

State of Florida



**Public Service Commission**

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

**Auditor's Report**

LP Waterworks, Inc.  
Staff-Assisted Rate Case

**Twelve Months Ended May 31, 2013**

Docket No. 130153-WS  
Audit Control No. 13-171-1-1  
**September 17, 2013**

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Intesar Terkawi  
Audit Manager

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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 and Finance in its audit service request dated June 18, 2013. We have applied these procedures to the attached schedules prepared by the audit staff in support of LP Waterworks, Inc.'s request for a Staff Assisted Rate Case in Docket No.130153-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**

#### Definitions

The audit period is for the 12 months ended May 31, 2013.

The Utility refers to LP Waterworks, Inc.

The Seller refers to L.P. Utilities Corporation.

#### History

The Utility is a Class C water and wastewater utility providing water and wastewater service in Highlands County.

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. The Seller protested this order and filed a Petition for a Formal Administrative Hearing on December 30, 2002. Order No. PSC-03-1051-FOF-WS, issued September 22, 2003, adjusted the Contributions-in-Aid-of-Construction (CIAC) balance and the Accumulated Amortization of CIAC balance as of December 31, 2001. Utility Plant In Service and Accumulated Depreciation did not change from the prior order. See Findings 2 and 4.

L.P. Utilities Corporation requested a staff assisted rate case in 2011 in Docket 110208-WS. Audit staff issued an audit report (Audit Control Number:11-200-1-2) on October 7, 2011 for the 12 months ended December 31, 2010. L.P. Utilities Corporation withdrew its request on January 11, 2013.

The Utility purchased the water and wastewater systems from L.P. Utilities Corporation on December 27, 2012, and filed an application for transfer of Certificates No. 620-W and 533-S in Docket No. 130055-WS. This docket remains open.

LP Waterworks, Inc. requested this instant staff assisted rate case on May 24, 2013.

#### Utility Books and Records

**Objectives:** The objective was to determine whether the Utility maintains its accounts and records in compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) as adopted by the Florida Public Service Commission.

**Procedures:** We reviewed the Utility's accounting system. No exceptions were noted.

## **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 UPIS balances as of December 31, 2001, that were established in Docket 020010-WS, we added UPIS additions for the period 2002 to 2013 to obtain the audit balances as of May 31, 2013. We used the information provided in Docket 110208-WS, Docket 130055-WS, and the 2011 and 2012 Annual Reports. We also requested documentation supporting any additions since 2001. Finding 1 discusses UPIS.

### Land and Land Rights

**Objectives:** The objectives were to determine whether 1) utility land exists, 2) is used for utility operations, 3) is owned by the Utility or is secured under a long-term lease, and 4) utility land is recorded at original cost when the land was first dedicated to public service.

**Procedures:** Audit staff determined that the Utility owns the land, and it is recorded at the original cost when the land was first dedicated to public service. There have been no additions to land since 2001. No exceptions were noted.

### Contributions-in-Aid-of-Construction

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

**Procedures:** Beginning with the water and wastewater CIAC balances as of December 31, 2001, that were established in Docket 020010-WS, we added CIAC additions for the period 2002 to 2013 to obtain the audit balances as of May 31, 2013. We requested documentation supporting any additions since 2001. Finding 2 discusses CIAC.

### Accumulated Depreciation and Depreciation Expense

**Objectives:** The objective was to determine whether 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 accumulated depreciation balances as of December 31, 2001, that were established in Docket 020010-WS, we calculated depreciation expense for the years 2002 to 2013 to obtain the audit balances as of May 31, 2013. We utilized the information provided in Docket 110208-WS, Docket 130055-WS, and the 2011 and 2012 Annual Reports. Finding 3 discusses Accumulated Depreciation and Depreciation Expense.

### Accumulated Amortization of CIAC and Amortization Expense

**Objectives:** The objective was to determine whether 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 accumulated amortization of CIAC balances that were established in Docket 020010-WS, as of December 31, 2001, we calculated amortization of CIAC for the period 2002 to 2013 to obtain the audit balances as of May 31, 2013. Finding 4 discusses Accumulated Amortization of CIAC and Amortization Expense.

