

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 2, 2007

TO: Lydia Roberts, Regulatory Analyst II, Division of Economic Regulation

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

RE: Docket No: 070413-WS; Company Name: S. V. Utilities, Ltd. (Polk);
Audit Purpose: SARC;
Audit Control No: 07-233-2-4

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

DNV:sbj
Attachments

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

Todd Maxwell, President of General Partner
S. V. Utilities, Ltd.
P.O. Box 5252
Lakeland, FL 33807

Rose Law Firm
Martin S. Friedman
Sanlando Center
2180 W. State Rd. 434, Suite 2118
Longwood, FL 32779

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

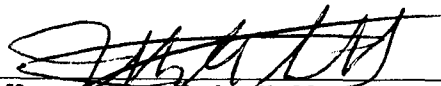
Tampa District Office

S.V. UTILITIES, LTD

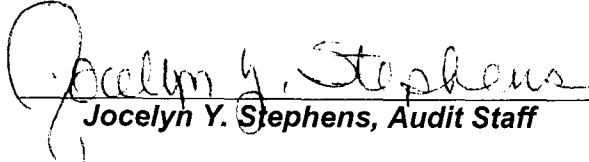
STAFF ASSISTED RATE CASE

AS OF DECEMBER 31, 2006


DOCKET NO. 070413-WS
AUDIT CONTROL NO. 07-233-2-4



Jeffery A. Small, Audit Manager



Jocelyn Y. Stephens, Audit Staff



Joseph W. Rohrbacher, District Supervisor

DOCUMENT NUMBER-DATE

09999 NOV-25

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

OCTOBER 29, 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 S.V. Utilities, LTD request for a Staff Assisted Rate Case in Docket No. 070413-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 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 for water and wastewater UPIS additions for the year 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 provides additional information on the company's water and wastewater revenues 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 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. 16 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 and provide 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 partnership owners' equity. We determined the average balance for partnership owners' equity as of December 31, 2006. Audit Finding No. 17 discusses our findings and recommended 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)	\$481,263	\$1,384,132
Land & Land Rights	7,695	33,087
Contributions in Aid of Construction (CIAC)	0	0
Accumulated Depreciation	(390,960)	(1,192,101)
Amortization of CIAC	<u>0</u>	<u>0</u>
Net Rate Base	\$97,998	\$225,118

S. V. Utilities, LTD (company) was granted a grandfather certificate in Order No. PSC-99-1234-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 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. 981337-WS indicated that it began operations in 1981. The company was not able to provide any original cost records to substantiate its 2006 rate base balances. We were able to review support for plant additions recorded in 2006.

The staff engineer should determine the original cost rate base balances for UPIS and accumulated depreciation for this proceeding. Commission Rule 25-30.570, FAC, addresses the imputation of Contributions-in-Aid-of-Construction (CIAC) when a company has not recorded any on the utility's books and the company does not submit competent substantial evidence as to the amount of CIAC. We were able to determine a balance for 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. 9 and 11 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	\$5,426	5.88%	\$160
360	Collection Sewers - Force	\$4,542	3.70%	\$84

(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. Nos. 334 and 360 by \$5,426 and \$4,542, respectively, and increase Accumulated Depreciation Acct. Nos. 334 and 360 by \$160 and \$84, respectively, as of December 31, 2006. Increase water and wastewater depreciation expense by \$160 and \$84, 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 water and wastewater land balances of \$7,695 and \$33,087, respectively, 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 transactions described below.

Polk County Parcel ID#		Acreage	Price	Price per Acre
A 262735000000-022020	Water plant site	0.2099	\$16,250	\$12,488
B 262736000000-044020	Wastewater plant site	<u>1.0913</u> 1.3012		
C 262801521000-153000	Percolation ponds site	20.9688	\$120,000	\$5,723

Parcels A and B above were purchased by Swiss Land, LTD on March 24, 1980 from Ted and Annaliese Sager by a warranty deed that was recorded in Original Record (OR) Book 1934, Page 1646 of Polk County Clerks records for a price of \$16,250. The two properties were subsequently transferred by a warranty deed on November 7, 1986 from CHC III, LTD, successor partnership to Swiss Land, LTD, to S.V. Utilities, LTD that was recorded on OR Book, 2472 Page 1013 of Polk County Clerks records.

