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COMMISSION
CLERK

DATE: February 22, 2007
TO: Tracey L. Biggins, Professional Accountant, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 060747-WS; **Company Name:** Mink Associates II, LLC d/b/a Crystal Lake Club Utilities; **Audit Purpose:** SARC;
Audit Control No: 06-347-2-1; **Record #:** 5636

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

DNV:bj
Attachments

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

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Tampa District Office

MINK ASSOCIATES II, LLC d/b/a CRYSTAL LAKE CLUB UTILITIES


STAFF ASSISTED RATE CASE

HISTORICAL YEAR ENDED SEPTEMBER 30, 2006

**DOCKET NO. 060747-WS
AUDIT CONTROL NO. 06-347-2-1**



Tomer Kopelovich, Audit Staff



Joseph W. Rohrbacher, District Audit Supervisor

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. UTILITY BOOKS AND RECORDS	6
2. PRIOR AUDIT ADJUSTMENTS	7
3. UTILITY PLANT IN SERVICE	8
4. LAND.....	11
5. ADJUSTMENT TO ACCUMULATED DEPRECIATION.....	12
6. CIAC AND ACCUMULATED AMORTIZATION	13
7. REVENUES	14
8. OPERATION AND MAINTENANCE EXPENSE.....	15
9. RECLASS O&M EXPENSES	17
10. TAXES OTHER THAN INCOME.....	18
11. ALLOCATION OF OVERHEAD FEE	19
IV. EXHIBITS	
1. RATE BASE WATER.....	20
2. RATE BASE WASTEWATER	21
3. NET OPERATING INCOME WATER	22
4. NET OPERATING INCOME WASTEWATER.....	23

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

FEBRUARY 2, 2007

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by the audit staff in support of the Mink Associates II, LLC d/b/a Crystal Lake Club Utilities (CLC) Staff Assisted Rate Case in Docket No. 060747-WS.

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

OBJECTIVES AND PROCEDURES

AUDIT PLANNING:

NARUC USOA

Objective: To determine that the utility maintains its accounts and records in conformity with the 1996 National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA).

Procedures: We reviewed the utility's chart of accounts and general ledger. We found that the utility does not maintain its accounts and records in conformity with the 1996 NARUC USOA. Audit Finding No.1 addresses this issue.

Prior Audit Adjustments

Objective: To verify that the adjustments to rate base as ordered by Order No. PSC-01-0428-PAA-WS were booked and are reflected in the utility records.

Procedures: We reviewed the adjustments mentioned above. The utility did not make all the adjustments. Audit Finding No. 2 addresses this issue.

RATE BASE:

Utility Plant In Service (UPIS)

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

Procedures: We tested all major plant additions and retirements for the period September 1, 1999 through September 30, 2006 for compliance with the objectives stated above. We prepared a schedule of UPIS, by account, from the last order with year to year additions and retirements. We verified that the utility did not record all plant additions and retirements in the general ledger. Audit Finding No. 3 addresses this issue.

Land

Objective: To determine that land is owned by the utility and included in rate base at original cost.

Procedures: We determined that the utility included land cost in rate base and included annual land rental from an affiliate company, Mink Associates I LLC, in O&M expenses. Order No. PSC-05-0428-FOF-WS noted that the utility owned the land during the 1993 staff assisted rate case; therefore, land was included in the utility's rate base.

Contributions In Aid Of Construction (CIAC)

Objective: To test CIAC additions and adjustments since January 1, 2000. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: We verified 100% of all CIAC additions for the period January 1, 2000 through September 30, 2006 for compliance with the objectives stated above. We scanned the utility's 2003 – 2005 Federal Income Tax Returns for unrecorded cash and property. CIAC was not recorded in the utility's books, so we used the 2005 Annual Report. Audit Finding No. 5 addresses this issue.

