

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: January 11, 2018

TO: Office of Commission Clerk

FROM: Lynn M. Deamer,  Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20170220-WS
Company Name: Lake Yale Treatments Associates, Inc.
Company Code: WS823
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2017-311-1-1

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 are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

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 Yale Treatments Associates, Inc./
Lake Yale Utilities LLC
Transfer of Certificates
Certificate Nos. 560-W and 488-S

As of June 30, 2017

Docket No. 20170220-WS
Audit Control No. 2017-311-1-1

January 8, 2018

Handwritten signature of Debra M. Dobiac.

Debra M. Dobiac
Audit Manager

Handwritten signature of Lynn M. Deamer.

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 objectives set forth by the Division of Accounting and Finance in its audit service request dated October 26, 2017. We have applied these procedures to the attached schedules prepared by the audit staff in support of Lake Yale Treatments Associates, Inc./Lake Yale Utilities LLC's request for a Transfer of Certificates in Docket No. 20170220-WS.

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

Background

Definitions

Buyer/Utility refers to Lake Yale Utilities LLC.

Seller/LYTA refers to Lake Yale Treatments Associates, Inc.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Utility Information

Lake Yale Treatments Associates, Inc. is a Class “C” Utility that provides water and wastewater services to approximately 299 customers in Lake County.

LYTA was established in 1994 by its original owner, Lake Yale Corporation d/b/a Lake Yale Utility Company, and Certificate Nos. 560-W and 488-S were granted by Order No. PSC-1994-0171-FOF-WS, issued February 10, 1994. Rate base was last established as of October 31, 1998 in Order No. PSC-1999-2190-PAA-WS, issued November 8, 1999, which approved the transfer of the certificates from Lake Yale Corporation d/b/a Lake Yale Utility Company to Lake Yale Treatment Associates, Inc.

Lake Yale Utilities LLC purchased Lake Yale Treatment Associates, Inc. for \$136,000 on June 30, 2017, and filed an application for Transfer of Certificates on October 10, 2017.

General

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

Procedures: We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintains its records on a calendar year basis. No exceptions were noted.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the 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 recorded when a replacement asset was put into 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 water and wastewater UPIS, as of October 31, 1998, from Order No. PSC-1999-2190-PAA-WS, issued November 8, 1999. We scheduled water and wastewater UPIS activity from October 31, 1998 through June 30, 2017. We traced asset additions to supporting documentation. We ensured that retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of June 30, 2017. Findings 1 and 2 discuss UPIS.

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 proceeding were recorded in its books and records.

Procedures: LYTA does not own any land. However, the Seller and the Buyer entered into an assignment and assumption of agreements as of June 28, 2017. This document is inclusive of a 99 year lease dated January 1, 1999, which includes the land lying beneath the plant and the water collection distribution lines. No further work was performed.

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 October 31, 1998, from Order No. PSC-1999-2190-PAA-WS, issued November 8, 1999. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balances for the water and wastewater systems as of June 30, 2017. Findings 1 and 2 discuss accumulated depreciation.

Contributions in Aid of Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist 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 October 31, 1998, from Order No. PSC-1999-2190-PAA-WS, issued November 8, 1999. We reviewed the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the CIAC register and the approved tariffs. We determined the water and wastewater CIAC transfer balances as of June 30, 2017. Finding 3 discusses CIAC.

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 October 31, 1998, from Order No. PSC-1999-2190-PAA-WS, issued November 8, 1999. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the water and wastewater accumulated amortization of CIAC transfer balances as of June 30, 2017. Finding 3 discusses accumulated amortization of CIAC.

Acquisition Adjustment

Objectives: The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this Utility at the time of transfer is less than the purchase price, which would reflect a positive acquisition adjustment. Pursuant to Rule 25-30.0371(2) – Acquisition Adjustments, F.A.C., a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The Utility is not requesting a positive acquisition adjustment. Therefore, we did not calculate an acquisition adjustment.

Other

Rates and Charges

Objectives: The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained and tested the Utility's billing register for July 2017. We recalculated a sample of customer bills using the approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We reviewed the ledger and inquired about the deposit policy. The Seller's authorized tariff did not provide for the collection of customer deposits. No customer deposits were noted on the Seller's books and records. No further work was performed.

Audit Findings

Finding 1: Water Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Seller's general ledger, the water UPIS balance was \$338,248 as of June 30, 2017. Audit staff determined the water UPIS balance to be \$334,037 as of June 30, 2017.

We noted that the beginning balances for water UPIS from Order No. PSC-1999-2190-PAA-WS were not recorded correctly in the Seller's general ledger and the plant assets were understated by \$88,078. Although invoices and tax returns were provided by the Seller, additions of \$92,289 from November 1, 1998 through June 30, 2017 were not supported. We did accept meter and meter installation additions without invoice support based on CIAC receipts. See Finding 3 for additional information.

The water utility plant is overstated by \$4,211 (\$88,078 - \$92,289) as shown in Table 1-1.

