

State of Florida



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Public Service Commission

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COMMISSION
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DATE: April 19, 2007
TO: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 070074-SU; **Company Name:** Vantage Development Corp. (The);
Audit Purpose: Staff Assisted Rate Case;
Audit Control No: 07-054-2-1; **Record No:** 5649

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk. There are no confidential work papers associated with this audit.

DNV:bj
Attachments

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

Joe Hazellief, President
The Vantage Development Corp.
1595 S. E. 32nd Avenue
Okeechobee, FL 34974

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

ORIGINAL



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tampa District Office

THE VANTAGE DEVELOPMENT CORPORATION

STAFF ASSISTED RATE CASE

AS OF DECEMBER 31, 2006

DOCKET NO. 070074-SU
AUDIT CONTROL NO. 07-054-2-1

A handwritten signature in black ink, appearing to read "Jeffery A. Small".

Jeffery A. Small, Audit Manager

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher".

Joseph W. Rohrbacher, District
Supervisor

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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

APRIL 18, 2007

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated February 21, 2007. We have applied these procedures to the attached schedules prepared by the audit staff in support of the Vantage Development Corporation's request for a Staff Assisted Rate Case in Docket No. 070074-SU.

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

OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

Objective: To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners Uniform System of Accounts.

Procedures: We reviewed the utility's accounting system. Audit Finding No. 1 discusses our findings and recommendations for improvements to the utility's accounting system.

RATE BASE

Utility-Plant-in-Service (UPIS)

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

Procedures: We compiled UPIS additions for the period June 1, 1976 through December 31, 2006 to determine the utility's UPIS balance for this proceeding. We recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 discusses our findings and recommended UPIS balance as of December 31, 2006.

Land and Land Rights

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

Procedures: We verified that the utility owns the land and determined its original cost when it was first dedicated to utility service. Audit Finding No. 3 discusses our findings and recommended Land balance as of December 31, 2006.

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify and insure that all donated property is properly accounted for and recorded as CIAC and UPIS.

Procedures: We compiled CIAC additions for the period June 1, 1976 through December 31, 2006 to determine the utility's CIAC balance for this proceeding. We recorded retirements to CIAC when a donated capital item was removed or replaced. We scanned the utility's 1996 through 2005 Federal Income Tax returns for unrecorded cash and property contributions. Audit Finding No. 4 discusses our findings and recommended CIAC balance as of December 31, 2006.

Accumulated Depreciation

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

Procedures: We compiled accumulated depreciation accruals for the period June 1, 1976 through December 31, 2006 to determine the utility's accumulated depreciation balance for this proceeding. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding No. 2 discusses our findings and recommended accumulated depreciation balance as of December 31, 2006.

Accumulated Amortization of CIAC

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

Procedures: We compiled accumulated amortization of CIAC for the period June 1, 1976 through December 31, 2006 to determine the utility's accumulated amortization of CIAC balance for this proceeding. We recorded retirements to accumulated amortization of CIAC when a capital item was removed or replaced. Audit Finding No. 4 discusses our findings and recommended accumulated amortization of CIAC balance as of December 31, 2006.

Working Capital

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

Procedures: We calculated the utility's working capital balance as of December 31, 2006 using 1/8th of operation and maintenance expense as required by Commission rule. Audit Finding No. 6 discusses our recommended working capital balance as of December 31, 2006.

NET OPERATING INCOME

Revenues

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

Procedures: We compiled revenues for the 12-month period ended December 31, 2006 from the utility's accounts receivable ledger. Audit Finding No. 5 discusses our findings and recommended revenue balance for the 12-month period ended December 31, 2006. Audit Finding No. 9 discusses information on the utility's general service customers. Audit Finding No. 10 discusses our recommendation that miscellaneous service charges be established for the utility.

Operation and Maintenance Expenses (O&M)

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

Procedures: We compiled O&M expense items from the utility's accounts payable ledger. We reviewed all utility invoices for proper amount, period, classification, NARUC account and recurring nature. We determined the proper allocation of invoices and expenses that included services for non-utility operations. Audit Finding No. 6 discusses our findings and recommended O&M expense balance for the 12-month period ended December 31, 2006.

