



Public Service Commission

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COMMISSION
CLERK

DATE: November 30, 2010

TO: Avy Smith, Regulatory Analyst II, Division of Economic Regulation

FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CP*

RE: Docket No.: 100359-WS
 Company Name: Tymber Creek Utilities, Incorporated
 Company Code: WS246
 Audit Purpose: Staff Assisted Rate Case
 Audit Control No: 10-231-2-1

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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CP/ip
Attachment: Audit Report

cc: (With Attachment)
Office of Commission Clerk
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

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State of Florida



Public Service Commission

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

Auditor's Report

Tymer Creek Utilities, Incorporated
Staff Assisted Rate Case

Twelve Months Ended June 30, 2010

Docket No. 100359-WS
Audit Control No. 10-231-2-1
November 18, 2010

Handwritten signature of Daniel Acheampong in black ink.

Daniel Acheampong
Audit Manager

Handwritten signature of Ronald Mavrides in black ink.

Ronald Mavrides
Audit Staff

Handwritten signature of Linda Hill-Slaughter in black ink.

Linda Hill-Slaughter
Reviewer

DOCUMENT NUMBER-DATE

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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 Economic Regulation in its audit service request dated August 19, 2010. We have applied these procedures to the attached exhibits prepared by the audit staff in support of Tymber Creek Utilities, Incorporated's request for a Staff Assisted Rate Case in Docket No. 100359-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 and the report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term “Utility” used within this report refers to Tymber Creek Utilities, Incorporated.

Utility Books and Records

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

Procedure: We reviewed the Utility’s accounting systems. Audit Finding 1 discusses our findings and recommendations for the Utility’s accounting system.

Rate Base

Utility Plant in Service (UPIS)

Objectives: The objectives were to:

- Determine that property exists and is owned by the Utility.
- Determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA.
- Verify that the proper retirements of UPIS were made when a replacement item was put in service.

Procedures: We determined the Utility’s water and wastewater UPIS balances that were established in Docket No. 950647-WS for water and Docket No. 040300-SU for wastewater. We reviewed the Utility’s documentation for UPIS additions since the last rate case proceedings in 1995 for water and 2004 for wastewater through the test year to determine the Utility’s UPIS balances as of June 30, 2010. We included retirements to UPIS when a capital item was removed or replaced. We toured the Utility’s service area to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding 2 discusses our findings and recommended UPIS balance as of June 30, 2010.

Land

Objective: The objective was to determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We verified that there has been no change to the Utility’s land balance or ownership since its last staff assisted rate case. We determined the Utility’s land balance that was

confirmed in Docket No. 950647-WS and Docket No. 040300-SU. Audit Finding 3 discusses our findings and recommended land balance as of June 30, 2010.

Contributions-in-Aid-of-Construction (CIAC)

Objectives: The objectives were to:

- Determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.
- Verify and insure that all donated property is properly accounted for and recorded as CIAC.

Procedures: We compiled CIAC items from the Utility's general ledger, customer service connection records, and its authorized service availability tariff to determine the number of new customers connected and to obtain the annual additions to CIAC. We reviewed utility documentation for CIAC additions since the last rate case proceedings in 1995 for water and 2004 for wastewater through the test year to determine the Utility's CIAC balances as of June 30, 2010. We reviewed the Utility's 1995 through 2009 Federal Income Tax Returns for unrecorded cash and property contributions. Audit Finding 4 discusses our finding and the CIAC balance as of June 30, 2010.

Accumulated Depreciation

Objectives: The objectives were to:

- Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA.
- Verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

Procedures: We compiled accumulated depreciation accruals since the last rate case proceedings in 1995 for water and 2004 for wastewater through the test year to determine the Utility's accumulated depreciation balance as of June 30, 2010. We accounted for retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding 5 discusses our findings and recommended balance for accumulated depreciation as of June 30, 2010.

Accumulated Amortization of CIAC

Objective: The objective was to determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.

Procedures: We compiled accumulated amortization of CIAC accruals since the last rate case proceedings in 1995 for water and 2004 for wastewater through the test year to determine the Utility's accumulated amortization of CIAC balances as of June 30, 2010. Audit Finding 6 discusses our findings and recommended balance for accumulated amortization of CIAC as of June 30, 2010.

Working Capital

Objective: The objective was to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedure: We calculated the Utility's working capital balance as of June 30, 2010, using one-eighth of operation and maintenance expense as required by Commission Rule 25-30.433 Florida Administrative Code (F.A.C.).

Net Operating Income

Revenues

Objective: The objective was to determine that revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedure: We compiled utility revenues for the 12-month period ending June 30, 2010, from the Utility's billing register records. Audit Finding 7 discusses our findings and recommended revenue balance.

Operation and Maintenance Expense

Objective: The objective was 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 compiled operation and maintenance expense items from the Utility's general ledger and vendor invoice file. We reviewed all 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 8 discusses our findings and recommended operation and maintenance expense balance for the 12-month period ending June 30, 2010.

Taxes Other Than Income (TOTI)

Objective: The objective was to determine that TOTI tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

Procedures: We compiled TOTI expense items from the Utility's general ledger and vendor invoice file. 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 9 discusses our findings and recommended TOTI expense balance for the 12-month period ending June 30, 2010.

