

State of Florida



# Public Service Commission

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**DATE:** February 23, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120014-WS  
Company Name: W.P. Utilities, Inc.  
Company Code: WS679  
Audit Purpose: Update Net Book Value  
Audit Control No: 12-030-4-1

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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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

01024 FEB 23 2012

FPSC-COMMISSION CLERK

State of Florida



**Public Service Commission**

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

**Auditor's Report**

W.P. Utilities, Inc.  
Transfer of Certificate Audit

**As of December 31, 2011**

Docket No. 120014-WS  
Audit Control No. 12-030-4-1

**February 21, 2012**

A handwritten signature in cursive script, appearing to read "Kathy Welch", written over a horizontal line.

Kathy Welch  
Audit Manager

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

Iliana H. Piedra  
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 Economic Regulation in its audit service request dated January 29, 2012. We have applied these procedures to the attached schedules prepared by W.P. Utilities, Inc. in support of its filing for a certificate transfer, Docket No. 120014-WS.

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**

#### Utility Information

W.P. Utilities, Inc. is a Class C utility that provides water and wastewater services in Palm Beach County, Florida. The Utility serves approximately 190 customers. The Utility purchases water and wastewater treatment but provides the water distribution and wastewater collection.

#### Regulatory Proceedings

The Utility has filed a request to transfer its certificate to Palm Breezes MHP, LLC which is being purchased by Cap Utilities, LLC. The Utility's last rate case order PSC-08-0652-PAA-WS was issued October 6, 2008 in Docket No. 070722-WS.

#### Utility Books and Records

**Objectives:** To determine that the Utility maintains its accounts and records in accordance with Commission rules and with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We reviewed the Utility's accounting systems. The Utility does not use NARUC account numbers in its ledgers but the accounts are easy to translate to the NARUC accounts.

### **Rate Base**

#### Utility Plant in Service

**Objectives:** Our objectives were to: 1) Determine that property exists and is owned by the Utility and that plant additions are authentic, recorded at cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of plant were made when a replacement item was put in service, and 3) Verify that the adjustments to plant in the Utility's last rate proceeding were recorded in its general ledger.

**Procedures:** We determined the water and wastewater plant balances as of December 31, 2007 that were established in Docket 070722-WS. We reviewed and sampled additions to plant for the period January 1, 2008 through December 31, 2011, to verify the plant balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the Utility plant site to observe whether plant additions were completed and in service, and to ascertain if a retirement was needed.

#### Contributions-in-Aid-of-Construction (CIAC)

**Objectives:** Our objectives were to: 1) Determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, 3) Verify that the adjustments to CIAC in the

Utility's last rate proceeding were recorded in the general ledger, and 4) Verify that retirements are properly recorded.

**Procedures:** We determined the CIAC balances as of December 31, 2007 that were established in Docket 070722-WS. There were no additions to CIAC. The system has been built out for some time.

### Accumulated Depreciation

**Objectives:** Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

**Procedures:** We determined the accumulated depreciation balances as of December 31, 2007 that were established in Docket 070722-WS. We recalculated additions to accumulated depreciation balances for the period January 1, 2008 through December 31, 2011. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced.

### Accumulated Amortization of CIAC

**Objectives:** Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

**Procedures:** We determined the accumulated amortization of CIAC balances as of December 31, 2007 that was established in Docket 070722-WS. We recalculated additions to accumulated amortization of CIAC for the period January 1, 2008 through December 31, 2011.

## **Net Operating Income**

### Operating Revenue

**Objectives:** Our objective was to determine that the Utility is using the Commission approved tariff rates.

**Procedures:** We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

## **Capital Structure**

**Objectives:** Our objective was to determine whether the Utility was collecting deposits.

**Procedures:** We reviewed the ledger and inquired about the deposit policy. The Utility does not collect customer deposits.

## Audit Findings

### **Finding 1: Accumulated Depreciation Correction**

**Audit Analysis:** The Utility used a 27 year depreciation life for wastewater gravity mains instead of the 40 years required by Rule 25-30.140, F.A.C. In addition, some additions were recorded as wastewater force mains instead of lift stations. Force mains have a 27 year life and lift stations have a 17 year life according to the rule. There was also a slight difference in the water meter account because this entire account should be fully retired. Accumulated depreciation was recomputed and can be found on the following page. Water accumulated depreciation should be increased by \$111 and wastewater accumulated depreciation decreased by \$1,269 based on the attached schedule.