Taxes-Other-Than-Income (TOTI)

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

Procedures: We compiled TOTI expense items from the utility's accounts payable ledger. We reviewed all utility tax invoices for proper amount, period, classification, NARUC account and recurring nature. We determined the proper allocation of all tax expenses that included services for non-utility operations. Audit Finding No. 7 discusses our findings and recommended TOTI expense balance for the 12-month period ended December 31, 2006.

Depreciation Expense

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

Procedures: We calculated depreciation expense and CIAC amortization expense balances using UPIS and CIAC balances that we determined above. Audit Finding Nos. 2 and 4 discusses our findings and recommended depreciation expense and CIAC amortization expense balances for the 12-month period ended December 31, 2006.

CAPITAL STRUCTURE

General

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

Procedures: We determined that the utility's capital structure is 100% equity and we reconciled that equity balance to the net rate base balance we determined in our procedures listed above. Audit Finding No. 8 discusses our findings and recommended capital structure balance for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 1

SUBJECT: UTILITY BOOKS AND RECORDS

AUDIT ANALYSIS: The utility was granted a grandfather certificate in Order No. PSC-05-0498-SU, issued May 5, 2005. In that order the Commission also put the utility on notice that it would be required to maintain its books in accordance with the NARUC Uniform System of Accounts. (USOA) On September 1, 2005, the Division of Economic Regulation received a letter from the utility stating that it was "essentially" in compliance with the orders requirement and that it planned to continue enhancing its record keeping system.

Vantage Development Corporation (company) is a business that provides three distinct services to its customers. It maintains a Recreational Vehicle/Mobile Home (RV/MH) rental park community, a Mobile Home rental lot (MHR) operation and a wastewater utility (utility) for its RV/MH, MHR operations and owner occupied single family residences. All are located in its certificated service territory.

The company presently uses a cash basis manual record system that consists of a customer accounts receivable ledger and an accounts payable ledger. These ledgers separate the company's utility and non-utility operations for record keeping purposes and are used to prepare its federal income tax returns. No general ledgers are created from these manual ledgers. The company, with the help of US Water, Inc, its contract utility operator, extracts the utility information from the two ledgers to compile its annual report which is filed with the Commission.

The utility's current accounting system is not in full compliance with the Commission order referenced above. However, its underlying records were accessible and sufficient for the audit staff to substantially complete its assigned objectives in this proceeding.

The company is a small utility system with limited resources. During the period of our audit field work the company was very receptive to suggested improvements to its accounting system. One recommended improvement was for the company to create a subsidiary ledger that would distribute the utility amounts recorded in its current manual ledger system to the appropriate account headings in the USOA.

We also recommend that the company be required to convert from its present cash basis to an accrual basis method of accounting for future reporting periods.

Absent a general ledger system, the company should also create and maintain a utility continuing property records (CPR) ledger that would record all future additions and retirements to its rate base balance. The CPR ledger should be based on the USOA and begin with the December 31, 2006 rate base balances established in this proceeding.

AUDIT FINDING NO. 2

SUBJECT: UTILITY PLANT IN SERVICE AND ACCUMULATED DEPRECIATION

AUDIT ANALYSIS: Utility plant in service (UPIS) and accumulated depreciation balances are \$336,870 and \$147,911, respectively, as of December 31, 2006, based on our findings discussed below.

The utility's 2005 Annual Report filed with the Commission reflects UPIS and accumulated depreciation balances of \$65,030 and \$65,030, respectively. These balances represent assets additions in 1981 of \$52,757 and in 1998 of \$12,273 for wastewater plant improvements and pump replacements. They were displayed in the company's federal income tax returns and were depreciated as of December 31, 2005 for federal income tax purposes.

We compiled UPIS additions for the period June 1976 through December 2006 to determine the utility's UPIS balance as of December 31, 2006. We recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant site to observe whether asset additions were completed and to ascertain if asset retirements were needed.

We compiled accumulated depreciation accruals for the period June 1976 through December 2006 to determine the utility's accumulated depreciation balance as of December 31, 2006. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. We depreciated all UPIS assets determined above at a rate of 2.5 percent through April 30, 2005^a, the approximate date its application for a grandfather certificate was approved. We then applied Rule 25-30.140 F.A.C. depreciation rates to all UPIS asset balances from May 1, 2005, through December 31, 2006.

