

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: November 20, 2007
TO: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance W
RE: **Docket No.** 070416-WS; **Company Name:** Plantation Landings, Ltd.;
Audit Purpose: Staff Assisted Rate Case;
Audit Control No: 07-249-2-1

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

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

Tampa District Office

PLANTATION LANDINGS, LTD

STAFF ASSISTED RATE CASE

AS OF DECEMBER 31, 2006

DOCKET NO. 070416-WS
AUDIT CONTROL NO. 07-249-2-1

Handwritten signature of Jeffrey A. Small.

Jeffery A. Small, Audit Manager

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Simon O. Ojada, Audit Staff

Handwritten signature of Jocelyn Y. Stephens.

Jocelyn Y. Stephens, Audit Staff

Handwritten signature of Joseph W. Rohrbacher.

**Joseph W. Rohrbacher, District
Supervisor**

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

NOVEMBER 15, 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 31, 2007. We have applied these procedures to the attached schedules prepared by the audit staff in support of Plantation Landings, Ltd request for a Staff Assisted Rate Case in Docket No. 070416-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 the existence and condition of utility assets. 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 discloses additional information on un-recorded company revenue balances.

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 14 discusses our findings and adjustments to the company's water and wastewater O&M expense 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. 15 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 No. 1 discloses 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 partnership owners' equity. We determined the average balance for long-term debt and partnership owners' equity as of December 31, 2006. Audit Finding No. 16 discusses our findings and recommended average long-term debt and partnership 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)	\$314,715	\$905,644
Land & Land Rights	14,970	78,192
Contributions in Aid of Construction (CIAC)	0	0
Accumulated Depreciation	(207,738)	(686,578)
Amortization of CIAC	<u>0</u>	<u>0</u>
Net Rate Base	\$121,947	\$297,258

Plantation Landings, LTD (company) was granted a grandfather certificate in Order No. PSC-99-1227-PAA-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. 981338-WS indicated that it began operations in 1987. 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 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 water and wastewater land which is discussed later in Audit Finding No. 2 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. 9 and 11 of this report make specific adjustments to the company's operation and maintenance expense accounts that reclassified \$4,713 (\$2,511+\$2,203) to the following account.

<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	\$4,713	5.88%	\$139

(Accumulated depreciation and depreciation expense was calculated using the 1/2 year convention method)

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

EFFECT ON THE GENERAL LEDGER: Increase UPIS Acct. No. 334 by \$4,713 and increase Accumulated Depreciation Acct. No. 334 by \$139 as of December 31, 2006. Increase water depreciation expense by \$139 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 \$14,970 and \$78,192, 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 first dedicated to utility service and subsequently purchased by the company in the real estate transactions described below.

	Date	Book	Page	Seller	Buyer	Amount	Acres	Amount per Acre
A	10/02/86	2461	1099	Lake Henry Enterprises, Inc.	Plantation Landings, Ltd (old)	\$725,000	214.523	\$3,380
B	12/29/86	2594	2291	Plantation Landings, Ltd (old)	Century Group, Inc.	\$0		related party
C	12/20/91	3049	0490	Century Group, Inc.	Plantation Landings, Ltd (new)	\$4,400,000		improved

Plantation Landings, Ltd (old) General Partner - Century Group, Inc.

Inactive - Voluntary cancellation

Plantation Landings, Ltd (new) General Partner - Century Realty, Funds, Inc.

Re-incorporated with new ownership

(Century Group, Inc. and Century Realty Funds, Inc. are not related parties)

We have determined that the property containing the water and wastewater plant sites was first dedicated to utility service in transaction A listed above. Transaction B was between related parties and occurred while the property was being developed. Transaction C occurred after the property was developed and the utility was established.

The property that contains the wastewater percolation ponds was first dedicated to utility service and subsequently purchased by the company in the real estate transactions described below.