Parcel C was purchased by Hidden Cove West, LTD on July, 14, 1983 from Orange-Co, Inc. by a warranty deed that was recorded in OR Book 2167, Page 2087 of Polk County Clerks records for a price of \$120,000. We have determined that the utility's wastewater percolation ponds occupy approximately 2.5 acres of the subject property.

We have determined that Swiss Land, LTD, CHC III, LTD, Hidden Cove West, LTD and S.V. Utilities, LTD are all related parties for business purposes. Therefore, we have calculated the following water and wastewater land balances based on land information discussed above.

Land Use	Original Cost per Acre	Acreage	Original Cost
Water plant Site	\$12,488	0.2099	\$2,621
Wastewater plant site	\$12,488	1.0913	\$13,628
Wastewater percolation ponds	\$5,723	2.5000	<u>14,307</u> \$27,935

EFFECT ON THE GENERAL LEDGER: Reduce Acct. Nos. 303 and 353 by \$5,074 (\$7,695-\$2,621) and \$5,152, (\$33,087-\$27,935) respectively, as of December 31, 2006.

EFFECT ON THE FILING: Reduce the water and wastewater rate base land balances by \$5,074 and \$5,152, 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 \$59,459 and \$103,106, respectively, for the 12-month period ended December 31, 2006.

Our adjustments described later in this report increase the company's water and wastewater O&M expenses by \$32,165 (\$91,624-\$59,459) and \$3,130 (\$106,236-\$103,106), 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 \$11,453 and \$13,279, 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	\$8,948	\$0	\$8,948	\$6,225	\$7,917	\$23,091	6	
615	Purchased Power	12,922	0	12,922	0	0	12,922		
618	Chemicals	3,343	0	3,343	(190)	0	3,153	8	
620	Materials & Supplies	5,689	0	5,689	138	954	6,781	9	
631	Contractual Services - Professional	7,075	0	7,075	779	0	7,854	10	
635	Contractual Services - Testing	0	0	0	654	0	654	9-10	
636	Contractual Services - Other	17,069	0	17,069	(2,580)	0	14,489	11	
650	Transportation Expense	141	0	141	514	0	655	12	
655	Insurance	134	0	134	128	6,622	6,883	13	
675	Miscellaneous Expense	<u>4,138</u>	<u>0</u>	<u>4,138</u>	<u>(3,884)</u>	<u>14,887</u>	<u>15,141</u>	14	
Balance (Rounded to whole dollars)		\$59,459	\$0	\$59,459	\$1,785	\$30,380	\$91,624		

Working Capital (1/8 of O&M expense) \$11,453

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	\$8,948	\$0	\$8,948	\$6,225	\$7,917	\$23,091	6	
711	Sludge Hauling	13,020	0	13,020	0	0	13,020		
715	Purchased Power	13,549	0	13,549	1,001	0	14,549	7	
718	Chemicals	6,934	0	6,934	99	0	7,033	8	
720	Materials & Supplies	16,281	0	16,281	(8,713)	954	8,522	9	
731	Contractual Services - Professional	35,032	0	35,032	(21,910)	0	13,122	10	
735	Contractual Services - Testing	230	0	230	(230)	0	0	11	
736	Contractual Services - Other	1,664	0	1,664	1,055	0	2,719	11	
740	Rental of Building	3,144	0	3,144	(3,144)	0	0	12	
750	Transportation Expense	1,170	0	1,170	(514)	0	655	12	
755	Insurance	134	0	134	128	6,622	6,883	13	
775	Miscellaneous Expense	<u>3,000</u>	<u>0</u>	<u>3,000</u>	<u>(1,246)</u>	<u>14,887</u>	<u>16,641</u>	14	
Balance (Rounded to whole dollars)		\$103,106	\$0	\$103,105	(\$27,249)	\$30,380	\$106,236		

Working Capital (1/8 of O&M expense) \$13,279

Based on our findings discussed above, we have increased water and wastewater rate base by \$11,453 and \$13,279, 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 \$11,453 and \$13,279, 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.

Source	Water	Wastewater	Total
General Ledger	(Not separated in G/L)		\$140,007
Annual Report	\$73,554	\$66,453	\$140,007

The company posted a \$48,766 adjustment for annual report purposes to increase and segregate its revenues between water and wastewater operations. The adjustment was calculated based on number of utility customers and its approved tariff rate.