Accumulated Depreciation

Objective: To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

Procedures: We recalculated annual accruals to accumulated depreciation based on adjusted plant, using last authorized rates. We prepared a schedule of accumulated depreciation balances by plant account from the last order with year to year additions and retirements using FPSC approved rates and compared them to utility figures. We verified that the utility did not record plant retirements in accumulated depreciation as required by NARUC USoA. Additionally, it did not properly record accumulated depreciation or depreciation expense in its general ledger. Audit Finding No. 4 addresses this issue.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules. To verify that CIAC amortization expense accruals are properly recorded and calculated by applying annual depreciation composite rates.

Procedures: We recalculated accumulated amortization of CIAC account balances for the period January 1, 2000 to September 30, 2006 applying annual composite depreciation rates. We found errors in the utility balance of Accumulated Amortization of CIAC. These errors are addressed further in Audit Finding No. 5.

Working Capital

Objective: To determine the working capital allowance.

Procedures: We determined the working capital allowance by using the 1/8 of operation and maintenance expenses methodology.

REVENUES AND EXPENSES

Revenues

Objectives: To verify that revenues earned during the test year are properly recorded. To perform billing analysis for the test year.

Procedures: We tested revenue transactions with tariffed rates and performed a simple estimation to determine what test year revenues should be. We compiled revenues following a billing report summary on a monthly basis. Revenues were not properly allocated between water and wastewater. We prepared a billing analysis schedule. Audit Finding No. 7 addresses this issue.

Expenses

Objectives: Sample test year operation and maintenance expense accounts. Examine the expense for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.

Procedures: We judgmentally selected accounts from the general ledger for testing. We reviewed the accounts for proper amount, classification and period. We examined invoices and supporting documentation to determine if the above objectives were met. We examined and listed all miscellaneous expenses. Included in the expense amount were invoices for items that should have been capitalized, as well as unsupported items and other adjustments. Audit Finding No. 8 addresses these adjustments.

Objectives: Review the prudence of any allocation methodology for O & M expenses used by the utility. Determine whether the original amounts to be allocated and the methodology are reasonable.

Procedures: We prepared a schedule of O & M expenses. The utility did not allocate its O&M expenses between water and wastewater. We reviewed overhead expenses allocated to the utility by Mink Associates I, an affiliate company. Audit Finding No. 10 addresses this issue.

Objectives: To obtain or prepare a schedule of contracted services for the test year that separates engineering, accounting, legal, billing, testing, operating, and management. Test documentation for amounts paid, period of service, and that the service was related to utility operations.

Procedures: We prepared a schedule of all contractual services for the test year. We reviewed those accounts for proper amount, classification, and whether non-utility related, non-recurring, unreasonable or imprudent. We examined invoices and supporting documentation to determine if the above objectives were met.

Objectives: To provide the number of hours per month that employees and/or contracted vendors spend on operating, billing, testing, maintenance, and general management activities.

Procedures: We obtained documentation that provided information as mentioned above. The operation and maintenance of the plant is performed by an outside contractor, Pugh Utilities Service. The general management is handled by GDR Management. Mink Associates I employees also perform duties for the utility which are included in the monthly management fee described below. We computed the average hourly amount charged for the Mink I employees.

Objectives: To note expense areas where the utility has no costs assigned, but where benefits to utility are evident.

Procedures: We discussed this issue with utility management. The utility is charged a monthly overhead fee by Mink Associates I, an affiliated company, which runs the rest of the Crystal Lake Club development. This overhead fee includes: manager, office and maintenance salaries, payroll and real estate taxes, health and property insurance, office expenses (office space, computer, postage, billing), and a mortgage interest allocation. This allocation is based percentage (5%) of the total cost of the property, mobile home park, golf course, etc, at acquisition. We discussed this issue with the utility and no further items were brought up by the utility representative.

Objectives: To note all related party relationships and transactions.

Procedures: As stated above, the utility is charged a monthly overhead fee by an affiliated company. Also, we noted that the utility paid rent to the affiliated company.

Objectives: To review Taxes Other Than Income.

Procedures: We obtained the 2005 Regulatory Assessment Fee (RAF) filing and reconciled it to the general ledger. We recomputed the RAF's based on test year revenues. The property tax bills are included in the management fee discussed above.