### Working Capital

**Objectives:** The objective was to calculate the Utility's working capital balance in compliance with Commission rules.

**Procedures:** We calculated the Utility's working capital allowance as of May 31, 2013, using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule 30.433(2), F.A.C. Finding 6 discusses the Working Capital Allowance.

## **Net Operating Income**

### Operating Revenue

**Objectives:** The objectives were to determine whether the utility revenues for the test year are properly stated, and that utility charges were those approved by the Commission in the Utility's current authorized tariffs.

**Procedures:** We determined the Utility's revenues for the 12-month period ending May 31, 2013, by tracing them to the Utility's general ledger and its billing reports. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of customer bills. We prepared a billing analysis from the billing reports. Finding 5 discusses Operating Revenues.

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether 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 traced the amounts recorded in the general ledger to source documentation such as invoices, cancelled checks, and credit card statements. We determined the allocation percentages for water and wastewater, and if any additional expenses are required. We obtained estimates from the Utility for these items. Findings 6 and 7 discuss O&M Expense.

### Taxes Other than Income

**Objectives:** The objective was to determine whether Taxes Other Than Income (TOTI) are properly recorded in compliance with Commission rules and agree to the tax returns.

**Procedures:** We verified water and wastewater TOTI for the test year by tracing to original source documentation. We reviewed the 2012 Regulatory Assessment Fee returns. Finding 8 discusses TOTI.

## **Capital Structure**

**Objectives:** The objective was to determine the components of the Utility's capital structure and whether the respective cost rates used to arrive at the overall cost of capital are in compliance with Commission rules.

**Procedures:** Audit staff requested copies of debt instruments and customer deposits. The Utility stated there were none. Audit staff did note that on the Utility provided balance sheet, there was a Capital/Common stock issued in the amount of \$328,145. This amount was not audited.

## 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 May 31, 2013.

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 May 31, 2013, 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. The UPIS balances are \$497,217 for water and \$383,998 for wastewater as of May 31, 2013. The average UPIS balances were calculated to be \$497,217 for water and \$383,998 for wastewater as of May 31, 2013.

The 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 a plant addition of \$1,440 that was reclassified from O&M and a retirement of \$1,080 for the replacement of an 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 an 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’s 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 for \$1,691 as a 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 May 31, 2013**

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
	<b>Total UPIS</b>	<b>\$469,295</b>	<b>\$27,922</b>	<b>\$497,217</b>

**Table 1-2  
Wastewater Plant Account Balances  
As of May 31, 2013**

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 Equipment	947	-	947
	<b>Total UPIS</b>	<b>\$377,807</b>	<b>\$6,191</b>	<b>\$383,998</b>

**Effect on the General Ledger:** The Utility should record the adjustments noted above to reflect the UPIS balances of \$497,217 for water and \$383,998 for wastewater as of May 31, 2013.

**Effect on the Filing:** The average UPIS balances should be increased by \$27,922 and \$6,191 for water and wastewater, respectively, as of May 31, 2013.

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

**Audit Analysis:** The water and wastewater CIAC balances per the Utility are \$204,307 and \$65,600, respectively, as of May 31, 2013.

Order No. PSC-02-1739-PAA-WS established water and wastewater CIAC balances of \$204,307 and \$65,600, respectively, as of December 31, 2001. Order No. PSC-03-1051-FOF-WS, issued September 22, 2003, increased the water CIAC balance by an additional \$30,608 as of December 31, 2001. This was to record CIAC attributable to 162 customers that was overlooked in the prior order. The Utility did not adjust the water CIAC balance to this Commission Order.

We compiled CIAC additions for the period January 1, 2002, through May 31, 2013, to determine the Utility's CIAC balances as of May 31, 2013. We used information from the Utility's 2002 to 2012 annual reports in conjunction with Commission's staff's billing analysis to determine the customer additions since the last rate proceeding. CIAC was calculated using the prescribed rates in the approved tariffs.