Number Customers	Tariff Rate	Imputed Annual Base Revenues	Water Revenues	Wastewater Revenues
705	\$15.71	\$132,907	\$66,453	\$66,453
	Excess usage charges		<u>7,101</u>	<u>0</u>
			\$73,554	\$66,453

The company's 2002 through 2006 annual reports have consistently reported that it serves 728 customers. We have determined that the company provides metered utility services for the eighteen common service connections identified on the following page. We believe that all of the service connections listed are included in the utility's annual reports. However, we were not able to determine the existence or size of the remaining five customers included in the utility's annual report.

Annual Report	Utility Filing	Difference	Common Service	Unknown Difference
728	705	23	18	5

EFFECT ON THE GENERAL LEDGER: None – informational only.

EFFECT ON THE FILING: To be determined by analyst.

Ln	Park	Service Adr	Size	Service	Auditor Verified
1	HCE	Sioux Dr	1"	irrigation	yes
2	HCE	Club House	1-1/2"	general service	yes
3	HCW	Entrance Gate (East)	1-1/4"	irrigation	yes
4	HCW	Entrance Gate (West)	1-1/2"	irrigation	yes
5	HCW	Dolphine Dr	5/8"	irrigation	yes
6	HCW	Coral Dr	5/8"	irrigation	yes
7	HCW	Alligator Dr	5/8"	irrigation	yes
8	HCW	Pelican Dr	5/8"	irrigation	yes
9	HCW	Segul Dr	5/8"	irrigation	yes
10	HCW	Egret Dr	5/8"	irrigation	yes
11	HCW	Club House	1-1/4"	general service	yes
12	HCW	Club House irrigation	1-1/4"	irrigation	yes
13	HCW	Mailbox (near w/water plant)	2"	irrigation	yes
14	SV	Club House	2"	general service	yes
15	SV	WWTP	5/8"	general service (water only)	yes
16	SV	WWTP irrigation	1"	irrigation	yes
17	SV	Water plant	5/8"	irrigation	yes
18	SV	Sales Office	5/8"	general service	yes

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

HCE Hidden Cove East
 HCW Hidden Cove West
 SV Swiss Village

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	\$8,948	\$8,948	\$0	\$17,897
Allocated Salary	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$8,948	\$8,948	\$0	\$17,897

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 S.V. Utilities 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 S.V. Utilities and seven other mobile home parks that MHL serves. Both CRF and MHL are considered related party entities to S.V. Utilities 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 10.48 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 \$8,948, each, for water and wastewater direct salary expense from CRF. We determined that an additional \$737 each, for water and wastewater direct salary expense from CRF was posted to a non-utility account which we have included. The total direct salary expense from CRF of \$9,686, (\$8,948+\$737) was then reduced by \$1,015 (\$9,686x10.48%) each, to remove the unexplained 10.48 percent excess direct salary expense based on our findings above.
3. The company posted the salary expense associated with the MHL employee to a non-utility account in error. We have increased the water and wastewater salary expense by \$6,503, each, to correct the recording error.
4. The company did not include an allocated salary amount for the company's resident park manager. The company's general ledger indicates that \$31,699 should be included as total salary expense for this position. We have allocated fifty percent of the total salary expense for the park manager to utility operations which was then split \$7,917, (\$31,699/2/2) each between water and wastewater operations.

Based on our findings discussed above, we have increased water and wastewater Acct. Nos. 601 and 701 by \$14,143 each, respectively, for the test year 2006.

	<u>Water</u>	<u>Wastewater</u>
Direct Salary Expense Adjustment:		
Increase CRF salary expense to correct error	\$737	\$737
Reduce CRF salary expense by 10.48%	(1,015)	(1,015)
Increase MHL salary expense to correct error	6,503	6,503
Allocated Salary Expense Adjustment:		
Increase allocated salary expense to correct error	<u>7,917</u>	<u>7,917</u>
Total salary expense adjustment	\$14,143	\$14,143

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

EFFECT ON THE FILING: Increase water and wastewater O&M expense by \$14,143, each, respectively, for the 12-month period ended December 31, 2006.

ADDITIONAL INFORMATION: 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 38 hours per quarter to read the meters and he is paid approximately \$10.25 per hour for his position. We were not able to verify this information because it was provided after field work had ended.