Audit Finding No. 1

Subject: Utility Books and Records

Audit Analysis: Commission Rule 25-30.115, F.A.C. states that water and wastewater utilities shall maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USoA). Order No. PSC-05-0428-FOF-WS, issued April 20, 2005, ordered Crystal Lake Club Utilities to maintain its books and records in conformity with the NARUC USoA. The Order further required that the utility shall provide a statement within 30 days of the order date that it has established its books and records in compliance with the NARUC USoA, including separate general ledgers for the water and wastewater systems. Mr. Gerald Ross, Property Manager for Crystal Lake Club, provided such statement on May 11, 2005.

In addition, in a prior transfer, Docket No. 991889-WS, the Commission also determined that the utility was not using the NARUC USoA and the utility was ordered to set up its books using the NARUC USoA.

The NARUC USoA states that each utility shall keep its books and records in such a manner as to support fully any item included in any account, it also provides account numbers to be used for balance sheet and income statement accounts.

However, our audit has found that the utility continues to be in non compliance with the Commission Orders or the NARUC USoA:

It is not using the NARUC USoA account numbers.

The books and records do not readily furnish information as to any item included in any account.

Accounts are not kept monthly on an accrual basis.

Separate accounts are not kept for the water and wastewater systems.

All transactions were not entered in the general ledger

The utility contracts with a CPA firm to extract its utility activity and to prepare its Annual Report to the Commission. Utility staff stated they will start using the NARUC USoA for calendar year 2007.

Effect on General Ledger: The utility should begin following the NARUC USoA. Subsequent audit findings address the issues.

Effect on Rate Case: Audit staff was unable to rely on the utility records, and instead based its audit on the 2005 Annual Report.

Audit Finding No. 2

Subject: Prior Audit Adjustments

Audit Analysis: In Docket No. 991889-WS, Commission Order No. PSC-01-0428-PAA-WS established rate base as of August 31, 1999. There was another transfer of the utility addressed in Docket No. 020101-WS. This docket did not address rate base. In Docket No. 041394-WS, Commission Order No. PSC-05-0428-FOF-WS, issued April 20, 2005, approved the transfer of the utility from CWS Communities LP d/b/a/ Crystal Lake Club to Mink Associates II, LLC d/b/a Crystal Lake Club Utilities. This order set rate base as that established by the Commission in 1999 and subsequent adjustments made by the seller.

The utility has not recorded the Commission approved rate base, with adjustments, as required in Order No. PSC-05-0428-FOF-WS in the general ledger. As stated in Audit Finding No. 1, the utility contracts with a CPA firm to extract its utility activity and to prepare its Annual Report to the Commission. The auditor was provided with a schedule prepared by the CPA containing rate base additions from 1999 to 2004.

Effect on General Ledger: The utility should record the following balances in its general ledger:

	Water		Wastewater	
	Per Order 08/31/99	Per Audit 09/30/06	Per Order 08/31/99	Per Audit 09/30/06
Utility Plant in Service	\$ 389,334	\$ 407,235	\$ 544,406	\$ 697,331
Land	3,403	3,403	7,914	7,914
Accumulated Depreciation	(114,078)	(199,096)	(212,711)	(379,127)
CIAC	(165,925)	(199,175)	(175,025)	(224,025)
Amortization CIAC	48,968	88,523	59,103	115,356
Rate Base	\$ 161,702	\$ 100,890	\$ 223,687	\$ 217,449

Effect on Rate Case: Audit staff was unable to rely on the utility records, and instead based its audit on the 2005 Annual Report. The 2005 Annual report correctly includes the prior balances.

Audit Finding No. 3

Subject: Utility Plant in Service (UPIS)

Summary: The utility water and wastewater UPIS is overstated by \$4,102 and \$9,570 respectively as of September 30, 2006.

Audit Analysis: The 2005 Annual Report includes balances for Utility Plant in Service (UPIS) of \$411,336 and \$706,901 for water and wastewater, respectively. Audit review of the utility plant balances found the following adjustments.

