

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: February 4, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150236-WU
Company Name: Lake Idlewild Utility Company
Company Code: WU970
Audit Purpose: Staff Assisted Rate Case
Audit Control No.: 15-324-1-1

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 is no confidential work papers associated with this audit.

LMD/cm

Attachment: Copy of Letter

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

Lake Idlewild Utility Company
Staff-Assisted Rate Case

Twelve Months Ended September 30, 2015

Docket No. 150236-WU
Audit Control No. 15-324-1-1
January 22, 2016

A handwritten signature in black ink, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown
Audit Manager

A handwritten signature in blue ink, reading "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Accumulated Depreciation and Depreciation Expense.....	6
2: Accumulated Amortization of CIAC and Amortization Expense	7
3: Working Capital.....	8
4: Operating Revenue.....	9
5: Operations and Maintenance Expense	10
6: Taxes Other than Income	11
Exhibits	
1: Rate Base	12
2: Capital Structure	13
3: Net Operating Income.....	14

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 November 20, 2015. We have applied these procedures to the attached schedules prepared by the audit staff in support of Lake Idlewild Utility Company's request for a Staff Assisted Rate Case in Docket No.150236-WU.

This audit was performed following General Standards and Fieldwork 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 September 30, 2015.

Background

Lake Idlewild Utility Company is a Class C utility in Lake county. Rate Base was last established as of August 29, 2014 in Order No. PSC-15-0140-PAA-WU, Docket 140170-WU, issued March 23, 2015. The Utility files an 1120 S tax return for federal income purposes.

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 and found the Utility to be in compliance.

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 August 29, 2014 from the Commission Order to the general ledger. We scheduled UPIS monthly balances from August 29, 2014 through September 30, 2015 and note there were no additions or retirements to UPIS during this time. We determined the year end and average balances as of September 30, 2015. No exceptions were noted.

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 verified that the land is owned by the Utility and determined that there have been no changes to the Utility's cost of land since Order PSC-15-0140-PAA-WU was issued. We determined the year end and average balances as of September 30, 2015. 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 August 29, 2014 from the Commission Order to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from August 29, 2014 to September 30, 2015. Finding 1 discusses accumulated depreciation.

Contributions in Aid of Construction

Objectives: The objectives were determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exit 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 August 29, 2014 from Commission Order to the general ledger. We reviewed the 2014 Federal Tax Return for contributions not recorded in the utility books. We scheduled CIAC monthly balances from August 29, 2014 through September 30, 2015 and note there was no additions to CIAC during this time. We determined the year end and average balances as of September 30, 2015. No exceptions were noted.

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 August 29, 2014 from Commission Order to the general ledger and recalculated amortization based upon composite depreciation rates. We determined the year end and average balances as of September 30, 2015. Finding 2 discusses accumulated amortization of CIAC.

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 recalculated the Utility's working capital balance as of September 30, 2015 using one-eighth of operation and maintenance expense as required by Rule 25-30.433(2), F.A.C. Finding 3 discusses our recommended adjustments 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: We determined that the Utility's capital structure consists of only common equity. We determined the year end and average Capital Structure balance and its weighted average cost as of September 30, 2015. No exceptions were noted.

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 bills per audit and the Kvals per audit. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the initial connection fees and the normal reconnect fees. We also determined the number of miscellaneous service charges by type and reconciled them to the general ledger. Finding 4 discusses our recommended adjustments for operating 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 ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Finding 5 discusses our recommended adjustments to operation and maintenance expense.

Depreciation and Amortization

Objectives: The objective was to determine the Utility's depreciation and CIAC amortization expense for the twelve months ended September 30, 2015 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 Commission approved rate for the test year. Findings 1 and 2 discuss depreciation and amortization expense.

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 tangible taxes for the test year. 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: Accumulated Depreciation and Depreciation Expense

Audit Analysis: The Utility recorded accumulated depreciation as \$99,717 on its general ledger. Upon review of the general ledger, we noted the utility accrues depreciation monthly.

Audit staff noted that accumulated depreciation for Accounts 310 – Power Generation and 334 – Meter and Meter Installation, as reflected in the Commission Order PSC-15-0140-PAA-WU were higher than the plant balances for these accounts. We recalculated accumulated depreciation and determined it to be \$98,191, as of September 30, 2015. We noted that beginning in May 2015, the Utility begin crediting depreciation expense for a Accounts - 310 and 334, which will cause the accumulated depreciation balance to decrease.

The Utility calculated depreciation expense to be \$6,182. We calculated depreciation expense based on audited UPIS amounts and determined it to be \$6,523.

