense should be decreased by \$347. Wastewater Operating and Maintenance expense should be decreased by \$270.

Finding 21: Prior Rate Case Amortization

Audit Analysis: The Utility has had two rate case orders in the last four years, PSC-10-0423-PAA-WS on July 1, 2010 and PSC-07-0205-PAA-WS on March 6, 2007. The approved annual amortization of these rate case expenses are \$48,272 and \$38,975, respectively.

Section 367.0816, F.S., states:

“The amount of rate case expense determined by the commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of 4 years. At the conclusion of the recovery period, the rate of the public utility shall be reduced immediately by the amount of rate case expense previously included in rates.”

Below we have calculated the adjustment to prior rate case amortization, excluding order PSC-07-0205-PAA-WS rate case amortization of \$38,975. These expenses will be fully amortized by the completion of the rate case process.

Prior Rate Case Annual Amortization Expense Adjustment

Description	Amount	Water	Wastewater
Per Order PSC-10-0423-PPA-WS	\$ 48,272	\$ 27,202	\$ 21,070
Per Utility:			
Per Books (NARUC 666/766)	\$ 63,851	\$ 35,278	\$ 28,573
Parent Allocation Adjustment	\$ 413	\$ 232	\$ 181
ERC Allocation Adjustment	\$ -	\$ 588	\$ (588)
Total Per Utility	\$ 64,264	\$ 36,098	\$ 28,166
Amortization Adjustment	\$ (15,992)	\$ (8,896)	\$ (7,096)

Effect on the General Ledger: This finding relates to the proforma expenses and therefore, does not require an entry to the ledger.

Effect on the Filing: Operation and Maintenance expense should be reduced by \$8,896 for water and \$7,096 for wastewater.

Finding 22: Non-recurring Expenses

Audit Analysis: The Utility included the following non-recurring charges in test year expense.

Non-recurring Expenses Adjustment

No.	NARUC	Acct	Co.'s Description	Date	Amount Water	Amount Wwater	Staff's Description
1	633/733	6025	Rose,Sundstrom & Bentley	12/26/10	\$ 1,992	\$ 1,527	Legal fees for Sanlando - Longwood Territory Swap
2	720	6325	Clinebell, Brian C DBA Buc	6/17/10		\$ 2,017	Fence modification due to adjoining subdivision requiring the Utility to abandon previously utilized access point to L/S A-04.
3	720	6345	Flo Trend Systems Inc.	2/5/10		\$ 2,553	Return freight for rental unit used in a sludge dewatering pilot study project.
4	620	6290	Reclass FI Inventory	8/31/10	\$ 6,318		The Utility was acquired with an inventory balance on the books. The Utility wrote off the 1998 inventory balance since the origin could not be determined.
Total Non-reoccurring Expenses					\$ 8,310	\$ 6,097	

Effect on the General Ledger: There is no effect in the general ledger since the books have been closed.

Effect on the Filing: Water Operating and Maintenance expense should be decreased by \$8,310 and wastewater by \$6,097.

Finding 23: Regulatory Assessment Fees

Audit Analysis: The regulatory assessment fees reported on the Regulatory Assessment Fee return (RAF) in 2010, do not agree with the RAF reported in the filing. This was due to:

1. The Utility reclassified miscellaneous revenue from water to wastewater in the filing from but did not reclassify the regulatory assessment fees associated with the reclassification. Therefore, Regulatory Assessment Fees are overstated for water and understated for wastewater.
2. The Utility adjusted water revenues in the filing by \$22,822 and wastewater revenues by \$7,499 as shown on Schedule B-3 (A) (2) of the filing. However, they did not adjust the Regulatory Assessment Fees for the change in revenues. This caused a difference of \$692 of the total \$695 net difference between staff's calculation and the filing as shown below.

Adjustments That Should Have Been Made for RAF in the Filing

	Per Filing	RAF Fee	RAF
Water	\$ (22,882)	4.50%	\$ (1,030)
Wastewater	\$ 7,499	4.50%	\$ 337
Total			\$ (692)

Below is the recalculation of the Regulatory Assessment Fees for water and wastewater:

Comparison of Staff Calculation to Filing

Regulatory Assessment Fee	Revenue Per Filing	RAF Tax Percent	RAF Per Staff	RAF Per Filing B-15	Difference
Water					
TYE	\$ 3,281,289	4.50%	\$ 147,658	\$ 171,142	\$ (23,484)
Annualized	\$ 3,516,995	4.50%	\$ 158,265	\$ 182,778	\$ (24,513)
Proforma	\$ 3,992,920	4.50%	\$ 179,681	\$ 204,195	\$ (24,514)
Wastewater					
TYE	\$ 3,602,240	4.50%	\$ 162,101	\$ 138,619	\$ 23,482
Annualized	\$ 3,456,533	4.50%	\$ 155,544	\$ 131,725	\$ 23,819
Proforma	\$ 4,656,239	4.50%	\$ 209,531	\$ 185,712	\$ 23,819
Net Difference Proforma					\$ (695)
Difference for the Filing Adjustments Shown in 2. Above					\$ (692)
Immaterial Difference					\$ (3)

Effect on the General Ledger: This adjustment only affects the filing and has no effect on the general ledger.

