

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 13, 2007
TO: Jay B. Revell, Regulatory Analyst III, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 070414-WS; Company Name: Hidden Cove, Ltd.;
Audit Purpose: SARC; Audit Control No: 07-233-2-3

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

DNV:bj
Attachments

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

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


Tampa District Office

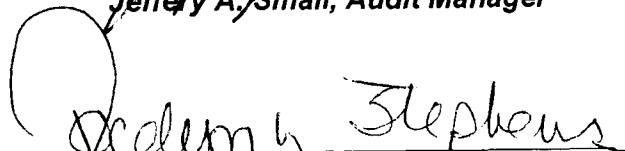
HIDDEN COVE, LTD

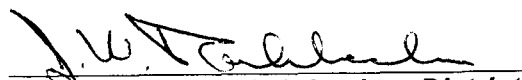
STAFF ASSISTED RATE CASE

AS OF DECEMBER 31, 2006

DOCKET NO. 070414-WS
AUDIT CONTROL NO. 07-233-2-3


Jeffery A. Small, Audit Manager


Jocelyn Y. Stephens, Audit Staff


Joseph W. Rohrbacher, District
Supervisor

DOCUMENT NUMBER-DATE

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

NOVEMBER 8, 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 14, 2007. We have applied these procedures to the attached schedules prepared by the audit staff in support of Hidden Cove, LTD request for a Staff Assisted Rate Case in Docket No. 070414-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.

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 verified that the utility owns the land and we determined its original cost when it was first dedicated to utility service. Audit Finding No. 2 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. 3 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. 4 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. 5 through 12 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. 13 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. 14 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)	\$60,286	\$188,063
Land & Land Rights	0	0
Contributions in Aid of Construction (CIAC)	0	0
Accumulated Depreciation	(39,700)	(160,459)
Amortization of CIAC	<u>0</u>	<u>0</u>
Net Rate Base	\$20,586	\$27,604

Hidden Cove, LTD (company) was granted a grandfather certificate in Order No. PSC-99-1237-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. 981339-WS indicated that it began operations in 1982. 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 TO LAND AND LAND RIGHTS

AUDIT ANALYSIS: The company's records do not include a water or wastewater land balance 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	Acre
A	06/07/82	2091	0547	E.D. Dixon	Century Realty Funds, Ltd	\$35,000	20	\$1,750
B	06/29/82	2092	0783	Century Realty Funds, Ltd	Sunco Properties, Ltd	\$115,000	related party	
C	12/30/86	2487	0197	Sunco Properties, Ltd	MX Properties, Inc.	\$232,000	related party	
D	10/29/83	3306	0558	MX Properties, Inc.	Hidden Cove, Ltd	\$75,000	related party	

We have determined that the property containing the water and wastewater plant sites was first dedicated to utility service in transaction A listed above. Transactions C-D were between related parties and included additional parcels of land as the mobile home community was developed. Therefore, 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	\$1,750	0.1830	\$320
Wastewater plant site	\$1,750	0.9600	\$1,680

EFFECT ON THE GENERAL LEDGER: Increase Acct. Nos. 303 and 353 by \$320 and \$1,680 respectively, as of December 31, 2006.

EFFECT ON THE FILING: Increase the water and wastewater rate base land balances by \$320 and \$1,680, respectively, as of December 31, 2006.

AUDIT FINDING NO. 3

SUBJECT: ADJUSTMENT FOR WORKING CAPITAL

AUDIT ANALYSIS: The company's records reflect water and wastewater operating and maintenance (O&M) expense balances of \$41,027 and \$47,330, 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 \$18,697 (\$41,027-\$22,330) and \$17,562 (\$47,330-\$29,768), 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 \$2,791 and \$3,721, respectively, as of December 31, 2006. See the two schedules that follow for additional details and our calculations.

