

State of Florida



Public Service Commission

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

Auditor's Report

Aqua Utilities Florida, Inc./Jumper Creek Utility Company
Application for Transfer of Certificate
Certificate Nos. 507-W and 441-S

As of March 28, 2013

Docket No. 130176-WS
Audit Control No. 13-199-2-4

September 16, 2013

A blue ink signature of Tomer Kopelovich.

Tomer Kopelovich
Audit Manager

A blue ink signature of Linda Hill-Slaughter.

Linda Hill-Slaughter
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 12, 2013. We have applied these procedures to the attached schedules prepared by the audit staff in support of Aqua Utilities Florida, Inc./Jumper Creek Utility Company's request for a Transfer of Certificate in Docket No.130176-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 Jumper Creek Utility Company (JCUC).

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.

Docket No.	Docket Detail
130171-WS	Transfer of Certificate of certain AUF systems in Sumter County to The Woods Utility Company. (Certificate Nos. 507-W and 441-S)
130172-WS	Transfer of Certificate of certain AUF systems in Washington County to Sunny Hills Utility Company. (Certificate Nos. 501-W and 435-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)

AUF and JCUC executed an asset purchase agreement for the following AUF system in Sumter County, Florida, on March 19, 2013, for \$22,240. The agreement was finalized in a “Bill of Sale” dated March 28, 2013, which is deemed the official date of transfer.

<u>System Name</u>	<u>Water Customers</u>	<u>Wastewater Customers</u>
Jumper Creek Utility Company	45	45

General

Objectives: The objectives were to establish a net book value for Jumper Creek Utility Company 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 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.

16 **Procedures:** We reconciled the beginning balances for water and wastewater UPIS as of December 31, 2007, established in Docket No. 100114-WS with the Seller's books and records. We scheduled water and wastewater UPIS activity from January 1, 2008, through March 28, 2013. We sampled and traced selected asset additions and retirements to supporting documentation. We determined the UPIS transfer balance for the Utility 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.

17 **Procedures:** We reconciled the beginning balances for water and wastewater land as of December 31, 2007, reaffirmed in Docket No. 100114-WS, with the Seller's books and records. We searched the Sumter County Clerk of the Courts' official records to verify the transfer of utility land from AUF to the Utility. We inquired and searched for additional activity related to utility land and none was found. We determined the land transfer balances for the Utility as of March 28, 2013. 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, (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.

22

Procedures: We reconciled the beginning balances for water and wastewater Accumulated Depreciation as of December 31, 2007, established in Docket No. 100114-WS, with the Seller’s books and records. We sampled and recalculated depreciation accruals for selected UPIS accounts to verify that the correct depreciation rates were used. We traced a sample of Accumulated Depreciation retirements to corresponding UPIS retirements and verified that retirements were made when a capital asset was removed or replaced. We determined the Accumulated Depreciation transfer balance for the Utility as of March 28, 2013. 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 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

20

Procedures: We reconciled the beginning balances for water and wastewater CIAC as of December 31, 2007, established in Docket No. 100114-WS, with the Seller’s books and records. We scanned the Sellers records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the specific system’s approved tariff. We determined the CIAC transfer balances for the Utility 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 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.

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Procedures: We reconciled the beginning balances for water and wastewater Accumulated Amortization of CIAC as of December 31, 2007, established in Docket No. 100114-WS, with the Seller’s books and records. We sampled and 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 the Utility as of March 28, 2013. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 1.

Other

Rates and Charges

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

42 **Procedures:** We obtained the Utility's June 2013 billing register. We recalculated a sample of the customer bills for the Utility using the approved water and wastewater tariffs. No exceptions were noted.

Customer Deposits

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

35 **Procedures:** We inquired about customer deposits and that AUF refunded customer deposits prior to transfer per the terms of the asset purchase agreement.

Utility Books and Records

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

12 **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 are in compliance with the NARUC USOA. No exceptions were noted.

Audit Findings

Finding 1: March Depreciation and Amortization Accruals

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

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

Our summarized adjustment for Accumulated Depreciation and Accumulated Amortization of CIAC is displayed below. The summary adjustments by NARUC account are included in Tables 1 and 2 for Accumulated Depreciation and Table 3 for Accumulated Amortization of CIAC.

