

State of Florida



Public Service Commission

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

Auditor's Report

W.B.B. Utilities, Inc./Lake Idlewild Utility Company
Application for Transfer of Certificate
Certificate No. 531-W

As of August 29, 2014

Docket No. 140170-WU
Audit Control No. 14-289-1-1
December 9, 2014



George Simmons
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 and Finance in its audit service request dated October 16, 2014. We have applied these procedures to the attached schedules prepared by the audit staff in support of W.B.B. Utilities, Inc./Lake Idlewild Utility Company request for a Transfer of Certificate in Docket No. 140170-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

Background

Definitions

Buyer/Utility refers to Lake Idlewild Utility Company.
Seller refers to W.B.B. Utilities, Inc.

Utility Information

W.B.B. Utilities, Inc. is a Class "C" Utility that provides water services to approximately 25 customers in Lake County. The buyer and the seller executed an asset purchase agreement for a water system in Lake County, Florida, on July 22, 2014, for \$58,000. The sale was consummated on August 29, 2014. Rate base for the Utility was last established as of June 30, 1993 in Docket No. 930656-WU, Order No. PSC-94-0236-FOF-WU, issued March 3, 1994.

General

Utility Books and Records

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

Procedures: We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintain records on a calendar year basis. No exceptions were noted.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for water UPIS as of June 30, 1993, established in Docket No. 930656-WU, with the Seller's books and records. We scheduled water UPIS activity from June 30, 1993, through August 29, 2014. We traced selected asset additions to supporting documentation. We ensured that retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of August 29, 2014. No exceptions were noted.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning land balance as of June 30, 1993, established in Docket No. 930656-WU, with the Seller's books and records. We searched the Lake County Clerk of the Courts' official records to verify the transfer of utility land from the Seller to the Buyer. We determined the land transfer balance for the water system as of August 29, 2014. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for Accumulated Depreciation as of June 30, 1993, established in Docket No. 930656-WU, with the Seller's books and records. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the Accumulated Depreciation transfer balance for the water system as of August 29, 2014. See Finding 1.

Contributions in Aid of Construction

Objectives: The objectives were to determine whether Contributions in Aid of Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balance for CIAC as of June 30, 1993, established in Docket No. 930656-WU, with the Seller's books and records. We scanned the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the approved tariff. We determined the CIAC transfer balance as of August 29, 2014. See Finding 2.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for Accumulated Amortization of CIAC as of June 30, 1993, established in Docket No. 930656-WU, with the Seller’s books and records. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the Accumulated Amortization of CIAC transfer balance as of August 29, 2014. See Finding 3.

Acquisition Adjustment

Objectives: The objectives were to determine the acquisition adjustment, if any, based on audit staff’s net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this Utility at time of transfer is \$52,305. The purchase price is \$58,000. Pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C., we determined that a positive acquisition adjustment exists. The utility is not requesting a positive acquisition adjustment. No further work was done.

Other

Rates and Charges

Objective: The objective was to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained and tested the Utility’s billing register for September 2014. We recalculated a sample of customers’ bills using the approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We reviewed the ledger and inquired about the deposit policy. The Utility does not collect customer deposits. No exceptions were noted.

Audit Findings

Finding 1: Accumulated Depreciation

Audit Analysis: The schedule provided by the seller reflects a balance of \$102,125 for Accumulated Depreciation as of August 29, 2014. Audit staff calculated Accumulated Depreciation to be \$91,251 using the correct rates and beginning plant balances. Accumulated Depreciation is overstated by \$10,874 as shown in Table 1-1.

