

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Jumper Creek Utility Company
Staff Assisted Rate Case

Twelve Months Ended June 30, 2014

Docket No. 140147-WS
Audit Control No. 14-227-2-1
October 10, 2014

A handwritten signature in cursive script, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in cursive script, appearing to read "Linda Hill".

Linda Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated August 14, 2014. We have applied these procedures to the attached schedules prepared by the audit staff in support of Jumper Creek Utility Company's request for a Staff Assisted Rate Case in Docket No.140147-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Background

Definitions

Utility refers to Jumper Creek Utility Company.

Test Year refers to the period July 1, 2013, through June 30, 2014.

Utility Information

Jumper Creek Utility Company is a Class C water and wastewater utility serving approximately 43 customers in the Jumper Creek subdivision in Sumter County. Effective June 5, 2014, Jumper Creek was granted water and wastewater Certificate Nos. 667-W and 570-S. Jumper Creek's rate base was last established as of March 28, 2013, by Order No. PSC-14-0299-PAA-WS issued, June 11, 2014 in Docket No. 130176-WS.

General

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's books and records by obtaining a general ledger as of the transfer date. We determined that the Utility's books and records are in compliance with the NARUC USOA. No exceptions were noted.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reviewed the Utility's general ledger for water and wastewater UPIS as of June 30, 2014. We reviewed Order No. PSC-14-0299-PAA-WS and determined that all Commission adjustments have been properly made in accordance with Order No. PSC-14-0299-PAA-WS. No additions or retirements were made since the last proceeding. We toured the plant facility and verified that no additions or retirements were made. No exceptions were noted.

Land & Land Rights

Objectives: The objectives were to determine whether utility land was: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We obtained Order No. PSC-14-0299-PAA-WS that established the value of land and land rights as of March 28, 2013. We reviewed the Utility's general ledger and determined that no additions were made. We verified that the land is owned by the Utility. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reviewed Accumulated Depreciation, beginning with the balances established in Order No. PSC-14-0299-PA-WS, using the depreciation rates established by Rule 25-30.140(2), F.A.C. We confirmed that the Utility used the correct rates to calculate Accumulated Depreciation balances and reconciled it to the general ledger as of June 30, 2014. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We verified the water and wastewater CIAC balances as of March 28, 2013, that were established in Order No. PSC-14-0299-PAA-WS. We determined that there was no addition to water and wastewater CIAC since the last rate proceeding. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the water and wastewater Accumulated Amortization of CIAC balances as of March 28, 2013, that were established in Order No. PSC-14-0299-PAA-WS. We reviewed Accumulated Amortization of CIAC for the period April 1, 2013, through June 30, 2014. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 1.

Acquisition Adjustment

Objective: The objective was to determine whether the Utility recorded the proper acquisition adjustment for water and wastewater.

Procedures: Order No. PSC-14-0299-PAA-WS established a negative acquisition adjustment in the last proceeding. We determined that the adjustment was properly recorded. No exceptions were noted.

Accumulated Amortization of Acquisition Adjustment

Objectives: The objective was to determine whether the Utility correctly calculated the Accumulated Amortization of Acquisition Adjustment.

Procedures: We recalculated the Accumulated Amortization of the Acquisition Adjustment. Our recommended adjustment to Accumulated Amortization of Acquisition Adjustment is discussed in Finding 2.

Working Capital

Objectives: The objective was to calculate the Utility's Working Capital balance in compliance with Commission rules.

Procedures: We calculated Working Capital as of June 30, 2014, using one-eighth of Operation and Maintenance Expense (O&M) as required by Commission Rule 30.433(2), F.A.C. Our recommended adjustment is discussed in Finding 5.

Capital Structure

Objective: The objective was to determine the components of the Utility's capital structure.

Procedures: We reviewed the Utility's general ledger and determined that the Utility's Capital Structure is composed of common equity and customer deposits.

