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**RECORDS AND
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ROBERT M. C. ROSE
OF COUNSEL

September 23, 1999
VIA HAND DELIVERY

Mr. Bart Fletcher
Division of Water and Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0873

Re: D.R. Horton Custom Homes, Inc.; PSC Docket No. 981609-WS
Emergency Petition to Eliminate Service Availability and AFPI Charges of Southlake Utilities, Inc.
Our File No. 33083.01

Dear Bart:

I am writing to you to outline, as briefly as possible, some of the issues that we at D.R. Horton Custom Homes, Inc. have with the ultimate questions being reviewed by the Public Service Commission in the above-referenced docket.

From our review of the information submitted by the Utility and the information which has been published as a result of the staff's investigations, as well as our own investigation, we believe there are four basic issues that must be addressed. These relate to both prospective and retroactive AFPI charges and to prospective and retroactive CIAC or Service Availability charges. I have tried to address each of these below. Some in very specific terms, and others in more conceptual terms. On the conceptual issues, we will leave it to the Commission staff to make the calculations as deemed appropriate in order to determine the net effects on the ultimate issues.

However, in order to address the four ultimate issues as we see them, several subordinate issues must be addressed first. I have tried to deal with these at the beginning of this letter, and then to address the ultimate issues at the end:

Related Party Land Lease - As the staff is well aware of many of the facts surrounding this issue, I will not reiterate each and every fact leading up to the conclusion. However, it should be noted that regardless of how the Utility and its related parties view the land lease situation, the transaction as initially conceived and entered into and as recently revised, both were related party transactions between the Utility and the landowner.

Originally, the Utility had requested recognition of a lease payment in the initial rates established by the Florida Public Service Commission back in 1990. Built into those rates were substantial lease payments based upon a very sketchy land lease from the related party. The Utility is now attempting to justify that land lease based upon the value of that Utility property as multi-family housing property, rather than valued at its use as a Utility property site.

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In the Rolling Oaks rate case in Docket No. 850941-WS, which resulted in Commission Order No. 17532, issued on May 8, 1987, the Commission refused to recognize an increase in value of property (sold to the Utility years later) resulting from the development of the related party's property surrounding it. The Commission also refused to recognize the market value of the property at the time the Utility purchased it or began using it, but instead required that the property value be recognized based upon the cost to the related party purchaser (acquired on a much earlier date), escalated only for the effects of inflation since the date of purchase. That decision by the Commission was ultimately upheld by the First District Court of Appeal by Order No. 87-1070, issued on July 13, 1988.

We at D.R. Horton Custom Homes, Inc. do not currently have in our possession information concerning the date of original purchase or original cost of the property to the Utility's related party landowner. As such, we have utilized in our calculations the assessed value of the property when first devoted to public service in 1991. While we believe that the same treatment as that afforded to Rolling Oaks should be utilized in this case for the same reasons outlined by the staff in that order, we have not done the additional research to determine that exact cost of the land when originally purchased by the related party. It would probably be immaterial to the bottom line question of the appropriate Service Availability and/or AFPI charges as they are affected by this issue. Instead, we have used the 1991 assessed value for the property owned by the related party on a per acre basis and determined that the per acre cost of the land is \$2,984 per acre for the water plant and \$1,888 per acre for the sewer plant (see attached letter from James C. Boyd, P.E. dated August 20, 1999 and attachments). We then applied that cost to the land utilized in the water and sewer systems and included the total cost in plant in service (\$7,544 for water and \$18,880 for sewer).

It should also be noted as further justification for not recognizing the inflated value of the land since it became development property, that Mr. Chapman in the meeting with the undersigned and with members of the Commission staff on Friday, September 10, 1999 specifically stated that the reason why the property was being leased to the Utility, rather than sold to the Utility, was so that the development density allowances in the development order for the entire development property could be maintained. In other words, while the Utility is given the right to utilize the land for Utility purposes, the developer is retaining and utilizing the development rights to that property for his own use. Since those development rights constitute the great majority of the current value of the real estate itself, and virtually all of the value that the Utility's appraisal report is based upon, it is patently unreasonable to then try and impose that value, still retained by the developer, on the Utility and its customers.

We believe there is also an argument to be made that the recent capitalization of the land lease was done for no purpose other than to try and inflate the Service Availability charges. Whether GAAP requires the capitalization of the lease with the new bargain purchase arrangement, or not, it seems inappropriate to at this time allow the Utility to make that change and suddenly try and bolster their existing Service Availability charges based upon that accounting rule. However, assuming, without researching the issue, the correctness of their position that this lease should be capitalized, we have utilized the assessed value of the property at the time the Utility got its certification from the Commission to operate the water and sewer systems, and therefore, the date at which these

related party lands were first devoted to the public service.

For the above reasons, we have very liberally utilized the 1991 assessed value for the Utility land in our calculation of the appropriate land values to be considered in establishing Service Availability charges.

2. Plant in Service - In our analysis we have substantially adjusted the levels of plant in service estimated to be added in future years by the Utility in their correspondence with the Commission staff.

We have made no adjustments to the wastewater treatment additions estimated for Southlake Utilities in the years 1999 and 2000.

With regard to water treatment facilities to be added, the Utility has estimated additions of approximately \$1,031,000 during 1991 to the water treatment facilities. This figure includes a cost for upgrading Well "A" and connecting it to the system of \$376,698. According to the investigation performed by Jim Boyd, P.E. (D.R. Horton's engineer), the existing permits issued by FDEP specifically exclude the upgrading of Well "A" (please see attached FDEP file memorandum) and in discussions by Mr. Boyd with FDEP, it is our understanding that a permit application for a Well "A" upgrade has not been submitted by Southlake. Given that we are now into late September of 1999, it is extremely unlikely that work could be completed on the Well "A" upgrade proposed by the Utility, even if a permit application were submitted today. Therefore, we have utilized the figures proposed by the Utility for 1999 additions net of the \$376,698 cost previously noted for upgrading Well "A".

In addition, the proposed upgrade for Well "A" is not necessary to achieve the rated capacity of the permitted plant expansion of 2.916 MGD utilized by us in our analysis, and absolutely no additional capacity to be generated by this substantial addition has been offered or established by Southlake. Therefore, to the extent this addition were included, the additional capacity resulting from it would also have to be included.