Effect on the Filing: Proforma Water Taxes Other Than Income Taxes should be decreased by \$24,514. Proforma Wastewater Taxes Other Than Income Taxes should be increased by \$23,819.

Finding 24: Abandoned Well

Audit Analysis: The Utility has an abandoned well located on Penelope Drive near the Des Pinar plant. The property tax for that parcel of land is \$1,003.95 and it was included in the Taxes Other Than Income in the filing. During the plant tour, Utility personnel stated that the well and land was not included in rate base. However, the Utility later determined that it was unable to find any record of the Utility setting aside this land as unused or be able to find a book value for that particular parcel. The Utility has estimated the value of the land as \$5,000. The assessed value on the property tax bill is \$66,600. The Utility stated that the value of the land is depressed because there is a severe drop-off in the slope of the property, it abuts the I-4 right-of-way and E.E. Williamson Road causing noise pollution, there is a drainage swale that restricts access, it is heavily wooded, and central water and sewer services are not available.

The Utility also determined that the well was on the land when purchased from the previous owners. Since it was not yielding results, the previous owners attempted to restore the well. However when the Utility took it over, they decided to refurbish other wells to reach the necessary capacity. The Utility believes the well holds minimal value. This land may be used in the future.

However, the property tax being paid relates to non-used and useful land and may need to be recorded below the line until the land is used for utility service.

Effect on the General Ledger: This finding is provided for informational purposes.

Effect on the Filing: This finding is provided for informational purposes.

Finding 25: Working Capital Allowance Allocations

Audit Analysis: The Utility allocated various working capital components using an ERC allocation of 55.25% to water and 44.75% to wastewater. The correct ERC allocation should be 56.17% to water and 43.83% to wastewater. The Utility explained that a customer count from their annual report was used instead of the correct ERC allocation. The following schedule shows the difference between water and wastewater.

Calculation to Correct Allocation

Accounts	13-Month Average	56.17% Correct Water	43.83% Correct Wastewater	55.25% Used Water	44.75% Used Wastewater	Difference Water	Difference Wastewater
Assets							
Misc. Current and Accrued Assets	\$ 3,308	\$ 1,858	\$ 1,450	\$ 1,828	\$ 1,480	\$ 30	\$ (30)
Liabilities		\$ -	\$ -				
Accounts Payable	\$ (167,041)	\$ (93,827)	\$ (73,214)	\$ (92,289)	\$ (74,752)	\$ (1,538)	\$ 1,538
Accrued Taxes	\$ (222,136)	\$ (124,774)	\$ (97,362)	\$ (122,729)	\$ (99,407)	\$ (2,045)	\$ 2,045
Accrued Interest	\$ (5,461)	\$ (3,067)	\$ (2,394)	\$ (3,017)	\$ (2,444)	\$ (50)	\$ 50
Misc. Current and Accrued Liabilities	\$ (1,668)	\$ (937)	\$ (731)	\$ (922)	\$ (746)	\$ (15)	\$ 15
Total		\$ (220,747)	\$ (172,251)	\$ (217,129)	\$ (175,869)	\$ (3,618)	\$ 3,618

Effect on the General Ledger: There is no effect in the general ledger since the working capital allocation is only done for the filing.

Effect on the Filing: The average water working capital allowance should be decreased by \$3,618 and average wastewater working capital allowance should be increased by \$3,618.

Finding 26: Deferred Maintenance

Audit Analysis: The Utility recorded \$2,610 for non-routine maintenance on the wastewater plant's catwalk in account 6345 (NARUC 720). Since replacing the catwalk is done every five years according to the Utility staff, this item should be amortized over its useful life. Below we amortized the cost over five years and calculated the adjustment to wastewater operating and maintenance expenses.

Deferred Maintenance Expense Adjustment

Date	Acct.	NARUC	Vendor	Staff's Description	Wastewater Amount	Months Amortized	Monthly Amort. Exp.	Total Amort. Expense
7/26/10	6345	720	The Huntington Co.	The vendor cleaned, sandblasted approximately 45% of catwalk, and painted the catwalk and structural components.	\$ 2,610	60	\$ 43.50	\$ 261
							Amt. Exp. Per Co.	\$ 2,610
							Adjustment	\$ (2,349)

Effect on the General Ledger: The effect on the general ledger is shown on the schedule below.

