

State of Florida



Public Service Commission

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

Auditor's Report

LP Waterworks, Inc.
Transfer of Certificate Audit

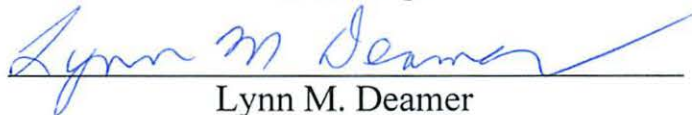
As of December 27, 2012

Docket No. 130055-WS
Audit Control No. 13-085-1-1

July 10, 2013



Donna D. Brown
Audit Manager



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 Accounting & Finance in its audit service request dated March 27, 2013. We have applied these procedures to the attached schedules prepared by LP Waterworks, Inc. in support of its filing in Docket No. 130055-WS.

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

Objectives and Procedures

General

The term "Utility" refers to LP Waterworks, Inc.

The Utility purchased the water and wastewater systems from LP Utilities Corporation on December 27, 2012.

The last rate proceeding that established balances for Rate Base was Docket 020010-WS. Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, established these balances as of December 31, 2001.

LP Utilities Corporation requested a staff-assisted rate case in 2011 in Docket 110208-WS. Audit staff issued an audit report, on October 7, 2011, for the 12 months ended December 31, 2010. LP Utilities Corporation withdrew its request on January 11, 2013. Where possible, audit staff relied on the work performed in that audit to complete this audit.

Rate Base

Utility Plant in Service

Objectives: The objectives were 1) to determine that property exists and is owned by the Utility, 2) to determine that additions to Utility Plant in Service (UPIS) are authentic, recorded at original cost, and classified in compliance with Commission rules and the NARUC USOA, and 3) to verify that retirements of UPIS are made when a replacement item was placed in service.

Procedures: Beginning with the water and wastewater Commission ordered UPIS balances as of December 31, 2001, audit staff used the information obtained in the prior 2011 audit, as well as the 2011 and 2012 Annual Reports to determine the audit balances as of December 27, 2012. Finding 1 discusses Plant In Service.

Land & Land Rights

Objectives: The objectives were to determine 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 utility land is recorded at the original cost when the land was first dedicated to public service.

Procedures: Audit staff determined that the Utility owns the land and is recorded at the original cost when the land was first dedicated to public service. There have been no additions to land since the prior 2011 audit. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objective was to determine that Utility Contributions in Aid of Construction (CIAC) balances are properly stated and are reflective of service availability charges authorized in the Utility's approved Commission tariff.

Procedures: Beginning with the water and wastewater Commission ordered CIAC balances as of December 31, 2001, audit staff used the information obtained in the prior 2011 audit, as well

as the 2011 and 2012 Annual Reports to determine the audit balances as of December 27, 2012. Finding 2 discusses CIAC.

Accumulated Depreciation

Objectives: The objective was 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: Beginning with the water and wastewater Commission ordered Accumulated Depreciation balances as of December 31, 2001, we calculated depreciation expense for the years 2002 to 2012 to obtain the audit balances of Accumulated Depreciation as of December 27, 2012. We used the information obtained in the prior 2011 audit, the audited UPIS balances and the Commission approved depreciation rates. Finding 3 discusses Accumulated Depreciation.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine that CIAC is amortized in accordance with Commission rules and orders and is consistent with the calculation of depreciation expense.

Procedures: Beginning with the water and wastewater Commission ordered Accumulated Amortization of CIAC balances as of December 31, 2001, we calculated amortization of CIAC for the period 2002 to 2012 to obtain the audit balances of Accumulated Amortization of CIAC as of December 27, 2012. We used the information obtained in the prior 2011 audit, the audited CIAC balances and appropriate amortization rates. Finding 4 discusses Accumulated Amortization of CIAC.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: The water and wastewater UPIS balances per the Utility are \$469,295 and \$377,807, respectively as of December 27, 2012 – the date of the sale of utility assets.

Order No. PSC-02-1739-PAA-WS established water and wastewater balances of \$495,419 and \$383,353, respectively, as of December 31, 2001. The Utility has not made the adjustments specified in the Commission Order to its books and records.

We asked the Utility to provide documentation for additions to plant from January 1, 2011 to December 27, 2012, the period subsequent to the last staff assisted rate case audit. The utility had no additions. Audit staff used the adjustments from the prior 2011 audit in this audit and determined the Utility's correct UPIS balance per audit to be \$497,217 for water and \$383,998 for wastewater, as of December 27, 2012.

Our analysis for the adjustments stated in Table 1-1 and Table 1-2 are below.

