

State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: July 16, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120082-WU
Company Name: Joyland Water System
Company Code: WU711
Audit Purpose: A1b Staff Assisted Rate Case
Audit Control No: 12-132-1-1

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

PD/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04696 JUL 16 12

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Joyland Water System
Staff Assisted Rate Case

Twelve Months Ended December 31, 2011

Docket No. 120082-WU
Audit Control No. 12-132-1-1

July 9, 2012

Handwritten signature of Donna D. Brown in cursive script.

Donna D. Brown
Audit Manager

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer
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 Economic Regulation in its audit service request dated May 10, 2012. We have applied these procedures to the attached schedules prepared by the audit staff in support of Joyland Water System's request for a Staff Assisted Rate Case in Docket No. 120082-WU.

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

General

Definitions

The audit period is for the twelve months ended December 31, 2011.

The Utility refers to Joyland Water System, a Class C water utility in Gadsden County.

History

Joyland Water System was constructed in 1984, and serves the Joyland Subdivision in Gadsden County.

On March 16, 1993, the Board of County Commissioners of Gadsden County adopted a resolution pursuant to Section 367.171, Florida Statutes, declaring the privately owned water and wastewater utilities in that County subject to the provisions of Chapter 367, Florida Statutes. The Public Service Commission received the County's resolution on March 22, 1993. The effect of the resolution was to invoke the provisions of the Water and Wastewater Regulatory Law, Chapter 367, Florida Statutes.

On July 27, 1993, the Utility filed an application for a certificate to provide water service in Gadsden County. The Utility provides water to approximately 44 residential customers within the Joyland Subdivision and one active and one inactive general service customers. The certificate was granted in FPSC Order No. PSC-94-0234-FOF-WU, issued March 3, 1994.

Utility Books and Records

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

Procedure: We reviewed the Utility's accounting system and found it not in compliance with the NARUC USOA. Audit Finding 1 discusses our findings.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine plant in service for the period; to determine that additions are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the NARUC USOA; and to verify that proper retirements are made when a replacement item was put into service.

Procedures: Audit staff scheduled Utility Plant in Service (UPIS) for the audit period using the Utility's Annual Reports and the tax return depreciation schedule, when available. We reconciled UPIS amounts for 2003 to 2011 to the general ledger, when available. Audit Finding 2 discusses our finding.

Land & Land Rights

Objectives: The objectives were to determine if utility land exists, is used for utility operations, and is owned by the Utility or is secured under a long-term lease; and to determine if utility land is recorded at the original cost when the land was first dedicated to public service.

Procedures: Audit staff scheduled land using the Utility's Annual Reports. We also reconciled land amounts with land value noted on the Gadsden County Property Appraiser's website. Audit Finding 3 discusses our finding.

Contributions-in-Aid-of-Construction

Objective: The objective was to determine if Utility Contributions in Aid of Construction (CIAC) balances are properly stated.

Procedures: We scheduled CIAC using the Utility's Annual Reports and requested any special agreements and policies and procedures for CIAC. Based on the work performed, there is no CIAC.

Accumulated Depreciation

Objectives: The objectives were to determine that the Utility's accumulated depreciation balances are properly stated and that annual accruals are reflective of depreciation rates authorized by Rule 25-30.140, Florida Administrative Code (F.A.C.).

Procedures: We scheduled accumulated depreciation using the Utility's Annual Reports' plant balances. We recalculated the depreciation using the current depreciation rates authorized by the Commission. Due to lack of support, we were unable to verify the numbers. However, the Utility used the double declining balance method for depreciation on its tax returns.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine that CIAC has been amortized in accordance with Commission procedures and is consistent with the calculation of depreciation expense for the year ended December 31, 2011.

Procedures: We requested a schedule of Amortization of CIAC from 1984 through 2011. There is no CIAC, therefore there is no Accumulated Amortization of CIAC.

