

State of Florida



RECEIVED-FPSC
MAY 21 10:29
08 JUN 21 AM 10:29
Public Service Commission

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

COMMISSION
CLERK

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

DATE: May 21, 2008
TO: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *DNV*
RE: Docket No. 080104-SU; Company Name: Colony Park Utilities in Brevard Co.
Audit Purpose: Staff Assisted Rate Case; Company code: SU288;
Audit Control No: 08-080-1-1

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

DNV: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)
General Counsel
Office of Public Counsel

Mr. Michael Abramowitz
Colony Park Utilities, Inc.
6786 Mangrove Drive
Merritt Island, FL 32953-6849

DOCUMENT NUMBER-DATE

04209 MAY 21 08

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Tallahassee District Office


COLONY PARK UTILITIES, INC.

STAFF ASSISTED RATE CASE

AS OF DECEMBER 31, 2007

DOCKET NO. 080104-SU

AUDIT CONTROL NO. 08-080-1-1



Denise N. Vandiver, Audit Manager



*Lynn Deamer, Regulatory Analyst
Supervisor*

DOCUMENT NUMBER-DATE

04209 MAY 21 08

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES	2
III. AUDIT FINDINGS	
1. LACK OF RECORDS	5
2. PLANT IN SERVICE.....	6
3. ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE	8
4. REVENUE.....	10
5. OPERATION & MAINTENANCE EXPENSE.....	11
6. TAXES OTHER THAN INCOME	14
7. PROFORMA EXPENSES.....	15
8. CAPITAL STRUCTURE	16
9. WATER UTILITY.....	17
IV. EXHIBITS	
1. WASTEWATER RATE BASE.....	19
2. WASTEWATER NET OPERATING INCOME	20
3. WASTEWATER CAPITAL STRUCTURE	21

DOCUMENT NUMBER-DATE

04209 MAY 21 8

FPSC-COMMISSION CLERK

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

May 5, 2008

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 March 19, 2008. We have applied these procedures to prepare the attached schedules in support of the Colony Park Utilities, Inc. filing for rate relief in Docket No. 080104-SU.

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

RATE BASE

Utility-Plant-in-Service

Objective: To determine that additions to plant are authentic, recorded at original cost, and properly classified. To verify that the proper retirements of plant were made when a replacement item was put in service.

Procedures: We reconciled the plant balance in the annual report with the last audit and order. We reviewed plant invoices provided by the company for compliance with the stated objectives above. We reviewed whether the utility properly recorded retirements to plant for new items. We inquired if the utility planned any new construction. Audit finding two adjusts to the last rate order and to actual invoices. Audit finding seven addresses possible pro forma plant.

Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization of CIAC

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and ensure that all donated property is properly accounted for and recorded as CIAC and plant.

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 properly recorded and calculated based on the rates and method used in the utility's last rate proceeding.

Procedures: We reconciled the CIAC balance in the annual report to the last Commission order. The utility reported no additions to CIAC since the last rate case. The utility tariff does not include any service availability charges. We verified the amortization rate on the prior balance of CIAC. The CIAC is fully amortized.

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 authorized rates and that retirements are properly recorded.

Procedures: We reviewed the annual report depreciation schedules. We verified whether the utility used Commission authorized rates to depreciate its plant accounts. The company used incorrect plant balances to calculate accumulated depreciation. We reviewed the utility retirements to accumulated depreciation. Audit finding three addresses these issues further.

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 using the one-eighth of operation and maintenance expense method.

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: The City of Cocoa bills for those wastewater customers the utility has outside of the mobile home park. The utility does not bill wastewater charges for the residents of the mobile home park. Using data provided by the City and the tariff rates, audit staff calculated the test year revenues. The City does not collect and pass through service availability charges to Colony. Audit finding four discusses revenue further.

Operation and Maintenance Expenses (O&M)

Objective: To determine that operation and maintenance expenses are properly recorded in compliance with Commission Rules and are reasonable and prudent for ongoing utility operations.

Procedures: We reviewed all checks and invoices provided by the utility for the twelve months ended December 31, 2007. We reviewed the invoices for classification, amount, proper period and recurring nature. We examined invoices to determine if the above objectives were met. Audit finding five addresses O&M expenses, including allocated office expenses, for the utility. Audit finding seven addresses possible pro forma expenses.