- 1) Account 301 – Organization is increased by \$414, as the Utility did not adjust to the Commission's last order in Docket 020010-WS.
- 2) Account 310 – Power Generation Equipment is increased by \$2,506 based on the following adjustments.
 - a. We have increased the account by \$2,146, as the Utility did not adjust to the Commission's last order.
 - b. We have increased the account by \$360, which represents the difference between plant addition of \$1,440 that was reclassified from O&M and a retirement of \$1,080 for a replacement of alarm box in 2010.
- 3) Account 334 – Meter & Meter Installation is increased by \$27,663 based on the following adjustments.
 - a. We have increased the account by \$27,543, as the Utility did not adjust to the Commission's last order.
 - b. We have increased the account by \$120, which represents the cost of six meter boxes that were reclassified from O&M to the Plant in service Account.
- 4) Account 336 – Backflow Prevention Devices is increased by \$620, which represents the cost of a pressure relief valve that was reclassified from O&M account.
- 5) Account 340 – Office Furniture & Equipment is decreased by \$3,281 due to the following adjustments.
 - a. We have decreased the account by \$946 as the Utility did not adjust to the Commission' last order

- b. We have removed \$2,335 as the Utility added \$3,033, which represents the cost of three computers in Account 340. We removed the cost of two computers of \$1,691 as non-utility expense. We allocated 52% (\$698) of the cost of one computer and accessories of \$1,343 to Account 340.
- 6) Account 351 – Organization is increased by \$346, as the Utility did not adjust to the Commission’s last order.
- 7) Account 380 – Treatment and Disposal Equipment is increased by \$5,200, as the Utility did not adjust to the Commission’s last order.
- 8) Account 390 – Office Furniture & Equipment is increased by \$645, which represents the 48% wastewater allocation of a computer and accessories costs of \$1,343 that the Utility posted in Account 340.

**Table 1-1
Water Plant Account Balances
As of December 27, 2012**

Acct No.	Account Description	Balance Per Utility	Adjustment	Balance Per Audit
301	Organization	-	\$414	\$414
304	Structure and Improvement	\$66,428	-	66,428
307	Wells & Springs	41,707,	-	41,707
309	Supply Mains	1,040	-	1,040
310	Power Generation Equipment	7,200	2,506	9,706
330	Distribution Reservoirs & Standpipes	32,416	-	32,416
331	Transmission & Distribution Mains	206,312	-	206,312
333	Services	58,563	-	58,563
334	Meter & Meter Installation	45,032	27,663	72,695
335	Hydrants	5,364	-	5,364
336	Backflow Prevention Devices	1,254	620	1,874
340	Office Furniture & Equipment	3,979	(3,281)	698
	Total UPIS	\$469,295	\$27,922	\$497,217

Table 1-2
Wastewater Plant Account Balances
As of December 27, 2012

Acct No.	Account Description	Balance Per Utility	Adjustment	Balance Per Audit
351	Organization	-	\$346	\$346
354	Structure & Improvement	42,176	-	42,176
360	Collection Sewers – Force	11,557	-	11,557
361	Collection Sewers – Gravity	141,605	-	141,605
362	Special Collecting Structures	1,040	-	1,040
363	Services to Customers	111,860	-	111,860
380	Treatment & Disposal Equipment	68,622	5,200	73,822
390	Office Furniture & Equipment	-	645	645
393	Tools, Shop & Garage Equipments	947	-	947
	Total UPIS	\$377,807	\$6,191	\$383,998

Effect on the General Ledger: The UPIS balance for water and wastewater should be increased by \$27,922 and \$6,191, respectively, as of December 27, 2012.

Finding 2: Contributions-in-Aid-of-Construction

Audit Analysis: The water and wastewater Contributions-In-Aid-of-Construction balances per the Utility are \$204,307 and \$65,600, respectively as of December 27, 2012.

Order No. PSC-02-1739-PAA-WS established water and wastewater CIAC balances of \$234,915 and \$65,600 respectively, as of December 31, 2001. The Utility did not adjust the water CIAC balance to the Commission Order.

We compiled CIAC additions for the period January 1, 2002, through December 27, 2012, to determine the Utility's CIAC balances as of December 31, 2012. We used information from the Utility's 2002-2012 annual reports, and from its authorized service availability tariff, and revenue to determine the CIAC additions since its last rate proceedings.

Our water CIAC adjustment of \$120,078 consists of a \$30,608 adjustment to the above stated Commission Order, and \$89,470 for CIAC additions that the Utility did not record. Our wastewater CIAC adjustment of \$90,800 represents CIAC additions that the Utility did not record.

Effect on the General Ledger: The Utility should increase its water and wastewater CIAC balances by \$120,078 and \$90,800, respectively, as of December 27, 2012.

Finding 3: Accumulated Depreciation

Audit Analysis: The water and wastewater Accumulated Depreciation balances per the Utility are \$272,636 and \$297,869, respectively, as of December 27, 2012.

We determined the audit balance of Accumulated Depreciation to be \$306,226 for water and \$273,175 for wastewater, as of December 27, 2012. The water and wastewater adjustments of \$33,590 and (\$24,694) are due to our Plant in Service adjustments as explained in Finding 1, and using the depreciation rates prescribed in Commission Rule 25-30-140, F.A.C. Our adjustments include the Commission Ordered adjustments of (\$7,941) for water, and (\$8,585) for wastewater as found in Commission Order No. PSC-02-1739-PAA-WS. The Detail of these adjustments is found in Table 3-1.

