

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: January 13, 2017

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 160222-WS
Company Name: LP Waterworks, Inc.
Company Code: WS963
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 16-320-4-1

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 are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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 August 31, 2016

Docket No. 160222-WS
Audit Control No. 16-320-4-1

January 6, 2017

A handwritten signature in black ink, appearing to read "Iliana H. Piedra", written over a horizontal line.

Iliana H. Piedra
Audit Manager

A handwritten signature in black ink, appearing to read "Yen Ngo", written over a horizontal line.

Yen Ngo
Audit Staff

A handwritten signature in blue ink, appearing to read "Marisa Glover", written over a horizontal line.

Marisa Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report set forth by the Division of Accounting and Finance in its audit service request dated November 15, 2016. We have applied these procedures to the attached schedules prepared by the audit staff in support of LP Waterworks, Inc. request for a Staff-Assisted Rate Case in Docket No.160222-WS.

This audit was performed following General Standards and Field work Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions:

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform Systems of Accounts as adopted by Rule 25-30.115, Florida Administrative Code (F.A.C.)

The test year is the twelve months ended August 31, 2016

Background:

LP Waterworks, Inc. is a Class C utility serving approximately 446 water and 386 wastewater customers per the Utility's application submitted October 12, 2016. The Utility is located in Highlands county. Rate base was established as of May 31, 2013 in Order PSC-14-0413-PAA-WS.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and compared them to the NARUC USOA. No exceptions were noted.

Rate Base

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 UPIS, as of May 31, 2013 from Order No. PSC-14-0413-PAA-WS to the general ledger and noted the ordered adjustments were made. We scheduled UPIS activity from May 31, 2013 through August 31, 2016. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year end and average balances as of August 31, 2016. Finding 1 discusses our recommended adjustments to UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the 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 case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balance of land, as of May 31, 2013 from Order No. PSC-14-0413-PAA-WS to the general ledger. We verified that the land is owned by the Utility, and obtained the deed for the new land purchased in August 2014. The land was purchased to have access to a pre-existing water well. We determined the year end and average balances as of August 31, 2016. 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, 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 May 31, 2016 from Order No. PSC-14-0413-PAA-WS to the general ledger and noted the ordered adjustments were made. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from May 31, 2013 to August 31, 2016. We determined the year end and average balances as of August 31, 2016. Finding 2 discusses our recommend adjustments to accumulated depreciation.

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 in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for CIAC, as of May 31, 2013 from Order No. PSC-14-0413-PAA-WS to the general ledger and noted the ordered adjustments were made. We determined the year end and average balances as of August 31, 2016.

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 May 31, 2013 from Order No. PSC-14-04131299-PAA-WS to the general ledger and noted the ordered adjustments were made. We recalculated amortization using composite depreciation rates from May 31, 2013 to August 31, 2016. We determined the year end and average balances as of August 31, 2016.

Working Capital

Objectives: The objective was to determine whether 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 August 31, 2016 using one eighth of operation and maintenance expense as determined by audit staff required by Rule 25-30.433 (2), F.A.C. Finding 5 discusses our recommended adjustment to working capital.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: The Utility's capital structure consists of common equity, long-term debt, and customer deposits. We determined the year end, average balance and its weighted average cost as of August 31, 2016. Finding 3 discusses our recommended adjustment to capital structure.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA

Procedures: We tested the reasonableness of the utility revenues by multiplying the rates per tariff by the sales by customer provided by the Utility. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the initial connection fees and the normal reconnect fees. A billing analysis was prepared and customer bills were recalculated. Finding 4 discusses our recommended adjustments to revenues.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance expenses (O&M) are: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed the invoices provided in support of the Utility's O&M expense for the test year. We determined that all expenses were supported, were correctly classified, and verified that they were recurring in nature. Finding 5 discusses our recommended adjustments to O&M expense.

Depreciation and Amortization

Objectives: The objective was to determine the Utility's depreciation and CIAC amortization expense for the twelve months ended June 30, 2016 using the Commission authorized rates.

