

State of Florida



Public Service Commission

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

Auditor's Report

Placid Lakes Utilities, Inc
Rate Case (PAA)

Twelve Months Ended December 31, 2012

Docket No. 130025-WU
Audit Control No. 13-128-2-1
July 24, 2013

A large, stylized handwritten signature in black ink, reading "Ronald A. Mavrides".

Ronald A. Mavrides
Audit Manager

A handwritten signature in black ink, reading "Jocelyn Y. Stephens".

Jocelyn Y. Stephens
Audit Staff

A handwritten signature in black ink, reading "Simon Ojada".

Simon Ojada
Audit Staff

A handwritten signature in black ink, reading "Linda Hill-Slaughter".

Linda Hill-Slaughter
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 May 7, 2013. We have applied these procedures to the attached schedules prepared by Placid Lakes Utilities, Inc. in support of its filing for rate relief in Docket No. 130025-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

General

Definitions

The Utility refers to Placid Lakes Utilities, Inc.

The Parent Company refers to Lake Placid Holding Co.

Test Year refers to the 12-months ended December 31, 2012.

Utility Background

Placid Lake Utilities, Inc. is a Class B Utility located in Lake Placid, Florida, Highlands County. The Utility is owned by Lake Placid Holding Co. The Utility provides water service to approximately 1,945 water customers. The Utility provides wastewater services for several customers. This rate case is for the water system only.

Rate base was last established for the Utility's water system as of December 31, 2007, by Commission Order No. PSC-09-0632-PAA-WU, issued on September 17, 2009.

Utility Books and Records

Objective: 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 used the accrual method of accounting and maintain records on a calendar year basis. No exceptions 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, and are properly classified in compliance with Commission rules and the NARUC USOA, 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 filing and books and records.

Procedures: We scheduled plant additions, by account, by year for 2008 through 2012 beginning with the UPIS balance approved in the prior rate case. We selected major plant additions for testing. We traced plant additions to supporting documentation and company prepared worksheets. We verified that the appropriate amount for plant retirements was used. See Findings 1 and 2.

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, and 3) Adjustments required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We toured the plant facilities on July 9, 2013. We accessed the Highlands County Property Appraiser's Website to verify the legal description of the property, whether any sales and purchases occurred and, to verify the visual description of the property as compared with the property toured. We accessed the Highlands County Clerk's Website to verify the Utility's Warranty Deed. We reviewed Order No. PSC-09-00632-PAA-WU to determine whether Commission adjustments were made and whether detailed backup was available. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation accruals are properly calculated and recorded based on Commission rules and the NARUC USOA and adjustments required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We reconciled the Accumulated Depreciation balances that were established in the applicable Commission Order to the filing and general ledger. We recalculated Accumulated Depreciation using rates prescribed in Rule 25-30.140, Florida Administrative Code (F.A.C.). We verified that retirements were made when a capital item was removed or replaced. See Finding 3.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC) is recorded correctly and is in compliance with the Utility's Commission approved service availability charges.

Procedures: We reconciled CIAC balances that were established in the applicable Commission Order to the filing and general ledger. We scheduled and tested all additions to CIAC recorded in the general ledger for 2008-2012. We traced charges for meter and service installations to the Commission approved tariff sheets. No exceptions were noted.

Accumulated Amortization of Contributions in Aid of Construction

Objectives: The objectives were to determine whether accruals of Accumulated Amortization of CIAC are properly calculated and recorded based on Commission rules and adjustments required in the Utility's last rate proceeding were recorded in its filing and books and records.

Procedures: We amortized the annual audited balances in the CIAC by the appropriate rates from December 31, 2007, to December 31, 2012. We compared the amortized balances to the Utility's filing. See Finding 5.

Working Capital

Objective: The objective was to determine that the Utility's Working Capital balance is properly calculated in compliance with Commission rules

Procedures: We calculated the Utility's working capital adjustment as of December 31, 2012, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission Rule 30.433(2), F.A.C. No exceptions were noted.

Capital Structure

Objectives: The objectives were to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are recorded in compliance with Commission requirements.