AUDIT FINDING NO. 7

SUBJECT: ADJUSTMENT TO PURCHASED POWER EXPENSE

AUDIT ANALYSIS: The company's records reflect a balance of \$13,549 in Acct. No. 715 - Purchased Power for the 12-month period ended December 31, 2006.

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

1. The company's balance displayed above included twelve monthly invoices for a street light located at 544 Matterhorn Drive which is not connected with utility operations. We have removed the entire balance of \$174 from purchased power expense.
2. The company's balance displayed above does not include the twelve monthly invoices for two of its four lift stations. We determined that they were incorrectly posted to a non-utility account. We have increased purchased power expense by \$1,175 to correct this error.

Based on our findings discussed above, we have increased Acct. No. 715 by \$1,001 (\$1,175-\$174) for the test year 2006.

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

EFFECT ON THE FILING: Increase wastewater O&M expense by \$1,001 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 \$3,343 and \$6,934 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	Acct 618 Water	Acct 718 Wastewater
Balance per company	\$3,343	\$6,934
Adjustments		
Remove missing invoice amount	0	(91)
Reclassify three invoices to the proper accounts	(190)	190
Balance per Audit	\$3,153	\$7,033

1. Our review of the company's records determined that a general ledger transaction amount for \$91 was not supported by a vendor invoice. We have removed the \$91 from wastewater chemical expense.
2. 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 water chemical expense balance was overstated by \$190 because of three invoices not being allocated properly between water and wastewater operations. We have reduced water and increased wastewater chemical expense by \$190 to correct this error.

Based on our findings discussed above, we have reduced Acct. No. 618 by \$190 and increased Acct. No. 718 by \$99, (\$190-\$91) 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 by \$190 and increase wastewater O&M expense by \$99 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.

<u>Source</u>	<u>Acct. 620 Water</u>	<u>Acct. 720 Wastewater</u>	<u>Non-Utility</u>	<u>Total</u>
Direct Materials & Supplies	\$5,689	\$16,281	\$0	\$21,969
Allocated Materials & Supplies	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$5,689	\$16,281	\$0	\$21,969

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 water invoices to purchase fifty-nine water meters which should have been capitalized and posted to Acct. No. 334 – Meters and Meter Installations at the time incurred. We have reclassified and capitalized the entire amount to the proper account as discussed in Audit Finding No. 2 of this report.
2. The company posted \$4,542 to Acct. No. 720 wastewater invoices that were for the replacement of six lift station pumps which should have been capitalized and posted to Acct. No. 360 – Collection Sewers – Force. We have reclassified the entire amount to the proper account as discussed in Audit Finding No. 2 of this report.
3. The company posted \$2,461 to Acct. No. 720 for parts and services that should have been posted to Acct. No. 620. We have reclassified the entire amount to the proper account.
4. The company posted \$1,176 to Acct. No 720 for parts and membership dues that should have been split equally and posted to water and wastewater operations. We have reclassified \$588 to Acct. 620. (\$1,176/2)
5. The company posted \$400 to Acct. No. 620 for water sample tests that should have been posted to Acct. No. 635 – Contract Services – Testing. We have reclassified the entire amount to the proper account.
6. The company posted \$1,122 Acct. No. 720 for invoiced transactions that we have determined are non-utility costs or were not supported by adequate company documentation. We have removed the entire amount from this account.

Allocated Materials & Supplies

7. The company did not include an amount for allocated office supplies from its general ledger. We have reviewed the general ledger transactions and have determined that

\$3,815 of the \$6,832 posted to the company's office supply account is related to utility operations. We have included \$954, each, to Acct. Nos. 620 and 720 based on the company's allocation methodology.

<u>Total Balance</u>	<u>50% Utility</u>	<u>50% Water</u>	<u>50% W/Water</u>
\$3,815	\$1,908	\$954	\$954

Based on our findings discussed above, we have increased water and reduced wastewater Acct. Nos. 620 and 720 by \$1,092 and \$7,759, respectively, for the test year 2006.

<u>System</u>	<u>Item 1</u>	<u>Item 2</u>	<u>Item 3</u>	<u>Item 4</u>	<u>Item 5</u>	<u>Item 6</u>	<u>Item 7</u>	<u>Total</u>
Water	(\$2,511)	-	\$2,461	\$588	(\$400)	\$0	\$954	\$1,092
W/Water	-	(\$4,542)	(\$2,461)	(\$588)	-	(\$1,122)	\$954	(\$7,759)

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

EFFECT ON THE FILING: Increase water and reduce wastewater O&M expense by \$1,092 and \$7,759, 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.