Table 1-1	Audit	GL	Variance
	8/29/2014	8/29/2014	8/29/2014
304 Structures & Improvements	\$ (735)	\$ (2,425)	\$ 1,689
307 Wells & Springs	\$ (11,891)	\$ (11,537)	\$ (354)
309 Supply Mains	\$ (5,595)	\$ (9,490)	\$ 3,896
310 Power Generation Equip.	\$ (3,420)	\$ (2,842)	\$ (578)
311 Pumping Equip.	\$ (14,482)	\$ (15,569)	\$ 1,087
320 Water Treatment Equip.	\$ (14,176)	\$ (9,553)	\$ (4,623)
330 Distribution Reservoirs	\$ (395)	\$ (6,991)	\$ 6,596
331 Transmission and Distribution Mains	\$ (26,986)	\$ (30,622)	\$ 3,636
333 Services	\$ (39)	\$ (39)	\$ (0)
334 Meters and Meter Install.	\$ (10,505)	\$ (8,445)	\$ (2,060)
335 Hydrants	\$ (4,768)	\$ (4,612)	\$ (156)
340 Office Furniture & Equip.	\$ 1,740	\$ -	\$ 1,740
343 Tools, Shop and Garage Equip.	\$ 0	\$ -	\$ 0
Total	\$ (91,251)	\$ (102,125)	\$ 10,874

Effect on the General Ledger: None

Effect on the Filing: The accumulated depreciation balance should be decreased by \$10,874.

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

Audit Analysis: The schedule provided by the seller reflects a CIAC balance of \$92,379 as of August 29, 2014. The seller had recorded initial connection fees as CIAC. According to (NARUC) Uniform System of Accounts, initial connection fees are classified as miscellaneous service revenues. CIAC is overstated by \$660 as shown in Table 2-1.

Table 2-1	Audit	GL	Variance
	8/29/2014	8/29/2014	8/29/2014
304 Structures & Improvements	\$ (821)	\$ (821)	\$ -
307 Wells & Springs	\$ (108)	\$ (108)	\$ -
310 Power Generation Equip.	\$ (1,015)	\$ (1,015)	\$ -
311 Pumping Equip.	\$ -	\$ -	\$ -
330 Distribution Reservoirs	\$ (38,489)	\$ (38,489)	\$ -
331 Transmission and Distribution Mains	\$ (45,009)	\$ (45,009)	\$ -
333 Services	\$ (44)	\$ (704)	\$ 660
334 Meters and Meter Install.	\$ (6,234)	\$ (6,234)	\$ -
Total	\$ (91,719)	\$ (92,379)	\$ 660

Effect on the General Ledger: None

Effect on the Filing: The CIAC balance should be decreased by \$660.

Finding 3: Accumulated Amortization of CIAC

Audit Analysis: The schedule provided by the seller reflects a balance of \$48,594 for Accumulated Amortization of CIAC as of August 29, 2014. Audit staff calculated Accumulated Amortization of CIAC to be \$41,034 using the correct amortization rates and beginning balances. Accumulated Amortization of CIAC is overstated by \$7,559.

In the prior audit, Audit Control No (ACN) 93-218-3-1, audit staff was able to identify CIAC by plant accounts. The Seller does not provide Accumulated Amortization of CIAC by plant accounts. In Commission Order PSC-94-0236-FOF-WU, the balances per each account were unavailable. As per audit staff, the Utility needs to make adjustments to reflect the current balances of Accumulated Amortization of CIAC.

Effect on the General Ledger: To be determined by Utility

Effect on the Filing: The Accumulated Amortization of CIAC balance should be decreased by \$7,559.

Exhibit

Exhibit 1: Net Book Value

**Lake Idlewild Utility Company
Certificate of Transfer Audit
Docket No. 140170-WU; ACN: 14-289-1-1
Schedule of Net Book Value
As of August 29, 2014**

Description	Balance per Utilitiy	Audit	Audit	Balance per Audit
	8/29/2014	Adjustments	Finding	8/29/2014
Utility Plant in Service	\$ 192,336	-		\$ 192,336
Land	1,905	-		1,905
Accumulated Depreciation	(102,125)	10,874	1	(91,251)
Contributions in Aid of Construction	(92,379)	660	2	(91,719)
Accumulated Amortization of CIAC	48,594	(7,559)	3	41,034
NET BOOK VALUE	\$ 48,331	\$ 3,975		\$ 52,305