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Public Service Commission

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

DATE: July 30, 2009
TO: Jared Deason, Regulatory Analyst IV, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No.: 090230-WU
Company Name: Camachee Cove Yacht Harbor Utility
Company Code: WU927
Audit Purpose: A1b; Staff Assisted Rate Case
Audit Control No: 09-131-1-2

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 the Commission Clerk. There no confidential work papers associated with this audit.

DNM/ch
Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Salak, Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

Mr. Frank D. Upchurch, III
Camachee Cove Yacht Harbor Utility
780 N. Ponce De Leon Blvd.
Saint Augustine, FL 32084

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

**DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING**

Tallahassee District Office

CAMACHEE COVE YACHT HARBOR UTILITY

STAFF ASSISTED RATE CASE

TEST YEAR ENDED DECEMBER 31, 2008

**DOCKET NO. 090230-WU
AUDIT CONTROL NO. 09-131-1-2**

A handwritten signature in black ink, appearing to read "Debra M. Dobiak", written over a horizontal line.

Debra M. Dobiak, Audit Manager

A handwritten signature in black ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer, District Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

July 24, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated 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 6, 2009. We have applied these procedures to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 2008 for Camachee Cove Yacht Harbor Utility. The attached schedules were prepared by the audit staff as part of our work in Docket No. 090230-WU.

This audit was performed following general standards and field work 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.

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II. OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

Objective: To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA).

Procedures: The audit staff reviewed the utility's accounting system and found it not to be in compliance with the NARUC USOA. Audit Finding No. 1 discusses our findings.

RATE BASE

Utility Plant in Service (UPIS)

Objectives: To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA. To verify that proper retirements of UPIS were made when a replacement item was put into service.

Procedures: Due to inadequate records, we determined that we could not establish plant beginning balances from 1977 as well as additions up through December 31, 1988. We compiled UPIS additions for the period from January 1, 1989 through December 31, 2008 for this proceeding. We toured the utility plant site to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 addresses our findings for UPIS.

Land and Land Rights

Objective: To determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease.

Procedures: We reviewed the warranty deed to verify that the parent company, Camachee Island Company, Inc. (CIC), owns the utility's land. We could not determine the land value when it was first dedicated to public service due to inadequate records. Audit Finding No. 2 discusses our findings for land.

Accumulated Depreciation

Objectives: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA. To verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

Procedures: The audit staff reviewed the utility's books and records for accumulated depreciation and noted that UPIS beginning balances could not be established due to inadequate supporting documentation. We calculated accumulated depreciation on plant additions that

could be verified using depreciation rates as per Commission Rule 25-30.140, Florida Administrative Code. Audit Finding No. 2 discusses the accumulated depreciation balances.

Contributions in Aid of Construction (CIAC)

Objectives: To determine that the utility has properly recorded all CIAC. To determine that CIAC has been amortized in accordance with Commission procedures and is consistent with the calculation of depreciation.

Procedures: We reviewed the general ledger for CIAC additions. We reviewed CIC's consolidated tax returns from 2005 to 2007 for unrecorded cash and property contributions. We reviewed the utility's St. Johns County Water and Sewer Authority approved tariffs for authorized CIAC additions because the utility is currently undergoing Commission certification. We noted that no service availability charges had been approved. Audit Finding No. 5 discusses our findings for CIAC.

Construction Work In Process (CWIP)

Objectives: To determine that CWIP is properly stated and authorized by Commission rules.

Procedures: We reviewed the utility's invoices for CWIP ensuring proper amount, proper period, classification, NARUC account, and recurring nature, and agreed the total to the trial balance.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the utility's working capital balance as of December 31, 2008 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433(2), Florida Administrative Code.

NET OPERATING INCOME

Revenue

Objectives: To determine that utility charges are those approved by the Commission in the utility's current authorized tariff. To determine that revenue earned from utility property during the test year are recorded and are properly classified in compliance with Commission rules and the NARUC USOA.

Procedures: The audit staff reviewed the utility's St. Johns County Water and Sewer Authority approved tariffs establishing rates because the utility is currently undergoing Commission certification. We compiled utility revenue for the 12-month period ending December 31, 2008 from the utility's billing register. We tested the reasonableness of the utility records by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the utility. We selected a judgmental sample of customer bills, recalculated the bills using the authorized rates, and prepared a billing analysis for the test year.

Operation and Maintenance Expense (O&M)

Objective: To determine that O&M expenses are properly recorded in compliance with Commission rules, and are reasonable and prudent for ongoing utility operations.

Procedures: We compiled O&M expense items from the utility's purchase journal and CIC's checkbook. We reviewed all of the utility's invoices for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of expenses for water operations. Audit Finding No. 3 discusses our findings for O&M expense balances.