Source	Acct. 631 Water	Acct. 731 Wastewater	Non-Utility	Total
Direct Contract Service	\$7,075	\$35,032	\$0	\$42,107
Allocated Contract Service	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$7,075	\$35,032	\$0	\$42,107

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 \$3,876 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 \$1,033 and \$2,843, respectively, because they were incurred for services provided during the current test year 2006.
2. Our review of vendor invoices from Chastain Skillman, Inc. that were posted to Acct. No. 731 included the following services.
 - a. Two invoices totaling \$803 were for engineering services related to a fine and consent order issued by the Florida Department of Environmental Protection. (FDEP) Fines such as these are considered non-utility expense and we have removed the entire amount from this account.
 - b. Five invoices totaling \$15,443 were for engineering services for a ground water monitoring plan implementation. These costs should have been posted to Acct. No. 186-Deferred Assets and deferred until the project is complete and placed in service. We have reclassified the entire amount to the proper account.
 - c. Eight invoices totaling \$8,092 were for engineering services for the company's wastewater treatment plant permit renewal with the FDEP. These costs should have been posted to Acct. No. 186 and deferred until the project is complete and placed in service. We have reclassified the entire amount to the proper account.

We have reduced Acct. No. 731 by \$24,318 (\$803+\$15,423+\$8,092) to remove the services discussed above.

3. Our review of vendor invoices from Clark, Cambell & Mawhinney, P.A. that were posted to Acct. No. 731 included \$435 legal fees related to the FDEP consent order and fine discussed above. We have removed the entire amount from this account.
4. Our review of a reimbursement expense paid to the plant operator for \$254 and posted to Acct. No. 631 indicates that it was for water sampling test that should have been posted to Acct. No. 635 – Contract Services- Testing. We have reclassified the entire amount to the proper account.
5. The company did not include an allocated amount for professional services from its general partner CRF Management. These fees represent monthly management fees charged to the individual partnerships which are then allocated down to utility operations. We have not included any amount for these fees because no documentation was provided to support these costs.

Based on our findings discussed above, we have increased water and reduced wastewater Acct. Nos. 631 and 731 by \$779 (\$1,033-\$254) and \$21,910 (\$24,318+\$435-\$2,843), 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 reduce wastewater O&M expense by \$779 and \$21,910, 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 \$18,651 for this service and it included \$2,313 for wastewater 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 \$17,069 and \$1,664 in Acct. Nos. 636 and 736 – Contract Services - Other, for the 12-month period ended December 31, 2006.

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

1. We have determined that the company posted three invoices totaling \$491 to Acct. Nos. 636 and 736, respectively, for invoiced transactions that we have determined are non-utility cost. We have reduced Acct. Nos. 636 and 736 by \$200 and \$291, respectively, to remove the entire amount.
2. We have determined that the company posted \$2,915 of invoices to Acct. No 636 for contract labor to replace forty-three water meters which should have been capitalized and posted to Acct. No. 334 – Meters and Meter Installations at the time incurred. We have reclassified and capitalized the entire amount to the proper account as discussed in Audit Finding No. 2 of this report.
3. We have determined that the company paid \$736 for the year to a landscape vendor to mow and maintain the wastewater plant site. The company did not include these costs. We have increased this Acct. No. 736 by this amount.
4. We have determined that the company did not include two invoices for water and wastewater services totaling \$535 and \$380, respectively, that were billed in December 2006 and not posted until January 2007. We have included these invoices to the Acct. Nos. 636 and 736, respectively, because they were incurred for services provided during the current test year 2006.
5. We have determined that the company posted an invoice for \$230 to Acct. No. 735 – Contract Services – Testing for calibrating the flow meter at the wastewater treatment plant. We have reclassified the entire amount to Acct. No. 736.