The water CIAC adjustment of \$61,339 consists of the adjustment of \$30,608 which was in the Commission Order and CIAC additions of \$30,731 that the Utility has not recorded. The wastewater CIAC adjustment of \$26,800 is for CIAC additions that the Utility has not recorded.

**Effect on the General Ledger:** The Utility should record the CIAC balances of \$265,646 for water and \$92,400 for wastewater as of May 31, 2013.

**Effect on the Filing:** The average CIAC balances should be increased to \$265,646 and \$92,400 for water and wastewater, respectively, as of May 31, 2013.

### Finding 3: Accumulated Depreciation and Depreciation Expense

**Audit Analysis:** The audit staff obtained the water and wastewater accumulated depreciation balances from each of the prior 2011 audit and the 2012 transfer audit as well as the 2011 and 2012 annual reports. We calculated accumulated depreciation to be \$313,412 for water and \$276,869 for wastewater as of May 31, 2013. For the test year, we calculated depreciation expense to be \$17,244 for water and \$8,871 for wastewater using the depreciation rates prescribed in Rule 25-30.140, F.A.C. The calculations are found in Table 3-1 and Table 3-2.

**Table 3-1  
Water Accumulated Depreciation and Depreciation Expense  
As of May 31, 2013**

NARUC Acct. #	Account Description	Depr Rates	Balance 6/1/12	Dep Expense	Balance 5/31/13	Test Year Average
				6/1/12-5/31/13		
301	Organization	2.50%	\$ 112	\$ 10	\$ 123	\$ 117
304	Structures and Imp.	3.57%	\$ 52,578	\$ 2,372	\$ 54,951	\$ 53,764
307	Wells & Springs	3.70%	\$ 23,292	\$ 1,545	\$ 24,837	\$ 24,065
309	Supply Mains	3.13%	\$ 421	\$ 33	\$ 453	\$ 437
310	Power Gen Equip	5.88%	\$ 5,018	\$ 571	\$ 5,589	\$ 5,304
330	Distribution Res.	3.03%	\$ 21,774	\$ 982	\$ 22,756	\$ 22,265
331	Trans. & Distr. Mains	2.63%	\$ 100,341	\$ 5,429	\$ 105,770	\$ 103,056
333	Services	2.86%	\$ 36,304	\$ 1,673	\$ 37,977	\$ 37,141
334	Meters & Meter Inst.	5.88%	\$ 52,012	\$ 4,269	\$ 56,281	\$ 54,147
335	Hydrants	2.50%	\$ 2,973	\$ 134	\$ 3,107	\$ 3,040
336	Backflow Prev Dev	5.88%	\$ 1,119	\$ 110	\$ 1,229	\$ 1,174
340	Office Fur.&Equip	16.67%	\$ 222	\$ 116	\$ 339	\$ 281
	Total		\$ 296,166	\$ 17,244	\$ 313,412	\$ 304,789
	Per Utility		\$ 260,350	\$ 12,286	\$ 272,636	\$ 266,493
	Difference		\$ 35,816	\$ 4,958	\$ 40,776	\$ 38,296