- 1) The utility did not record retirements appropriately when it added plant to replace existing plant in the amount of \$4,499 for water and \$17,498 for wastewater.
- 2) The utility was unable to provide supporting documentation for recorded additions in the amount of \$4,554 for water.
- 3) The utility did not record plant additions in the amount of \$4,951 for water and \$14,223 for wastewater.
- 4) The utility capitalized expense items of \$6,295 for wastewater.

Effect on General Ledger: The utility general ledger should reflect a water plant balance of \$407,235 and a wastewater plant balance of \$697,329.

Effect on Rate Case: The utility's plant in service balance reflected in the 2005 Annual Report should be reduced by \$4,102 and \$9,570 respectively.

Water Plant in Service														
A/C No.	304	307	310	311	320	330	331	333	334	336	340	341	348	Total
2005 Annual Report	9,417	15,774	0	0	516	0	153,363	174,443	52,063	497	5,263	0	0	411,336
Retirements - 2004									(2,572)					(2,572)
Retirements - 2005									(1,927)					(1,927)
Additions - 2000				463										463
Additions - 2002							1,315							1,315
Additions - 2005				520									1,167	1,687
Additions - 2006				1,096					390					1,486
No documentation - 2002									(539)		(4,015)			(4,554)
Total	9,417	15,774	0	2,079	516	0	154,678	174,443	47,415	497	1,248	0	1,167	407,234

Water Accumulated Depreciation														
A/C No.	304	307	310	311	320	330	331	333	334	336	340	341	348	Total
2005 Annual Report	5,237	8,519	0	0	258	0	62,140	78,828	37,904	209	2,194	0	0	195,289
2006 Expense	252	438	0	68	18	0	3,053	3,738	2,083	15	0	0		9,665
Plant Retirement									(4,499)					(4,499)
Depreciation on Retirements							(34)	(48)	(503)					(585)
Adjust for Additions				170										170
Unsupported Invoice											(946)			(946)
Total	5,489	8,957	0	238	276	0	65,159	82,518	34,985	224	1,248	0	0	199,094

Wastewater
Plant in Service

A/C No.	354	360	361	362	364	370	371	380	381	389	390	393	397	398	Total
2005 Annual Report	157,163	70,222	52,387	0	6,690	15,712	0	181,042	205,989	16,448	1,248	0	0	0	706,901
Retirements - 2001								(2,000)							0
Retirements - 2004	(15,498)														(2,000)
Retirements - 2005															(15,498)
Additions - 2000								4,298							0
Additions - 2002	3,118														4,298
Additions - 2005		3,510						862		417					3,118
Additions - 2006						970		1,048							4,789
Exp items on invoice - 2002								(2,531)							2,018
Exp items on invoice - 2003								(3,764)							(2,531)
Total	144,783	73,732	52,387	0	6,690	16,682	0	178,955	205,989	16,865	1,248	0	0	0	697,331

Wastewater
Accumulated Depreciation

2005 Annual Report	91,118	47,305	21,483	0	7,359	9,740	0	87,830	92,953	14,796	1,331	0	0	0	373,915
2006 Expense	4,345	2,048	982	0	0	486	0	8,921	4,414	843	0	0	0	0	22,039
Plant Retirement	(15,498)							(2,000)							(17,498)
Depr on Retirements	(223)							(936)							(1,159)
Adjust for Additions	234	68								1,005					1,307
Fully Depreciated					(669)						(83)				(752)
Adjust for 2005 Deprc	1,331														1,331
Rounding									(56)						(56)
Total	81,307	49,421	22,465	0	6,690	10,226	0	93,815	97,311	16,644	1,248	0	0	0	379,127

Audit Finding No. 4

Subject: Land

Audit Analysis: Commission Order No. PSC-05-0428-FOF-WS, issued April 20, 2005, approved the transfer of the utility from CWS Communities LP d/b/a/ Crystal Lake Club to Mink Associates II, LLC d/b/a Crystal Lake Club Utilities. This order set rate base as that established by the Commission in 1999 and subsequent adjustments made by the seller. Land value in the amount of \$3,403 for water and \$7,914 for wastewater was included in rate base.

