

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Utilities, Inc.  
Audit of Affiliate Transactions

**Twelve Months Ended December 31, 2012**

Docket No. 130212-WS  
Audit Control No. 13-296-4-2  
**January 3, 2013**

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Debra Dobiac  
Audit Manager

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Lynn M. Deamer  
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 October 23, 2013. We have applied these procedures to the schedules prepared by Utilities, Inc. in support of its filing for rate relief for Cypress Lakes Utilities, Inc. and Lake Placid Utilities, Inc. in Dockets No. 130213-WS and 130243-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**

#### Definitions

The term "Company" refers to Utilities, Inc., the parent of Cypress Lakes Utilities, Inc. and Lake Placid Utilities, Inc.

#### Background

The Company's allocated costs were last audited in Docket 120209-WS. This audit addresses the costs allocated from the Company to the respective Utilities that are currently under review before the Commission. Cypress Lakes Utilities, Inc. (CLUI) and Lake Placid Utilities, Inc. (LPUI) use the test year ended December 31, 2012 in their applications for rate relief in Docket Nos. 130212-WS and 130243-WS.

The Company allocates its costs to each of its utility subsidiaries based on Equivalent Residential Customers (ERCs). Each subsidiary receives costs based on its ERC ratio to the total ERCs at the corporate level for the Northbrook, Illinois costs. The Company allocates costs using the same method for its Regional and Florida Altamonte Springs offices based on the total ERCs for the Region and the State of Florida, respectively.

### **Rate Base**

#### Utility Plant in Service

**Objectives:** The objectives were to determine whether: 1) Plant additions that are allocated to subsidiaries are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Proper retirements were made when a replacement item was put in service, and 3) The allocation basis was reasonable for the assets allocated.

**Procedures:** We determined the plant balance as of December 31, 2011, that was established in Docket No. 120209-WS. We reviewed and sampled the Illinois and Florida headquarters additions for the period January 1, 2012, through December 31, 2012, and verified the ledger to the Company's allocation worksheets. We ensured that retirements were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocated balances in its allocation worksheets and the CLUI and LPUI allocation ledgers to the rate base adjustments in the CLUI filing. Findings 1, 2, and 4 discuss plant in service.

#### Accumulated Depreciation and Amortization

**Objectives:** The objectives were to determine whether: 1) Commission ordered adjustments to accumulated depreciation were included in the beginning balances, 2) Accruals to accumulated depreciation accounts that are allocated to subsidiaries are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Depreciation Expense accruals for accounts that

are allocated are calculated using previously authorized rates, and 4) Retirements are properly recorded.

**Procedures:** We determined the accumulated depreciation balances as of December 31, 2011, that were established in Docket No. 120209-WS. We recalculated the Illinois and Florida headquarters accrual to accumulated depreciation for the period January 1, 2012, through December 31, 2012, using rates from prior audits and the verified Company's allocation worksheets. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the rate base adjustments in the CLUI filing. Findings 1, 2, 3, and 4 discuss accumulated depreciation.

### Working Capital

**Objectives:** The objectives were to determine whether the adjustments made in the CLUI and LPUI filing for working capital were based on the correct ledger balances of the affiliate companies and that correct allocation factors were used.

**Procedures:** Both CLUI and LPUI used the 1/8 of operation and maintenance (O&M) expense method. The O&M balance may changed for each Utility based on adjustments in the Cypress Lakes Audit, Docket No. 130212-WS, Audit Control No. 13-296-4-1, and the Lake Placid Audit, Docket No. 130243-WS, Audit Control No. 13-301-2-1. No allocation or review of the balance sheet accounts from the parent was done for this audit.

## **Net Operating Income**

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether operation and maintenance (O&M) expense allocated to subsidiaries are properly recorded in compliance with NARUC USOA and Commission rules and that they are representative of its subsidiary's ongoing utility operations.

**Procedures:** We verified O&M expense accounts allocated for the 12 months ended December 31, 2012, by tracing a sample of invoices selected to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the net operating income (NOI) adjustments in the CLUI filing.

Salaries, benefits, and transportation expenses from the Illinois office, Regional office, call center locations, and Florida offices by employee were recalculated and reconciled to payroll department data. The allocation factors were reviewed for applicability to the type of job. We tested the benefit and tax calculations. We reconciled the differences between the audited allocated balances and the CLUI and LPUI allocation ledgers to the NOI adjustments in the CLUI filing. Findings 1 and 6 discuss O&M expenses.

### Depreciation and Amortization

**Objectives:** The objectives were to determine whether the depreciation expense allocated is properly recorded in compliance with Commission rules and that they accurately represent the depreciation of the Company's asset used to manage ongoing utility operations.

**Procedures:** We determined that the Company's calculation of depreciation expense was consistent with the balances in the ledger and the rates used in prior audits. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the NOI adjustments in the CLUI filing. Findings 1, 2, 3, and 4 discuss depreciation expense.

### Taxes Other than Income

**Objectives:** The objectives were to determine whether the Company's allocation of taxes represented the actual taxes recorded in the ledger and that they were allocated using the appropriate ERC factors.