With regard to the approximately \$1,650,000 proposed addition to water plant for the year 2000, we have completely excluded these costs for the following reasons:

- (A) The work has not yet been permitted by FDEP and we understand through discussions with FDEP personnel, that no permit application related to this work has been submitted by Southlake.
- (B) The work description offered by the Utility in all correspondence with the staff is very vague, and impossible to evaluate in terms of cost reasonableness based on the information supplied by Southlake to date.
- (C) To our knowledge, Southlake has not associated any additional capacity with this huge increase in plant proposed for the year 2000. It is therefore impossible to match the cost with the additional ERCs and CIAC which will be generated by this additional capacity if and when constructed.

- (D) Buildout of the water system as proposed by the Utility, even before the year 2000 additions, is almost twice what the schedule for buildout of the wastewater system is. As such, to the extent there is a need for further expansion of the system in order to meet the needs of the service territory, logically that expansion would be in the wastewater and not the water system. It appears as though the Utility is proposing additions to the water system solely for the purpose of justifying their current Service Availability charges, instead of in order to meet the needs of customers.

For all of these reasons, the year 2000 additions have been excluded in their entirety. If and when Southlake can provide detailed cost figures to show the basis for proposing over \$1.6 million for new water facilities, including the specifics of what is to be added and the additional capacities that it will generate, then and only then should those costs be considered in calculating an appropriate Service Availability or AFPI charge into the future. Such expenditures must also be imminent if not incurred prior to such recognition.

3. Current CIAC Level - Based upon the assertions by Mr. Ade and from the review of the Utility's Annual Report, we believe that we are in agreement with the current level of CIAC as stated (\$989,347 in sewer CIAC and \$723,000 in water CIAC).

From a review of the Utility's Annual Report and its approved Service Availability Policy, however, it appears as though all onsite and offsite transmission and distribution facilities are required to be constructed and donated to the Utility by developers within the Utility's service territory. However, the Annual Report itself shows only very minor amounts of plant in service in the categories that would normally be associated with these type of transmission, distribution and collection facilities (1998 Annual Report shows a balance of \$145,111 in accounts 331 through 335). The same is true of sewer collection facilities where the total balance as of December 31, 1998 as reported in the Annual Report is only \$77,340 in such accounts (360 through 363).

We at D.R. Horton Custom Homes, Inc. do not have the information available to further investigate this issue, but believe it is imperative that the Commission staff do so prior to drawing its final conclusions as to the current level of CIAC, and as a result, the appropriate future level of Service Availability charges.

Lacking this additional information concerning whether or not the current levels of contributed property are accurate and without information concerning what amount of future contributed property will be necessary in order for the system to reach buildout, we have assumed that the current levels as stated in the 1998 Annual Report are not only accurate, but also represent a fair estimation of the levels of property CIAC that will be necessary on a per customer basis to provide service at buildout of the system. These assumptions have been included in our calculations of going-forward CIAC charges.

The balances in the water and sewer T & D accounts appear excessively low and in that regard we have no alternative to accept them for the purposes of our initial calculations and our estimates of the additional property CIAC which the Utility will receive in the next few years of operation of the system as it approaches buildout of the current phases.

4. Current and Future Service Availability Charges - In this docket, as of the January 1, 1999 effective date of the Commission's Order, all Contributions in Aid of Construction currently being received by the Utility since that date, and all connections made after that to which Service Availability charges have been made, are being collected and/or held subject to refund. As such, we at D.R. Horton Custom Homes, Inc. have prepared our analysis of current and future Service Availability charges based upon the changes which need to be made to those charges in order to achieve the 75% CIAC level at buildout of the current and future facilities of the Utility in accordance with the Commission Rule 25-30.580.

In the attached set of schedules prepared by Mr. Mike Burton, a financial consultant to D.R. Horton Custom Homes, we have calculated appropriate Service Availability charges on a going forward basis based upon the following assumptions.

- (1) Growth in ERCs will continue at the current rates and Service Availability charges will be collected at the rates determined in that analysis.
- (2) Mr. Burton has calculated the appropriate accumulated depreciation and accumulated amortization of CIAC up to the point of buildout of those included facilities, and calculated the charge necessary to achieve a 75% contribution level at the time of buildout. In doing so, Mr. Burton has excluded the prepaid CIAC from the 1998 figures since that CIAC is recognized as additional connections are added for the purposes of determining the appropriate Service Availability charge on a going-forward basis.

However, it should be noted that such prepaid CIAC can be assumed to continue to exist each year at similar levels, and as such, while it is appropriate to exclude it for the purposes of calculating the total CIAC levels at buildout within our calculations, it is inappropriate to exclude those prepaid contributions when viewing the Utility's investment level at any point in time. This would also hold true for calculating the level of AFPI which the Utility is entitled to on any net investment and therefore any carrying costs related to plant prudently invested. That latter point will be discussed at a later point in this memorandum.

In conclusion, Mr. Burton's schedules show an appropriate Service Availability charge going-forward from December 31, 1998 as being \$0 for the water system and \$118 for the wastewater system. All Service Availability charges collected since December 31, 1999, as well as all Service Availability charges prepaid prior to that date which are related to connections physically made after that date, should be entitled to refunds of the difference between the above-calculated charges and those previously employed by the Utility.

5. Past AFPI Charges and Refunds - As of December 31, 1998, the Utility has no net investment, and in fact, has a negative investment in plant in service because of the over contributions which have occurred in prior years, above and beyond what is necessary to achieve the optimal level of CIAC as indicated by the Commission's own rules. This situation has existed now for at least the last three years. As such, all AFPI charges collected by the Utility from December 31, 1998 forward should be refunded in full.

On a going-forward basis, all AFPI charges collected by the Utility, either by prepayment related to connections made after December 31, 1998 or paid since that time, should be eliminated and all payments refunded.

Since it is apparent from Mr. Burton's calculations that the Utility will not have any substantial net investment and therefore no carrying costs in that Utility's plant for several years into the future, all AFPI charges on a going-forward basis should also be eliminated. Until such time as the Utility makes substantial additional investments that would require it to incur carrying costs, it should not be allowed to charge its customers for such carrying costs.

Finally, as a result of over collections of AFPI charges during previous years in which the Utility had no net investment and therefore no carrying costs of any significance (in fact more likely, negative carrying costs), all AFPI charges which have been collected by the Utility since it exceeded the 75% contribution level should either be refunded or treated as CIAC on the Utility's books and records to avoid the Utility receiving a windfall through such over collection. In effect, such charges are excess CIAC collected by the Utility.