Procedures: We determined that the Utility's capital structure is comprised of long-term debt, customer deposits, and common equity. We traced the long-term debt, customer deposits, and common equity from the filing to the general ledger. We verified if interest on customer deposits was credited to the customer bill and appropriately booked. See Findings 6 and 7.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

Procedures: We obtained the billing registers and tariff sheets for all customer classes. We recalculated revenue for the test year. We traced the recalculated revenue to the general ledger and the filing. We reviewed miscellaneous service revenues for compliance with the Utility's tariff. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether the: 1) Utility's Operation and Maintenance (O&M) Expense is properly recorded in compliance with the NARUC USOA and Commission Rules, 2) Utility has adequate support for any charges from an affiliate and that the affiliate uses a reasonable allocation methodology to charge costs to the Utility, and 3) O&M Expense is representative of ongoing utility operations.

Procedures: We selected accounts for analysis. We reviewed supporting documentation for the test year. We scanned the general ledger detail for non-recurring expenditures. We reviewed the costs shared between the Parent Company and the Utility and verified that the allocations were appropriated. See Findings 2 and 4.

Depreciation Expense

Objectives: The objectives were to determine whether Depreciation Expense is properly recorded in compliance with Commission Rule 25-30.140 and that it accurately represents the depreciation of plant assets from ongoing utility operations.

Procedures: We calculated Depreciation Expense using audited plant balances for the test year. We applied the appropriate depreciation rate to each account. See Finding 3.

CIAC Amortization Expense

Objective: The objective was to determine whether CIAC Amortization Expense is properly recorded in compliance with Commission Rule 25-30.140, F.A.C. and that it accurately represents amortization expense from ongoing utility operations.

Procedures: We calculated CIAC Amortization Expense using audited CIAC balances for the test year. We applied the appropriate amortization rate to each account. See Finding 5.

Taxes Other than Income

Objectives: The objectives were to determine the proper amounts for Taxes Other Than Income (TOTI) and ensure that TOTI Expenses are properly recorded and representative of ongoing utility operations.

Procedures: We obtained the Utility's 2012 tax bills for real estate and personal property taxes. We verified that the Utility utilized the discount offered for early payment. We verified the accuracy of the Utility's 2012 Regulatory Assessment Fees. We verified the contractual agreement for a leased copier which required the Utility to remit personal property taxes. See Finding 8.

Audit Findings

Finding 1: Adjustments for the Purchase and Retirement of Trucks

Audit Analysis: In 2008, the Utility purchased a Ford truck. This purchase occurred during the projected test year in the last rate case. The Utility included finance charges of \$3,297 and a trade-in value of \$3,100 in its calculation of the booked cost of \$15,084 ($\$19,326 - \$4,500 - \$3,100 + \$3,297 + \61). Staff removed the cost of financing (\$3,297) and the trade in value of the old truck (\$3,100) thereby reducing plant by \$197 ($\$3,297 - \$3,100$) as shown in Table 1-1. Staff did not calculate the effect on Depreciation Expense or Accumulated Depreciation for this adjustment.

Table 1-1

	<u>Plant</u>
Purchase Price	\$19,326
Rebate	(\$4,500)
Closing Costs	\$61
Audited Amount	<u>\$14,887</u>
Amount Recorded in G/L	<u>\$15,084</u>
Difference	<u><u>(\$197)</u></u>

The Utility retired a 1999 truck in 2007 at a value of \$10,000. Commission Order No. PSC-09-0632-PAA-WU determined that the retirement amount should have been \$12,750 based on 75% of the proforma plant amount of \$17,000 for the new truck. Staff would like Commission Staff to determine if the Utility should adjust the retirement made regarding this transaction since the purchase price of the 2008 truck discussed above is now known.

Effect of General Ledger: This is for informational purposes only.

Effect on Filing: This is for informational purposes only.

Finding 2: Utility Plant in Service

Audit Analysis: We prepared a schedule of plant additions for the years 2008 through 2012. We selected random entries from various plant accounts for analysis. Our review disclosed that a number of items either did not have sufficient documentation to substantiate the charge or were posted incorrectly to the ledger or internal reports

Table 5-1 summarizes Staff's adjustments to the general ledger for the plant accounts that were analyzed. The effect of the averaging adjustment for Plant in Service, including Transportation Equipment is (\$3,154).