Depreciation Expense

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

Procedures: The audit staff reviewed the utility's books and records for depreciation expense which could not be established due to inadequate supporting documentation. We calculated depreciation expense on plant additions that could be verified. Audit Finding No. 2 addresses depreciation expense.

Taxes Other Than Income (TOTI)

Objective: To determine the appropriate amounts for TOTI for the test year ended December 31, 2008.

Procedures: We compiled TOTI expenses from the utility's purchase journal and CIC's checkbook. We reviewed the property tax invoices and St. Johns County Water and Sewer Authority's regulatory assessment fee forms for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of payroll expenses for water operations. Audit Finding No. 4 discusses our findings for TOTI expenses.

CAPITAL STRUCTURE

GENERAL

Objective: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall cost of capital are properly recorded in compliance with Commission rules.

Procedures: We reviewed the 2008 trial balance for the capital structure components. The utility's debt was traced to an intercompany account. Docket No. 041145-WU, FPSC Order No. PSC-05-0621-PAA-WU, issued June 6, 2005 states "because payments are not paid and it is from a related party, we shall treat the funds as equity capital." Therefore, audit staff has included the intercompany account as equity in Exhibit No. 3 - Cost of Capital and determined the cost of capital based on the leverage formula from Docket No. 090006-WS, FPSC Order No. PSC-09-0430-PAA-WS, issued June 19, 2009.

III. AUDIT FINDINGS

AUDIT FINDING NO. 1

SUBJECT: BOOKS AND RECORDS

AUDIT ANALYSIS: A division of Camachee Island Company, Inc. (CIC), Camachee Cove Yacht Harbor Utility's books and records are maintained within the general ledger of its parent company but are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA).

NARUC, Class C, Accounting Instructions, states:

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.

Commission Rule 25-30.115, Florida Administrative Code (F.A.C.), requires utilities to maintain their books and records in conformity with the NARUC USOA.

The audit staff noted that CIC's outside accountants maintain a subset of records for the utility and the staff assisted rate case was able to be completed. However, the Commission should require the utility to maintain its books and records in compliance with the NARUC USOA, Commission orders, and Commission rules.

AUDIT FINDING NO. 2

SUBJECT: UTILITY PLANT IN SERVICE, LAND, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE

AUDIT ANALYSIS: The utility recorded \$200,100 for plant in service, \$10,000 for land, \$141,320 for accumulated depreciation, and \$9,242 for depreciation expense on its trial balance as of December 31, 2008. The utility was unable to provide adequate documentation in support for plant in service and land prior to January 1, 1989. We reviewed the county records and obtained the total land value for CIC, but couldn't make a value determination for the utility's portion of land. Beginning balances have been excluded until such time that an Original Cost Study is conducted. In addition, the utility did not consistently apply depreciation rates as per Commission Rule 25-30.140, Florida Administrative Code.

The audit staff was able to verify 80% of plant in service additions excluding land. The schedule below reflects verifiable plant additions, accumulated depreciation, and depreciation expense as of December 31, 2008.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: Reduce plant in service by \$39,316 (\$200,100 - \$160,784), land by \$10,000, accumulated depreciation by \$45,261 (\$141,320 - \$96,059), and depreciation expense by \$4,743 (\$9,242 - \$4,499).

12/31/2008						
Account	Date in Service	Cost	FPSC Rule Rate	Years in Service	Accumulated Depreciation	Current Depreciation
309 - Supply Mains	8/4/2003	\$ 2,891	0.0313	5.0	\$ 452	\$ 90
310 - Power Generation Equipment	12/30/2005	30,672	0.0588	3.0	5,413	1,804
311 - Pumping Equipment	12/13/2002	1,001	0.0588	6.0	353	59
311 - Pumping Equipment	4/11/2003	380	0.0588	5.5	123	22
311 - Pumping Equipment	10/25/2006	1,371	0.0588	2.0	161	81
320 - Water Treatment Equipment	7/1/1990	61,002	0.0588	18.5	61,002	-
320 - Water Treatment Equipment	10/7/2005	1,167	0.0588	3.0	206	69
320 - Water Treatment Equipment	2/9/2008	5,984	0.2000	0.5	598	598
331 - Transmission and Distribution Mains	4/27/1989	45,059	0.0263	19.5	23,122	1,186
334 - Meters and Meter Installations	10/19/2000	2,122	0.0588	8.0	999	125
334 - Meters and Meter Installations	10/11/2002	3,042	0.0588	6.0	1,074	179
334 - Meters and Meter Installations	11/1/2004	561	0.0588	4.0	132	33
334 - Meters and Meter Installations	12/6/2006	819	0.0588	2.0	96	48
334 - Meters and Meter Installations	8/24/2007	538	0.0588	1.0	32	32
336 - Backflow Prevention Devices	4/7/2003	4,175	0.1000	5.5	2,296	417
		<u>\$ 160,784</u>			<u>\$ 96,059</u>	<u>\$ 4,743</u>

AUDIT FINDING NO. 3

SUBJECT: OPERATION AND MAINTENANCE EXPENSES

AUDIT ANALYSIS: The utility recorded \$70,600 in operation and maintenance (O&M) expenses on its trial balance as of December 31, 2008.