Procedures: We compiled a schedule from audited UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. We also recalculated amortization of CIAC using composite depreciation rates from May 31, 2013 to August 31, 2016.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with NARUC USOA.

Procedures: We scheduled TOTI based on documentation provided by the Utility. We verified property and intangible taxes for the test year. We recalculated the 2015 RAF form and we calculated the test year Regulatory Assessment Fee (RAF) using the approved RAF rate and the audited revenue balances. Finding 6 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Wastewater Utility Plant in Service

Audit Analysis: The Utility recorded \$441,118 for wastewater plant in service on its general ledger as of August 31, 2016. Audit staff determined \$437,689 for wastewater plant in service as of August 31, 2016. We reconciled the beginning balances from Order No. PSC-14-0413-PAA-WS to the general ledger and obtained source documents for additions from May 31, 2013 to August 31, 2016. The following was found:

Account 354 – An invoice for a surge tank blower and panel for \$9,200 was recorded to Account 354 in July 2015. This invoice should have been recorded to Account 380.

Account 371 – The utility recorded an invoice for control panel and pumps at a lift station for \$18,477 in 2014. Audit staff could not determine the original cost of the control panel and pumps, and were unable to determine the account it was originally booked too. Audit staff is not making an adjustment. The staff engineer should determine if any retirement should be made to this addition.

Account 380 – The utility recorded an invoice for replacing diffusers in the tanks for \$4,571 in June 2015 but inadvertently did not record a related retirement. A retirement of \$3,429, using 75% of the addition has been calculated by staff. We have also increased this account by \$9,200 as discussed above for Account-354 (\$9,200-\$3,429).

The wastewater utility plant needs to be decreased by \$3,429 as discussed above.

Table 1-1

Acct. No.	Acct. Name	Balance Per Utility as of August 31, 2016	Audit Adjustment	Balance Per Audit as of August 31, 2016	Simple Average
351	Organization	\$ 400	\$ -	\$ 400	\$ 400
354	Structures and Improvements	\$ 52,391	\$ (9,200)	\$ 43,191	\$ 43,191
360	Collection Sewer- Force	\$ 11,557	\$ -	\$ 11,557	\$ 11,557
361	Collection Sewers- Gravity	\$ 161,264	\$ -	\$ 161,264	\$ 161,264
362	Collection Structures	\$ 1,040	\$ -	\$ 1,040	\$ 1,040
363	Service to Customers	\$ 111,860	\$ -	\$ 111,860	\$ 111,860
371	Pumping Equipment	\$ 19,225	\$ -	\$ 19,225	\$ 19,225
380	Treatment and Disposal Equip.	\$ 81,789	\$ 5,771	\$ 87,560	\$ 87,560
390	Office Furniture and Equipment	\$ 645	\$ -	\$ 645	\$ 645
393	Tools, Shop, and Garage Equip.	\$ 947	\$ -	\$ 947	\$ 947
	Total	\$ 441,118	\$ (3,429)	\$ 437,689	\$ 437,689

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined year end and average wastewater UPIS to be \$437,689.

Finding 2: Wastewater Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, the accumulated depreciation balance was \$311,970 as of August 31, 2016; and test year depreciation expense was \$16,456. Audit staff recalculated accumulated depreciation and depreciation expense using the audited plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. as shown in Table 2-1 and Table 2-2.

The audit balances below reflect the following adjustments. The wastewater accumulated depreciation balance for Account 380 as of May 31, 2013 was \$73,822 per Order No. PSC-14-0413-PAA-WS. The Utility's books show a wastewater accumulated depreciation balance of \$78,743. This represents a needed reduction of \$4,921 to wastewater accumulated depreciation as of May 31, 2013.

Wastewater Accumulated Depreciation was also decreased by \$3,429 in 2015. This consists of a retirement discussed in Finding 1 for Account 380.