Net Operating Income

Operating Revenue

Objective: The objectives were to determine whether Revenues are: 1) Representative of the Utility's operations for the test year 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We summarized the Utility's gallonage by customer account for the test year using the Utility's Billing Report. We normalized the number of bills issued by adjusting for customers moving in or out to reflect 12 months of bills for each property with the data obtained from the Billing Report. We calculated Revenues for water and wastewater using the number of bills and gallonages. We compared the calculated Revenues obtained with water and wastewater Revenues reported on the general ledger. We reviewed Miscellaneous Revenues to include late fee charges, returned check charges, and violation reconnect fees and compared to the tariffs. Our recommended adjustments to Revenues are discussed in Finding 4.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether O&M Expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed all invoices for the Utility's O&M Expense for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Our recommended adjustments to O&M Expense are discussed in Finding 5.

Depreciation Expense and CIAC Amortization Expense

Objectives: The objectives were to determine whether Depreciation Expense and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

Procedures: We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year ended June 30, 2014, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments to Amortization Expense is discussed in Finding 6.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We developed a schedule for the Utility's TOTI Expense for the test year. We included property taxes and Regulatory Assessment Fees (RAF) for the test year and confirmed their utility classification. There are no employees so there were no payroll taxes to verify. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI are discussed in Finding 3.

Audit Findings

Finding 1: Accumulated Amortization of CIAC

Audit Analysis: The Utility incorrectly recorded Accumulated Amortization of CIAC balances of \$38,790 for water and \$54,724 for wastewater as of June 30, 2014. Using Commission ordered balances as of March 28, 2013 and approved amortization rates, we calculate the Accumulated Amortization of CIAC balances as of June 30, 2014 to be \$35,968 and \$61,554 for water and wastewater, respectively. The simple averages are \$32,058 and \$59,116 for water and wastewater respectively for the test year ending June 30, 2014.

The Utility's general ledger reflects water and wastewater Amortization Expense of (\$6,576) and (\$12,132), respectively for the test year. Based on our calculation, we determined that the Amortization Expense should be (\$9,137) and (\$13,568) for water and wastewater, respectively for the test year ending June 30, 2014.

Effect on the General Ledger: The Utility should decrease Accumulated Amortization of CIAC balances for water by \$2,822 and increase wastewater Accumulated Amortization of CIAC balances by \$6,819, as of June 30, 2014.

Effect on the Filing: We calculated the Utility's simple average balances of Accumulated Amortization of CIAC balances to be \$32,058 and \$59,116 for water and wastewater respectively for the test year ending June 30, 2014.

We increased Amortization Expense of CIAC for water and wastewater by \$2,561 and \$1,436 respectively for the test year.

Finding 2: Accumulated Amortization and Amortization of Acquisition Adjustment

Audit Analysis: Order No. PSC-14-0299-PAA-WS established a negative acquisition adjustment. The Utility did not record the Accumulated Amortization of Acquisition Adjustment in the general ledger. Pursuant to Rule 25-30.0371(4)(b)2, F.A.C., 50 percent of the negative acquisition adjustment is amortized over a seven year period and 50 percent is amortized over the remaining life of the assets, beginning with the date of the issuance of the order approving the transfer of assets. The Order specifies that the remaining life of the applicable water assets is 20 years and 19 years for the wastewater assets. The Order was issued June 11, 2014. We calculated the Accumulated Amortization and Amortization for the test year of the Acquisition Adjustment as of June 30, 2014. See Table 2-1 for details.

**Amortization of Acquisition Adjustment
Table 2-1**

	50% of Accumulated Amortization Adjustment	50% of Accumulated Amortization Adjustment	Total
Water			
Acquisition Adjustment Per Order	\$104,448	\$104,448	\$208,895
Years to Amortize	7	20	
Amortization Amount per Year	(\$14,921)	(\$5,222)	(\$20,143)
Number of Months	12	12	
Amortization per Month	(\$1,243)	(\$435)	(\$1,679)
Amortization Beg. Date 6/11/14	(\$833)	(\$292)	(\$1,125)
	50% of Accumulated Amortization Adjustment	50% of Accumulated Amortization Adjustment	Total
Wastewater			
Acquisition Adjustment Per Order	\$52,428	\$52,428	\$104,855
Years to Amortize	7	19	
Amortization Amount per Year	(\$7,490)	(\$2,759)	(\$10,249)
Number of Months	12	12	
Amortization per Month	(\$624)	(\$230)	(\$854)
Amortization Beg. Date 6/11/14	(\$418)	(\$154)	(\$572)

Effect on the General Ledger: Increase the Accumulated Amortization and Amortization of Acquisition Adjustment by (\$1,125) and (\$572) for water and wastewater, respectively.