6. Conclusion - Based upon the above-facts and analyses utilizing all of the data that has been submitted to the staff in this matter, and review of the Annual Reports and independent investigations by Mr. Burton and by our engineer, Mr. Boyd, we believe the Utility should be required to:
- (a) Refund all AFPI charges which it has collected related to connections made after December 31, 1998 both those paid prior to that time or since that time.
 - (b) No AFPI charges should be authorized for the Utility on a going-forward basis.
 - (c) Until such time as the Utility provides documentation of having invested in additional plant which would generate carrying costs at least 25% above the level of contributions at any future point in time, no additional AFPI charges should be approved on a going-forward basis. Even when such charges are approved, they must more appropriately correspond to the actual carrying costs of the Utility and not some estimated future carrying costs which are nonexistent at the present time. This enables the Utility to achieve a windfall at the expense of its customers.
 - (d) All CIAC charges collected since December 31, 1998 and all such charges collected prior to that date, which relate to connections since that date, should be refunded based upon the difference between the then existing charge and the appropriate going-forward charge as calculated in Mr. Burton's analysis.
 - (e) Finally, all AFPI charges received by the Utility since its contribution level exceeded its plant service investment up to December 31, 1998 should be treated as CIAC since that is the nature and effect of such excess AFPI charges. To allow the Utility to retain those monies for supposed carrying costs that did not exist, would allow a windfall to the Utility and should not be condoned by the

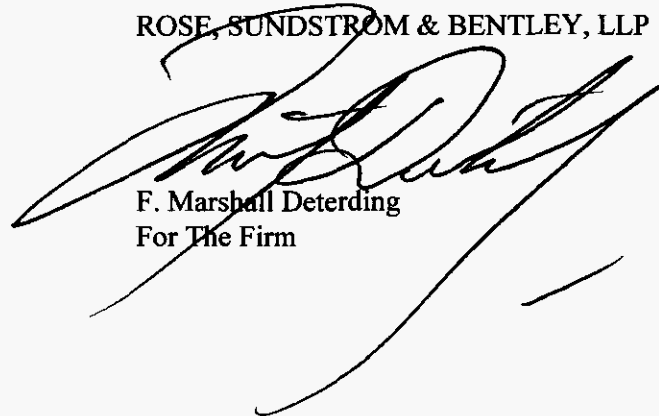
Commission.

While we at D.R. Horton Custom Homes recognize that many additional calculations and much additional information must be obtained by the Commission in order to establish the final levels of going-forward CIAC and AFPI charges, we believe the information contained herein provides a starting point for such analysis. However, in order to reach a final decision, additional information will have to be supplied either by the Utility, or by the Commission staff's own analysis, to determine the proper past and future levels of property CIAC received by the Utility.

Should you or any members of the staff have any questions with regard to these calculations, please do not hesitate to let us know. We would be happy to meet with the staff to discuss the derivation of our calculations or to do so by conference call, should the staff see fit. In addition, because we have now developed a model to help us to calculate the CIAC charges based upon changes in the many variables appropriately included in such calculation, we stand ready, willing and able to adjust our assumptions in accordance with any additional appropriate factors as determined by the Commission staff.

Sincerely,

ROSE, SUNDBROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tmg
cc: Division of Records and Reporting
Tricia Merchant, CPA
Mr. Ian Forbes
Samantha Cibula, Esquire
Mr. David Auld
Mr. Ralph Spano
James Boyd, P.E.
Mr. Mike Burton

drhorton\fletcher.ltr

Source: Assessing Current Services Availability Changes
Business Capitalized Leases

A	B - Actual			C - Actual			D - Actual			E - Actual			F - Actual			G - Actual			H - Actual			I - Actual			J - Projected			K - Projected			L - Projected			M - Projected			N - Projected		
	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total						
1	Utility Plant in Service:																																						
2	Plant in service previous year:																																						
3	Trans & Dist Lines, Services, meters & Meter Installations & Hydrants																																						
4	Collection Sewers - Force & Gravity																																						
5	Other																																						
6	Total Plant in service previous year																																						
7	Plus: Additions (1999) to buildout assumes additional contributed lines at same ratio																																						
8	per connection as now																																						
9	GASB Pledge/Debt (Net D.F. - Water) Current (1999) (2)																																						
10	Net Additions																																						
11	Proprietary Additions for Plant Expenditures																																						
12	Less: Retirements																																						
13	Plant in Service																																						
14	Construction Work in Progress																																						
15	Other																																						
16	Projected through Buildout																																						
17	Total Utility Plant in Service																																						
18	Accumulated Depreciation and Amortization:																																						
19	Balance Previous year																																						
20	Net additions: Years to Buildout from 1999																																						
21	From annual report																																						
22	New through Buildout																																						
23	Balance End of Year																																						
24	Net Utility Plant																																						
25	Contributions in Aid of Construction (CIAC):																																						
26	Balance first of year																																						
27	Add credits during year (from Additions to CIAC below)																																						
28	Total																																						
29	Deduct charges during the year (Prepaid CIAC)																																						
30	Balance end of year																																						
31	Less: Accumulated Amortization:																																						
32	Balance first of year																																						
33	Add credits during year (Amort Prepaid Cap Charges)																																						
34	Deduct debts during year - from 1999 annual report																																						
35	Deduct debts during year - new through Buildout																																						
36	Accumulated Amortization - balance end of year																																						
37	Net CIAC																																						
38	Percentage that Net CIAC is of Net Utility Plant w/o Prepaid CIAC																																						
39	Percentage that Net CIAC is of Net Utility Plant w/ Prepaid CIAC																																						
40	Buildout Capacity Analysis:																																						
41	Capacity in mgd																																						
42	Plus: Increase in capacity																																						
43	Total Capacity in mgd																																						
44	Capacity in ERCs @ 787.5 gpd per ERC																																						
45	Water/Wastewater treatment Sold to Customers (1,000 gallons)																																						
46	Current ERCs @ 787.5 gpd per ERC																																						
47	Available Capacity in ERCs																																						
48	Annual Growth in ERCs to Buildout																																						
49	Years to buildout																																						
50	Additions to CIAC:																																						
51	Contributions from developers:																																						
52	1 Developer Contribution - Lines @																																						
53	Developer Contribution - Cash																																						
54	Subtotal																																						
55	Charges:																																						
56	Water Plant Capacity Charges																																						
57	Wastewater Plant Capacity Charges																																						
58	Meter Installation Fee - 5/8"OH"																																						
59	Meter Installation Fee - 1"																																						
60	Meter Installation Fee - 2"																																						
61	Meter Installation Fee - Other																																						
62	Subtotal																																						
63	Total additions to CIAC																																						