	Date	Book	Page	Seller	Buyer	Amount	Acres	Amount per Acre
D	08/26/92	3141	1061	Alice Briggs Ward	Century Realty Funds, Ltd	\$38,400		1/3 interest
E	08/31/92	3141	1063	Kingswood Sprott, Jr.	Century Realty Funds, Ltd	\$38,400		1/3 interest
F	08/31/92	3141	1065	Elsie Briggs Bowman	Century Realty Funds, Ltd	<u>\$38,400</u>		1/3 interest
						\$115,200	45.30	\$2,543
G	02/16/93	3201	0454	Century Realty Funds, Ltd	Plantation Landings, Ltd (new)	\$115,000		related party

We have determined that the property containing the wastewater percolations ponds was first dedicated to utility service in transactions D-F listed above. Transaction G, which transferred title to approximately 5.84 acres of the 45.30 acre parcel to the utility was between related parties.

We have calculated the following water and wastewater land balances based on the land information discussed above.

Land Use	Original Cost per Acre	Per Company Acreage	Original Cost
Water plant Site	\$3,380	0.3444	\$1,164
Wastewater plant site	\$3,380	0.8368	\$2,827
Wastewater percolation ponds	\$2,543	5.8398	<u>\$14,851</u>
			<u>\$17,678</u>

EFFECT ON THE GENERAL LEDGER: Reduce Acct. Nos. 303 and 353 by \$13,806 (\$14,970-\$1,164) and \$60,514 (\$78,192-\$17,678) respectively, as of December 31, 2006.

EFFECT ON THE FILING: Reduce the water and wastewater rate base land balances by \$13,806 and \$60,514, respectively, 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 \$185,584 and \$205,570, 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 \$141,171 (\$185,584-\$44,413) and \$137,377 (\$205,570-\$68,193), 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 \$5,552 and \$8,524, 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	\$8,561	\$5,939	\$14,500	(\$507)	(\$4,683)	\$9,310	
615	Purchased Power	3,509	0	\$3,509	0	0	3,509	
618	Chemicals	5,170	0	\$5,170	130	0	5,300	
620	Materials & Supplies	4,493	359	\$4,852	(2,911)	(89)	1,852	
631	Contractual Services - Professional	4,830	123,700	\$128,530	914	(123,700)	5,744	
635	Contractual Services - Testing	254	0	\$254	400	0	654	
636	Contractual Services - Other	8,266	0	\$8,266	(2,605)	0	5,661	
650	Transportation Expense	597	0	\$597	0	0	597	
655	Insurance	0	4,490	\$4,490	0	(184)	4,306	
675	Miscellaneous Expense	262	15,154	\$15,416	(262)	(7,674)	7,481	
	Balance (Rounded to whole dollars)	\$35,941	\$149,642	\$185,584	(\$4,840)	(\$136,330)	\$44,413	

Working Capital (1/8 of O&M expense) \$5,552

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	\$10,584	\$5,939	\$16,523	(\$785)	(\$4,683)	\$11,055	
711	Sludge Hauling	6,550	0	6,550	(200)	0	6,350	
715	Purchased Power	10,077	0	10,077	(152)	0	9,925	
718	Chemicals	9,603	0	9,603	(761)	0	8,842	
720	Materials & Supplies	8,174	359	8,533	(375)	(89)	8,069	
731	Contractual Services - Professional	7,275	123,700	130,975	1,025	(123,700)	8,300	
735	Contractual Services - Testing	0	0	0	0	0	0	
736	Contractual Services - Other	3,068	0	3,068	200	0	3,268	
750	Transportation Expense	597	0	597	0	0	597	
755	Insurance	0	4,490	4,490	0	(184)	4,306	
775	Miscellaneous Expense	0	15,154	15,154	0	(7,674)	7,481	
	Balance (Rounded to whole dollars)	\$55,928	\$149,642	\$205,570	(\$1,048)	(\$136,330)	\$68,193	

Working Capital (1/8 of O&M expense) \$8,524

Based on our findings discussed above, we have increased water and wastewater rate base by \$5,552 and \$8,524, 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 \$5,552 and \$8,524, respectively as of December 31, 2006.