Taxes-Other-Than-Income

Objective: To determine that taxes other than income tax expense is properly recorded, in compliance with Commission Rules and are reasonable and prudent for ongoing utility operations.

Procedures: We recalculated the regulatory assessment fee amount paid and reconciled it to the calculated expense based on test year revenues. We reviewed the property tax bills paid to determine if the amount booked reflects the maximum discount amount. Audit finding six adjusts for property tax not paid at the maximum discount and regulatory assessment fees based on adjusted revenues.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of plant assets and amortization of CIAC assets for ongoing utility operations.

Procedures: We recalculated depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we found errors in some balances that are over-depreciated and errors in plant balances that were used to calculate depreciation expense. Audit finding three adjusts depreciation expense to rule rates.

CAPITAL STRUCTURE

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility and are properly recorded in compliance with Commission Rules.

Procedures: The company only has debt to support its investment in plant. Audit finding seven addresses this issue further.

AUDIT FINDING NO. 1

SUBJECT: LACK OF RECORDS

AUDIT ANALYSIS: Commission Rule 25-30.110, Florida Administrative Code, requires each utility to preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities". This document includes an extensive record retention schedule. Among other items, the schedule requires that a utility must keep invoices and monthly operating revenue records for a minimum of six years.

Commission Rule 25-30.115, Florida Administrative Code, requires each utility to maintain their accounts and records in conformity with the 1996 NARUC Uniform Systems of Accounts (USOA) adopted by the National Association of Regulatory Utility Commissioners. The USOA includes accounting instructions that require all wastewater utilities to keep books of account using the double entry method, on an accrual basis. Each utility shall also keep its accounts monthly and shall close its books at the end of each calendar year. All books of accounts shall be kept in such a manner as to support fully the facts pertaining to such entries.

When audit staff met with the utility owner, the owner said he did not have any trial balance, general ledger, or cash disbursements and cash receipts journal. The owner brought a check book with check stubs to the meeting. When asked for invoices, contracts, and other documents, the owner said he didn't have any. Many of the expenses were paid in cash with no documentation. The company has no records regarding its revenues and customers. The owner stated that the City of Cocoa, which bills and collects for the utility, used to send a large printout but he told them to quit sending it. After the meeting, audit staff sent four requests, with multiple parts, requesting specific documentation that was lacking. The utility was able to provide responses to some of these requests, including invoices for several expense classifications. Audit staff prepared a rate base, net operating income, and capital structure schedules from the information provided by the owner, the plant operator, and the City of Cocoa.

Some of the records that audit staff requested, or would like to have requested, were not in physical possession of the current owner because the prior owner did not turn them over. Staff did not attempt to acquire these records from the prior owner because they are currently in a court case with the current owner and possession of the records is one of the issues.

The company is in violation of the Commission rules because it does not maintain a set of double entry accounting records, nor any system that would attempt to track expenses, revenues, assets, and liabilities. In addition, the utility is in violation of the rule requiring record retention as it does not maintain all invoices and has no records of its revenues.

EFFECT ON THE FILING: The utility should be required to follow the Commission's rules regarding the preservation of records and maintaining a set of accounting books.

AUDIT FINDING NO. 2

SUBJECT: PLANT IN SERVICE

AUDIT ANALYSIS: Audit staff prepared a schedule starting with the UPIS balances established in the last staff assisted rate case with FPSC Order No. PSC-96-1083-FOF-SU, issued August 22, 1996. The UPIS balances in the annual report did not agree to the prior order on an account basis. We added the UPIS additions as shown in the utility annual reports filed with the Commission to the balances as shown in the prior order.

The utility has been through two changes in control since the last rate case. In Docket No. 020930-SU, by FPSC Order No. PSC-03-0320-FOF-SU, issued March 6, 2003, the Commission approved a transfer of majority organizational control from Robert Warren, Lenore Warren, William Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young. In Docket No. 060636-SU, by FPSC Order No. PSC-07-0420-FOF-SU, issued May 14, 2007, the Commission approved a transfer of majority organizational control from Eileen Rogow to Michael Abramowitz. The current owner, Mr. Abramowitz was unable to provide invoices to support the additions made in 1996 and 1997. The current utility plant operator was not the plant operator at that time. However, he believes that the 1996 additions may have been a shed at the plant, concrete sheeting of the plant, and a well pump, as he states that those additions all appear to be about that vintage. However, without adequate support, audit staff recommends these additions be removed, pending any subsequent information that may be provided and reviewed by the staff analyst and engineer. This results in a reduction of \$44,691 to Structures and Improvements (Account No. 354), \$1,838 to Pumping Equipment (Account No. 371), and \$3,652 to Tools, Shop & Garage Equipment (Account No. 393).