**Procedures:** We determined the real estate taxes for the Company and the ERC factors used. We re-calculated payroll taxes based on allocated payroll and compared it to the amounts included in the CLUI and LPUI allocation ledgers. We reconciled the ledger to the Company's allocation worksheets. We reconciled the differences between the Company's allocation worksheets and the CLUI and LPUI allocation ledgers to the NOI adjustments in the CLUI filing. Finding 6 discusses payroll taxes.

### **Capital Structure**

**Objectives:** The objectives were to determine whether the equity and debt components of the Company's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are based on the weighted percent of the Company's financial statements audited by Price, Waterhouse, Coopers, LLP and Commission's authorized rate of return.

**Procedures:** We verified the Company's long-term debt and common equity to the audited financial statements and general ledger. We traced the long-term debt to the prior audit. We traced short term debt to the audited financial statements and its supporting documentation. The equity rate filed was compared to Order No. PSC-13-0241-PAA-WS. Finding 5 discusses the cost of capital.

## Audit Findings

### **Finding 1: Transportation**

**Audit Analysis:** In prior cases, the Utility has taken the 13-month or simple average of the cost of the vehicles and its accumulated depreciation, the depreciation expense, and the associated transportation costs, and allocated each vehicle based on the payroll allocation used for the employee assigned to the vehicle. The Utility uses the ERC ratio to the total ERCs for the State of Florida for pool vehicles and special equipment. Several errors were found in the CLUI and LPUI schedules provided by the Company applicable to Florida only.

1. The ending balance of the plant accounts included the cost of some vehicles, which were reassigned during the test year to employees whose time is not allocated to CLUI or LPUI.
2. A full year of depreciation expense was calculated on the vehicles that were reassigned.
3. A full year of transportation expense was calculated for both the reassigned vehicles and the replacement vehicles.
4. The pool vehicles and special equipment were allocated with an incorrect ERC factor for the State of Florida.

In addition, the CLUI filing had adjustments regarding vehicles for plant, accumulated depreciation, and transportation expense, but made no adjustment for depreciation expense.

Tables 1-1 and 1-2 following this Finding detail the corrections.

**Effect on the General Ledger:** For affiliate adjustments, the Utility adjusts the filings but not the Company's ledger.

**Effect on the Filing:** The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of \$9,820 to the simple average water plant balance and a decrease of \$9,025 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$1,017. The decrease to the simple average wastewater accumulated depreciation balance is \$935. The decrease to water depreciation expense is \$1,716. The decrease to wastewater depreciation expense is \$1,577. The decrease to water transportation expense is \$2,043. The decrease to wastewater transportation expense is \$1,877.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of \$4,121 to the simple average water plant balance and a decrease of \$4,154 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$2,854. The decrease to the simple average wastewater accumulated depreciation balance is \$2,877. The decrease to water depreciation expense is \$531. The decrease to wastewater depreciation expense is \$535. The increase to water transportation expense is \$254. The increase to wastewater transportation expense is \$257.

**Table 1-1**

CYPRESS LAKES UTILITIES, INC.	Per Filing	Audit Adjusted Utility Schedules			Variance	Water	Wastewater
		Add. Vehicle	Staff Vehicle	Total			
<b>Vehicles - Simple Average</b>							
<u>NARUC 341.5/391.7 (JDE account 1555)</u>	\$ 69,903.00	\$ 6,265.88	\$ 44,792.87	\$ 51,058.75	\$ (18,844.25)	\$ (9,819.74)	\$ (9,024.51)
<b>Vehicle Accumulated Depreciation - Simple Average</b>							
<u>NARUC 108.1 (JDE account 2300)</u>	\$ (45,799.00)	\$ (6,054.57)	\$ (37,792.93)	\$ (43,847.50)	\$ 1,951.50	\$ 1,016.93	\$ 934.57
<b>Vehicle Depreciation Expense</b>							
<u>NARUC 403 (JDE account 6905)</u>	\$ 11,925.00	\$ 290.65	\$ 8,340.82	\$ 8,631.47	\$ (3,293.53)	\$ (1,716.26)	\$ (1,577.27)
<b>Transportation Expense</b>							
<u>NARUC 650/750 (JDE account 6215-6230)</u>	\$ 20,490.00	\$ 353.03	\$ 16,216.85	\$ 16,569.88	\$ (3,920.12)	\$ (2,042.77)	\$ (1,877.35)