(1) Adjustment to remove capitalized lease

D.R. Horton Custom Homes, Inc.
PSC Exhibit No. 09000-093
Service Availability & ACPY Change Analysis

A-2

**Scenario: Assesses Current Service Availability Changes
 Relative to Capitalized Leases**

	2000 - Projected			Buildout - Projected		
	O	P	S	J	K	N
	Water	Wastewater	Total	Water	Wastewater	Total
Utility Plant In Service:						
Plant in service previous year:						
Trans & Dist Lines, Services, meters & Meter Installations & Hydrants	NA	NA	NA	NA	NA	NA
Collection Systems - Force & Gravity	NA	NA	NA	NA	NA	NA
Other	NA	NA	NA	NA	NA	NA
Total Plant in service previous year	\$1,244,430	\$2,087,083	\$3,332,123	\$480,313	\$1,126,468	\$1,586,380
Plus: Additions (1999 to buildout assumes additional contributed lines at same ratio per connection as 1999 Acquisition (see D.R. Horton Custom Homes (C))	\$138,197	\$102,207	\$241,404	\$1,142,809	\$425,180	\$1,567,989
Net additions	\$138,197	\$102,207	\$241,404	\$1,142,809	\$425,180	\$1,567,989
Minus: Additions to Plant Expenditures	\$0	\$0	\$0	\$859,328	\$800,000	\$1,659,328
Less: Retirements	\$0	\$0	\$0	\$0	\$0	\$0
Plant In Service	\$1,383,627	\$2,189,889	\$3,573,527	\$2,248,042	\$2,410,668	\$4,658,710
Construction Work in Progress	\$0	\$0	\$0	\$0	\$0	\$0
Other:						
Projected through Buildout	NA	NA	NA	NA	NA	NA
Total Utility Plant in Service	\$1,383,627	\$2,189,889	\$3,573,527	\$2,248,042	\$2,410,668	\$4,658,710
Accumulated Depreciation and Amortization:						
Balance Previous year	Water					
Net additions: Years to Buildout from 1999	8.21					
From annual report	\$13,118	\$57,531	\$70,649	\$107,099	\$239,329	\$347,128
New through Buildout	\$26,451	\$31,740	\$58,191	\$481,614	\$178,825	\$660,439
Balance End of Year	\$73,376	\$385,480	\$458,856	\$646,752	\$398,154	\$1,044,906
Net Utility Plant	\$1,310,252	\$1,821,419	\$3,114,671	\$1,601,290	\$1,741,064	\$3,342,763
Contributions in Aid of Construction (CIAC):						
Balance first of year	\$803,085	\$1,284,037	\$2,087,122	\$783,634	\$1,155,296	\$1,938,930
Add credits during year (from Additions to CIAC below)	\$307,197	\$412,207	\$719,404	\$2,708,705	\$1,744,780	\$4,453,485
Total	\$1,110,282	\$1,696,244	\$2,806,526	\$3,492,339	\$2,870,076	\$6,392,415
Deduct charges during the year (Prepaid CIAC)	\$0	\$0	\$0	\$0	\$0	\$0
Balance end of year	\$1,110,282	\$1,696,244	\$2,806,526	\$3,492,339	\$2,870,076	\$6,392,415
Less: Accumulated Amortization:						
Balance first of year	\$84,242	\$228,805	\$313,047	\$80,988	\$185,949	\$266,937
Add credits during year (Amort Prepaid Cap Charges)	\$3,585	\$14,535	\$18,120	\$29,289	\$80,486	\$109,775
Deduct debits during year - from 1999 annual report	\$27,214	\$77,391	\$104,605	\$223,427	\$321,947	\$545,374
Deduct debits during year - new through Buildout	\$10,240	\$13,740	\$23,980	\$370,367	\$118,891	\$489,258
Accumulated Amortization - Balance end of year	\$107,861	\$399,861	\$489,861	\$674,031	\$346,273	\$1,020,304
Net CIAC	\$1,002,421	\$1,406,383	\$2,416,665	\$2,818,308	\$2,323,734	\$5,172,111
Percentage that Net CIAC is of Net Utility Plant in Prepaid CIAC	76.50%	77.11%	76.89%	176.01%	133.47%	168.34%
Percentage that Net CIAC is of Net Utility Plant in Prepaid CIAC	86.17%	87.82%	84.89%	NA	NA	NA
Buildout Capacity Analysis:						
Capacity in mgd	2.9180	0.9500	NA	0.6000	0.1647	NA
Plus: Increase in capacity	0.0000	0.0000	NA	2.3180	0.3853	NA
Total Capacity in mgd	2.9180	0.9500	NA	2.9180	0.5500	NA
Capacity in ERCs @ 787.5 gpd per ERC	3,703	1,964	NA	3,703	1,964	NA
Water/Wastewater treatment Sold to Customers (1,000 gallons)	390,882	112,502	NA	1,064,958	200,925	NA
Current ERCs @ 787.5 gpd per ERC	1,221	1,101	NA	3,705	1,966	NA
Available Capacity in ERCs	2,482	863	NA	0	0	NA
Annual Growth in ERCs to Buildout	400	400	NA	400	400	NA
Years to buildout	NA	NA	NA	8.21	4.16	NA
Additions to CIAC:						
Contributions from developers:						
1 Developer Contribution - Lines @ \$348	NA	NA	\$138,197	\$102,207	\$241,404	
Developer Contribution - Cash	NA	NA	\$0	\$0	\$0	
Subtotal			\$138,197	\$102,207	\$241,404	
Charges:						
Water Plant Capacity Charges	400	\$435.00	\$168,000	\$0	\$168,000	
Wastewater Plant Capacity Charges	400	\$778.00	\$0	\$310,000	\$310,000	
Meter Installation Fee - 5/8x3/4"	1,219.19	130.00	\$158,494	\$0	\$158,494	
Meter Installation Fee - 1"	0.00	210.00	\$0	\$0	\$0	
Meter Installation Fee - 2"	24.83	468.25	\$11,484	\$0	\$11,484	
Meter Installation Fee - Other	35.95	Various	\$14,638	\$0	\$14,638	
Subtotal			\$168,000	\$310,000	\$478,000	
Total additions to CIAC			\$307,197	\$412,207	\$719,404	