Depreciation and Amortization Expenses

Objectives: The objectives were to:

- Determine that depreciation expense is properly recorded in compliance with Commission rules.
- Verify that it accurately represents the depreciation of utility plant in service assets and the amortization of utility contributions-in-aid-of-construction assets from ongoing utility operations.

Procedures: We calculated depreciation expense and amortization of CIAC expense balances using Commission approved depreciation rates and UPIS and CIAC balances. Audit Findings 5 and 6 discuss our findings and recommended depreciation and amortization of CIAC expense balances for the 12-month period ending June 30, 2010.

Capital Structure

General

Objective: The objective was 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.

Procedures: We determined the Utility's capital structure and reconciled that balance to the net rate base balance. Audit Finding 10 discusses our findings and recommended capital structure balance as of June 30, 2010.

Audit Findings

Audit Finding 1

Subject: Utility Books and Records

Audit Analysis: The Utility's last application for a staff-assisted rate case was reviewed in Docket No. 950647-WS for water and Docket No. 040300-SU for wastewater. Order No. PSC-97-0096-FOF-WS, issued on January 27, 1997, did not comment on the Utility's books and records as to its compliance with NARUC USOA. The wastewater Order No. PSC-04-1264-PAA-SU, issued on December 21, 2004, also did not comment on the Utility's compliance with NARUC USOA as required by Commission rules.

The Utility uses an accrual accounting system based on a calendar year with an outside contractor firm updating their books on a regular basis. The firm, with the help of Utility's officials, compiles the Utility's general ledger and prepares the annual report that is filed with the Commission. A different accounting firm prepares their annual federal and state tax reporting services on a calendar year.

The Utility's current accounting system is not in full compliance with Commission rules. Our review of the Utility's trial balance and general ledger details indicate missing NARUC USOA accounts 335, 340, 345, and 348. The Utility accounted for the costs associated with the aforementioned accounts all in account 320. The Utility also included NARUC USOA account 371, Pumping Plant Equipment, in its trial balance and general ledger details. Account 371 is not a class C utility account. Staff adjusted these account balances and reclassified them to its NARUC USOA accounts. The impact of our findings is immaterial.

During our fieldwork, the Utility representative was receptive to suggested improvements to its accounting systems. We recommend that the Utility be reminded of its obligation to maintain its books in accordance with the NARUC USOA.

Effect on the General Ledger: For informational purposes only.

Effect on the Filing: Not applicable.

Audit Finding 2

Subject: Utility Plant in Service

Audit Analysis: The Utility's annual report reflects water and wastewater UPIS balances of \$205,924 and \$709,212, respectively for the calendar year ended December 31, 2009.

Order No. PSC-97-0096-FOF-WS required the Utility to increase water UPIS by \$32,119 as of August 31, 1995. We found no evidence in the Utility's records that the adjustments were recorded in 1997, the year the Order was issued. The Utility did make a partial adjustment in 2003.

Based on our adjustments and findings discussed below, the Utility's UPIS are \$222,065 for water and \$694,621 for wastewater, as of June 30, 2010.

We compiled UPIS additions since the last rate case proceedings in 1995 for water and 2004 for wastewater through the test year to determine the Utility's UPIS balances as of June 30, 2010. We started with the UPIS balances established in the Utility's last rate case proceeding. We then posted additions and retirements to UPIS in succeeding years when capital items were added or replaced. We reclassified plant additions to the correct NARUC USOA account when necessary. We toured the Utility's water and wastewater plant sites and lift stations to observe and ascertain the condition and existence of the Utility's assets.

The Utility's UPIS balances, by NARUC account, are displayed on the following schedule:

Water Plant Balance

Acc No.	Account Description	Per General Ledger	Adjustment	Per Audit
301.00	Organization	\$36	\$0	\$36
304.00	Structures & Improvements	179	(1)	178
307.00	Wells and Springs	-	2,644	2,644
309.00	Supply Mains	33,787	(14,371)	19,416
310.00	Power Generation Equipment	-	11,985	11,985
311.00	Pumping Equipment	-	11,305	11,305
320.00	Water Treatment Equipment	-	6,495	6,495
330.00	Distribution Reservoirs & Standpipes	-	16,540	16,540
331.00	Transmission & Distribution	109,682	8,400	118,082
333.00	Services	24,027	(13,917)	10,110
334.00	Meters & Meters Installations	31,101	(15,615)	15,487
335.00	Hydrants	3,530	4,998	8,528
340.00	Office Furniture & Equipment	1,912	(1,024)	887
345.00	Power Operated Equipment	-	373	373
348.00	Other Tangible Plant	660	(660)	-
	TOTAL:	\$204,914	\$17,151	\$222,065