**Table 1-2**

LAKE PLACID UTILITIES, INC.	Per GL	Audit Adjusted Utility Schedules			Variance	Water	Wastewater
		Add. Vehicle	Staff Vehicle	Total			
<b>Vehicles - Simple Average</b>							
<u>NARUC 341.5/391.7 (JDE account 1555)</u>	\$ 12,600.63	\$ 78.53	\$ 4,246.95	\$ 4,325.48	\$ (8,275.15)	\$ (4,121.02)	\$ (4,154.13)
<b>Vehicle Accumulated Depreciation - Simple Average</b>							
<u>NARUC 108.1 (JDE account 2300)</u>	\$ (10,048.55)	\$ (78.53)	\$ (4,238.19)	\$ (4,316.72)	\$ 5,731.83	\$ 2,854.45	\$ 2,877.38
<b>Vehicle Depreciation Expense</b>							
<u>NARUC 403 (JDE account 6905)</u>	\$ 1,208.42	\$ -	\$ 141.70	\$ 141.70	\$ (1,066.72)	\$ (531.23)	\$ (535.49)
<b>Transportation Expense</b>							
<u>NARUC 650/750 (JDE account 6215-6230)</u>	\$ 1,589.76	\$ 50.43	\$ 2,050.33	\$ 2,100.76	\$ 511.00	\$ 254.48	\$ 256.52



## Finding 2: Project Phoenix

**Audit Analysis:** Project Phoenix is the Company's financial, customer care, and billing system, which became operational in December 2008. In Order No. PSC-10-0407-PAA-SU, the Commission established that the total cost for Project Phoenix at December 31, 2008, was \$21,617,487. The Commission reduced this balance to \$19,893,321, before allocating costs to the remaining UI subsidiaries. The Company provided audit staff a restatement schedule for all computer balances on its books to take into account past ordered adjustments. These schedules do not reflect the adjustments ordered for Project Phoenix. The Company's restatement schedule shows the Project Phoenix balance at December 31, 2008, to be \$21,525,403. The difference between the Company's balance and the ordered amount is \$1,632,082.

The amount of allocated costs received by CLUI and LPUI is based on its ERC ratio to the total ERCs at the corporate level. In 2012, the Illinois office allocated .91% of its costs to CLUI and .09% to LPUI. Table 2-2 shows the adjustments to the CLUI and LPUI allocated rate base and expense accounts.

Table 2-1 shows the calculation of the adjustment to plant, accumulated depreciation, and depreciation expense needed to comply with the Order. In the Order, Project Phoenix's depreciation rate was changed from eight to ten years. However, the Company continues to depreciate the project over eight years. In Finding 3, we adjusted the accumulated depreciation and depreciation expense on Project Phoenix from eight to ten years to comply with the Order using the Company's booked amount. However, Table 2-1 removes depreciation for the reduction in plant of \$1,632,082 using the ten year depreciation rate to avoid duplicating the adjustment.

**Effect on the General Ledger:** The following adjustment corrects the Company's ledger as of December 31, 2012. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Co. No.	Co. Acct.	NARUC Acct.	Account Description	Debit	Credit
102	1590	340.5	Computer System Cost		\$ 1,632,082
102	2330	108.1	Computer System Acc. Dep.	\$ 734,437	
102	4998	215	Retained Earnings	\$ 897,645	
			<b>Total</b>	<b>\$ 1,632,082</b>	<b>\$ 1,632,082</b>

**Effect on the Filing:** The Company's plant and accumulated depreciation's simple average balances should be reduced by \$1,632,082 and \$652,833, respectively. Depreciation expense should be reduced by \$163,208.

The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of \$7,741 to the simple average water plant balance and a decrease of \$7,110 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$3,096. The decrease to the simple average

wastewater accumulated depreciation balance is \$2,844. The decrease to water depreciation expense is \$774. The decrease to wastewater depreciation expense is \$711.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of \$732 to the simple average water plant balance and a decrease of \$737 to the simple average wastewater plant balance. The decrease to the simple average water accumulated depreciation balance is \$293. The decrease to the simple average wastewater accumulated depreciation balance is \$295. The decrease to water depreciation expense is \$73. The decrease to wastewater depreciation expense is \$74.

**Table 2-1**

**Project Phoenix Reconciliation**

Description	Amount
Project Phoenix Total Cost Per Order	\$ 21,617,487
Ordered Adjustments Per Order	\$ (1,724,166)
Difference	\$ 19,893,321
Project Phoenix Total Cost Per Company	\$ (21,525,403)
Adjustment to Correct Beginning Balance	\$ (1,632,082)

Co. No.	Co. Acct.	Description	Beg. Bal. Adjustment	Retained Earnings	Acct.	Life (Year)	Dep. Exp/RE	Acct.	Months	Acc. Dep.	Acct.
102	1590	Project Phoenix	\$ (1,632,082)	\$ 1,632,082	4998	10	\$ (163,208)	6920	54	\$ 734,437	2330

**Simple Average Calculation**

Date	Plant Adjustment	Acc. Dep. Adjustment
December 31, 2011	\$ (1,632,082)	\$ 571,229
January 31, 2012	\$ (1,632,082)	\$ 584,829
February 28, 2012	\$ (1,632,082)	\$ 598,430
March 31, 2012	\$ (1,632,082)	\$ 612,031
April 30, 2012	\$ (1,632,082)	\$ 625,631
May 31, 2012	\$ (1,632,082)	\$ 639,232
June 30, 2012	\$ (1,632,082)	\$ 652,833
July 31, 2012	\$ (1,632,082)	\$ 666,433
August 31, 2012	\$ (1,632,082)	\$ 680,034
September 30, 2012	\$ (1,632,082)	\$ 693,635
October 31, 2012	\$ (1,632,082)	\$ 707,236
November 30, 2012	\$ (1,632,082)	\$ 720,836
December 31, 2012	\$ (1,632,082)	\$ 734,437
<b>SIMPLE AVERAGE</b>	<b>\$ (1,632,082)</b>	<b>\$ 652,833</b>