Working Capital

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

Procedures: We calculated the Utility working capital balances as of December 31, 2011 using the one-eighth of operation and maintenance expense method pursuant to Commission Rule 25-30.433 (2), F.A.C. Audit Finding 5 discusses our finding.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine that utility revenues for the test year are properly stated and that rates for utility services, miscellaneous service charges and other charges imposed by the Utility agree to the approved tariffs.

Procedures: Audit staff reviewed the Utility's Commission approved tariffs establishing rates and compiled utility revenue for the test year using the Utility's billing registers. We also recalculated a sample of customer bills. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine that operation and maintenance (O&M) expenses are classified according to Commission Rules and the NARUC USOA and that these expenditures are recorded in the proper period and are appropriate for regulatory policy.

Procedures: We compiled O&M expense schedules for the test year from the Utility's invoices, cancelled checks, and credit card statements. Audit Finding 5 discusses our finding.

Depreciation and CIAC Amortization Expense

Objectives: The objective was to determine depreciation and amortization of CIAC expense for the period ended December 31, 2011.

Procedures: We compiled a schedule of UPIS from the 2011 Annual Report and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C.

Taxes Other than Income

Objectives: The objectives were to determine the appropriate amounts for Taxes Other Than Income (TOTI) for the test year ended December 31, 2011; and to determine that the Utility has remitted the correct amount of RAF for the most recent calendar year.

Procedures: Audit staff scheduled TOTI based on documentation provided by the Utility. We verified property taxes. We calculated the Regulatory Assessment Fee (RAF) using the FPSC RAF rate and the audited revenue balances. In addition, we calculated payroll taxes based on salaries of utility employees using the Social Security and the Medicare rate from the Internal Revenue Services website.

Federal Income Tax Return

Objectives: The objectives were to review the Federal Income Tax returns since inception for items applicable to this staff assisted rate case.

Procedures: Audit staff reviewed Federal Income Tax Returns from 1985 to 1990 and 2000 to 2011. The Utility stated that the 1991 to 1999 Federal Income Tax Returns were unavailable. It was noted that utility income is filed on Schedule C of the 1040 U.S. Individual Income tax return.

Capital Structure

Cost of Equity

Objectives: The objective was to determine if capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations for the test year ended December 31, 2011.

Procedures: We requested documentation for all long-term and short-term debt instruments as of December 31, 2011. The Utility stated that there is no long-term or short-term debt. In addition, they also stated that there has never been any debt. As of 2011, the Utility does record proprietary capital balance of \$9,769 on its annual report. Audit Finding 4 discusses our finding.

Customer Deposits

Objectives: The objectives were to determine that the Utility is collecting and accounting for customer deposits authorized in its Commission approved tariff for the test year ended December 31, 2011; and to determine that the Utility is calculating and remitting interest on customer deposits per Rule 25-30.311, F.A.C.

Procedures: We requested customer deposit balances since 1984 and reviewed the Utility tariff concerning customer deposits. The Utility stated that there are none. It was noted that the Utility does not collect customer deposits and is not authorized to do so.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Commission Rule 25-30.115, F.A.C., requires Florida utilities to maintain their books and records in conformity with the National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA).

NARUC, Class C Accounting Instructions, state:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Joyland Water System's books and records are not maintained in accordance with the NARUC USOA because the Utility does not list account numbers in accordance with NARUC, nor do they contain all rate base accounts in the general ledger. However, audit staff was able to differentiate the accounts based on the Utility's description of the respective accounts.

Effect on the General Ledger: This is for informational purpose only.

Finding 2: Utility Plant in Service

Audit Analysis: The Utility recorded \$43,992 for plant in service on its Annual Report as of December 31, 2011. The Utility was unable to provide documentation in support of plant in service prior to 1994 other than the 1980s' tax returns. These tax returns did not list the assets of the Utility, nor depreciate them, so it is believed that the original costs of the plant were included in the development costs of the Joyland subdivision. The original assets of \$34,500 were not included in the Utility's tax returns for the last 12 years. Therefore, audit staff utilized the annual reports and the general ledger when available and did not audit the plant in service balances. We noted that the Utility included \$3,500 for a 1997 Toyota truck on its annual report and general ledger. Since this truck is owned by Lounette Joyner, not the Utility, audit staff has removed it.