O&M Expense - Water		Per Utility		Total	Audit Adjustments		Per Audit	AF No.
Acct. No.	Acct. Description	Direct	Allocated		Direct	Allocated	Total	
601	Salaries & Wages - Employees	\$2,136	\$2,011	\$4,147	(\$243)	\$0	\$3,904	5
615	Purchased Power	3,477	0	\$3,477	0	0	3,477	
618	Chemicals	1,100	0	\$1,100	(92)	0	1,008	6
620	Materials & Supplies	273	427	\$700	405	(46)	1,059	7
631	Contractual Services - Professional	4,868	14,250	\$19,118	635	(14,250)	5,503	8
635	Contractual Services - Testing	1,014	0	\$1,014	0	0	1,014	
636	Contractual Services - Other	2,830	0	\$2,830	(661)	0	2,169	9
650	Transportation Expense	0	0	\$0	0	0	0	
655	Insurance	0	1,650	\$1,650	0	(134)	1,516	10
675	Miscellaneous Expense	<u>695</u>	<u>6,296</u>	<u>\$6,991</u>	<u>(695)</u>	<u>(3,616)</u>	<u>2,680</u>	11
	Balance (Rounded to whole dollars)	\$16,393	\$24,634	\$41,027	(\$652)	(\$18,046)	\$22,330	

Working Capital (1/8 of O&M expense) \$2,791

O&M Expense - Wastewater		Per Utility		Total	Audit Adjustments		Per Audit	AF No.
Acct. No.	Acct. Description	Direct	Allocated		Direct	Allocated	Total	
701	Salaries & Wages - Employees	\$2,133	\$2,011	\$4,144	(\$243)	\$0	\$3,901	5
711	Sludge Hauling	4,325	0	4,325	(200)	0	4,125	6
715	Purchased Power	1,942	0	1,942	215	0	2,157	6
718	Chemicals	3,929	0	3,929	(118)	0	3,810	6
720	Materials & Supplies	1,654	427	2,081	(723)	(46)	1,312	7
731	Contractual Services - Professional	6,696	14,250	20,946	1,454	(14,250)	8,150	8
735	Contractual Services - Testing	0	0	0	0	0	0	
736	Contractual Services - Other	2,017	0	2,017	100	0	2,117	9
750	Transportation Expense	0	0	0	0	0	0	
755	Insurance	0	1,650	1,650	0	(134)	1,516	10
775	Miscellaneous Expense	<u>0</u>	<u>6,296</u>	<u>6,296</u>	<u>0</u>	<u>(3,616)</u>	<u>2,680</u>	11
	Balance (Rounded to whole dollars)	\$22,695	\$24,634	\$47,330	\$484	(\$18,046)	\$29,768	

Working Capital (1/8 of O&M expense) \$3,721

Based on our findings discussed above, we have increased water and wastewater rate base by \$2,791 and \$3,721, 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 \$2,791 and \$3,721, respectively as of December 31, 2006.

AUDIT FINDING NO. 4

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)		\$19,245
Annual Report	\$11,500	\$11,500	\$23,000
Difference			\$3,755

The company posted a \$3,755 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.

<u>Number of Customers</u>	<u>Tariff Rate</u>	<u>Imputed Annual Base Revenues</u>	<u>Water Revenues</u>	<u>Wastewater Revenues</u>
122	\$15.71	\$22,999	\$11,500	\$11,500

The company's 2002 through 2006 annual reports have consistently reported that it serves 122 un-metered residential customers. We have determined that the utility also provides un-metered water, wastewater and irrigation services for one common owned clubhouse, an irrigation system at the entrance to the mobile home community and a service line and irrigation system at the company's wastewater treatment plant. As far as we can determine, the company has never recorded revenues for these three service connections.

EFFECT ON THE GENERAL LEDGER: None – informational only.

EFFECT ON THE FILING: To be determined by analyst.