Additionally, we calculated a balance of \$15,227 for UPIS depreciation expense for the 12-month period ended December 31, 2005.

The utility's UPIS, accumulated depreciation and depreciation expense balances by NARUC sub-account are displayed on the following schedule.

^a The utility was put on notice that it would be required to follow Commission rules in Order No. PSC-05-0498-FOF-SU, issued May 5, 2005.

Vantage Development Corporation
Utility Plant In Service and
Accumulated Depreciation
As of December 31, 2006

Acct. No.	Account Description	UPIS	Acc/Dep	Dep. Exp.
351.00	Organization	\$0	\$0	\$0
354.00	Structures & Improvements	15,425	(2,620)	571
360.00	Collection - Sewers forced	0	0	0
361.00	Collection - Sewers gravity	159,782	(102,800)	3,995
362.00	Special Collecting Structures	0	0	0
363.00	Services to customers	0	0	0
364.00	Flow Measuring Devices	2,314	(950)	463
365.00	Flow Measuring Installations	0	0	0
370.00	Receiving Wells	15,935	(5,447)	637
380.00	Treatment & Disposal Equipment	143,019	(36,041)	9,535
381.00	Plant Sewers	0	0	0
382.00	Outfall Sewer Lines	0	0	0
389.00	Other Plant & Misc. Equipment	395	(52)	26
390.00	Office Furniture & Equipment	0	0	0
391.00	Transportation Equipment	0	0	0
393.00	Tools, Shop, & Garage Equipment	0	0	0
398.00	Other Tangible Plant	<u>0</u>	<u>0</u>	<u>0</u>
TOTALS		\$336,870	(\$147,911)	\$15,227

AUDIT FINDING NO. 3

SUBJECT: LAND AND LAND RIGHTS

AUDIT ANALYSIS: The utility's land balances is \$10,350 as of December 31, 2006, based on our findings discussed below.

Original Property Transfer: Property containing the land occupied by the utility's wastewater plant was transferred from H.F. Hazellief to Quillie J. Hazellief on May 22, 1952, by warranty deed recorded in OR Book 16 Page 189 of the Okeechobee County Clerk of the Court. This transaction transferred at zero cost a vast amount of improved pasture land in a related party transaction.

Succeeding Property Transfer: Property containing the land occupied by the utility's wastewater plant site was transferred from Quillie J. Hazellief to The Vantage Development Corporation on August 1, 1976, by warranty deed recorded in OR Book 187 Page 805 of the Okeechobee County Clerk of the Court. This transaction transferred 9.10 acres of the above mentioned property to the wastewater utility's development corporation which was incorporated on May 24, 1976, according to the Florida Department of State Division of Corporations in Document No. 503846.

The sale price was \$45,500 or approximately \$5,000 ($\$45,500 / 9.10$) per acre and was a related party transaction. The company's president states that the sales price was the estimated fair market value for improved vacant land at the time it was transferred to the corporation in 1976. A search of Okeechobee County records revealed that a non-related party property transaction was recorded on August 1, 1978, in OR Book 219 Page 677 for a comparable sale of unimproved vacant land that is located right next to the utility's service territory. The sales price was \$147,322 for approximately 34 acres or \$4,333 ($\$147,322 / 34$) per acre. The difference of \$667 ($\$5,000 - \$4,333$) per acre between the two sales can be attributed to real estate market conditions at the time and the difference between improved versus unimproved land value.

Based on the above findings we accept the company's market value assertion for the utility's land value of \$5,000 per acre at the time when it was dedicated for utility service in 1976.

The warranty deed above listed the land transferred as 9.10 acres while the Okeechobee Property Appraiser currently list the land area as 8.46 acres. The property appraiser's office stated that small differences such as this arise from time to time because prior methods that were used to estimate land area years ago have been refined. Today's improved surveying and mapping techniques will cause small differences between the older deeds' land area determinations and the current property appraiser's land area estimates.

Utility Property: The 8.46 acres of land that The Vantage Development Corp. property owns is occupied by the wastewater utility plant site, a developer maintenance shop facility and a general storage yard for boats, RVs and other large equipment. The wastewater utility plant site is surrounded by a 6 foot high chain link fence and contains approximately 2.07 acres of the 8.46 acre site.

