

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-**

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**DATE:** October 25, 2004  
**TO:** Stephanie Clapp, Regulatory Analyst IV  
Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *dw*  
Division of Regulatory Compliance & Consumer Assistance  
**RE:** **Docket No.** 040300-SU; **Company Name:** Tymber Creek Utilities, Inc.; **Audit Purpose:** Staff Assisted Rate Case; **Audit Control No.** 04-124-3-1

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On July 8, 2004, I forwarded to you the final audit report for the utility stated above. Please delete the original Table of Contents, page 2 and pages 9 through 20 of the audit report. Attached are revised copies of the Table of Contents and pages 2 and 9-19 of the audit report. Please insert these documents into your copy of the audit report. In addition, workpapers 15 and 17 have been revised, a copy is attached for your review. The original revised workpapers have been filed in Volume 1 and will be maintained in our office.

A copy of this memo, with only the revised pages of the audit report attached, is being sent to all the persons who received a copy of the original audit report.

/jcp

cc: Division of Regulatory Compliance & Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
Office of Public Counsel  
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## **SUMMARY OF SIGNIFICANT FINDINGS**

The utility's wastewater plant is overstated by \$6,957.

The utility's wastewater accumulated depreciation balance is understated by \$30,533 as of December 31, 2003. Wastewater depreciation expense is understated by \$812 for the 12-month period ended December 31, 2003.

The accumulated amortization of CIAC is overstated by \$18,744 as of December 31, 2003. The utility's wastewater amortization expense is overstated by \$1,169 for the 12-month period ended December 31, 2003.

Working capital balance was calculated to be \$17,717.

The utility's capital structure is \$298,592 with a weighted average cost rate of 9.30 percent.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

**Verified** - The items were tested for accuracy and compared to the substantiating documentation.

**Assembled** - Presented in Commission-required format financial information that was provided to the audit staff and is the representation of utility management.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**RATE BASE:** Reconciled rate base balances authorized in Commission Order No. 24206, issued on March 7, 1991, to the rate base as of June 30, 1990. Verified 100 percent of utility-provided documents used to assemble wastewater account balances for utility-plant-in-service (UPIS), land and land rights, contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC as of December 31, 2003. Computed working capital as one-eighth of total O&M expenses for the period ended December 31, 2003.

### **Exception No. 3**

#### **Subject: Accumulated Depreciation**

**Statement of Fact:** Per the utility's 2003 General Ledger, the amount of accumulated depreciation for wastewater is \$377,518 as of December 31, 2003. The amount of depreciation expense per the utility's General Ledger is \$26,976.

Rate base was established for the utility as of June 30, 1990, in Commission Order No.24206, issued March 7, 1991.

**Recommendation:** Per Exception No. 2, the utility misclassified plant, did not provide supporting documentation for some of its plant additions and retirements, and did not reconcile to the above-mentioned Commission Order until 2002.

The audit staff determined wastewater accumulated depreciation to be \$408,051 as of December 31, 2003. The Commission should increase wastewater accumulated depreciation by \$30,533 (\$408,051-\$377,518). See the schedule on the following page for further details.

Due to the above adjustments, wastewater depreciation expense should be increased by \$812 (\$27,788-\$26,976) for the 12-month period ended December 31, 2002.

**Schedule - Exception No. 3**

Account No.	Account Name	Description	Balance Per Utility As of 12/31/03	Adjustment	Balance Per Utility As of 12/31/03
351	Organization	Plant per audit \$36, rate 2.5%. Plant per utility \$0.	\$0	\$24	\$24
354	Structure & Improvements	Plant per audit and utility are \$107,198. Rate per audit 3.70%. Rate per utility 3.13%.	38,655	7,074	45,729
361	Collection Sewer-Gravity	Plant per audit \$250,241. Rate per audit 2.5%. Plant per utility \$253,028. Rate per utility 2.22%.	163,703	2,169	165,872
363	Services to Customers	Plant per audit and utility is \$43,346. Rate per audit 2.85%. Rate per utility 2.86%.	25,240	(11)	25,229
364	Flow Measuring Devices	Plant per audit \$4,055. Rate per audit and utility 20%. Plant per utility \$1,200.	1,200	2,855	4,055
370	Receiving Wells	Plant per audit \$9,376. Rate per audit 4.0%. Plant per utility \$17,249. Rate per utility 3.33%.	13,362	(8,645)	4,717
371	Pumping Equipment	Plant per audit \$0. Plant per utility \$11,450. Rate per utility 5.56%.	1,602	(1,602)	0
380	Treatment & Disposal Equipment	Plant per audit \$258,450. Rate per audit 6.67%. Plant per utility \$220,366. Rate per utility 5.56%.	128,277	28,693	156,970
382	Outfall Sewer Lines	Plant per audit and utility \$10,387. Rate per Audit and utility 3.33%.	3,978	4	3,982
389	Other Plant & Miscellaneous Equipment	Plant per audit \$1,200. Rate per audit 6.67%. Plant per utility \$2,149. Rate per utility 5.56%.	1,321	(401)	920
390	Office Furniture & Equipment	Plant per audit and utility \$742. Rate per audit and utility 6.67%.	180	0	180
395	Power Operated Equipment	Plant per audit \$373. Rate per audit 10%. Plant per utility \$0.	0	373	373
Total accumulated depreciation as of 12/31/2003			\$377,518	\$30,533	\$408,051