AUDIT FINDING NO. 5

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	\$2,136	\$2,133	\$0	\$4,269
Allocated Salary	<u>2,011</u>	<u>2,011</u>	<u>4,023</u>	<u>8,045</u>
Total	\$4,147	\$4,144	\$4,023	\$12,314

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 Hidden Cove and seven other mobile home parks that CRF administers. The remaining two CRF employees provide accounting and management services to utility and non-utility operations. The fifth employee mentioned above is employed by Mobile Home Lifestyles, LLP (MHL). He also works exclusively in utility operations for Hidden Cove and seven other mobile home parks that MHL serves. Both CRF and MHL are considered related party entities to Hidden Cove and the other seven mobile home operating entities.
2. We compared the company's general ledger postings for direct salary expense from CRF to the payroll reports created by its payroll vendor. We sampled the months of April and August 2006 and determined that the general ledger direct salary amount is overstated by approximately 11.39 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 \$2,133, each, for water and wastewater direct salary expense from CRF. We have reduced these amounts by \$243 ($\$2,133 \times 11.39\%$) each, to remove the unexplained 11.39 percent excess direct salary expense based on our findings above.

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 601 and 701 by \$243 each, 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 \$243, each, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 6

SUBJECT: ADJUSTMENT TO SLUDGE HAULING, PURCHASED POWER AND CHEMICAL 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-	\$4,325
615/715	Purchased Power	\$3,477	\$1,942
618/718	Chemicals	\$1,100	\$3,929

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 posted a \$5,419 adjustment to Acct. Nos. 615 and 715 for annual report purposes to record and segregate its purchased power expense between water and wastewater operations. We have increased wastewater purchased power expense by \$215 for a power bill that was not included in the company's calculation.

Purchased Power	Water	Wastewater	Total
Per Company	\$3,477	\$1,942	\$5,419
Per Audit	<u>3,477</u>	<u>2,157</u>	<u>5,634</u>
Adjustment	\$0	\$215	\$215

3. The company's balance in Acct. Nos. 618 and 718 above includes a \$378 invoice for chlorine that was purchased and delivered in the prior period 2005. We have reduced these accounts by \$92 and \$286, respectively, to remove the out of period purchase.
4. Audit Finding No. 7 of this report reclassified \$168 to Acct. No. 718.

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)
615/715	Increase	\$0	215
618/718	Reduce	<u>(92)</u>	<u>(118)</u> (\$286-\$168)
		(\$92)	(\$103)

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 \$92 and \$103, respectively, for the 12-month period ended December 31, 2006.

ADDITIONAL INFORMATION: The company's wastewater collection system includes one master lift station that is located adjacent to the water plant site. During our tour of the company's facilities we determined that the master lift station was connected to the same electric meter that provides power for the water plant facilities.

AUDIT FINDING NO. 7

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	\$273	\$1,654	\$0	\$1,927
Allocated Materials & Supplies	<u>427</u>	<u>427</u>	<u>854</u>	<u>1,709</u>
Total	\$700	\$2,081	\$854	\$3,636

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 \$404 to Acct. No 720 for several invoices that were for miscellaneous supplies and fittings for its water system that should have been recorded in Acct. No. 620. We have reclassified the entire amount to the proper account.
2. The company posted \$168 to Acct. No. 720 for a wastewater chemical invoice that should have been recorded in Acct. No. 718 – Chemicals. We have reclassified the entire amount to the proper account.
3. The company posted \$150 to Acct. No. 720 for invoiced services that recertified its water system backflow presenters that should have been posted to Acct. No. 636 – Contractual Services Other. We have reclassified the entire amount to the proper account.

Allocated Materials & Supplies

4. The utility was allocated \$427, each, to Acct. Nos. 620 and 720 for various material and supplies purchased by the company. We have removed \$184 of the total allocated balance above because it included reimbursements for non-utility related services and products such as a payment to the homeowners association for holiday turkeys and payments to a mobile home park resident that was reimbursed for electricity used to run drainage pumps that removed accumulated rain runoff.