Wastewater Plant Balance

Acc No.	Account Description	Per General Ledger	Adjustments	Per Audit
354.00	Structures & Improvements	\$107,198	\$0	\$107,198
360.00	Collection - Sewers Forced	264,465	(256,016)	8,450
361.00	Collection - Sewers Gravity	-	259,641	259,641
362.00	Special Collecting Structures	-	-	-
363.00	Services to Customers	43,346	(0)	43,346
364.00	Flow Measuring Devices	6,055	853	6,908
365.00	Flow Measuring Installations	-	-	-
370.00	Receiving Wells	40,784	(5,173)	35,610
380.00	Treatment & Disposal Equip	229,603	(9,368)	220,235
381.00	Plant Sewers	-	-	-
382.00	Outfall Sewer Lines	11,295	(468)	10,827
389.00	Other Plant & Misc. Equip.	1,200	0	1,200
390.00	Office Furniture & Equip.	862	345	1,206
391.00	Transportation Equip.	-	-	-
395.00	Power Operated Equipment	-	-	-
398.00	Other Tangible Plant	-	-	-
TOTAL:		\$704,807	(\$10,186)	\$694,621

Effect on the General Ledger: The Utility should adjust its general ledger to the UPIS balances determined above. Water UPIS balance needs to be increased by \$17,151 and wastewater should be decreased by \$10,186.

Effect on the Filing: Not applicable.

Audit Finding 3

Subject: Land and Land Rights

Audit Analysis: The Utility's annual report reflects a land balance of \$1,131 and \$4,524 for water and wastewater, respectively for calendar year ended December 31, 2009.

Order No. PSC-97-0096-FOF-WS and Order No. PSC-04-1264-PAA-SU established the Utility's land balances of \$1,131 and \$4,524 as of June 30, 2010, for water and wastewater, respectively. We found no change in the Utility's land or land rights since its last rate case proceeding in our review of the public records for Volusia County, Florida.

The Utility's land balance as of June 30, 2010, is \$1,131 and \$4,524 for water and wastewater, respectively.

Effect on the General Ledger: For informational purposes only.

Effect on the Filing: Not applicable.

Audit Finding 4

Subject: Contributions in Aid of Construction

Audit Analysis: The Utility's annual report reflects CIAC balances of \$155,793 and \$380,306, for water and wastewater, respectively for calendar year ended 2009.

We compiled CIAC additions for the period August 31, 1995, through June 30, 2010, to determine the Utility's CIAC balance as of June 30, 2010. We used information from the Utility's 1995-2010 annual reports, customer service connection records, and its authorized service availability tariff to determine the number of new customers connected and to obtain the annual additions to CIAC since its last rate case proceeding. There were no capital asset contributions found during our investigation. During our review, we determined that the Utility improperly accounted for late charges and other miscellaneous revenues in the amount of \$2,510 in the CIAC account.

The Utility's CIAC balances are displayed on the following schedule:

Water CIAC

Date	Additions	Retirements	CIAC Balance	Adjustments	General Ledger
Aug-95	\$0	\$0	\$150,193		
Dec-95	300	-	150,493		
Dec-96	500	-	150,993		
Dec-97	200	-	151,193		
Dec-98	400	-	151,593		
Dec-99	200	-	151,793		
Dec-00	-	-	151,793		
Dec-01	-	-	151,793		
Dec-02	690	-	152,483		
Dec-03	300	-	152,783		
Dec-04	100	-	152,883		
Dec-05	100	-	152,983		
Dec-06	200	-	153,183		
Dec-07	100	-	153,283		
Dec-08	-	-	153,283		
Jun-09	-	-	153,283		
Jun-10	-	-	153,283	(2,510)	155,793

Wastewater CIAC

Date	Additions	Retirements	CIAC Balance	Adjustments	General Ledger
Dec-03	\$3,150	\$0	\$375,056		
Dec-04	1,050	-	376,106		
Dec-05	1,050	-	377,156		
Dec-06	2,100	-	379,256		
Dec-07	1,050	-	380,306		
Dec-08	-	-	380,306		
Jun-09	-	-	380,306		
Jun-10	-	-	380,306		380,306

Effect on the General Ledger: The Utility should decrease its water CIAC balance by \$2,510 to remove late and other miscellaneous revenues.

Effect on the Filing: Not applicable.

Audit Finding 5

Subject: Accumulated Depreciation

Audit Analysis: We compiled accumulated depreciation accruals since the last rate case proceedings in 1995 for water and 2004 for wastewater through the test year to determine the Utility's accumulated depreciation balance as of June 30, 2010. We recorded additions and retirements to accumulated depreciation when a capital item was replaced or removed. We calculated accumulated depreciation using the plant in service asset balances and the depreciation rates prescribed in Commission Rule 25-30.140, F.A.C. The audit adjustment of \$65,859 was created by the increase in plant assets and unrecorded depreciation in the Utility's books and records.

The Utility's accumulated depreciation balances, by NARUC accounts, are displayed below.