The application for transfer contained a copy of a ninety nine (99) year lease between Mink Associates I and Mink Associates II, giving the utility long-term use of the land for its water and wastewater facilities. Mink I charged the utility \$37,440 rent during the test year. The utility charged \$6,240 to water and \$31,200 to wastewater operations. The utility manager stated this allocation was based on the amount of land occupied by each.

Effect on General Ledger: Information is provided to PSC staff for determination on the appropriate recording of these amounts.

Effect on Rate Case: Information is provided to PSC staff for determination on the appropriate recording of these amounts.

Audit Finding No. 5

Subject: Adjustment to Accumulated Depreciation

Summary: The utility's water and wastewater accumulated depreciation balances are understated by \$3,805 for water and by \$5,293 for wastewater as of September 30, 2006.

Audit Analysis: The utility did not record plant retirements in accumulated depreciation as required by the NARUC USOA and did not record depreciation for the period January to September 2006. Additionally, adjustments should be made for the audit adjustments made to UPIS: unrecorded additions, expense items, and an unsupported invoice. Our adjustments are recorded below and on pages 9 and 10 of this report.

	Water	Wastewater
2005 Annual Report	(195,291)	(373,916)
<u>Adjustments</u>		
Retirements	5,084	18,657
Other Adjustments	776	(1,827)
2006 Acc Deprc	<u>(9,665)</u>	<u>(22,041)</u>
	(199,096)	(379,127)

Effect on General Ledger: The utility general ledger should reflect the audit balance of \$199,096 for water and \$379,209 for wastewater.

Effect on Rate Case: The utility's water and wastewater accumulated depreciation as reflected in the 2005 Annual report should be increased by \$3,805 and \$5,293 respectively.

Audit Finding No. 6

Subject: CIAC and Accumulated Amortization

Summary: The utility’s water and wastewater CIAC and accumulated amortization balances are understated by \$9,500 and \$14,000 for CIAC and \$4,987 and \$18,536 for accumulated amortization respectively as of September 30, 2006.

Statement of Fact: The utility did not record the balances, as of December 31, 2005 on its Annual Report, and did not use NARUC approved amortization rates. Additionally, it did not record CIAC or amortization for the period January to September 2006.

The NARUC USoA states for Account 272 that “...contributions of depreciable plant shall be amortized by charges to this account over a period equal to the estimated service life of the related contributed asset. A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset.” The utility did not follow this rule. Our adjustments are recorded below.

		Water	Wastewater	
Per Utility	CIAC	189,675		210,025
	<u>Adjustments</u>			
	2005 Additions	5,225	7,700	
	2006 Additions	<u>4,275</u>	<u>6,300</u>	<u>14,000</u>
Audit Balance		199,175		224,025
Per Utility	Amortization	83,536		96,819
	2006 Addition	4,698	6,991	
	Amortization per composite depreciation rate	<u>289</u>	<u>4,987</u>	<u>18,536</u>
Audit Balance		88,523		115,355

Effect on General Ledger: The utility general ledger should reflect the audit balance of \$199,175 for CIAC and \$88,523 for amortization and \$224,025 for CIAC and \$115,355 for amortization for water and wastewater respectively.

Effect on Rate Case: The utility’s water and wastewater CIAC and accumulated amortization balances, as reflected in the 2005 Annual Report, should be increased by \$9,500 and \$14,000 for CIAC and \$4,987 and \$18,536 for accumulated amortization respectively as of September 30, 2006.

Audit Finding No. 7

Subject: Revenues

Summary: The utility revenues are overstated for water by \$15,119 and understated for wastewater by this amount.

Audit Analysis: The utility's records reflects revenues in the amount of \$104,195 and \$49,938 for water and wastewater, respectively, for the 12-month period ended September 30, 2006. Based on our audit we reclassified \$15,119 from water to wastewater revenues for revenues that were incorrectly recorded for October – December 2005.

Effect On General Ledger:

<u>NARUC</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
400	Revenues – W	15,119	
400	Revenues - WW		15,119

Effect On Rate Case If Finding Is Accepted: Increase wastewater revenues by \$15,119 and reduce water revenues by the same amount.