Based on our findings discussed above, we have reduced Acct. No. 636 by \$2,580 (\$535-\$2,915-\$200) and increased Acct. No. 736 by \$1,055, (\$736+\$380+\$230-\$291) 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 \$2,580 and \$1,055, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 12

SUBJECT: ADJUSTMENT TO RENT AND TRANSPORTATION EXPENSE

AUDIT ANALYSIS: The company's records reflect a balance of \$3,144 in Acct. No. 740 – Rents and balances of \$141 and \$1,170 in Acct. Nos. 650 and 750 – Transportation Expense 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. We have determined that the \$3,144 posted to Acct. No. 740 is for rental of equipment used for non-utility operations. We have removed the entire balance from this account.
2. We have determined that the \$1,311 (\$141+\$1,170) posted to the transportation accounts above were for allocated cost to repair the utility's truck used by the plant operator. The balance should have been split equally between water and wastewater operations. We have increased Acct. No. 650 by \$514 and reduced Acct. No. 750 by \$514 to properly allocate the transportation repairs.

Based on our findings discussed above, we have increased Acct. No. 650 by \$514 and reduced Acct. Nos. 740 and 750 by \$3,144 and \$514, 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 O&M expense by \$514 and reduce wastewater O&M expense by \$3,658, (\$3,144+\$514) respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 13

SUBJECT: ADJUSTMENT TO INSURANCE EXPENSE

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

<u>Source</u>	<u>Acct. 655 Water</u>	<u>Acct. 755 Wastewater</u>	<u>Non-Utility</u>	<u>Total</u>
Direct Insurance Allocation	\$134	\$134	\$0	\$268

The total balance above was for automobile insurance premiums allocated to the company for a non-utility vehicle.

We determined that the company should have been allocated premiums for the following insurance policies.

<u>Vendor</u>	<u>Policy No.</u>	<u>Policy Type</u>	<u>Amount</u>
<u>Allocated Policy Amounts:</u>			
Clarendon National Insurance Company	BP014572-05	Business Owners Liability	21,971
Auto Owners Insurance	42-637-243-00	Umbrella Liability	<u>4,515</u>
Total Insurance Expense			\$26,486

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

1. The direct insurance allocation of \$268 above was for coverage of non-utility vehicles and should be removed.
2. We have included coverage for two trucks used by two of the company's employees that work exclusively for utility operations. We have isolated the auto insurance premiums on the two trucks and calculated S.V. Utilities allocation to be \$523 which is based on the same methodology used to allocate the two employees salaries. The \$523 should be split equally between water and wastewater operations or \$262 each.
3. We have included coverage for two insurance policies that offer business operations and general liability protection. 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 have increased water and wastewater insurance expense by \$6,621, (\$26,486/2/2) each based on the company's common cost allocation methodology. We also 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 increased water and wastewater Acct. Nos. 655 and 755 by \$6,749, each ($\$6,621 + \$262 - \134) 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 wastewater O&M expense by \$6,749, each, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 14

SUBJECT: ADJUSTMENT TO MISCELLANEOUS EXPENSE

AUDIT ANALYSIS: The company's records reflect the following balances for 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	\$4,138	\$3,000	\$0	\$7,138
Allocated G&A Expense	0	0	0	0
Allocated Telephone Expense	0	0	0	0
Allocated Security Expense	0	0	0	0
Total	\$4,138	\$3,000	\$0	\$7,138

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

1. We have reduced Acct. Nos. 675 and 775 by \$3,884 and 1,246 based on the following determinations we made on the supporting documentation provided.
 - a. An invoice totaling \$1,500 to repair the chlorine contact chamber at the wastewater plant was posted to Acct. 675 when it should have been charged to Acct. No. 775. We have reclassified the entire amount to the proper account.
 - b. An invoice totaling \$2,376 to replace a tenant's entire concrete driveway was posted to Acct. No. 675. There was no support provided that it was utility related. We have removed the entire amount from this account.
 - c. An invoice totaling \$509 for the company's annual corporate filing fee was posted to a non-utility account. We have reclassified and increased Acct. Nos. 675 and 775 by \$254 each to properly record this transaction.
 - d. A canceled check for \$3,000 to the FDEP for the company's wastewater treatment plant permit renewal was posted to Acct. No. 731. This fee should have been posted to Acct. No. 186 – Deferred Assets and deferred until the project is complete and placed in service. We have reclassified the entire amount to the proper account.
 - e. An invoice for \$262 from the Polk County Health Department for a fine and consent order was posted to Acct. No. 675. Fines such as these are considered non-utility expense and we have removed the entire amount from this account.

