

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 23, 2007
TO: Jared Deason, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 070415-WS; Company Name: CHC VII, Ltd, in Polk Co.;
Audit Purpose: SARC;
Audit Control No: 07-233-2-2

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

DNV:bj
Attachments

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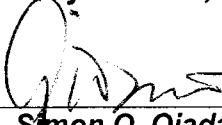


FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING
Tampa District Office

CHC VII, LTD
STAFF ASSISTED RATE CASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070415-WS
AUDIT CONTROL NO. 07-233-2-2




Jeffery A. Small, Audit Manager



Simon O. Ojada, Audit Staff



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**Joseph W. Rohrbacher, District
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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	2
II. OBJECTIVES AND PROCEDURES	3
III. AUDIT FINDINGS	
1. INFORMATION ON RATE BASE BALANCES	6
2. ADJUSTMENT FOR ADDITIONS TO UTILITY PLANT IN SERVICE.....	7
3. ADJUSTMENT TO LAND AND LAND RIGHTS.....	8
4. ADJUSTMENT FOR WORKING CAPITAL.....	10
5. ADJUSTMENT TO REVENUES	11
6. ADJUSTMENT TO SALARY EXPENSE.....	13
7. ADJUSTMENT TO PURCHASED WATER EXPENSE	15
8. ADJUSTMENT TO PURCHASED POWER EXPENSE.....	16
9. ADJUSTMENT TO CHEMICAL EXPENSE	17
10. ADJUSTMENT TO MATERIAL AND SUPPLIES EXPENSE.....	18
11. ADJUSTMENT TO CONTRACTUAL SERVICES – PROFESSIONAL	20
12. ADJUSTMENT TO CONTRACTUAL SERVICES – OTHER	22
13. ADJUSTMENT TO RENT EXPENSE	23
14. ADJUSTMENT TO INSURANCE EXPENSE.....	24
15. ADJUSTMENT TO MISCELLANEOUS EXPENSE	26
16. ADJUSTMENT TO ALLOCATED G&A EXPENSE	27
17. ADJUSTMENT TO TAXES OTHER THAN INCOME	31
18. INFORMATION ON EQUITY AND DEBT BALANCES.....	32
IV. EXHIBITS	
1. WATER RATE BASE.....	33
2. WASTEWATER RATE BASE.....	34
3. WATER NET OPERATING INCOME	35
4. WASTEWATER NET OPERATING INCOME.....	36

DOCUMENT NUMBER-DATE

09689 OCT 23 8

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

OCTOBER 19, 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 CHC VII, LTD request for a Staff Assisted Rate Case in Docket No. 070415-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 year 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 water and wastewater land balances 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 1/8th of operation and maintenance expense as required by Commission Rule 25-30.433(2) Florida Administrative Code. Audit Finding No. 4 discusses our recommended water and wastewater working capital balances 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. 17 discusses our findings and adjustments to the company's water and wastewater TOTI expense balances 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. 18 discusses our findings and recommended long-term debt and partnership equity balance 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)	\$458,370	\$1,512,011
Land & Land Rights	11,313	18,166
Contributions in Aid of Construction (CIAC)	0	0
Accumulated Depreciation	(323,677)	(1,273,499)
Amortization of CIAC	<u>0</u>	<u>0</u>
Net Rate Base	\$146,006	\$256,678

CHC VII, LTD (company) was granted a grandfather certificate in Order No. PSC-99-1235-PAA-WS, issued June 22, 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 using a reconciliation worksheet provided during our audit investigation.

The company's application for a grandfather certificate in Docket No. 981341-WS indicated that it began operations in 1986. The company was not able to provide any original cost records to substantiate its 2006 rate base balances.

The staff engineer should determine the original cost 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 balances for water and 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 FOR ADDITIONS TO UPIS

AUDIT ANALYSIS: The company's records do not reflect any additions to UPIS for the year December 31, 2006.

Audit Finding Nos. 10 and 12 of this report make specific adjustments to the company's operation and maintenance expense accounts that reclassify the following amounts to the indicated accounts.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Amount</u>	<u>Rule Dep. Rate</u>	<u>Acc/Dep and Dep. Expense</u>
334	Meters & Meter Installations	\$8,173	5.88%	\$240
360	Collection Sewers - Force	\$4,669	3.70%	\$86
364	Flow Measuring Devices	<u>2,351</u>	5.00%	<u>118</u>
		\$7,020		\$204

We have included the corresponding calculations for accumulated depreciation and depreciation expense based on the reclassifications.

EFFECT ON THE GENERAL LEDGER: Increase UPIS Acct. Nos. 334, 360 and 364 by \$8,173, \$4,669 and \$2,351, respectively, and increase Accumulated Depreciation Acct. Nos. 334, 360 and 364 by \$240, \$86 and \$118, respectively, as of December 31, 2006. Increase water and wastewater depreciation expense by \$240 and \$204, respectively, for the 12-month period ended December 31, 2006.