Audit Finding No. 8

Subject: Operation And Maintenance Expenses

Summary: The utility water and wastewater operation and maintenance expense accounts are understated and overstated by \$12,873 and \$2,970 respectively as of September 30, 2006.

Audit Analysis: The utility's records reflects operation and maintenance expense of \$87,593 and \$111,754 for water and wastewater, respectively, for the 12-month period ended September 30, 2006. The utility did not use the NARUC USoA account numbers nor allocate all its expenses between water and wastewater. The auditor used invoices to reflect the actual expenses. The chart below represents the amounts reflected on the utility's books. Following this chart are the differences between the company books and the balances we developed using the invoices.

Acct No.	NARUC	Description	01/06 to 09/06	10/05 to 12/05	Total	Grand
67650	740	Rent - Sewer	0	31,200	31,200	31,200
67651	640	Rent - Water	0	6,240	6,240	6,240
70407	615/715	Electric	21,305	4,989	26,294	26,294
43100	618/718	Chemicals	9,255	3,422	12,677	12,677
70397	620/720	Office	251	1,040	1,290	0
70401	620/720	Supplies Maint.	0	236	236	0
70405	620/720	R & M Equipment	519	755	1,274	2,800
67400	631/731	P. fee	950	0	950	950
43150	636/736	W Meters	1,561	0	1,561	0
43200	636/736	O/S Service - Plant treatment	28,457	9,979	38,436	0
67600	636/736	Mgmt fee	5,915	1,623	7,537	0
67900	636/736	Outside Services	8,174	24	8,198	0
70410	636/736	Meter Reading	11,400	3,720	15,120	0
70420	636/736	5% Admin	31,500	10,500	42,000	112,852
70430	675/775	Fees & Permits	6,334	0	6,334	6,334
Total			125,622	73,726	199,348	199,348

Water

<u>NARUC #</u>	<u>NARUC Account</u>	<u>GL - Amount</u>	<u>Invoices - Amount</u>	<u>Difference</u>
640	Rent - Water	6,240	6,240	0
615	Purchased Power	13,147	19,050	5,903
618	Chemicals	6,338	5,359	(979)
620	Materials & Supplies	1,400	1,544	144
631	Contract. Services- Professional Services	475	3,983	3,508
636	Contract. Services-Other	56,426	60,379	3,953
665	Regulatory Commission Expense	0	250	250
675	Miscellaneous Expense	<u>3,567</u>	<u>3,660</u>	<u>94</u>

Total 87,593 100,465 12,873

Waste Water

<u>NARUC #</u>	<u>NARUC Account</u>	<u>GL – Amount</u>	<u>Invoices– Amount</u>	<u>Difference</u>
740	Rent - Sewer	31,200	31,200	0
715	Purchased Power	13,147	7,124	(6,023)
718	Chemicals	6,338	6,401	63
720	Materials & Supplies	1,400	1,362	(38)
731	Contract. Services- Professional Services	475	3,663	3,188
736	Contract. Services-Other	56,426	55,259	(1,167)
765	Regulatory Commission Expense	0	250	250
775	Miscellaneous Expense	<u>2,768</u>	<u>3,525</u>	<u>758</u>
Total		<u>111,754</u>	<u>108,784</u>	<u>(2,970)</u>

Effect On General Ledger:

NARUC	Description	Dr	Cr
615	Purchased Power	5,903	
618	Chemicals		979
620	M & S	144	
631	Professional	3,508	
636	Other	3,953	
665	Reg. Comm	250	
675	Misc	94	
215	Retained Earnings		12,873

715	Purchased Power		6,023
718	Chemicals	63	
720	M & S		38
731	Professional	3,188	
736	Other		1,167
765	Reg. Comm	250	
775	Misc	758	
215	Retained Earnings	2,970	

Effect On Rate Case: Increase and decrease operation and maintenance expense by \$12,873 and \$2,970 for water and wastewater respectively.

Audit Finding No. 9

Audit Analysis: Our review of the invoices, found numerous errors in the accounts assigned. We reclassified \$11,240 for water and \$38,081 for wastewater. Below are two tables showing the detail of the reclassification between accounts.

