

State of Florida



Public Service Commission

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

Auditor's Report

Aqua Utilities Florida, Inc./Sunny Hills Utility Company
Application for Transfer of Certificate
Certificate Nos. 501-W and 435-S

As of March 28, 2013

Docket No. 130172-WS
Audit Control No. 13-199-1-1

September 20, 2013

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Donna D. Brown
Audit Manager

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Lynn M. Deamer
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Accumulated Depreciation.....	6
2: March Depreciation and Amortization Accrual.....	7
Exhibits	
1: Net Book Value – Sunny Hills Utility Company	10

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 July 12, 2013. We have applied these procedures to the attached schedules prepared by audit staff in support of Aqua Utilities, Florida, Inc./Sunny Hills Utility Company's request for a Transfer of Certificate in Docket No. 130172-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

Background

Definitions

Buyer/Utility refers to Sunny Hills Utility Company (SHUC).

Seller refers to Aqua Utilities Florida, Inc. (AUF).

NARUC refers to the National Association of Regulatory Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities.

Utility Information

AUF is a wholly-owned subsidiary of Aqua America, Inc. AUF was a Class “A” utility that provided water and wastewater service to 85 service areas (58 water and 27 wastewater) within 17 counties under Commission jurisdiction in its last rate case proceeding in Docket No. 100330-WS. Since that proceeding, AUF has divested its Florida operations to nonrelated government and corporate entities. AUF is also a party in the following docketed proceedings before the Commission.

<u>Docket No.</u>	<u>Docket Detail</u>
130171-WS	Transfer of Certificate of certain AUF systems in Sumter County to The Woods Utility Company. (Certificate Nos. 507-W and 441-S)
130173-WU	Transfer of Certificate of certain AUF systems in Palm Beach County to Lake Osborne Waterworks, Inc. (Certificate Nos. 053-W)
130174-WU	Transfer of Certificate of certain AUF systems in Brevard County to The Brevard Waterworks, Inc. (Certificate No. 002-W)
130175-WS	Transfer of Certificate of certain AUF systems in Highlands County to HC Waterworks, Inc. (Certificate Nos. 422-W and 359-S)
130176-WS	Transfer of Certificate of certain AUF systems in Sumter County to Jumper Creek Utility Company. (Certificate Nos. 507-W and 441-S)

AUF and SHUC executed an asset purchase agreement for the following AUF system in Washington County, Florida, on March 19, 2013, for \$10,000. The agreement was finalized in a “Bill of Sale” dated March 28, 2013, which is deemed the official date of transfer.

Water Customers

578

Wastewater Customers

186

General

Objectives: The objectives were to establish a net book value for SHUC water and wastewater systems for transfer purposes as of March 28, 2013, and verify that the Utility's books and records are maintained in compliance with NARUC USOA.

Procedures: We performed the following specific objectives and procedures to satisfy the overall objectives identified above.

Net Book Value

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 were recorded at original cost, 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 books and records.

Procedures: We reconciled the beginning balances for water and wastewater UPIS as of April 30, 2010, established in Docket No. 100330-WS, with the Seller's books and records. We scheduled water and wastewater UPIS activity from April 30, 2010 through March 28, 2013. We sampled and traced selected asset additions and retirements to supporting documentation. We determined the UPIS transfer balances for SHUC as of March 28, 2013. No exceptions were noted.

Land & Land Rights

Objectives: The objectives were to determine whether utility land was: 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: We reconciled the beginning balances for water and wastewater land as of April 30, 2010, reaffirmed in Docket No. 100330-WS, with the Seller's books and records. We searched the Washington County Property Appraisers website to verify the transfer of utility land from AUF to SHUC. We inquired and searched for additional activity related to utility land and none was found. We determined the land transfer balances for SHUC as of March 28, 2013. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals were properly calculated and recorded based on Rule 25-30.140 - Depreciation, F.A.C., 2) Retirements were 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 water and wastewater Accumulated Depreciation as of April 30, 2010, established in Docket No. 100330-WS, with the Seller's books and records. We recalculated depreciation accruals for selected UPIS accounts to determine whether the correct depreciation rates were used. We reconciled several Accumulated

Depreciation retirements to corresponding UPIS retirements and verified that retirement were made when a capital asset was removed or replaced. We determined the Accumulated Depreciation transfer balances for the Utility as of March 28, 2013. Our recommended adjustments to Accumulated Depreciation are discussed in Findings 1 and 2.