EFFECT ON THE FILING: The above adjustments to UPIS and accumulated depreciation should be considered by the staff engineer when determining the original cost rate base balances discussed in Audit Finding No. 1 of this report.

AUDIT FINDING NO. 3

SUBJECT: ADJUSTMENT TO LAND AND LAND RIGHTS

AUDIT ANALYSIS: The company's records reflect balances of \$11,313 and \$18,166, respectively, in Acct. Nos. 303 and 353 – Land and Land Rights as of December 31, 2006.

The NARUC USOA, Balance Sheet Acct. No. 303 and 353 – Land and Land Rights, both state that the cost of land should be recorded at its original cost when it was first dedicated to utility service.

The property that contains the water and wastewater plant sites was purchased and first dedicated to utility service in the real estate transaction described below.

- A. Parcel 262735-000000-013010 containing approximately 200 acres
- B. Parcel 262727-000000-000105 containing approximately 37 acres
- C. Both parcels above were purchased by CHC VII, LTD on January 23, 1985 from Russell and Harriet Snively by a warranty deed that was recorded in Original Record (OR) Book 2299 Page 1577 of Polk County Clerks records for a price of \$1,500,000. The property was undeveloped agricultural land at the time. Therefore, we have calculated the water and wastewater land allocation based on this transaction.

Polk County Parcel ID#	Acreage	Year Purchased	OR Book	Price	Price per Acre
A 262735-000000-013010	237	01/23/85	Bk 2229 Pg 1577	\$1,500,000	\$6,329
B 262727000000-000105					

The company estimates that approximately 0.5 acres and .803 acres of the property purchased above is occupied by the water and wastewater plant sites. Both utility systems are located within the area encompassed by Parcel 262735-000000-013010.

We calculate water and wastewater land balances of \$3,165 ($\$6,329 \times 0.5$) and \$5,082, ($\$6,329 \times 0.803$) respectively, 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.

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

EFFECT ON THE FILING: Decrease the water and wastewater rate base land balances by \$8,148 ($\$11,313 - \$3,165$) and \$13,084 ($\$18,166 - \$5,082$) as of December 31, 2006.

ADDITIONAL INFORMATION: The wastewater land allocation of 0.803 acres above does not include a value for the utility's effluent percolation drain fields which are located underneath two of the fairways of the mobile home parks golf course. We have assumed that the utility's use of this area would be covered by a perpetual easement for use between the utility and the golf course owners had they not been related parties.

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 \$331,848 and \$326,718, 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 \$203,578 (\$331,848-\$128,270) and \$197,682 (\$326,718-\$129,036), 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 \$16,034 and \$16,130, 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	\$17,473	\$10,822	\$28,294	\$1,555	(\$1,327)	\$28,523	6
610	Purchased Water	14,118	0	14,118	(14,118)	0	0	7
615	Purchased Power	29,519	0	29,519	0	0	29,519	
618	Chemicals	8,410	0	8,410	(365)	0	8,045	9
620	Materials & Supplies	25,473	1,192	26,665	(14,087)	(413)	12,166	10
631	Contractual Services - Professional	7,863	149,475	157,338	1,359	(149,475)	9,222	11
635	Contractual Services - Testing	702	0	702	0	0	702	
636	Contractual Services - Other	16,541	0	16,541	(5,891)	0	10,650	12
650	Transportation Expense	1,205	0	1,205	0	0	1,205	
655	Insurance	0	12,193	12,193	0	(2,380)	9,813	14
675	Miscellaneous Expense	445	36,419	36,864	0	(18,438)	18,426	15
	Balance (Rounded to whole dollars)	\$121,748	\$210,100	\$331,848	(\$31,546)	(\$172,033)	\$128,270	

Working Capital (1/8 of O&M expense) \$16,034

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	\$21,856	\$10,822	\$32,678	(\$3,503)	(\$1,327)	\$27,848	6
711	Sludge Hauling	13,805	0	13,805	0	0	13,805	
715	Purchased Power	15,556	0	15,556	(503)	0	15,053	8
718	Chemicals	12,631	0	12,631	(2,554)	0	10,077	9
720	Materials & Supplies	19,428	1,192	20,620	(7,286)	(413)	12,921	10
731	Contractual Services - Professional	22,869	149,475	172,344	(7,509)	(149,475)	15,360	11
735	Contractual Services - Testing	265	0	265	0	0	265	
736	Contractual Services - Other	2,010	0	2,010	0	0	2,010	
740	Rentals	4,295	0	4,295	(4,295)	0	0	13
750	Transportation Expense	2,688	0	2,688	0	0	2,688	
755	Insurance	0	12,193	12,193	0	(2,380)	9,813	14
775	Miscellaneous Expense	1,214	36,419	37,633	0	(18,438)	19,195	15
	Balance (Rounded to whole dollars)	\$116,619	\$210,100	\$326,718	(\$25,650)	(\$172,033)	\$129,036	

Working Capital (1/8 of O&M expense) \$16,130

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 \$16,034 and \$16,130, 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.