(1) Adjustment to remove capitalized lease

D.R. Norton Custom Homes, Inc.
PSC Docket No. 091000-000
Burton Associates & AECI Group Analysis

B-1

Summary: **Committed Program Service Availability Changes**
Business Contracted Leases

A	B - Actual			C			D			E - Actual			F			G - Actual			H			I			J			K			L - Projected			M		
	1997 - Actual			1998 - Actual			1999 - Actual			2000 - Actual			2001 - Actual			2002 - Actual			2003 - Actual			2004 - Actual			2005 - Projected			2006 - Projected			2007 - Projected			2008 - Projected		
	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total	Water	Sanitary	Total			
Utility Plant in Service:																																				
Plant in service previous year:																																				
Trans & Dist Lines, Services, meters & Meter Installations & Hydrants																																				
Collection Systems - Force & Gravity																																				
Other																																				
Total Plant in service previous year																																				
Plus: Additions (1999 to buildout assumes additional contributed lines at same rate per connection as new)																																				
Less: Adjustments per D.R. Norton Custom Homes (1)																																				
Net additions																																				
Proforma Additions in Plant Expenditures																																				
Less: Retirements																																				
Plant in Service																																				
Construction Work in Progress																																				
Other:																																				
Projected through Buildout																																				
Total Utility Plant in Service																																				
Accumulated Depreciation and Amortization:																																				
Balance Previous year																																				
Net additions: Years to Buildout from 1999 A,21																																				
From annual report																																				
New through Buildout 30 Year average life																																				
Balance End of Year																																				
Net Utility Plant																																				
Contributions in Aid of Construction (CIAC):																																				
Balance first of year																																				
Add credits during year (from Additions to CIAC below)																																				
Total																																				
Deduct charges during the year (Prepaid CIAC)																																				
Balance end of year																																				
Less: Accumulated Amortization:																																				
Balance first of year																																				
Add credits during year (Amort Prepaid Cap Charges)																																				
Deduct debits during year - from 1999 annual report																																				
Deduct debits during year - new through Buildout 30 Year term																																				
Accumulated Amortization - Balance end of year																																				
Net CIAC																																				
Percentage that Net CIAC is of Net Utility Plant w/o Prepaid CIAC																																				
Percentage that Net CIAC is of Net Utility Plant w/ Prepaid CIAC																																				
Buildout Capacity Analysis:																																				
Capacity in mgd																																				
Plus: Increase in capacity																																				
Total Capacity in mgd																																				
Capacity in ERCs @ 787.5 gpd per ERC																																				
Water/Wastewater treatment Sold to Customers (1,000 gallons)																																				
Current ERCs @ 787.5 gpd per ERC																																				
Available Capacity in ERCs																																				
Annual Growth in ERCs to Buildout																																				
Years to buildout																																				
Additions to CIAC:																																				
Contributions from developers:																																				
1 Developer Contribution - Lines @ \$348																																				
Developer Contribution - Cash																																				
Subtotal																																				
Charges:																																				
Water Plant Capacity Charges																																				
Wastewater Plant Capacity Charges																																				
Meter Installation Fee - 5/8x3/4"																																				
Meter Installation Fee - 1"																																				
Meter Installation Fee - 2"																																				
Meter Installation Fee - Other																																				
Subtotal																																				
Total additions to CIAC																																				

(1) Adjustment to remove capitalized lease = Adjustments made to annual report

09/22/99 14:03 9042417708


B.R. Norton Custom Homes, Inc.
POC Number No. 891889-WS
Service Availability & ACPI Charge Analysis

B-2

Source: *Construction Proposed Services Availability Charge
 Burden Cost/Unit Costs*