Table 5-1

Acct.		2008	2009	2010	2011	2012	Total
No.	Description						
330.4	Dist Res & SP	\$0	(\$1,691)	\$0	\$0	\$0	(\$1,691)
331.4	T&D Mains	(\$4,060)	(\$13,952)	(\$532)	(\$8,447)	\$0	(\$26,991)
333.4	Services	\$550	\$0	(\$745)	\$1,212	\$0	\$1,017
334.4	Meters	\$0	\$0	\$0	(\$3,416)	(\$4,254)	(\$7,670)
341.5	Transportation	\$0	\$0	\$0	\$0	(\$10,988)	(\$10,988)
339.2	Oth Plt & Misc Eq	\$0	\$0	\$0	(\$931)	\$0	(\$931)
Total		(\$3,510)	(\$15,643)	(\$1,277)	(\$11,582)	(\$15,242)	(\$47,254)

Finding 2 (cont'd)

Effect on the General Ledger: The following entries are needed to correct the general ledger as of December 31, 2012.

2008				2009			
Acct. No.	Acct. Description	Debit	Credit	Acct. No.	Acct. Description	Debit	Credit
333	Services	\$550		215	Retained Earnings	\$859	
331	T & D Mains		\$550	330	Distrib Reservoir & Standpipes		\$859
	To Reclass Costs between Accounts.				To remove undocumented costs.		
215	Retained Earnings	\$1,210		331	Trans. & Distrib.	\$3,727	
331	T & D Mains		\$1,210	215	Retained Earnings		\$3,727
	To remove duplicate charges.				To add plant for which CIAC was recorded.		
215	Retained Earnings	\$1,900		215	Retained Earnings	\$95	
331	T&D Mains		\$1,900	331	T & D Mains		\$95
	To remove O&M Charges.				To remove late fees paid on account.		
215	Retained Earnings	\$400		215	Retained Earnings	\$16,405	
331	T&D Mains		\$400	330	Distrib. Reservoir & Standpipes		\$16,405
	To remove Undocumented Charges.				To remove 9 invoices with O&M charges from GL for lin repairs.		
				215	Retained Earnings	\$1,178	
				331	Transmission & Distribution		\$1,178
					To remove undocumented additions and related retirement.		
				215	Retained Earnings	\$833	
				330	Distrib. Reservoir & Standpipes		\$833
					To remove O&M charges.		

Finding 2 (cont'd)

2010				2012			
Acct. No.	Acct. Description	Debit	Credit	Acct. No.	Acct. Description	Debit	Credit
215	Retained Earnings	\$745		108	Acc. Depreciation	\$4,254	
333	Services		\$745	333	Meters & Meter Installation		\$4,254
	To remove undocumented costs.				To record add'l amount for retirement for plant addition of \$7,167.91. Total retirements were \$5,376. Only \$1,122 was posted to the G/L (75% Rule).		
215	Retained Earnings	\$532		391	Transp. Equip-Sewer	\$10,988	
331	T&D Mains		\$532	341	Transp. Equip.-Water		\$10,988
	To remove O&M Charges				To remove Non-regulated sewer plant asset recorded as a water asset.		
2011							
215	Retained Earnings	\$1,906					
331	T&D Mains		\$1,906				
	To remove O&M Charges						
108	Acc. Dep.	\$3,636					
331	T&D Mains		\$3,636				
	To record retirement for plant addition of \$4,847.						
215	Retained Earnings	\$1,693					
331	T&D Mains		\$1,693				
	To remove payroll costs charged to plant in error.						
108	Acc. Dep.	\$931					
339.2	Other Plant & Misc Equip		\$931				
	To record retirement for plant addition of (\$241.40).						

Effect on the Filing: Average should be reduced by \$40,180.