Table 2-1

Acct. No.	Acct. Name	Balance Per Utility as of August 31, 2016		Balance Per Audit as of August 31, 2016		Simple Average
			Audit Adjustment			
351	Organization	\$ (134)	\$ -	\$ (134)	\$ (129)	
354	Structures and Improvements	\$ (41,669)	\$ 383	\$ (41,286)	\$ (40,486)	
360	Collection Sewers - Force	\$ (10,880)	\$ -	\$ (10,880)	\$ (10,666)	
361	Collection Sewers - Gravity	\$ (94,336)	\$ 39	\$ (94,297)	\$ (92,281)	
362	Collection Structures	\$ (482)	\$ -	\$ (482)	\$ (468)	
363	Services to Customers	\$ (84,434)	\$ -	\$ (84,434)	\$ (82,836)	
371	Pumping Equipment	\$ (2,978)	\$ 35	\$ (2,943)	\$ (2,302)	
380	Treatment and Disposal	\$ (75,844)	\$ 7,926	\$ (67,918)	\$ (64,999)	
390	Office Furniture and Equipment	\$ (266)	\$ -	\$ (266)	\$ (244)	
393	Tools, Shop and Garage Equipment	\$ (947)	\$ -	\$ (947)	\$ (949)	
	Total	\$ (311,970)	\$ 8,383	\$ (303,587)	\$ (295,360)	

Table 2-2

Acct. No.	Acct. Name	Utility Dep. Expense 8/31/2016	Audit Dep. Expense 8/31/2016	Difference 8/31/2016
351	Organization	\$ 10	\$ 10	\$ -
354	Structures and Improvements	\$ 1,940	\$ 1,600	\$ (340)
360	Collection Sewers - Force	\$ 428	\$ 428	\$ -
361	Collection Sewers - Gravity	\$ 4,032	\$ 4,032	\$ -
362	Collection Structures	\$ 28	\$ 28	\$ -
363	Services to Customers	\$ 3,196	\$ 3,196	\$ -
371	Pumping Equipment	\$ 1,282	\$ 1,282	\$ -
380	Treatment and Disposal	\$ 5,453	\$ 5,837	\$ 384
390	Office Furniture and Equipment	\$ 43	\$ 43	\$ -
393	Tools, Shop and Garage Equipment	\$ 15	\$ -	\$ (15)
	Total	\$16,427	\$16,456	\$ 29

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined year end and simple average wastewater accumulated depreciation to be \$303,587 and \$295,360. Depreciation expense for test year is \$16,456.

Finding 3: Capital Structure

Audit Analysis: The Utility recorded \$4,440 for customer deposits on its general ledger as of August 31, 2016. This amount was compared to a customer deposit file provided by the Utility. The file provided by the Utility shows a balance of \$4,770 as of the end of the test year. The customer deposit amounts were agreed to the Utility's tariff. The September 5, 2015 tariff approved a customer deposit fee of \$45 for water and \$50 for wastewater.

The long term debt between U.S. Water Services Corporation and LP Waterworks, Inc. is a related party loan that originated on January 1, 2015 in the amount of \$78,000, with an interest rate of 4% per year for a period of five years.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff determined customer deposits to be \$4,770 as of August 31, 2016. We also determined the simple average amount to be \$3,353.

Finding 4: Operating Revenue

Audit Analysis: The Utility provided a billing register for the twelve months ended August 31, 2016.

These revenues were compared to the revenues recorded in the Utility's general ledger.

Table 4-1

Water			
Month	Per Utility	Adjustment	Per Audit
September	\$ 5,019	\$ 436	\$ 5,455
October	\$ 7,191	\$ (834)	\$ 6,356
November	\$ 12,382	\$ (2,991)	\$ 9,391
December	\$ 8,594	\$ 401	\$ 8,995
January	\$ 10,468	\$ (409)	\$ 10,059
February	\$ 11,501	\$ (1,014)	\$ 10,488
March	\$ 9,909	\$ 592	\$ 10,501
April	\$ 9,279	\$ 893	\$ 10,172
May	\$ 9,941	\$ (432)	\$ 9,509
June	\$ 6,252	\$ 1,592	\$ 7,845
July	\$ 6,957	\$ 165	\$ 7,122
August	\$ 7,022	\$ 388	\$ 7,409
Total	\$ 104,515	\$ (1,214)	\$ 103,302