Acct. No.	Acct. Name	Balance per Utility as of 12/31/2011	Variance	Balance per Audit Staff as of 12/31/2011
304	Structures and Improvements	\$ 1,282	\$ -	\$ 1,282
306	Lake, River and Other Intakes	\$ 12,233	\$ -	\$ 12,233
320	Water Treatment Equipment	\$ 651	\$ -	\$ 651
	Transmission and Distribution			
331	Mains	\$ 16,600	\$ -	\$ 16,600
334	Meters and Meter Installations	\$ 5,000	\$ -	\$ 5,000
340	Office Furniture and Equipment	\$ 3,275	\$ -	\$ 3,275
341	Transportation Equipment	\$ 3,500	\$ (3,500)	\$ -
342	Stores Equipment	\$ 500	\$ -	\$ 500
347	Miscellaneous Equipment	\$ 951	\$ -	\$ 951
	Total	\$ 43,992	\$ (3,500)	\$ 40,492

Determination of whether the costs of the original assets should be CIAC is left to the analyst.

Effect on the General Ledger: The audit staff determined plant in service to be \$40,492 for the test year ended December 31, 2011. Therefore, the balance in the plant in service account should be decreased by \$3,500.

Finding 3: Utility Land

Audit Analysis: The Utility recorded \$8,000 for land beginning on its first Annual Report filed with this Commission in 1994. There have been no additions since 1994. Land was not noted on the general ledger; therefore, audit staff relied upon the Gadsden County Property Appraiser's value of the land, which was \$7,150. This \$7,150 applies only to Lot 45, which the well occupies. In addition, the auditor noted that the land on which the utility operates is not owned by Joyland Water System, but rather by the Lounette Joyner Trust. It is recommended that the Utility place this lot dedicated for the Utility in the Utility's name.

Effect on the General Ledger: The audit staff determined land to be \$7,150 for the test year ending December 31, 2011. Therefore, the balance in the land account should be decreased by \$850.

Finding 4: Capital Structure

Audit Analysis: The Utility states that it has no long-term or short-term debt. As of December 31, 2011, the Utility does have a proprietary capital balance of \$9,769 recorded on the Annual Report. This amount consists of the total Utility Plant minus Accumulated Depreciation.

NARUC USOA states that proprietary capital “shall be credited with the investment, include the net income or loss for the year and only amounts considered to be permanent investments in the business.”

Audit staff does not believe this amount is actual proprietary capital nor could we determine the appropriate amount due to the lack of proper documentation.

Effect on the General Ledger: This is for informational purposes only and for the analyst’s use.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility's total test year amount for O&M was \$17,705. Audit staff reviewed the supporting documentation and determined that O&M expenses should be increased by \$738 and working capital is calculated as \$2,305 based on one-eighth of operations and maintenance expense.

Description	NARUC Acct.	Balance per Utility as of 12/31/2011	Variance	Balance per Audit as of 12/31/2011
Salaries and Wages - Employees	601	\$ 7,583	\$ -	\$ 7,583
Purchased Power	615	\$ 1,207	\$ -	\$ 1,207
Chemicals	618	\$ 111	(6) (A)	\$ 105
Materials and Supplies	620	\$ 1,168	10 (B)	\$ 1,178
Contractual Services - Accounting	632	\$ -	200 (C)	\$ 200
Contractual Services - Legal	633	\$ 200	(200) (D)	\$ -
Contractual Services - Testing	635	\$ 1,006	725 (E)	\$ 1,731
Contractual Services - Other	636	\$ 179	(179) (F)	\$ -
Transportation Expenses	650	\$ 5,768	\$ -	\$ 5,768
Miscellaneous Expenses	675	\$ 483	189 (G)	\$ 672
Total Utility Expenses		\$ 17,705	\$ 739	\$ 18,444
Working Capital	1/8		\$ 2,305	\$ 2,305