Table 1-1

<u>Account - Description</u>	<u>GL 6/30/2017</u>	<u>Audit 6/30/2017</u>	<u>Audit Adjustments</u>
304 Structures & Improvements	\$ 100,419	\$ 63,220	\$ (37,199)
307 Wells & Springs	12,507	20,734	8,227
309 Supply Mains	8,874	14,710	5,836
310 Power Generation Equip.	16,952	16,952	-
311 Pumping Equip.	58,198	71,994	13,796
320 Water Treatment Equip.	-	3,298	3,298
331 Transmission and Distribution Mains	12,668	20,994	8,326
334 Meters and Meter Install.	109,881	100,064	(9,817)
335 Hydrants	7,239	12,000	4,761
339 Other Plant And Misc.	2,609	2,974	365
340 Office Furniture & Equip.	6,103	4,299	(1,804)
343 Tools, Shop and Garage Equip.	2,798	2,798	-
Total:	\$ 338,248	\$ 334,037	\$ (4,211)

According to the Seller's general ledger, the water accumulated depreciation balance was \$229,371 as of June 30, 2017. Audit staff calculated water accumulated depreciation to be \$219,032 using the approved rates and the audited plant additions and retirements as of June 30, 2017.

We noted that the beginning balances for water accumulated depreciation from Order No. PSC-1999-2190-PAA-WS were not recorded in the Seller's general ledger. The Seller used a 15 year life for all the water plant assets and did not record retirements according to Rule 25-30.140 - Depreciation, F.A.C.

Water accumulated depreciation is overstated by \$10,339 as shown in Table 1-2.

Table 1-2

Account - Description	GL 6/30/2017	Audit 6/30/2017	Audit Adjustments
304 Structures & Improvements	\$ (42,643)	\$ (11,579)	\$ 31,064
307 Wells & Springs	(12,507)	(20,734)	(8,227)
309 Supply Mains	(8,874)	(14,710)	(5,836)
310 Power Generation Equip.	(11,865)	615	12,480
311 Pumping Equip.	(47,000)	(71,994)	(24,994)
320 Water Treatment Equip.	-	(2,577)	(2,577)
331 Transmission and Distribution Mains	(12,668)	2,846	15,514
334 Meters and Meter Install.	(75,834)	(78,828)	(2,994)
335 Hydrants	(7,239)	(12,000)	(4,761)
339 Other Plant And Misc.	(2,232)	(2,974)	(742)
340 Office Furniture & Equip.	(5,711)	(4,299)	1,412
343 Tools, Shop and Garage Equip.	(2,798)	(2,798)	-
Total:	\$ (229,371)	\$ (219,032)	\$ 10,339

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

Effect on the Filing: The water UPIS balance should be decreased by \$4,211 and the water accumulated depreciation balance should be decreased by \$10,339.

Finding 2: Wastewater Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Seller’s general ledger, the wastewater UPIS balance was \$306,206 as of June 30, 2017. Audit staff determined the wastewater UPIS balance to be \$388,549 as of June 30, 2017.

We noted that the beginning balances for wastewater UPIS from Order No. PSC-1999-2190-PAA-WS were not recorded correctly in the Seller’s general ledger and the plant assets were understated by \$140,187. Although tax returns were provided by the Seller, additions of \$57,844 from November 1, 1998 through June 30, 2017 were not supported.

The wastewater utility plant is understated stated by \$82,343 (\$140,187 - \$57,844) as shown in Table 2-1.

Table 2-1

Account - Description	GL 6/30/2017	Audit 6/30/2017	Audit Adjustments
354 Structures and Improvements	\$ 49,296	\$ 57,798	\$ 8,502
362 Special Collecting Stuctures	171,159	219,521	48,362
365 Flow Measuring Installations	40,138	65,000	24,862
380 Treatment and Disposal Equip.	45,185	45,487	302
389 Other Plant and Misc. Equip.	427	743	316
Total:	\$ 306,206	\$ 388,549	\$ 82,343

According to the Seller’s general ledger, the wastewater accumulated depreciation balance was \$259,726 as of June 30, 2017. Audit staff calculated wastewater accumulated depreciation to be \$368,800 using the approved rates and the audited plant additions and retirements as of June 30, 2017.

We noted that the beginning balances for wastewater accumulated depreciation from Order No. PSC-1999-2190-PAA-WS were not recorded in the Seller’s general ledger. The Seller used a 15 year life for all the wastewater plant assets and did not record retirements according to Rule 25-30.140 - Depreciation, F.A.C.

Wastewater accumulated depreciation is understated by \$109,074 as shown in Table 2-2.

Table 2-2

Account - Description	GL 6/30/2017	Audit 6/30/2017	Audit Adjustments
354 Structures and Improvements	\$ (42,568)	\$ (48,626)	\$ (6,058)
362 Special Collecting Stuctures	(144,260)	(208,943)	(64,683)
365 Flow Measuring Installations	(39,781)	(65,000)	(25,219)
380 Treatment and Disposal Equip.	(32,691)	(45,487)	(12,796)
389 Other Plant and Misc. Equip.	(426)	(743)	(317)
Total:	\$ (259,726)	\$ (368,800)	\$ (109,074)

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

Effect on the Filing: The wastewater UPIS balance should be increased by \$82,343 and the wastewater accumulated depreciation balance should be increased by \$109,074.