Table 4-2

Wastewater			
Month	Per Utility	Adjustment	Per Audit
September	\$ 4,616	\$ 177	\$ 4,794
October	\$ 6,614	\$ (904)	\$ 5,711
November	\$ 8,214	\$ (1,156)	\$ 7,058
December	\$ 7,591	\$ (285)	\$ 7,306
January	\$ 6,904	\$ 454	\$ 7,358
February	\$ 9,428	\$ (1,074)	\$ 8,354
March	\$ 8,643	\$ (6)	\$ 8,637
April	\$ 7,976	\$ 332	\$ 8,308
May	\$ 6,348	\$ 907	\$ 7,255
June	\$ 5,548	\$ 641	\$ 6,189
July	\$ 6,293	\$ (292)	\$ 6,000
August	\$ 6,065	\$ (66)	\$ 5,999
Total	\$ 84,240	\$ (1,272)	\$ 82,969

We recalculated test year revenues using the usage from the billing registers and the approved tariff rates based on Order No. PSC-14-0413-PAA-WS for the test year.

Based on the Billing Report, the Utility's Late Charges are understated by \$120. The Reconnection should be charged at \$15 instead of \$22. The Utility also recorded \$30 of the Returned Check Fee that was not found in the Billing Report.

Table 4-3

Miscellaneous Revenues				
Description	Per Utility	Adjustment	Per Audit	No of Customers
CC Processing Fee	\$ 619	\$ 81	\$ 699	31
Late Charge	\$ 1,950	\$ 340	\$ 2,290	68
Reconnect Fee	\$ 44	\$ (14)	\$ 30	2
Returned Check Fee	\$ 55	\$ (30)	\$ 25	2
Grand Total	\$ 2,668	\$ 377	\$ 3,058	
The Returned Check Fee was not stated in the Tariff. Audit staff did not make an adjustment.				

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: Operating Revenues for water should be decreased by \$1,214, the wastewater should be decreased by \$1,272, and the miscellaneous revenue should be increased by \$377 to reflect the amount recorded in the Billing Register.

Finding 5: Operation and Maintenance Expense

Audit Analysis: The Utility recorded \$92,812 for water and \$74,773 for wastewater in operation and maintenance expense accounts for the twelve months ended August 31, 2016. We noted the following:

Water

Account 603 – Salaries & Wages – Officers. The Utility has included \$6,120 in this account. This represents compensation for the Officers. The total amount included is \$12,000, for both water and wastewater, which is the same amount approved in Order No. PSC-14-0413-PAA-WS.

Account 615 – Purchased Power. The Utility has included \$2,770 in this account. We have increased the account balance by \$99 to agree to the actual amount per the bills provided by the Utility.

Account 618 – Chemicals. The Utility has included \$650 in this account. Staff reviewed the source documentation. We did not make an adjustment to this account.

Account 632 – Accounting Fees. The Utility has included a credit of \$638 in this account. The Utility explained this relates to an over accrual from a prior period and that currently there is no outside accounting fees. Staff has removed this amount since it is out of period.

Account 633 – Legal Fees. The Utility has included \$2,575 in this account. We have decreased the account balance by \$2,180 to remove out of period fees and non-recurring fees. The Utility included one invoice for \$1,554 dated December 28, 2012 related to the purchase of the Utility, one invoice which allocated \$131 for preparation and finalizing by laws and \$626 of test year fees related to shareholder documents and agreements. The remaining fees represent \$114 for preparing and filing the 2016 Annual Report and \$150 for an annual corporate maintenance fee.

Account 636 – Contractual Services. The Utility has included \$79,598 in this account for operating, maintenance and customer service fees. A contract with U.S. Water was provided by the Utility. The amount approved in Order No. PSC-14-0413-PAA-WS was \$77,184. We have not adjusted this account. We are deferring this to the analyst to determine if this amount is appropriate.