The audit staff reviewed the supporting documentation for these expenses and determined that Account 604 Employee Pensions and Benefits should be increased by \$9,014, Account 601 Salaries and Wages – Employees should be decreased by \$39, and Account 635 Contractual Services – Testing should be decreased by \$60. We are recommending O&M expenses to be increased by \$8,915 (\$9,014 - \$39 - \$60) for 2008. See the attached schedule for details.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The trial balance O&M expenses should be increased by a net of \$8,915.

Acct.	Description	Balance per Utility 12/31/2008	variance	Balance per Audit 12/31/2008	Ref No.
601	Salaries & Wages - Emp	\$ -	\$ 26,526	\$ 26,526	1
603	Salaries & Wages - Officers		7,135	7,135	1
604	Emp Pensions & Benefits		9,014	9,014	1
610	Purchased Water		-	-	
615	Purchased Power	4,800	-	4,800	
616	Fuel for Purchased Power	299	203	502	2
618	Chemicals	1,221	0	1,221	
620	Materials & Supplies	1,444	278	1,722	1,2
631	Contractual Services - Professional	4,900	-	4,900	
634	Contractual Services - Mgmt Fees	-	-	-	
635	Contractual Services - Testing	4,138	(60)	4,078	3
636	Contractual Services - Other	17,322	(0)	17,322	
640	Rents		360	360	1
650	Transportation Expense		600	600	1
655	Insurance	911	-	911	
665	Reg. Comm. Exp. Rate Case Amort.		-	-	
670	Bad Debt Expense		-	-	
675	Miscellaneous Expense	35,565	(35,140)	425	1
			-		
		\$ 70,600	\$ 8,915	\$ 79,515	

Reference 1: Camachee Island Company, Inc. (CIC) annually calculates a management fee for the utility to include as part of O&M expenses for regulatory reporting only. Upon review of the utility’s trial balance, the management fee was recorded in Account 675, Miscellaneous Expense and consisted of salaries and wages for employees and officers, rent, transportation expense, and office supplies. The utility calculated the management fee by utilizing actual amounts and rounding up to the nearest \$100. The audit staff determined that actual amounts should be

allocated to the utility via the intercompany account. In addition, employee benefits had not been included in the management fee calculation.

The following general ledger entry is needed to reclass and increase the utility's expenses as of December 31, 2008.

NARUC			
Acct. No.	Account Description	Debit	Credit
601	Salaries & Wages – Emp	\$26,526	
603	Salaries & Wages – Officers	\$ 7,135	
604	Emp Pensions & Benefits	\$ 9,014	
620	Materials & Supplies	\$ 480	
640	Rent	\$ 360	
650	Transportation Expense	\$ 600	
253	Deferred Credit (Due to Parent)		\$ 8,975
675	Miscellaneous Expense		\$35,140

Reference 2: The utility inadvertently recorded fuel for purchased power in materials and supplies.

The following general ledger entry is needed to reclass the utility' expenses as of December 31, 2008.

NARUC			
Acct. No.	Account Description	Debit	Credit
616	Fuel for Purchase Power	\$203	
620	Material & Supplies		\$203

Reference 3: The utility had 13 months of Contractual Services – Testing rather than just 12 months.

The following general ledger entry is needed to reduce the utility's expenses as of December 31, 2008.

NARUC			
Acct. No.	Account Description	Debit	Credit
253	Deferred Credit (Due to Parent)	\$60	
635	Contractual Services - Testing		\$60

AUDIT FINDING NO. 4

SUBJECT: TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The utility recorded \$960 in taxes other than income (TOTI) on its trial balance as of December 31, 2008 which represented real estate and personal property taxes. It did not record any expense for payroll taxes or for regulatory assessment fees (RAF).

The utility was under the jurisdiction of St. Johns County Water and Sewer Authority for 2008 and did pay quarterly RAFs for the first three-quarters of 2008. The last quarter of RAFs due is recorded as a payable on the trial balance. However, the audit staff calculated RAF expense as per the rate charged by the Commission which is 4.5% of total revenue, or \$1,944 for year-ending December 31, 2008.

The utility did not include any allocations for payroll taxes in its management fee calculation. Utilizing the schedule provided by the utility, the audit staff determined payroll taxes of \$71.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: The trial balance TOTI expense should be increased by \$2,015 (\$1,944 + \$71).

The following general ledger entry is needed to correct the utility trial balance as of December 31, 2008.