The 2006 Annual Report indicates an addition of \$4,000 for Pumping Equipment (Account No. 371). The utility was able to provide an invoice dated October 16, 2006 from Barney's Pumps, Inc. for \$3,536.16. Audit staff recommends that the \$4,000 be reduced to the invoice amount. This results in an additional reduction of \$463.84 to Pumping Equipment. In addition, the utility did not retire the replaced pump. Because the Pumping Equipment account had a zero balance before this addition, staff recommends that the retirement be made against the "Composite Account" that was used in the last order. In prior staff assisted rate cases, the Commission has made a retirement based on 75% of the current cost of the plant item (see FPSC Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS.) Therefore, audit staff recommends that a retirement be made in the amount of \$2,652 ($\$3,536.16 \times .75\%$)

The chart below shows the utility plant in service balance with our audit adjustments.

ACCOUNT	UTILITY BALANCE AT 12/31/07	AUDIT ADJUSTMENTS	AUDIT BALANCE AT 12/31/07
COMPOSITE ACCOUNT	60,006	(2,652)	57,354
STRUCTURES & IMPROVEMENTS	52,438	(44,691)	7,747
COLLECTION SEWERS-FORCE	28,128		28,128
SERVICES TO CUSTOMERS	500		500
FLOW MEASURING DEVICES	3,500		3,500
RECEIVING WELLS	13,066		13,066
PUMPING EQUIPMENT	5,838	(2,302)	3,536
TREATMENT & DISPOSAL EQUIPMENT	27,546		27,546
PLANT SEWERS	1,789		1,789
TOOLS, SHOP & GARAGE EQUIPMENT	4,852	(3,652)	1,200
	197,663	(53,297)	144,366

EFFECT ON THE FILING: The filing should reflect Utility Plant in Service of \$144,366.

AUDIT FINDING NO. 3

SUBJECT: ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

AUDIT ANALYSIS: Audit staff reviewed the accumulated depreciation balances as reported in the annual reports filed with the Commission. The Annual Reports did not report plant in the same accounts as established in the last Commission Order (PSC-96-1083-FOF-SU). In addition, the Annual Reports included more accumulated depreciation than the balance in the plant account. Therefore, audit staff recalculated accumulated depreciation using the correct plant balances and adjusted for the recommended audit adjustments. The table below shows the specific adjustments made by audit staff for undocumented additions in 1996 and 1997, as well as the related accumulated depreciation.

Plant Adjustment	30,472	14,219	1,838	3,652	50,181
Year Added	1996	1997	1997	1997	
AR Depreciation Rate	0.05	0.05	0.143	0.143	
No. of years	11.5	10.5	10.5	10.5	
Total Acc Depr in AR	17,521	7,465	2,760	5,483	33,230

Using this adjustment and staff's recalculation results in a total Accumulated Depreciation balance at December 31, 2007 of \$123,526.

Per Company 12/31/07	(140,238)
Audit Adjustments	33,230
	(107,008)
Adjust for Recalculation	(16,440)
	(123,448)
2006 Addition	(78)
Adjusted Balance	(123,526)

Several plant items were fully depreciated at the end of the test year. The following schedule shows the audit balances for utility plant in service as well as accumulated depreciation. Audit staff capped the depreciation for those items that are fully depreciated.