**Table 2-2**

**Allocation of Adjustment to Divisions**

	<b>Total Company Adjustment</b>	<b>CLUI Water</b>	<b>CLUI Wastewater</b>	<b>LPUI Water</b>	<b>LPUI Wastewater</b>
Illinois Allocation	(A)	0.91%	0.91%	0.09%	0.09%
Water / Wastewater	(B)	52.12%	47.87%	49.80%	50.20%
Percent Allocated 2012	(A) x (B)	0.47%	0.44%	0.04%	0.05%
Average Plant	\$ (1,632,082)	\$ (7,740.83)	\$ (7,109.63)	\$ (731.50)	\$ (737.37)
Average Accumulated Depreciation	\$ 652,833	\$ 3,096.33	\$ 2,843.85	\$ 292.60	\$ 294.95
Depreciation Expense	\$ (163,208)	\$ (774.08)	\$ (710.96)	\$ (73.15)	\$ (73.74)

**Finding 3: Project Phoenix Accumulated Depreciation and Depreciation Expense**

**Audit Analysis:** In Order No. PSC-10-0407-PAA-SU, the Company was directed to change the depreciation life for Project Phoenix from eight years to ten years. The Company did not change the rate at which the software is being depreciated.

The amount of allocated cost received by CLUI and LPUI is based on its ERC ratio by utility to the total ERCs at the corporate level. CLUI and LPUI then allocates the cost from headquarters between its water and wastewater systems by each system’s ERC ratio.

Table 3-1 shows the calculation for accumulated depreciation and depreciation expense adjustments to correct the accrual balances for the Company, CLUI and LPUI.

**Effect on the General Ledger:** The following adjustment is recommended to correct the Company’s ledger balance as of December 31, 2012. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Co. No.	Co. Acct.	NARUC Acct.	Account Description	Debit	Credit
102	2330	108.1	Computer System Acc. Dep.	\$ 2,421,608	
102	4998	215	Retained Earnings		\$ 2,421,608
			<b>Total</b>	<b>\$ 2,421,608</b>	<b>\$ 2,421,608</b>

**Effect on the Filing:** The effect on CLUI’s filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of \$10,209 to the simple average water accumulated depreciation balance. The decrease to the simple average wastewater accumulated depreciation balance is \$9,377. The decrease to water depreciation expense is \$2,552. The decrease to wastewater depreciation expense is \$2,344.

The effect on LPUI’s exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of \$965 to the simple average water accumulated depreciation balance. The decrease to the simple average wastewater accumulated depreciation balance is \$973. The decrease to water depreciation expense is \$241. The decrease to wastewater depreciation expense is \$243.

**Table 3-1**

**Computation of Depreciation**

	Project Phoenix Cost	Depr Rate	2008 Dep. Exp.	2009 Dep. Exp.	2010 Dep. Exp.	2011 Dep. Exp.	2012 Dep. Exp.	Acc. Dep. at 12/31/12
STAFF	\$ 21,525,402.85	10.00%	\$ 1,076,270	\$ 2,152,540	\$ 2,152,540	\$ 2,152,540	\$ 2,152,540	\$ 9,686,431
COMPANY	\$ 21,525,402.85	12.50%	\$ 1,345,338	\$ 2,690,675	\$ 2,690,675	\$ 2,690,675	\$ 2,690,675	\$ 12,108,039
DIFFERENCE			\$ (269,068)	\$ (538,135)	\$ (538,135)	\$ (538,135)	\$ (538,135)	\$ (2,421,608)

**Computation of Simple Average**

Date	Acc. Dep. Adj. Debit
December 31, 2011	\$ 1,883,473
January 31, 2012	\$ 1,928,318
February 28, 2012	\$ 1,973,162
March 31, 2012	\$ 2,018,007
April 30, 2012	\$ 2,062,851
May 31, 2012	\$ 2,107,696
June 30, 2012	\$ 2,152,541
July 31, 2012	\$ 2,197,385
August 31, 2012	\$ 2,242,230
September 30, 2012	\$ 2,287,074
October 31, 2012	\$ 2,331,919
November 30, 2012	\$ 2,376,763
December 31, 2012	\$ 2,421,608
Simple Average	\$ 2,152,541

**Allocation of Adjustment to Divisions**

	Total Company Adjustment	CLUI Water	CLUI Wastewater	LPUI Water	LPUI Wastewater
Illinois Allocation	(A)	0.91%	0.91%	0.09%	0.09%
Water / Wastewater	(B)	52.12%	47.87%	49.80%	50.20%
Percent Allocated 2011	(A) x (B)	0.47%	0.44%	0.04%	0.05%
Average Accumulated Depreciation	\$ 2,152,541	\$ 10,209.33	\$ 9,376.83	\$ 964.77	\$ 972.52
Depreciation Expense	\$ (538,135)	\$ (2,552.33)	\$ (2,344.21)	\$ (241.19)	\$ (243.13)

