

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Aqua Utilities Florida, Inc./Brevard Waterworks, Inc.  
Transfer of Certificate  
Certificate No.002-W

**As of March 28, 2013**

Docket No. 130174-WU  
Audit Control No. 13-199-4-2  
**September 25, 2013**

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Gabriela M. Leon  
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Kathy Welch  
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./Brevard Waterworks, Inc.'s request for a Transfer of Certificate in Docket No. 130174-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/Utility refers to Brevard Waterworks, Inc. (BW).

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)
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 No. 53-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 BW executed an asset purchase agreement for the following AUF systems in Brevard County, Florida, on March 19, 2013, for \$62,560.00. 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>
Brevard Waterworks Inc. (BW)	243

## **General**

**Objectives:** The objectives were to establish a net book value for BW water system 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.

**Procedures:** We reconciled the beginning balances for water UPIS as of April 30, 2010, established in Docket No. 100330-WS, with the Seller's books and records. We scheduled water 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 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 land as of April 30, 2010, reaffirmed in Docket No. 100330-WS, with the Seller's books and records. We searched the Brevard County Clerk of the Courts' official records to verify the transfer of utility land from AUF to BW. We inquired and searched for additional activity related to utility land and none was found. We determined the land transfer balances 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.

**Procedures:** We reconciled the beginning balances for water Accumulated Depreciation as of April 30, 2010, established in Docket No. 100330-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 balances 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.

**Procedures:** We reconciled the beginning balances for water CIAC as of April 30, 2010, established in Docket No. 100330-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 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.

**Procedures:** We reconciled the beginning balances for water Accumulated Amortization of CIAC as of April 30, 2010, established in Docket No. 100330-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 as of March 28, 2013. Our recommended adjustment to Accumulated Amortization of CIAC are discussed in Finding 1.

### **Other**

#### Rates and Charges

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

**Procedures:** We obtained the Utility's June 2013 billing register. We recalculated a sample of the customer bills using the approved water tariff. No exceptions were found.

#### 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 BW at closing. We verified that AUF refunded customer deposits prior to transfer per the terms of the asset purchase 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 that the Utility's books and records are in compliance with the NARUC USOA. No exceptions were found.

## Audit Findings

### **Finding 1: March Depreciation and Amortization Accrual**

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

We have included one month of accumulated depreciation accruals for each system. The calculations are shown on the following page.

Accumulated Depreciation should be increased by \$66.80 for Kingswood and by \$259.84 for Oakwood. Accumulated Amortization of CIAC for Kingswood should be increase by \$.91 and by \$28.95 for Oakwood.

**Effect on the General Ledger:** The effect on the general ledger will be as follows:

#### **KINGSWOOD**

Account Number	Description	Debit	Credit
272	Transmission and Distribution - Accum. Amort. of CIAC	\$ 0.26	
272	Meters and Meter Installation - Accum. Amort. of CIAC	\$ 0.65	
108	Franchise Costs - Accum. Dep.		\$ 1.17
108	Transmission & Distribution Mainss - Accum. Dep.		\$ 13.75
108	Serviceess - Accum. Dep.		\$ 1.20
108	Meter and Meter Installationss - Accum. Dep.		\$ 50.68
104	Utility Plant Purchased or Sold	\$ 65.89	
<b>Total</b>		<b>\$ 66.80</b>	<b>\$ 66.80</b>

#### **OAKWOOD**

Account Number	Description	Debit	Credit
272	Water Treatment Equipment - Accum. Amort. of CIAC	\$ 17.50	
272	Transmission & Distribution Mains - Accum. Amort. of CIAC	\$ 8.75	
272	Services - Accum. Amort. of CIAC	\$ 0.70	
272	Meters & Meter Installations - Accum. Amort. of CIAC	\$ 2.00	
108	Franchise Cost - Accum. Dep.		\$ 1.13
108	Structures and Improvements - Accum. Dep.		\$ 13.88
108	Transmission & Distribution Mains - Accum. Dep.		\$ 27.95
108	Services - Accum. Dep.		\$ 23.06
108	Meters and Meter Installations - Accum. Dep.		\$ 164.02
108	Backflow Prevention Devices - Accum. Dep.		\$ 29.80
104	Utility Plant Purchased or Sold	\$ 230.89	
<b>Total</b>		<b>\$ 259.84</b>	<b>\$ 259.84</b>

