

State of Florida



# Public Service Commission

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

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

**DATE:** October 16, 2007

**TO:** Jay B. Revell, Regulatory Analyst III, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *W*

**RE:** **Docket No: 070417-WS; Company Name: Anglers Cove, Ltd. In Polk Co.;**  
**Audit Purpose: Staff Assisted Rate Case; Audit Control No: 07-233-2-1**

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

DNV:sbj  
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

Todd Maxwell, President of General Partner  
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 Lakeland, FL 33807

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

*Tampa District Office*

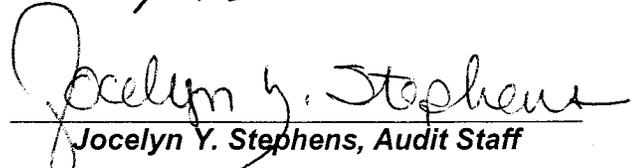
**ANGLERS COVE WEST, LTD**

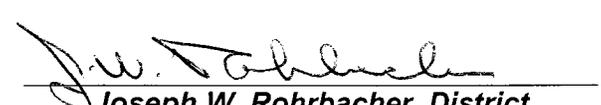
**STAFF ASSISTED RATE CASE**

**AS OF DECEMBER 31, 2006**

**DOCKET NO. 070417-WS**  
**AUDIT CONTROL NO. 07-233-2-1**

  
\_\_\_\_\_  
**Jeffery A. Small, Audit Manager**

  
\_\_\_\_\_  
**Jocelyn Y. Stephens, Audit Staff**

  
\_\_\_\_\_  
**Joseph W. Rohrbacher, District  
Supervisor**

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COMMISSION OF FRK

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

**OCTOBER 12, 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 August 15, 2007. We have applied these procedures to the attached schedules prepared by the audit staff in support of Anglers Cove West, LTD request for a Staff Assisted Rate Case in Docket No. 070417-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

### 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.(NARUC USOA)

*Procedures:* We reviewed the utility's accounting system and compared it to the NARUC USOA.

### 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 traced UPIS balances to the utility's 2006 Annual Report and reconciled them to the general ledger. We determined additions to UPIS for the year ended December 31, 2006. We toured the utility plant sites to observe whether asset additions were completed. Audit Finding No. 1 discloses information on the utility's UPIS balances as of December 31, 2006. Audit Finding No. 2 discusses our adjustment to UPIS additions for the 3-year period ended 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 traced Land balances to the utility's 2006 Annual Report and reconciled them to the general ledger. 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.

*Procedures:* We scanned selected utility Federal Income Tax returns for unrecorded cash and property contributions. Audit Finding No. 1 discloses information on the utility's CIAC balances 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's authorized rates and that retirements are properly recorded.

*Procedures:* We traced accumulated depreciation balances to the utility's 2006 Annual Report and reconciled them to the general ledger. Audit Finding No. 1 discloses information on the utility's accumulated depreciation balances 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. To verify that CIAC amortization expense accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

*Procedures:* Audit Finding No. 1 discloses information on the utility's accumulated amortization of CIAC balances 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 1/8<sup>th</sup> of operation and maintenance expense as required by Commission rule 25-30.433(2) Florida Administrative Code. Audit Finding No. 4 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 traced revenue balances to the utility's 2006 Annual Report and reconciled them to the general ledger. We compared reported revenues to the approved tariff rates. Audit Finding No. 5 discusses our findings and adjustments to the company's water and wastewater revenue balances for the 12-month period ended December 31, 2006.

#### 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 traced O&M expense balances to the utility's 2006 Annual Report and reconciled them to the general ledger. We reviewed a sample of 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 Nos. 6 through 15 discuss our findings and adjustments to the company's water and wastewater O&M expense account balances 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 traced TOTI expense balances to the utility's 2006 Annual Report and reconciled them to the general 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. 16 discusses our findings and adjustments to the company's wastewater 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 traced depreciation expense balances to the utility's 2006 Annual Report and reconciled them to the general ledger. We recalculated a sample of depreciation expense accruals using the rates established in Rule 25-30.140 Florida Administrative Code. Audit Finding Nos. 1 and 2 disclose information on the utility's depreciation expense accruals 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 composed of long-term debt and owners equity. We determined the average balance for long-term debt and owners equity and calculated the average cost of long-term debt as of December 31, 2006. Audit Finding No. 17 discusses our findings and recommended long-term debt and partnership's equity balances before reconciliation to rate base as of December 31, 2006.

## AUDIT FINDING NO. 1

### SUBJECT: INFORMATION ON RATE BASE BALANCES

**AUDIT ANALYSIS:** The utility's 2006 Annual Report reflects the following rate base balances as of December 31, 2006.

<u>Description</u>	<u>Water Balance</u>	<u>W/Water Balance</u>
Utility Plant in Service (UPIS)	\$187,874	\$593,084
Land & Land Rights	0	86,226
Contributions in Aid of Construction (CIAC)	0	0
Accumulated Depreciation	(80,675)	(503,696)
Amortization of CIAC	<u>0</u>	<u>0</u>
Net Rate Base	\$107,199	\$175,614

Anglers Cove West, LTD (company) was granted a grandfather certificate in Order No. PSC-99-1228-WS, issued June 21, 1999, to operate a utility system for its mobile home rental community. Prior to that time, utility operations were not regulated except for specific provisions contained in Chapter 723, Florida Statutes, which governs the operation of mobile home parks in the State of Florida and the environmental requirements of the Florida Department of Environmental Protection and the Polk County Health Department.

The above rate base balances were traced to the company's general ledger and its 2006 federal tax return using a reconciliation worksheet provided during our audit investigation.

The company's application for a grandfather certificate in Docket No. 981342-WS indicated that it began operations in 1985. The company was not able to provide any original cost records to substantiate its 2006 rate base balances. We were able to review support for plant additions recorded in 2006.

The staff engineer should determine the original cost rate base balances for UPIS and accumulated depreciation for this proceeding. Commission Rule 25-30.570, FAC, addresses the imputation of Contributions-in-Aid-of-Construction (CIAC) when a company has not recorded any on the utility's books and the company does not submit competent substantial evidence as to the amount of CIAC. We were able to determine a balance for wastewater land which is discussed later in Audit Finding No. 3 of this report.