**Effect on the General Ledger:** The new owner should book the balances at 12/31/11 from the schedule on the following page as the accumulated depreciation beginning balances at transfer.

**Effect on the Filing:** Water accumulated depreciation is increased (credited) by \$111 and wastewater decreased (debited) by \$1,269.

### Calculation of Accumulated Depreciation

	Life	Per Prior Case Adjusted Balances	2008 Additions	Balance 12/31/2008	2009 Additions	Balance 12/31/2009	2010 Additions	Balance 12/31/2010	2011 Additions	Balance at 12/31/11	Per Transfer Filing	Difference
<b>Water</b>												
304-Organization Costs	40	\$ 6,478.00	\$ 192.45	\$ 6,670.45	\$ 192.45	\$ 6,862.90	\$ 192.45	\$ 7,055.35	\$ 192.45	\$ 7,247.80	\$ 7,247.80	\$ 0.00
331-Lines	38	\$ 25,588.00	\$ 1,336.26	\$ 26,924.26	\$ 1,336.26	\$ 28,260.53	\$ 1,336.26	\$ 29,596.79	\$ 1,336.26	\$ 30,933.05	\$ 30,933.04	\$ 0.01
333-Services	35	\$ 14,133.00	\$ 658.37	\$ 14,791.37	\$ 658.37	\$ 15,449.74	\$ 658.37	\$ 16,108.11	\$ 658.37	\$ 16,766.49	\$ 16,766.48	\$ 0.01
334-Meters	17	\$ 24,581.00	\$ 1,230.00	\$ 25,811.00		\$ 25,811.00		\$ 25,811.00		\$ 25,811.00	\$ 25,713.19	\$ 97.81
340-Office Equipment	6			\$ -	\$ 36.00	\$ 36.00	\$ 72.00	\$ 108.00	\$ 72.00	\$ 180.00	\$ 156.00	\$ 24.00
348-Other Plant	40		\$ -	\$ -	\$ 10.55	\$ 10.55	\$ 10.55	\$ 21.10	\$ 10.55	\$ 31.65	\$ 42.20	\$ (10.55)
335-Hydrants	40	\$ 8,633.00	\$ 276.46	\$ 8,909.46	\$ 276.46	\$ 9,185.92	\$ 276.46	\$ 9,462.38	\$ 276.46	\$ 9,738.84	\$ 9,738.84	\$ 0.00
		\$ 79,413.00	\$ 3,693.55	\$ 83,106.55	\$ 2,510.10	\$ 85,616.64	\$ 2,546.10	\$ 88,162.74	\$ 2,546.10	\$ 90,708.83	\$ 90,597.55	\$ 111.28
<b>Wastewater</b>												
351-Structures	40	\$ 2,110.00	\$ 192.45	\$ 2,302.45	\$ 192.45	\$ 2,494.90	\$ 192.45	\$ 2,687.35	\$ 192.45	\$ 2,879.80	\$ 2,879.80	\$ 0.00
360-Force	27	\$ 64,914.00	\$ 4,008.93	\$ 68,922.93	\$ 4,008.93	\$ 72,931.85	\$ 1,533.93	\$ 74,465.78	\$ 4,008.93	\$ 78,474.70	\$ 78,535.82	\$ (61.12)
390-Office Equipment	6		\$ -	\$ -	\$ 36.00	\$ 36.00	\$ 72.00	\$ 108.00	\$ 72.00	\$ 180.00	\$ 156.00	\$ 24.00
361-Gravity	40	\$ 19,905.00	\$ 726.70	\$ 20,631.70	\$ 726.70	\$ 21,358.40	\$ 726.70	\$ 22,085.10	\$ 726.70	\$ 22,811.80	\$ 24,211.36	\$ (1,399.56)
354-Lift Stations	17				\$ 32.05	\$ 32.05	\$ 175.11	\$ 207.16	\$ 199.37	\$ 406.54		\$ 406.54
363-Special Collection	37	\$ 861.00	\$ 561.43	\$ 1,422.43	\$ 561.43	\$ 1,983.86	\$ 561.43	\$ 2,545.28	\$ 561.43	\$ 3,106.71	\$ 3,297.31	\$ (190.60)
		\$ 87,790.00	\$ 5,489.50	\$ 93,279.50	\$ 5,557.56	\$ 98,837.06	\$ 3,261.61	\$ 102,098.68	\$ 5,760.88	\$ 107,859.55	\$ 109,080.29	\$ (1,220.74)
Portion related to Finding 2							Note A					\$ 48.35
Total Without Finding 2												\$ (1,269.09)

Note A- In 2010, lift station has a retirement of \$2,475. However, the original cost was not recorded in lift stations. Therefore it was deducted from Force Mains. There was a meter retirement of \$115 in 2009. However met Used plant from the following page divided by life above. Used 1/2 year for additions.