ACCOUNT	UPIS AUDIT		DEPR RATE	CALC DEPR EXPENSE
	BALANCE AT 12/31/07	AUDIT ACC DEP AT 12/31/07		
COMPOSITE ACCOUNT	57,354	56,162	0.0301	1,192
STRUCTURES & IMPROVEMENTS	7,747	3,808	0.0370	287
COLLECTION SEWERS-FORCE	28,128	16,521	0.0370	1,042
SERVICES TO CUSTOMERS	500	250	0.0286	14
FLOW MEASURING DEVICES	3,500	8,650 Fully Depr	0.2000	
RECEIVING WELLS	13,066	8,478	0.0400	523
PUMPING EQUIPMENT	3,536	118	0.0667	236
TREATMENT & DISPOSAL EQUIPMENT	27,546	27,546 Fully Depr	0.0667	
PLANT SEWERS	1,789	755	0.0313	56
TOOLS, SHOP & GARAGE EQUIPMENT	1,200	1,237 Fully Depr	0.0667	
	<u>144,366</u>	<u>123,526</u>		<u>3,349</u>

The 2006 Annual Report indicates depreciation expense of \$7,248. The audit calculation of depreciation expense is \$3,349. Therefore, depreciation expense should be reduced by \$3,899 (\$7,248-\$3,349).

The only CIAC the utility has recorded is fully amortized. No further amortization of CIAC should be included.

EFFECT ON THE FILING: The balance for Accumulated Depreciation at December 31, 2007 should be \$123,526. Depreciation expense should be \$3,349.

AUDIT FINDING NO. 4

SUBJECT: REVENUE

AUDIT ANALYSIS: The utility provides wastewater service to the mobile home park as well as customers outside the mobile home park. For those customers outside the mobile home park, the City of Cocoa bills the sewer charges, collects the revenue, withholds a fee, and remits a check to Colony Park. The utility was unable to provide any information regarding its customers, revenues, or other billing issues.

Audit staff contacted the City and requested billing information for the calendar year 2007. The City provided a listing of all customers it billed for the utility. Neither the City nor the utility billed the mobile home park for wastewater. However, the City does provide water to and bill for the Colony Park Mobile Home park through a master meter, so the City provided audit staff with the water consumption for the mobile home park. Using the data provided by the City and the tariff rates, audit staff calculated the following revenues.

Total Consumption Billed by City	6,876	1.81	12,445.56
Total Master Meter Consumption	<u>3,826</u>	1.80	<u>6,886.80</u>
Total Consumption Revenue	<u>10,702.00</u>		<u>19,332.36</u>
Total Residential Base Facility Charge	1,798	6.18	11,111.64
Total Master Meter Base Facility Charge	12	921.22	11,054.64
Total 2007 Residential Revenues			<u>41,498.64</u>

The utility tariff includes Miscellaneous Service Charges. Although the City of Cocoa provides the services to connect and disconnect customers, etc., the City does not collect and pass through these service availability charges to Colony. The utility and the City did not provide specific information regarding connections and disconnections of customers for 2007.

EFFECT ON THE FILING: The filing should reflect 2007 revenues of \$41,498.64.

AUDIT FINDING NO. 5

SUBJECT: OPERATION AND MAINTENANCE (O&M) EXPENSES

AUDIT ANALYSIS: The utility could not provide a general ledger and did not file an annual report for the year ended December 31, 2007. Based on the information provided to the auditor, we made the following adjustments.

711 Sludge Removal: The utility stated that it paid \$2,472.50 for sludge removal in 2007. The invoices and receipts only totaled \$2,372.50. Therefore, the expense should be reduced by \$100.

715 Purchased Power: The utility checks for 2007 indicated a total of \$11,865.19 for purchased power. Based on the power bills supplied for the two lift stations and the wastewater plant, the utility expense for 2007 should be \$7,306.27. Therefore, the expense should be reduced by \$4,558.92.

718 Chemicals: The utility checks for 2007 indicated a total of \$1,094.52 for chemical expense. The invoices for 2007 only totaled \$771.88. Therefore, the expense should be reduced by \$322.64.

720 Materials and Supplies: The utility checks for 2007 indicated a total of \$1,013.99 for materials and supplies expense. Our review of the invoices and the amounts invoiced through the plant operator indicate an expense of \$1,754.50. Therefore, the expense should be increased by \$740.51.

730 Contractual Services – Billing: The utility did not write any checks for billing services. However, the City of Cocoa provides billing and collecting services for the utility at 93¢ per bill. Therefore, the expense should reflect \$1,672.14.