**EFFECT ON THE GENERAL LEDGER:** None – informational only.

**EFFECT ON THE FILING:** To be determined by staff engineer.

## AUDIT FINDING NO. 2

### SUBJECT: ADJUSTMENT TO ADDITIONS OF UPIS

**AUDIT ANALYSIS:** The company's records reflect an addition of \$49,872 to Acct. No. 344 – Meter and Meter Installations during the 12-month period ended December 31, 2006.

The company installed 340 water meters from September 2006 through January 2007. Our analysis of the company's transactions are indicated below. The adjustment column reflects additional amounts that were not recorded or were reclassified by the auditor.

Date	Event	Per Company	Adjustment	Per Audit
May-06	Purchase 340 meters	\$13,419	\$0	\$13,419
Jul-06	Purchase meter supplies	16,715	0	16,715
Sep-06	Install meters (contractor)	5,660	0	5,660
Oct-06	Install meters (contractor)	4,520	3,103	7,623
Oct-06	Install meters (Acct. No. 620)	0	1,600	1,600
Nov-06	Install meters (contractor)	6,308	0	6,308
Dec-06	Install meters (contractor)	<u>3,250</u>	<u>0</u>	<u>3,250</u>
	Actual additions at Dec-06	\$49,872	\$4,703	\$54,575
Jan-07	Install meters (contractor)		<u>2,340</u>	<u>2,340</u>
	Proforma additions at Dec-06		\$7,043	\$56,915

Date	Event	Per Company	Adjustment	Per Audit
	Actual Acc/Dep and Dep/Exp at Dec-06	\$1,467	\$138	\$1,605
	Proforma Acc/Dep and Dep/Exp at Dec-06		\$207	\$1,674

(Depreciation expense is calculated using the 1/2 year convention with a service life of 17 years.)

We have included the final meter additions completed in January 2007, as pro forma adjustments, in our calculations. The following adjustments should be incorporated by the staff engineer in determining the utility's rate base balances as of December 31, 2006.

**EFFECT ON THE GENERAL LEDGER:** Increase UPIS and accumulated depreciation by \$4,703 and \$138, respectively, as of December 31, 2006.

**EFFECT ON THE FILING:** Increase UPIS and accumulated depreciation by \$7,043 and \$207, respectively, as of December 31, 2006

**AUDIT FINDING NO. 3**

**SUBJECT: ADJUSTMENT TO LAND AND LAND RIGHTS**

**AUDIT ANALYSIS:** The company's records reflect a balance of \$86,226 in Acct. No. 353 – Land and Land Rights as of December 31, 2006.

The NARUC USOA, Balance Sheet Acct. No. 353 – Land and Land Rights, states that the cost of land should be recorded at its original cost when it was first dedicated to utility service.

The company's water system is solely a distribution system and there is no land to be reviewed. The property that contains the wastewater plant site was first dedicated to utility service in the two real estate transactions illustrated below.

- A. Parcel 232834-000000-043100 was purchased by Anglers Cove West, LTD on December 16, 1985 from Earnest, Wendal and Terry Winstead by a warranty deed that was recorded in Original Record (OR) Book 2384 Page 0204 of Polk County Clerks records for a price of \$371,500. The Winsteds purchased the property from Clayton and Vivian Roberts on September 27, 1985 by a warranty deed that was recorded in OR Book 2363 Page 1205 of Polk County Clerks records for a price of \$161,500. We contend that the large difference in the sales price for the same parcel of land within a three month period is due to the subsequent dedication and development of the property by the Winsteds prior to the sale to Anglers Cove West, LTD. Therefore, we have calculated the wastewater land allocation based on the September 27, 1985 sales price.
- B. Parcel 232834-000000-043200 was purchased by Anglers Cove West, LTD on June 15, 1990 from Rocco Bucci and Patsy Smith by a quick claim deed that was recorded in OR Book 2865 Page 1482 of Polk County Clerks records for a price of \$8,600. The sellers had acquired title to the property by means of a tax deed issued by Polk County Clerk of the Court on Mach 8, 1990. We were unable to determine the events or transactions that preceded this event. Therefore, we have calculated the wastewater land allocation based on the June 15, 1990 sales price.

Polk County Parcel ID#	Acreage	Year Purchased	OR Book	Price	Price per Acre
A 232834-000000-043100	17.60	09/27/85	2363/1205	\$161,500	\$9,176
B 232834-000000-043200	<u>1.15</u>	06/15/90	2865/1482	<u>8,600</u>	<u>7,478</u>
	18.75			\$170,100	\$9,072

The company estimates that approximately 3.60 acres of the property purchased above is occupied by the wastewater plant site.

We calculated a wastewater land balance of \$32,659, which is based on the original cost per acre that was determined above times the acreage used for utility operations as determined by the company. (\$9,072x3.60 acres)

**EFFECT ON THE GENERAL LEDGER:** Decrease Acct. No. 353 by \$53,567 (\$86,226-\$32,659) as of December 31, 2006.

**EFFECT ON THE FILING:** Decrease the wastewater rate base land balance by \$53,567 (\$86,226-\$32,659) as of December 31, 2006.

## AUDIT FINDING NO. 4

### SUBJECT: ADJUSTMENT FOR WORKING CAPITAL

**AUDIT ANALYSIS:** The company's records reflect water and wastewater operating and maintenance (O&M) expense balances of \$140,768 and \$97,748, respectively, for the 12-month period ended December 31, 2006.

Our adjustments described later in this report reduce the company's water and wastewater O&M expenses by \$60,722 (\$140,768-\$80,046) and \$40,325 (\$97,748-\$57,423), respectively, for the 12-month period ended December 31, 2006.

Based on our O&M expense balances above we calculated water and wastewater working capital balances of \$10,006 and \$7,178, respectively, as of December 31, 2006. See the two schedules that follow for additional details and our calculations.