Water Accumulated Depreciation

Acc. No	Account Description	Per General Ledger	Audit Adjustment	Audited Amounts
301.00	Organization	\$0	\$36	\$36
304.00	Structures & Improvements	162	39	201
307.00	Wells & Springs	-	3,000	3,000
309.00	Supply Mains	18,493	(10,519)	7,974
310.00	Power Generation Equipment	-	21,598	21,598
311.00	Pumping Equipment	-	12,564	12,564
320.00	Water Treatment Equipment	-	9,873	9,873
330.00	Distribution Reservoirs & Standpipes	-	15,354	15,354
331.00	Transmission & Distribution Mains	66,395	27,476	93,871
333.00	Services	16,063	(7,366)	8,697
334.00	Meters & Meter Installations	19,916	(10,318)	9,598
335.00	Hydrants	210	5,118	5,328
340.00	Office Furniture & Equipment	1,757	(1,369)	388
345.00	Power Operated Equipment	-	373	373
	Total	\$122,996	\$65,859	\$188,855

Wastewater Accumulated Depreciation

Acc. No	Account Description	Per General Ledger	Audit Adjustment	Audited Amounts
354.00	Structures & Improvements	\$71,490	(\$7,429)	\$64,062
360.00	Collection - Sewers forced	-	1,321	1,321
361.00	Collection - Sewers gravity	194,466	(11,163)	183,302
363.00	Services to customers	34,763	(614)	34,149
364.00	Flow Measuring Devices	5,285	1,623	6,908
370.00	Receiving Wells	2,362	7,221	9,583
380.00	Treatment & Disposal Equipment	204,849	(9,686)	195,162
382.00	Outfall Sewer Lines	2,987	1,811	4,798
389.00	Other Plant & Miscellaneous Equipment	1,248	152	1,400
390.00	Office Furniture & Equipment	494	41	535
Total		\$517,943	(\$16,723)	\$501,220

Effect on the General Ledger: The Utility should adjust its general ledger to the audited accumulated depreciation balances determined above. Water accumulated depreciation balance should be increased by \$65,859 and wastewater accumulated depreciation balance should be decreased by \$16,723. We also determined that depreciation expense should be increased by \$4,500 for water and by \$13,581 for wastewater.

Effect on the Filing: Not applicable.

Audit Finding 6

Subject: Accumulated Amortization of CIAC

Audit Analysis: We compiled accumulated amortization of CIAC accruals for the period August 31, 1995, through June 30, 2010, to determine the Utility's accumulated amortization of CIAC balance as of June 30, 2010. We amortized contributed cash balances at the annual composite depreciation rate as prescribed in Commission Rule 25-30-140, F.A.C.

Additionally, we calculated a balance of \$3,980 for water amortization expense and \$11,406 for wastewater amortization expenses for the 12-month period ending June 30, 2010.

Our calculations indicate the CIAC general ledger balances were understated by \$4,889 for water and \$7,876 for wastewater. The Utility's CIAC, accumulated amortization of CIAC and amortization expense balances are displayed on the following schedule.

Water CIAC Amortization

Date	CIAC	CIAC Amort. Expense	CIAC Acc. Amortization	Adjustments	CIAC Acc. Amort. Per General Ledger
Aug-95	\$150,193	\$0	(\$63,372)		
Dec-95	150,493	(1,288)	(64,660)		
Dec-96	150,993	(5,168)	(69,828)		
Dec-97	151,193	(5,166)	(74,994)		
Dec-98	151,593	(5,169)	(80,163)		
Dec-99	151,793	(5,189)	(85,351)		
Dec-00	151,793	(5,197)	(90,548)		
Dec-01	151,793	(5,198)	(95,746)		
Dec-02	152,483	(5,211)	(100,957)		
Dec-03	152,783	(5,232)	(106,188)		
Dec-04	152,883	(5,241)	(111,430)		
Dec-05	152,983	(5,248)	(116,678)		
Dec-06	153,183	(5,261)	(121,938)		
Dec-07	153,283	(5,273)	(127,211)		
Dec-08	153,283	(3,957)	(131,169)		
Jun-09	153,283	(1,979)	(133,148)		
Jun-10	153,283	(3,980)	(137,127)		
12-Month Average			(135,138)	4,889	(140,026)

Wastewater CIAC Amortization

Date	CIAC	CIAC Amort Expense	CIAC Acc. Amortization	Adjustments	CIAC Acc. Amort. Per General Ledger
Dec-04	376,106.00	(\$13,728)	(\$305,512)		
Dec-05	377,156.00	(14,178)	(319,690)		
Dec-06	379,256.00	(14,515)	(334,204)		
Dec-07	380,306.00	(14,597)	(348,801)		
Dec-08	380,306.00	(11,968)	(360,769)		
Jun-09	380,306.00	(5,958)	(366,727)		
Jun-10	380,306.00	(11,406)	(378,133)		
12-Month Average			(372,430)	7,876	(380,306)

Effect on the General Ledger: The Utility should adjust its general ledger to reduce the CIAC accumulated depreciation balances by \$4,889 for water and \$7,876 for wastewater.

Effect on the Filing: Not applicable.

Audit Finding 7

Subject: Revenues

Audit Analysis: The Utility utilizes only 5/8” meters and serviced 430 water customers and 406 wastewater customers at the end of the test year. All customers were residential. One of the customers is also an owner of the Utility. This customer was not charged tariff rates for both water and wastewater. These were included in our adjustments.

We re-calculated the water and wastewater revenues based on usage from the billing register. The billing register was accepted for water, as there were no significant variances. The amount of wastewater revenue did not match our recalculated revenues. Therefore, our re-calculated revenues were used as the basis of adjustment for wastewater.