731 Contractual Services – Professional: The utility checks for 2007 indicated a total of \$24,839.47 for contractual services – professional expense. This included amounts paid to the plant operator and attorneys for the owners' court case against the prior owners. The utility did not provide sufficient documentation to support the attorneys fees. Therefore we recommend that they be removed from expenses. The audit staff reviewed the invoices from the plant operator and included the monthly fee in this account. The other amounts billed by the plant operator for materials and supplies were reclassified into those accounts. The monthly fees for the plant operator were \$500, resulting in an annual expense of \$6,000. Therefore this expense should be reduced by \$18,839.47.

735 Contractual Services – Testing: The utility checks for 2007 indicated a total of \$875 for testing expense. The invoices for 2007 totaled \$1,125. Therefore, the expense should be increased by \$250.

736 Contractual Services – Other: The utility checks for 2007 indicated a total of \$24,138 for contractual services – other expense. The invoices for 2007 included amounts paid to maintain the wastewater ponds and to maintain the lawn for the mobile home park and wastewater plant site. Audit staff allocated the lawn maintenance costs based on the acreage of the park and the plant site. This allocation plus the cost of the pond maintenance totals \$5,919.69. Therefore, the expense should be reduced by \$18,218.31.

755 Insurance: The utility checks for 2007 indicated a total of \$8,436.04 for insurance expense. The invoices for 2007 included payments for property insurance and auto insurance. We allocated the property insurance based on the value of the wastewater plant compared to the policy value covered. We allocated the auto insurance based on the amount of time the maintenance men work on utility business compared to park business. This results in an annual expense of \$1,014.21. Therefore, the expense should be reduced by \$7,421.83.

765 Regulatory Commission Expense: Commission records indicate the utility paid \$1,000 for the application fee in this docket. Commission policy is to amortize rate case expense over four years. This results in an annual expense of \$250. Therefore this expense should reflect \$250.

775 Miscellaneous Expense: The utility checks for 2007 indicated a total of \$8,758.79 for miscellaneous expense. These checks included office expenses, cell phone bills, and other miscellaneous charges. The utility only provided cell phone bills for one phone used by the maintenance staff. We allocated these charges based on the amount of time the maintenance men work on utility business. The utility did not provide invoices for many of the other expenses. However, the utility did provide information regarding other park expenses that should be shared. We reviewed costs for the office manager, bookkeeper, maintenance men, auto usage, rent, and electricity. Our review indicated a total miscellaneous expense of \$7,257.90. Therefore, the expense should be reduced by \$1,500.89.

The following chart summarizes these expenses.

	Utility 2007		Audit adjusted, Allocated 2007
	Balance	Adjustments	Balance
701 Salaries and Wages - Employees	\$ -		\$ -
703 Salaries and Wages - Officers	\$ -		\$ -
704 Employee Pensions and Benefits	\$ -		\$ -
710 Purchased Wastewater Treatment	\$ -		\$ -
711 Sludge Removal Expense	\$ 2,472.50	\$ (100.00)	\$ 2,372.50
715 Purchased Power	\$ 11,865.19	\$ (4,558.92)	\$ 7,306.27
718 Chemicals	\$ 1,094.52	\$ (322.64)	\$ 771.88
720 Materials and Supplies	\$ 1,013.99	\$ 740.51	\$ 1,754.50
730 Contractual Services - Billing	\$ -	\$ 1,672.14	\$ 1,672.14
731 Contractual Services - Professional	\$ 24,839.47	\$ (18,839.47)	\$ 6,000.00
735 Contractual Services - Testing	\$ 875.00	\$ 250.00	\$ 1,125.00
736 Contractual Services - Other	\$ 24,138.00	\$ (18,218.31)	\$ 5,919.69
740 Rents	\$ -		\$ -
750 Transportation Expense	\$ -		\$ -
755 Insurance Expenses	\$ 8,436.04	\$ (7,421.83)	\$ 1,014.21
765 Regulatory Commission Expenses	\$ -	\$ 250.00	\$ 250.00
770 Bad Debt Expense	\$ -		\$ -
775 Miscellaneous Expenses	\$ 8,758.79	\$ (1,500.89)	\$ 7,257.90
TOTAL EXPENSES	\$ 83,493.50	\$ (48,049.41)	\$ 35,444.09

EFFECT ON THE FILING: Total Operation and Maintenance Expenses should be \$35,444.09.