Finding 3: CIAC and Accumulated Amortization of CIAC

Audit Analysis: According to the Seller’s general ledger, the water CIAC balance was \$52,004 as of June 30, 2017. Audit staff determined the water CIAC balance to be \$132,607 as of June 30, 2017.

According to the Seller’s general ledger, the wastewater CIAC balance was \$42,434 as of June 30, 2017. Audit staff determined the wastewater CIAC balance to be \$121,125 as of June 30, 2017.

According to the Seller’s general ledger, the water accumulated amortization of CIAC balance was \$32,988 as of June 30, 2017. Audit staff calculated water accumulated amortization of CIAC to be \$80,148 using the approved rates and the audited CIAC additions and retirements as of June 30, 2017.

According to the Seller’s general ledger, the wastewater accumulated amortization of CIAC balance was \$27,403 as of June 30, 2017. Audit staff calculated wastewater accumulated amortization of CIAC to be \$62,296 using the approved rates and the audited CIAC additions and retirements as of June 30, 2017.

The recommended audit adjustments are shown in Table 3-1.

Table 3-1

Description	Audit Balance CIAC 6/30/2017	Audit Balance Accum Amort 6/30/2017
Water	(132,607)	80,148
Total:	<u>\$ (132,607)</u>	<u>\$ 80,148</u>
Utility balance - 6/30/2017:	<u>(52,004)</u>	<u>32,988</u>
Audit Adjustment:	<u>\$ (80,603)</u>	<u>\$ 47,160</u>
Wastewater	(121,125)	62,296
Total:	<u>\$ (121,125)</u>	<u>\$ 62,296</u>
Utility balance - 6/30/2017:	<u>(42,434)</u>	<u>27,403</u>
Audit Adjustment:	<u>\$ (78,691)</u>	<u>\$ 34,893</u>

We noted that the beginning balances of \$93,690 for water CIAC and \$102,850 for wastewater CIAC from Order No. PSC-1999-2190-PAA-WS were not recorded in the Seller’s general ledger. Audit staff reviewed the CIAC register and sorted the cash deposits by the approved tariffs for the water and wastewater service availability charges. We traced the CIAC deposits to the meter and meter installation additions to determine the reasonableness of the CIAC additions from November 1, 1998 through June 30, 2017. We reduced the water CIAC additions by \$13,087 and the wastewater CIAC additions by \$24,159. Water CIAC was understated by

\$80,603 (\$93,690 – \$13,087) and wastewater CIAC was understated by \$78,691 (\$102,850 - \$24,159).

We also noted that the beginning balances of \$12,889 for water accumulated amortization of CIAC and \$10,039 for wastewater accumulated amortization of CIAC from Order No. PSC-1999-2190-PAA-WS were not recorded in the Seller's general ledger. It appeared that the Seller split the CIAC deposits evenly between water and wastewater and used a 15 year life to amortize CIAC rather than a composite rate based on annual depreciation expense divided by total plant.

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

Effect on the Filing: The water CIAC balance should be increased by \$80,603 and the water accumulated amortization of CIAC balance should be increased by \$47,160.

The wastewater CIAC balance should be increased by \$78,691 and the wastewater accumulated amortization of CIAC balance should be increased by \$34,893.

Exhibits

Exhibit 1: Water Net Book Value

**LAKE YALE UTILITIES LLC
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20170220-WS; ACN 2017-311-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF JUNE 30, 2017**

Description	Balance per Utility 6/30/2017	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2017
Utility Plant in Service	\$ 338,248	\$ (4,211)	1	\$ 334,037
Land	-	-		-
Accumulated Depreciation	(229,371)	10,339	1	(219,032)
Contributions in Aid of Construction	(52,004)	(80,603)	3	(132,607)
Accumulated Amortization of CIAC	32,988	47,160	3	80,148
NET BOOK VALUE	\$ 89,861	\$ (27,315)		\$ 62,546

Exhibit 2: Wastewater Net Book Value

**LAKE YALE UTILITIES LLC
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20170220-WS; ACN 2017-311-1-1
SCHEDULE OF WASTEWATER NET BOOK VALUE
AS OF JUNE 30, 2017**

Description	Balance per Utilitiy 6/30/2017	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2017
Utility Plant in Service	\$ 306,206	\$ 82,343	2	\$ 388,549
Land	-	-		-
Accumulated Depreciation	(259,726)	(109,074)	2	(368,800)
Contributions in Aid of Construction	(42,434)	(78,691)	3	(121,125)
Accumulated Amortization of CIAC	27,403	34,893	3	62,296
NET BOOK VALUE	\$ 31,449	\$ (70,529)		\$ (39,080)