O&M Expense - Water		Per Utility		Audit Adjustments		Per Audit	AF No.	
Acct. No.	Acct. Description	Direct	Allocated	Total	Direct	Allocated		Total
601	Salaries & Wages - Employees	\$7,100	\$5,353	\$12,454	(\$545)	(\$1,575)	\$10,334	6
610	Purchased Water	50,026	0	50,026	(4,790)	0	45,237	7
620	Materials & Supplies	1,939	3,588	5,527	(1,799)	(3,203)	524	10
631	Contractual Services - Professional	1,824	29,840	31,664	(1,177)	(29,840)	647	11
635	Contractual Services - Testing	0	0	0	0	0	0	
636	Contractual Services - Other	20,417	0	20,417	(6,675)	0	13,742	12
650	Transportation Expense	71	0	71	0	0	71	
655	Insurance	0	4,239	4,239	0	(551)	3,688	13
675	Miscellaneous Expense	0	16,370	16,370	0	(10,565)	5,805	14
Balance (Rounded to whole dollars)		\$81,377	\$59,390	\$140,768	(\$14,986)	(\$45,734)	\$80,046	
Working Capital (1/8 of O&M expense)							\$10,006	

O&M Expense - Wastewater		Per Utility		Audit Adjustments		Per Audit	AF No.	
Acct. No.	Acct. Description	Direct	Allocated	Total	Direct	Allocated		Total
701	Salaries & Wages - Employees	\$9,391	\$5,353	\$14,744	(\$983)	(\$1,575)	\$12,186	6
711	Sludge Hauling	7,090	0	7,090	1,600	0	8,690	8
715	Purchased Power	6,169	0	6,169	0	0	6,169	
718	Chemicals	799	0	799	2,302	0	3,101	9
720	Materials & Supplies	4,646	3,588	8,234	(2,342)	(3,203)	2,689	10
731	Contractual Services - Professional	6,663	29,840	36,503	3,152	(29,840)	9,815	11
735	Contractual Services - Testing	250	0	250	0	0	250	
736	Contractual Services - Other	2,479	0	2,479	1,680	0	4,159	12
750	Transportation Expense	871	0	871	0	0	871	
755	Insurance	0	4,239	4,239	0	(551)	3,688	13
775	Miscellaneous Expense	0	16,370	16,370	0	(10,565)	5,805	14
Balance (Rounded to whole dollars)		\$38,359	\$59,390	\$97,748	\$5,409	(\$45,734)	\$57,423	
Working Capital (1/8 of O&M expense)							\$7,178	

Based on our findings discussed above we have increased water and wastewater rate base by \$10,006 and \$7,178, respectively, for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our working capital adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Increase water and wastewater rate base balances by \$10,006 and \$7,178, respectively as of December 31, 2006.

## AUDIT FINDING NO. 5

### SUBJECT: ADJUSTMENT TO REVENUES

**AUDIT ANALYSIS:** The company's records reflect the following water and wastewater revenue balances for the 12-month period ended December 31, 2006.

<u>Source</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
General Ledger	(Not separated in G/L)		\$63,043
Annual Report	\$31,521	\$31,522	\$63,043

The company provides water and wastewater service to 340 customers for a flat fee of \$15.71 per month. This tariff rate was established in Order No. PSC-99-1228-WS.

A straight calculation of revenues based on the company's tariff and its customer base produces water and wastewater revenues of \$32,048, each, respectively, for the 12-month period ended December 31, 2006.

<u>Source</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Annual Report	\$31,521	\$31,522	\$63,043
Calculated	<u>32,048</u>	<u>32,048</u>	<u>64,096</u>
Difference	(\$527)	(\$526)	(\$1,053)

The \$1,053 difference indicated above was the result of various general ledger entries that were posted throughout the year. The company provided support for \$178 of these entries which indicated that some of its customers were given credits for "away rates", more accurately described as vacation rates. The remaining general ledger entries were unexplained and unsupported.

Rule 25-30.335 (9) Florida Administrative Code states that if a utility utilizes the base facility and usage charge rate structure and does not have a Commission authorized vacation rate, the utility shall bill the customer the base facility charge regardless of whether there is any usage.

Based on the above findings, we have increased the utility's water and wastewater revenues by \$527 and \$526, respectively, to remove the unauthorized vacation rate adjustments and to remove the remaining unsupported and unexplained adjustments that account for the remaining \$875 difference (\$1,053 - \$178) between our calculated revenue balances and the utility's reported revenue balances.

Additionally, the above revenue adjustment will increase regulatory assessment fees for water and wastewater Taxes Other Than Income by \$24 each, respectively. (\$527 x 4.5%)

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Increase water and wastewater revenues by \$527 and \$526, respectively, for the 12-month period ended December 31, 2006. Increase water and wastewater Taxes Other Than Income by \$24, each, respectively, for the 12-month period ended December 31, 2006.

**ADDITIONAL INFORMATION:** The company's 2002 through 2006 annual reports have consistently reported that it serves 325 residential customers. During the course of our fieldwork we have determined that the company installed 340 5/8<sup>th</sup> inch water meters for its residential customers. The meter installations were completed in January 2007. We have also determined that the utility provides unmetered water and wastewater service for two common owned clubhouses and one irrigation system at the entrance to the mobile home community. The service line for each clubhouse provides water for a community pool and an irrigation system around the clubhouse. As far as we can determine, the company has never recorded revenues for these three service connections.

## AUDIT FINDING NO. 6

### SUBJECT: ADJUSTMENT TO SALARY EXPENSE

**AUDIT ANALYSIS:** The company's records reflect the following balances for salary expense in the indicated accounts for the 12-month period ended December 31, 2006.

Source	Acct. 601 Water	Acct. 701 Wastewater	Non-Utility	Total
Direct Salary	\$7,100	\$9,391	\$0	\$16,491
Allocated Salary	<u>5,353</u>	<u>5,353</u>	<u>10,707</u>	<u>21,413</u>
Total	\$12,454	\$14,744	\$10,707	\$37,904

Our review of the general ledger and other company supplied documents indicated the following information about the salary amounts above.