AUDIT FINDING NO. 5

SUBJECT: INFORMATION ON 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)		\$75,447
Annual Report	\$37,723	\$37,723	\$75,446
Difference			(\$1)

The company's 2002 through 2006 annual reports have consistently reported that it serves 401 metered customers. We have determined that the utility also provides metered water, wastewater and irrigation services for the following service connections.

<u>Route</u>	<u>Service Adr</u>	<u>Size</u>	<u>Service</u>	<u>Auditor Verified</u>
1	US 92 Entrance	1-1/2"	irrigation	yes
104	WWTP	1"	general service (water only)	yes
105	Plantation Landings	2"	irrigation	yes
298	Sales Office	5/8"	general service	yes
299	Plantation Club House	1-1/2"	general service	yes
336	Cul-de-sac	5/8"	irrigation	yes
405	Clubhouse Irrigation	1"	irrigation	yes

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

We were also given information concerning eighteen general service connections that were placed in service in 2007. A list of these connections is displayed on the following page.

EFFECT ON THE GENERAL LEDGER: None – informational only.

EFFECT ON THE FILING: To be determined by analyst.

Additional information:

In October 2007 the utility began servicing a commercial business center and public storage facility adjacent to Plantation Landings mobile home community and owned by a related party.

The facilities have the following meter connections and plant assets

<u>Route</u>	<u>Service Adr</u>	<u>Size</u>	<u>Service</u>	<u>Auditor Verified</u>
406	Public Storage Resident Manager	5/8"	general service	yes
407	Lake Henry Plaza	2"	irrigation	yes
408	Lake Henry Plaza Unit 1	5/8"	general service	yes
409	Lake Henry Plaza Unit 2	5/8"	general service	yes
410	Lake Henry Plaza Unit 3	5/8"	general service	yes
411	Lake Henry Plaza Unit 4	5/8"	general service	yes
412	Lake Henry Plaza Unit 5	5/8"	general service	yes
413	Lake Henry Plaza Unit 6	5/8"	general service	yes
414	Lake Henry Plaza Unit 7	5/8"	general service	yes
415	Lake Henry Plaza Unit 8	5/8"	general service	yes
416	Lake Henry Plaza Unit 9	5/8"	general service	yes
417	Lake Henry Plaza Unit 10	5/8"	general service	yes
418	Lake Henry Plaza Unit 11	5/8"	general service	yes
419	Lake Henry Plaza Unit 12	5/8"	general service	yes
420	Lake Henry Plaza Unit 13	5/8"	general service	yes
421	Lake Henry Plaza Unit 14	5/8"	general service	yes
422	Lake Henry Plaza Unit 15	5/8"	general service	yes
423	Lake Henry Plaze (water bib)	5/8"	general service (water only)	yes

The plaza was connected to the utility service lines at the south east corner of the property.
 The developer installed a booster pump system to provide fire flow required by code
 There is one fire hydrant located at the front of the property of US 17/92

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	\$8,561	\$10,584	\$0	\$19,145
Allocated Salary	<u>5,939</u>	<u>5,939</u>	<u>11,878</u>	<u>23,756</u>
Total	\$14,500	\$16,523	\$11,878	\$42,901

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 Plantation Landings 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 Plantation Landings and seven other mobile home parks that MHL serves. Both CRF and MHL are considered related party entities to Plantation Landings 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 10.32 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 \$6,260, each, for water and wastewater direct salary expense from CRF. We have reduced these amounts by \$646 ($\$6,260 \times 10.32\%$) each, to remove the unexplained 10.32 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 \$139. 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 \$139, each, respectively, to correct the error.
4. The allocated salary amount above represents the full time salary and monthly living allowance paid to Plantation Landings resident park managers. The company allocated fifty percent of the total salary and living expense to utility operations which was then split

equally between water and wastewater operations.