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

Effect on the Filing: Audit staff brought the ordered balance and additional depreciation expense forward and determined the year end and average balances as of September 30, 2015 to be \$99,717 and \$96,626. Audit staff did not make an adjustment to accumulated depreciation, but requests the Commission technical staff determine the appropriate regulatory balance of accumulated depreciation and the fallout adjustment to depreciation expense. Audit staff calculated depreciation expense to be \$6,182.

Finding 2: Accumulated Amortization of CIAC and Amortization Expense

Audit Analysis: The Utility recorded accumulated amortization of CIAC as \$44,231 on its general ledger. Upon review of the general ledger, we noted the utility accrues amortization monthly.

We recalculated accumulated amortization of CIAC based on the CIAC balances multiplied by the composite rate determined by audit staff. Audit staff determined accumulated amortization of CIAC to be \$44,360, as of September 30, 2015. The difference is due to different rates applied.

The Utility calculated amortization expense to be \$2,940. We calculated amortization expense and determined it to be \$2,311.

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

Effect on the Filing: Audit staff brought the ordered balance and additional amortization expense forward and determined the year end and average balances as of September 30, 2015 to be \$44,231 and \$42,761. Audit staff did not make an adjustment to accumulated amortization of CIAC, but requests the Commission technical staff determine the appropriate regulatory balance of accumulated amortization of CIAC and the fallout adjustment to amortization expense. Audit staff calculated amortization expense to be \$2,940.

Finding 3: Working Capital

Audit Analysis: Audit staff determined the working capital allowance by calculating 1/8th of operation and maintenance expenses. We determined working capital to be \$3,882 ($\$31,057 \times 1/8$)

Effect on the General Ledger: None.

Effect on the Filing: Audit staff determined Working Capital to be \$3,882, as of September 30, 2015.

Finding 4: Operating Revenue

Audit Analysis: In the general ledger, the Utility recorded revenues and miscellaneous revenues as \$31,844 and \$418, respectively. Audit staff recalculated revenues to be \$32,090. The Utility revenues were understated by \$246, as shown in Table 4-1.

In addition, audit staff tested the miscellaneous service charges that pertain to the following charge types: 1) Initial connection, 2) Normal connection, 3) Late fee, and 4) Returned check fees. We determined that the Utility charged \$22 for eight initial connections and four reconnections, whereas the tariff authorized the charge of \$15. In addition, the Utility charged \$5, for a late fee 22 separate times. The Utility also charged \$25 and \$30, for two returned checks. The Utility does not have a tariff that authorizes the collection of late fees or returned check fees.

As of December 4, 2015, audit staff was informed by a utility representative that all customers affected by the overcharge of initial and normal connections fees as well as the late fee and returned check fees were refunded via credits to the customers' accounts. Audit staff verified that the correct amounts were credited to the correct customers. We adjusted the miscellaneous revenue per the Utility balance and determined the balance to be \$164. We determined the balance per audit staff to be \$211. The Utility miscellaneous revenues were understated by \$47, as shown in Table 4-1.

Table 4-1

	Amount Per Utility September 30, 2015	Audit Adjustment	Amount Per Audit September 30, 2015
Revenues	\$ 31,844	\$ 246	\$ 32,090
Miscellaneous Revenues	\$ 164	\$ 47	\$ 211
Total Revenues	\$ 32,008	\$ 293	\$ 32,301

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

Effect on the Filing: Audit staff determined revenues and miscellaneous revenues to be \$32,090 and \$211, respectively for the test year ended September 30, 2015.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The Utility recorded \$31,132 for operation and maintenance expense on its general ledger as of September 30, 2015. Audit staff determined operations and maintenance expense to be \$31,057. For Account 675 – Miscellaneous Expense, audit staff reviewed an invoice dated May 31, 2015 for a positive response system late notice in the amount of \$0.91, which was not included on the general ledger. We also noted that the Utility booked voucher checks on the general ledger at \$51.34, whereas the invoice provided stated \$112.97. In addition, the Utility also had \$137.97 noted on the general ledger, in which no support was provided. Audit staff recommends an adjustment of \$75 (\$137.97 + \$51.34 - \$112.97 - \$0.91), to Account 675 – Miscellaneous Expenses. The Utility’s operation and maintenance expense balance was overstated by \$75, as shown in Table 5-1.