**Exception No. 4**

**Subject: Accumulated Amortization of CIAC**

**Statement of Fact:** Per the utility's 2003 General Ledger, the balance of accumulated amortization of CIAC is \$314,300, and the amount of CIAC amortization expense is \$16,900.

Rate base was established for the utility as of June 30, 1990, in Commission Order No. 24206, issued March 7, 1991.

**Recommendation:** The audit staff determined wastewater accumulated amortization to be \$295,556. The Commission should reduce wastewater accumulated amortization by \$18,744 (\$295,556 - \$314,300) as of December 31, 2003, according to the schedule on the following page.

The associated adjustment to amortization expense is a decrease of \$1,169 (\$15,731 - \$16,900) for the period ended December 31, 2003.

## Schedule - Exception 4

Date	Balance per Utility	Adjustment	Balance Per Order	Comments
Balance as of 6/30/90			\$97,894	
	Per Utility		Per Audit	
990 Additions	\$4,330	\$1,197	\$5,527	Composite rate of 1.73%
Balance as of 12/31/1990	\$102,224	\$1,197	\$103,421	
991 Additions	\$8,049	\$3,169	\$11,218	Composite rate of 3.46%
991 Balance	\$110,273	\$4,366	\$114,639	
992 Additions	\$8,443	\$4,787	\$13,230	Composite rate of 3.97%
992 Balance	\$118,716	\$9,153	\$127,869	
993 Additions	\$8,521	\$6,055	\$14,576	Composite rate of 4.25%
1994 Additions	\$8,679	\$6,148	\$14,827	Composite rate of 4.26%
1994 Balance	\$135,916	\$21,356	\$157,272	
1995 Additions	\$8,784	\$6,316	\$15,100	Composite rate of 4.28%
1995 Balance	\$144,700	\$27,673	\$172,373	
1996 Additions	\$8,915	\$6,386	\$15,301	Composite rate of 4.28%
1996 Balance	\$153,615	\$34,058	\$187,673	
1997 Additions	\$8,968	\$6,058	\$15,026	Composite rate of 4.16%
1997 Balance	\$162,583	\$40,116	\$202,699	
1998 Additions	\$9,020	\$6,408	\$15,428	Composite rate of 4.24%
1998 Balance	\$171,603	\$46,524	\$218,127	
1999 Additions	\$4,290	\$11,085	\$15,375	Composite rate of 4.21%
1999 Balance	\$175,893	\$57,609	\$233,502	
2000 Additions	\$9,046	\$6,350	\$15,396	Composite rate of 4.21%
2000 Balance	\$184,939	\$63,960	\$248,899	
2001 Additions	\$9,046	\$6,350	\$15,396	Composite rate of 4.21%
2001 Balance	\$193,985	\$70,309	\$264,294	
2002 Additions	\$16,686	(\$1,156)	\$15,530	Composite rate of 4.21%
2002 Adjustment	\$86,729	(\$86,729)	\$0	The utility tried to reconcile to Order No.24206, issued 03/07/1991.
2002 Balance	\$297,400	(\$17,575)	\$279,825	
2003 Additions	\$16,900	(\$1,169)	\$15,731	Composite rate of 4.21%
2003 Balance	\$314,300	(\$18,744)	\$295,556	

**Exception No. 5**

**Subject: Capital Structure**

**Statement of Fact:** The utility recorded notes payable of \$78,919 in the 2003 General Ledger as of December 31, 2003.

The notes payable consist of loans from the shareholders to the utility. There are no written agreement, interest, or terms of back payment.

Per Order No. PSC-00-1165-PAA-WS, issued June 27, 2000,

... No cost is assigned to the long term debt and no debt instrument was available. The debt is from the utility's parent company. Therefore, we find that it is appropriate to characterize the long term debt as other common equity rather than long-term debt given the related party status of the "debt."

**Recommendation:** The two loans should be transferred to other common equity. This is in accordance with Order No. PSC-00-1165-PAA-WS, issued December 31, 2002, since no cost is assigned to the debt, and no debt instrument was available.