5. We estimate that approximately \$2,512 of the park managers' salary and living expenses should be allocated to utility operations. We calculated this amount based on company information provided that describes the park managers, duties and time allocations.

Salary Expense	Water	W/Water	Total	
Payroll Expense	\$4,870	\$4,870	\$9,740	
Living Expense	1,069	1,069	2,138	
Total Salary Expense	\$5,939	\$5,939	\$11,878	
Audit Adjustments				
Payroll Expense	(\$3,841)	(\$3,841)	(\$7,681)	
Living Expense (a)	(843)	(843)	(1,686)	
Total Adjustment	(\$4,683)	(\$4,683)	(\$9,367)	
Per Audit Salary Expense	\$1,256	\$1,256	\$2,512	
	Hours per Month	Hourly Rate	Monthly Rate	Annual Rate
Payroll Expense				
Park Manager	5	\$8.58	\$43	\$515
Park Manager (spouse)	15	\$8.58	129	1,544
Per Audit Payroll Expense			\$172	\$2,059
Per Company Payroll Expense				9,740
Audit Adjustment				(\$7,681)

(a) Adjustments equal 78.85 percent of company's living expense balance. The 78.85 percent adjustment is calculated as the amount of our payroll expense adjustment. (\$7,681/\$9,740)

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 601 and 701 by \$5,190 (\$139-\$646-\$4,683) and \$5,468, (\$139+\$646+\$4,683) respectively, for the test year 2006.

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

EFFECT ON THE FILING: Reduce water and wastewater O&M expense by \$5,190 and \$5,468, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 7

SUBJECT: ADJUSTMENT TO SLUDGE HAULING AND PURCHASED POWER EXPENSE

AUDIT ANALYSIS: The company's records reflect the following balances in the indicated accounts.

Acct. Nos.	Account Description	Water	Wastewater
711	Sludge Hauling	-na-	\$6,550
615/715	Purchased Power	\$3,509	\$10,077

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

1. The company's balance in Acct. No 711 includes a \$200 invoice for a report prepared for the Florida Department of Environmental Protection that is not for hauling sludge. We have reclassified the entire amount to Acct. No. 736 – Contractual Services Other.
2. The company's balance of \$10,077 in Acct. No. 715 above includes twelve monthly invoices for each of five distinct electric service connections. Our field tour of the company's utility operations indicated that the company only has four wastewater electric service connections. We have removed twelve electric service invoices totaling \$152 that we determined was not connected to utility operations.

Based on our findings discussed above, we have made the following adjustments to the indicated accounts.

Acct. No	Action	Water	Wastewater
711	Reduce	-na-	(\$200)
715	Reduce	<u>\$0</u>	<u>(152)</u>
		\$0	(\$352)

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

EFFECT ON THE FILING: Reduce wastewater O&M expense by \$352 for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 8

SUBJECT: ADJUSTMENT TO CHEMICAL EXPENSE

AUDIT ANALYSIS: The company's records reflect balances of \$5,170 and \$9,603 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	\$14,773	\$5,170	\$9,603
Adjustments			
Remove out of period invoice	(\$483)	(\$179)	(\$304)
Remove out of period invoice	(523)	(200)	(323)
Add reclassified invoice	375	128	247
Reclassify company allocation	<u>0</u>	<u>381</u>	<u>(381)</u>
	(\$631)	\$130	(\$761)
Balance per Audit	\$14,142	\$5,300	\$8,842

1. Our review of the vendor's invoices provided determined that two of the invoices totaling \$483 and \$522, 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 2006. We have removed these invoices because they are not recorded in the proper period.
2. We have included an invoice for \$375 that was for chemical expenses in 2006 that was reclassified from Acct. No. 720 – Materials and Supply.
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 water chemical expense was understated by \$381 and wastewater chemical expense was overstated by the same amount.