**Table 3-2**  
**Wastewater Accumulated Depreciation and Depreciation Expense**  
**As of May 31, 2013**

NARUC Acct. #	Account Description	Depr Rates	Balance 6/1/12	6/1/12-5/31/13 Dep Exp	Balance 5/31/13	Test Year Average
351	Organization	2.50%	\$ 95	\$ 9	\$ 103	\$ 99
354	Structures and Imp.	3.70%	\$ 34,607	\$ 1,561	\$ 36,168	\$ 35,387
360	Collection Sewer Force	3.70%	\$ 9,061	\$ 428	\$ 9,488	\$ 9,274
361	Collection Sewer Gravity	2.50%	\$ 78,371	\$ 3,540	\$ 81,911	\$ 80,141
362	Special Collecting Structures	2.70%	\$ 363	\$ 28	\$ 391	\$ 377
363	Services	2.86%	\$ 70,846	\$ 3,199	\$ 74,045	\$ 72,446
380	Treatment& Disp. Equip	6.67%	\$ 73,822	\$ -	\$ 73,822	\$ 73,822
390	Office Fur.&Equip	6.67%	\$ 82	\$ 43	\$ 125	\$ 104
393	Tools, Shop&Garage Equip	6.67%	\$ 753	\$ 63	\$ 816	\$ 785
	Total		\$ 268,000	\$ 8,871	\$ 276,869	\$ 272,435
	Per Utility		\$ 284,930	\$ 12,939	\$ 297,869	\$ 291,400
	Difference		\$ (16,930)	\$ (4,068)	\$ (21,000)	\$ (18,965)

**Effect on the General Ledger:** The Utility should record the adjustments noted above to reflect the accumulated depreciation balances of \$313,412 for water and \$276,869 for wastewater as of May 31, 2013.

**Effect on the Filing:** The average accumulated depreciation balance should be increased by \$38,298, and decreased by \$18,965 for water and wastewater, respectively, as of May 31, 2013.

Depreciation expense should be increased by \$4,958 and decreased by \$4,068 for water and wastewater, respectively, for the test year ended May 31, 2013.

#### **Finding 4: Accumulated Amortization of CIAC and Amortization Expense**

**Audit Analysis:** The water and wastewater accumulated amortization of CIAC balances per the Utility are \$103,313 and \$39,129, respectively, as of May 31, 2013.

Order No. PSC-02-1739-PAA-WS established water and wastewater accumulated amortization of CIAC balances of \$37,274 and \$19,911, respectively, as of December 31, 2001. Order No. PSC-03-1051-FOF-WS, issued September 22, 2003, increased the water accumulated amortization of CIAC balance by an additional \$900 as of December 31, 2001. This was to record accumulated amortization of CIAC that was attributable to the 162 customers that were overlooked in the prior order. The Utility did not adjust the water accumulated amortization of CIAC balance to this Commission Order.

Using the audited balances for CIAC as discussed in Finding 2 and the applicable amortization rates, we calculated accumulated amortization of CIAC to be \$137,120 for water and \$44,264 for wastewater as of May 31, 2013.

**Effect on the General Ledger:** The Utility should record the accumulated amortization of CIAC balances of \$137,511 for water and \$44,264 for wastewater as of May 31, 2013.

**Effect on the Filing:** The average accumulated amortization of CIAC balances should be increased to \$132,511 and \$43,229 for water and wastewater, respectively, as of May 31, 2013.

Amortization expense should be increased by \$3,049 and decreased by \$258 for water and wastewater, respectively, for the test year ended May 31, 2013.

## **Finding 5: Operating Revenue**

**Audit Analysis:** We reviewed the billing registers provided by the Utility and the Seller for the test year. We noted that in the first seven months of the test year, the Seller charged a base facility charge of \$48.20 for a 3" meter size to three general service customers. The Seller also charged a base facility charge of \$30.13 for a 2" meter size to another three general service customers. However, the Seller has three general service customers with 2" meter sizes, another three general service customers with 1.5" meter sizes, and no general service customers with 3" meter sizes during the same period. We calculated the revenue for the 1.5" meter size customers and found that the revenue is overstated by \$316  $((\$30.13 - \$15.06) * 3 * 7)$ . Revenue is also overstated by \$379  $((\$48.20 - \$30.13) * 3 * 7)$  for the 2" meter size customers. The Utility should refund the applicable customers for the above stated amounts.

We calculated the revenue based on the billing registers to be \$58,311 for water and \$47,642 for wastewater for the test year ended May 31, 2013.

Both Utilities reported late fees. We calculated miscellaneous revenues of \$880 for the test year. We allocated the amount between water and wastewater to be \$484  $(\$880 * 55\%)$  and \$396  $(\$880 * 45\%)$ .