Table 1

Water			
Balance Per Books @ 02/28//13	Balance Per Books@ 03/28/13	March 2013 Dep. Accruals	Audit Adj. Balance 03/28/13
\$119,911	\$119,911	\$1,598	\$121,508
Wastewater			
Balance Per Books @ 02/28//13	Balance Per Books @ 03/28/13	March 2013 Dep. Accruals	Audit Adj. Balance 03/28/13
\$100,925	\$100,925	\$1,328	\$102,253

Table 2

Acct. No.	Description	Depr Rates	Amount
304.2	Structures & Improvements	0.00%	\$0
304.3	Structures & Improvements	3.13%	17
307.2	Wells & Springs	3.33%	165
310.2	Power Generation Equipment	5.00%	8
311.2	Pumping Equipment	5.00%	18
320.3	Water Treatment Equipment	4.55%	1,045
331.4	Transmission & Distribution	2.33%	165
333.4	Services	2.50%	81
334.4	Meters	5.00%	48
335.4	Hydrants	2.22%	<u>50</u>
Total			<u>\$1,598</u>
Acct. No.	Description	Dep. Rates	Amount
354.2	Structures & Improvements	3.13%	\$21
354.3	Structures & Improvements	0.00%	0
360.2	Collection - Force	3.33%	91
361.2	Collection - Gravity	2.22%	155
362.2	Special Collecting Structure	2.50%	114
371.3	Pumping Equipment	5.56%	234
380.4	Treatment & Disposal Equip	5.56%	<u>733</u>
Total			<u>\$1,328</u>

Table 3

Water					
Acct No.	Acct Description	Amt. 2/1/13	Amort. Rates	Amortization	Amt. 3/1/13
331.4	T&D Mains	(\$14,017)	2.33%	(\$165)	(\$14,182)
333.4	Services	(6,885)	2.50%	(81)	(6,966)
334.4	Meters	(1,364)	5.00%	(26)	(1,389)
335.4	Hydrants	(4,243)	2.22%	(50)	(4,293)
Total		(\$26,509)		(\$322)	(\$26,830)
Wastewater					
Acct No.	Acct Description	Amt. 2/1/13	Amor.t Rates	Amortization	Amt. 3/1/13
360.2	Collection Force	(\$10,165)	3.33%	(\$91)	(\$10,256)
361.2	Collection Gravity	(9,718)	2.22%	(155)	(9,873)
362.2	Special Collection Structure	(9,084)	2.50%	(114)	(9,197)
371.3	Pumping Equipment	(18,414)	5.56%	(234)	(18,648)
Total		(\$47,381)		(\$594)	(\$47,975)

Effect on the General Ledger: The following adjustments are needed to the general ledger as of 3/28/13.

Water

<u>Acct No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
104.00	Utility Plant Purchased or Sold	\$1,598	
108.00	Accumulated Depreciation		\$1,598
To adjust account for Accumulated Depreciation for water for one month.			

Wastewater

<u>Acct No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
104.00	Utility Plant Purchased or Sold	\$1,328	
108.00	Accumulated Depreciation		\$1,328
To adjust account for Accumulated Depreciation for wastewater for one month.			

Water			
Acct No.	Acct Description	Debit	Credit
104	Utility Plant Purchased or Sold	\$322	
272	Accumulated Amortization CIAC		\$322
To adjust account for Accumulated Amortization CIAC for water for one month.			
Wastewater			
Acct No.	Acct Description	Debit	Credit
108	Utility Plant Purchased or Sold	\$594	
272	Accumulated Amortization CIAC		\$594
To adjust account for Accumulated Amortization CIAC for wastewater for one month.			

Effect on the Filing: None

Exhibit

Exhibit 1: Net Book Value – Jumper Creek Utility Company

Jumper Creek Utility Company

As of March 28, 2013

<u>Water</u>	<u>Utility Balance</u>	<u>Adjustment</u>	<u>Audit Balance</u>
Plant	\$510,770	\$0	\$510,770
Land	2,272	-	2,272
Accumulated Depreciation	(119,911)	(1,598)	(121,509)
CIAC	(157,236)	-	(157,236)
Accumulated Amortization - CIAC	26,509	322	26,831
TOTAL	\$ 262,404	\$ (1,276)	\$ 261,128

<u>Wastewater</u>	<u>Utility Balance</u>	<u>Adjustment</u>	<u>Audit Balance</u>
Plant	\$406,924	\$0	\$406,924
Land	275	-	275
Accumulated Depreciation	(100,925)	(1,328)	(102,253)
CIAC	(221,828)	-	(221,828)
Accumulated Amortization - CIAC	47,381	594	47,975
TOTAL	\$131,827	(\$734)	\$131,093