



# Public Service Commission

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COMMISSION  
CLERK

**DATE:** November 18, 2010

**TO:** Curtis Mouring, Regulatory Analyst III, Division of Economic Regulation

**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CP*

**RE:** Docket No.: 100330-WS  
 Company Name: Aqua Utilities Florida, Inc.  
 Company Code: WS880  
 Audit Purpose: Rate Case  
 Audit Control No: 10-252-1-1

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 were no confidential work papers associated with this audit.

CP/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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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.  
File and Suspend Rate Case

Twelve Months Ended April 30, 2010

Docket 100330-WS  
Audit Control No. 10-252-1-1  
November 15, 2010

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Debra M. Dobiac  
Audit Manager

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Intersar Terkawi  
Audit Staff

A handwritten signature in cursive script, appearing to read "Hyma Vedula".

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Hyma Vedula  
Audit Staff

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer".

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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 Economic Regulation in its audit service request dated September 9, 2010. We have applied these procedures to the Minimum Filing Requirements (MFRs) prepared by Aqua Utilities Florida, Inc. (AUF) in support for rate relief in Docket No. 100330-WS for the test year ending April 30, 2010. See Audit Control No. (ACN) 10-181-4-1 in this Docket for the Review of Affiliate Transactions between Aqua Utilities Florida, Inc. and All Affiliates.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

**Affiliate Transactions:** In this Docket, the following items were audited under ACN 10-181-4-1.

1. The rate base normalization adjustment for the IT allocation to plant and accumulated depreciation.
2. The adjustments to Net Operating Income (NOI) for normalization and proforma for:
  - Account 601/701 Salaries and Wages – Employees
  - Account 604/704 Employee Pension and Benefits
  - Account 634/734 Contractual Services – Management Fees
  - Account 636/736 Contractual Services – Other, Aqua Customer Organization
  - Account 656/756 Insurance-Vehicle
  - Account 657/757 Insurance-General Liability
  - Account 678/758 Insurance-Workmen's Compensation
  - Account 659/759 Insurance-Other
  - Account 408 Payroll Tax
3. On the NOI schedules, Accounts 601/701, 604/704, 632/732, 634/734, 650/750, 656/756, 657/757, 658/758, and 659/759 were tested. Account 636/736 was tested for affiliate transactions.
4. The cost of capital except for customer deposits and deferred tax.
5. The internal and external audit workpapers were reviewed.
6. The Board of Director's minutes were reviewed.

**Rate Bands:** In Order No. PSC-09-0385-FOF-WS<sup>1</sup>, it was determined that the capband methodology was the appropriate consolidation methodology for the Utility's water and wastewater systems. As such, the water (W) systems (total of 56) were consolidated into the following groups.

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<sup>1</sup> See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

<b>Rate Band 1W</b>	<b>Rate Band 2W</b>	<b>Rate Band 3W</b>
Jasmine Lakes	Carlton Village	48 Estates
Kings Cove	Fern Terrace	Gibsonia Estates
Ocala Oaks	Grand Terrace	Interlachen Lake/ Park Manor
Picciola Island	Lake Gibson Estates	Lake Osborne
Silver Lake Estates	Piney Woods	Orange Hill
Tangerine	St. John Highlands	Quail Ridge
	Sunny Hills	Ravenswood
	Valencia Terrace	Venetian Village

<b>Rate Band 4W</b>	
Arredondo	Palm Port
Beecher's Point	Palm Terrace
East Lake Harris	Palms MHP
Friendly Center	Pomona Park
Haines Creek	River Grove
Harmony Homes	Rosalie Oaks
Hermits Cove	Sebring Lakes
Hobby Hills	Silver Lake Oaks
Holiday Haven	Skycrest
Imperial Mobile Terrace	Stone Mountain
Jungle Den	The Woods
Kingswood	Tomoka
Lake Josephine	Village Water
Lake Suzy	Welaka/Saratoga Harbor
Leisure Lakes	Wootens
Morningview	Zephyr Shores
Oakwood	

The wastewater (WW) systems (total of 24) were consolidated into the following groups.

<b>Rate Band 1WW</b>	<b>Rate Band 2WW</b>	<b>Rate Band 3WW</b>	<b>Rate Band 4WW</b>
Kings Cove	Arredondo	Beecher's Point	Florida Central Commerce Park
Leisure Lakes	Holiday Haven	Jungle Den	Village Water
Summit Chase	Interlachen Lake/ Park Manor	Lake Gibson Estates	
Valencia Terrace	Jasmine Lakes	Rosalie Oaks	
	Lake Suzy		
	Morningview		
	Palm Port		
	Palm Terrace		
	Silver Lake Oaks		
	South Seas		
	Sunny Hills		
	The Woods		
	Venetian Village		
	Zephyr Shores		

In addition to the above 80 systems, the following 6 systems are also included in the current rate case.