#### **Finding 4: Allocated Plant, Accumulated Depreciation, and Depreciation Expense**

**Audit Analysis:** The CLUI filing did not contain adjustments to rate base to reflect the Commission Ordered Adjustments that had not been recorded on the Company's books to allocate Division 102-Northbrook, Illinois Headquarters and Division 855-Altamonte Springs, Florida Headquarters plant, accumulated depreciation, and depreciation expense. Therefore, audit staff calculated the adjustments by utilizing the schedules provided in Docket 120209-WS for both CLUI and LPUI. Tables 4-1, 4-2, 4-3, and 4-4 following this Finding detail the adjustments.

**Effect on the General Ledger:** These adjustments are allocations from the Illinois and Florida Headquarters for ratemaking purposes. The Utility should determine the effect these adjustments have on its general ledgers.

**Effect on the Filing:** The effect on CLUI's filing in this Docket and the Cypress Lake Audit Report, Audit Control No. 13-296-4-1, is a decrease of \$7,377 to the simple average water plant balance, a decrease of \$6,780 to the simple average wastewater plant balance, a decrease of \$14,957 to the simple average water accumulated depreciation balance, and a decrease of \$13,745 to the simple average wastewater accumulated depreciation balance. Water depreciation expense should be decreased by \$671 and wastewater depreciation expense should be decreased by \$617.

The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No. 13-301-2-1 is a decrease of \$560 to the simple average water plant balance, a decrease of \$564 to the simple average wastewater plant balance, a decrease of \$901 to the simple average water accumulated depreciation balance, and a decrease of \$909 to the simple average wastewater accumulated depreciation balance. Water depreciation expense should be decreased by \$48 and wastewater depreciation expense should be decreased by \$49.

Table 4-1

CYPRESS LAKES UTILITIES, INC. SUMMARY RATE BASE ADJUSTMENT

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	52.11% Water	47.89% Wastewater
1025	302.1	FRANCHISES		\$ 77	\$ 77	\$ 77	\$ 0	\$ 0	\$ 0
1045	303.5	LAND & LAND RIGHTS GEN PLT	\$ 867	\$ -	\$ 867	\$ 856	\$ 10	\$ 5	\$ 5
1175	304.5	OFFICE STRUCT & IMPRV	\$ 25,387	\$ 35,588	\$ 60,976	\$ 60,656	\$ 320	\$ 167	\$ 153
1180	340.5	OFFICE FURN & EQPT	\$ 12,623	\$ 7,854	\$ 20,477	\$ 20,330	\$ 147	\$ 76	\$ 70
1190	343.5	TOOL SHOP & MISC EQPT	\$ 191	\$ 8,480	\$ 8,672	\$ 8,666	\$ 6	\$ 3	\$ 3
1205	346.5	COMMUNICATION EQPT	\$ 3,243	\$ -	\$ 3,243	\$ 3,204	\$ 39	\$ 20	\$ 19
1580	340.5	MAINFRAME COMPUTER WTR	\$ 1,832	\$ 805	\$ 2,637	\$ 10,599	\$ (7,962)	\$ (4,149)	\$ (3,813)
1585	340.5	MINI COMPUTERS WTR	\$ 9,661	\$ 17,171	\$ 26,832	\$ 31,725	\$ (4,893)	\$ (2,550)	\$ (2,343)
1590	340.5	COMP SYS COST WTR	\$ 9,141	\$ 1,458	\$ 10,599	\$ 11,586	\$ (987)	\$ (515)	\$ (473)
1595	340.5	MICRO SYS COST WTR	\$ 4,231	\$ 708	\$ 4,938	\$ 5,776	\$ (838)	\$ (436)	\$ (401)
		TOTAL PLANT	\$ 67,176	\$ 72,141	\$ 139,317	\$ 153,475	\$ (14,157)	\$ (7,377)	\$ (6,780)
1840	108.1	ACC DEPR-FRANCHISES	\$ -	\$ (6)	\$ (6)	\$ (6)	\$ 0	\$ 0	\$ 0
1970	108.1	ACC DEPR-OFFICE STRUCTURE	\$ (14,287)	\$ (11,235)	\$ (25,522)	\$ (23,764)	\$ (1,758)	\$ (916)	\$ (842)
1975	108.1	ACC DEPR-OFFICE FURN/EQPT	\$ (11,333)	\$ (5,806)	\$ (17,139)	\$ (16,427)	\$ (712)	\$ (371)	\$ (341)
1985	108.1	ACC DEPR-TOOL SHOP & MISC EQPT	\$ (189)	\$ (7,782)	\$ (7,971)	\$ (7,972)	\$ 1	\$ 1	\$ 1
2000	108.1	ACC DEPR-COMMUNICATION EQPT	\$ (574)	\$ -	\$ (574)	\$ (755)	\$ 180	\$ 94	\$ 86
2320	108.1	ACC DEPR-MAINFRAME COMP WTR	\$ (1,772)	\$ (803)	\$ (2,575)	\$ (8,128)	\$ 5,553	\$ 2,893	\$ 2,659
2325	108.1	ACC DEPR-MINI COMP WTR	\$ (7,669)	\$ (17,034)	\$ (24,703)	\$ (30,630)	\$ 5,926	\$ 3,088	\$ 2,838
2330	108.1	COMP SYS AMORTIZATION WTR	\$ (2,805)	\$ (708)	\$ (3,513)	\$ (22,935)	\$ 19,422	\$ 10,121	\$ 9,301
2335	108.1	MICRO SYS AMORTIZATION WTR	\$ (4,229)	\$ (1,458)	\$ (5,687)	\$ (5,776)	\$ 89	\$ 47	\$ 43
		TOTAL ACCUMULATED DEPRECIATION	\$ (42,859)	\$ (44,832)	\$ (87,690)	\$ (116,392)	\$ 28,702	\$ 14,957	\$ 13,745