Source	Water	Wastewater	Total
General Ledger	(Not separated in G/L)		\$166,269
Annual Report	\$142,084	\$83,135	\$225,219
Difference (Imputed water revenues for golf course irrigation)			(58,950)

The company provides water and wastewater service to 873 residential customers based on information supplied in its application for this proceeding.

Our review of the general ledger and other company supplied documents indicated that the company's balance of \$166,269 included revenues for base fees, excess usage charges and vacation credits. We have made the following adjustments to the company's revenue balance based on our findings discussed below.

Revenue Type	Per Company	Adjustment	Per Audit	Water	W/Water
Base Fee	\$162,756	\$1,822	\$164,578	\$82,289	\$82,289
Excess usage fees	7,827	0	7,827	7,827	0
Vacation credits	(4,314)	4,314	0	0	0
Per G/L	\$166,269	\$6,136	\$172,405	\$90,116	\$82,289
Irrigation Adj.	<u>58,950</u>	0	<u>58,950</u>	<u>58,950</u>	0
Total Revenues	\$225,219	\$6,136	\$231,355	\$149,066	\$82,289

1. We have determined that the base fees recorded by the company are understated by \$1,822 because the company did not include a base fee charge for all of its customers. The company had 873 customers throughout the year that should have been billed monthly at the authorized tariff rate of \$15.71 per month. We would expect to see base fee revenues of \$164,578 (873 customers x \$15.71 x 12 months) had all the customers been billed and included in the revenue balance.
2. We removed the vacation credit balance of \$4,314 because 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 revenues by \$6,982 (\$149,066-\$142,084) and decreased the wastewater revenues by \$846 (\$83,135-\$82,289), to correct the base fee charges and to remove the unauthorized vacation rate adjustments from the test year 2006.

Additionally, the above revenue adjustment will increase water Regulatory Assessment Fees (RAF) by \$314 (\$6,982x4.5%) and decrease wastewater RAFs by \$38 (\$846x4.5%) for Taxes Other Than Income, respectively, for the test year 2006.

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

EFFECT ON THE FILING: Increase water and decrease wastewater revenues by \$6,982 and \$846, respectively, for the 12-month period ended December 31, 2006. Increase water and decrease wastewater Taxes Other Than Income by \$314, and \$38, 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 873 residential and 7 general service customers. We used the 873 residential customers above as our multiplier to adjust the company's reported base fee revenue amount. We have also determined that the utility provides metered utility services for the following common service connections. We believe that seven of the fifteen service connections listed below are accounted for in the utility's annual report. Also included is information about the utility's back-up well that is used to irrigate the golf course.

<u>Route</u>	<u>Service Description</u>	<u>Size</u>	<u>Service</u>	<u>Auditor Verified</u>
2	PARKING LOT STRIP	1-1/4"	irrigation	yes
3	REST./PRO SHOP	1-1/4"	general service	yes
4	#1 GREEN	1-1/2"	irrigation	yes
5	SG CLUBHOUSE	2"	general service	yes
6	SG CLUBHOUSE IRRIGATION	1-1/4"	irrigation	yes
177	EMPTY LOT	5/8"	irrigation	yes
463	SG WWTP	5/8"	general service (water only)	yes
465	SG SALES OFFICE	5/8"	general service	yes
534	CENTURY DRIVE	5/8"	irrigation	yes
535	CENTURY LANE	5/8"	irrigation	yes
685	HG CLUBHOUSE IRRIGATION	1-1/4"	irrigation	yes
686	HG CLUBHOUSE	1-1/4"	general service	yes
793	MAINTENANCE BARN	1-1/4"	general service	yes
821	NINE IRON	1"	irrigation	yes
867	BIRDIE CT	5/8"	irrigation	yes

(As far as we can determine none of the consumption for the above meters was included in 2006 revenues.)

Golf course (Well #2)	8" turbine	irrigation (raw water)	yes
Gallons pumped	90,642,800	annual gallons pumped	
Base gallons (8,000 x 12 months)	<u>(96,000)</u>		
Excess consumption	90,546,800		
Tariff rate per 1,000 gallon	<u>\$0.65</u>		
	\$58,855.42		
Base charge (\$15.71/2) x 12 months	<u>\$94.32</u>		
Company imputed revenues	\$58,949.74		

(The utility imputed \$58,949 of revenues for the golf course irrigation as shown above.)