A	O P Q R S			J K L M N		
	2000 - Projected			Buildout - Projected		
	Winter	Winter	Total	Winter	Winter	Total
Utility Plant in Service:						
Plant in service previous year:						
Trunk & Dist Lines, Services, meters & Meter Installations & Hydrants	NA	NA	NA	NA	NA	NA
Collection Sewers - Force & Gravity	NA	NA	NA	NA	NA	NA
Other	NA	NA	NA	NA	NA	NA
Total Plant in service previous year	\$1,244,430	\$2,087,383	\$3,332,123	\$480,913	\$1,135,988	\$1,586,389
Plus: Additions (1999 to buildout assumes additional contributed lines at same rate per connection as 1999 Adjustments per D.R. Horton Custom Homes (1))	\$139,197	\$102,207	\$241,404	\$1,142,809	\$425,180	\$1,567,989
Less: Adjustments	30	30	30	30	30	30
Not additions	\$139,197	\$102,207	\$241,404	\$1,142,809	\$425,180	\$1,567,989
Proforma: Addition to Plant Expenses	30	30	30	\$654,320	\$800,900	\$1,504,320
Less: Proforma	30	30	30	30	30	30
Plant in Service	\$1,383,627	\$2,189,380	\$3,573,527	\$2,248,042	\$2,410,888	\$4,658,707
Construction Work in Progress	30	30	30	30	30	30
Other:	30	30	30	30	30	30
Projected through Buildout	NA	NA	30	NA	NA	30
Total Utility Plant in Service	\$1,383,627	\$2,189,380	\$3,573,527	\$2,248,042	\$2,410,888	\$4,658,707
Accumulated Depreciation and Amortization:						
Balance Previous year	360,257	\$310,948	\$571,206	\$47,139	\$239,416	\$300,557
Net additions: Years to Buildout from 1999 8.21						
From annual report	\$13,118	\$57,531	\$70,649	\$107,899	\$239,329	\$347,028
New through Buildout	30	30	30	\$491,814	\$178,625	\$688,639
Balance End of Year	\$73,375	\$368,480	\$441,855	\$689,802	\$688,572	\$1,378,224
Less: Accumulated Amortization:						
Balance first of year	\$803,085	\$1,284,037	\$2,087,122	\$783,034	\$1,195,206	\$1,938,630
Add credits during year (from Additions to CIAC below)	\$139,197	\$149,257	\$288,454	\$1,327,425	\$621,033	\$1,948,458
Total	\$942,282	\$1,433,294	\$2,375,576	\$2,110,459	\$1,776,329	\$3,887,088
Deduct charges during the year (Prepaid CIAC)	30	30	30	30	30	30
Balance end of year	\$942,282	\$1,433,294	\$2,375,576	\$2,110,459	\$1,776,329	\$3,887,088
Less: Accumulated Amortization:						
Balance first of year	\$84,242	\$228,805	\$313,047	\$60,893	\$165,949	\$226,542
Add credits during year (Amort Prepaid Cap Charges)	\$3,585	\$14,535	\$18,100	\$29,289	\$69,486	\$98,734
Deduct debts during year - from 1999 annual report	\$27,214	\$77,361	\$104,605	\$223,427	\$321,947	\$545,374
Deduct debts during year - new through Buildout	\$4,640	\$4,978	\$9,618	\$181,836	\$43,056	\$224,894
Accumulated Amortization - Balance end of year	\$107,891	\$291,681	\$399,372	\$436,367	\$479,496	\$905,875
Net CIAC	\$834,391	\$1,141,613	\$1,976,204	\$1,674,092	\$1,306,840	\$2,981,412
Proforma that Net CIAC is of the Utility Plant into Prepaid CIAC	63.96%	62.69%	65.79%	104.87%	76.60%	88.17%
Proforma that Net CIAC is of the Utility Plant or Prepaid CIAC	77.39%	82.69%	80.92%	NA	NA	81
Buildout Capacity Analysis:						
Capacity in mgd	2.9180	0.5500	NA	0.8000	0.1647	NA
Plus: Increase in capacity	0.0000	0.0000	NA	2.3180	0.3853	NA
Total Capacity in mgd	2.9180	0.5500	NA	2.9180	0.5500	NA
Capacity in ERC's @ 787.5 gpd per ERC 280	3,703	1,984	NA	3,703	1,984	NA
Water/Wastewater treatment Sold to Customers (1,000 gallons)	350,882	112,302	NA	1,084,935	209,925	NA
Current ERCs @ 787.5 gpd per ERC 280	1,221	1,901	NA	3,705	1,986	NA
Available Capacity in ERCs	2,482	883	NA	0	0	NA
Annual Growth in ERCs to Buildout	400	600	NA	400	400	NA
Years to buildout	NA	NA	NA	8.21	4.16	NA
Additions to CIAC:						
Contributions from developers:						
1 Developer Contribution - Lines @ \$348	NA	NA	\$0	NA	NA	\$0
Developer Contribution - Cash	NA	NA	\$0	NA	NA	\$0
Subtotal	\$139,197	\$102,207	\$241,404	\$1,142,809	\$425,180	\$1,567,989
Charges:						
Water Plant Capacity Charges	400	\$5.00	\$0	\$0	\$0	\$0
Wastewater Plant Capacity Charges	400	\$117.79	\$47,080	\$47,080	\$0	\$0
Meter Installation Fee - 5/8x3/4"	1,219.19	136.00	\$166,494	\$166,494	\$0	\$166,494
Meter Installation Fee - 1"	0.00	210.00	\$0	\$0	\$0	\$0
Meter Installation Fee - 2"	24.63	485.25	\$11,884	\$11,884	\$0	\$11,884
Meter Installation Fee - Other	38.95	Various	\$14,638	\$14,638	\$0	\$14,638
Subtotal	\$0	\$47,080	\$47,080	\$184,576	\$186,353	\$380,989
Total additions to CIAC	\$139,197	\$149,287	\$288,454	\$1,327,425	\$621,033	\$1,948,458

(1) Adjustment to remove capitalized lease

TO: Kim Spring
THROUGH: Richard Lott
FROM: Frank Huttner 
DATE: March 31, 1999
SUBJECT: Lake Co-PW
Southlake Utilities
Water Facilities Plan for SRF Funding Dated November, 1998

Please forward to Tallahassee the following comments on the subject plan:

1. We issued a construction permit on January 29, 1999 for the current Phase I improvements (new storage tank and high service pumping facilities) noted in the next to last paragraph of Page 1-4, excluding the connection of an existing Well A. The existing Well A will require approval as a source of water. However, the plan states that all of the Phase I improvements will be financed by the Utility anyway, so it is unclear if these comments are needed for this aspect.
2. On the Phase II improvements noted at the bottom of Page 1-4, the connection of an existing Well E to future Water Plant B will require approval of the existing Well E as a source of water. Acceptability of this existing Well E has not yet been documented to the Department.
3. In the first paragraph of Page 1-5, the word "westerly" should be changed to "easterly" in both locations, based on the map provided.
4. South Lake County is a very rapidly growing area. We have no adverse comments to future water system expansion which will be needed to meet demands.

August 20, 1999

Mr. F. Marshall Deterding
Rose, Sundstrom & Bentley, LLP
2548 Blairstone Pines Drive
Tallahassee, FL 32301

Re: Southlake Utilities Investigation
Assessed Property Value
Boyd Environmental Project No. 031-A-01



Dear Mr. Deterding:

As requested in your correspondence dated August 13, 1999, we have researched the records of the Lake County Tax Collector's office to determine the assessed value of property containing the Southlake Utility sites. We obtained the following information (please also see attached copies of tax receipts):

Parent Property Containing Water Plant Site (Parcel No. 35-24-26-0001-000-00100)

<u>Year</u>	<u>Assessed Value (\$)</u>
1990	263,777
1991	265,588
1992	264,760
1993	263,981

Parent Property Containing Sewer Plant Site (Parcel No. 35-24-26-0002-000-00200)

<u>Year</u>	<u>Assessed Value (\$)</u>
1990	309,550
1991	309,550
1992	309,550
1993	250,081

Based on tax maps, we estimate the parent acreage for the water plant site to be approximately 89 acres, and the parent property for the wastewater plant site to be approximately 164 acres. The following table provides per acre costs for each year, based on assessed property value and the aforementioned estimated acreage:

Mr. F. Marshall Deterding
August 20, 1999
Page 2

<u>Year</u>	<u>Water Plant Parent Property (\$/acre)</u>	<u>Wastewater Plant Parent Property (\$/acre)</u>
1990	2,964	1,888
1991	2,984	1,888
1992	2,975	1,888
1993	2,966	1,525

The original value of the parent properties have already been provided by Southlake (see attached excerpt). The water plant parent property (acquired 1951) was valued at \$65 per acre, while the wastewater plant parent property (acquired 1962) was valued at \$1,087 per acre.