1. The company receives a direct salary allocation for five individual employees that provide services for utility operations. Four of the employees are employed by Century Realty Fund, LLP (CRF). Two of the four CRF employees work exclusively in utility operations for Anglers Cove and seven other mobile home parks that CRF administers. The remaining two CRF employees provide accounting and management services to utility and non-utility operations. The fifth employee mentioned above is employed by Mobile Home Lifestyles, LLP. (MHL) He also works exclusively in utility operations for Anglers Cove and seven other mobile home parks that MHL serves. Both CRF and MHL are considered related party entities to Anglers Cove and the other seven mobile home operating entities.
2. We compared the company's general ledger postings for direct salary expense from CRF to the payroll reports created by its payroll vendor. We sampled the months of April and August 2006 and determined that the general ledger direct salary amount is overstated by approximately 10.92 percent for the five pay periods we sampled. The company could not provide an explanation for the differences we discovered. The company general ledger includes \$4,994, each, for water and wastewater direct salary expense from CRF. We have reduced these amounts by \$545 ( $\$4,994 \times 10.92\%$ ) each, to remove the unexplained 10.92 percent excess direct salary expense based on our findings above.
3. Included in the wastewater direct salary amount listed above were two invoices for chemical expense totaling \$438 that should have been posted to Acct. No. 718 – Wastewater Chemicals. We have reclassified this amount to the proper account.
4. The allocated salary amount above represents the full time salary and monthly management fee paid to Anglers Cove West, LTD's park manager. The company allocated fifty percent of the total salary and management fee to utility operations which was then split equally between water and wastewater operations.
5. We estimate that approximately \$7,558 of the park manager's salary should be allocated to utility operations. We calculated this amount based on company information provided that describes the park manager's duties and time allocations.

Duties performed	First half of the year			Second half of the year			Hours per 52 Weeks
	Hours per Day	Hours per Week	Hours per 26 weeks	Hours per Day	Hours per Week	Hours per 26 weeks	
Sales business	3	15	390	2	10	260	650
Park business	<u>5</u>	<u>25</u>	<u>650</u>	<u>7</u>	<u>35</u>	<u>910</u>	<u>1,560</u>
	8	40	1,040	9	45	1,170	2,210
Audit Allocation	Hours per 52 Weeks	Percent	Total Salary	70.59% Park	50% Utility	50% Water	50% W/Water
Sales business	650	29.41%					
Park business	<u>1,560</u>	<u>70.59%</u>	\$21,413	\$15,115	\$7,558	\$3,779	\$3,779
	2,210	100.00%					
Per Utility					<u>10,707</u>	<u>5,353</u>	<u>5,353</u>
Audit Adjustment					(\$3,149)	(\$1,575)	(\$1,575)

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 601 and 701 by \$2,120 (\$545+\$1,575) and \$2,558 (\$545+\$438+\$1,575), respectively, for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water and wastewater O&M expense by \$2,120 and \$2,558, respectively, for the 12-month period ended December 31, 2006.

**AUDIT FINDING NO. 7**

**SUBJECT: ADJUSTMENT TO PURCHASED WATER EXPENSE**

**AUDIT ANALYSIS:** The company's records reflect a balance of \$50,026 in Acct. No. 610 - Purchased Water for the 12-month period ended December 31, 2006.

Our review of the general ledger and the vendors invoices indicated that the following adjustments are needed.

1. The company's balance displayed above included thirteen monthly invoices when there should be only twelve invoices for an annual period. We have removed the December 2005 invoice that was paid in January 2006 which was for \$3,488.
2. The twelve invoices included for year 2006 also included a monthly fee for private area lighting in the mobile home park. The street light does not serve utility operations. We have removed \$1,302 in private area lighting fees for year 2006.

Based on our findings discussed above, we have reduced Acct. No. 610 by \$4,790. (\$3,488+\$1,302) for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water O&M expense by \$4,790 for the 12-month period ended December 31, 2006.

## **AUDIT FINDING NO. 8**

### **SUBJECT: ADJUSTMENT TO SLUDGE HAULING EXPENSE**

**AUDIT ANALYSIS:** The company's records reflect a balance of \$7,090 in Acct. No. 711 – Sludge Hauling for the 12-month period ended December 31, 2006.

Our review of the general ledger and the vendor's invoices indicated that the following adjustments are needed.

1. The company's balance displayed above includes an invoice for \$200 for an annual report to the Florida Department of Environmental Protection (DEP) that is also included in Acct. No. 731 – Contract Services Professional. We have removed this amount to eliminate a double recovery of its cost.
2. Our review of vendor invoices determined that two invoices totaling \$1,800 were billed in December 2006 but not posted until January 2007. We have included these invoices because they were incurred for the current test year 2006.

Based on our findings discussed above, we have increased Acct. No. 711 by \$1,600. (\$1,800-\$200) for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Increase wastewater O&M expense by \$1,600 for the 12-month period ended December 31, 2006.

**AUDIT FINDING NO. 9**

**SUBJECT: ADJUSTMENT TO CHEMICAL EXPENSE**

**AUDIT ANALYSIS:** The company's records reflect a balance of \$799 in Acct. No. 718 – Chemicals for the 12-month period ended December 31, 2006.

Our review of the general ledger and the vendor's invoices indicated that the following adjustments are needed.

1. The company posted a \$199 invoice for liquid chlorine to Acct. No. 620 – Materials and Supplies that should have been posted to Act. No. 718. We have reclassified the balance to this account.
2. The company posted \$1,894 of invoices for liquid chlorine to Acct. No. 720 – Materials and Supplies that should have been posted to Act. No. 718. We have reclassified the entire balance to this account.
3. The company posted \$438 of invoices for liquid chlorine to Acct. No. 701 – Salary Expense that should have been posted to Acct. No. 718. We have reclassified \$209 to this account. The remaining balance of \$229 was for a December 2005 invoice that we have excluded because it relates to the prior period.

Based on our findings discussed above, we have increase wastewater Acct. No. 718 by \$2,302 (\$199+\$1,894+\$209), for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Increase wastewater O&M expense by \$2,302 for the 12-month period ended December 31, 2006.

## AUDIT FINDING NO. 10

### SUBJECT: ADJUSTMENT TO MATERIAL AND SUPPLIES EXPENSE

**AUDIT ANALYSIS:** The company's records reflect the following balances for material and supplies in the indicated accounts for the 12-month period ended December 31, 2006.