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	\$17,473	\$21,856	\$0	\$39,329
Allocated Salary	<u>10,822</u>	<u>10,822</u>	<u>21,644</u>	<u>43,287</u>
Total	\$28,294	\$32,678	\$21,644	\$82,616

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 CHC VII 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 CHC VII and seven other mobile home parks that MHL serves. Both CRF and MHL are considered related party entities to CHC VII 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 10.5 percent for the five pay periods we sampled. The company could not provide an explanation for the differences we discovered. The company's general ledger includes \$12,491, each, for water and wastewater direct salary expense from CRF. We have reduced these amounts by \$1,312 ($\$12,491 \times 10.5\%$) each, to remove the unexplained 10.5 percent excess direct salary expense based on our findings above.
3. We compared the company's general ledger postings for direct salary expense from MHL 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 expense balances for water and wastewater O&M expense is misstated by \$2,192. We found that the company posted the first eight payroll periods of 2006 to the wastewater salary expense rather than allocating 50 percent of the payroll to water salary expense. We have increased water salary expense and decreased wastewater salary expense by \$2,192, each, respectively, to correct the error.
4. The allocated salary amount above represents the salary and monthly housing allowance paid to CHC VII, LTD's park manager. The company allocated fifty percent of the total salary and housing allowance to utility operations which was then split equally between water and wastewater operations.

5. The company has changed park managers since the test year 2006. We requested information on the housing allowance and whether it was still included. No response was provided as of the date of this report. We have removed the entire housing allowance of \$1,314, each, from the water and wastewater allocated salary expense balance.
6. The general ledger also included a \$52 invoiced amount as salary expense that was posted to the wrong account. We have removed the entire amount, after allocation, of \$13, each, from the water and wastewater allocated salary expense balance.
7. The salary amount in the general ledger did not include an allocation for the mobile home parks ground maintenance employee who reads the water meters on a quarterly basis. The company estimates that it takes him 24 hours per quarter to read the meters and he is paid approximately \$7.03 per hour for his position. We have added \$675 (24 hours x 4 quarters x \$7.03) to water salary expense for the test year 2006.

Based on our findings discussed above, we have increased water and reduced wastewater Acct. Nos. 601 and 701 by \$228 ($\$2,192 + \$675 - \$1,312 - \$1,314 - \13) and \$4,831 ($\$2,192 + \$1,312 + \$1,314 + \13), respectively, for the test year 2006.

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

EFFECT ON THE FILING: Increase water and decrease wastewater O&M expense by \$228 and \$4,831, 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 \$14,118 in Acct. No. 610 - Purchased Water for the 12 months ended December 31, 2006.

Our review of the company's operations indicates that the utility does not purchase water for use or resale nor does it have an interconnection with another utility system. Therefore, we have reduced purchased water expense by \$14,118 to remove the entire amount posted.

Based on our findings discussed above, we have reduced Acct. No. 610 by \$14,118 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 O&M expense by \$14,118 for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 8

SUBJECT: ADJUSTMENT TO PURCHASED POWER EXPENSE

AUDIT ANALYSIS: .The company's records reflect a wastewater balance of \$15,556 in Acct. No. 715 - Purchased Power for the 12 months ended December 31, 2006.

Our review of company's operations with the plant operator disclosed that a section of the mobile home park community receives water and wastewater service from the City of Winter Haven. He stated that a section containing eighty customers was severed from the utility's service lines and turned over to the city several years back. However, the company is still responsible to maintain and service the transmission and collection systems as well as a lift-station in the section taken away.

We have reduced purchased power expense by \$503 to remove the electric bills associated with the lift-station discussed above.

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

EFFECT ON THE FILING: Decrease wastewater O&M expense by \$503 for the 12-month period ended December 31, 2006.

ADDITIONAL INFORMATION: We could not determine if additional adjustments are needed to O&M expense for recurring repair and maintenance expenses in this section of the mobile home park. However, the staff engineer should incorporate this information in the development of original cost rate base balances that is discussed in Audit Find No. 1 of this report.

AUDIT FINDING NO. 9

SUBJECT: ADJUSTMENT TO CHEMICAL EXPENSE

AUDIT ANALYSIS: The company's records reflect balances of \$8,410 and \$12,631 in Acct. Nos. 618 and 718 - Chemicals for the 12-month period ending December 31, 2006.

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

Description	Invoice Amount	Acct 618 Water	Acct 718 Wastewater
Balance per company		\$8,410	\$12,631
Adjustments			
Remove out of period invoice	(\$491)	(226)	(265)
Remove out of period invoice	(632)	(411)	(221)
Include current period invoice	657	272	385
Remove reclassification error	(2,453)	<u>0</u>	<u>(2,453)</u>
Balance per Audit		\$8,045	\$10,077

1. Our review of the vendor's invoices provided determined that two of the invoices totaling \$491 and \$632, respectively, were for services provided in 2005 that were billed in December 2005. The company did not post the balance to its general ledger until January and February 2006. We have removed these invoices because they are not recorded in the proper period.
2. We have included an invoice for \$657 that was for services provided in 2006 that was inadvertently left out of the company's year end adjustment to chemical expense that is discussed below.
3. The company, at year end, prepares reclassification adjustments to convert and extract from the partnership general ledger the utility amounts that it reflects in the annual report filed with the Commission. One such reclassification was an analysis of the chemical expenses and the split between water and wastewater operations. Using the company's reconciliation and adjustment work papers, we have determined that the wastewater chemical expense balance was overstated by \$2,453 because some invoices were included twice. We have reduce wastewater chemical expense by this amount.