Account 640 – Rent Expense. The Utility has included \$220 in this account for an assessment fee from Camp Florida POA, Inc. This represents one quarter of the assessment fee for property owners association fees. The Utility explained these fees stem from the property that was purchased in 2014 to gain access needed to one of the water wells. The driveway to the well site is located on this property as well as a portion of the well site. We have removed this balance and included it in Account-675 Miscellaneous Expenses along with the other quarterly fees.

Account 655 - Insurance. The Utility has included \$619 in this account for general liability insurance. We have increased the account balance to \$645 to reflect the April 2016 invoice which totals \$1,290. This was allocated 50% to each water and wastewater to follow both the methodology used by the Utility and Order No. PSC-14-0413-PAA-WS.

Account 670 - Bad Debt Expense. The Utility has included a credit balance of \$408 in this account. We did not test this balance, however, the Utility explained the methodology of

recording bad debts which appears reasonable. We are deferring this item to the analyst to determine if a credit to this account is appropriate.

Account 675 – Miscellaneous Expenses. The Utility has included \$1,306 in this account. An amount of \$500 represents the Florida Department of Environmental Protection Operating License Fee, \$750 represents three quarters of property owners association fees from Camp Florida POA, Inc. We have increased the account by \$220 for the quarterly fee that was included by the Utility in Account-640 as explained above.

Table 5-1 shows the adjusted balances for water Operating and Maintenance expenses.

Table 5-1

Description	Account	Amount Per Utility as of 08/31/2016	Audit Adjustment	Amount Per Audit as of 08/31/2016
Salaries and Wages - Officers, Directors	603	\$ 6,120	\$ -	\$ 6,120
Purchased Power	615	2,770	99	\$ 2,869
Chemicals	618	650	-	\$ 650
Contractual Services- Accounting	632	(638)	638	\$ -
Legal Fees	633	2,575	(2,311)	\$ 264
Contractual Services - Other	636	79,598	-	\$ 79,598
Rents	640	220	(220)	\$ -
Insurance Expense	655	619	26	\$ 645
Bad Debt Expense	670	(408)	-	\$ (408)
Miscellaneous Expenses	675	1,306	220	\$ 1,526
Total O & M Expenses		\$ 92,812	\$ (1,548)	\$ 91,264
Working Capital is 1/8 of O&M Expenses				\$ 11,408

Wastewater

Account 703 – Salaries & Wages - Officers. The Utility has included \$5,880 in this account. This represents compensation for the Officers. The total amount included is \$12,000, for both water and wastewater, which is the same amount approved in Order No. PSC-14-0413-PAA-WS.

Account 711 – Sludge Removal. The Utility has included \$2,312 for sludge hauling expenses. Staff reviewed the source documentation. We did not make an adjustment to this account.

Account 715- Purchased Power. The Utility has included \$4,528 in this account. We have increased the account balance by \$323 to agree to the actual amount per the bills provided by the Utility.

Account 718 – Chemicals. The Utility has included \$525 in this account. Staff reviewed the source documentation. We did not make an adjustment to this account.

Account 732 – Accounting Fees. The Utility has included a credit of \$613 in this account. The Utility explained this relates to an over accrual from a prior period and that currently there is no outside accounting fees. Staff has removed this amount since it is out of period.

Account 733 – Legal Fees. The Utility has included \$835 in this account. We have decreased the account balance by \$571 for test year fees related to shareholder documents and agreements and for preparation and finalizing by laws. These fees are not reoccurring. The remaining fees represent \$114 for preparing and filing the 2016 Annual Report and \$150 for an annual corporate maintenance fee.

Account 736 – Contractual Services. The Utility has included \$60,530 in this account for operating, maintenance and customer service fees. A contract with U.S. Water was provided by the Utility. The amount approved in Order No. PSC-14-0413-PAA-WS was \$58,692. We are deferring this to the analyst to see if this amount is appropriate.

Account 755 Insurance. The Utility has included \$619 in this account for general liability insurance. We have increased the account balance to \$645 to reflect the April 2016 invoice which totals \$1,290. This was allocated 50% to each water and wastewater.