Source	Acct. 620 Water	Acct. 720 Wastewater	Non-Utility	Total
Direct Materials & Supplies	\$1,939	\$4,646	\$0	\$6,585
Allocated Materials & Supplies	<u>3,588</u>	<u>3,588</u>	<u>7,176</u>	<u>14,351</u>
Total	\$5,527	\$8,234	\$7,176	\$20,936

Our review of the general ledger and the vendor's invoices indicated that the following adjustments are needed.

#### Direct Materials & Supplies

1. The company posted \$199 and \$1,894 to Acct. Nos. 620 and 720, respectively, for water and wastewater invoices that were for liquid chlorine. These invoices should have been posted to Acct. No. 718 – Chemicals. We have reclassified the entire balance to the proper account as discussed in Audit Finding No. 9 of this report.
2. The company posted \$1,600 to Acct. No 620 for water invoices for labor to install new water meters at the mobile home park. This labor amount should have been capitalized to Acct. No. 334 – Meters and Meter Installations at the time incurred. We have reclassified and capitalized the entire amount as discussed in Audit Finding No. 2 of this report.
3. The company posted two invoices totaling \$448 to Acct. No 720 that were for the prior period 2005. We have removed the entire amount for this rate proceeding.

#### Allocated Materials & Supplies

4. The utility was allocated \$3,588, each, to Acct. Nos. 620 and 720 for office supplies used by the company's two partnerships. We have removed \$12,813 of the total allocated balance above because it included invoices for various non-utility related services and products such as payments to the Anglers Cove Home Owners Associations for holiday parties, petty cash reimbursements for miscellaneous mobile home park repairs, materials and supplies, and postage expenses for sales activity related expenses. Our adjustment to utility expenses are calculated below

<u>Total Balance</u>	<u>50% Utility</u>	<u>50% Water</u>	<u>50% W/Water</u>
(\$12,813)	(\$6,407)	(\$3,203)	(\$3,203)

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 620 and 720 by \$5,002 ( $\$199 + \$1,600 + \$3,203$ ) and \$5,545 ( $\$1,894 + \$448 + \$3,203$ ), respectively, for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water and wastewater O&M expense by \$5,002 and \$5,545, respectively, for the 12-month period ended December 31, 2006.

**AUDIT FINDING NO. 11**

**SUBJECT: ADJUSTMENT TO CONTRACTUAL SERVICES - PROFESSIONAL**

**AUDIT ANALYSIS:** The company's records reflect the following balances for contractual services in the indicated accounts for the 12-month period ended December 31, 2006.

<u>Source</u>	<u>Acct. 631 Water</u>	<u>Acct. 731 Wastewater</u>	<u>Non-Utility</u>	<u>Total</u>
Direct Contract Service	\$1,824	\$6,663	\$0	\$8,487
Allocated Contract Service	<u>29,840</u>	<u>29,840</u>	<u>59,680</u>	<u>119,360</u>
Total	\$31,664	\$36,503	\$59,680	\$127,847

Our review of the general ledger and the vendor's invoices indicated that the following adjustments are needed.

Direct

1. The company included a \$200 adjustment to remove an invoice for a DEP report from Acct. 731 that we discussed in Audit Finding No. 8 of this report. We have added back the \$200 because it should be posted to this account.
2. Our review of vendor invoices determined that two invoices for wastewater services totaling \$1,775 were billed in November and December 2006 but not posted until September 2007. We have included these invoices in Acct. 731 because they were incurred for the current test year 2006.
3. The utility's wastewater plant is maintained by an outside contractor that bills monthly for its services. The utility purchases its water from a third party vendor and does not have a water treatment plant to service. We have reclassified \$1,177 of the contractors bills from Acct. 631 to Acct. 731 that were posted to water operations in error.

Allocated

4. The utility was allocated \$29,840, each, to Acct. Nos. 631 and 731 for professional service expenses incurred by the company's two partnerships. We have removed the entire amount for the following reasons. Our adjustment to utility expenses are calculated below
  - a. One expense represented monthly annual principal payments on a non-utility loan at Citrus Chemical Bank.
  - b. The second expense represented monthly management fees paid to A&M Properties, Inc. which was described as a fee paid to the overall management of the mobile home parks.
  - c. No documentation was provided to support or explain either amount.

<u>Total Balance</u>	<u>50% Utility</u>	<u>50% Water</u>	<u>50% W/Water</u>
(\$119,360)	(\$59,680)	(\$29,840)	(\$29,840)

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 631 and 731 by \$31,017 (\$29,840+\$1,177) and \$26,688 (\$29,840-\$1,177-\$1,775-\$200), respectively, for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water and wastewater O&M expense by \$31,017 and \$26,688, respectively, for the 12-month period ended December 31, 2006.

**ADDITIONAL INFORMATION:** The company contracted with Southeast Utilities, Inc. to operate its wastewater plant during the test year 2006. The company paid them \$9,115 for this service and it included \$633 for wastewater testing fees which were required by DEP. We have determined that the company's contract with Southeast Utilities, Inc. was canceled as of December 31, 2006. The company now performs this operation utilizing its own employees.

## **AUDIT FINDING NO. 12**

### **SUBJECT: ADJUSTMENT TO CONTRACTUAL SERVICES - OTHER**

**AUDIT ANALYSIS:** The company's records reflect a balance of \$20,417 in Acct. Nos. 636 – Contract Services - Other, for the 12-month period ended December 31, 2006.

Our review of the general ledger and the vendor's invoices indicated that the following adjustments are needed.

1. The company posted \$22,841 of invoices for labor to install water meters in 2006. At the end of the period the company posted an adjustment to reclassify \$19,738 of these costs to Acct. No. 334 – Meters and Meter Installations. We reduced Acct. No. 636 by reclassifying \$3,103 (\$22,841-\$19,738) of these invoices to Acct No. 334 which is discussed in more detail in Audit Finding No. 2 of this report.
2. The company posted two journal entries totaling \$3,572 that were not supported by the documentation provided. We have reduced Acct. No. 636 by this amount.
3. We have determined that the company paid \$140 per month or \$1,680 for the year to a landscape vendor to mow and maintain the wastewater plant site. The company did not include these costs. We have increased this Acct. No. 736 by this amount.

Based on our findings discussed above, we have decreased Acct. No. 636 by \$6,675 (\$3,103+\$3,572) and increased Acct. No 736 by \$1,680 for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water O&M expense by \$6,675 and increase wastewater O&M expense by \$1,680 for the 12-month period ended December 31, 2006.