Based on our findings discussed above, we have reduced Acct. Nos. 618 and 718 by \$365 ($\$226 + \$411 - \272) and \$2,554, ($\$2,453 + \$265 + \$221 - \385) 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 expenses by \$365 and \$2,554 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.

<u>Source</u>	<u>Acct. 620 Water</u>	<u>Acct. 720 Wastewater</u>	<u>Non-Utility</u>	<u>Total</u>
Direct Materials & Supplies	\$25,473	\$19,428	\$0	\$44,901
Allocated Materials & Supplies	<u>1,192</u>	<u>1,192</u>	<u>2,384</u>	<u>4,768</u>
Total	\$26,665	\$20,620	\$2,384	\$49,669

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 \$2,511 to Acct. No. 620 for invoices for the purchase of water meters. This amount should have been capitalized to Acct. No. 334 – Meters & Meter Installations at the time incurred. We have reclassified and capitalized the entire amount and reduced Acct. 620 by the same amount.
2. The company posted \$1,002 to Acct. No. 620 for invoiced freight charges. We were unable to determine how the freight charges were incurred. We have reduced Acct. No. 620 by the \$1,002.
3. The company posted \$1,355 to Acct. No. 620 for repairs to a hydro-pneumatic tank at the water plant. This type of expense should have been classified to Acct. No. 636 - Contractual Services - Other. We have reclassified this amount to this account.
4. The company posted \$368 to Acct. No. 620 for invoiced supplies for wastewater operations. The company should have posted the invoices to the corresponding wastewater Acct. No. 720. We have reclassified the entire amount to this account.
5. The company posted \$9,485 to Acct. No. 620 for invoices for non-utility supplies. We have reduced Acct. No. 620 by the entire amount.
6. The company posted \$634 to Acct. No. 720 for invoiced supplies for water operations. The company should have posted the invoices to the corresponding water Acct. No. 620. We have reclassified the entire amount to this account.
7. The company posted \$2,351 to Acct. No. 720 for a 2 inch wastewater flow meter purchased during the year. This amount should have been capitalized to Acct. No. 364 at the time incurred. We have reclassified and capitalized the entire amount and reduced Acct. 720 by the same amount.

8. The company posted \$4,669 to Acct. No. 720 for new lift station pumps purchased during the year. These amounts should have been capitalized to Acct. No. 360 – Collection Sewer - Force at the time incurred. We have reclassified and capitalized the entire amount and reduced Acct. 720 by the same amount.

Allocated Materials & Supplies

9. The utility was allocated \$1,192, each, to Acct. Nos. 620 and 720 for various material and supplies purchased by the company. We have removed \$1,650 of the total allocated balance above because it included invoices for various non-utility related services and products such as payments for holiday gift certificates, restocking fish in the lake bordered by the mobile home park and the interest expenses posted to a non-utility reserve account.

<u>Total Balance</u> (\$1,650)	<u>50% Utility</u> (\$825)	<u>50% Water</u> (\$413)	<u>50% W/Water</u> (\$413)
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Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 620 and 720 by \$14,500 and \$7,699, respectively, for the test year 2006.

System	Item 1	Item 2	Item 3	Item 4	Item 5	Item 6	Item 7	Item 8	Item 9	Total
Water	(\$2,511)	(\$1,002)	(\$1,355)	(\$368)	(\$9,485)	\$634	-	-	(\$413)	(\$14,500)
W/Water	-	-	-	\$368	-	(\$634)	(\$2,351)	(\$4,669)	(\$413)	(\$7,699)

The invoices reclassified and capitalized in Item Nos. 1, 7 and 8 are discussed further in Audit Finding No. 2 of this report.

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 \$14,500 and \$7,699, 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	\$7,863	\$22,869	\$0	\$30,732
Allocated Contract Service	<u>149,475</u>	<u>149,475</u>	<u>298,950</u>	<u>597,900</u>
Total	\$157,338	\$172,344	\$298,950	\$628,632

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

Direct

1. Our review of vendor's invoices indicated that six invoices posted to Acct. No 731 totaling \$9,509 were for professional engineering services to evaluate and renew the company's wastewater treatment permit. We have removed the total amount from this account and reclassified it to Acct. No. 186 – Miscellaneous Deferred Assets pending completion of the project.
2. The company posted \$412 to Acct. No. 631 for an invoiced service to control vegetation in the mobile home parks ponds and waterways. We have removed the entire amount because it is for a non-utility service.
3. Our review of vendor's invoices determined that two invoices for water and wastewater services totaling \$3,771 that were billed in November and December 2006 were not posted until September 2007. We have included these invoices and classified them to Acct. Nos. 631 and 731 for \$1,771 and \$2,000, respectively, because they were incurred for services provided during the current test year 2006.

