

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-**

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**DATE:** July 27, 2004  
**TO:** Cheryl Johnson, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *DNV*  
Division of Regulatory Compliance and Consumer Assistance  
**RE:** **Docket No.** 040173 ; **Company Name:** L. W. V. Utilities, Inc. ; **Audit Purpose:** Establish Rate Base for Transfer of Utility;  
**Audit Control No.** 04-089-2-1

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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 the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp  
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Mr. James C. Weeks  
L. W. V. Utilities, Inc.  
7552 Congress Street, Suite 4  
New Port Richey, FL 34653-1106

DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

***DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
BUREAU OF AUDITING***

***TAMPA DISTRICT OFFICE***

**L W V UTILITIES, INC.**

**ESTABLISH RATE BASE FOR TRANSFER OF UTILITY**

**AS OF DECEMBER 31, 2003**

**DOCKET NO. 040173-WU**

**AUDIT CONTROL NO. 04-089-2-1**

  
**Thomas Stambaugh, Audit Staff**

  
**Joseph W Rohrbacher, Tampa District Supervisor**

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**JULY 9, 2004**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare and audit schedules of Water Rate Base as of December 30, 2003 for L W V Utilities, Inc.'s petition for transfer of Certificate No. 152-W. These schedules were prepared by the auditor as part of the utility's petition for Certificate Transfer in Docket No. 040173-WU. No confidential information is associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

## SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Verify** - The item was tested for accuracy, and substantiating documentation was examined.

**RATE BASE:** Prepared a schedule and compiled account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for the period January 1, 1977 through December 31, 2003. Reconciled rate base balances authorized in Commission Order No. 8104, issued December 21, 1977, to utility records. Reviewed for CIAC additions. Examined invoices and supporting documentation for all major plant additions. Calculated accumulated depreciation using a standard rate of 2.5%. Computed amortization of CIAC using yearly depreciation rates.

**OTHER:** Toured the Utility's service area. Determined whether any assets of the utility are not being transferred. Verified that rates, miscellaneous service charges, service availability charges and customer deposits charged by the utility are consistent with approved tariff.

**Disclosure No. 1**

**Subject: Utility Plant in Service (UPIS)**

**Statement of Fact:** Plant in Service was last determined by the Commission in Order No. 8104, issued December 21, 1977. It established Plant in Service as of December 31, 1976 to be \$72,275. The utility balance at December 31, 1976 was \$73,879. The utility did not adjust its books and records to reflect the required balance. The utility balance for UPIS as of December 30, 2003 was \$113,103 and the audited balance was \$116,836.

L W V Utilities did not record additions of \$5,337 in 2003. The utility was unable to provide invoices in support of the plant additions recorded in the Annual Reports. However, the auditor was able to reconcile the Annual Report balance as of December 31, 2003 to the 2003 utility tax return, Form 1120S.

**Recommendation:** The utility plant in service should be adjusted to reflect the above. The UPIS balance as of December 30, 2003 is \$116,836.

A summary of the proposed adjustment follows:

Plant in Service per Utility's Annual Report		\$113,103
Add: Items to capitalize	5,337	
Less: Adjustment to prior Order (72,275-73,879)	<u>(1,604)</u>	<u>3,733</u>
Plant in Service Per Audit		<u>\$116,836</u>

**Disclosure No. 2**

**Subject: Accumulated Depreciation**

**Statement of Fact:** L W V Utilities, Inc. did not adjust its books and records to reflect the rate base set by the Commission in Order No. 8104. Rule 25-30.140 F.A.C. establishes the useful life of depreciable assets for Class C utilities. Subsection 4 (b) states "All Class C utilities shall maintain depreciation rates and reserve activity data by total depreciable plant, function or account as prescribed by this Commission."

The utility books and records reflected an accumulated depreciation balance of \$73,781 as of December 30, 2003. The utility did not use the prescribed depreciation rate of 2.5% on a consistent basis.

L W V Utilities did not record depreciation on the 2003 additions to plant. Also, the utility recorded a different beginning of year Reserve Balance on the 1985 Annual Report (\$20,895) than was recorded on the end of year 1984 Annual Report (\$29,361), a difference of \$8,466.