Account 770 Bad Debt Expense. The Utility has included \$157 in this account. We did not test the balance, however, the Utility explained the methodology of recording bad debts which appears reasonable.

Account 775 Miscellaneous Expense. The Utility did not have any Miscellaneous Expenses for wastewater.

Table 5-2 shows the adjusted balances for wastewater Operating and Maintenance Expenses.

Table 5-2

Description	Account	Amount Per Utility as of 08/31/2016	Audit Adjustment	Amount Per Audit as of 08/31/2016
Salaries and Wages - Officers, Directors	703	\$ 5,880	\$ -	\$ 5,880
Sludge Removal	711	2,312		\$ 2,312
Purchased Power	715	4,528	323	\$ 4,851
Chemicals	718	525	-	\$ 525
Contractual Services- Accounting	732	(613)	613	\$ -
Legal Fees	733	835	(571)	\$ 264
Contractual Services - Other	736	60,530	-	\$ 60,530
Insurance Expense	755	619	26	\$ 645
Bad Debt Expense	770	157	-	\$ 157
Total O & M Expenses		\$ 74,773	\$ 391	\$ 75,164
Working Capital is 1/8 of O&M Expenses				\$ 9,396

Effect on the General Ledger: None.

Effect on the Filing: Audit staff determined the Utility's operation and maintenance expense to be overstated by \$1,548 for water and understated by \$391 for wastewater. Working Capital is calculated to be \$11,408 for water and \$9,396 for wastewater.

Finding 6: Taxes Other than Income

Audit Analysis: According to the Utility's general ledger, the TOTI balance was \$7,605 for water and \$8,190 for wastewater.

Table 6-1

Description	Water		Adjustments	Water	
	Per Utility			Per Audit	
Real Property Tax	\$	2,782	\$	172	\$ 2,954
Tangible Property Tax	\$	-	\$	953	\$ 953
Regulatory Assessment Fees (RAF)	\$	4,823	\$	(37)	\$ 4,786
Total	\$	7,605	\$	1,088	\$ 8,693

Table 6-2

Description	Wastewater		Adjustments	Wastewater	
	Per Utility			Per Audit	
Real Property Tax	\$	2,386	\$	(198)	\$ 2,188
Tangible Property Tax	\$	2,013	\$	(1,060)	\$ 953
Regulatory Assessment Fees (RAF)	\$	3,791	\$	(57)	\$ 3,734
Total	\$	8,190	\$	(1,315)	\$ 6,875

Based on the review of supporting documentation, the adjustments that follow were made to the test year expenses.

1. We increased Account 408.21 – Property Taxes- Water by \$172 and decreased Account 408.22 – Property Taxes- Wastewater by \$198 to reflect the property taxes per the 2016 property tax bills.
2. For Account 408.3 – Tangible Personal Tax, We have allocated the balance from the 2016 tax bill (\$1,906) 50% to water and wastewater. This represents an increase to water of \$953 and a decrease to wastewater of \$1,060.
3. We have decreased Account 408.11 – Regulatory Assessment Fee Water by \$37 and decreased Account 408.12 – Regulatory Assessment Fee Wastewater by \$57 to reflect the RAF applicable to the adjusted revenues as reflected in Finding No. 4. (Water - \$106,360, Wastewater - \$82,969)

Effect on the General Ledger: None.

Effect on the Filing: Audit staff determined the Utility's TOTI to be \$8,693 for water and \$6,875 for wastewater.

Exhibits

Exhibit 1: Rate Base Water

**Staff Assisted Rate Case
Docket No. 160222-WS; ACN 16-320-4-1
Rate Base Schedule
As of August 31, 2016**

Description	Balance Per Utility as of August 31, 2016	Audit Adjustment	Balance Per Audit as of August 31, 2016	Test Year Average
Utility Plant in Service	\$ 527,435		\$ 527,435	\$ 526,926
Land & Land Rights	\$ 27,412		\$ 27,412	\$ 27,412
Accumulated Depreciation	\$ (362,984)		\$ (362,984)	\$(353,689)
Contributions in Aid of Construction	\$ (266,480)		\$ (266,480)	\$(266,063)
Accumulated Amortization of CIAC	\$ 167,447		\$ 167,447	\$ 162,517
Working Capital Allowance	\$ -	\$ 11,408	\$ 11,408	\$ 11,408
Total Rate Base	\$ 92,830	\$ 11,408	\$ 104,238	\$ 108,511