Note:

- (A). Reclass to Account 620 - Materials & Supplies for \$6.22
- (B). Reclass from Account 618 - Chemicals for \$6.22
- (C). Reclass from Account 633 - Contractual Services - Legal for \$200.00
- (D). Reclass to Account 632 - Contractual Services - Accounting
- (E). The variance is due to audit staff's inclusion of additional testing that will be completed in 2012 and amortized over three years.
- (F). Reclass to Account 675 - Miscellaneous Expenses for \$179.40
- (G). Reclass from Account 630 - Contractual Services - Other for \$179.40

Effect on the General Ledger: We determined O&M expense and working capital to be \$18,443 and \$2,305 for the test year ended December 31, 2011. Therefore, the balances for O&M and working capital should be increased by \$738 and \$2,305, respectively.

Finding 6: Additional Expenses

Audit Analysis: Lounette Joyner is the sole proprietor of the Utility. She assists in the running of the Utility; however, she does not receive a salary or wages. The analysts should review the work performed by Mrs. Joyner to determine if compensation should be included in O&M expense.

The Utility does not have liability insurance for the plant. The analysts should determine if an amount for insurance should be included in O&M expense.

Effect on the General Ledger: This is for informational purposes only.

Finding 7: Accumulated Depreciation and Depreciation Expense

Audit Analysis: The Utility's balance for Accumulated Depreciation was \$42,223. The audit staff utilized the Annual Reports due to the lack of documentation for plant in service and was unable to verify all numbers. Audit staff recalculated Accumulated Depreciation to be \$31,987 using Commission approved rates. The difference is due to the Utility's use of the double declining balance method for tax purposes.

The Utility's 2011 test year balance for depreciation expense was \$398. The audit staff utilized the Annual Reports due to the lack of documentation for plant in service. We determined that depreciation expense should be \$1,498. The difference is due to the Utility's use of the double declining balance method for tax purposes as well as the use of different rates.

Effect on the General Ledger: This is for informational purposes only.

Exhibits

Exhibit 1: Rate Base

Description	Balance Per Utility as of 12/31/2011	Audit Adjustment	Balance Per Audit as of 12/31/2011
Utility Plant in Service	\$ 43,992	\$ (3,500)	\$ 40,492
Land & Land Rights	\$ 8,000	\$ (850)	\$ 7,150
Accumulated Depreciation	\$ (42,223)	\$ 10,236	\$ (31,987)
Contributions in Aid of Construction (A)	\$ -	\$ -	\$ -
Accumulated Amortization of CIAC	\$ -	\$ -	\$ -
Working Capital Allowance		\$ 2,306	\$ 2,306
Total Rate Base	\$ 9,769	\$ 8,192	\$ 17,961

(A) As per Finding 2, the determination of whether the costs of the original assets should be CIAC is left to the analyst.

Exhibit 2: Net Operating Income

Description	Balance per Utility as of 12/31/2011	Audit Adjustment	Balance per Audit as of 12/31/2011
Operating Revenues	\$ 13,035	\$ -	\$ 13,035
Operation & Maintenance Expenses	17,705	738	18,443
Depreciation Expense	398	1,100	1,498
Amortization Expense	-	-	-
Taxes Other Than Income	1,688	-	1,688
Total Operating Expenses:	19,791	1,838	21,629
Net Operating Income (Loss)	\$ (6,756)	\$ (1,838)	\$ (8,594)

Exhibit 3: Capital Structure

Description	Balance per Utility as of 12/31/2011	Audit Adjustments	Balance per Audit as of 12/31/2011
Proprietary Capital	\$ 9,769	\$ -	\$ 9,769
Total Capital	\$ 9,769	\$ -	\$ 9,769

Note: Audit staff does not believe this amount is actual proprietary capital nor could we determine the appropriate amount due to the lack of proper documentation.