<u>Total Balance</u>	<u>50% Utility</u>	<u>50% Water</u>	<u>50% W/Water</u>
\$184	\$92	\$46	\$46

Based on our findings discussed above, we have increased water and reduced wastewater Acct. Nos. 620 and 720 by \$359 and \$769, 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>Total</u>
Water	\$405	\$0	\$0	(\$46)	\$359
W/Water	(\$405)	(\$168)	(\$150)	(\$46)	(\$769)

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 \$359 and \$769, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 8

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	\$4,868	\$6,696	\$0	\$11,564
Allocated Contract Service	<u>14,250</u>	<u>14,250</u>	<u>28,500</u>	<u>57,000</u>
Total	\$19,118	\$20,946	\$28,500	\$68,564

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 \$2,089 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 \$889 and \$1,200, respectively, because they were incurred for services provided during the current test year 2006.
2. The company posted a reclassifying adjustment that reduced Acct. No. 731 by \$254 for an invoice related to testing its water system. It properly posted the adjustment to Acct. No. 635 – Contractual Services Test. However, we have determined that the company did not include the invoice in Acct. No. 731. The invoice was originally posted to Acct. No 631 instead. Therefore, we have reduced Acct. No. 631 by \$254 and increased Acct. No. 731 by \$254 to correct the company's reclassifying adjustment.
3. The utility was allocated \$14,250, each, to Acct. Nos. 631 and 731 for professional service expenses incurred by two related party company partnerships. We have removed the entire amount because no documentation was provided to support or explain either of the allocated amounts.

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 631 and 731 by \$13,615 (\$889-\$254-\$14,250) and \$12,796 (\$1,200+\$254-\$14,250), 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 \$13,615 and \$12,796, 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 \$11,653 for this service and it included \$1,066 for water and 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. 9

SUBJECT: ADJUSTMENT TO CONTRACTUAL SERVICES - OTHER

AUDIT ANALYSIS: The company's records reflect balances of \$2,830 and \$2,017 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. We have determined that the company posted two invoices totaling \$811 to Acct. No. 636 for invoiced transactions that we have determined are non-utility cost. We have removed the entire amount from this account.
2. We have determined that the company posted an invoice for \$100 to Acct. No. 736 that was for the prior period. We have removed the entire amount from this account.
3. Audit Finding No. 6 of this report reclassified \$200 to Acct. No. 736.
4. Audit Finding No. 7 of this report reclassified \$150 to Acct. No. 636.

Based on our findings discussed above, we have reduced Acct. No. 636 by \$661 (\$811-\$150) and increased Acct. No. 736 by \$100, (\$200-\$100) 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 \$661 and \$100, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 10

SUBJECT: ADJUSTMENT TO INSURANCE EXPENSE

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

Source	Acct. 655 Water	Acct. 755 Wastewater	Non-Utility	Total
Allocated Insurance Expense	\$1,650	\$1,650	\$3,300	\$6,601

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

Vendor	Policy No.	Policy Type	Amount
<u>Direct Policy:</u>			
Fidelity National Property	09-7700092521-03	Flood Insurance	\$344
Herndon & Associates	907912-66245467	Utility deposit bond	83
Herndon & Associates	907912-66245407	Utility deposit bond	117
Herndon & Associates	unknown	policy changes	292
<u>Allocated Policy:</u>			
Clarendon National Insurance Company	BP014572-05	Business Owners Liability	4,782
Auto Owners Insurance	42-637-243-00	Umbrella Liability	<u>983</u>
Total Insurance Expense			\$6,601

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

1. The flood insurance policy above totaling \$344 covers the club house at Hidden Cove and should be considered a non-utility expense for rate setting purposes. We have removed \$86 (\$344/2/2) each from water and wastewater insurance expense.
2. The utility deposit bond for \$117 was issued in lieu of a deposit with Tampa Electric Company (TECO). The company's water and wastewater systems are served by Progress Energy. The TECO bond should be considered a non-utility expense for rate setting purposes. We have removed \$29 (\$117/2/2) each from water and wastewater insurance expense.
3. The company's general ledger included two transactions totaling \$292 that were for an unrelated insurance policy change and an unsupported invoice amount. We have removed \$73 (\$292/2/2) each from water and wastewater insurance expense as a non-utility or unsupported expense amount.
4. 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 Hidden Cove's allocation to be \$108 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 \$54 each.