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 were recorded using Commission approved tariffs, 3) Retirements were 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 water and wastewater CIAC as of April 30, 2010, established in Docket No. 100330-WS, with the Seller's books and records. We requested documentation for any special agreements, cash, and donated properly since the last rate proceeding. We reconciled CIAC additions to the Commission approved tariff. We determined the CIAC transfer balances for each system as of March 28, 2013. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals were properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements were 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 water and wastewater Accumulated Amortization of CIAC as of April 30, 2010, established in Docket No. 100330-WS, with the Seller's books and records. We recalculated amortization accruals for selected CIAC accounts to verify that correct amortization rates were used. We determined the Accumulated Amortization of CIAC transfer balances for SHUC as of March 28, 2013. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 2.

Other

Rates and Charges

Objectives: The objective was to determine whether the Utility is charging service rates authorized by Commission tariffs.

Procedures: We obtained the Utility May 2013 billing register. We recalculated a sample of the customer bills for each system using the approved water and wastewater tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objective was to determine the transfer balance for customer deposits for each utility system.

Procedures: We inquired and verified that no customer deposits were transferred from AUF to the Utility at closing. We verified that AUF refunded customer deposits prior to transfer per the terms of the asset purchases agreement. No exceptions were noted.

Utility Books and Records

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

Procedures: We reviewed the Utility's books and records by obtaining a trial balance as of the transfer date. We determined that the Utility's books and records were in compliance with the NARUC USOA. No exceptions were noted.

Audit Findings

Finding 1: Accumulated Depreciation

Audit Analysis: Order No. PSC-12-0102-FOF-WS, issued March 5, 2012, established a total accumulated depreciation balance of \$1,996,790 for water rate band 2. AUF provided system specific balances for accumulated depreciation by utility account number for each water and wastewater system in the respective rate bands.

SHUC's water accumulated depreciation balance totaled \$1,361,420 on April 30, 2010 and included an account with a negative accumulated depreciation balance of (\$22,076). The corresponding plant asset balance for Acct. No. 334 Meters & Meter Installations was \$153,187. On February 1, 2013, Acct. No. 340.5 Office Furniture & Equipment had a plant balance of \$0 and a negative accumulated depreciation balance of (\$1,265).

The negative balance for accumulated depreciation is not a normal occurrence and in this case was not an issue until Sunny Hills Utility Company was divested from the AUF water and wastewater rate band groupings.

Effect on the General Ledger: None.

Effect on the Filing: None.

Finding 2: March Depreciation and Amortization Accrual

Audit Analysis: The transfer date for this proceeding was March 28, 2013. AUF records indicate that depreciation accruals for UPIS and amortization accruals for CIAC were posted to the general ledger on the first day of each month. The last date that either accruals were posted was February 1, 2013.

We reviewed AUF records and determined that there was no UPIS or CIAC activity for the system in March 2013. Therefore, we have included one month of accumulated depreciation and accumulated amortization of CIAC accruals for March 2013 based on the corresponding accruals posted in February 2013.

Our summarized adjustment for accumulated depreciation and accumulated amortization CIAC is displayed below. The detailed adjustments by NARUC account are included in Tables 1 and 2 that follow.

Water System	Accumulated Depreciation			Accumulated Amortization of CIAC		
	Per Utility	Adjustment	Per Audit	Per Utility	Adjustment	Per Audit
	(\$1,621,469)	(\$9,504)	(\$1,630,973)	\$174,457	\$1,286	\$175,743

Wastewater System	Accumulated Depreciation			Accumulated Amortization of CIAC		
	Per Utility	Adjustment	Per Audit	Per Utility	Adjustment	Per Audit
	(\$621,796)	(\$2,396)	(\$624,192)	\$2,426	\$18	\$2,444

The adjustments for accumulated depreciation and accumulated amortization of CIAC is displayed below.

Effect on the General Ledger: The adjustments for the system are displayed below.

Water System	Acct. No.	Description	Debit	Credit
	104.00	Utility Plant Purchased or Sold	\$8,218	
	108.00	Accumulated Depreciation		\$9,504
	273.00	Accumulated Amortization of CIAC	\$1,286	

Wastewater System	Acct. No.	Description	Debit	Credit
	104.00	Utility Plant Purchased or Sold	\$2,378	
	108.00	Accumulated Depreciation		\$2,396
	273.00	Accumulated Amortization of CIAC	\$18	

Effect on the Filing: None.