## AUDIT FINDING NO. 13

### SUBJECT: ADJUSTMENT TO INSURANCE EXPENSE

**AUDIT ANALYSIS:** The company's records reflect the following balances for insurance expense in the indicated accounts for the 12-month period ended December 31, 2006.

Source	Acct. 655 Water	Acct. 755 Wastewater	Non-Utility	Total
Allocated Insurance Expense	\$4,239	\$4,239	\$8,478	\$16,956

The total balance above was for insurance premiums paid on the following insurance policies.

Vendor	Policy No.	Policy Type	Amount
<u>Full Policy Amounts:</u>			
Florida Family Insurance Company	1068815030	Flood Insurance	\$2,118
Fidelity National Property	09-7700155258	Flood Insurance	658
Premium adjustments through out the year			209
<u>Allocated Policy Amounts:</u>			
Clarendon National Insurance Company	BP014572-05	Business Owners Liability	10,985
Auto Owners Insurance	42-637-243-00	Umbrella Liability	<u>2,986</u>
Total Insurance Expense			\$16,956

Our review of the above insurance policies indicated that the following adjustments are needed.

1. None of the insurance policies above include coverage for two trucks used by two of the company's employees that work exclusively for utility operations. We have determined that the auto insurance premiums for these trucks were booked to a non-utility account. We have isolated the auto insurance premiums on the two trucks and calculated Anglers Cove's allocation to be \$236 which is based on the same methodology used to allocate the two employees salaries. The \$236 should be split equally between water and wastewater operations or \$118 each.
2. The two flood insurance policies above totaling \$2,776 (\$2,118+\$658) cover the two club houses at Anglers Cove and should be considered non-utility expenses for rate setting purposes. We have removed \$669 (\$2,776/2/2) each from water and wastewater insurance expense.
3. The allocated insurance policies offer business operations and general liability protections. Our review of the policies indicate the coverage of utility property is limited to optional coverages and generally offers protection for major utility assets such as pumps and motors. We recommend that the premium allocations for these two policies be re-

examined after the utilities UPIS balance is determined, as discussed in Audit Finding No. 1 of this report, and adjusted based on the relative percentage of utility assets to total company assets as evidenced in the company's general ledger.

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 655 and 755 by \$551, each (\$669-\$118) for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water and wastewater O&M expense by \$551, each, respectively, for the 12-month period ended December 31, 2006.

**AUDIT FINDING NO. 14**

**SUBJECT: ADJUSTMENT TO MISCELLANEOUS EXPENSE**

**AUDIT ANALYSIS:** The company's records reflect the following balances for insurance expense in the indicated accounts for the 12-month period ended December 31, 2006.

<u>Source</u>	<u>Acct. 675 Water</u>	<u>Acct. 775 Wastewater</u>	<u>Non-Utility</u>	<u>Total</u>
Allocated G&A Expense	\$14,871	\$14,871	\$29,742	\$59,484
Allocated Telephone Expense	1,303	1,303	2,606	5,212
Allocated Security Expense	<u>196</u>	<u>196</u>	<u>391</u>	<u>783</u>
Total	\$16,370	\$16,370	\$32,739	\$65,479

Our review of the above allocated expenses indicated that the following adjustments are needed.

1. We have reduced the water and wastewater G&A expense allocation by \$9,123, each, respectively, to remove all non-utility items discovered in our review. See Audit Finding No. 15 that follows for a detailed explanation of our findings and adjustments.
2. We have reduced the water and wastewater telephone expense allocation by \$1,246, each, respectively, to remove all non-utility telephone expenses associated with the mobile home park sales office, security gate office and a public payphone located at the mobile home parks club house.
3. We have reduced the water and wastewater security expense allocation in its entirety to remove all non-utility expenses associated with maintaining the mobile home parks security gate for its residents.

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 675 and 755 by \$10,565 each (\$9,123+\$1,246+\$196) for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease water and wastewater O&M expense by \$10,565, each, respectively, for the 12-month period ended December 31, 2006.

## AUDIT FINDING NO. 15

### SUBJECT: ADJUSTMENT TO ALLOCATED G&A EXPENSE

**AUDIT ANALYSIS:** The company provided year-to-date general ledgers that reflected the total costs incurred by the Central Realty Funds, Inc. (CRF) - a management service company, for the 12-month period ending December 2006. The total costs incurred for general and administrative (G&A) charges was \$3,169,077.

Of the costs incurred, CRF allocates 30 percent to its mobile home park operations. The 30 percent allocation is then charged out to all affiliated mobile home parks at an established percentage. There was no documentation available to verify the calculation of those percentages. Of the amount allocated to the mobile home parks, 50 percent is allocated to the mobile home park operations and 50 percent is allocated to the utility. The 50 percent allocation to the utility is then split equally between water and wastewater operations.

The mobile home parks and the utility operations reimbursed CRF for their allocable portion of G&A expenses. The actual costs paid by the company and included for rate case purposes is displayed below.

	Total Allocated to MHP	Total Allocated to Utility	Water	W/Water
ACV,LTD	\$32,716	\$16,358	\$8,179	\$8,179
Angler's Cove West, LTD	<u>26,768</u>	<u>13,384</u>	<u>6,692</u>	<u>6,692</u>
	\$59,484	\$29,742	\$14,871	\$14,871

We analyzed selected accounts from CRF's general ledger that were allocated to the mobile home parks to determine if the amounts were appropriate utility expenses. A discussion of our procedures and adjustments is detailed below.

#### Acct. No. 7810 - Accounting

During 2006, CRF incurred accounting expenses of \$45,585. We determined that this amount consisted of monthly charges totaling \$31,200 for accounting services; a review of financial statements and accounting & tax services at a cost of \$12,950; and, a renewal of a tax program for \$1,435. During 2007, the contractor supplying the accounting services was hired as an employee. With the exception of the tax program, CRF will no longer incur these costs. This employee's annual salary will be charged to the utility in 2007. We requested the 2007 estimated salary amount for this employee but it was not provided in time for us to include in our calculations. We have reduced this account by \$44,150 (\$31,200+\$12,950) to remove .