We calculated the Regulatory Assessment Fee (RAF) to be \$2,646  $((\$58,311 + \$484) * 4.5\%)$  for water and \$2,173  $((\$47,897 + \$396) * 4.5\%)$  for wastewater for the test year.

**Effect on the General Ledger:** None.

**Effect on the Filing:** Revenue should be increased by \$1,569 and \$1,457 for water and wastewater, respectively, for the test year ended May 31, 2013.

## **Finding 6: Operation and Maintenance Expense**

**Audit Analysis:** We added the seven months of O&M expenses from the Seller to the five months of O&M expenses from the Utility to determine the Utility's O&M expense balances of \$59,401 for water and \$49,463 for wastewater for the test year.

We calculated the O & M expense balances of \$62,265 for water and \$68,182, for wastewater for the test year ended May 31, 2013.

The analysis for the adjustments stated in Table 6-1 and Table 6-2 are below.

- 1) Account 601 – Salaries & Wages-Employees is overstated by \$11,069. The Utility included the water allocation of management service fees in the account. We reclassified the amount to Account 636 – Contractual Services-Other.
- 2) Account 603 – Salaries & Wages-Officers is overstated by \$2,767. The Utility included the water allocation of management service fees in the account. We reclassified the amount to Account 636 – Contractual Services-Other.
- 3) Account 615 – Purchased Power is overstated by \$1,363 (\$3,578 - \$4,941). We calculated all applicable electric bills of the water system for the test year to be \$3,578.
- 4) Account 620 – Materials and Supplies is understated by \$15. We reclassified the amount from Account 675 – Miscellaneous Expense to Account 620.as it represents an invoice for materials and supplies.
- 5) Account 631 – Contractual Services-Accounting is overstated by \$1,215 (\$1,829 - \$614). We allocated \$614 to water and \$502 to wastewater for the accounting invoice.
- 6) Account 635 – Contractual Services-Testing is understated by \$6,136 (\$12,130-\$5,994). We calculated all of the applicable testing bills for the test year to be \$12,130. We noticed that the Utility did not provide the testing amount that should be incurred every 5 years. Finding 7 discusses the periodic testing.
- 7) Account 636 – Contractual Services-Other is understated by \$19,711 (\$42,023 - \$22,312) We reclassified \$11,069 from Account 601 and \$2,788 from Account 603. We calculated \$28,187 from the invoices of contractual services.
- 8) Account 640 – Rent is overstated by \$210 because no supporting documentation was available.
- 9) Account 670 – Bad Debt Expense is overstated by \$1,123 because no supporting documentation was available.



- 10) Account 675 – Miscellaneous Expense is overstated by \$5,253 (\$1,482 - \$6,735). We reclassified \$15 to Account 620, and calculated miscellaneous expense to be \$1,482.
- 11) Account 701 – Salaries & Wages-Employees is overstated by \$9,056. The Utility included the wastewater allocation of management service fees in the account. We reclassified the amount to Account 736 – Contractual Services-Other.
- 12) Account 703 – Salaries & Wages-Officers is overstated by \$2,333. The Utility included the wastewater allocation of management service fees in the account. We reclassified the amount to Account 736 – Contractual Services-Other.
- 13) Account 711 – Sludge Removal is understated by \$9,563. We calculated sludge removal expense for the applicable test year to be \$9,563.
- 14) Account 715 – Purchased Power is understated by \$2,952 (\$7,753 - \$4,800). We compiled all applicable wastewater electric bills for the test year to be \$7,753.
- 15) Account 731 – Contractual Services-Professional is overstated by \$25,896 (\$26,398 - \$503). The \$503 invoice is for accounting services. The remaining \$25,896 are invoices for the services provided by US Water and Highland Executive Labor Personnel and should be reclassified to Account 736.
- 16) Account 735 – Contractual Services-Testing is understated by \$9,557. We calculated all the applicable wastewater testing invoices to be \$9,557.
- 17) Account 736 – Contractual Services-Other is understated by \$39,903. We compiled contractual service invoices to be \$28,613, which includes the \$25,896 reclassified from Account 731 and the reclassified amount of \$9,056 and \$2,333 from Accounts 701 and 703.
- 18) Account 740 – Rent is overstated by \$172 because no supporting documentation was available.
- 19) Account 770 – Bad Debt Expense is overstated by \$907 because no supporting documentation was available.
- 20) Account 775 – Miscellaneous Expense is overstated by \$4,993 (\$374 - \$5,367) because no supporting documentation was available.