**Disclosure No. 1**

**Subject: Projected Increases in Operating Expenses**

**Statement of Fact:** The utility submitted a statement dated June 1, 2004, requesting an increase of 13 percent to the officers' salaries, an increase of 12 percent to the accountant salary, and an increase of 58 percent to the consulting/plant accountant fees. The statement also requests hiring a part-time office staff employee with a monthly payment of \$335 and an increase of office rent by 5 percent, in addition to the increase of \$1,340 annually for the sewer plant permit that is to be renewed every five years.

**Recommendation:** The audit staff forwards this information to the analyst in this rate proceeding for consideration.

*(Revised August 19, 2004)*

**Disclosure No. 2**

**Subject:** Additions to the Plant Account No. 361, Collection Sewers - Gravity

**Statement of Fact:** The utility submitted a statement dated June 1, 2004, requesting an increase of \$9,243 to the Account No. 361, Collection Sewers - Gravity. According to the utility, this amount represents manholes that are part of the gravity wastewater collection system during 1992, and that it was ignored by the previous utility's accountant.

**Recommendation:** The audit staff forwards this information to the analyst in this rate proceeding for consideration.

*(Revised August 19, 2004)*

**Disclosure No. 3**

**Subject: Projected Changes in Utility-Plant-in-Service**

**Statement of Fact:** The utility submitted a statement dated June 1, 2004, requesting an increase of \$5,316 for the installation of the plant samplers required by the Department of Environmental Protection at the influent and effluent sites. The same statement requests an increase of \$1,380 for the replacement of the effluent outfall valve.

**Recommendation:** The audit staff forwards this information to the analyst in this rate proceeding for consideration.

*(Revised August 19, 2004)*

**EXHIBIT I**

TYMBER CREEK UTILITIES, INC.  
WASTEWATER RATE BASE  
DOCKET NO. 040300-WS  
STAFF-ASSISTED RATE CASE  
AS OF DECEMBER 31, 2003

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$667,149	(\$6,957)	E2	\$660,192
LAND & LAND RIGHTS	4,524	0	E3	4,524
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	(375,056)	0		(375,056)
ACCUMULATED DEPRECIATION	(377,518)	(30,533)	E4	(408,051)
ACCUMULATED AMORTIZATION OF CIAC	314,300	(18,744)	E5	295,556
WORKING CAPITAL(2)	<u>0</u>	<u>17,717</u>		<u>17,717</u>
TOTAL	\$233,399	(\$38,517)		\$194,882

## FOOTNOTES:

- (1) Small differences can be attributed to rounding errors.  
(2) Working Capital is calculated as 1/8 of O&M Expenses.

*(Revised August 19, 2004)*

**EXHIBIT II**

TYMBER CREEK UTILITIES, INC.  
WASTEWATER OPERATING INCOME  
DOCKET NO. 040300-WS  
STAFF-ASSISTED RATE CASE  
HISTORICAL PERIOD ENDED DECEMBER 31, 2003

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
REVENUES:				
GROSS REVENUES	\$147,094	\$0		\$147,094
EXPENSES:				
O&M EXPENSE	141,735	0		141,735
DEPRECIATION EXPENSE	26,976	812	E4	27,788
AMORTIZATION EXPENSE	(16,900)	1,169	E5	(15,731)
TAXES OTHER THAN INCOME	12,055	0		12,055
TOTAL	\$163,866	\$1,981		\$165,847
NET OPERATING INCOME	(\$16,772)	(\$1,981)		(\$18,753)

## FOOTNOTES:

(1) Small differences can be attributed to rounding errors.

*(Revised August 19, 2004)*

**EXHIBIT III**

**TYMBER CREEK UTILITIES, INC.  
DOCKET NO. 040300-SU  
CAPITAL STRUCTURE  
STAFF-ASSISTED RATE CASE  
HISTORICAL PERIOD ENDED DECEMBER 31, 2003**

DESCRIPTION	PER COMPANY	AUDIT EXCEPTION	REFER TO	PER AUDIT	RATIO	COST RATE(1)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$185,239	\$0		\$185,239	62.04%	9.83%	6.200%
OTHER COMMON EQUITY	0	78,919	E6	78,919	18.38%	9.83%	1.800%
LONG-TERM DEBT	104,793	(78,919)	E6	25,874	18.38%	5.69%	1.080%
CUSTOMER DEPOSITS	8,560	0		8,560	2.87%	6.00%	0.180%
<b>TOTAL</b>	<b>\$298,592</b>	<b>\$0</b>		<b>\$298,592</b>	<b>100.00%</b>		<b>9.300%</b>

REQUIRED FOOTNOTES:

(1) Cost rate for common equity established in Order No. PSC-03-0707-PAA-WS, issued June 13, 2003.

*(Revised August 19, 2004)*