**Plant Used in Calculations on Previous Page**

	Per Prior Audit Trial Balance	Order Adjustments	Adjusted Balances	2008 Additions	Balance 12/31/2008	2009 Additions	Balance 12/31/2009	2010 Additions	Balance 12/31/2010	2011 Additions	Balance at 12/31/11
<b>Water</b>											
Organization Costs	\$ 7,698.03		\$ 7,698.03		\$ 7,698.03		\$ 7,698.03		\$ 7,698.03		\$ 7,698.03
331-Lines	\$ 57,958.00	\$ (7,180.00)	\$ 50,778.00		\$ 50,778.00		\$ 50,778.00		\$ 50,778.00		\$ 50,778.00
333-Services	\$ 23,043.00		\$ 23,043.00		\$ 23,043.00		\$ 23,043.00		\$ 23,043.00		\$ 23,043.00
334-Meters	\$ 25,811.00		\$ 25,811.00		\$ 25,811.00		\$ 25,811.00		\$ 25,811.00		\$ 25,811.00
340-Office Furniture					\$ -	\$ 432.00 D	\$ 432.00		\$ 432.00		\$ 432.00
384-Other Plant			\$ -	\$ 422.00 C	\$ 422.00		\$ 422.00		\$ 422.00		\$ 422.00
335-Hydrants	\$ 11,058.41		\$ 11,058.41		\$ 11,058.41		\$ 11,058.41		\$ 11,058.41		\$ 11,058.41
	\$ 125,568.44	\$ (7,180.00)	\$ 118,388.44	\$ 422.00	\$ 118,810.44	\$ 432.00	\$ 119,242.44	\$ -	\$ 119,242.44	\$ -	\$ 119,242.44
<b>Wastewater</b>											
Organization Costs	\$ 7,698.03		\$ 7,698.03		\$ 7,698.03		\$ 7,698.03		\$ 7,698.03		\$ 7,698.03
360-Force	\$ 108,241.00		\$ 108,241.00		\$ 108,241.00		\$ 108,241.00		\$ 108,241.00		\$ 108,241.00
390-Office Equipment					\$ -	\$ 432.00 D	\$ 432.00		\$ 432.00		\$ 432.00
361-Gravity		\$ 29,068.00	\$ 29,068.00		\$ 29,068.00		\$ 29,068.00		\$ 29,068.00		\$ 29,068.00
354-Lift Stations						\$ 2,564.34 A	\$ 2,564.34	\$ 825.00 B	\$ 3,389.34	\$ 1,643.97	\$ 5,033.31
362-Special Collection	\$ 42,660.82	\$ (21,888.00)	\$ 20,772.82		\$ 20,772.82		\$ 20,772.82		\$ 20,772.82		\$ 20,772.82
	\$ 158,599.85	\$ 7,180.00	\$ 165,779.85	\$ -	\$ 165,779.85	\$ 2,996.34	\$ 168,776.19	\$ 825.00	\$ 169,601.19	\$ 1,643.97	\$ 171,245.16
Without the November 2011 addition in Finding 2											\$ 169,601.19

A-Sullivan Electric Pump-Lift Station Pump Rebuild

B-Onsite Wastewater Management-New Pump \$3,300 less retirement at 75% (2475) really should have been in liftstations but it was not booked that way originally

C-Error found in last audit that was not in order

D-upgrade to billing system

## **Finding 2: Addition after Filing**

**Audit Analysis:** The filing contained an estimated rate base at December 31, 2011. An addition was made for a rebuilt lift station pump in November 2011 of \$1,643.97. The additional depreciation on this addition is \$48.35 using a 17 year life per Rule 25-30.140 and a half year depreciation convention.