Based on our findings discussed above, we have increased Acct. No. 618 by \$130 and reduced Acct. No. 718 by \$761 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 O&M expenses by \$130 and reduce wastewater O&M expenses by \$761 for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 9

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	\$4,493	\$8,174	\$0	\$12,667
Allocated Materials & Supplies	<u>359</u>	<u>359</u>	<u>718</u>	<u>1,436</u>
Total	\$4,852	\$8,533	\$718	\$14,103

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

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 \$375 to Acct. No. 720 for chemical expense. This type of expense should have been classified to Acct. No. 618 and 718 – Chemicals. We have reclassified this amount to this account.
3. The company posted \$400 to Acct. No. 620 for water testing expense. This type of expense should have been classified to Acct. No. 635 – Testing Expense. We have reclassified the entire amount to the proper account.
4. The utility was allocated \$359, each, to Acct. Nos. 620 and 720 for various material and supplies purchased by the company. We have removed \$89 each from the water and wastewater allocation because it was for a reimbursement to the home owners association for holiday turkeys.

Based on our findings discussed above, we have reduced Acct. Nos. 620 and 720 by \$3,000 (\$2,511+\$400+\$89) and \$464, (\$375+\$89) respectively, for the test year 2006.

The invoices reclassified and capitalized in Item No. 1 above 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 \$3,000 and \$464, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 10

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	\$4,830	\$7,275	\$0	\$12,105
Allocated Contract Service	<u>123,700</u>	<u>123,700</u>	<u>247,400</u>	<u>494,800</u>
Total	\$128,530	\$130,975	\$247,400	\$506,905

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 from Southeast Utilities, Inc. determined that two invoices for water and wastewater services totaling \$2,214 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 \$914 and \$1,300, respectively, because they were incurred for services provided during the current test year 2006.
2. The company posted a \$275 invoice to Acct. No. 731 that was for engineering services related to a Florida Department of Environmental Protection Compliance/Enforcement issue. We have removed the entire amount as non-utility expense.

Allocated

3. The utility was allocated \$123,700, 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 explained 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.

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 631 and 731 by \$122,786 (\$914-\$123,700) and \$122,675 (\$1,300-\$275-\$123,700), respectively, for the test year 2006.

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

EFFECT ON THE FILING: Reduce water and wastewater O&M expense by \$122,786 and \$122,675, 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 \$11,894 for this service and it included \$1,639 for testing fees which were required by FDEP. 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. 11

SUBJECT: ADJUSTMENT TO CONTRACTUAL SERVICES - OTHER

AUDIT ANALYSIS: The company's records reflect balances of \$8,266 and \$3,068 in Acct. Nos. 636 and 736 – 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 \$2,203 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 \$2,203 to Acct No. 334 which is discussed in more detail in Audit Finding No. 2 of this report.
2. Audit Finding No. 7 of this report reclassified \$200 to Acct. No. 736.
3. The company posted an invoice for \$402 to Acct. No. 636 that did not have any supporting documentation. We have removed the entire amount from this account.

Based on our findings discussed above, we have reduced Acct. No. 636 by \$2,605 (\$2,203+\$402) and increased Acct. No. 736 by \$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: Reduce water O&M expense and increase wastewater O&M expense by \$2,605 and \$200, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 12

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.

<u>Source</u>	<u>Acct. 655 Water</u>	<u>Acct. 755 Wastewater</u>	<u>Non-Utility</u>	<u>Total</u>
Allocated Insurance Expense	\$4,490	\$4,490	\$8,980	\$17,961

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

<u>Vendor</u>	<u>Policy No.</u>	<u>Policy Type</u>	<u>Amount</u>
<u>Direct Policy:</u>			
Herndon & Associates	907912-66246905	Utility deposit bond	\$145
Herndon & Associates	BP014572-05	policy changes	1,033
Herndon & Associates	unknown	no support	185
<u>Allocated Policy:</u>			
Clarendon National Insurance Company	BP014572-05	Business Owners Liability	12,763
Auto Owners Insurance	42-637-243-00	Umbrella Liability	2,623
Auto Owners Insurance	41-167-985-00	Auto Insurance	<u>1,213</u>
Total Insurance Expense			\$17,961