<b>System</b>	<b>Water Rate Band</b>	<b>Wastewater Rate Band</b>
Breezehill	5W	5WW
Fairways	10W	7WW
Peace River	12W	10WW

## Rate Base

### Utility Plant in Service (UPIS)

**Objectives:** The objectives are to determine that property exists and is owned by the utility; that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USoA); and that proper retirements of UPIS were made when a replacement item was put into service.

**Procedures:** We reconciled the beginning plant in service balances for 80 water and wastewater systems in Order No. PSC-09-0385-FOF-WS<sup>2</sup>. We reconciled the beginning plant in service balances for the Breeze Hill water and wastewater systems in Order No. PSC-02-1114-PAA-WS<sup>3</sup>. We reconciled the beginning plant in service balances for the Fairways water and wastewater systems in Order No. PSC-09-0038-PAA-WS<sup>4</sup>. We reconciled the beginning plant in service balances for the Peace River water and wastewater systems in Order No. PSC-10-0205-FOF-WS<sup>5</sup>. We verified that all ordered adjustments were recorded. We traced a judgmental sample of additions and retirements from December 31, 2007 to April 30, 2010 to the source documentation. We traced all additions to the source documentation for the Breeze Hill, Fairways, and Peace River systems since the last applicable rate cases. We tested the plant in service additions for the following criteria: date acquired, original cost, account recorded, and appropriate retirements. We tested the retirements for the following criteria: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal. We traced the audited ending plant in service balances to the Minimum Filing Requirements (MFRs) and the Utility's general ledger. Audit Findings 1 and 2 discuss our findings.

### Land and Land Rights

**Objective:** The objectives are to determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease.

**Procedures:** We reconciled the beginning land balances for 80 water and wastewater systems in Order No. PSC-09-0385-FOF-WS<sup>6</sup>. We reconciled the beginning land balances for the Breeze

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<sup>2</sup> See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

<sup>3</sup> See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, Docket No. 011481-WS, In Re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S.

<sup>4</sup> See Order No. PSC-09-0038-PAA-WS, issued January 20, 2009, Docket No. 070739-WS, In Re: Application for approval of transfer of Fairways/Mt. Plymouth, Ltd.'s water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 106-W and 120-S, in Lake County.

<sup>5</sup> See Order No. PSC-10-0205-FOF-WS, issued April 2, 2010, Docket No. 100050-WS, In Re: Application for grandfather certificate to operate water and wastewater utility in Hardee County by Aqua Utilities Florida, Inc.

<sup>6</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.



Hill water and wastewater systems in Order No. PSC-02-1114-PAA-WS<sup>7</sup>. We reconciled the beginning land balances for the Fairways water and wastewater systems in Order No. PSC-09-0038-PAA-WS<sup>8</sup>. We reconciled the beginning land balances for the Peace River water and wastewater systems in Order No. PSC-10-0205-FOF-WS<sup>9</sup>. We obtained the applicable warranty deeds for new additions and verified that all ordered adjustments were recorded. We traced the audited ending land balances to the MFRs and the Utility's general ledger. Audit Finding 3 discusses our findings.

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

**Objective:** The objective is to determine that utility CIAC balances are properly stated and are reflective of the service availability charges authorized in the Utility's Commission approved tariffs.

**Procedures:** We reconciled the beginning CIAC balances for 80 water and wastewater systems in Order No. PSC-09-0385-FOF-WS<sup>10</sup>. We reconciled the beginning CIAC balances for the Breeze Hill water and wastewater systems to Order No. PSC-02-1114-PAA-WS<sup>11</sup>. We reconciled the beginning CIAC balances for the Fairways water and wastewater systems in Order No. PSC-09-0038-PAA-WS<sup>12</sup>. We reconciled the beginning CIAC balances for the Peace River water and wastewater systems in Order No. PSC-10-0205-FOF-WS<sup>13</sup>. We verified that all ordered adjustments were recorded. We traced a judgmental sample of additions to the utility's CIAC schedule, agreement letters, and cancelled checks from December 31, 2007 to April 30, 2010. The audit staff verified the Utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received any donated property as CIAC. We traced the audited ending CIAC balances to the MFRs and the Utility's general ledger. No exceptions were noted.

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<sup>7</sup> See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, Docket No. 011481-WS, In Re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S.

<sup>8</sup> See Order No. PSC-09-0038-PAA-WS, issued January 20, 2009, Docket No. 070739-WS, In Re: Application for approval of transfer of Fairways/Mt. Plymouth, Ltd.'s water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 106-W and 120-S, in Lake County.

<sup>9</sup> See Order No. PSC-10-0205-FOF-WS, issued April 2, 2010, Docket No. 100050-WS, In Re: Application for grandfather certificate to operate water and wastewater utility in Hardee County by Aqua Utilities Florida, Inc.

<sup>10</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

<sup>11</sup> See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, Docket No. 011481-WS, In Re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S.

<sup>12</sup> See Order No. PSC-09-0038-PAA-WS, issued January 20, 2009, Docket No. 070739-WS, In Re: Application for approval of transfer of Fairways/Mt. Plymouth, Ltd.'s water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 106-W and 120-S, in Lake County.