Utility Land Value: We estimate that the original cost for the land that is occupied by the utility's wastewater plant site is approximately \$10,350 ($\$5,000 \times 2.07$)

AUDIT FINDING NO. 4

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION AND ACCUMULATED AMORTIZATION OF CIAC

AUDIT ANALYSIS: Contributions in aid of construction (CIAC) and accumulated amortization of CIAC balances are \$135,538 and \$92,992, respectively, as of December 31, 2006, based on our findings discussed below.

The utility's 2005 Annual Report filed with the Commission did not reflect any CIAC balances as of December 31, 2005.

Rule 25-30.570 F.A.C. states that if the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributed to the sewage collection system.

We interviewed the company president concerning this issue and he agreed that the original cost for the wastewater collection system that serves utility customers of owner occupied lots in its service territory was included in the sales price of the lots and should be considered as CIAC.

We compiled CIAC additions for the period June 1976 through December 2006 to determine the utility's CIAC balance as of December 31, 2006. We recorded retirements to CIAC when a capital item was removed or replaced.

We compiled accumulated amortization of CIAC accruals for the period June 1976 through December 2006 to determine the utility's accumulated amortization of CIAC balance as of December 31, 2006. We recorded retirements to accumulated amortization of CIAC when a capital item was removed or replaced. We amortized all CIAC assets determined above at a rate of 2.5 percent through April 30, 2005^b, the approximate date its application for a grandfather certificate was approved. We then applied Rule 25-30.140 F.A.C. amortization rates to all CIAC asset balances from May 1, 2005, through December 31, 2006.

Additionally, we calculated a balance of \$3,388 for CIAC amortization expense for the 12-month period ended December 31, 2005.

The utility's CIAC, accumulated amortization of CIAC and CIAC amortization expense balances by NARUC sub-account are displayed on the following schedule.

^b Ibid

Vantage Development Corporation
Contributions In Aid of Construction and
Accumulated Amortization of CIAC
As of December 31, 2006

<u>Acct. No.</u>	<u>Account Description</u>	<u>Balance @12/31/2006</u>
271.00	Contributions in Aid of Construction	(\$135,538)
272.00	Amortization of CIAC	\$92,992
403.00	CIAC Amortization Expense	\$3,388

AUDIT FINDING NO. 5

SUBJECT: REVENUES

AUDIT ANALYSIS: The utility's revenues are \$68,208 for the 12-month period ended December 31, 2006, based on our findings discussed below.

The utility's customer base included 167 residential and 4 general service customers during the 12-month period ended December 31, 2006. The residential customers consisted of 109 owner occupied customers that received monthly wastewater bills and 58 company owned rental customers whose wastewater fee was included in the monthly rental lot bill. The general service customers were company-owned and consisted of the RV Mobile home community, its bath house, recreation hall and public laundry facility.

The utility charges a flat fee of \$28 a month for residential wastewater service which was carried forward in its application for a grandfather certificate cited earlier in this report. It does not charge itself or record revenues for the general service connections identified above. We have included additional information on the general service connections in Audit Finding No. 9 of this report.

We calculate the utility's residential wastewater revenues to be \$56,112 for the 12-month period ended December 31, 2006, based on the following.

<u>Number of Customers</u>		<u>Rate</u>		<u>Months</u>		<u>Amount</u>
167	X	\$28.00	X	12	=	\$56,112

We calculate and impute the utility's general service wastewater revenues to be \$12,096 for the 12-month period ended December 31, 2006, based on the following.

The above residential wastewater flat fee of \$28 per month is the cost of service for one equivalent residential connection. (ERC) The Commission staff engineer, in this proceeding, has calculated the following ERC estimates for the utility's general service customers and we have applied the rate of \$28 per month to the estimated general service ERC amount.

<u>Imputed revenues for General Service Customers:</u>			
R/V Mobile Home Park (served by 2 inch meter with 8 ERC)	8 ERC X \$28 per ERC X 12 months		\$2,688
Bath House (served by 2" private potable well)	1 ERC X \$28 per ERC X 12 months		336
Recreation Hall (served by 2" private potable well)	1 ERC X \$28 per ERC X 12 months		336
Public Laundry Facility (served by 2" private potable well)	26 ERC X \$28 per ERC X 12 months		<u>8,736</u>
Total Estimated General Service Revenues			\$12,096

Based on the above calculations, we have determined that the amount of utility wastewater revenues is \$68,208 (\$56,112 + \$12,096) for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 6

SUBJECT: OPERATION AND MAINTENANCE EXPENSE

AUDIT ANALYSIS: The utility's operation and maintenance (O&M) expense is \$87,534 for the 12-month period ended December 31, 2006, based on our findings discussed below.