5. The allocated insurance policies offer business operations and general liability protections. Our review of the policies indicate the coverage of utility property is limited to optional coverages and generally offers protection for major utility assets such as pumps and motors. We recommend that the premium allocations for these two policies be re-examined after the utilities UPIS balance is determined, as discussed in Audit Finding No. 1 of this report, and adjusted based on the relative percentage of utility assets to total company assets as evidenced in the company's general ledger.

Based on our findings discussed above, we have decreased water and wastewater Acct. Nos. 655 and 755 by \$134, each (\$86+\$29+\$73-\$54) 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 \$134, each, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 11

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	\$695	\$0	\$0	\$695
Allocated G&A Expense	5,336	5,336	10,671	21,342
Allocated Telephone Expense	611	611	1,222	2,444
Allocated Security Expense	<u>349</u>	<u>349</u>	<u>699</u>	<u>1,397</u>
Total	\$6,991	\$6,296	\$12,592	\$25,878

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

1. We have reduced Acct. No. 675 by \$695 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 \$3,267, each, to remove all non-utility items discovered in our review. See Audit Finding No. 12 that follows for a detailed explanation of our findings and adjustments.
3. We have reduced the water and wastewater security expense allocation by \$349, each to remove all non-utility expenses associated with maintaining the mobile home parks security gate and other miscellaneous non-utility repairs.

Based on our findings discussed above, we have reduced water and wastewater Acct. Nos. 675 and 755 by \$4,311 (\$695+\$3,267+\$349) and \$3,616, (\$3,267+\$349) 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 \$4,311 and \$3,616, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 12

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
Hidden Cove, Ltd	\$21,342	\$10,671	\$5,336	\$5,336

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 Hidden Cove. The total cost based upon our analysis is \$1,891. We have removed the entire allocated balance of \$1,743,053 and added \$1,891 of salary expense that we calculated for Hidden Cove.

Acct. No. 7865 - Postage

In 2006, CRF incurred postage expenses totaling \$121,721. In addition to charges for the United States Postal Service of \$50,574, CRF also incurred \$76,495 for Fed Ex delivery services. The company stated that the Fed Ex services should not have been charged to utility operations. It was noted that the \$50,074 was charged to a postal meter used for general company mailings. We prepared an analysis of the postage that would be incurred by Hidden Cove 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 \$660. We have removed the entire allocated balance of \$121,721 and added \$660 of postage expense that we calculated for Hidden Cove.

Acct. No. 7875 - Rent

In 2006, Century Plaza, Ltd, a related company, allocated rent expenses to CRF totaling \$413,094. The rent was for the 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 \$6,533 for the test year 2006. The specific adjustment to Hidden Cove's water and wastewater operations is \$3,267 (\$6,533/2) each, respectively and is included in Audit Finding No. 11 of this report.

SCHEDULE FOR AUDIT FINDING NO. 12

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. 13

SUBJECT: ADJUSTMENT TO TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The company's records reflect water and wastewater balances of \$985 and \$2,972 in Acct. Nos. 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 \$468 and \$2,455, respectively, based on the following property holdings and calculations.

<u>Parcel ID#</u>		<u>Tax Amount</u>
312727-000000-043040		<u>44,724</u>
Total property tax amount		\$44,724
Usable acreage	17.49	
Tax per acre		\$2,557
Water utility acreage/tax	0.183	\$468
Wastewater utility acreage/tax	0.960	\$2,455

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 usable acreage.

<u>Polk County Parcel ID#</u>	<u>Acreage</u>	<u>Tax Amount</u>
312727-000000-043040	59.70	\$50,780
Tax per Acre		\$851
Water utility acreage	0.183	\$156
Wastewater utility acreage	0.960	\$817

<u>Note:</u>	<u>Company</u>	<u>Audit</u>	<u>Explanation</u>
A Tax amount per bill	\$52,895	\$50,780	Company used Mar07/Auditor used Nov06
Polk County Fire Tax	(8,171)	0	Company excluded fire tax
	\$44,724	\$50,780	

Based on our findings discussed above, we have reduced water and wastewater property taxes by \$312 (\$468-\$156) and \$1,638, (\$2,455-\$817) 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 \$312 and \$1,638, respectively, for the 12-month period ended December 31, 2006.