Allocated

4. The utility was allocated \$149,475, each, to Acct. Nos. 631 and 731 for professional service expenses incurred by the company's partnership. 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>
\$597,900	\$298,950	\$149,475	\$149,475

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 631 and 731 by \$148,116 ($\$149,475 + \$412 - \$1,771$) and \$156,984 ($\$149,475 + \$9,509 - \$2,000$), 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 \$148,116 and \$156,984, respectively, for the 12-month period ended December 31, 2006.

ADDITIONAL INFORMATION: The company contracted with Southeast Utilities, Inc. to operate its water and wastewater plants during the test year 2006. The company paid them \$19,385 for this service and it included \$2,269 for water and wastewater testing fees which were required by DEP. The invoices do not distinguish the testing expenses between each system. 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 \$16,541 in Acct. No. 636 – Contractual 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 \$5,662 of invoices for labor to replace water meters in 2006. The labor to replace the water meters should have been capitalized to Acct. No. 334 – Meters and Meter Installations. We have reduced Acct. No. 636 by reclassifying \$5,662 to Acct No. 334 which is discussed in more detail in Audit Finding No. 2 of this report.
2. The company posted \$1,584 to Acct. No. 636 for heavy equipment rentals used to service non-utility projects. We have removed the entire amount because it is for a non-utility service.
3. Audit Finding No. 10 of this report reclassified \$1,355 to Acct. No. 636.

The invoices reclassified and capitalized in Item No. 1 above are discussed further in Audit Finding No. 2 of this report.

Based on our findings discussed above, we have decreased Acct. No. 636 by \$5,891 (\$1,355-\$5,662-\$1,584) 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 \$5,891 for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 13

SUBJECT: ADJUSTMENT TO RENT EXPENSE

AUDIT ANALYSIS: The company's records reflect a balance of \$4,295 in Acct. No. 740 – Rent Expense for the 12-month period ended December 31, 2006.

Our review of the general ledger and the vendor's invoices indicated that the entire amount was for heavy equipment rentals for projects at the company's golf course.

Based on our findings discussed above, we have decreased Acct. No. 740 by \$4,295 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 O&M expense by \$4,295 for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 14

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	\$12,193	\$12,193	\$24,386	\$48,772

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

Vendor	Policy No.	Policy Type	Amount
<u>Direct Policy:</u>			
Fidelity National Property	09-7700214228-02	Flood Insurance	\$599
Fidelity National Property	09-7700214229-02	Flood Insurance	468
Travelers	unknown		4,752
Auto Owners	95-957-653-00	Auto Insurance	4,137
Premium adjustments through out the year			933
<u>Allocated Policy:</u>			
Clarendon National Insurance Company	BP014572-05	Business Owners Liability	30,929
Auto Owners Insurance	Goup Policy	Automobile Insurance	880
Auto Owners Insurance	42-637-243-00	Umbrella Liability	<u>6,075</u>
Total Insurance Expense			\$48,772

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

1. The two flood insurance policies above totaling \$1,067 (\$599+\$468) cover the two club houses at CHC VII and should be considered non-utility expenses for rate setting purposes. We have removed \$267 (\$1,067/2) each from water and wastewater insurance expense.
2. The direct policy for Travelers was unsupported and unexplained. We have removed the entire amount from utility insurance expense.
3. The direct policy from Auto Owners was a renewal of auto insurance for non-utility vehicles. All company vehicles are covered by the group automobile policy discussed below. We have removed the entire amount from utility insurance expense.
4. The premium allocations for the group auto insurance policy amount above does not 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 CHC VII's allocation to be \$657 which is based on the same methodology used to allocate the two employees salaries. We have removed the \$880 ($\$880/2/2 = \220 each, for water and wastewater) allocation above and replaced it with the \$657 that we calculated. Our allocation should then be split equally between water and wastewater operations or \$329 each.

5. 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 \$2,380, each ($\$220 + \$1,034 + \$267 + \$1,188 - \329) 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 \$2,380, each, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 15

SUBJECT: ADJUSTMENT TO MISCELLANEOUS EXPENSE

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

Source	Acct. 675 Water	Acct. 775 Wastewater	Non-Utility	Total
Direct Miscellaneous Expense	\$445	\$1,214	\$0	\$1,659
Allocated G&A Expense	33,744	33,744	67,488	134,976
Allocated Telephone Expense	1,543	1,543	3,085	6,171
Allocated Security Expense	<u>1,132</u>	<u>1,132</u>	<u>2,264</u>	<u>4,528</u>
Total	\$36,864	\$37,633	\$72,837	\$147,334

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 \$16,572, each, respectively, to remove all non-utility items discovered in our review. See Audit Finding No. 16 that follows for a detailed explanation of our findings and adjustments.
2. We have reduced the water and wastewater telephone expense allocation by \$1,221, each, respectively, to remove excess telephone expenses associated with the mobile home parks office and to remove non-utility telephone expenses for the security gate office and restaurant.
3. We have reduced the water and wastewater security expense allocation by \$645, each to remove all non-utility expenses associated with maintaining the mobile home parks security gate and other miscellaneous non-utility repairs for its residents.