<sup>13</sup> See Order No. PSC-10-0205-FOF-WS, issued April 2, 2010, Docket No. 100050-WS, In Re: Application for grandfather certificate to operate water and wastewater utility in Hardee County by Aqua Utilities Florida, Inc.

### Accumulated Depreciation

**Objectives:** The objectives are to determine that accruals to accumulated depreciation are properly recorded in compliance with Commission Rules and the NARUC USoA and to verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

**Procedures:** We reconciled the beginning accumulated depreciation balances for 80 water and wastewater systems in Order No. PSC-09-0385-FOF-WS<sup>14</sup>. We reconciled the beginning accumulated depreciation balances for the Breeze Hill water and wastewater systems in Order No. PSC-02-1114-PAA-WS<sup>15</sup>. We reconciled the beginning accumulated depreciation balances for the Fairways water and wastewater systems in Order No. PSC-09-0038-PAA-WS<sup>16</sup>. We reconciled the beginning accumulated depreciation balances for the Peace River water and wastewater systems in Order No. PSC-10-0205-FOF-WS<sup>17</sup>. We verified that all ordered adjustments were recorded. We recalculated accumulated depreciation accruals from end of the prior ordered rate bases' historical test year through April 30, 2010. Our schedules included: beginning and ending balances by UPIS sub-accounts, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense. We traced the audited ending accumulated depreciation balances to the MFRs and the Utility's general ledger. Audit Findings 1 and 2 discuss our findings.

### Accumulated Amortization of CIAC

**Objectives:** The objectives are to determine that accumulated amortization of CIAC balances are properly stated and that annual accruals are reflective of the depreciation rates and are in compliance with Commission rules and orders.

**Procedures:** We reconciled the beginning accumulated amortization of CIAC balances for 80 water and wastewater systems in Order No. PSC-09-0385-FOF-WS<sup>18</sup>. We reconciled the beginning accumulated amortization of CIAC balances for the Breeze Hill water and wastewater systems in Order No. PSC-02-1114-PAA-WS<sup>19</sup>. We reconciled the beginning accumulated amortization of CIAC balances for the Fairways water and wastewater systems in Order No.

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<sup>14</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

<sup>15</sup> See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, Docket No. 011481-WS, In Re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S.

<sup>16</sup> See Order No. PSC-09-0038-PAA-WS, issued January 20, 2009, Docket No. 070739-WS, In Re: Application for approval of transfer of Fairways/Mt. Plymouth, Ltd.'s water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 106-W and 120-S, in Lake County.

<sup>17</sup> See Order No. PSC-10-0205-FOF-WS, issued April 2, 2010, Docket No. 100050-WS, In Re: Application for grandfather certificate to operate water and wastewater utility in Hardee County by Aqua Utilities Florida, Inc.

<sup>18</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

<sup>19</sup> See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, Docket No. 011481-WS, In Re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder of Certificate Nos. 598-W and 513-S.

PSC-09-0038-PAA-WS<sup>20</sup>. We reconciled the beginning accumulated amortization of CIAC balances for the Peace River water and wastewater systems in Order No. PSC-10-0205-FOF-WS<sup>21</sup>. We verified that all ordered adjustments were recorded. We recalculated accumulated amortization accruals from end of the prior ordered rate bases' historical test year through April 30, 2010. Our schedule includes: beginning and ending balances by UPIS sub-accounts, methodology for calculating annual accumulated amortization accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense. We traced the audited ending accumulated amortization balances to the MFRs and the Utility's general ledger. No exceptions were noted.

#### Working Capital

**Objective:** The objective is to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

**Procedures:** We traced the components of working capital to the general ledger and recalculated the 13-month average working capital balances. We judgmentally sampled and tested the components of working capital for the proper amount, period, and classification. Audit Findings 4 and 5 discuss our findings.

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<sup>20</sup> See Order No. PSC-09-0038-PAA-WS, issued January 20, 2009, Docket No. 070739-WS, In Re: Application for approval of transfer of Fairways/Mt. Plymouth, Ltd.'s water and wastewater systems to Aqua Utilities Florida, Inc., and for amendment of Certificate Nos. 106-W and 120-S, in Lake County.

<sup>21</sup> See Order No. PSC-10-0205-FOF-WS, issued April 2, 2010, Docket No. 100050-WS, In Re: Application for grandfather certificate to operate water and wastewater utility in Hardee County by Aqua Utilities Florida, Inc.

## Net Operating Income

### Revenue

**Objectives:** The objectives are to verify that the Utility is billing the Commission approved tariff rates for both water and wastewater and to determine that revenue earned from utility property during the test year is recorded, included in the MFRs, and is properly classified in compliance with Commission rules and the NARUC USoA.

**Procedures:** The audit staff reviewed the Utility's Commission approved tariffs establishing rates and compiled water and wastewater utility revenue by rate band for the 12-month period ending April 30, 2010 from the Utility's general ledger. We tested the reasonableness of the utility revenues by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the Utility. We selected a judgmental sample of customer bills and recalculated the bills using the authorized rates. No exceptions were noted.