AUDIT FINDING NO. 6

SUBJECT: TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The utility paid Regulatory Assessment Fees (RAF) on 2006 revenues by check #1343 dated March 30, 2007. The check was for \$1,985.45 and was paid on revenues of \$44,121.00. Audit staff recommends that the RAF expense be adjusted to reflect 2007 revenues, as calculated by audit staff. Audited revenues are \$41,498.64, and the RAF rate is 4.5%. This results in a RAF expense of \$1,867.44, or \$118.01 less than paid in 2007.

The utility paid its 2006 property taxes in April 2007 for a total of \$602.34. The utility did not pay its 2007 property taxes until January 2008. The 2007 property taxes were billed at a total of \$571.55. However, the early payment discount for these taxes would reduce the total to \$548.69. Commission policy is to only include the lowest amount in expenses so the rate payers do not pay for the utility's decision to pay late. The difference between what the utility paid in 2007 and the early discount amount for the 2007 taxes is \$53.65. As a note, on May 5, 2008, the utility paid \$1,350 for RAF for 2007. This amount is \$517.44 less than the audit calculated RAF for 2007.

Based on the above adjustments, the 2007 Taxes Other Than Income should be \$2,416.13.

DESCRIPTION	PER COMPANY @12/31/2006	AUDIT ADJUSTMENTS	PER AUDIT @12/31/2007
RAF	1,985.45	(118.01)	1,867.44
Property Tax	602.34	(53.65)	548.69
Total Taxes Other Than Income	<u>2,587.79</u>	<u>(171.66)</u>	<u>2,416.13</u>

EFFECT ON THE FILING: Taxes Other Than Income should be \$2,416.13. The utility should pay an additional \$517.44 in RAF for 2007.

AUDIT FINDING NO. 7

SUBJECT: PROFORMA EXPENSES

AUDIT ANALYSIS: The plant operator provided the following information regarding additional plant that will be needed in 2008.

Currently the plant has one lift station with two flapper valves. Both work, but one sticks open and leaks, so it needs to be replaced and will cost about \$900. DEP is also requiring the plant to have a second blower as a backup to the first blower. The plant operator has acquired the blower and base but still needs to buy a motor and install the equipment.

The current owners, Mr. Abramowitz and Mr. Grabarnick, are not paid a salary. Mr. Abramowitz requested an expense be included to compensate them for their time.

EFFECT ON THE FILING: Provided for staff information.

AUDIT FINDING NO. 8

SUBJECT: CAPITAL STRUCTURE

AUDIT ANALYSIS: Audit staff requested information regarding debt and equity invested in the utility. The owner responded that the debt to purchase the utility in the transfer (Docket No. 060636-SU) was the only capital investment in the utility. Audit staff requested additional information regarding the exact funding of the utility purchase:

1. a copy of each debt instrument which indicates the principal amount, the interest rate and the term of the agreement.
2. a list indicating all payments made on the debt agreement from inception through December 31, 2007, including:
 - a. Date of payment
 - b. Total amount paid
 - c. Principal amount paid
 - d. Interest paid
3. a bank or financing statement(s) indicating the outstanding balance due on December 31, 2007.

The owner did not respond to these questions. Our review of the application in the prior docket indicates that the owner financed the purchase with two debt instruments. The first mortgage was with Peninsula Bank for \$2,500,000. The application indicates that the purchase was contingent on acquiring this note for no more than 7%. However, the owner did not provide any support for this loan, so audit staff did not include it. The second mortgage was with the prior owners and was for \$1,500,000 with an interest rate of 5.5%. The owner did not provide any support for the current balance, but the following indicates the original balance, reconciled to current rate base, and the current interest rate. Audit staff recommends that until the owner provides additional documentation, the cost of capital should reflect the interest rate of 5.5%.

	Reconciled to		
	Principal	Rate Base	Debt Rate
Long Term Debt	1,500,000	55,541	5.50%

EFFECT ON THE FILING: The capital structure should reflect 100% long term debt at an interest rate of 5.5%.