**Effect on the General Ledger:** This acquisition should be included in the balances established by the new owners.

**Effect on the Filing:** Plant should be increased by \$1,643.97. Accumulated Depreciation should be increased by \$48.35.

### **Finding 3: Billing**

**Audit Analysis:** The Utility is billing its general service customer, the Palm Breezes Clubhouse, at the residential rates. The general service rates are lower but do not have a cap on wastewater usage. In the month tested, the Clubhouse invoice was \$333.82. Based on the general service tariff, the bill should have been \$442.09. The Clubhouse is an affiliate of the Utility. The new owner needs to bill the Clubhouse at the proper rates.

**Effect on the General Ledger:** Since this is a transfer audit, this finding does not affect past operations and does not need to be booked to the ledger.

**Effect on the Filing:** No effect.

Exhibits

**Exhibit 1: Staff Prepared Rate Base**

	Year-End Rate Base Per Filing	Staff Adjustments		Staff Adjusted Balance
<b>Water</b>				
Plant in Service	\$ 119,242.44			\$ 119,242.44
Accumulated Depreciation	\$ (90,597.55)	\$ (111.00)	Finding 1	\$ (90,708.55)
CIAC	\$ (28,774.00)			\$ (28,774.00)
Accumulated Amortization of CIAC	\$ 21,837.28			\$ 21,837.28
Total Water Rate Base	\$ 21,708.17	\$ (111.00)		\$ 21,597.17
<b>Wastewater</b>				
Plant in Service	\$ 169,601.37	\$ 1,643.97	Finding 2	\$ 171,245.34
Accumulated Depreciation	\$ (109,080.30)	\$ 1,220.65	Finding 1	\$ (107,859.65)
CIAC	\$ (11,010.00)			\$ (11,010.00)
Accumulated Amortization of CIAC	\$ 6,315.51			\$ 6,315.51
Total Wastewater Rate Base	\$ 55,826.58	\$ 2,864.62		\$ 58,691.20
Total Rate Base				\$ 80,288.37