Water Revenues

Date	General Ledger	Audit Adjustment	Audited Amounts
July 09	\$9,475	(\$170)	\$9,306
Aug. 09	8,813	(59)	8,755
Sept. 09	9,689	(173)	9,516
Oct. 09	9,934	-	9,934
Nov. 09	14,768	(6,676)	8,092
Dec. 09	8,633	218	8,851
Jan. 10	10,356	(236)	10,120
Feb. 10	8,241	(328)	7,912
March 10	8,940	202	9,142
April 10	9,091	-	9,091
May 10	9,266	726	9,992
June 10	9,269	(15)	9,254
Total:	\$116,474	(\$6,511)	\$109,964

Wastewater Revenues

Date	Per General Ledger	Audit Adjustment	Audited Amounts
July 09	\$16,989	\$1,696	\$18,686
Aug. 09	15,803	1,311	17,114
Sept. 09	16,794	2,640	19,434
Oct. 09	17,256	1,467	18,723
Nov. 09	8,033	7,005	15,038
Dec. 09	15,458	914	16,372
Jan. 10	18,619	2,080	20,699
Feb. 10	15,415	551	15,967
March 10	15,878	1,322	17,200
April 10	16,362	1,042	17,405
May 10	16,475	3,023	19,498
June 10	16,515	935	17,450
Total:	\$189,599	\$23,987	\$213,586

Effect on the General Ledger: Decrease water revenues by \$6,511. Increase wastewater revenues by \$23,987.

Effect on the Filing: Not applicable.

Audit Finding 8

Subject: Operation and Maintenance Expense

Audit Analysis: We determined the operation and maintenance expense for the 12-month period ended June 30, 2010, to be \$122,545 for water and \$163,088 for wastewater. We determined this balance by reviewing all supporting source documents such as invoices, bank statements, and the Utility's general ledger. In addition, we analyzed the Utility's allocation methods.

We compiled the account balances using the Utility's transaction activities and information obtained from vendors shown *below separately* for water and wastewater.

Water

Account No. 601 Salaries and Wages - Employees

There is one full-time employee who works in the office. We traced her recorded pay per the general ledger to the 941 tax forms. We tested one month for the proper pay rate and hours. Twenty-five percent of her pay was allocated to water and seventy-five percent to wastewater in the general ledger. According to the Utility, the allocation should have been forty percent to water and sixty percent to wastewater based on revenues. This resulted in a corresponding adjustment increase of \$4,217. Total salaries and wages expense for employees is \$11,217.

Account No. 603 Officers Salaries

There are two officers who draw the same amounts for salaries. We traced the salaries from the general ledger to the 941 tax forms. Some work done by the officers was included in the general ledger as miscellaneous expenses. We included these charges in this account, which resulted in an increase in the officers' salaries by \$925. Total officers' salaries expenses are \$10,386.

Account No. 604 Benefits and Pensions

We reviewed the health insurance contract, traced the payments to the general ledger, and reviewed all cancelled checks for the test year. Total benefits and pension expense is \$4,676.

Account No. 610 Purchased Water

We obtained and reviewed all purchased water invoices for the test year and traced them to the general ledger. Total purchased water expense is \$63,587.

Account No. 620 Materials and Supplies

We reviewed all invoices for materials and supplies and reconciled the amount to the general ledger. Our audited amount exceeded the general ledger amount by \$640; as a result, we increased this account by \$640. Total materials and supplies expense is \$1,507.

Account No. 631 Contractual Services - Professional

We reviewed all invoices and traced them to the general ledger. We substituted canceled checks for one contractor that did not issue invoices. Based on our audited amounts we decreased this account by \$28. Total contractual services – professional expense is \$5,560.

Account No. 635 Contractual Services - Testing

We reviewed all invoices and traced them to the general ledger. The total audited amount is less than the general ledger amount. We decreased this account by \$40. Total contractual services – testing expense is \$7,768.

Account No. 636 Contractual Services - Other

We verified all invoices or cancelled checks and reviewed allocation procedures for internet services shared with an affiliated company. Water and wastewater were evenly split to 27 percent of total internet cost. We reconciled this amount to the general ledger amount resulting in a decrease to the account of \$2,852. Total contractual services – other expense is \$9,573.

Account No. 640 Rent

We reviewed office rent in the general ledger and traced the payments to invoices. The owner is a related party housing other business concerns. The rent appears to be a reasonable amount. Previously rent was split evenly between water and wastewater. We reallocated 40 percent to water and 60 percent to wastewater. Rent expense is decreased \$733. Total rent is \$2,930.

Account No. 650 Transportation Expenses

The Utility has no dedicated vehicle. The Utility records substantiated an expense of \$182, which decreased the transportation expense by \$78.

Account No. 655 Insurance Expense

We reviewed the general ledger and paid invoices, almost all the total expense was charged to wastewater. We reallocated the expenses evenly between water and wastewater. Because of this reallocation, insurance expense is increased by \$1,100. Total insurance expense is \$1,200.