#### Acct. No.7814 - Truck

During 2006, CRF incurred truck expenses of \$46,145. The charges were for payments

of \$10,081 for a Chevy Tahoe and its related insurance expense and \$5,833 in vehicle expenses for two employees whose time is allocated to utility operations. The remaining charges of \$30,231 (\$46,145-\$10,081-\$5,833) were for vehicle expenses paid to employees whose time is not allocable to utility operations. We have reduced this account by \$30,231 to remove the charges associated with non-utility operations.

Acct. No. 7817 - Donations

During 2006, CRF incurred donation expenses totaling \$32,161. The donations were for the purpose of employee matching, membership dues to a museum and an annual meeting sponsorship. We have removed the entire balance as a non-utility expense.

Acct. No. 7818 - Dues

In 2006, CRF incurred expenses of \$16,526 for various dues and subscriptions fees. Our analysis of these expenses determined that these costs were for country club memberships, civic donations, an employee membership to a professional organization and an undocumented amount to a homeowners association. We have removed \$16,337 of the balance as a non-utility expense.

Acct. No. 7825 - Equipment Rental

In 2006, CRF incurred Equipment Rental expenses of \$12,212. Our analysis of this account determined that the equipment rental was for the monthly rental of 5 storage units. Of the five units, only one pertained to CRF Management, which is the company that provides the services supporting utility operations. We have removed \$10,561 of the rental expense amount that was associated with non utility operations.

Acct. No. 7845 - Legal

In 2006, CRF incurred legal expenses in the amount of \$39,355. We examined the invoices that supported this amount and determined they were for non-utility items. We have removed the entire balance as a non-utility expense.

Acct. No. 7848 Management Fee

During 2006, CRF charged a monthly management fee of \$8,200 for the period May – December. The total amount charged for the year equaled \$65,600. The explanation for this fee is that it covers the salary of the Commercial Vice President. As such, it is not an appropriate utility expense. We have removed the entire balance as a non-utility expense.

Acct. No. 7850 – Contract Services

In 2006, CRF incurred cost for contractual services totaling \$1,743,053. These services were for payroll costs, an allocated portion of an aircraft and for monthly data services charged by MX Properties, Inc., Anchor Investment Corp., and Mark Robinson. The company did not provide any documentation for the data services. We have removed the cost of the aircraft from consideration for rate case purposes. We prepared an analysis of the payroll costs to determine the amount of CRF payroll that was specifically applicable to Anglers Cove. The total costs based upon analysis is \$5,264. We have removed the entire allocated balance of \$1,743,053 and added back \$5,264 of

salary expense that we calculated for Anglers Cove.

Acct. No. 7865 - Postage

In 2006, CRF incurred postage expenses totaling \$121,721. In addition to charges for the United States Postal Service of \$50,574, CRF also incurred \$76,495 for Fed Ex delivery services. The company stated that the Fed Ex services should not have been charged to utility operations. It was noted that the \$50,074 was charged to a postal meter used for general company mailings. We prepared an analysis of the postage that would be incurred by Anglers Cove based upon number of customers being billed on a monthly basis at the current postage rate of \$0.41 per letter. The total costs based upon analysis is \$1,759. We have removed the entire allocated balance of \$121,721 and added back \$1,759 of postage expense that we calculated for Anglers Cove.

Acct. No. 7875 - Rent

In 2006, Century Plaza, Ltd, a related company, allocated rent expenses to CRF totaling \$413,094. The rent was for the 6<sup>th</sup> and 7<sup>th</sup> floors of the Center State Bank building where its offices are located. We determined that a total of 40 CRF employees are located on these floors. Of the 40 employees, 7 employees, or 17.5 percent of the workforce spend a portion of their time working for the mobile home park and its utility operations. We have allocated 17.5 percent or \$72,291 of the rental expense to the mobile home/utility operations. We have removed \$340,802 (\$413,094-\$72,291) as a non-utility expense based on our findings.

Acct. No. 7885 - Travel

In 2006, CRF incurred expenses of \$74,894 for travel and entertainment. Our analysis of this amount determined that \$4,000 was for monthly data services posted to the wrong account, \$70,734 for undocumented American Express bills, and \$160 for miscellaneous non-utility items. We have removed the entire balance as a non-utility expense.

Acct. No. 7895 - Seminars

During 2006, CRF incurred seminar expenses of \$25,690. We performed an analysis of this account and determined that the charges paid were for a corporate Christmas party, gifts, prizes, pictures, non-utility related Christmas bonuses, and an unsupported entry of \$2,731. We have removed the entire balance as a non-utility expense.

A schedule of our specific adjustments is displayed on the following page.

Based on our findings discussed above and our calculations on the following page, we have decreased the utility's G&A allocation by \$18,245 for the test year 2006. The specific adjustment to Anglers Cove's water and wastewater operations is \$9,123 (\$18,245/2) each, respectively and is included in Audit Finding No. 14 of this report.



**AUDIT FINDING NO. 16**

**SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME**

**AUDIT ANALYSIS:** The company's records reflect a balance of \$13,838 in wastewater Acct. No. 408 – Taxes Other Than Income (TOTI) for the 12-month period ended December 31, 2006.

Our review of company documents indicate that \$12,419 of the above amount was calculated as utility property taxes for the following company's real property holdings.

Parcel ID#	Partnership	Tax Amount		
232824-000000-041040	ACV-LTD	\$69,447	(No utility assets)	
232824-000000-042030	ACV-LTD	1,342	(No utility assets)	
232824-000000-043120	ACV-LTD	462	(No utility assets)	
232824-000000-041010	ACW-LTD	2	(No utility assets)	
232824-000000-043100	ACW-LTD	45,122	(Contains W/Water plant site)	Note A
232824-000000-043200	ACW-LTD	<u>167</u>	(Contains W/Water plant site)	Note B
Total property tax amount		\$116,542		
Usable acreage	33.81			
Tax per acre		\$3,447		
Utility acreage	3.60			
Utility Property Tax		\$12,419		

We have recalculated the utility property tax allocations based on the property tax invoices for the land occupied by the company's wastewater facility.