Audit staff calculates the working capital allowance to be \$7,783(\$62,265/8) for water and \$8,523(68,182/8) for wastewater.

**Table 6-1**  
**Water O&M Expenses**  
**For the Test Year Ended May 31, 2013**

Acct. No.	Balance Per Utility	Adjustment	Balance Per Audit
601	\$11,069	(\$11,069)	-
603	2,767	(2,767)	-
615	4,941	(1,363)	\$3,578
616	833	-	833
618	1,053	-	1,053
620	-	15	15
631	1,829	(1,215)	614
635	5,994	6,136	12,130
636	22,312	19,711	42,023
640	210	(210)	-
656	536	-	536
670	1,123	(1,123)	-
675	6,735	(5,253)	1,482
<b>Total</b>	<b>\$59,401</b>	<b>\$2,863</b>	<b>\$62,265</b>

**Table 6-2**  
**Wastewater O&M Expenses**  
**For the Test Year Ended May 31, 2013**

Acct. No.	Balance Per Utility	Adjustment	Balance Per Audit
701	\$9,056	(\$9,056)	-
703	2,233	(2,233)	-
711	-	9,563	\$9,563
715	4,800	2,952	7,753
718	96	-	96
731	26,398	(25,896)	503
735	-	9,557	9,557
736	-	39,903	39,903
740	172	(172)	-
756	433	-	433
770	907	(907)	-
775	5,367	(4,993)	374
<b>Total</b>	<b>\$49,463</b>	<b>\$18,719</b>	<b>\$68,182</b>

**Effect on the General Ledger:** None.

**Effect on the Filing:** O&M expenses should be increased by \$2,863 and \$18,719 for water and wastewater, respectively, for the test year ended May 31, 2013.

## **Finding 7: Testing Permit**

**Audit Analysis:** The Utility did not provide copies of the water-testing permit that occurs every five years, nor did the Utility include the annual amortization of the water permit amount in the general ledger. Audit staff requested a copy of the permit from the Seller, who stated that he provided a copy to the Utility. A copy was not included with the O&M expense invoices provided by the Utility.

**Effect on the General Ledger:** None.

**Effect on the Filing:** The analyst should determine the appropriate amount.

**Finding 8: Taxes Other than Income**

**Audit Analysis:** The Seller reported property taxes in the annual report of \$6,269 for water and \$5,130 for wastewater. The Seller also reported Regulatory Assessment Fees on the 2012 RAF return of \$2,860 for water and \$2,331 for wastewater. The Utility provided property tax bills of \$2,109 for water and \$2,977 for wastewater. We verified the property tax bills by checking the on-line property tax records.

Based on Finding 4, audit staff calculated RAF to be \$2,646 for water and \$2,173 for wastewater.

The analysis for the adjustments is summarized in Table 8-1 and Table 8-2 are below.

**Table 8-1  
Water TOTI  
For the Test Year Ended May 31, 2013**

<b>Tax Description</b>	<b>Balance Per Utility</b>	<b>Adjustment</b>	<b>Balance Per Audit</b>
<b>Property Taxes</b>	\$6,269	(\$4,160)	\$2,109
<b>Regulatory Assessment Fees</b>	\$2,860	(214)	2,646
<b>Total</b>	\$9,129	(\$4,374)	\$4,755

**Table 8-2  
Wastewater TOTI  
For the Test Year Ended May 31, 2013**

<b>Tax Description</b>	<b>Balance Per Utility</b>	<b>Adjustment</b>	<b>Balance Per Audit</b>
<b>Property Taxes</b>	\$5,130	(\$2,153)	\$2,977
<b>Regulatory Assessment Fees</b>	2,331	(158)	2,173
<b>Total</b>	\$7,461	(\$2,311)	\$5,150

**Effect on the General Ledger:** None

**Effect on the Filing:** Taxes Other Than Income should be decreased by \$4,374 and \$2,311 for water and wastewater, respectively, for the test year ended May 31, 2013.