Table 4-2

LAKE PLACID UTILITIES, INC. SUMMARY RATE BASE ADJUSTMENT

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	49.80% Water	50.20% Wastewater
1025	302.1	FRANCHISES	\$ -	\$ 8	\$ 8	\$ 8	\$ 0	\$ 0	\$ 0
1045	303.5	LAND & LAND RIGHTS GEN PLT	\$ 89	\$ -	\$ 89	\$ 87	\$ 2	\$ 1	\$ 1
1175	304.5	OFFICE STRUCT & IMPRV	\$ 2,613	\$ 3,669	\$ 6,282	\$ 6,177	\$ 105	\$ 52	\$ 53
1180	340.5	OFFICE FURN & EQPT	\$ 1,299	\$ 810	\$ 2,109	\$ 2,071	\$ 38	\$ 19	\$ 19
1190	343.5	TOOL SHOP & MISC EQPT	\$ 20	\$ 874	\$ 894	\$ 883	\$ 11	\$ 6	\$ 6
1205	346.5	COMMUNICATION EQPT	\$ 334	\$ -	\$ 334	\$ 326	\$ 8	\$ 4	\$ 4
1580	340.5	MAINFRAME COMPUTER WTR	\$ 189	\$ 83	\$ 272	\$ 1,079	\$ (808)	\$ (402)	\$ (406)
1585	340.5	MINI COMPUTERS WTR	\$ 995	\$ 1,770	\$ 2,765	\$ 3,231	\$ (467)	\$ (232)	\$ (234)
1590	340.5	COMP SYS COST WTR	\$ 941	\$ 150	\$ 1,091	\$ 1,026	\$ 65	\$ 33	\$ 33
1595	340.5	MICRO SYS COST WTR	\$ 436	\$ 73	\$ 508	\$ 588	\$ (80)	\$ (40)	\$ (40)
		TOTAL PLANT	\$ 6,915	\$ 7,437	\$ 14,352	\$ 15,476	\$ (1,124)	\$ (560)	\$ (564)
1840	108.1	ACC DEPR-FRANCHISES	\$ -	\$ (1)	\$ (1)	\$ (1)	\$ -	\$ -	\$ -
1970	108.1	ACC DEPR-OFFICE STRUCTURE	\$ (1,471)	\$ (1,158)	\$ (2,629)	\$ (2,421)	\$ (208)	\$ (104)	\$ (105)
1975	108.1	ACC DEPR-OFFICE FURN/EQPT	\$ (1,167)	\$ (599)	\$ (1,765)	\$ (1,673)	\$ (92)	\$ (46)	\$ (46)
1985	108.1	ACC DEPR-TOOL SHOP & MISC EQPT	\$ (19)	\$ (802)	\$ (822)	\$ (812)	\$ (10)	\$ (5)	\$ (5)
2000	108.1	ACC DEPR-COMMUNICATION EQPT	\$ (59)	\$ -	\$ (59)	\$ (77)	\$ 18	\$ 9	\$ 9
2320	108.1	ACC DEPR-MAINFRAME COMP WTR	\$ (182)	\$ (83)	\$ (265)	\$ (828)	\$ 563	\$ 280	\$ 283
2325	108.1	ACC DEPR-MINI COMP WTR	\$ (789)	\$ (1,756)	\$ (2,546)	\$ (3,121)	\$ 576	\$ 287	\$ 289
2330	108.1	COMP SYS AMORTIZATION WTR	\$ (289)	\$ (73)	\$ (362)	\$ (1,322)	\$ 961	\$ 478	\$ 482
2335	108.1	MICRO SYS AMORTIZATION WTR	\$ (435)	\$ (150)	\$ (586)	\$ (588)	\$ 3	\$ 1	\$ 1
		TOTAL ACCUMULATED DEPRECIATION	\$ (4,412)	\$ (4,622)	\$ (9,034)	\$ (10,843)	\$ 1,810	\$ 901	\$ 909