AUDIT FINDING NO. 14

SUBJECT: INFORMATION ON EQUITY AND DEBT BALANCES

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

The partnership, in conjunction with three other related party partnership entities, executed a \$10,500,000 long-term note payable on October 16, 2003. Hidden Coves' allocated portion of the note payable had an average outstanding balance of \$1,536,639 and an effective cost rate of 4.70 percent as of December 31, 2006.

Average Amount Outstanding	Amortization of Issue Cost	Interest Cost	Total Interest Cost	Effective Rate
\$1,536,639	\$2,347	\$69,882	\$72,229	4.70%

Partnership Entity	Note Principal	Allocated Percentage	@12/31/2005	@12/31/2006	Average
Hidden Cove East, Ltd	\$1,180,900	11.25%			
Hidden Cove West, Ltd	3,650,500	34.77%			
Kings Pointe, Ltd	3,914,800	37.28%			
Hidden Cove, Ltd	<u>1,753,800</u>	<u>16.70%</u>	\$1,553,788	\$1,519,491	\$1,536,639
	\$10,500,000	100.00%			

We reviewed the partnership 2006 federal tax return and determined that the average partnership equity balance was \$617,474 as of December 31, 2006.

Partnership Equity Balance Owner Entity	@12/31/2005	@12/31/2006	Average
Hidden Cove, LTD	\$584,838	\$650,109	\$617,474

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

**HIDDEN COVE, LTD
WATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070414-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$60,286	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$0	\$320	AF-2	\$320
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	(\$39,700)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$2,791	AF-3	\$2,791
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NET RATE BASE	\$20,586	\$3,111		\$3,111

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 2

**HIDDEN COVE, LTD
WASTEWATER RATE BASE
AS OF DECEMBER 31, 2006
DOCKET NO. 070414-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
UTILITY PLANT IN SERVICE	\$188,063	TO BE DETERMINED BY ORIGINAL COST STUDY		
LAND AND LAND RIGHTS	\$0	\$1,680	AF-2	\$1,680
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	(\$160,459)	TO BE DETERMINED BY ORIGINAL COST STUDY		
WORKING CAPITAL (a)	\$0	\$3,721	AF-3	\$3,721
	-----	-----		-----
NET RATE BASE	\$27,604	\$5,401		\$5,401

a) One eighth of Operation and Maintenance Expense balance

EXHIBIT 3

**HIDDEN COVE, LTD
WATER NET OPERATING INCOME
FOR THE 12-MONTH PERIOD ENDING DECEMBER 31, 2006
DOCKET NO. 070414-WS**

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2006
REVENUES	\$11,500	\$0		\$11,500
OPERATION AND MAINTENANCE EXPENSE	\$41,027	(\$18,697)	(a)	\$22,330
DEPRECIATION EXPENSE (b)	\$1,498	\$0		\$1,498
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$985	(\$312)	AF-13	\$673
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-
OPERATING EXPENSE	\$43,510	(\$19,009)		\$24,501
NET OPERATING INCOME (d)	(\$32,010)	\$19,009		(\$13,001)

Notes to above schedule:

- a) See O&M schedule on page 8 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

**HIDDEN COVE, 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	\$11,500	\$0		\$11,500

OPERATION AND MAINTENANCE EXPENSE	\$47,330	(\$17,562)	(a)	\$29,768
DEPRECIATION EXPENSE (b)	\$2,632	\$0		\$2,632
CIAC AMORTIZATION EXPENSE (b)	\$0	\$0		\$0
TAXES OTHER THAN INCOME EXPENSE	\$2,972	(\$1,638)	AF-13	\$1,334
PROVISION FOR INCOME TAX EXPENSE (c)	-NA-	-NA-		-NA-

OPERATING EXPENSE	\$52,934	(\$19,200)		\$33,734

NET OPERATING INCOME (d)	(\$41,434)	\$19,200		(\$22,234)

Notes to above schedule:

- a) See O&M schedule on page 8 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.