Reclass - W		From			
		636	620	675	Total
To	309	1,096	0	0	1,096
	334	0	781	0	781
	635	5,796	0	0	5,796
	408	0	0	3,567	3,567
	Total	6,892	781	3,567	11,240

Reclass - WW		From			
		720	736	775	Total
To	711	0	10,450	0	10,450
	334	781	0	0	781
	370	0	3,880	0	3,880
	380	0	11,048	0	11,048
	735	0	9,154	0	9,154
	408	0	0	2,768	2,768
	Total	781	34,532	2,768	38,081

Effect On General Ledger:

<u>NARUC</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
309	Supply Mains	1,096	
635	Testing	5,796	
636	Other		6,892
334	Meters & Meters Inst.	781	
620	Materials & Supplies		781
408	Taxes Other Than Inc.	3,567	
675	Miscellaneous		3,567
370	Receiving Wells	3,880	
380	Treatment & Disposal	11,048	
711	Sludge	10,450	
735	Testing	9,154	
736	Other		34,532
334	Meters & Meters Inst.	781	
720	Materials & Supplies		781
408	Taxes Other Than Inc.	2,768	
775	Miscellaneous		2,768

Effect On Rate Case: Reclassify \$11,240 for water and \$38,081 for wastewater as shown above.

Audit Finding No. 10

Subject: Taxes Other Than Income

Audit Analysis: The utility's general ledger reflects Taxes Other Than Income(TOTI) of \$3,567 for water and \$2,768 for wastewater for the 12-month period ended September 30, 2006. The Regulatory Assessment Fee (RAF) amounts of \$3,542 and \$2,743, for water and wastewater respectively, were recorded in account 675 and 775. The amounts include penalty amounts for late payment of \$52 for water and \$40 for wastewater on RAF. Commission policy is to disallow penalties as imprudent.

Also, included in the TOTI accounts are payments to the Department of State in the amount of \$25 for water and wastewater respectively.

The test year revenues for the twelve month period ended September 30, 2006 are \$89,076 for water and \$65,057 for wastewater. These revenues result in a RAF amounts of \$4,008 for water and \$2,928 for wastewater. Utility books only reflect payment for 2005 RAF's. The utility books are understated by \$415 for Water and \$145 for Wastewater.

	Water	Wastewater
Recalculate RAF	467	185
Penalty	(52)	(40)
Total	415	145

Effect On General Ledger:

Acct. No.	Description	Debit	Credit
408	Regulatory Assessment Fees - W	415	
215	Retained Earnings		415
408	Regulatory Assessment Fees - WW	145	
215	Retained Earnings		145

Effect On Rate Case: The utility Regulatory Assessment Fees are understated by \$415 for water and \$145 for wastewater.

Audit Finding No. 11

Subject: Allocation of Overhead Fee

Audit Analysis: The utility is charged a monthly overhead fee by Mink Associates I, an affiliated company, which runs the rest of the Crystal Lake Club development. This overhead fee includes: manager, office and maintenance salaries, payroll and real estate taxes, health and property insurance and a mortgage interest allocation. This allocation is based on a percentage (5%), which management attributed to the utility property on the total cost of the property, mobile home park, golf course, etc, at acquisition. We discussed this issue with utility management.

Effect on General Ledger: Information is provided to PSC staff for informational purposes.

Effect on Rate Case: Information is provided to PSC staff for informational purposes.

EXHIBIT 1

CRYSTAL LAKE CLUB UTILITIES
DOCKET: 060747 - WS
RATE BASE - WATER
AS OF SEPTEMBER 30, 2006

DESCRIPTION	(a) AUDIT BALANCE @09/30/05	(b) BALANCE PER BOOKS @12/31/05	© AUDIT ADJUSTMENT	(d) AUDITED BALANCE @09/30/06	{(a+d)/2} (e) AVERAGE RATE BASE @09/30/06
UTILITY PLANT IN SERVICE	405,748	411,336	(4,101)	407,235	406,492
LAND	3,403	3,403	0	3,403	3,403
PLANT HELD FOR FUTURE USE					
CIAC	(194,900)	(189,675)	(9,500)	(199,175)	(197,038)
ACCUMULATED DEPRECIATION	(189,431)	(195,291)	(3,805)	(199,096)	(194,264)
AMORTIZATION-CIAC	83,825	83,536	4,987	88,523	86,174
WORKING CAPITAL				11,881	
ACQUISITION ADJUSTMENT					
TOTAL	108,645	113,309	(12,419)	112,771	104,768