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

1. The company's general ledger included a transaction totaling \$185 that was for an unsupported invoiced amount. We have removed \$46 ($\$185/2/2$) each from water and wastewater insurance expense as a non-utility or unsupported expense amount.
2. The company included a \$1,213 auto insurance premium allocation for a non-utility truck. We have removed \$303 ($\$1,213/2/2$) each from water and wastewater insurance expense as non-utility expense.
3. The company did not include a premium allocation for two trucks used by 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 Plantation Landings allocation to be \$330 which is based on the same methodology used to allocate the two employees. Our allocation should then be split equally between water and wastewater operations or \$165 each.
4. 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 \$184, each (\$165-\$303-\$46) 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 \$184, each, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 13

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	\$262	\$0	\$0	\$262
Allocated G&A Expense	13,498	13,498	26,995	53,990
Allocated Telephone Expense	1,280	1,280	2,559	5,118
Allocated Security Expense	<u>377</u>	<u>377</u>	<u>754</u>	<u>1,509</u>
Total	\$15,416	\$15,154	\$30,309	\$60,879

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

1. We have reduced Acct. No. 675 by \$262 because the entire amount is for a fine paid to Polk County Health Department related to a consent order issued against the company's water utility system.
2. We have reduced the water and wastewater G&A expense allocation by \$6,412, each, to remove all non-utility items discovered in our review. See Audit Finding No. 14 that follows for a detailed explanation of our findings and adjustments.
3. We have reduced the water and wastewater security expense allocation by \$377, each to remove all non-utility expenses associated with maintaining the mobile home parks security gate and other miscellaneous non-utility repairs.
4. We have reduced the water and wastewater telephone expense allocation by \$885, each to remove excess telephone expenses associated with the mobile home park operations. Our adjustment removes the cost associated with four of the five telephone business service lines included in the company's allocation.

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 675 and 755 by \$7,936 (\$262+\$377+\$885+\$6,412) and \$7,674, (\$377+\$885+\$6,412) respectively, for the test year 2006.

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

EFFECT ON THE FILING: Reduce water and wastewater O&M expense by \$7,936 and \$7,674, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 14

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 cost 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 cost paid by the company is displayed below.

	Total Allocated to MHP	Total Allocated to Utility	Water	W/Water
Plantation Landings, Ltd	\$53,990	\$26,995	\$13,498	\$13,498

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 Plantation Landings. The total cost based upon our analysis is \$7,918. We have removed the entire allocated balance of \$1,743,053 and added \$7,918 of salary expense that we calculated for Plantation Landings.

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 Plantation Landings based upon number of customers being billed on a monthly basis at the current postage rate of \$0.41 per letter. The total cost based upon our analysis is \$2,159. We have removed the entire allocated balance of \$121,721 and added \$2,159 of postage expense that we calculated for Plantation Landings.

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 \$12,823 for the test year 2006. The specific adjustment to Plantation Landings water and wastewater operations is \$6,412 (\$12,823/2) each, respectively and is included in Audit Finding No. 13 of this report.

SCHEDULE FOR AUDIT FINDING NO. 14

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 Adjustment	50% Utility	Specific Adjustments G&A Postage	G&A Salary	Total 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. 15

SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The company's records reflect water and wastewater balances of \$2,191 and \$4,313 in 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 \$494 and \$2,615, respectively, based on the following calculations.

<u>Parcel ID#</u>		<u>Tax Amount</u>
312727-000000-043040		<u>159,475</u>
Total property tax amount		\$159,475
Water utility tax rate	0.310%	\$494
Wastewater utility tax rate	1.640%	\$2,615

We have recalculated the utility property tax allocations based on the property tax invoices for the land occupied by the company's utility facilities and we used the total acreage subject to real estate property taxes as opposed to the company defined tax rate.