System	Item A	Item B	Item C	Item D	Item E	Total
Water	(\$1,500)	(\$2,376)	\$254	\$0	(\$262)	(\$3,884)
W/Water	\$1,500	\$0	\$254	(\$3,000)	\$0	(\$1,246)

2. The company did not include an allocated amount for general and administrative (G&A)

services from its general partner CRF Management. We have increased the water and wastewater G&A expense allocation by \$14,204, each, respectively, to allocate the appropriate utility expenses discovered in our review of these costs. See Audit Finding No. 15 that follows for a detailed explanation of our findings and adjustments.

3. The company did not include an amount for allocated telephone expense from its general ledger. We have reviewed the general ledger transactions and have determined that \$1,024 of the \$7,059 posted to the company's telephone expense account is related to utility operations. We have included \$256 ($\$1,024/2/2$), each, to Acct. Nos. 675 and 775 based on the company's allocation methodology.
4. The company did not include an amount for allocated security expense from its general ledger. We have reviewed the general ledger transactions and have determined that \$1,708 of the \$4,859 posted to the company's security expense account is related to utility operations. We have included \$427 ($\$1,708/2/2$), each, to Acct. Nos. 675 and 775 based on the company's allocation methodology.

Based on our findings discussed above, we have increased water and wastewater Acct. Nos. 675 and 775 by \$11,003 ($\$14,204 + \$256 + \$427 - \$3,884$) and \$13,641 ($\$14,204 + \$256 + \$427 - \$1,246$) 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 wastewater O&M expense by \$11,003 and \$13,641, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 15

SUBJECT: ADJUSTMENT TO ALLOCATED G&A EXPENSE

AUDIT ANALYSIS: The company provided year-to-date general ledgers that reflected the total costs incurred by the Central Realty Funds, Inc. (CRF) - a management service company, for the 12-month period ending December 2006. The total 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 that should have been paid by the company is displayed below.

	Total Allocated to MHP	Total Allocated to Utility	Water	W/Water
S.V. Utilities, LTD	\$123,513	\$61,757	\$30,878	\$30,878

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 S.V. Utilities. The total cost based upon our analysis is \$15,225. We have removed the entire allocated balance of \$1,743,053 and added \$15,225 of salary expense that we calculated for S.V. Utilities.

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 S.V. Utilities 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 analysis is \$3,907. We have removed the entire allocated balance of \$121,721 and added \$3,907 of postage expense that we calculated for S.V. Utilities.

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.

The company did not include a G&A allocation for S.V. Utilities in its annual report. Based on our findings discussed above and our calculations on the following page, we have determined that S.V Utilities allocation for the test year 2006 should be \$28,407 $((\$18,550/2)+\$3,907+\$15,225)$. Our adjustment will increase water and wastewater operations by \$14,204 $(\$28,407/2)$ each, respectively and is included in Audit Finding No. 14 of this report.

SCHEDULE FOR AUDIT FINDING NO. 15

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. 16

SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The company's records reflect water and wastewater balances of \$3,447 and \$3,580 in wastewater Acct. Nos. 408 – Taxes Other Than Income (TOTI) for the 12-month period ended December 31, 2006.

Our review of company documents indicates the following.

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Regulatory Assessment Fees	\$3,310	\$2,990	\$6,300
Property Taxes	<u>137</u>	<u>590</u>	<u>727</u>
	\$3,447	\$3,580	\$7,027

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

1. We have determined that the property tax amounts above are a company calculation based on the land values displayed in its annual report times a company generated property tax rate of 1.783 percent. We have also determined through discussions with the Polk County Tax Collectors office that the two parcels of property occupied by the company's water and wastewater plant sites are not subject to property taxes because of the low assessed values. We have removed the entire property tax amounts from TOTI.
2. We have increased wastewater property taxes by \$12,140 to include the estimated 2006 tax amount on the wastewater plant percolation ponds described in Audit Finding No. 3 of this report. The percolation ponds are included in a 20.9688 acre parcel that received a tax bill of \$101,827 for 2006. We calculated property taxes of \$4,856 per acre and we determined that the percolation ponds contain approximately 2.5 acres.