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 675 and 755 by \$18,438 each (\$16,572+\$1,221+\$645) 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 \$18,438, each, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 16

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
CHC VII, LTD	\$134,976	\$67,488	\$33,744	\$33,744

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 the contract accounting services charge.

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 CHC VII. The total costs based upon analysis is \$19,384. We have removed the entire allocated balance of \$1,743,053 and added back \$19,384 of salary expense that we calculated for CHC VII.

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 CHC VII 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 \$4,725. We have removed the entire allocated balance of \$121,721 and added back \$4,725 of postage expense that we calculated for CHC VII.

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 6th and 7th 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 \$33,144 for the test year 2006. The specific adjustment to CHC VII's water and wastewater operations is \$16,572 (\$33,144/2) each, respectively and is included in Audit Finding No. 15 of this report.

SCHEDULE FOR AUDIT FINDING NO. 16

Acct. No. and Description	% of Total	Per Company G&A Allocation	Adjustment	Per Audit G&A Allocation	Selected for Review
7810 - Accounting	1.44%	\$45,585	(\$44,150)	\$1,435	***
7814 - Truck	1.46%	46,145	(30,231)	15,914	***
7817 - Donations	1.01%	32,161	(32,161)	0	***
7818 - Dues	0.52%	16,526	(16,337)	189	***
7825 - Equipment Rental	0.39%	12,212	(10,561)	1,650	***
7835 - Equipment	0.30%	9,389	0	9,389	
7837 - Filing	0.01%	159	0	159	
7840 - Insurance	0.16%	5,059	0	5,059	
7845 - Legal	1.24%	39,355	(39,355)	0	***
7848 - Management Fee	2.07%	65,600	(65,600)	0	***
7850 - Contract Svs	55.00%	1,743,053	(1,743,053)	0	***
7855 - Office Supply	14.18%	449,490	0	449,490	***
7860 - Pension	0.01%	450	0	450	
7865 - Postage	3.84%	121,721	(121,721)	0	***
7870 - Office Equipment	0.22%	6,935	0	6,935	
7871 - Building Improvements	0.10%	3,032	0	3,032	
7875 - Rent	13.04%	413,094	(340,802)	72,292	***
7877 - Tax	0.01%	405	0	405	
7880 - Telephone	1.83%	58,123	0	58,123	
7885 - Travel	2.36%	74,894	(74,894)	0	***
7895 - Seminars	0.81%	<u>25,690</u>	<u>(25,690)</u>	<u>0</u>	***
Accrued Allocated G&A Expense		\$3,169,078	(\$2,544,556)	\$624,522	
Paid Allocated G&A Expense		\$3,150,639	(\$2,544,556)	\$606,083	
MHP Allocation Adjustment (Approximately 30%)			(\$763,367)		
MHP Community	Per Company Allocation (a) Percent	Amount	Adjustment	Per Audit Allocation	
Angler's Cove	6.62%	\$59,484	(\$50,535)	\$8,949	
SV Utilities	13.75%	123,513	(104,963)	18,550	
CHC 7	15.00%	134,976	(114,505)	20,471	
Hidden Cove	2.38%	21,342	(18,168)	3,174	
Plantation Landings	6.00%	<u>53,990</u>	<u>(45,802)</u>	<u>8,188</u>	
		\$393,305	(\$333,973)	\$59,332	
MHP Community	Allocated Adjustment		Specific Adjustments		Total
	Adjustment	50% Utility	G&A Postage	G&A Salary	Adjustment
Angler's Cove	(\$50,535)	(\$25,267)	\$1,759	\$5,264	(\$18,245)
SV Utilities	(104,963)	(52,481)	3,907	15,225	(33,349)
CHC 7	(114,505)	(57,253)	4,725	19,384	(33,144)
Hidden Cove	(18,168)	(9,084)	660	1,891	(6,533)
Plantation Landings	<u>(45,802)</u>	<u>(22,901)</u>	<u>2,159</u>	<u>7,918</u>	<u>(12,823)</u>
	(\$333,973)	(\$166,986)	\$13,211	\$49,682	(\$104,094)

- (a) These figures reflect the company's allocation of common G&A expense to the MHP communities and utility's.
(b) The amounts displayed above are rounded to whole dollars.

AUDIT FINDING NO. 17

SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The company's records reflect water and wastewater balances of \$7,619 and \$5,709 for Acct. No. 408 – Taxes Other Than Income (TOTI) for the 12-month period ended December 31, 2006.