<u>Polk County Parcel ID#</u>	<u>Acreage</u>	<u>Tax Amount</u>	<u>Explanation</u>
252726-000000-021030	214.52	\$176,315	
Tax per Acre		\$822	
Water utility acreage	0.344	\$283	Water plant site
Wastewater utility acreage	0.837	\$688	Wastewater plant site
312727-000000-033010	5.860	<u>1,848</u>	Wastewater percolation ponds
		\$2,536	
Difference in property tax bills used to calculate property tax allocation.	<u>Company</u>	<u>Audit</u>	<u>Explanation</u>
252726-000000-014020	\$154	\$0	Company used Mar07/Auditor non-utility
252726-000000-021030	157,396	\$176,315	Company used Mar07/Auditor used Nov06
312727-000000-033010	<u>1,925</u>	\$1,848	Company used Mar07/Auditor used Nov06
Total tax amount	\$159,475		

Based on our findings discussed above, we have reduced water and wastewater property taxes by \$211 (\$494-\$283) and \$80, (\$2,615-\$2,536) respectively, for the test year 2006.

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

EFFECT ON THE FILING: Reduce water and wastewater TOTI expense by \$211 and \$80, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 16

SUBJECT: INFORMATION ON EQUITY AND DEBT BALANCES

AUDIT ANALYSIS: Plantation Landings, 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 February 21, 2006. The two note payables had an average outstanding balance of \$7,126,735 and an effective cost rate of 6.02 percent as of December 31, 2006.

Average Amount Outstanding	Amortization of Issue Cost	Interest Cost	Total Interest Cost	Effective Rate
\$7,126,735	\$5,799	\$423,431	\$429,230	6.02%

Long-Term Debt Balance	@12/31/2005	@12/31/2006	Average
Long-term Note	\$6,333,266	\$0	\$3,166,633
Long-term Note (refinanced)	<u>0</u>	<u>7,920,204</u>	<u>3,960,102</u>
	\$6,333,266	\$7,920,204	\$7,126,735

We reviewed the partnership 2006 federal tax return and determined that the average partnership equity balance was a negative \$4,453,634 as of December 31, 2006

Partnership Equity Balance Owner Entity	@12/31/2005	@12/31/2006	Average
Plantation Landings, Ltd.	(\$3,822,403)	(\$5,084,865)	(\$4,453,634)

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

**PLANTATION LANDINGS, LTD
WATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070416-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$314,715	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$14,970	(\$13,806)	AF-3	\$1,164
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	(\$207,738)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$5,552	AF-4	\$5,552
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NET RATE BASE	\$121,947	(\$8,254)		\$6,716

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 2

**PLANTATION LANDINGS, LTD
WASTEWATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070416-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$905,644	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$78,192	(\$60,514)	AF-3	\$17,678
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	(\$686,578)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$8,524	AF-4	\$8,524
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NET RATE BASE	\$297,258	(\$51,990)		\$26,202

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 3

**PLANTATION LANDINGS, LTD
WATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070416-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$37,723	\$0		\$37,723
OPERATION AND MAINTENANCE EXPENSE	\$185,584	(\$141,171)	(a)	\$44,413
DEPRECIATION EXPENSE (b)	\$8,263	\$0		\$8,263
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$2,191	(\$211)	AF-15	\$1,980
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$196,038	(\$141,382)		\$54,656
NET OPERATING INCOME (d)	(\$158,315)	\$141,382		(\$16,933)

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

**PLANTATION LANDINGS, LTD
WASTEWATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070416-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$37,723	\$0		\$37,723
OPERATION AND MAINTENANCE EXPENSE	\$205,570	(\$137,377)	(a)	\$68,193
DEPRECIATION EXPENSE (b)	\$41,413	\$0		\$41,413
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$4,313	(\$79)	AF-15	\$4,234
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$251,296	(\$137,456)		\$113,840
NET OPERATING INCOME (d)	(\$213,573)	\$137,456		(\$76,117)

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.