The company's accounts payable ledger includes a column that identifies direct expense amounts that were incurred for utility operations. The utility column does not include an allocation for shared expenses that benefited both utility and non-utility operations.

We compiled the utility's O&M expense for the 12-month period ended December 31, 2006. We posted all direct expenses incurred by the utility and we included the following allocated expense categories that were posted to the company's accounts payable ledger that benefited utility operations.

- 1) *Salary Expense:* The company has one part-time employee (15 hours per week) that serves as its office manager at a cost of \$150 per week. Her duties include maintaining the accounts payable and receivable ledgers, billing and collecting for rental and utility operations, paying vendors, customer contact and the overall management of the company's day to day activities. We estimate that approximately 50 percent of her time is in support of utility operations. We have allocated \$75 ($\$150 \times 50\%$) per week or \$3,900 annually to utility operations.
- 2) *Contract Employee Expense:* The company uses an employee of Hazellief Groves, a related company operation. He works 40 hours a week for Vantage Development Corp. as a contract employee for a monthly fee of \$2,150. He is also provided a rental house that costs the company \$350 per month in lieu of salary. He spends approximately 5 hours per week cutting the grass and maintaining the wastewater treatment plant site and performing routine minor maintenance on the wastewater collection system. Outside of his employment with Hazellief Groves, he also cleans out the sand filter percolations ponds for a flat fee of \$75 as needed. (2-4 times a year) We estimate that approximately 12.5 percent ($5/40$) of his monthly salary should be allocated to utility operations. We have allocated \$313 ($(\$2,150 + \$350) \times 12.5\%$) per month or \$3,750 annually to utility operations. We have also included all of the fees for cleaning out the sand filter percolation ponds.
- 3) *Contractual Services:* We allocated 50 percent of the company's outside accounting fees to utility operations for the preparation of its corporate tax return and annual report.
- 4) *Rent Expense:* The company's office is located in a building owned by Hazellief Groves and is charged a monthly rental fee of \$250. The amount was determined over 5 years ago and was an estimated value for office space at that time. We find the amount reasonable and have allocated approximately 50 percent to utility operations based on the same allocation used for the company's employee above. We have allocated \$125 ($\$250 \times 50\%$) per month or \$1,500 annually to utility operations.
- 5) *Transportation Expense:* The company owns a 1994 pick-up truck that is used exclusively by its contract employee above in the performance of his duties for the company. The company estimates that he uses it approximately 10 percent of the time for utility business to obtain parts for minor sewer repairs and to purchase fuel for the lawn mower. We find the amount reasonable and have allocated approximately 10 percent of the fuel expenses and

truck repairs to utility operations.

- 6) *Insurance Expense:* We have included approximately 10 percent of the company's automobile insurance expense based on the same allocation used for the company's truck above.
- 7) *Miscellaneous Expense:* We have included 50 percent of the company's office telephone, office supplies, office repairs, office postage expenses based on the same allocation used for the company's employee above. We have included 12.5 percent of uniform expense for the company's contract employee based on the same allocation used for the contract employee above. We have included 50 percent of the repair and maintenance cost for the company's lawn mower which is used to cut the utility's wastewater treatment plant site. We have also included a monthly allocation of \$10 for waste disposal service.

We determined that the following O&M expenses were not recorded by the utility in 2006 and that they should be included for this rate case proceeding.

- 8) *Insurance Expense:* The company did not have general liability insurance for the utility in effect during 2006 but a policy was purchased in 2007. We have included a proforma allocated general liability expense amount of \$1,052 based on the amount of utility operations covered in the insurance policy declaration.
- 9) *Rate Case Expense:* We included \$250 for rate case expense which is one-fourth of the company's \$1,000 filing fee for this rate case proceeding.
- 10) *Bad Debt Expense:* We included \$672 for uncollectible customer account receivables which is discussed further in Audit Finding No. 10 of this report.