AUDIT FINDING NO. 9

SUBJECT: WATER UTILITY

AUDIT ANALYSIS: The City of Cocoa provides water service to the customers of Colony Park Utilities, Inc. The utility provides wastewater service to the mobile home park as well as customers outside the mobile home park. For those customers outside the mobile home park, the City bills the sewer charges, collects the revenue, withholds a fee, and remits a check to Colony Park. The Colony Park Mobile Home park is billed through a master meter. While reviewing expenses for the wastewater system, the utility provided documentation regarding the expense for billing water to the mobile home park residents.

The mobile home park has installed water meters at the individual lots and has employed Alliance Data to read the meter and spread the water bills among the customers based on the water meter readings. Alliance Data charges \$2.50 per bill, plus a "set up fee" which appears to be variable and may be a \$5 charge to set up new customers. Included in the information provided to audit staff regarding the business arrangement with Alliance Data is an e-mail that memorializes the agreement between the parties. In this e-mail, Alliance Data states that the parties agree that the billing fee will be increased to \$5 per month with \$2.50 paid to Alliance Data and \$2.50 paid to Colony.

Section 367.022, Florida Statutes allows for certain exemptions from regulation. Several of these exemptions are listed below.

Subsection (5) exempts landlords providing service to their tenants without specific compensation for the service.

Subsection (6) exempts systems with the capacity or proposed capacity to serve 100 or fewer persons.

Subsection (7) exempts nonprofit corporations, associations, or cooperatives providing service solely to members who own and control such nonprofit corporations, associations, or cooperatives.

Subsection (8) exempts any person who resells water or wastewater service at a rate or charge which does not exceed the actual purchase price of the water or wastewater.

It appears that Colony Park may need to readdress the issue of whether the water utility is exempt from Commission regulation. Because the company is a for profit entity and is collecting a fee, the exemption status may need to be further evaluated by staff and the company.

EFFECT ON THE FILING: Provided for staff information.

EXHIBITS

- 1. WASTEWATER RATE BASE**
- 2. WASTEWATER NET OPERATING INCOME**
- 3. COST OF CAPITAL**

**EXHIBIT 1
WASTEWATER RATE BASE**

**COLONY PARK UTILITIES, INC.
WASTEWATER RATE BASE
AS OF DECEMBER 31, 2007
DOCKET NO. 080104-SU**

DESCRIPTION	PER COMPANY @12/31/2007	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2007
UTILITY PLANT IN SERVICE	\$197,663	(\$53,297)	AF-2	\$144,366
LAND AND LAND RIGHTS	\$30,479	\$0		\$30,479
CONTRIBUTIONS IN AID OF CONSTRUCTION	(\$23,500)	\$0		(\$23,500)
AMORTIZATION OF CIAC	\$23,500	\$0		\$23,500
ACCUMULATED DEPRECIATION	(\$140,238)	\$16,712	AF-3	(\$123,526)
WORKING CAPITAL (a)	\$0	\$4,222		\$4,222
NET RATE BASE	\$87,904	(\$32,363)		\$55,541

a) One eighth of Operation and Maintenance Expense balance

**EXHIBIT 2
WASTEWATER NET OPERATING INCOME**

**COLONY PARK UTILITIES, INC.
WASTEWATER NET OPERATING INCOME
AS OF DECEMBER 31, 2007
DOCKET NO. 080104-SU**

<u>DESCRIPTION</u>	<u>PER COMPANY @12/31/2006</u>	<u>AUDIT ADJUSTMENTS</u>	<u>REFER TO</u>	<u>PER AUDIT @12/31/2007</u>
REVENUES	0.00	41,498.64	AF-4	41,498.64
OPERATION AND MAINTENANCE EXPENSE	83,493.50	(48,049.41)	AF-5	35,444.09
DEPRECIATION EXPENSE	7,248.00	(3,899.00)	AF-3	3,349.00
CIAC AMORTIZATION EXPENSE	0.00	0.00		0.00
TAXES OTHER THAN INCOME EXPENSE	2,587.79	(171.66)	AF-6	2,416.13
PROVISION FOR INCOME TAX EXPENSE	0.00	0.00		0.00
OPERATING EXPENSE	93,329.29	(52,120.07)		41,209.22
NET OPERATING INCOME	(93,329.29)	93,618.71		289.42

**EXHIBIT 3
WASTEWATER CAPITAL STRUCTURE**

	Principal	Reconciled to Rate Base	Debt Rate
Long Term Debt	1,500,000	55,541	5.50%