NOTE: AUDIT STAFF WAS UNABLE TO RELY ON THE UTILITY RECORDS, AND INSTEAD BASED ITS AUDIT ON THE 2005 ANNUAL REPORT.

WORKING CAPITAL ALLOWANCE COMPUTED AT 1/8 O&M EXPENSES. (95,048/8)

EXHIBIT 2

CRYSTAL LAKE CLUB UTILITIES
DOCKET: 060747 - WS
RATE BASE - WASTEWATER
AS OF SEPTEMBER 30, 2006

DESCRIPTION	(a) AUDIT BALANCE @09/30/05	(b) BALANCE PER BOOKS @12/31/05	© AUDIT ADJUSTMENT	(d) AUDITED BALANCE @09/30/06	{(a+d)/2} (e) AVERAGE RATE BASE @09/30/06
UTILITY PLANT IN SERVICE	695,313	706,901	(9,572)	697,329	696,321
LAND	7,914	7,914	0	7,914	7,914
PLANT HELD FOR FUTURE USE					
CIAC	(217,725)	(210,025)	(14,000)	(224,025)	(220,875)
ACCUMULATED DEPRECIATION	(357,086)	(373,916)	(5,211)	(379,127)	(368,107)
AMORTIZATION-CIAC	108,364	96,819	18,537	115,356	111,860
WORKING CAPITAL				11,292	
ACQUISITION ADJUSTMENT					
TOTAL	236,780	227,693	(10,246)	228,739	227,114

NOTE: AUDIT STAFF WAS UNABLE TO RELY ON THE UTILITY RECORDS, AND INSTEAD BASED ITS AUDIT ON THE 2005 ANNUAL REPORT.

WORKING CAPITAL ALLOWANCE COMPUTED AT 1/8 O&M EXPENSES. (90,332/8)

Exhibit 3

Crystal Lake Club Utilities
Docket No. 060747-WS
Net Operating Income - Water
Period: 10/01/05 to 09/30/06

Description	Ref	<i>Balance</i>		<i>Balance</i>
		<i>per</i>	<i>Audit</i>	
		<i>Books</i>	<i>Adjustments</i>	
		<i>09/30/06</i>	<i>09/30/06</i>	<i>09/30/06</i>
Operating Revenues	41	104,195	(15,119)	89,076
Operation & Maint.	43	87,593	7,429	95,023
Depreciation	22	2,934	9,933	12,867
Amortization	23	0	6,233	6,233
Taxes Other Than Income	53	3,567	415	3,981
Income Taxes	54	0	0	0
Total Operating Expenses		94,094	24,010	118,104
Net Operating Income (Loss)		10,101	(39,129)	(29,028)

Exhibit 4

Crystal Lake Club Utilities
Docket No. 060747-WS
Net Operating Income - Wastewater
Period: 10/01/05 to 09/30/06

Description	Ref	<i>Balance</i>		<i>Balance</i>
		<i>per</i>	<i>Audit</i>	
		<i>Books</i>	<i>Adjustments</i>	<i>per Audit</i>
		<i>09/30/06</i>	<i>09/30/06</i>	<i>09/30/06</i>
Operating Revenues	41	49,938	15,119	65,057
Operation & Maint.	43	111,754	(21,447)	90,307
Depreciation	22	0	29,376	29,376
Amortization	23	0	9,271	9,271
Taxes Other Than Income	53	2,768	145	2,913
Income Taxes	54	0	0	0
Total Operating Expenses		114,522	17,345	131,866
Net Operating Income (Loss)		(64,584)	(2,225)	(66,810)