**Table 4-3**

**CYPRESS LAKES UTILITIES, INC. SUMMARY INCOME STATEMENT ADJUSTMENT**

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	52.11% Water	47.89% Wastewater
6450	403	Dep - Franchises	\$ -	\$ 2	\$ 2	\$ 2	\$ 0	\$ 0	\$ 0
6580	403	Dep - Office Structure	\$ 637	\$ 887	\$ 1,524	\$ 1,218	\$ 307	\$ 160	\$ 147
6585	403	Dep - Office Furn/Eqpt	\$ 260	\$ 515	\$ 776	\$ 726	\$ 49	\$ 26	\$ 24
6595	403	Dep - Tool Shop & Misc Eqpt	\$ 1	\$ 529	\$ 530	\$ 535	\$ (5)	\$ (3)	\$ (2)
6610	403	Dep - Communication Equipment	\$ 356		\$ 356	\$ 275	\$ 81	\$ 42	\$ 39
6835	403	Dep - Tool Shop & Misc Eqpt	\$ -	\$ 1	\$ 1	\$ 1	\$ 0	\$ 0	\$ 0
6920	403	Dep - Computer	\$ 1,746	\$ 57	\$ 1,802	\$ 3,523	\$ (1,721)	\$ (897)	\$ (824)
		<b>TOTAL DEPRECIATION</b>	<b>\$ 3,000</b>	<b>\$ 1,991</b>	<b>\$ 4,991</b>	<b>\$ 6,280</b>	<b>\$ (1,288)</b>	<b>\$ (671)</b>	<b>\$ (617)</b>

**Table 4-4**

**LAKE PLACID UTILITIES, INC. SUMMARY INCOME STATEMENT ADJUSTMENT**

Obj Acct	NARUC	Account Description	WSC	Regional	Audit Balance	UA Ledger	Adjustment	49.80% Water	50.20% Wastewater
6450	403	Dep - Franchises	\$ -	\$ 0	\$ 0	\$ 0	\$ (0)	\$ (0)	\$ (0)
6580	403	Dep - Office Structure	\$ 66	\$ 91	\$ 157	\$ 118	\$ 39	\$ 20	\$ 20
6585	403	Dep - Office Furn/Eqpt	\$ 27	\$ 53	\$ 80	\$ 70	\$ 10	\$ 5	\$ 5
6595	403	Dep - Tool Shop & Misc Eqpt	\$ 0	\$ 55	\$ 55	\$ 52	\$ 3	\$ 1	\$ 1
6610	403	Dep - Communication Equipment	\$ 37		\$ 37	\$ 27	\$ 10	\$ 5	\$ 5
6920	403	Dep - Computer	\$ 180	\$ 6	\$ 186	\$ 345	\$ (159)	\$ (79)	\$ (80)
		<b>TOTAL DEPRECIATION</b>	<b>\$ 309</b>	<b>\$ 205</b>	<b>\$ 514</b>	<b>\$ 611</b>	<b>\$ (97)</b>	<b>\$ (48)</b>	<b>\$ (49)</b>

## Finding 5: Cost of Capital

**Audit Analysis:** The CLUI filing allocated rate base to equity, long term debt, and short term debt based on the consolidated capital structure of Utilities, Inc. However, the total equity balances used did not agree with the audited financial statements. According to the Utility representative, the most updated equity balances for 2011 and 2012 had not been used in the filing. The Utility did provide us with a revised MFR Schedule D-2, but this schedule has not been filed with the Commission Clerk as of January 2, 2014.

The revised simple average equity balance is \$170,132,500. The new balance changed the long-term debt and equity ratios. Using the equity formula from Order No. PSC-13-0241-PAA-WS and the revised equity ratio, the equity cost rate should be 10.29%. We re-computed cost of capital using the revised equity amounts and rates for both CLUI and LPUI. Tables 5-1 and 5-2 following this Finding show the details of the corrections.

**Effect on the General Ledger:** There is no effect on the general ledger.

**Effect on the Filing:** The cost of capital for Cypress Lakes is 8.27%. The cost of capital for Lake Placid is 9.19%.

**Table 5-1**

Class of Capital	Reconciled to Rate Base Simple Average TYE 12/31/12	Ratio	Revised Cost Rate	Weighted Cost
Long Term Debt	\$ 1,346,799	50.45%	6.64%	3.35%
Short Term Debt	\$ 1,871	0.07%	0.00%	0.00%
Preferred Stock				
Common Equity	\$ 1,272,968	47.69%	10.29%	4.91%
Subtotal	\$ 2,621,637			
Customer Deposits	\$ 13,366	0.50%	3.00%	0.02%
Tax Credits-Zero Cost	\$ -			
Tax Credits-Weighted Cost				
Accumulated Deferred Income Tax	\$ 34,531	1.29%		0.00%
Other (Explain)				
Total	\$ 2,669,534	100.00%		8.27%
Per Filing				8.27%
Difference				0.00%

Rate Base does not include any adjustments from this Audit and the Cypress Lakes Audit Report, Audit Control No. 13-296-4-1, in this Docket.