The values of the Well Site A and Well Site E properties have also been provided by Southlake (see attached excerpts). Well Site A was leased in 1998 and has a book value of \$140.00. Well Site E was purchased in 1996 for \$20,000.00.

Based on assessed value in 1991, the water treatment plant property would be valued at \$7,544 (2.528 acres @ \$2,984 per acre). Similarly, the wastewater plant property would be valued at \$18,880 (10 acres @ \$1,888 per acre).

Marty, we trust that this information assists Mike Burton in preparing his accounting analysis. By copy of this correspondence, we are also requesting that Mike advise us if he needs any further information from this office in order to complete his analysis.

Sincerely,
Boyd Environmental Engineering, Inc.



James C. Boyd, P.E.
President

cc: Mr. Ralph Spano
Mr. Mike Burton

Sent via fax and US Mail, 8/20/99



BOB MCKEE REAL ESTATE 1990 1783399.0000
 LAKE COUNTY TAX COLLECTOR NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260001-000-00100		263,777	185,000	78,777	0005

SOUTHLAKE DEVELOPMENT LTD
 732 AVENIDA CUARTA #101
 CLERMONT FL 34711

35-24-26
 NE 1/4 E OF HWY--LESS BEG 1615
 38 FT W OF NE CORNER OF SEC
 RUN W 200 FT TO E R/W LINE OF
 HWY 27, S 20DEG 05MIN E 155.48
 FT, N 69DEG 55MIN E 7 FT, S 20
 See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1990	Dec 31 1990	Jan 31 1991	Feb 28 1991	Mar 31 1991
Please Pay	1,346.70	1,360.73	1,374.75	1,388.78	1,402.81

Paid 11/28/90 Receipt #8024861.0001 \$1,346.70

BOB MCKEE REAL ESTATE 1991 1783399.0000
 LAKE COUNTY TAX COLLECTOR NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260001-000-00100		265,588	185,000	80,588	0005

1991 706318 CORRECTION

SOUTHLAKE DEVELOPMENT LTD
 734 AVENIDA CUARTA #101
 CLERMONT FL 34711

35-24-26
 NE 1/4 E OF HWY--LESS BEG
 1615.38 FT W OF NE CORNER OF SEC
 RUN W 200 FT TO E R/W LINE OF
 HWY 27, S 20DEG 05MIN E 155.48
 FT, N 69DEG 55MIN E 7 FT, S
 See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1991	Dec 31 1991	Jan 31 1992	Feb 29 1992	Mar 31 1992
Please Pay	1,414.35	1,429.08	1,443.81	1,458.55	1,473.28

Paid 12/02/91 Receipt #9952613.0001 \$1,414.35
 11/30/91 981 Date

BOB MCKEE REAL ESTATE 1992 1783399.0000
 LAKE COUNTY TAX COLLECTOR NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260001-000-00100		266,760	185,000	79,760	0005

SOUTHLAKE DEVELOPMENT LTD
 734 AVENIDA CUARTA #101
 CLERMONT FL 34711

35-24-26
 NE 1/4 E OF HWY--LESS BEG
 1615.38 FT W OF NE CORNER OF SEC
 RUN W 200 FT TO E R/W LINE OF
 HWY 27, S 20DEG 05MIN E 155.48
 FT, N 69DEG 55MIN E 7 FT, S
 See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1992	Dec 31 1992	Jan 31 1993	Feb 28 1993	Mar 31 1993
Please Pay	1,546.02	1,562.13	1,578.23	1,594.34	1,610.44

Paid 11/06/92 Receipt #0004928.0001 \$1,546.02

BOB MCKEE REAL ESTATE 1993 1783399.0000
 LAKE COUNTY TAX COLLECTOR NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260001-000-00100		263,981	185,000	78,981	0005

SOUTHLAKE DEVELOPMENT LTD
 734 AVENIDA CUARTA #101
 CLERMONT FL 34711

35-24-26
 NE 1/4 E OF HWY--LESS BEG
 1615.38 FT W OF NE CORNER OF SEC
 RUN W 200 FT TO E R/W LINE OF
 HWY 27, S 20DEG 05MIN E 155.48
 FT, N 69DEG 55MIN E 7 FT, S
 See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1993	Dec 31 1993	Jan 31 1994	Feb 28 1994	Mar 31 1994
Please Pay	1,645.99	1,663.13	1,680.28	1,697.42	1,714.57

DATA FORMS USED BY THE COUNTY RETURN WITH PAYMENT

DATA FORMS USED BY THE COUNTY RETURN WITH PAYMENT

DATA FORMS USED BY THE COUNTY RETURN WITH PAYMENT

DATA FORMS USED BY THE COUNTY RETURN WITH PAYMENT

BOB MCKEE

LAKE COUNTY TAX COLLECTOR

REAL ESTATE 1990 1412528.0000
NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260002-000-00200		309,550	279,300	30,250	0005

DATE FORGONE 10/11/90 (01/90)

SOUTHLAKE DEVELOPMENT LTD
2215 RIVER BLVD
JACKSONVILLE FL 32204

35-24-26
BEG AT NW COR OF SEC RUN S 660
FT, E 660 FT, S 330 FT, E 660
FT, S 330 FT, E 990 FT, S 660
FT, S 330 FT, S 1320 FT, E 660
FT, S 660 FT, E TO SW COR OF N
See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1990	Dec 31 1990	Jan 31 1991	Feb 28 1991	Mar 31 1991
Please Pay	503.79	509.04	514.28	519.53	524.78

Paid 11/28/90 Receipt #8024858.0001 \$503.79

BOB MCKEE

LAKE COUNTY TAX COLLECTOR

REAL ESTATE 1991 1412528.0000
NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260002-000-00200		309,550	279,300	30,250	0005

DATE FORGONE 10/11/90 (01/91)

SOUTHLAKE DEVELOPMENT LTD
2215 RIVER BLVD
JACKSONVILLE FL 32204

35-24-26
BEG AT NW COR OF SEC RUN S 660
FT, E 660 FT, S 330 FT, E 660
FT, S 330 FT, E 990 FT, S 660
FT, S 330 FT, S 1320 FT, E 660
FT, S 660 FT, E TO SW COR OF NE
See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1991	Dec 31 1991	Jan 31 1992	Feb 29 1992	Mar 31 1992
Please Pay	507.01	512.30	517.58	522.86	528.14

