

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Brendenwood Utilities, LLC/Brendenwood Waterworks, Inc.  
Application for Transfer of Certificate  
Certificate No. 339-W

**As of May 23, 2014**

Docket No. 140120-WU  
Audit Control No. 14-182-1-1  
**September 18, 2014**

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Hymavathi Vedula  
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 July 1, 2014. We have applied these procedures to the attached schedules prepared by the audit staff in support of Brendenwood Utilities, LLC/Brendenwood Waterworks, Inc. request for a Transfer of Certificate in Docket No. 140120-WU.

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 refers to Brendenwood Waterworks, Inc.  
Seller refers to Brendenwood Utilities, LLC

#### Utility Information

Brendenwood Utilities, LLC was a Class "C" Utility that provided water services to approximately 58 customers in Lake County. Brendenwood Waterworks, Inc. and Brendenwood Utilities, LLC executed an asset purchase agreement for a water system in Lake County, Florida, on May 14, 2014, for \$20,000. The sale was consummated on May 23, 2014. The Buyer filed an application for the transfer of Certificate No. 339-W on June 5, 2014. Rate base for the Utility was last established as of June 30, 2009 in Docket No. 090346-WU, Order No. PSC-10-0167-PAA-WU, issued March 23, 2010. This Utility was transferred in 2011 from Brendenwood Water System, Inc. to Brendenwood Utilities, LLC in Docket No. 110255-WU, Order No. PSC-11-0552-FOF-WU, where rate base was not established in the proceeding and an audit was not done at that time.

### **General**

#### Utility Books and Records

**Objectives:** The objective was to determine whether the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We reviewed the amounts reported in the schedules provided by the seller. It appears that the Utility uses the accrual method of accounting to maintain 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 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 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 UPIS as of June 30, 2009, established in Docket No. 090346-WU, to the annual reports. We scheduled water UPIS activity

from June 30, 2009, through May 23, 2014 using the amounts reported in the schedules provided by the seller. We traced all 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 May 23, 2014.

#### Land & Land Rights

**Objectives:** The objectives were to determine whether 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:** We reconciled the beginning land balance as of June 30, 2009, established in Docket No. 090346-WU, to the annual reports. We searched the Lake County Clerk of the Courts' official records to verify the transfer of utility land from the Seller to the Buyer. We determined the land transfer balance for the water system as of May 23, 2014. The land balance of \$1,100 has not changed since the last case. No exceptions were noted.

#### 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, Florida Administrative Code (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 June 30, 2009, established in Docket No. 090346-WU, to the annual reports. We reviewed the Company provided Accumulated Depreciation schedule. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the Accumulated Depreciation transfer balance for the water system as of May 23, 2014. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 1.

#### 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 required in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balance for CIAC as of June 30, 2009, established in Docket No. 090346-WU, to the annual reports. We scanned the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the approved tariff. There were no additions since rate base was established in Docket No. 090346-WU on June 30, 2009. We determined the CIAC transfer balance as of May 23, 2014. No exceptions were noted.

#### 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 June 30, 2009, established in Docket No. 090346-WU, to the annual reports. We reviewed the Company provided Accumulated Amortization of CIAC schedule. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. CIAC was fully amortized during 2013. We determined the Accumulated Amortization of CIAC transfer balance as of May 23, 2014. No exceptions were noted.

#### Acquisition Adjustment

**Objectives:** The objectives were to determine the acquisition adjustment if any based on audit staff's net book value pursuant to Rule 25-30.0371 (1) and (3) – Acquisition Adjustments, F.A.C.

**Procedures:** We determined that the Net Book Value for this utility at time of transfer is \$22,770. The purchase price is \$20,000 which is 87% of the Net Book Value. Pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C., an acquisition adjustment would not be recognized for rate-making purposes. No further work done.

### **Other**

#### Rates and Charges

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

**Procedures:** We obtained the Utility's billing register for the month of June 2014. We recalculated a sample of customers' 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 schedules provided by the seller and inquired about the deposit policy. The Utility does not collect customer deposits. No exceptions were noted.

## Audit Findings

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

**Audit Analysis:** The schedule provided by the seller reflects \$(8,181) of Accumulated Depreciation as of May 23, 2014. Audit staff calculated Accumulated Depreciation to be \$(5,825) using the correct rates and plant balances. Therefore Accumulated Depreciation is overstated by \$2,356.

<b>Acct. No.</b>	<b>Description</b>	<b>Per Seller As of 5/23/2014</b>	<b>Audit Adj.</b>	<b>Per Audit As of 5/23/14</b>
301	Organization	\$ -	\$ (127)	\$ (127)
304	Structions and Improvements	\$ (2,490)	\$ 386	\$ (2,104)
311	Pumping Equipment	\$ (2,707)	\$ 2,315	\$ (392)
320	Water Treatment Equipment	\$ (1,635)	\$ (1,085)	\$ (2,720)
333	Services	\$ (42)	\$ 17	\$ (25)
334	Meters and Meter Installations	\$ (315)	\$ 21	\$ (294)
340	Office Furniture & Equipment	\$ (992)	\$ 829	\$ (163)
		<b>\$ (8,181)</b>	<b>\$ 2,356</b>	<b>\$ (5,825)</b>

**Effect on the General Ledger:** None

**Effect on the Filing:** Decrease the Accumulated Depreciation balance by \$2,356.

Exhibits

**Exhibit 1: Net Book Value**

**Brendenwood Waterworks, Inc.**

**Docket No: 140120-WU**

**ACN: 14-182-1-1**

**Net Book Value as of 5/23/14**

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<b>Description</b>	<b>Per Seller</b>		<b>Audit Finding</b>	<b>Per Audit</b>	
	<b>As of 5/23/2014</b>	<b>Audit Adj.</b>		<b>As of 5/23/2014</b>	
Utility Plant in Service	\$ 27,494			\$ 27,494	
Land & Land Rights	\$ 1,100			\$ 1,100	
Contribution in Aid of Construction (CIAC)	\$ (1,577)			\$ (1,577)	
Accumulated Amort. Of CIAC	\$ 1,577			\$ 1,577	
Accumulated Depreciation	\$ (8,181)	\$ 2,356	1	\$ (5,825)	
<b>NET BOOK VALUE</b>	<b>\$ 20,413</b>	<b>\$ 2,356</b>		<b>\$ 22,770</b>	

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