Finding 3: Depreciation Expense and Accumulated Depreciation

Audit Analysis: Starting with the Commission approved balance of Accumulated Depreciation from the Commission Order No. PSC-09-0632-PAA, in Docket No. 080353-WU, and audit plant balances, we calculated Accumulated Depreciation for the years 2008 through 2012. Our calculation consisted of the audited plant balance times the depreciation rates from Rule 25-30.140, F.A.C. We also made adjustments to Accumulated Depreciation for plant retirements that were either recorded in the general ledger or calculated by staff. The audit balance of Accumulated Depreciation at December 31, 2012, is \$1,511,034. The balance for Accumulated Depreciation recorded in the general ledger at December 31, 2012, is \$1,524,926. The difference between Accumulated Depreciation between the general ledger and the audit computation at December 31, 2012, is \$13,889. The adjustment for the average Accumulated Depreciation balance is \$24,163.

Current year Depreciation Expense per the general ledger is \$99,400. Current year Depreciation Expense per audit calculation is \$97,135 for a difference of (\$2,265.)

Effect on the General Ledger:

<u>Acct No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
108	Accumulated Depreciation	\$13,889	
403	Depreciation Expense		\$2,265
215	Retained Earnings		\$11,624
	To adjust 2012 Depreciation Expense and Accumulated Depreciation at 12/31/2012 to staff computed amounts.		

Effect on the Filing: Depreciation Expense should be reduced by \$2,265 and Accumulated Depreciation should be reduced by \$24,163.

Finding 4: Purchased Power

Audit Analysis: We obtained the purchased power invoices for the plant and the office. We reviewed and compared the total costs to the general ledger. Purchased power costs for the warehouse was not being booked by the Utility. The warehouse is used solely by the water utility. We added purchased power for the warehouse use.

Effect on the General Ledger: There is no adjustment to the general ledger as the amounts relate to a prior period.

Effect on the Filing: O&M expense should be increased by \$1,874.

Finding 5: Accumulated Amortization of CIAC

Audit Analysis: : Using the December 31, 2007, beginning balance for Accumulated Amortization established in the prior Commission Order, we calculated Accumulated Amortization based upon the audited CIAC balances. We used amortization rates of 5 percent as prescribed by Rule 25-30.140, F.A.C. to amortize meter installations. The difference between Staff's calculation and the books is \$19,743.

Effect on the General Ledger: The following entry is needed to correct the general ledger as of December 31, 2012:

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
407	Amortization Expense	\$3,987	
215	Retained Earnings	\$15,756	
272	Acc. Amort of CIAC		\$19,743

To correct the amortization rate for meter installations.

Effect on the Filing: Average Accumulated Amortization of CIAC should be decreased by \$17,622.

Finding 6: Long Term Debt

Audit Analysis: The Utility's Schedule A-19 of the MFRs reflects an incorrect averaging balance of \$468,358. See Staff's calculation in Table 7-1.

Table 7-1

	Long Term Debt
Audit Balance at 12/31/2011	\$503,169
Audit Balance at 12/31/2012	<u>\$468,358</u>
Total	\$971,527
Average	\$485,764
Balance per Filing	\$468,358
Difference	<u><u>(\$17,406)</u></u>
Audit Adjustment	
Averaging Adjustment	(\$17,406)

Effect on the General Ledger: None

Effect on the Filing: Average Long -Term Debt should be increased by \$17,406.

Finding 7: Customer Deposits

Audit Analysis: We reviewed the Customer Deposits account and found that some deposits were returned by the Utility to the customers in the form of a check and that these checks were never cashed. These refund checks total \$1,990. The Utility states that at least one of these checks dates back to 1998. The Utility is unable to locate these customers. The amount remains as a liability on the Utility's books.

Effect on the General Ledger: This is for informational purposes only.

Effect on the Filing: This is for informational purposes only.

Finding 8: Taxes Other than Income

Audit Analysis: We performed an analysis of TOTI for the test period. We determined that TOTI included amounts for Payroll, Real and Personal Taxes and Regulatory Assessment Fees. Real and Personal Property Taxes for 2012 were selected for additional review.

On a monthly basis, the Utility accrued Real and Personal Taxes in the general ledger that totaled \$20,603. This amount agrees with the MFRs. The actual payment to the Highlands County Tax Collector totaled \$22,745. The Utility paid the tax bill in a timely manner and was able to take advantage of the discount.