Account No. 670 Bad Debt Expense

The Utility admitted errors in the amount charged to the general ledger for bad debt expense, and provided a more reasonable and accurate amount directly from the billing register. Based on the Utility's allocation methodology, we allocated 40 percent of the total bad debt expense to water. This reallocation decreases bad debt expense by \$673. Total bad debt expense is \$1,366.

Account No. 675 Miscellaneous Expense

We reviewed invoices, cancelled checks, and bank statements (for bank charges) and compared these amounts to the general ledger. A few accounts included here were reclassified to other accounts. Services performed by the owner were recorded in this account. This amount was

removed and reclassified as officer's salary. These adjustments decreased this account by \$1,342. Total miscellaneous expense is \$2,595.

The Utility's water expense balances, by NARUC accounts, are displayed below.

Water Expenses			
Acc. No.	Per Utility Balance	Audit Adjustment	Audited Amounts
601.00	\$7,000	\$4,217	\$11,217
603.00	9,461	925	10,386
604.00	4,676	-	4,676
610.00	63,587	-	63,587
620.00	867	640	1,507
631.00	5,588	(28)	5,560
635.00	7,808	(40)	7,768
636.00	12,425	(2,852)	9,573
640.00	3,662	(733)	2,930
650.00	260	(78)	182
655.00	100	1,100	1,200
670.00	2,040	(673)	1,366
675.00	3,937	(1,342)	2,595
Total	\$121,410	\$1,135	\$122,545

Wastewater

Account No. 701 Salaries and Wages - Employees

There is one full-time employee who works in the office. We traced her recorded pay per the general ledger to the 941 tax forms. We tested one month for the proper pay rate and hours. Twenty-five percent of her pay was allocated to water and seventy-five percent to wastewater in the general ledger, which the Utility said was an error. The allocation should have been forty percent to water and sixty percent to wastewater. This resulted in a corresponding adjustment decrease of \$4,217. Total salaries and wages expense for employees is \$16,825.

Account No. 703 Officers Salaries

There are two officers who draw the same amounts for salaries. We traced the salaries from the general ledger to the 941 tax forms. Some work done by the officers was included as miscellaneous expenses, which we included as officers' salaries. We made an adjustment increase of \$563 to account for this. Total officers' salaries expense is \$10,023.

Account No. 704 Benefits and Pensions

We reviewed the health insurance contract and traced the payments to the general ledger from the cancelled checks for the test year. Total benefits and pension expense is \$5,715.

Account No. 711 Sludge Hauling

We obtained and reviewed all sludge hauling invoices for the test year and traced them to the general ledger. We increased this account by \$2,065 to account for three loads that were not recorded in the general ledger. Total sludge hauling expense is \$36,228.

Account No. 715 Purchased Power

We reviewed all invoices for three lift stations and the sewer plant. We traced them to the general ledger. Total purchased power expense is \$14,979.

Account No. 718 Chemicals

We reviewed all invoices and traced them to the general ledger. We increased this account by \$109 for a purchase of lime that the Utility did not record in the general ledger. Total chemicals expense is \$6,265.

Account No. 720 Material and Supplies

We reviewed all invoices and traced them to the general ledger. The audited amount is less than the recorded amount in the general ledger, so we decreased this account by \$229. Total materials and supplies expense is \$673.

Account No. 731 Contractual Services - Professional

We verified all invoices or cancelled checks for a vendor that did not issue invoices, and traced them to the general ledger. A company that normally performs testing services also performed

contractual services belonging in this account. The Utility recorded this amount as Contractual Services – Testing. We reclassified this amount to this account. We increased Contractual Services – Professional by \$1,565. Total Contractual Services – professional is \$7,153.

Account No. 735 Contractual Services – Testing

We traced all invoices to the general ledger. We removed charges for Contractual Services – Other, that were originally recorded in this account. We also removed charges that should have been entered as Contractual Services – Professional. These adjustments resulted in decreasing this account by \$25, 296. Total Contractual Services – Testing expense is \$13,155.

Account No. 736 Contractual Services - Other

We traced the invoices to the general ledger, and accounted for any differences. We added \$28,443 in charges entered in the general ledger as Contractual Services –Testing, which belongs in this account. Total Contractual Services – Other is \$37,234.

Account No. 740 Rents

We reviewed the details of the rent in the general ledger and discovered that it included both rent for office space and rent for land which occupies the site of the wastewater plant. Both were owned by related parties. We replaced the plant amount with the amounts provided for in Docket No. 100359-WS. The office rent appeared reasonable and was evenly shared with water. We reallocated rent, with 60 percent being allocated to wastewater. This reallocation decreases rent expense by \$8,347. Total rent expense is \$8,735.

Account No. 755 Insurance Expense

We reviewed the general ledger and invoices for insurance expense. It was all allocated to wastewater. We reallocated half to water and this decreased insurance expense by \$1,100. Total insurance expense is \$1,200.

Account No. 770 Bad Debt Expense

The Utility admitted errors in the amount charged to the general ledger for bad debts, and provided a smaller and more accurate amount directly from the billing register. Sixty percent of a total of \$3,415 is allocated to wastewater. This reallocation decreases bad debt expense by \$415. Total bad debt expense is \$2,049.