**Table 5-2**

**Lake Placid Cost of Capital**

<b>Class of Capital</b>	<b>Reconciled to Rate Base Simple Average TYE 12/31/12</b>	<b>Ratio</b>	<b>Revised Cost Rate</b>	<b>Weighted Cost</b>
Long Term Debt	\$ 135,521	56.13%	6.64%	3.73%
Short Term Debt	\$ 188	0.08%	0.00%	0.00%
Preferred Stock				
Common Equity	\$ 128,092	53.06%	10.29%	5.46%
Subtotal	\$ 263,801			
Customer Deposits	\$ 626	0.26%	2.00%	0.01%
Tax Credits-Zero Cost				
Tax Credits-Weighted Cost				
Accumulated Deferred Income Tax	\$ (22,995)	-9.52%		0.00%
Other (Explain)				
Total	\$ 241,432	100.00%		9.19%

The Rate Base balance may change based on adjustments in the Lake Placid Audit, Docket No. 130243-WS, Audit Control No. 13-301-2-1.

## **Finding 6: Payroll, Benefits, and Taxes**

**Audit Analysis:** The Company allocates costs monthly to the divisions. In prior Utilities, Inc. subsidiary rate cases, the Company provided schedules by employee. In these schedules the Company allocated the most current annualized salary and allocated the salary, benefits, and taxes using the appropriate ERC allocation factor based on the employees duties. The schedule was then compared to the costs recorded in the ledger by division. The difference was adjusted in the filings. In the CLUI case, adjustments were made to the filing for annualizing salary, benefits, and payroll tax expenses.

We requested support for the adjustments in CLUI's filing. The Company sent a copy of the schedule for this Utility using the salaries at the end of April 2013 and the ERC factors at the end of April 2013. Overtime for the first four months was annualized. The Company schedule was compared to the booked amounts for the CLUI division. No exceptions were noted.

We requested the Company prepare a similar schedule for LPUI as was done for CLUI using the salaries at the end of April 2013 and the ERC factors at the end of April 2013. We were told that the Utility wouldn't be making any adjustments to the books in this proceeding. Therefore, we utilized the schedule provided by the Company for CLUI and recalculated salary, benefits, and payroll tax expenses for LPUI using the applicable ERC factors. We compared audit staff's schedule to the booked amounts and noted variances. Table 6-1 following this Finding shows the details.

**Effect on the General Ledger:** Since the test year is already closed in the ledger, there is no effect on the general ledger.

**Effect on the Filing:** The effect on LPUI's exhibits in the Audit Report from Docket No.130243-WS, Audit Control No 13-301-2-1 is water expenses should be increased by \$973 and wastewater expenses should be increased by \$981.

**Table 6-1**

<b>Salaries</b>	<b>LPUI Water Per Books (TB)</b>	<b>LPUI Wastewater Books (TB)</b>
NARUC 601/701 (JDE account 6110)	\$ 536.90	\$ 541.22
NARUC 601/701 (JDE account 6115)	\$ 29.03	\$ 29.26
NARUC 603/703 (JDE account 6120)	\$ 761.01	\$ 767.13
NARUC 601/701 (JDE account 6125)	\$ 136.74	\$ 137.83
NARUC 601/701 (JDE account 6130)	\$ 156.76	\$ 158.01
NARUC 601/701 (JDE account 6135)	\$ 367.19	\$ 370.13
NARUC 601/701 (JDE account 6140)	\$ 349.11	\$ 351.91
NARUC 601/701 (JDE account 6145)	\$ 494.14	\$ 498.10
NARUC 601/701 (JDE account 6146)	\$ 91.61	\$ 92.37
NARUC 601/701 (JDE account 6147)	\$ 98.62	\$ 99.42
NARUC 601/701 (JDE account 6150)	\$ 4,369.92	\$ 4,405.02
NARUC 601/701 (JDE account 6155)	\$ 283.41	\$ 285.68
NARUC 601/701 (JDE account 6165)	\$ (660.91)	\$ (666.22)
Total Booked	\$ 7,013.53	\$ 7,069.86
Per Salary Detail for Annualized 2013	\$ 8,091.92	\$ 8,157.03
Total Payroll Adjustment	\$ 1,078.39	\$ 1,087.17

<b>Payroll Taxes</b>	<b>LPUI Water Per Books (TB)</b>	<b>LPUI Wastewater Books (TB)</b>
NARUC 408.12 (JDE account 7510-7520)	\$ 879.98	\$ 887.06
Per Salary Detail for Annualized 2013	\$ 842.24	\$ 849.02
Total Payroll Tax Adjustment	\$ (37.74)	\$ (38.04)

<b>Benefits</b>	<b>LPUI Water Per Books (TB)</b>	<b>LPUI Wastewater Books (TB)</b>
NARUC 604/704 (JDE account 5625-5690)	\$ 1,994.57	\$ 2,010.61
Per Salary Detail for Annualized 2013	\$ 1,927.26	\$ 1,942.77
Total Benefits Adjustment	\$ (67.30)	\$ (67.85)

Total Adjustment to Payroll, Benefit, and Taxes	\$ 973.35	\$ 981.28
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