Additionally, we calculated a working capital balance of \$10,942 to be added to the utility's rate base based on $1/8^{\text{th}}$ of the O&M expense balance determined above. (\$87,534 / 8)

The utility's O&M expense balances by NARUC sub-account are displayed on the following schedule.

Vantage Development Corporation
 Operating and Maintenance Expense
 12-Month Period Ended December 31, 2006

Acct. Nos.	Acct. Description	W/Water
701.00	Salaries & Wages - Employees	\$3,900
711.00	Sludge Hauling	15,800
715.00	Purchased Power	9,516
718.00	Chemicals	3,106
720.00	Materials & Supplies	767
732.00	Contractual Services - Accounting	2,908
735.00	Contractual Services - Testing	2,507
736.00	Contractual Services - Other	42,117
741.00	Rental of Building/Property	1,500
750.00	Transportation Expense	647
759.00	Insurance - Other	1,163
766.00	Regulatory Comm. Expense - Rate Case	250
770.00	Bad Debt Expense	672
775.00	Miscellaneous Expense	<u>2,681</u>
		\$87,534

The individual account balances above may not tie directly to the discussions on the previous pages because they include both direct and allocated expense amounts.

AUDIT FINDING NO. 7

SUBJECT: TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The utility's taxes other than income (TOTI) expense is \$6,151 for the 12-month period ended December 31, 2006, based on our findings discussed below.

The company's accounts payable ledger includes a column that identifies direct expense amounts that were incurred for utility operations. The utility column does not include an allocation for shared expenses that benefited both utility and non-utility operations.

We compiled the utility's TOTI expense for the 12-month period ended December 31, 2006. We included the following direct and allocated expense categories that were posted to the company's accounts payable ledger that benefited utility operations.

- 1) *Payroll Tax Expense:* We have included 50 percent of the payroll tax expense that is associated with its only employee which is discussed in Item No. 1 of Audit Finding No. 6. We have allocated \$331 annually to utility operations.
- 2) *Property Tax Expense:* We have included \$2,750 of property tax expense for the utility's wastewater plant site that was discussed in Audit Finding No. 2 of this report. We calculated this amount based on the percentage of the utility property's assessed value in relation to the company's total property assessed value and information obtained from the Okeechobee County Property Appraisers office.
- 3) *Regulatory Assessment Fees:* We have included \$3,069 ($\$68,208 \times 4.5\%$) of regulatory assessment fees which was calculated using the estimated revenue amount of \$ 68,208 determined in Audit Finding No. 5 in this report.

The utility's TOTI expense balance by NARUC sub-account is displayed below.

Acct. No.	Account Description	Balance @12/31/2006
	Payroll Tax	\$332
	Property Tax	2,750
	Regulatory Assessment Fee	<u>3,069</u>
408.00	Taxes Other Than Income	\$6,151

AUDIT FINDING NO. 8

SUBJECT: CAPITAL STRUCTURE

AUDIT ANALYSIS: The utility's capital structure, when reconciled to rate base, is \$167,705 and its weighted average cost of capital is 8.97 percent.

We determined that the utility's capital structure is composed of the following equity components and we reconciled it to the rate base balance displayed in Exhibit No. 1 of this report. The company does not have any long-term debt, short-term debt or customer deposits.

<u>Class of Capital</u>	<u>Balance at 12/31/2006</u>
Common Stock (\$12,000 x 47.98%)	\$5,758
Common Equity	<u>161,947</u>
Totals	\$167,705

The company's Board of Directors meeting minutes and its 2005 Federal Income Tax Return reflect a common stock balance of \$12,000, as of December 31, 2005. This is the value of 1,200 shares of the company common stock that is outstanding with a par value of \$10 per share. We allocated 47.98 percent of the common stock to the utility's capital structure based on the relative value of the utility's assets versus the total company assets in its 2005 Federal Income Tax Return. Our calculations are displayed below.

<u>Per 2005 Federal Income Tax Return</u>	<u>Total Company</u>	<u>Non-Utility</u>	<u>Utility</u>
Asset Balance	\$323,141	\$168,089	\$155,052
Asset Percentage	100.00%	52.02%	47.98%

The cost rate of 8.97 percent for common equity, and subsequently the weighted average cost of capital, was calculated using the leverage graph formula established in Order No. PSC-06-0476-PAA-WS, issued June 5, 2006.