Exhibit 2: Rate Base Wastewater

**LP Waterworks, Inc.
Staff Assisted Rate Case
Docket No. 160222-WS; ACN 16-320-4-1
Rate Base Schedule
As of August 31, 2016**

Description	Balance Per Utility as of August 31, 2016	Audit Adjustment	Balance Per Audit as of August 31, 2016	Test Year Average
Utility Plant in Service	\$ 441,119	\$ (3,429)	\$ 437,690	\$ 437,690
Land & Land Rights	\$ 36,000	.	\$ 36,000	\$ 36,000
Accumulated Depreciation	\$ (311,970)	\$ 8,383	\$ (303,587)	\$(295,360)
Contributions in Aid of Construction	\$ (92,400)		\$ (92,400)	\$ (92,400)
Accumulated Amortization of CIAC	\$ 55,709		\$ 55,709	\$ 53,992
Working Capital Allowance	\$ -	\$ 9,396	\$ 9,396	\$ 9,396
Total Rate Base	\$ 128,458	\$ 14,350	\$ 142,808	\$ 149,318

Exhibit 3: Capital Structure

LP Waterworks, Inc.
Staff Assisted Rate Case
As of August 31, 2016
Dkt 160222-WS ACN 16-320-4-1

Capital Component	Balance Per Utility as of 08/31/2016	Audit Adjustment	Balance Per Audit as of 08/31/2016	Simple average	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$138,719		\$138,719	\$147,317	69.46%	9.39%	6.52%
Long Term Debt	\$ 56,212		\$ 56,212	\$ 63,547	28.15%	4.00%	1.13%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ 4,440	\$ 330	\$ 4,770	\$ 3,353	2.39%	2.00%	0.05%
Total	\$199,371	\$ 330	\$199,701	\$214,217	100.00%		7.70%

The cost rate for Common Equity is calculated using Order No. PSC-16-0254-PAA-WS.

Exhibit 4: Net Operating Income Water

**Docket No. 160222-WS; ACN 16-320-4-1
 Net Operating Income
 12 Months Ended August 31, 2016**

Description	Amount Per Utility as of August 31, 2016	Audit Adjustment	Amount Per Audit as of August 31, 2016
Operating Revenues	\$ 107,183	\$ (837)	\$ 106,346
Operating & Maintenance Expenses	\$ 92,812	\$ (1,548)	\$ 91,264
Depreciation Expense	\$ 19,511		\$ 19,511
Amortization Expense	\$ (9,861)		\$ (9,861)
Taxes Other Than Income	\$ 7,605	\$ 1,088	\$ 8,693
Total Operating Expenses:	\$ 110,067	\$ (460)	\$ 109,607
Net Operating Income (Loss)	\$ (2,884)	\$ (377)	\$ (3,261)

Exhibit 5: Net Operating Income Wastewater

LP Waterworks, Inc.:
Staff Assisted Rate Case
Docket No. 160222-WS; ACN 16-320-4-1
Net Operating Income
12 Months Ended August 31, 2016

Description	Amount Per Utility as of August 31, 2016	Audit Adjustment	Amount Per Audit as of August 31, 2016
Operating Revenues	\$ 84,240	\$ (1,271)	\$ 82,969
Operating & Maintenance Expenses	\$ 74,773	\$ 391	\$ 75,164
Depreciation Expense	\$ 16,426	\$ 30	\$ 16,456
Amortization Expense	\$ (3,434)		\$ (3,434)
Taxes Other Than Income	\$ 8,190	\$ (1,315)	\$ 6,875
Total Operating Expenses:	\$ 95,955	\$ (894)	\$ 95,061
Net Operating Income (Loss)	\$ (11,715)	\$ (377)	\$ (12,092)