Table 3-1
Water Accumulated Depreciation
As of December 27, 2012

Acct. No.	Description	Balance per the Utility 12/27/2012	Adjustme nt	per Audit at 12/27/2012
301	Organization	\$0	\$119	\$119
304	Structures and Improvements	\$27,208	\$26,754	\$53,962
307	Wells and Springs	\$41,707	(\$17,515)	\$24,192
309	Supply Mains	\$1,040	(\$601)	\$439
310	Power Generation Equipment	\$4,412	\$938	\$5,350
330	Distribution Reservoirs & Standpipes	\$11,784	\$10,562	\$22,346
331	Transmission and Distribution Mains	\$73,391	\$30,115	\$103,506
333	Services	\$58,496	(\$21,215)	\$37,281
334	Meters and Meter Installations	\$46,390	\$8,116	\$54,506
335	Hydrants	\$5,364	(\$2,313)	\$3,051
336	Backflow Prevention Devices	\$1,254	(\$71)	\$1,183
340	Office Furniture and Equipment	\$1,558	(\$1,267)	\$291
341	Transportation Equipment	\$32	(\$32)	\$0
Total		<u>\$272,636</u>	<u>\$33,590</u>	<u>\$306,226</u>

WasteWater Accumulated Depreciation
As of December 27, 2012

Acct. No.	Description	Balance per the Utility 12/27/2012	Adjustme nt	Balance per Audit at 12/27/2012
351	Organization	\$0	\$99	\$99
354	Structures and Improvements	\$18,730	\$16,786	\$35,516
360	Collection Sewers - Force	\$17,774	(\$8,463)	\$9,311
361	Collection Sewers - Gravity	\$46,656	\$33,780	\$80,436
362	Special Collecting Structures	\$38,020	(\$37,641)	\$379
363	Services	\$38,430	\$34,285	\$72,715
364	Flow Measuring Devices	\$34,391	(\$34,391)	\$0
380	Treatment and Disposal Equipment	\$54,924	\$18,898	\$73,822
389	Other Plant and Misc. Equipment	\$48,156	(\$48,156)	\$0
390	Office Furniture and Equipment	\$0	\$108	\$108
393	Tools, Shop and Garage Equipment	\$756	\$33	\$789
395	Power Operated Equipment	\$32	(\$32)	\$0
Total		<u>\$297,869</u>	<u>(\$24,694)</u>	<u>\$273,175</u>

Effect on the General Ledger: The Utility should adjust its general ledger to the audited accumulated depreciation balances determined above. The accumulated depreciation balance for water should be increased by \$33,590 and the accumulated depreciation balance for wastewater should be decreased be \$24,694 as of December 27, 2012.

Finding 4: Accumulated Amortization of CIAC

Audit Analysis: The water and wastewater Accumulated Amortization of CIAC balances per the Utility are \$103,313 and \$39,129, respectively, as of December 27, 2012. Commission Order PSC-02-1739-PAA-WS established water and wastewater balances of \$37,274 and \$19,911, respectively as of December 31, 2001. Audit staff determined that the ordered adjustments as per Commission Order PSC-02-1739-PPA-WS were not made.

Using our audited balances for CIAC as discussed in Finding 2, and applicable amortization rates,, we calculated Accumulated Amortization of CIAC to be \$147,478 and \$54,715 for water and wastewater, respectively, as of December 27, 2012.

Effect on the General Ledger: Accumulated Amortization of CIAC for water and wastewater should be increased by \$44,165 and \$15,586, respectively.

Exhibits

Exhibit 1: Water Rate Base

LP Waterworks, Inc.

Water Rate Base

Docket No.: 130055-WS

Audit Control No.: 13-085-1-1

As of December 27, 2012

Description	Balance Per Utility	Audit Adjustments	Balance per Audit @12/27/12
Utility Plant in Service	\$ 469,295	\$ 27,922	\$ 497,217
Land	\$ 20,598	\$ -	\$ 20,598
Accumulated Depreciation	\$ (272,636)	\$ (33,591)	\$ (306,227)
Contributions in Aid of Construction	\$ (204,307)	\$ (120,078)	\$ (324,385)
Accumulated Amortization of CIAC	\$ 103,313	\$ 44,165	\$ 147,478
Rate Base	\$ 116,263	\$ (81,582)	\$ 34,681

Note (1): Working Capital was not calculated as this is a transfer audit.

Exhibit 2: Wastewater Rate Base

LP Waterworks, Inc.

Wastewater Rate Base

Docket No.: 130055-WS

Audit Control No.: 13-085-1-1

As of December 27, 2012

Description	Balance Per Utility	Audit Adjustments	Balance per Audit @12/27/12
Utility Plant in Service	\$ 377,807	\$ 6,191	\$ 383,998
Land	\$ 36,000	\$ -	\$ 36,000
Accumulated Depreciation	\$ (297,869)	\$ 24,696	\$ (273,173)
Contributions in Aid of Construction	\$ (65,600)	\$ (90,800)	\$ (156,400)
Accumulated Amortization of CIAC	\$ 39,129	\$ 15,586	\$ 54,715
Rate Base	\$ 89,467	\$ (44,327)	\$ 45,140

Note (1): Working Capital was not calculated as this is a transfer audit.