### Operation and Maintenance Expense (O&M)

**Objective:** The objectives are to determine that O&M costs are classified according to Commission Rules and the NARUC USoA and that expenditures are recorded in the proper period and are appropriate for regulatory policy.

**Procedures:** For each rate band, we compiled the 2008 and 2009 O&M expenses by account from the general ledger and compared them to the O&M expenses from the Utility's MFRs for the test year ended April 30, 2010. We reviewed a judgmental sample of the Utility's invoices for proper amount, period, classification, NARUC account, and recurring nature. Audit Findings 6 and 7 discuss our findings.

### Depreciation and Amortization

**Objective:** The objective is to determine that depreciation is properly recorded in compliance with Commission Rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility CIAC assets for ongoing utility operations.

**Procedures:** The audit staff calculated depreciation using the Class A rates according to Commission Rule<sup>22</sup> on plant additions and amortization using a composite rate by dividing depreciation by total plant in service on CIAC additions and traced it to the MFRs and the Utility's general ledger. Audit Findings 1 and 2 discuss our findings.

### Taxes Other Than Income (TOTI)

**Objective:** The objective is to determine that the MFR balances for TOTI are accurate for the test year ended April 30, 2010 and are recorded in compliance with Commission Rules.

**Procedures:** We compiled TOTI expenses from the Utility's general ledger. We reviewed the property tax invoices and Commission filed regulatory assessment fee forms. We traced the TOTI amounts to the MFRs. No exceptions were noted.

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<sup>22</sup> See Rule 25-30.140, Florida Administrative Code.

## Capital Structure

### General

**Objective:** The objective is to determine that the Utility's customer deposits are properly recorded in compliance with Commission Rules and that it accurately represents the ongoing utility operations.

**Procedures:** We reconciled customer deposits to the Utility's MFRs and general ledger as of April 30, 2010. We verified that interest on customer deposits is recorded and deposits are refunded according to Commission Rule<sup>23</sup>. No exceptions were noted.

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<sup>23</sup> See Rule 25-30.311, Florida Administrative Code.

## Audit Findings

### **Audit Finding 1**

#### **Subject: Breeze Hill Water and Wastewater Systems**

**Audit Analysis:** For the Breeze Hill water and wastewater systems, the Utility included \$6,171 and \$4,690 in the utility plant in service (UPIS) balance, MFR Schedules A-5 and A-6, respectively, without appropriate supporting documentation. As stated in Order No. PSC-08-0533-FOF-WS<sup>24</sup>:

It has been discussed with the buyer the need to obtain from the seller all records pertaining to the utility plant in service and depreciation for the water and wastewater utility since rate base was last set so that the buyer will have supporting documentation for rate base in any future rate proceeding.

The audit staff requested support for the transferred items but was told that the Utility was unable to obtain them. As of April 30, 2010, we also determined that water and wastewater accumulated depreciation was overstated by \$1,577 and \$1,092 respectively, as well as depreciation expense was overstated by \$315 and \$243, respectively.

**Effect on the General Ledger:** The following general ledger entries are needed to correct the Utility general ledger balances as of April 30, 2010.

Rate Band	NARUC Acct. No	Account Description	Debit	Credit
5W	108	Accumulated Depreciation	\$1,577	
5WW	108	Accumulated Depreciation	\$1,092	
5W/5WW	439	Adjustments to Retained Earnings	\$8,750	
5W	310	Power Generation Equipment		\$4,243
5W	311	Pumping Equipment		\$ 242
5W	334	Meters and Meter Installations		\$1,480
5W	345	Power Operated Equipment		\$ 206
5WW	355	Power Generation Equipment		\$4,243
5WW	371	Pumping Equipment		\$ 241
5WW	395	Power Operated Equipment		\$ 206
5W	403	Depreciation Expense		\$ 315
5WW	403	Depreciation Expense		\$ 243

<sup>24</sup> See Order No. 08-0533-FOF-WS, issued August 18, 2008, Docket No. 080167-WS, In Re: Application for authority to transfer water and wastewater systems of Cal Clair, Inc. d/b/a Breeze Hill Utility to Aqua Utilities Florida, Inc., request for amendment of Aqua Utilities Florida, Inc.'s Certificate No. 587-W and 506-S in Polk County, to include Cal Clair, Inc. d/b/a Breeze Hill water and wastewater territory, and request for cancellation of Cal Clair, Inc. d/b/a Breeze Hill's Certificate Nos. 598-W and 513-S.

**Effect on the Filing:** For the Breeze Hill Water system, Account 101 Plant in Service 13-month average balance should be reduced by \$6,171; Account 108 Accumulated Depreciation 13-month average balance should be reduced by \$1,419; and Account 403 Depreciation Expense should be reduced by \$315.

For the Breeze Hill Wastewater system, Account 101 Plant in Service 13-month average balance should be reduced by \$4,690; Account 108 Accumulated Depreciation 13-month average balance should be reduced by \$971; and Account 403 Depreciation Expense should be reduced by \$243.