## Exhibit 2: Utility Prepared Rate Base

W.A. UTILITIES, INC.  
Order # PSC-08-0652-PA4-W5  
December 31, 2011

	Years	Depr Rate	Plant Balance			Projected Plant Balance			Accum			Accum			Accum			Net Plant
			12/31/08	Retires	Adds	12/31/09	Retires	Adds	12/31/10	12/31/11	12/31/08	2009 Annual	12/31/09	2010 Annual	12/31/10	2011 Annual	12/31/11	12/31/11
<b>WATER PLANT</b>																		
304 Organization	40	1.500%	\$ 7,698.00			\$ 7,698.00			\$ 7,698.00	\$ 7,698.00	\$ 6,670.45	\$ 192.45	\$ 6,862.90	\$ 192.45	\$ 7,055.35	\$ 192.45	\$ 7,247.80	\$ 458.23
331 Transmission & Distribution	36	1.631%	90,776.00			90,776.00			90,776.00	90,776.00	26,974.26	1,336.26	28,210.52	1,336.26	29,546.78	1,336.26	30,883.04	19,844.96
339 Services to Customers	33	1.857%	23,043.00			23,043.00			23,043.00	23,043.00	14,791.57	658.37	15,449.74	658.37	16,108.11	658.37	16,766.48	6,176.51
334 Meters	17	5.882%	25,811.00	(115.00)	115.00	25,811.00			25,811.00	25,811.00	76,099.29	(391.61)	75,699.67	6.76	75,706.43	6.76	75,713.19	97.81
335 Fire Hydrant	40	1.500%	11,058.41			11,058.41			11,058.41	11,058.41	8,909.46	276.46	9,185.92	276.46	9,462.38	276.46	9,738.84	1,519.57
Office Furn & Equipment - Software	6	16.667%	-		432.00	432.00			432.00	432.00	-	12.00	12.00	72.00	84.00	72.00	156.00	276.00
Adjustment per PSC 95-048-PDF-W5	40	1.500%	422.00			422.00			422.00	422.00	10.55	10.55	11.10	10.55	11.65	10.55	12.20	378.00
<b>Total Water Plant</b>			<b>118,816.41</b>		<b>547.00</b>	<b>119,363.41</b>			<b>119,363.41</b>	<b>119,363.41</b>	<b>83,405.38</b>	<b>2,084.47</b>	<b>85,489.85</b>	<b>2,352.85</b>	<b>88,042.70</b>	<b>2,352.85</b>	<b>90,395.55</b>	<b>28,544.89</b>
Contributions In Aid of Construction		1.420%	(28,774.00)			(28,774.00)			(28,774.00)	(28,774.00)	18,895.67	984.07	19,869.14	984.07	20,853.21	984.07	21,837.28	(6,936.72)
<b>Water Utility Plant In Service</b>			<b>\$ 90,042.41</b>	<b>\$ -</b>	<b>\$ 547.00</b>	<b>\$ 90,589.41</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 90,589.41</b>	<b>\$ 90,589.41</b>	<b>\$ 102,290.45</b>	<b>\$ 3,078.54</b>	<b>\$ 105,368.99</b>	<b>\$ 3,336.92</b>	<b>\$ 108,705.91</b>	<b>\$ 3,336.92</b>	<b>\$ 112,042.83</b>	<b>\$ 21,708.17</b>
<b>WASTEWATER PLANT</b>																		
351 Organization	40	1.500%	7,698.00			7,698.00			7,698.00	7,698.00	2,302.45	192.45	2,494.90	192.45	2,687.35	192.45	2,879.80	4,818.23
360 Collection Sewers - Force	27	1.704%	108,341.00			108,341.00	(2,475.00)	3,300.00	108,066.00	108,066.00	68,912.09	4,008.09	72,974.18	3,568.48	76,542.66	4,099.48	80,642.14	30,393.18
361 Collection Sewers - Gravity	27	1.704%	28,068.00			28,068.00			28,068.00	28,068.00	20,841.59	1,076.59	21,918.18	1,076.59	22,994.77	1,076.59	24,071.36	4,856.64
362 Special Collecting Structures	37	2.703%	28,773.00		2,544.34	25,137.34			25,137.34	25,137.34	1,412.43	613.41	2,025.84	630.74	2,656.58	630.74	3,287.32	20,040.81
Office Furn & Equipment - Software	6	16.667%	-		432.00	432.00			432.00	432.00	-	12.00	12.00	72.00	84.00	72.00	156.00	276.00
<b>Total Wastewater Plant</b>			<b>\$ 162,780.00</b>		<b>\$ 2,986.34</b>	<b>\$ 165,766.34</b>	<b>\$ 3,300.00</b>	<b>\$ 3,300.00</b>	<b>\$ 162,466.34</b>	<b>\$ 162,466.34</b>	<b>\$ 93,528.40</b>	<b>\$ 5,928.38</b>	<b>\$ 99,396.78</b>	<b>\$ 5,536.26</b>	<b>\$ 104,933.04</b>	<b>\$ 6,011.26</b>	<b>\$ 109,044.30</b>	<b>\$ 60,521.87</b>
Contributions In Aid of Construction		1.380%	(11,018.00)			(11,018.00)			(11,018.00)	(11,018.00)	5,191.13	372.13	5,572.25	372.13	5,944.38	372.13	6,316.51	(4,884.49)
<b>Wastewater Utility Plant In Service</b>			<b>\$ 151,762.00</b>	<b>\$ -</b>	<b>\$ 2,986.34</b>	<b>\$ 154,748.34</b>	<b>\$ -</b>	<b>\$ 3,300.00</b>	<b>\$ 151,438.34</b>	<b>\$ 151,438.34</b>	<b>\$ 88,337.27</b>	<b>\$ 6,270.51</b>	<b>\$ 93,869.03</b>	<b>\$ 5,908.39</b>	<b>\$ 99,773.42</b>	<b>\$ 6,383.39</b>	<b>\$ 105,359.81</b>	<b>\$ 55,637.38</b>
<b>TOTAL UTILITY PLANT IN SERVICE</b>			<b>\$ 241,804.41</b>	<b>\$ -</b>	<b>\$ 248,234.81</b>	<b>\$ 245,336.75</b>	<b>\$ 3,300.00</b>	<b>\$ 3,300.00</b>	<b>\$ 242,906.75</b>	<b>\$ 242,906.75</b>	<b>\$ 190,827.72</b>	<b>\$ 9,349.05</b>	<b>\$ 199,166.01</b>	<b>\$ 9,245.27</b>	<b>\$ 208,479.23</b>	<b>\$ 9,719.71</b>	<b>\$ 217,402.63</b>	<b>\$ 77,346.25</b>