Account No. 775 Miscellaneous Expense

We reviewed all charges from invoices, cancelled checks and bank statements (for bank charges) and traced them to the general ledger. The owner did work other than that paid for in his salary and those charges were included in this general ledger account. We removed those charges and included them in officers' salaries. This resulted in a reduction to this account of \$3,226. Total miscellaneous expense is \$2,854.

The Utility's wastewater expense balances, by NARUC accounts, are displayed below.

Wastewater Expense			
Acc. No	Per Utility Balance	Audit Adjustment	Audited Amounts
701.00	\$21,042	(\$4,217)	\$16,825
703.00	9,461	563	10,023
704.00	5,715	-	5,715
711.00	34,163	2,065	36,228
715.00	14,979	-	14,979
718.00	6,155	109	6,265
720.00	901	(229)	673
731.00	5,588	1,565	7,153
735.00	38,451	(25,296)	13,155
736.00	8,791	28,443	37,234
740.00	17,082	(8,347)	8,735
755.00	2,300	(1,100)	1,200
770.00	2,464	(415)	2,049
775.00	6,080	(3,226)	2,854
Total	\$173,173	(10,085)	\$163,088

Effect on the General Ledger: Increase expenses for water by \$1,135. Decrease expenses for wastewater by \$10,085.

Effect on the Filing: Not applicable.

Audit Finding 9

Subject: Taxes Other Than Income (TOTI)

Audit Analysis: The Utility's general ledger reflects an unadjusted TOTI tax balance of \$7,044 and \$13,519 for water and wastewater, respectively for the 12-month period ending June 30, 2010.

We determined this balance using the detailed transaction activity for the six-month period ending December 31, 2009, and the six-month period ending June 30, 2010, to estimate the Utility's test year TOTI tax expense balance. The balance above does not include adjustments that would normally be made by the Utility's accountant in preparation of the Utility's calendar year end financial statements and annual reports as well as the federal tax returns. We used these balances to ensure that we would capture all the relevant operation and maintenance expense transactions applicable to our 12-month test year, which ended on June 30, 2010.

Our calculation of the Utility's TOTI tax expense is \$9,629 for water and \$20,749 for wastewater for the 12-month period ending June 30, 2010. We compiled our balance using the Utility's transaction activities. Our specific adjustments are detailed below.

Property Tax

We used the Volusia County non-ad valorem and ad valorem tax assessment notices to determine taxes and assessment on the Utility's property. To take advantage of the maximum discount available for the early payment of the property tax balance, we used the earliest payment discount in calculation of our property taxes. Water operations had \$1,505 for intangible property tax and \$50 for land for a total property tax of \$1,555. Wastewater operations had \$2,887 for the plant land, \$1,309 for the leased land for the percolation pond, and \$2,257 for tangible property for a total property tax of \$6,453.

Payroll Tax

We recalculated payroll taxes based on the Utility's actual salary expense. Payroll tax expense for water was \$3,123 and \$4,684 for wastewater.

Regulatory Assessment Fees (RAFs)

The Utility's annual returns reflect a balance of \$5,196 and \$8,899 for water and wastewater, respectively for the calendar year 2009. We recalculated these balances based on the audit revenues discussed in Audit Finding 7. Our balance was calculated as 4.5 percent of the \$109,964 and \$213,586 for water and wastewater revenue, respectively. This resulted in RAFs of \$4,948 and \$9,611 for water and wastewater, respectively.

Our calculations for the payroll and property tax balances discussed above are displayed in the schedules that follow and the Utility's TOTI balance is displayed below.

Water TOTI

<u>Tax Description</u>	<u>Per Company</u>	<u>Adjustments</u>	<u>Per Audit</u>
Property Tax	\$1,848	(\$293)	\$1,555
Payroll Tax	0	3,123	3,123
<u>Regulatory Assessment Fees</u>	<u>5,196</u>	<u>(248)</u>	<u>4,948</u>
<u>Total</u>	<u>\$7,044</u>	<u>\$2,582</u>	<u>\$9,626</u>

Wastewater TOTI

<u>Tax Description</u>	<u>Per Company</u>	<u>Adjustments</u>	<u>Per Audit</u>
Property Tax	\$4,620	\$1,833	\$6,453
Payroll Tax	-	\$4,684	4,684
<u>Regulatory Assessment Fees</u>	<u>8,899</u>	<u>\$712</u>	<u>9,611</u>
<u>Total</u>	<u>\$13,519</u>	<u>\$7,229</u>	<u>\$20,749</u>

Effect on the General Ledger: Increase TOTI expense for water by \$2,585 and \$7,229 for wastewater.

Effect on the Filing: Not applicable.

Audit Finding 10

Subject: Capital Structure

Audit Analysis: The Utility's capital structure was composed of the following debt and equity component balances reflected in the 2010 trial balance.

We have determined that the Utility's total capital structure for utility operations, when reconciled to rate base, is \$241,950. We compiled the above capital structure balance using loan documents and transaction activities affecting the Utility's long-term debt and customer deposit accounts. The equity balance was adjusted so that the Utility's net capital structure equals its net rate base. Our findings are discussed below and our calculations are found in Exhibit 1 of this report.