## Exhibits

### Exhibit 1: Rate Base

#### Water Rate Base As of 12 Months Ended May 31, 2013

DESCRIPTION	SIMPLE AVERAGE PER UTILITY	ADJUSTMENT	REFER TO	SIMPLE AVERAGE PER AUDIT
UTILITY PLANT IN SERVICE	\$469,295	\$27,922	F 1	\$497,217
LAND AND LAND RIGHTS	20,598	0		20,598
CONTRIBUTION IN-AID-OF-CONSTRUCTION (CIAC)	(204,307)	(61,339)	F2	(265,646)
ACCUMULATED DEPRECIATION	(266,493)	(38,296)	F3	(304,789)
ACCUMULATED AMORTIZATION OF CIAC	100,229	32,282	F4	132,511
WORKING CAPITAL		7,783	F6	\$7,783
<b>TOTAL</b>	<b>\$119,322</b>	<b>(\$31,648)</b>		<b>\$87,674</b>

#### Wastewater Rate Base As of 12 Months Ended May 31, 2013

DESCRIPTION	SIMPLE AVERAGE PER UTILITY	ADJUSTMENT	REFER TO	SIMPLE AVERAGE PER AUDIT
UTILITY PLANT IN SERVICE	\$377,807	\$6,191	F1	\$383,998
LAND AND LAND RIGHTS	36,000	0		36,000
CONTRIBUTION IN-AID-OF-CONSTRUCTION (CIAC)	(65,600)	(26,800)	F2	(92,400)
ACCUMULATED DEPRECIATION	(291,400)	18,965	F3	(272,435)
ACCUMULATED AMORTIZATION OF CIAC	37,965	5,264	F4	43,229
WORKING CAPITAL		8,523	F6	\$8,523
<b>TOTAL</b>	<b>\$94,772</b>	<b>\$12,143</b>		<b>\$106,915</b>

## Exhibit 2: Net Operating Income

### Water Net Operating Income For the 12 Months Ended May 31, 2013

DESCRIPTION	PER UTILITY	ADJUSTMENT	REFER TO	PER AUDIT
OPERATING REVENUES	\$57,226	\$1,569	F5	\$58,795
OPERATING EXPENSES:				
O & M EXPENSE	59,401	2,864	F6	62,265
DEPRECIATION EXPENSE	12,286	4,959	F3	17,245
CIAC AMORTIZATION	6,168	3,049	F4	9,217
TAXES OTHER THAN INCOME	9,129	(4,374)	F8	4,755
TOTAL OPERATING EXPENSES	86,984	6,498		93,482
NET OPERATING INCOME (LOSS)	(\$29,758)	(\$4,929)		(\$34,687)

### Wastewater Net Operating Income For the 12 Months Ended May 31, 2013

DESCRIPTION	PER UTILITY	ADJUSTMENT	REFER TO	PER AUDIT
OPERATING REVENUES	\$46,581	\$1,457	F5	\$48,038
OPERATING EXPENSES:				
O & M EXPENSE	49,463	18,719	F6	68,182
DEPRECIATION EXPENSE	12,939	(4,069)	F3	8,870
CIAC AMORTIZATION	2,328	(258)	F4	2,070
TAXES OTHER THAN INCOME	7,461	(2,311)	F8	5,150
TOTAL OPERATING EXPENSES	\$72,191	\$12,081		\$84,272
NET OPERATING INCOME (LOSS)	(\$25,610)	(\$10,624)		(\$36,234)