## Audit Finding 2

### Subject: Fairways Water System

**Audit Analysis:** For the Fairways water system, the Utility included \$36,486 in the utility plant in service (UPIS) balance, MFR Schedule A-5, without appropriate supporting documentation. This amount represents additional meter installations with an in-service date of April 30, 2008. As of April 30, 2010, we also determined that accumulated depreciation was overstated by \$2,736 and depreciation expense was overstated by \$1,824.

**Effect on the General Ledger:** The following general ledger entries are needed to correct the Utility general ledger balances as of April 30, 2010.

Rate Band	NARUC Acct. No	Account Description	Debit	Credit
10W	108	Accumulated Depreciation	\$ 2,736	
10W	439	Adjustments to Retained Earnings	\$35,574	
10W	334	Meters and Meter Installations		\$36,486
10W	403	Depreciation Expense		\$ 1,824

**Effect on the Filing:** For the Fairways Water system, Account 101 Plant in Service 13-month average balance should be reduced by \$36,486; Account 108 Accumulated Depreciation 13-month average balance should be reduced by \$1,824; and Account 403 Depreciation Expense should be reduced by \$1,824.



### Audit Finding 3

#### Subject: Rate Band 2WW - Land

**Audit Analysis:** According to Order No. PSC-09-0385-FOF-WS<sup>25</sup>, the year-end and 13-month average value of the Lake Suzy wastewater land should be \$200,200 which resulted in a year-end adjustment of (\$69,166) and a 13-month average adjustment of (\$229,259). The audit staff noted that there have been no purchases or sales of land for the wastewater system since the last rate case but its value on the Utility's books was \$40,107 as of April 30, 2010. The Utility recorded the 13-month average adjustment of (\$229,259). However, the Utility should have recorded the year-end adjustment of (\$69,166). The land is now understated by \$160,093 (\$229,259 - \$69,166).

**Effect on the General Ledger:** The following general ledger entries are needed to correct the Utility general ledger balances as of April 30, 2010.

Rate Band	NARUC Acct. No	Account Description	Debit	Credit
2WW	353	Land	\$160,093	
2WW	439	Adjustments to Retained Earnings		\$160,093

**Effect on the Filing:** For the Rate Band 2WW, Account 101 Plant in Service 13-month average balance should be increased by \$160,093.

<sup>25</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

## Audit Finding 4

### Subject: Working Capital – Accrued Taxes

**Audit Analysis:** In Order No. PSC-09-0385-FOF-WS<sup>26</sup>, it states:

Since the debit balance in accrued taxes is caused by tax benefits related to losses included in prior federal income tax returns, and the Utility will be reimbursed these amounts by its parent company, the taxes owed to AUF in the amount of \$2,884,818 shall be removed from the 13-month average to normalize the balance. To normalize the accrued tax balance for purposes of setting rates, the negative amount of federal income tax included in AUF's tax detail schedule shall be removed from the accrued taxes balance for the test year. The 13-month average balance for accrued taxes less the amounts included for federal income tax results in a net credit balance of \$179,622. This equates to an adjustment of \$1,334,964 to normalize the accrued taxes balance for the test year.

As of April 30, 2010, accrued taxes consist of the following balances.

Utility Acct No.	Description	Balance as of 4/30/2010
236111	Accrued Taxes-Property	(\$417,340)
236112	Accrued-PUC Assessment	(\$217,166)
236114	Sales/Use Tax	\$ 60
236127	Accrued Taxes-State	(\$ 31,765)
236129	Accrued Taxes-Federal	\$663,048
236220	Accrue Taxes-Other	(\$212,410)

Therefore, the test year ending balance is a credit balance of \$215,573. In the working capital calculation, the accrued taxes 13-month average balance is a debit balance of \$1,129,222 which includes a 13-month average debit balance of \$1,917,134 for the federal tax accrual. The remaining accrued taxes 13-month average is a credit balance \$787,912.

**Effect on the General Ledger:** This information is provided for the analyst's determination regarding a normalized amount.

**Effect on the Filing:** This information is provided for the analyst's determination regarding a normalized amount.

<sup>26</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

## **Audit Finding 5**

### **Subject: Working Capital – Deferred Rate Case Expense**

**Audit Analysis:** In the working capital allowance calculation, the Utility included \$777,577 of Deferred Rate Case Expense which is one-half of the 13-month average balance of \$1,555,153. In Order No. PSC-09-0385-FOF-WS<sup>27</sup>, the Commission approved a total rate case expense of \$1,501,609. Therefore, the average unamortized balance of rate case expense considered in the working capital calculation was \$750,805.

Using the approved total rate case expense and beginning amortization on April 1, 2009 when the new rates went into effect, the audit staff calculated the 13-month average for the historical test year to be \$1,282,625. Therefore, \$641,313 ( $\$1,282,625/2$ ) may be considered for Deferred Rate Case Expense in the working capital allowance calculation.

Furthermore, if the new rates go into effect as of April 1, 2011, the 13-month average balance for the first year that new rates are in effect would be \$563,104. Then, the Deferred Rate Case Expense for the working capital allowance calculation would be \$281,552 ( $\$563,104/2$ ).