Effect on the Filing: The simple average balances of Accumulated Amortization of Acquisition Adjustment are \$563 and \$286 for water and wastewater, respectively. The Amortization of Acquisition Adjustment for the test year is \$1,125 for water and \$572 for wastewater,

Finding 3: Taxes Other than Income

Audit Analysis: The Utility’s records reflect water and wastewater TOTI Expenses of \$4,319 and \$3,785, respectively, for the test year. Based on our review, we determined that the Utility understated RAFs by \$30 and \$93 for water and wastewater, respectively. See Table 3-1 for details.

Table 3-1

Water	Utility Balance 6/30/2014	Adjustments	Audit Balance 6/30/2014
Personal Property	\$3,731	\$0	\$3,731
Payroll	\$0	\$0	\$0
Regulatory Assessment Fee	\$589	\$30	\$618
Other	\$0	\$0	\$0
Total	\$4,319	\$30	\$4,349

Wastewater	Utility Balance 6/30/2014	Adjustments	Audit Balance 6/30/2014
Personal Property	\$2,947	\$0	\$2,947
Payroll	\$0	\$0	\$0
Regulatory Assessment Fee	\$838	\$93	\$931
Other	\$0	\$0	\$0
Total	\$3,785	\$93	\$3,878

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: Increase TOTI by \$30 and \$93 for water and wastewater, respectively.

Finding 4: Operating Revenue

Audit Analysis: We summarized the Utility's gallonage by customer account for the test year using the Utility's billing report. We normalized the number of bills issued by adjusting for customers moving in or out to reflect 12 months of bills for each property with the data obtained from the billing report. We calculated revenues for water and wastewater using the number of bills and gallonage. We compared the calculated revenues obtained with water and wastewater revenues reported on the general ledger. Differences of (\$9) and \$1,394 for water and wastewater, respectively were noted.

We reviewed the miscellaneous revenues detail and compared to the tariff. We noted that miscellaneous revenues of \$1,334 were not allocated between the water and wastewater systems on the Utility's books. Because the documentation was not sufficient to separate water miscellaneous revenues from wastewater miscellaneous revenues, we allocated this amount 50 percent to water and 50 percent to wastewater. Table 4-1 summarizes our adjustments.

Table 4-1

Water	Utility Balance 6/30/2014	Audit Balance 6/30/2014	Difference
Service Revenues	\$13,078	\$13,069	(\$9)
Misc. Revenues	\$0	\$667	\$667
Total	\$13,078	\$13,736	\$658

Wastewater	Utility Balance 6/30/2014	Audit Balance 6/30/2014	Difference
Service Revenues	\$18,624	\$20,018	\$1,394
Misc. Revenues	\$0	\$667	\$667
Total	\$18,624	\$20,685	\$2,061

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: Increase Revenue accounts by \$658 and \$2,061 for water and wastewater respectively.

Finding 5: Operation and Maintenance Expense

Audit Analysis: The Utility's general ledger reflects water and wastewater O&M Expense of \$19,352 and \$24,301, respectively for the test year. A review of accounts indicates that a number of erroneous entries were made during this period. Audited balances indicate that O&M Expense for water and wastewater, respectively are \$18,821 and \$24,212. Adjustments are detailed in Tables 5-1 and 5-2.