<u>Total Property Tax Amount</u>	<u>Total Property Acreage</u>	<u>Property Tax per Acre</u>	<u>Utility Acreage</u>	<u>Utility Property Tax</u>
\$101,827	20.9688	\$4,856	2.5	\$12,140

Based on our findings discussed above, we have reduced water and increased wastewater property taxes by \$137 and \$11,550, (\$12,140-\$590) 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 increase wastewater TOTI expense by \$137 and \$11,550, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 17

SUBJECT: INFORMATION ON EQUITY AND DEBT BALANCES

AUDIT ANALYSIS: The utility is owned by and provides services for the following Florida limited liability partnerships.

<u>Entity</u> S.V. Utilities	<u>Owner Entity</u> S.V. Utilities, LTD	<u>General Partner</u> Century Realty Funds, Inc.
<u>Property Served</u> Swiss Village MHC	<u>Owner Entity</u> CHC III, LTD	<u>General Partner</u> Century Realty Funds, Inc.
Hidden Cove West MHC	Hidden Cove West, LTD	A.T.A. Properties, Inc.
Hidden Cove East MHC	Lucern, LTD	A.T.A. Properties, Inc.

We have determined that the controlling general partners identified above share three of the same corporate officers based on information obtained from the Florida Secretary of State - Division of Corporations.

The utility's general ledger and annual report reflect the following long-term note payable balances as of December 31, 2006.

<u>Long-Term Note Payable</u>	<u>@12/31/2005</u>	<u>@12/31/2006</u>	<u>Average</u>
Mortgage Payable	\$35,000	\$35,000	\$35,000
N/P Century Realty Funds	<u>35,500</u>	<u>35,500</u>	<u>35,500</u>
	\$70,500	\$70,500	\$70,500

We reviewed the utility's 2006 federal tax return and determined that it only includes the N/P Century Realty Funds balance, which is identified as an obligation to its general partner. We also determined that the average partnership equity balance was a negative \$323,629 as of December 31, 2006

<u>Partnership Equity Balance</u>	<u>@12/31/2005</u>	<u>@12/31/2006</u>	<u>Average</u>
Owner Entity			
S.V. Utilities, LTD	(\$284,415)	(\$362,842)	(\$323,629)

We requested copies of supporting documents for the two notes payable but none were provided as of the date of this report. Our review of the utility's 1998-2006 annual reports also determined that the utility has never made a principal or interest payment on either of the debts.

Based on the above information, we contend that the notes payable debt balances identified above should be treated as inter-company payables, which would be eliminated for rate making purposes. We contend that the utility's capital structure is composed solely of partnership equity when reconciled to the utility's rate base to be established by the original cost study recommended in Audit Finding No. 1 of this report.

EXHIBIT 1

**S.V. UTILITIES, LTD
WATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070413-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$481,263	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$7,695	(\$5,074)	AF-3	\$2,621
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	(\$390,960)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$11,453	AF-4	\$11,453
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NET RATE BASE	\$97,998	\$6,379		\$14,074

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 2

**S.V. UTILITIES, LTD
WASTEWATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070413-WS**

<u>DESCRIPTION</u>	<u>PER COMPANY @12/31/2006</u>	<u>AUDIT ADJUSTMENTS</u>	<u>REFER TO</u>	<u>PER AUDIT @12/31/2006</u>
UTILITY PLANT IN SERVICE	\$1,384,132	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$33,087	(\$5,152)	AF-3	\$27,935
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	(\$1,192,101)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$13,279	AF-4	\$13,279
	-----	-----		-----
NET RATE BASE	\$225,118	\$8,127		\$41,214

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 3

**S.V. UTILITIES, LTD
WATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070413-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$73,554	\$0		\$73,554
OPERATION AND MAINTENANCE EXPENSE	\$59,459	\$32,165	(a)	\$91,624
DEPRECIATION EXPENSE (b)	\$10,878	\$0		\$10,878
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$3,447	(\$137)	AF-16	\$3,310
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$73,784	\$32,028		\$105,812
NET OPERATING INCOME (d)	(\$230)	(\$32,028)		(\$32,258)

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

**S.V. UTILITIES, LTD
WASTEWATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070413-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$66,453	\$0		\$66,453
OPERATION AND MAINTENANCE EXPENSE	\$103,106	\$3,130	(a)	\$106,236
DEPRECIATION EXPENSE (b)	\$13,122	\$0		\$13,122
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$3,580	\$11,550	AF-16	\$15,130
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$119,808	\$14,680		\$134,488
NET OPERATING INCOME (d)	(\$53,355)	(\$14,680)		(\$68,035)

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.