**Effect on the General Ledger:** This information is provided for the analyst's determination regarding the working capital allowance.

**Effect on the Filing:** This information is provided for the analyst's determination regarding the working capital allowance.

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<sup>27</sup> See Order No. PSC-09-0385-FOF-WS, issued May, 29, 2009, Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, Desoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

## Audit Finding 6

### Subject: Out of Period Expenses

**Audit Analysis:** The Utility's O&M expense balances are overstated by \$20,342 for the test year ended April 30, 2010. This amount represents out of period expenses for the following invoices:

Rate Band	NARUC Acct No.	Vendor	Amount
1W	636	Interactive Power Solutions, Inc.	\$ 301
1W	636	Interactive Power Solutions, Inc.	325
3W	636	Interactive Power Solutions, Inc.	277
3W	636	Interactive Power Solutions, Inc.	412
12W	636	Pough Utilities Service, Inc.	1,400
1WW	720	USA Blue Book	313
1WW	720	Grainger	158
1WW	736	Short Utility Service, Inc.	652
3WW	736	KBHS, Inc.	16,504
			<u>\$ 20,342</u>

**Effect on the General Ledger:** The adjustments would not need to be booked to the general ledger since it is a legitimate utility expense outside the test year.

**Effect on the Filing:** Rate Band 1W Account 636 Contractual Services – Other should be reduced by \$626. Rate Band 3W Account 636 Contractual Services – Other should be reduced by \$689. Rate Band 12W Account 636 Contractual Services – Other should be reduced by \$1,400. Rate Band 1WW Account 720 Materials and Supplies should be reduced by \$471 and Account 736 Contractual Services – Other should be reduced by \$652. Rate Band 3WW Account 736 Contractual Services – Other should be reduced by \$16,504.

## Audit Finding 7

### Subject: Rate Band 2WW – Non-recurring Expense

**Audit Analysis:** The Utility’s Rate Band 2WW O&M expense balance included \$64,397 for legal expenses pertaining to the Environmental Enforcement Defense and appear to be non-recurring. The Utility included the following invoices in the test year ended April 30, 2010.

Rate Band	NARUC		Vendor	Amount	Date
	Acct. No.				
2WW	733		Holland & Knight LLP	\$ 1,034	11/24/2008
2WW	733		Holland & Knight LLP	12,690	2/24/2009
2WW	733		Holland & Knight LLP	20,418	3/20/2009
2WW	733		Holland & Knight LLP	11,055	4/23/2009
2WW	733		Holland & Knight LLP	4,680	7/27/2009
2WW	733		Holland & Knight LLP	6,818	11/16/2009
2WW	733		Ryan Law PA	20,000	10/15/2009
				<u>\$ 76,695</u>	

According to Commission rule<sup>28</sup>: “Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.”

The amount removed represents both, the amount that should have been amortized before the test year of \$847 and the amount of the deferred amortization of \$63,550. See amortization schedule below.

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<sup>28</sup> See Rule 25-30.433(8), Florida Administrative Code.

**Amortization Schedule:**

2008		2009				2010			
Balance		Balance				Balance			
				\$ 1,017					\$68,658
January		January	\$ 17	A 999	January	\$ 1,277	B 67,381		
February		February	17	A 13,672	February	1,277	B 66,104		
March		March	228	A 33,862	March	1,277	B 64,827		
April		April	568	A 44,349	April	1,277	B 63,550		
May		May	753	B 43,596	May	1,277	62,273		
June		June	753	B 42,843	June	1,277	60,996		
July		July	753	B 46,770	July	1,277	59,719		
August		August	830	B 45,940	August	1,277	58,442		
Sep		Sep	830	B 45,110	Sep	1,277	57,165		
Oct		Oct	830	B 64,280	Oct	1,277	55,888		
Nov	\$1,034	Nov	1,163	B 69,935	Nov	1,277	54,611		
Dec	\$17 A \$1,017	Dec	1,277	B \$68,658	Dec	1,277	\$53,334		
<b>Total</b>	<b>\$17</b>	<b>Total</b>	<b>\$8,019</b>		<b>Total</b>	<b>\$15,324</b>			

Retained Earnings: Sum of A = \$847  
 Test Year Legal Expense: Sum of B = \$12,298  
 Deferred Expense: \$76,695 - \$847 - \$12,298 = \$63,550

**Effect on the General Ledger:** The following entries are needed to correct the Utility's general ledger as of April 30, 2010.