Paid 11/18/91 Receipt #8019258.0001 \$507.01

BOB MCKEE

LAKE COUNTY TAX COLLECTOR

REAL ESTATE 1992 1412528.0000
NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260002-000-00200		309,550	279,300	30,250	0005

DATE FORGONE 10/11/90 (01/92)

SOUTHLAKE DEVELOPMENT LTD
2215 RIVER BLVD
JACKSONVILLE FL 32204

35-24-26
BEG AT NW COR OF SEC RUN S 660
FT, E 660 FT, S 330 FT, E 660
FT, S 330 FT, E 990 FT, S 660
FT, S 330 FT, S 1320 FT, E 660
FT, S 660 FT, E TO SW COR OF NE
See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1992	Dec 31 1992	Jan 31 1993	Feb 28 1993	Mar 31 1993
Please Pay	508.19	513.48	518.77	524.07	529.36

Paid 11/06/92 Receipt #0004931.0001 \$508.19

BOB MCKEE

LAKE COUNTY TAX COLLECTOR

REAL ESTATE 1993 1412528.0000
NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS

ACCOUNT NUMBER	ESCROW CD	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	VILLAGE CODE
3524260002-000-00200		250,081	223,980	24,101	0005

DATE FORGONE 10/11/90 (01/93)

SOUTHLAKE DEVELOPMENT LTD
2215 RIVER BLVD
JACKSONVILLE FL 32204

35-24-26
BEG AT NW COR OF SEC RUN S 660
FT, E 660 FT, S 330 FT, E 660
FT, S 330 FT, E 990 FT, S 660
FT, S 330 FT, S 1320 FT, E 660
FT, S 660 FT, E TO SW COR OF NE
See Additional Legal on Tax Roll

PLEASE PAY IN U.S. FUNDS TO BOB MCKEE LAKE COUNTY TAX COLLECTOR - P.O. BOX 327, TAVARES, FL 32778-0327

If Paid By	Nov 30 1993	Dec 31 1993	Jan 31 1994	Feb 28 1994	Mar 31 1994
Please Pay	440.24	444.82	449.41	453.99	458.58

In response to Audit Document Requests CV-6 and CV-9, dated March 17, 1999 and March 24, 1999, respectively, the utility provided a copy of a capital lease, including subsequent amendments, for 12.53 acres and provided its supporting calculation of the value of this lease at \$760,855.

a. What was the original purchase price of this land when Robert L. Chapman, II, and Elisabeth Chapman purchased it?

The first parcel was acquired by Robert L. Chapman, II, and Elisabeth Chapman in 1951. The first parcel is approximately 720 acres and contains the water plant site. The deed, a copy of which is attached as Exhibit 4A, indicates that the purchase price was \$47,000 or approximately \$65 per acre. The second parcel was acquired by Robert L. Chapman II, and Elisabeth Chapman in 1962. The second parcel is approximately 164 acres and contains the wastewater treatment plan site. According to tax stamps affixed to the deed for the second parcel, a copy of which is attached as Exhibit 4B, the consideration was \$200,000 (\$1,000 of stamps at \$0.50 per \$100 of consideration) with a resulting per acre cost of approximately \$1,087 per acre.

b. Please provide documentation for the original purchase price when Robert L. Chapman, II, and Elisabeth Chapman purchased it.

See Exhibits 4A and 4B.

c. If the lease was executed on August 17, 1993, why did the utility capitalize the lease in 1998 instead of in 1993?

The lease was amended to include a bargain purchase option in 1998. According to widely accepted accounting principles, a lease must be capitalized if it contains a bargain purchase (i.e., less than fair market value) option.

Question 5

According to Schedule F-8 of the utility's 1998 annual report, the utility reported Prepaid CIAC of \$182,628 for water and \$393,530 for wastewater. Please provide an analysis of the utility's basis for the determination of Prepaid CIAC versus Used and Useful CIAC.

The analysis is provided in attached Exhibit 5.

PARCEL 3
WELL SITE A
[Answers to 9 subparts]

(1) whether each parcel of land is used for water and/or wastewater operations;

This parcel is used for water operations.

(2) the number of acres for each parcel of land;

This parcel is .0023 acres more or less.

(3) the purchase price or lease amount/terms for each parcel of land;

This parcel is leased for 99 years with a bargain purchase option. Approximately 94 years remain. The rental payment is currently \$4,211.04 per month for land totaling 12.53 acres more or less. The pro-rata rent for the Well Site A is \$0.77.

(4) the value of each parcel of land recorded on the utility's books;

The value of this parcel as recorded on the utility's books is \$140.00.

(5) the name of the seller or lessor of each parcel of land and whether this person is related by family or other business relationship to the utility or any of the utility's owners;

The name of the lessor is Southlake Development, Ltd., a limited partnership. Southlake Development, Ltd., is not an owner of Southlake Utilities, Inc., however the general partner of Southlake Development, Ltd., is Jeffrey Cagan and Richard Driehaus and Robert L. Chapman, III, are limited partners. Jeffrey Cagan owns 15% of the common stock of Southlake Utilities, Inc. Richard Driehaus owns 15% of the common stock of Southlake Utilities, Inc. Robert L. Chapman, III, owns 10% of the common stock of Southlake Utilities, Inc. Robert L. Chapman, III, also owns a majority of the common stock of Southlake, Inc., which owns 60% of the common stock of Southlake Utilities, Inc.

(6) the year each parcel of land was purchased and/or leased;

This parcel was leased in 1998.

(7) the year each parcel of land was first used to provide utility service;

This parcel was first used to provide utility service for an auxiliary well in 1993.

(8) a description of the current and/or future use of each parcel of land; and

The current use of this parcel is as the site of the Well A, an auxiliary well. Southlake Utilities plans to bring this well on-line as a primary well in 1999.

(9) the amount of each parcel of land that is currently being used to provide utility service.

This parcel is currently being used exclusively to provide utility service.

PARCEL 4

WELL SITE E

[Answers to 9 subparts]

(1) whether each parcel of land is used for water and/or wastewater operations;

This parcel is used for water operations.

(2) the number of acres for each parcel of land;

This parcel is 5 acres more or less.

(3) the purchase price or lease amount/terms for each parcel of land;

This parcel is owned free and clear by Southlake Utilities, Inc. The purchase price was \$20,000.00.

(4) the value of each parcel of land recorded on the utility's books;

The value of this parcel as recorded on the utility's books is \$20,000.00.