**Recommendation:** The auditor recalculated accumulated depreciation. The utility's accumulated depreciation balance as of December 31, 2003 should be adjusted to reflect the above. The accumulated depreciation balance as of December 31, 2003 is \$79,421.

A summary of the proposed adjustment follows:

Accumulated depreciation per utility @ 12/31/03	\$73,781
Adjustment to prior Order	33
Accumulated depreciation on 2003 additions to plant	67
Adjustment for 1985 Reserve Balance	8,466
Recalculation of accumulated depreciation	<u>( 2,926)</u>
Accumulated depreciation per audit @ 12/31/03	<u>\$79,421</u>

**Disclosure No. 3**

**Subject: Contributions in Aid of Construction (CIAC)**

**Statement of Fact:** Rule 25-30.140, Subsection 8 (a), F.A.C. states in part “Where CIAC records are not kept by account, the depreciation rates shall be applied to the entire depreciable plant . . . the composite plant amortization rate shall be used.”

PSC Order No. 8104, issued December 21, 1977, set balances of CIAC and Accumulated Amortization of CIAC to be \$4,450 and \$183 respectively.

**Recommendation:** The auditor used additions per the Annual Report and recalculated CIAC and amortization using the annual composite depreciation rate of 2.5% derived from the depreciation schedules. As of December 31, 2003, the balance of CIAC should be \$15,050 and \$9,437 for accumulated amortization.

Below are the recommended adjustments:

	<u>CIAC</u>	<u>Amortization</u>
Balance per Utility @ 12/31/03	\$10,900	\$7,774
<u>Audit Adjustments</u>		
Adjust beginning balance to Order No. 8104	(50)	
Non recorded CIAC and amortization	<u>4,200</u>	<u>1,663</u>
Balance per audit @12/31/03	<u>\$15,050</u>	<u>\$9,437</u>



**Disclosure No. 4**

**Subject: Customer Deposits**

**Statement of Fact:** The utility's customer charges are determined and regulated by the Florida Public Service Commission. The current service charges were approved administratively in the 2001 Price Index. The utility's tariff also approves a \$100 CIAC fee, \$50 customer deposit and a \$10 connect fee. The service charges were recalculated by the auditor and were found to be correct, as was the CIAC fee.

A review of the bank records for 2003 showed that the utility was charging a \$60 customer deposit along with the \$10 connect fee. This was verified by utility staff. L W V records currently show 240 customer deposits totaling \$14,090, ranging from \$50 to \$95 per customer.

<u>Deposit</u>	<u>Customers</u>	<u>Total</u>
\$50	27	\$ 1,350
55	30	1,650
60	173	10,380
Other	<u>10</u>	<u>710</u>
	240	\$14,090

**Recommendation:** The utility should refund \$2,090 ( $14,090 - 12,000(240 \times \$50 = \$12,000)$ ), the amount of customer deposits collected over the approved tariff amount, to the appropriate customers.

In discussion with utility staff, it was learned that the utility does not pay interest nor return deposits as required by Rule 25-30.311 F.A.C. The utility should review its customer deposits and comply with the Commission rule.

L W V UTILITIES, INC.  
DOCKET 040173-WU  
RATE BASE - WATER  
TEST PERIOD ENDED DECEMBER 31, 2003

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/03	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @12/31/03	(d) AVERAGE RATE BASE @12/31/03
UTILITY PLANT IN SERVICE	112,103	3,733 Disc 1	115,836	113,167
LAND	1,000	0	1,000	1,000
PLANT HELD FOR FUTURE USE	0	0	0	0
CIAC	(10,900)	(4,150) Disc 3	(15,050)	(15,050)
ACCUMULATED DEPRECIATION	(73,781)	(5,640) Disc 2	(79,421)	(78,007)
AMORTIZATION-CIAC	7,774	1,663 Disc 3	9,437	9,249
WORKING CAPITAL	0	0	0	0
ACQUISITION ADJUSTMENT	0	0	0	0
TOTAL	36,196	(4,394)	31,802	30,360

NOTE: WORKING CAPITAL ALLOWANCE NOT REQUIRED