Table 5-1

Account Nos.	Acct. Description	Amount Per Utility September 30, 2015	Audit Adjustment	Amount Per Audit September 30, 2015
603	Salaries and Wages - Officers, Directors and Majority Stockholders	\$ 4,000	\$ -	\$ 4,000
615	Purchased Power	\$ 3,199	\$ -	\$ 3,199
618	Chemicals	\$ 936	\$ -	\$ 936
632	Contractual Services - Accounting	\$ 1,000	\$ -	\$ 1,000
633	Contractual Services - Legal	\$ 590	\$ -	\$ 590
636	Contractual Services - Other	\$ 19,073	\$ -	\$ 19,073
657	Insurance - General Liability	\$ 1,341	\$ -	\$ 1,341
670	Bad Debt Expense	\$ 283	\$ -	\$ 283
675	Miscellaneous Expenses	\$ 711	\$ (75)	\$ 636
Total	O&M Expense	\$ 31,132	\$ (75)	\$ 31,057

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

Effect on the Filing: Audit staff determined the Utility’s operation and maintenance expense to be \$31,057 for the test year ended September 30, 2015.

Finding 6: Taxes Other than Income

Audit Analysis: The Utility recorded \$5,804 for TOTI on its general ledger as of September 30, 2015. Audit staff determined TOTI to be \$3,843 as of September 30, 2015. Audit staff adjusted real property and tangible property tax to reflect the maximum discount allotted for 2014 taxes, due to the unavailability of the 2015 property tax bills. In addition, we also adjusted the regulatory assessment fee, to reflect audited revenues.

The Utility's TOTI balance was overstated by \$1,961, as shown in Table 6-1.

Table 6-1

	Amount Per Utility as of September 30, 2015	Audit Adjustment	Amount Per Audit as of September 30, 2015
Real Property Tax	\$ 406	\$ (178)	\$ 228
Tangible Property Tax	\$ 3,829	\$ (1,668)	\$ 2,161
Regulatory Assessment Fee (RAF)	\$ 1,569	\$ (115)	\$ 1,454
Total	\$ 5,804	\$ (1,961)	\$ 3,843

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

Effect on the Filing: Audit staff determined the Utility's TOTI to be \$3,843 for the test year ended September 30, 2015.

Exhibits

Exhibit 1: Rate Base

**Lake Idlewild Utility Company
Staff Assisted Rate Case
Docket No. 150236-WU; ACN 15-324-1-1
Rate Base Schedule
As of September 30, 2015**

Description	Balance Per Utility as of September 30, 2015	Audit Adjustment	Balance Per Audit as of September 30, 2015	Test Year Average
Utility Plant in Service	\$ 192,336	\$ -	\$ 192,336	\$ 192,336
Land & Land Rights	\$ 1,905	\$ -	\$ 1,905	\$ 1,905
Accumulated Depreciation	\$ (99,717)	\$ -	\$ (99,717)	\$ (96,626)
Contributions in Aid of Construction	\$ (91,720)	\$ -	\$ (91,720)	\$ (91,720)
Accumulated Amortization of CIAC	\$ 44,231	\$ -	\$ 44,231	\$ 42,761
Working Capital Allowance	\$ -	\$ 3,882	\$ 3,882	\$ 3,882
Total Rate Base	\$ 47,035	\$ 3,882	\$ 50,917	\$ 52,538

Exhibit 2: Capital Structure

Staff Assisted Rate Case
Docket No. 150236-WU; ACN 15-324-1-1
Capital Structure
As of September 30, 2015

Capital Component	Simple Average Per Utility as of September 30, 2015	Audit Adjustment	Simple Average Per Audit as of September 30, 2015	Adjustments	Reconciled to Rate Base	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ 54,528	\$ -	\$ 54,528	\$ 1,990	\$ 52,538	100.00%	11.16%	11.16%
Total	\$ 54,528	\$ -	\$ 54,528	\$ 1,990	\$ 52,538	100.00%		11.16%

Exhibit 3: Net Operating Income

Lake Idlewild Utility Company
Staff Assisted Rate Case
Docket No. 150236-WU; ACN 15-324-1-1
Net Operating Income
Test Year Ended September 30, 2015

Description	Amount Per Utility September 30, 2015	Audit Adjustment	Amount Per Audit September 30, 2015
Operating Revenues	\$ 32,008	\$ 293	\$ 32,301
Operating & Maintenance Expenses	\$ 31,132	\$ (75)	\$ 31,057
Depreciation Expense	\$ 6,182	\$ -	\$ 6,182
Amortization Expense	\$ 2,940	\$ -	\$ 2,940
Taxes Other Than Income	\$ 5,804	\$ (1,961)	\$ 3,843
Total Operating Expenses:	\$ 46,058	\$ (2,036)	\$ 44,022
Net Operating Income (Loss)	\$ (14,050)	\$ 2,329	\$ (11,721)