Long Term Debt

The Utility's long term debt balance consist of a revolving credit line of \$35,000 with a current annual interest rate of 3.25 percent that was executed with Sun Trust Bank on February 4, 2008. The Utility's representative asserted that the credit line was used for a wastewater plant expansion. We calculated an outstanding loan balance of \$33,488 as of June 30, 2010, based on the bank's monthly statements.

The Utility's trial balance as of June 30, 2010, had two outstanding officer's loans. Utility records indicate neither monthly payments of these loans to the officers nor interest payments to the officers. The Utility's representative claimed these loans were cash contributed by the officers to pay the Utility's operating and maintenance expenses. We determined that these loans are contributed capital and should increase the balance of contributed capital by \$78,920 with a corresponding decrease in long term debt.

Customer Deposits

The customer deposit balance was compiled using the Utility's billing system. We computed a balance of \$5,776 and \$8,664 for water and wastewater, respectively for a total of \$14,440 as of June 30, 2010. Commission rules require customers with good payment records to get a refund of their deposits after 23 months, in addition to receiving a credit for interest of 8% refunded each year. We were unable to substantiate that the Utility is posting any interest to customer deposits.

Effect on the General Ledger: The Utility should adjust its general ledger to reflect the adjustments stated above. The Utility should adjust retained earnings by \$12,613 to reflect the adjustments to net operating income recommended earlier in this report. Long term debt should be reduced by \$78,920 to remove the officers' loans. The Utility should increase the paid-in-capital account by 78,920 for the officers' loans plus 48,327 to reconcile rate base to capital structure for a total increase of \$127,247. Customer deposits should be increased by \$4,180 and long-term loans should be decreased by \$14.

Effect on the Filing: Not applicable.

Exhibit I

Rate Base

**Tymber Creek Utilities, Inc.
Water
Test Year Ended June 30, 2010**

Description	Utility Books	Audit Adjustments	Audited Amount
Utility Plant In Service	\$204,914	\$17,151	\$222,065
Land	1,131	-	1,131
Plant Held for Future Use	-	-	-
CIAC	(155,793)	2,510	(153,283)
Accumulated Amortization of CIAC	140,026	(4,889)	135,138
Accumulated Depreciation	(122,996)	(65,859)	(188,855)
Working Capital	15,176	142	15,318
TOTAL	\$82,459	(\$50,945)	\$31,514

**Tymber Creek Utilities, Inc.
Wastewater
Test Year Ended June 30, 2010**

Description	Utility Books	Audit Adjustments	Audited Amount
Utility Plant In Service	\$704,807	(\$10,186)	\$694,621
Land	4,524	-	4,524
Plant Held for Future Use	-	-	-
CIAC	(380,306)	-	(380,306)
Accumulated Amortization of CIAC	380,306	(7,876)	372,430
Accumulated Depreciation	(517,943)	16,723	(501,220)
Working Capital	21,119	(734)	20,386
TOTAL	\$212,507	(\$2,072)	\$210,436

Exhibit II

Net Operating Income

Water			
Test Year Ended June 30, 2010			
Description	Utility Books	Audit Adjustments	Audited Amount
Operating Revenues	\$116,474	(\$6,511)	\$109,964
Operating Expenses			
Operation and Maintenance Expense	121,410	1,135	122,545
Depreciation Expense	3,264	4,500	7,764
Amortization Expense	2,580	(6,560)	(3,980)
Taxes Other Than Income	7,044	2,582	9,626
Total Operating Expenses	134,298	1,657	135,955
Net Operating Loss	(\$17,823)	(\$8,168)	(\$25,991)

Tymer Creek Utilities, Inc.			
Wastewater			
Test Year Ended June 30, 2010			
Description	Utility Books	Audit Adjustments	Audited Amount
Operating Revenues	\$189,599	\$23,987	\$213,586
Operating Expenses			
Operation and Maintenance Expense	173,173	(10,085)	163,088
Depreciation Expense	14,196	13,581	27,777
Amortization Expense	-	(11,406)	(11,406)
Taxes Other Than Income	13,519	7,229	20,749
Total Operating Expenses	200,888	(681)	200,208
Net Operating Income	(\$11,289)	\$24,668	\$13,378

Exhibit III

Cost of Capital

Tymer Creek Utilities, Inc.
Water and Wastewater
Test Year Ended June 30, 2010

Description	Utility	Audit	Audited	Ratio	Cost Rate	Weighted
	Books	Adjustments	Amount			Cost
Common Stock	\$100	\$0	\$100	0.04%	0.00%	0.00%
Retained Earnings	79,288	(12,613)	66,675	27.56%	0.00%	0.00%
Long-term Debt- Officer	78,920	(78,920)	-	0.00%	0.00%	0.00%
Paid In Capital	-	127,247	127,247	52.59%	0.00%	0.00%
Note Payable	33,502	(14)	33,488	13.84%	3.25%	0.45%
Customer Deposits	10,260	4,180	14,440	5.97%	8.00%	0.48%
Total	\$202,070	\$39,880	\$241,950	100.00%	11.25%	0.93%