Rate Band	NARUC Acct. No	Account Description	Debit	Credit
2WW	186	Miscellaneous Deferred Debits	\$63,550	
2WW	439	Adjustments to Retained Earnings	\$ 847	
2WW	733	Contractual Services – Legal		\$64,397

**Effect on the Filing:** Account 733 Contractual Services – Legal should be reduced by \$64,397 (\$76,695 - \$12,298).

**Schedule of Water Rate Base**

Florida Public Service Commission

**AUF Consolidated**  
**Docket No. 100330-WS**  
 Historical Test Year Ending April 30, 2010  
 Historical & Pro Forma

Schedule: A-1  
 Page: 1 of 1  
 Preparer: R J Pasceri

Explanation: Provide the calculation of the average Water rate base for the test year, showing all adjustments.  
 All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	Description	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Historical Test Year			Pro Forma Test Year			Supporting Schedules
		Average Balance Per Books	Adjustments	Adjusted Average Balance	Adjustments	Adjusted Average Balance		
1	Utility Plant in Service	28,043,093	1,459,523	29,502,616	1,701,119	31,203,736	A-5	
2	Utility Land & Land Rights	407,515	2,997	410,512	0	410,512	A-5	
3	Less: Non-Used & Useful Components	0	(907,992)	(907,992)	(25,327)	(933,319)	A-7	
4	Construction Work in Progress	0	0	0	0	0		
5	Less: Accumulated Depreciation	(7,684,996)	(631,841)	(8,316,837)	126,409	(8,190,428)	A-9	
6	Less: CIAC	(6,426,026)	4,371	(6,421,654)	0	(6,421,654)	A-12	
7	Accumulated Amortization of CIAC	3,045,539	29,661	3,075,200	0	3,075,200	A-14	
8	Acquisition Adjustments	(16,700)	0	(16,700)	0	(16,700)		
9	Less: Accum. Amort. of Acq. Adjustments	2,505	0	2,505	0	2,505		
10	Less: Advances For Construction		0	0	0	0	A-16	
11	Working Capital Allowance	0	2,324,750	2,324,750	182,368	2,507,119	A-17, A-3	
12	<b>Total Rate Base</b>	<b>17,370,931</b>	<b>2,281,470</b>	<b>19,652,401</b>	<b>1,984,569</b>	<b>21,636,970</b>		

**Schedule of Sewer Rate Base**

Florida Public Service Commission

**AUF Consolidated**  
**Docket No. 100330-WS**  
 Historical Test Year Ending April 30, 2010  
 Historical & Pro Forma

Schedule: A-2  
 Page: 1 of 1  
 Preparer: R J Pasceri

Explanation: Provide the calculation of the average Sewer rate base for the test year, showing all adjustments.  
 All non-used and useful items should be reported as Plant Held For Future Use.

Line No. Description	(1)	Historical Test Year		Pro Forma Test Year		(7) Supporting Schedules	
		Average Balance Per Books	(3) Adjustments	(4) Adjusted Average Balance	(5) Adjustments		(6) Adjusted Average Balance
1 Utility Plant in Service	24,170,299	774,520	24,944,820	1,809,305	26,754,125	A-6	
2 Utility Land & Land Rights	947,243	(87,293)	859,950	0	859,950	A-6	
3 Less: Non-Used & Useful Components	0	(271,642)	(271,642)	(70,219)	(341,861)	A-7	
4 Construction Work in Progress	0	0	0	0	0		
5 Less: Accumulated Depreciation	(10,419,092)	(356,729)	(10,775,821)	47,045	(10,728,776)	A-10	
6 Less: CIAC	(6,075,352)	(118,503)	(6,193,855)	0	(6,193,855)	A-12	
7 Accumulated Amortization of CIAC	3,317,847	118,503	3,436,350	0	3,436,350	A-14	
8 Acquisition Adjustments	(39,102)	0	(39,102)	0	(39,102)		
9 Less: Accum. Amort. of Acq. Adjustments	5,865	0	5,865	0	5,865		
10 Less: Advances For Construction		0	0	0	0	A-16	
11 Working Capital Allowance	0	889,123	889,123	68,983	958,105	A-17, A-3	
12 Total Rate Base	<u>11,907,708</u>	<u>947,980</u>	<u>12,855,688</u>	<u>1,855,114</u>	<u>14,710,801</u>		



Schedule of Water Net Operating Income

Florida Public Service Commission

AUF Consolidated  
 Docket No. 100330-WS  
 Historical Test Year Ending April 30, 2010  
 Historical & Pro Forma

Schedule: B-1  
 Page: 1 of 1  
 Preparer: S Szczygiel

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

(1) Line No.	(2) Description	(3) Per Books Test Year	(4) Utility Test Year Adjustment	(5) Adjusted Test Year	(6) Pro Forma Adjustments	(7) Pro Forma Adjusted	(8) Requested Revenue Adjustment	(9) Requested Annual Revenues	(10) Supporting Schedules
1	OPERATING REVENUES	8,255,666	128,369	8,384,036	0	8,384,036	2,478,492	10,862,528	B-4, E-2
2	Operation & Maintenance	5,635,770	394,981	6,030,751	369,334	6,400,085	36,604	6,436,689	B-5, B-3
3	Depreciation, net of CIAC Amort., U&U	662,939	234,193	897,131	94,802	991,933	0	991,933	B-13, B-3
4	Amortization	3,340	45,003	48,343		48,343	0	48,343	B-3
5	Taxes Other Than Income	973,626	(152,486)	821,140	40,852	861,993	111,532	973,525	B-15, B-3
6	Provision for Income Taxes	378,032	(295,694)	82,337	(209,974)	(127,637)	899,088	771,451	C-1, B-3
7	OPERATING EXPENSES	7,653,707	225,997	7,879,703	295,015	8,174,718	1,047,224	9,221,941	
8	NET OPERATING INCOME	601,960	(97,627)	504,332	(295,015)	209,318	1,431,269	1,640,587	
9	RATE BASE	17,370,931	2,281,470	19,652,401	1,984,569	21,636,970		21,636,970	A-1
10	RATE OF RETURN	3.47%		2.57%		0.97%		7.58%	