Our review of company provided documents indicate that included in the above amounts are water and wastewater property taxes of \$1,225 and \$1,968, respectively, based on the following property holdings and calculations.

Parcel ID#		Tax Amount	
262726-490050-143900		\$66	(No utility assets)
272726-490100-000104		272	(No utility assets)
262726-490100-000105		2,866	(No utility assets)
352726-000000-013010		347,069	(Contains W/Water plant site) Note A
352726000000-230010		41,803	(No utility assets)
Total property tax amount		\$392,077	
Usable acreage	160.00		
Tax per acre		\$2,450	
Water utility acreage/tax	0.500	\$1,225	
Wastewater utility acreage/tax	0.803	\$1,968	

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

Polk County			
Parcel ID#	Acreage	Tax Amount	
352726-000000-013010	200	\$389,817	(Contains W/Water plant site) Note A
Tax per Acre		\$1,949	
Water utility acreage	0.500	\$975	
Wastewater utility acreage	0.803	\$1,565	

Note:	Company	Audit	Explanation
A Tax amount per bill	\$406,059	\$389,817	Company used Mar07/Auditor used Nov06
Polk County Fire Tax	(58,990)	0	Company excluded fire tax
	\$347,069	\$389,817	

Based on our findings discussed above, we have decreased water and wastewater property taxes by \$250 (\$1,225-\$975) and \$403, (\$1,968-\$1,565) 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 TOTI expense by \$250 and \$403, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 18

SUBJECT: INFORMATION ON EQUITY AND DEBT BALANCES

AUDIT ANALYSIS: CHC VII, LTD is a limited liability partnership for federal income tax purposes.

The partnership executed a long-term note payable that refinanced an existing long-term note payable on July 6, 2006. The two note payables had an average outstanding balance of \$22,187,363 and an effective cost rate of 6.29 percent as of December 31, 2006.

Average Amount Outstanding	Amortization of Issue Cost	Interest Cost	Total Interest Cost	Effective Rate
\$22,187,363	\$42,768	\$1,353,367	\$1,396,135	6.29%
<u>Long-Term Debt Balance</u>		<u>@12/31/2005</u>	<u>@12/31/2006</u>	<u>Average</u>
Long-term Note @ 5.05%		\$20,482,742	\$0	\$10,241,371
Long-term Note @ 5.31%		<u>0</u>	<u>23,891,984</u>	<u>11,945,992</u>
		\$20,482,742	\$23,891,984	\$22,187,363

We reviewed the partnership 2006 federal tax return and determined that the average partnership equity balance was a negative \$4,500,751 as of December 31, 2006

Partnership Equity Balance Owner Entity	@12/31/2005	@12/31/2006	Average
CHC VII, LTD	(\$2,927,701)	(\$6,073,800)	(\$4,500,751)

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

CHC VII, LTD
 WATER RATE BASE
 AS OF DECEMBER 31, 2006
 DOCKET NO. 070415-WS

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$458,370	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$11,313	(\$8,148)	AF-3	\$3,165
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0	TO BE DETERMINED BY ORIGINAL COST STUDY		
AMORTIZATION OF CIAC	\$0	TO BE DETERMINED BY ORIGINAL COST STUDY		
ACCUMULATED DEPRECIATION	(\$323,677)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$16,034	AF-4	\$16,034
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NET RATE BASE	\$146,006	\$7,886		\$19,199

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 2

CHC VII, LTD
WASTEWATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070415-WS

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$1,512,011	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$18,166	(\$13,084)	AF-3	\$5,082
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0	TO BE DETERMINED BY ORIGINAL COST STUDY		
AMORTIZATION OF CIAC	\$0	TO BE DETERMINED BY ORIGINAL COST STUDY		
ACCUMULATED DEPRECIATION	(\$1,273,499)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$16,130	AF-4	\$16,130
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NET RATE BASE	\$256,678	\$3,046		\$21,212

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 3

**CHC VII, LTD
WATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070415-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$142,085	\$6,982	AF-5	\$149,067
OPERATION AND MAINTENANCE EXPENSE	\$331,848	(\$203,578)	(a)	\$128,270
DEPRECIATION EXPENSE (b)	\$8,835	\$0		\$8,835
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$7,619	(\$64)	AF-5 AF. 17	\$7,555
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$348,302	(\$203,642)		\$144,660
NET OPERATING INCOME (d)	(\$206,217)	\$210,624		\$4,407

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	\$83,134	(\$845)	AF-5	\$82,289
OPERATION AND MAINTENANCE EXPENSE	\$326,718	(\$197,682)	(a)	\$129,036
DEPRECIATION EXPENSE (b)	\$32,256	\$0		\$32,256
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$5,709	(\$441)	AF-5 AF-17	\$5,268
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$364,683	(\$198,123)		\$166,560
NET OPERATING INCOME (d)	(\$281,549)	\$197,278		(\$84,271)

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.