NARUC	Acct.	Acct. Description	Debit	Credit
186.2	3000	Def Chgs-Other Wtr & Swr	2,349.00	
215	4998	Retained Earnings		2,349.00
		Total	2,349.00	2,349.00

Effect on the Filing: Wastewater operating and maintenance expense should be decreased by \$2,349.

Finding 27: Proforma Plant Addition

Audit Analysis: The Utility made a proforma adjustment of \$153,312 for the State Road 434 Widening by the Florida Department of Transportation (FDOT), as shown on Schedule A-3 of the MFR's. The documentation provided detailed the costs based on an in-house construction estimate and does not show any outside engineering. The Utility explained this amount represents the cost to the Utility, that none of this amount will be reimbursed, and that the project will start in April 2012.

We performed a search of the Seminole County Clerk of the Court and found several Subordination of Utility Interests documents which explain that the FDOT is willing to pay to have the Utility's facilities relocated to prevent conflict between the facilities. The Utility explained that the project has not started, that none of the parcels have required relocation and that the FDOT will foot the cost of any required relocations without the need for the Utility to be reimbursed. The Utility did provide two invoices paid to CPH Engineers, Inc. related to the State Road 434 relocation. One is for \$15,788.40 for services through July 17, 2011 and another for \$3,617.60 for services through September 18, 2011. These two amounts were reimbursed by the FDOT and relate to design services. According to the information provided as supporting documentation for the \$153,312 proforma, these reimbursed invoices do not appear to be included in the proforma costs. However, we could not determine if any future FDOT payments will be. If they are, the proforma for plant, accumulated depreciation and depreciation expense may be affected.

Future audits should ensure that all reimbursements are offset against the accounts the invoices are recorded in.

Effect on the General Ledger: This is provided for informational purposes only.

Effect on the Filing: This is provided for informational purposes only.

Finding 28: Sale of Land

Audit Analysis: The Florida Department of Transportation acquired a small portion of the Knollwood Water Treatment Plant site in order to widen State Road 434. Land Account 1035 (NARUC 303.3) was credited for \$551 based on the Utility's calculation of the land value. Sale of Equipment Account 7690 (NARUC 414) was debited for the same amount. This is a below the line account.

The Utility provided the cash entry related to this transaction. The Utility recorded \$147,030 as a debit to Accounts Receivable Associated Companies Account 2710 (NARUC 146) and a credit to Sale of Equipment Account 7690 (NARUC 414) which is a below the line account for the gain on the sale. Therefore, the rate payers are not receiving any benefit for the \$147,030 gain on the sale of the land. The analyst should determine if this gain should be amortized above the line.

Effect on the General Ledger: This is provided for informational purposes only.

Effect on the Filing: This is provided for informational purposes only.

Exhibits

Exhibit 1: Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: Sanlando Utilities Corp.
 Docket No.: 110257-WS
 Schedule Year Ended: 12/31/2010
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-1
 Page 1 of 1
 Preparer: Kirsten Markwell

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	\$ 24,623,945	\$ (2,082,422)	(A) \$ 22,541,523	A-3, A-5
2					
3	Utility Land & Land Rights	128,519	(31,363)	(A) \$ 97,156	A-3, A-5
4					
5	Less: Non-Used & Useful Plant			\$ -	A-7
6					
7	Construction Work in Progress	10,151	(10,151)	(B) \$ -	A-3
8					
9	Less: Accumulated Depreciation	(12,371,122)	1,025,527	(C) \$ (11,345,595)	A-3, A-9
10					
11	Less: CIAC	(11,942,826)	522,723	(D) \$ (11,420,103)	A-3, A-12
12					
13	Accumulated Amortization of CIAC	9,038,180	(71,829)	(E) \$ 8,966,351	A-3, A-14
14					
15	Acquisition Adjustments				-
16					
17	Accum. Amort. of Acq. Adjustments				-
18					
19	Advances For Construction				A-3, A-16
20					
21	Working Capital Allowance		257,178	(F) \$ 257,178	A-3, A-17
22					
23	Total Rate Base	<u>\$ 9,486,847</u>	<u>\$ (390,337)</u>	<u>\$ 9,096,510</u>	

Docket No.: 110257-WS
 Schedule Year Ended: 12/31/2010
 Interim [] Final [X]
 Historic [X] Projected []