**O&M Water
Table 5-1**

Acct. No.	Description	Utility Balance 6/30/2014	Audit Balance 6/30/2014	Difference
601	Salaries And Wages - Employees	\$0	\$0	\$0
603	Salaries - Officers - Directors	\$750	\$750	\$0
604	Employee Pension And Benefits	\$0	\$0	\$0
610	Purchased Water	\$0	\$0	\$0
615	Purchased Power	\$1,544	\$1,544	\$0
616	Fuel For Power Production	\$0	\$0	\$0
618	Chemicals	\$47	\$404	\$357
620	Materials And Supplies	\$0	\$0	\$0
631	Contractual Services - Eng.	\$0	\$0	\$0
632	Contractual Services - Acct	\$1,250	\$1,250	\$0
633	Contractual Services - Legal	\$98	\$98	\$0
634	Contractual Services - Mgmt. Fees	\$0	\$0	\$0
635	Contractual Services - Testing	\$11,503	\$10,609	(\$894)
636	Contractual Services - Other	\$0	\$0	\$0
641	Rental Of Building/Real Property	\$0	\$0	\$0
642	Rental Of Equipment	\$0	\$0	\$0
650	Transportation Expenses	\$0	\$0	\$0
656	Insurance Vehicle	\$0	\$0	\$0
657	Insurance - General Liability	\$1,098	\$1,098	\$0
658	Insurance - Workman's Comp	\$0	\$0	\$0
659	Insurance - Other	\$0	\$0	\$0
660	Advertising Expense	\$0	\$0	\$0
666	Amort. Of Rate Expense	\$118	\$118	\$0
667	Regulatory Comm. Expense - Other	\$0	\$0	\$0
670	Bad Debt Expense	\$825	\$830	\$5
675	Miscellaneous	\$2,120	\$2,120	\$0
	Total Operation And Maintenance	\$19,353	\$18,821	(\$532)

Finding 5 (cont'd)

Account No. 618 – Chemicals: We increased this account by \$357 to include all invoices for the period.

Account No. 635 - Contractual Services – Testing: We reduced this account by \$894 to exclude the month of July 2014 that is not in the test period.

Account No. 670 - Bad Debt Expense: We increased this account by \$5 to reflect the proper amount of Bad Debt Expense for the period.

**O&M Wastewater
Table 5-2**

Acct. No.	Description	Utility Balance 6/30/2014	Audit Balance 6/30/2014	Difference
701	Salaries And Wages - Employees	\$0	\$0	\$0
703	Salaries - Officers - Directors	\$750	\$750	\$0
704	Employee Pension And Benefits	\$0	\$0	\$0
710	Purchased Sewage Treatment	\$0	\$0	\$0
711	Sludge Removal Expense	\$959	\$959	\$0
715	Purchased Power	\$2,251	\$2,251	\$0
716	Fuel For Power Production	\$0	\$0	\$0
718	Chemicals	\$455	\$455	\$0
720	Materials And Supplies	\$0	\$0	\$0
731	Contractual Services - Eng.	\$0	\$0	\$0
732	Contractual Services - Acct	\$2,083	\$1,250	(\$833)
733	Contractual Services - Legal	\$98	\$98	\$0
734	Contractual Services - Mgmt. Fees	\$0	\$0	\$0
735	Contractual Services - Testing	\$16,391	\$16,391	\$0
736	Contractual Services - Other	\$0	\$0	\$0
741	Rental Of Building/Real Property	\$0	\$0	\$0
742	Rental Of Equipment	\$0	\$0	\$0
750	Transportation Expenses	\$0	\$0	\$0
756	Insurance Vehicle	\$0	\$0	\$0
757	Insurance - General Liability	\$366	\$366	\$0
758	Insurance - Workman's Comp	\$0	\$0	\$0
759	Insurance - Other	\$0	\$0	\$0
760	Advertising Expense	\$0	\$0	\$0
766	Amort. Of Rate Expense	\$118	\$118	\$0
767	Regulatory Comm. Expense - Other	\$0	\$0	\$0
770	Bad Debt Expense	\$174	\$1,283	\$1,109
775	Miscellaneous	\$657	\$657	\$0
	Total Operation And Maintenance	\$24,302	\$24,578	\$276

Finding 5 (cont'd)

Account No. 732 - Contractual Services – Testing: We reduced this account by \$833 to remove unsupported invoice transactions.

Account No. 770 - Bad Debt Expense: We increased this account by \$1,109 to reflect the proper amount of Bad Debt Expense for the period.

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: Reduce O&M Expenses for water by \$532 and increase wastewater by \$276.

Based on Rule 25-30.433 F.A.C., we calculated working capital to be \$2,353 and \$3,027 for water and wastewater, respectively for the test year.