NARUC			
Acct. No.	Account Description	Debit	Credit
408	Taxes other than Income	\$2,015	
253	Deferred Credit (Due to Parent)		\$2,015

AUDIT FINDING NO. 5

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION

AUDIT ANALYSIS: The utility did not have contributions in aid of construction (CIAC) recorded on its books as of December 31, 2008. Audit staff was unable to determine with any certainty if CIAC does exist and at what value.

However, the audit staff did obtain and noted the following:

- An estimated contract between V.J. Usina Contracting, Inc. and Camachee Harbor, Inc., that was signed in acceptance, noted the cost of building the water distribution system and sewer infrastructure applicable to the lots purchased and later sold as residential lots. We included the cost of the water distribution system in UPIS.
- Docket No. 851107-WU, FPSC Order No. 15801, issued March 10, 1986, states, "The utility does not charge any type of connection charge or meter installation fee. New customers are required to obtain the utility's permission to connect and then install their own meter and service line." This would infer that the meters and service lines are contributed, however, audit staff has no basis to establish a cost. We did not include any costs in CIAC.
- The utility did not have any closing statements from the sales of the lots. Therefore, audit staff could not determine if there was any reimbursement to the utility for the cost of the distribution mains, service lines, or meters.
- Reviewed Camachee Island Company, Inc. consolidated tax returns for 2005, 2006, and 2007, and didn't note any contributed property.
- The utility has been including the cost of meters and meter installations in UPIS since 2000.

This is for informational purposes only.

IV. EXHIBITS

EXHIBIT NO. 1 – WATER RATE BASE

**CAMACHEE COVE YACHT HARBOR UTILITY
STAFF-ASSISTED RATE CASE
DOCKET NO. 090230-WU; ACN 09-131-1-2
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 2008**

Description	Balance per Utility 12/31/2008	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2008	Average Balance Per Audit
Utility Plant in Service	\$ 200,100	\$ (39,316)	2	\$ 160,784	\$ 157,792
Land	10,000	(10,000)	2	-	-
Accumulated Depreciation	(141,320)	45,261	2	(96,059)	(93,687)
Contributions in Aid of Construction	-	-		-	-
Accumulated Amortization of CIAC	-	-		-	-
Construction Work In Progress	A 201,107	-		201,107	123,512
Working Capital Allowance:	-	9,939		9,939	9,939
RATE BASE	\$ 269,887	\$ 5,884		\$ 275,771	\$ 197,556

A - The utility is currently building a new plant.

EXHIBIT NO. 2 – WATER NET OPERATING INCOME

**CAMACHEE COVE YACHT HARBOR UTILITY
STAFF-ASSISTED RATE CASE
DOCKET NO. 090230-WU; ACN 09-131-1-2
SCHEDULE OF NET OPERATING INCOME
FOR TEST YEAR ENDED DECEMBER 31, 2008**

Description	Balance per Utility 12/31/2008	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2008
Operating Revenues	\$ 43,224	\$ -		\$ 43,224
Operation & Maintenance Expenses	70,600	8,915	3	79,515
Depreciation Expense	9,242	(4,499)	2	4,743
CIAC Amortization Expense	-	-		-
Taxes Other than Income	960	2,015	4	2,975
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 80,802	\$ 6,432		\$ 87,234
Net Operating Income (Loss)	\$ (37,578)	\$ (6,432)		\$ (44,010)
Rate Base	\$ 269,887			\$ 197,556
Rate of Return	-13.92%			-22.28%

EXHIBIT NO. 3 – COST OF CAPITAL

CAMACHEE COVE YACHT HARBOR UTILITY
STAFF-ASSISTED RATE CASE
DOCKET NO. 090230-WU; ACN 09-131-1-2
SCHEDULE OF CAPITAL STRUCTURE
AS OF DECEMBER 31, 2008

Description	Balance per Utility 12/31/2008	Audit Adjustments	A	Balance per Audit 12/31/2008	Ratio	Cost Rate	Weighted Cost
Common Equity	\$ 272,137	\$ (4,055)	A	\$ 268,082	100.00%	9.670%	9.67%
TOTAL CAPITAL	\$ 272,137	\$ (4,055)		\$ 268,082	100.00%		9.67%

As per FPSC Order No. PSC-09-0430-PAA-WS, issued June 19, 2009:

Leverage Formula: Return on Common Equity = 8.58% + 1.087/Equity Ratio
 Where Equity Ratio = Common Equity/(Common Equity + Preferred Equity + Long-Term
 and Short-Term Debt)
 Range: 9.67% @ 100% equity to 11.30% @ 40% equity

A Exhibit 1 - Audit Adjustments:	\$	(39,316)
	\$	(10,000)
	\$	45,261
	<u>\$</u>	<u>(4,055)</u>