Page 1 of 1
 Preparer: Kirsten Markwell

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	\$ 25,530,759	\$ 4,691,232 (A)	\$ 30,221,991	A-3, A-6
2					
3	Utility Land & Land Rights	203,894	166 (A)	204,060	A-3, A-6
4					
5	Less: Non-Used & Useful Plant	-	-	-	A-7
6					
7	Construction Work in Progress	28,411	(28,411) (B)	-	A-3
8					
9	Less: Accumulated Depreciation	(13,380,589)	(457,362) (C)	(13,837,951)	A-3, A-10
10					
11	Less: CIAC	(13,202,126)	643,365 (D)	(12,558,761)	A-3, A-12
12					
13	Accumulated Amortization of CIAC	10,007,078	98,999 (E)	10,106,077	A-3, A-14
14					
15	Acquisition Adjustments				-
16					
17	Accum. Amort. of Acq. Adjustments				-
18					
19	Advances For Construction				A-3, A-16
20					
21	Working Capital Allowance	-	313,377 (F)	313,377	A-3, A-17
22					
23	Total Rate Base	\$ 9,187,427	\$ 5,261,367	\$ 14,448,793	

Exhibit 2: Net Operating Income

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Sanlando Utilities Corp.

Schedule: B-1

Docket No.: 110257-WS

Page 1 of 1

Test Year Ended: 12/31/2010

Preparer: Kirsten Markwell

Interim [] Final [X]

Historic [X] Projected []

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	\$ 3,281,289	\$ 235,705 (A)	\$ 3,516,995	\$ 475,925 (A)	\$ 3,992,920	B-4, B-3
2							
3	Operation & Maintenance	2,131,700	106,134 (B)	2,237,833	(B)	2,237,833	B-5, B-3
4							
5	Depreciation, net of CIAC Amort.	112,219	150,333 (C)	262,553	(C)	262,553	B-13, B-3
6							
7	Amortization	-		-		-	
8							
9	Taxes Other Than Income	473,115	(16,650) (D)	456,465	21,417 (D)	477,882	B-15, B-3
10							
11	Provision for Income Taxes	79,778	21,568 (E)	101,346	171,031 (E)	272,377	C-1, B-3
12							
13	OPERATING EXPENSES	2,796,812	261,384	3,058,197	192,448	3,250,645	
14							
15	NET OPERATING INCOME	\$ 484,477	\$ (25,679)	\$ 458,798	\$ 283,477	\$ 742,275	

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Sanlando Utilities Corp.

Schedule: B-2

Docket No.: 110257-WS

Page 1 of 1

Test Year Ended: 12/31/2010

Preparer: Kirsten Markwell

Interim [] Final [X]

Historic [X] Projected []

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)	(3)	(4)	(5)	(6)	(7)
		Balance Per Books	Utility Test Year Adjustments	Utility Adjusted Test Year	Requested Revenue Adjustment	Requested Annual Revenues	Supporting Schedule(s)
1	OPERATING REVENUES	\$ 3,602,240	\$ (145,707) (A)	\$ 3,456,533	\$ 1,199,706 (A)	\$ 4,656,239	B-4, B-3
2							
3	Operation & Maintenance	2,189,391	127,362	2,316,752	(B)	2,316,752	B-6, B-3
4							
5	Depreciation, net of CIAC Amort.	(75,463)	688,392	612,929	(C)	612,929	B-14, B-3
6							
7	Amortization			-		-	
8							
9	Taxes Other Than Income	383,202	75,501 (D)	458,703	53,987 (D)	512,690	B-15, B-3
10							
11	Provision for Income Taxes	64,616	(460,904) (E)	(396,288)	431,134 (E)	34,846	C-1, B-3
12							
13	OPERATING EXPENSES	2,561,747	430,350	2,992,096	485,121	3,477,217	
14							
15	NET OPERATING INCOME	\$ 1,040,492	\$ (576,058)	\$ 464,436	\$ 714,585	\$ 1,179,022	

Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital
13 Month Average Balance

Florida Public Service Commission

Company: Sanlando Utilities Corp.

Schedule D-1

Docket No.: 110257-WS

Page 1 of 1

Test Year Ended: 12/31/2010

Interim Final

Preparer: Nicole Winans

Historical Projected

Explanation: Provide a schedule which calculates the requested cost of capital on a 13-month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

	(1)	(2)	(3)	(4)	(5)
		Reconciled to Requested Rate Base			
Line No.	Class of Capital	AYE 12/31/10	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	\$11,296,933	47.98%	6.65%	3.19%
2	Short Term Debt	1,012,385	4.30%	3.88%	0.17%
3	Preferred Stock	-	0.00%	0.00%	0.00%
4	Common Equity	10,647,262	45.22%	10.60%	4.79%
5	Customer Deposits	53,649	0.23%	6.00%	0.01%
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	535,073	2.27%	0.00%	0.00%
9	Other (Explain)	-	0.00%	0.00%	0.00%
10					
11	Total	<u>\$23,545,303</u>	<u>100.00%</u>		<u>8.16%</u>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-11-0287-PAA-WS

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