Effect on the General Ledger: The following entry is needed to correct the general ledger as of December 31, 2012.

Acct. <u>No.</u>	<u>Acct. Description</u>	<u>Debit</u>	<u>Credit</u>
408	TOTI	\$2,142	
215	Retained Earnings		\$2,142

To adjust 2012 TOTI to actual tax expense paid.

Effect on the Filing: Taxes Other than Income should be increased by \$2,142.

Exhibits

Exhibit 1: Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: **Placid Lakes Utilities, Inc.**
 Docket No.: **130025-WU**
 Schedule Year Ended: **12/31/12**
 Interim Final
 Historical Projected

Schedule: **A-1**
 Page 1 of 1
 Preparer: **Larry P. King, Treasurer**

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	2,850,500	184,553 (c)	3,035,053	A-5
2	Utility Land & Land Rights	1,000	0	1,000	Vol. IV, W/P 8
3	Less: Non-Used & Useful Plant	0	-68,210 (A)	-68,210	A-7
4	Construction Work in Progress	0	0	0	-
5	Less: Accumulated Depreciation	-1,524,926	67,503 (E)	-1,457,423	A-9
6	Less: CIAC	-1,705,428	-881 (D)	-1,706,289	A-11; A-12
7	Accumulated Amortization of CIAC	880,804	-26,064 (F)	834,840	A-14
8	Acquisition Adjustments	0	0	0	-
9	Accum. Amort. of Acq. Adjustments	0	0	0	-
10	Advances For Construction	-142,254	1,540 (G)	-140,714	A-16
11	Working Capital Allowance	0	67,622 (B)	67,622	A-17
12	Total Rate Base	439,796	226,081	665,877	

Exhibit 2: Capital Structure

Schedule of Requested Cost of Capital
Beginning and End of Year Average

Florida Public Service Commission

Company: **Piscid Lakes Utilities, Inc.**
Docket No.: **130025-1WJ**
Test Year Ended: **12/31/12**
Schedule Year Ended: **12/31/12**
Historic or Projected

Schedule: **D-1**
Page **1** of **1**
Preparer: **Larry P. King, Treasurer**
Subsidiary or Consolidated

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	3,771	0.57%	9.06%	0.05%
2	Short-Term Debt				
3	Preferred Stock				
4	Customer Deposits	16,600	2.48%	2.00%	0.05%
5	Common Equity	645,606	98.96%	8.79%	8.62%
6	Tax Credits - Zero Cost				
7	Tax Credits - Wtd. Cost				
8	Accum. Deferred Income Taxes				
9	Other (Explain)				
10	Total	665,977	100.00%		8.62%

2012 Leverage Formula (PSC-12-0339-PAA-WB)
Return on Common Equity = 7.13% + 1.610 / 98.96%
Equity Ratio = (632,601 / 645,606) = 98.96%

= 8.79%

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

Exhibit 3: Net Operating Income

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Placid Lakes Utilities, Inc.
 Schedule Year Ended: 12/31/12
 Interim Final
 Historic or Projected

Schedule: B-1
 Page 1 of 1
 Docket No.: 130025-WU
 Preparer: Larry P. King, Treasurer

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	634,488		634,488	142,878 (A)	777,148	B-4; E-2 Vol. IV, W/P 1
2	Operation & Maintenance	521,408	19,564 (C)	540,972		540,972	B-5
3	Depreciation, net of CIAC Amort.	48,878	15,542 (E)	64,218		64,218	B-13
4	Amortization	0		0		0	
5	Taxes Other Than Income	77,952	-3,587 (F)	73,485	6,421 (B)	79,898	B-15
6	Provision for Income Taxes	0		0	34,848 (C)	34,848	C-1
7	OPERATING EXPENSES	647,138	31,519	678,655	41,068	719,722	
8	NET OPERATING INCOME	-12,668	-31,519	-44,187	101,811	57,424	Vol. IV, W/P 1
9	RATE BASE	439,798		665,877		665,877	A-1
10	RATE OF RETURN	-2.65%		-6.64%		8.62%	D-1