**Schedule of Sewer Net Operating Income**

Florida Public Service Commission

**AUF Consolidated**  
**Docket No. 100330-WS**  
 Historical Test Year Ending April 30, 2010  
 Historical & Pro Forma

Schedule: B-2  
 Page: 1 of 1  
 Preparer: S Szczyciel

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Per Books Test Year	(3) Utility Test Year Adjustment	(4) Adjusted Test Year	(5) Pro Forma Adjustments	(6) Pro Forma Adjusted	(7) Requested Revenue Adjustment	(8) Requested Annual Revenues	(9) Supporting Schedules
1	OPERATING REVENUES	4,824,530	225,399	5,049,929	0	5,049,929	1,273,557	6,323,486	B-4, E-2
2	Operation & Maintenance	2,991,749	118,063	3,109,812	127,129	3,236,941	18,809	3,255,749	B-6, B-3
3	Depreciation, net of CIAC Amort., U&U	638,800	90,079	728,678	95,975	824,653	0	824,653	B-14, B-3
4	Amortization	7,820	16,715	24,535		24,535	0	24,535	B-3
5	Taxes Other Than Income	328,443	157,866	486,309	35,901	522,210	57,310	579,520	B-15, B-3
6	Provision for Income Taxes	330,942	(154,489)	176,453	(114,055)	62,399	461,759	524,158	C-1, B-3
7	OPERATING EXPENSES	4,297,554	228,233	4,525,787	144,950	4,670,737	537,878	5,208,615	
8	NET OPERATING INCOME	528,976	(2,834)	524,142	(144,950)	379,191	735,679	1,114,871	
9	RATE BASE	11,907,708	947,980	12,855,688	1,855,114	14,710,801		14,710,801	A-2
10	RATE OF RETURN	4.43%		4.08%		2.58%		7.58%	

## Exhibit 5 – AUF Consolidated Cost of Capital

**Schedule of Requested Cost of Capital**  
 13 Month Average balance  
**AUF Consolidated**  
**Docket No. 100330-WS**  
 Historical Test Year Ending April 30, 2010  
 Historical [ X ] Projected [ ]

**Florida Public Service Commission**

Schedule: D-1  
 Page: 1 of 2  
 Preparer: D Moy Kelly

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Line No.	Reconciled To Test Yr Rate Base	Ratio	Cost Rate	Weighted Cost Rate	Cost	Supporting Schedules
<b>WATER</b>						
1	Long-Term Debt	7,268,686	36.99%	5.10%	1.89%	D-2, D-5
2	Short-Term Debt	0	0.00%		0.00%	D-2
3	Preferred Stock	0	0.00%		0.00%	D-2
4	Common Stock	11,475,129	58.39%	9.67%	5.65%	D-2
5	Customer Deposits	36,786	0.19%	6.00%	0.01%	D-2
6	Accumulated Deferred Income Taxes	871,800	4.44%	0.00%	0.00%	D-2
7						
8	Total	<u>19,652,401</u>	<u>100.00%</u>		<u>7.55%</u>	
<b>SEWER</b>						
9	Long-Term Debt	4,747,593	36.93%	5.10%	1.89%	D-2
10	Short-Term Debt	0	0.00%	0.00%	0.00%	D-2
11	Preferred Stock	0	0.00%	0.00%	0.00%	D-2
12	Common Stock	7,495,060	58.30%	9.67%	5.64%	D-2
13	Customer Deposits	13,915	0.11%	6.00%	0.01%	D-2
14	Accumulated Deferred Income Taxes	599,120	4.66%	0.00%	0.00%	D-2
15						
16	Total	<u>12,855,688</u>	<u>100.00%</u>		<u>7.53%</u>	
<b>COMPOSITE WATER &amp; SEWER</b>						
17	Long-Term Debt	12,016,278	36.96%	5.10%	1.89%	613,346
18	Short-Term Debt	0	0.00%	0.00%	0.00%	0
19	Preferred Stock	0	0.00%	0.00%	0.00%	0
20	Common Stock	18,970,189	58.36%	9.67%	5.65%	1,835,353
21	Customer Deposits	50,700	0.16%	6.00%	0.01%	3,042
22	Accumulated Deferred Income Taxes	1,470,921	4.52%	0.00%	0.00%	0
23						
24	Total	<u>32,508,089</u>	<u>100.00%</u>		<u>7.54%</u>	<u>2,451,741</u>