Table 1

Water System			
Acct. No	Description	Acc. Dep.	Acc. Amort.
302.1	Franchise	(\$10.65)	\$0.00
304.2	Structures & Improvements	(58.09)	0.00
304.3	Structures & Improvements	(67.51)	0.00
307.2	Wells & Springs	(361.58)	0.00
309.2	Supply Mains	(17.24)	0.00
310.2	Power Generation Equipment	(764.59)	0.00
311.2	Pumping Equipment	(131.55)	0.00
311.3	Pumping Equipment	(595.98)	0.00
320.3	Water Treatment Equipment	(48.86)	576.54
330.4	Distribution Reservoirs	(1,228.61)	0.00
331.4	Transmission & Distribution	(5,042.65)	590.68
333.4	Services	(179.42)	118.61
334.4	Meters	(655.13)	0.00
335.4	Hydrants	(96.17)	0.00
336.4	Backflow Prevention	0.41	0.00
339.2	Other Plant	0.00	0.00
339.3	Other Plant	0.00	0.00
342.5	Stores Equipment	0.10	0.00
343.5	Tools, Shop & Garage	(0.52)	0.00
344.5	Laboratory Equipment	0.29	0.00
345.5	Power Operated Equipment	0.40	0.00
346.5	Communication Equipment	(0.43)	0.00
347.5	Miscellaneous Equipment	0.36	0.00
348.5	Other Tangible Plant	(247.00)	0.00
Total		(\$9,504.42)	\$1,285.83

Table 2

Wastewater System			
Acct. No	Description	Acc. Dep.	Acc. Amor.
352.1	Franchise	(\$8.31)	\$0.00
354.4	Structures & Improvements	(5.65)	0.00
354.5	Structures & Improvements	(35.48)	0.00
355.4	Power Generation Equipment	(0.07)	0.00
360.2	Collection Sewers - Force	(2.93)	0.00
361.2	Collection - Gravity	(518.28)	6.01
363.2	Services	(116.17)	4.38
364.2	Flow Measuring Devices	(105.95)	0.00
370.3	Receiving Wells	(40.04)	0.00
371.3	Pumping Equipment	(94.38)	0.00
371.5	Pumping Equipment	(0.28)	0.00
380.4	Treatment & Disposal	(447.65)	0.00
380.5	Treatment & Disposal	0.01	8.01
381.4	Plant Sewers	(15.48)	0.00
382.4	Outfall Sewer Lines	0.00	0.00
389.6	Other Plant	0.00	0.00
390.7	Office Furniture & Equipment	0.00	0.00
391.7	Transportation Equipment	0.00	0.00
392.7	Stores Equipment	(0.38)	0.00
393.7	Tools, Shop & Garage	(0.46)	0.00
394.7	Laboratory Equipment	(0.41)	0.00
395.7	Power Operated Equipment	0.08	0.00
396.7	Communication Equipment	(0.27)	0.00
397.7	Miscellaneous Equipment	(0.26)	0.00
398.7	Other Tangible Equipment	(1,003.70)	0.00
Total		(\$2,396.06)	\$18.40

Exhibits

Exhibit 1: Net Book Value – Sunny Hills Utility Company

**Sunny Hills Utility Company
As of March 28, 2013**

Water	Utility Balance	Adjustment	Audit Balance
Utility Plant in Service	\$ 4,071,798	\$ -	\$ 4,071,798
Land & Land Rights	10,779	-	10,779
Accumulated Depreciation	(1,621,469)	(9,504)	(1,630,973)
Contributions in Aid of Construction (CIAC)	(692,445)	-	(692,445)
Accumulated Amortization of CIAC	174,457	1,286	175,743
Total Rate Base	\$ 1,943,120	\$ (8,218)	\$ 1,934,902

Wastewater	Utility Balance	Adjustment	Audit Balance
Utility Plant in Service	\$ 758,635	\$ -	\$ 758,635
Land & Land Rights	4,483	-	4,483
Accumulated Depreciation	(621,796)	(2,396)	(624,192)
Contributions in Aid of Construction (CIAC)	(6,977)	-	(6,977)
Accumulated Amortization of CIAC	2,426	18	2,444
Total Rate Base	\$ 136,771	\$ (2,378)	\$ 134,393