AUDIT FINDING NO. 9

SUBJECT: INFORMATION ON GENERAL SERVICE CUSTOMERS

AUDIT ANALYSIS: The utility provides wastewater service to the company's RV/Mobile home park. Within the RV/Mobile home park is a bath house and recreation hall available to tenants of the park and a laundry facility available to the general public.

The RV/Mobile home park is provided water service by the Okeechobee Utility Authority (OUA) through a 2 inch master water meter. The park has 171 rental lots that include water and wastewater connections and 7 RV overnight rental spaces that include only water service. The park has an RV waste disposal station that is included in the RV overnight rental fee. The disposal station is also available to the general public for a fee of \$10 per use. The company was billed for 2,671,628 gallons of water by OUA in 2006. The monthly consumption amounts are displayed below.

Service Period	Gallons Billed	Adjusted Gallons	Calculation
12/13/05 01/12/06	322,000	128,800	$(322,000/30) \times 12$
01/13/06 02/10/06	337,000	337,000	actual
02/11/06 03/13/06	366,000	366,000	actual
03/14/06 04/12/06	309,000	309,000	actual
04/13/06 05/12/06	213,000	213,000	actual
05/13/06 06/12/06	155,000	155,000	actual
06/16/06 07/13/06	142,000	142,000	actual
07/14/06 08/11/06	118,000	118,000	actual
08/12/06 09/11/06	100,954	100,954	actual
09/12/06 10/12/06	145,321	145,321	actual
10/13/06 11/13/06	273,200	273,200	actual
11/14/06 12/11/06	262,913	262,913	actual
12/12/06 01/11/07	328,473	<u>120,440</u>	$(328,473/30) \times 11$
		2,671,628	

Prior to August 2006 the OUA billed in 1,000 gallon increments.

The RV/Mobile home park's bath house, recreation hall and public laundry facility are provided water by a company owned 2 inch potable well that is located next to the laundry facility. The well is inspected by the Okeechobee County Health Department as part of its routine inspection program of mobile home communities. No consumption information is available to determine the load that these facilities place on the utility's wastewater treatment plant.

AUDIT FINDING NO. 10

SUBJECT: INFORMATION ON UNCOLLECTABLE CUSTOMER ACCOUNTS

AUDIT ANALYSIS: The utility is not currently authorized to collect a customer deposit for utility service or to charge late fees and penalties for non-payment of utility bills that are outstanding. Additionally, since it does not provide or control the water service provided to its customers, it is not feasible for the company to shut-off the wastewater service connection.

We estimate that the utility has a \$21,095 balance for outstanding customer accounts receivable as of March 31, 2007, for wastewater billings as of December 31, 2006.. We determined this balance by reviewing the customer accounts receivable ledgers for the prior years and we made adjustments for the Bad Debt expense we included in Audit Finding No. 6 of this report. Our calculations are displayed on the following schedule. We have removed customer information to protect customer privacy.

The Commission should establish a customer deposit requirement for utility service and institute an appropriate miscellaneous service charge policy for utility services that includes late fees and penalties for non-payment of bills for utility services.

Vantage Development Corporation
 Outstanding Customer Accounts Receivable

Unit	Lot#	Prior Years Outstanding Acc/Rec as of 12/31/2006	Prior Years Payments Received in 2007	Test Year Bad Debt Expense 12/31/2006	Prior Years Written Off to Retained Earnings	Prior Years Outstanding Acc/Rec as of 3/31/2007	Current Outstanding Acc/Rec for Jan-Mar 2007	Current Outstanding Acc/Rec as of 3/31/2007
		\$2,294	\$0	\$0	\$0	\$2,294	\$84	\$2,378
		2,221	0	0	0	2,221	84	2,305
		728	0	0	0	728	84	812
		420	0	0	0	420	84	504
		1,036	0	0	0	1,036	84	1,120
		1,092	0	0	0	1,092	84	1,176
		1,337	0	0	0	1,337	84	1,421
		1,440	0	0	0	1,440	84	1,524
		924	0	0	0	924	84	1,008
		1,666	0	0	0	1,666	84	1,750
		692	0	0	0	692	84	776
		679	0	0	0	679	84	763
		392	0	0	0	392	84	476
		392	0	0	0	392	84	476
		708	0	0	0	708	84	792
		1,520	0	0	0	1,520	84	1,604
		1,204	350	0	0	854	84	938
		840	0	0	0	840	84	924
		504	228	0	0	277	84	361
		252	53	0	0	200	84	284
		224	207	0	0	17	84	101
		1,756	eviction	(336)	(2,115)	eviction	eviction	eviction
		196	196	0	0	0	84	84
		700	89	0	0	611	84	695
		280	53	0	0	228	84	312
		1,411	eviction	(336)	(1,098)	eviction	eviction	eviction
		616	88	0	0	529	84	613
		\$25,524	\$1,262	(\$672)	(\$3,213)	\$21,095	\$2,100	\$23,195