Exhibits

Exhibit 1: Rate Base

Jumper Creek Utility Company Rate Base as of June 30, 2014

Description	Utility Balance		Audit Balance		Simple Average
	6/30/2014	Adjustments	6/30/2014		
Plant in Service	\$511,881	\$0	\$511,881		\$511,881
Land and Land Rights	\$2,272	\$0	\$2,272		\$2,272
Accumulated Depreciation	(\$151,215)	\$0	(\$151,215)		(\$139,330)
CIAC	(\$157,236)	\$0	(\$157,236)		(\$157,236)
Accumulated Amortization of CIAC	\$38,790	(\$2,822)	\$35,968		\$32,058
Acquisition Adjustment (AA)	(\$208,895)	\$0	(\$208,895)		(\$208,895)
Accumulated Amortization - AA	\$0	\$1,125	\$1,125		\$563
Working Capital Allowance	<u>\$0</u>	<u>\$2,353</u>	<u>\$2,353</u>		<u>\$2,353</u>
Rate Base	<u>\$35,596</u>	<u>\$656</u>	<u>\$36,252</u>		<u>\$43,666</u>

Description	Utility Balance		Audit Balance		Simple Average
	6/30/2014	Adjustments	6/30/2014		
Plant in Service	\$389,284	\$0	\$389,284		\$389,284
Land and Land Rights	\$18,722	\$0	\$18,722		\$18,722
Accumulated Depreciation	(\$126,053)	\$0	(\$126,053)		(\$116,541)
CIAC	(\$221,828)	\$0	(\$221,828)		(\$221,828)
Accumulated Amortization of CIAC	\$54,724	\$6,819	\$61,544		\$59,116
Acquisition Adjustment (AA)	(\$104,855)	\$0	(\$104,855)		(\$104,855)
Accumulated Amortization - AA	\$0	\$572	\$572		\$286
Working Capital Allowance	<u>\$0</u>	<u>\$3,027</u>	<u>\$3,027</u>		<u>\$3,027</u>
Rate Base	<u>\$9,994</u>	<u>\$10,418</u>	<u>\$20,412</u>		<u>\$27,211</u>

*Working Capital is calculated at one-eighth of O&M Expense

Exhibit 2: Capital Structure

Jumper Creek Utility Company As of June 30, 2014

Description	Per Utility		Cost Rate	Weighted Cost
	Capital 6/30/2014	Ratio		
Long-term Debt	\$0	0.00%	0.00%	0.00%
Short-term Debt	\$0	0.00%	0.00%	0.00%
Preferred Stock	\$0	0.00%	0.00%	0.00%
Common Equity	\$2,810	78.71%	8.74%	6.88%
Customer Deposits	\$760	21.29%	2.00%	0.43%
Deferred Income Taxes	\$0	0.00%	0.00%	0.00%
Total Capital	<u>\$3,570</u>	100.00%		7.31%

Exhibit 3: Net Operating Income

Jumper Creek Utility Company As of June 30, 2014

Water			
Description	Utility Balance		Audit Balance
	6/30/2014	Adjustments	6/30/2014
Operating Revenues	\$13,078	\$658	\$13,736
Operating Expenses			
Operation & Maintenance	\$19,352	(\$531)	\$18,821
Depreciation	\$29,707	\$0	\$29,707
Amortization of CIAC	(\$6,576)	(\$2,561)	(\$9,137)
Amortization AA	\$0	(\$1,125)	(\$1,125)
Taxes Other Than Income	\$4,319	\$30	\$4,349
Income Taxes	\$0	\$0	\$0
Total Operating Expenses	\$46,802	(\$4,186)	\$42,615
Operating Income	(\$33,724)	\$4,844	(\$28,879)

Wastewater			
Description	Utility Balance		Audit Balance
	6/30/2014	Adjustments	6/30/2014
Operating Revenues	\$18,624	\$2,061	\$20,685
Operating Expenses			
Operation & Maintenance	\$24,302	\$276	\$24,578
Depreciation	\$23,780	\$0	\$23,780
Amortization of CIAC	(\$12,132)	(\$1,436)	(\$13,568)
Amortization AA	\$0	(\$572)	(\$572)
Taxes Other Than Income	\$3,785	\$93	\$3,878
Income Taxes	\$0	\$0	\$0
Total Operating Expenses	\$39,735	(\$1,639)	\$38,096
Operating Income	(\$21,111)	\$3,700	(\$17,411)