Polk County				
Parcel ID#	Acreage	Tax Amount		
232834-000000-043100	17.60	\$52,864	(Contains W/Water plant site)	Note A
232834-000000-043200	<u>1.15</u>	<u>161</u>	(Contains W/Water plant site)	Note B
Total property tax amount		\$53,025		
Total acreage	18.75			
Tax per Acre		\$2,828		
Utility Acreage	3.60			
Utility Property Tax		\$10,189		

Note:	Company	Audit	Explanation
A Tax amount per bill	\$55,067	\$52,864	Company used Mar07/Auditor used Nov06
Polk County Fire Tax	<u>(9,945)</u>	<u>0</u>	Company excluded fire tax
	\$45,122	\$52,864	
B Tax amount per bill	\$167	\$161	Company used Mar07/Auditor used Nov06

Based on our findings discussed above, we have decreased wastewater property taxes by \$2,230 (\$12,419-\$10,189) for the test year 2006.

**EFFECT ON THE GENERAL LEDGER:** None, our adjustments are for rate making purposes only.

**EFFECT ON THE FILING:** Decrease wastewater TOTI expense by \$2,230 for the 12-month period ended December 31, 2006.

**AUDIT FINDING NO. 17**

**SUBJECT: INFORMATION ON EQUITY AND DEBT BALANCES**

**AUDIT ANALYSIS:** Anglers Cove is a combination of two mobile home communities that are owned by the two limited liability partnerships identified below.

<u>Property</u>	<u>Owner Entity</u>
Anglers Cove MHC	ACV, LTD
Anglers Cove West MHC	Anglers Cove West, LTD

Jointly, the two partnerships' executed a long-term note payable that had an average outstanding balance of \$6,370,350 and an effective cost rate of 5.26 percent as of December 31, 2006.

Description, Rate & Term : 5.05% note, due in installments beginning August 2005  
 Issue/Maturity Date: August 2005 to July 2015  
 Principal Amount: \$6,455,000

Average Amount Outstanding	Amortization of Issue Cost	Interest Cost	Total Interest Cost	Effective Rate
\$6,370,350	\$8,980	\$326,372	\$335,352	5.26%

Long-Term Debt Balance			
Owner Entity	@12/31/2005	@12/31/2006	Average
ACV, LTD	\$3,528,765	\$3,478,620	\$3,503,693
Anglers Cove West, LTD	<u>2,887,171</u>	<u>2,846,144</u>	<u>2,866,658</u>
	\$6,415,936	\$6,324,764	\$6,370,350

We reviewed the partnerships 2006 federal tax returns and determined that the average partnership equity balance was \$2,405,530 as of December 31, 2006

Partnership Equity Balance			
Owner Entity	@12/31/2005	@12/31/2006	Average
ACV, LTD	\$1,659,137	\$1,623,922	\$1,641,530
Anglers Cove West, LTD	<u>764,165</u>	<u>763,835</u>	<u>764,000</u>
	\$2,423,302	\$2,387,757	\$2,405,530

The above long-term debt and partnership equity balances displayed above should be reconciled to the utility's rate base determined by the staff engineer and used to calculate the utility's overall cost of capital for this rate proceeding.

**EXHIBIT 1**

**ANGLERS COVE, LTD  
WATER RATE BASE  
AS OF DECEMBER 31, 2006  
DOCKET NO. 070417-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$187,874			
LAND AND LAND RIGHTS	\$0			
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0			
AMORTIZATION OF CIAC	\$0			
ACCUMULATED DEPRECIATION	(\$80,675)			
WORKING CAPITAL (a)	\$0	\$10,006	AF-4	\$10,006
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NET RATE BASE	\$107,199	\$10,006		\$10,006

*TO BE DETERMINED BY ORIGINAL COST STUDY*

a) One eighth of Operation and Maintenance Expense balance

**EXHIBIT 2**

**ANGLERS COVE, LTD  
WASTEWATER RATE BASE  
AS OF DECEMBER 31, 2006  
DOCKET NO. 070417-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$593,084			
LAND AND LAND RIGHTS	\$86,226			
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0			
AMORTIZATION OF CIAC	\$0			
ACCUMULATED DEPRECIATION	(\$503,696)			
WORKING CAPITAL (a)	\$0	\$7,178	AF-4	\$7,178
	-----	-----		-----
NET RATE BASE	\$175,614	\$7,178		\$7,178

*TO BE DETERMINED BY ORIGINAL COST STUDY*

a) One eighth of Operation and Maintenance Expense balance

**EXHIBIT 3**

**ANGLERS COVE, LTD  
WATER NET OPERATING INCOME  
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006  
DOCKET NO. 070417-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$31,521	\$527	AF-5	\$32,048
OPERATION AND MAINTENANCE EXPENSE	\$140,768	(\$60,722)	(a)	\$80,046
DEPRECIATION EXPENSE (b)	\$6,638	\$0		\$6,638
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$1,418	\$25	AF-5	\$1,443
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$148,824	(\$60,697)		\$88,127
NET OPERATING INCOME (d)	(\$117,303)	\$61,224		(\$56,079)

Notes to above schedule:

- a) See O&M schedule on page 10 of this report for details of our adjustment.
- b) These balances are to be determined by the staff engineer in an original cost study.
- c) Income is taxed at the partnership level because the company files a 1065 Partnership return for federal income tax purposes.
- d) All amounts are rounded to the nearest whole dollar.

**EXHIBIT 4**

**ANGLERS COVE, LTD  
WASTEWATER NET OPERATING INCOME  
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006  
DOCKET NO. 070417-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$31,522	\$526	AF-5	\$32,048
OPERATION AND MAINTENANCE EXPENSE	\$97,748	(\$40,325)	(a)	\$57,423
DEPRECIATION EXPENSE (b)	\$5,648	\$0		\$5,648
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$13,838	(\$2,205)	AF-5 AF-16	\$11,633
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$117,234	(\$42,530)		\$74,704
NET OPERATING INCOME (d)	(\$85,712)	\$43,056		(\$42,656)

Notes to above schedule:

- a) See O&M schedule on page 10 of this report for details of our adjustment.
- b) These balances are to be determined by the staff engineer in an original cost study.
- c) Income is taxed at the partnership level because the company files a 1065 Partnership return for federal income tax purposes.
- d) All amounts are rounded to the nearest whole dollar.