The company has begun eviction proceedings against two rental customers. We have written off the current years wastewater revenues to Acct. No. 777 - Bad Debt Expense and the remaining outstanding account receivable balance to the prior years retained earnings.

EXHIBIT 1

**THE VANTAGE DEVELOPMENT CORPORATION
WASTEWATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070074-SU**

DESCRIPTION	PER COMPANY @12/31/2005 (a)	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$65,030	\$271,840	AF-2	\$336,870
LAND AND LAND RIGHTS	\$0	\$10,350	AF-3	\$10,350
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0	(\$135,538)	AF-4	(\$135,538)
AMORTIZATION OF CIAC	\$0	\$92,992	AF-4	\$92,992
ACCUMULATED DEPRECIATION	(\$65,030)	(\$82,881)	AF-2	(\$147,911)
WORKING CAPITAL (b)	\$0	\$10,942	AF-6	\$10,942
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NET RATE BASE (c)	\$0	\$167,705		\$167,705

Notes to above schedule:

- a) The company's books were not finalized by the completion of audit staff's fieldwork. Balances displayed above come from it's 2005 Annual Report which was filed with the Commission on March 31, 2006.
- b) Working Capital is calculated as 1/8th of the utility's 2006 operating expense balance.
- c) All amounts are rounded to the nearest whole dollar.

EXHIBIT 2

**THE VANTAGE DEVELOPMENT CORPORATION
WASTEWATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070074-SU**

DESCRIPTION	PER COMPANY @12/31/2006 (a)	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$0	\$68,208	AF-5	\$68,208
OPERATION AND MAINTENANCE EXPENSE	\$0	\$87,534	AF-6	\$87,534
DEPRECIATION EXPENSE	\$0	\$15,227	AF-2	\$15,227
CIAC AMORTIZATION EXPENSE	\$0	(\$3,388)	AF-4	(\$3,388)
TAXES OTHER THAN INCOME EXPENSE	\$0	\$6,151	AF-7	\$6,151
PROVISION FOR INCOME TAX EXPENSE (b)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$0	\$105,524		\$105,524
NET OPERATING INCOME (c)	\$0	(\$37,316)		(\$37,316)

Notes to above schedule:

- a) The company's books were not finalized by the completion of audit staff's fieldwork
- b) Income is taxed at the shareholder level because the company is a 1120 S-Corporation for federal income tax purposes.
- c) All amounts are rounded to the nearest whole dollar.

EXHIBIT 3

**THE VANTAGE DEVELOPMENT CORPORATION
WASTEWATER CAPITAL STRUCTURE
AS OF DECEMBER 31, 2006
DOCKET NO. 070074-SU**

CLASS OF CAPITAL	AMOUNT	REFER TO	RATIO	COST RATE (b)	WEIGHTED COST
LONG-TERM DEBT	\$0		0.00%	0.00%	0.00%
SHORT-TERM DEBT	\$0		0.00%	0.00%	0.00%
COMMON EQUITY (a)	\$167,705	AF-8	100.00%	8.97%	8.97%
CUSTOMER DEPOSITS	\$0		0.00%	6.00%	0.00%
ACC. DEFERRED INCOME TAXES	\$0		0.00%	0.00%	0.00%
TOTALS	\$167,705		100.00%		8.97%

Notes to above schedule:

- a) Common equity set at utility's net rate base which was displayed in Exhibit No. 1 of this report.
- b) Cost rate for common equity Per Order No. PSC-06-0476, issued June 5, 2006. (7.26% + (1.714%/100.00%))