**Effect on the Filing:** A rate base schedule was not included in the filing.

### Depreciation Expense March 2013

#### KINGSWOOD

Account Description	Plant Balance	Plant Additions	Depreciation Rate	Depreciation Expense	Utility's Accumulated Depreciation 2/28/2013	Adjusted Accumulated Depreciation 3/28/2013
302.1 Franchise Cost	\$ 563.00	\$ -	2.50%	\$ 1.17	\$ (404.00)	\$ (405.17)
331.4 Transmission & Distribution Mains	\$ 7,081.00	\$ -	2.33%	\$ 13.75	\$ (1,876.00)	\$ (1,889.75)
333.4 Services	\$ 575.00	\$ -	2.50%	\$ 1.20	\$ (273.00)	\$ (274.20)
334.4 Meter and Meter Installations	\$ 12,163.00	\$ -	5.00%	\$ 50.68	\$ (2,263.00)	\$ (2,313.68)
<b>Total</b>	<b>\$ 20,382.00</b>	<b>\$ -</b>		<b>\$ 66.80</b>	<b>\$ (4,816.00)</b>	<b>\$ (4,882.80)</b>

#### OAKWOOD

Account Description	Plant Balance	Plant Additions	Depreciation Rate	Depreciation Expense	Utility's Accumulated Depreciation 2/28/2013	Adjusted Accumulated Depreciation 3/28/2013
302.1 Franchise Cost	\$ 542.00	\$ -	2.50%	\$ 1.13	\$ (317.00)	\$ (318.13)
304.3 Structures and Improvements	\$ 5,320.00	\$ -	3.13%	\$ 13.88	\$ (1,223.53)	\$ (1,237.41)
331.4 Transmission & Distribution Mains	\$ 14,305.00	\$ 184.00	2.33%	\$ 27.95	\$ (8,225.86)	\$ (8,253.81)
333.4 Services	\$ 11,069.00	\$ -	2.50%	\$ 23.06	\$ (5,423.02)	\$ (5,446.08)
334.4 Meters and Meter Installations	\$ 39,365.00	\$ -	5.00%	\$ 164.02	\$ (10,333.56)	\$ (10,497.58)
336.4 Backflow Prevention Devices	\$ 5,362.00	\$ -	6.67%	\$ 29.80	\$ (744.75)	\$ (774.55)
<b>Total</b>	<b>\$ 75,963.00</b>	<b>\$ 184.00</b>		<b>\$ 259.84</b>	<b>\$ (26,267.72)</b>	<b>\$ (26,527.56)</b>

**Amortization of CIAC March 2013**

**KINGSWOOD -CIAC**

<b>Account Description</b>	<b>CIAC Balance</b>	<b>Amortization Rate</b>	<b>Amortization Expense</b>	<b>Utility's Accumulated Amortization 2/28/2013</b>	<b>Adjusted Accumulated Amortization 3/28/2013</b>
271 Transmission and Distribution - CIAC	\$ (133.00)	2.33%	\$ (0.26)	\$ 17.00	\$ 17.26
271 Meters and Meter Installation - CIAC	\$ (156.00)	5.00%	\$ (0.65)	\$ 71.00	\$ 71.65
<b>Total</b>	<b>\$ (289.00)</b>		<b>\$ (0.91)</b>	<b>\$ 88.00</b>	<b>\$ 88.91</b>

**OAKWOOD-CIAC**

<b>Account Description</b>	<b>CIAC Balance</b>	<b>Amortization Rate</b>	<b>Amortization Expense</b>	<b>Utility's Accumulated Depreciation 2/28/2013</b>	<b>Adjusted Accumulated Depreciation 3/28/2013</b>
271 Water Treatment Equipment - CIAC	\$ (2,100.00)	10.00%	\$ (17.50)	\$ 1,196.00	\$ 1,213.50
271 Transmission & Distribution Mains - CIAC	\$ (4,505.00)	2.33%	\$ (8.75)	\$ 27.00	\$ 35.75
271 Services - CIAC	\$ (429.00)	2.50%	\$ (0.70)	\$ 61.00	\$ 61.70
271 Meters & Meter Installations -CIAC	\$ (480.00)	5.00%	\$ (2.00)	\$ 105.00	\$ 107.00
<b>Total</b>	<b>\$ (7,514.00)</b>		<b>\$ (28.95)</b>	<b>\$ 1,389.00</b>	<b>\$ 1,417.95</b>

## Exhibits

### Exhibit 1: Net Book Value – Brevard Waterworks, Inc.

#### Brevard Waterworks, Inc.

As of March 28, 2013

Utility Plant in Service	\$	20,382.93	\$	-	\$	20,382.93
Land and Land Rights	\$	1,058.00	\$	-	\$	1,058.00
Accumulated Depreciation	\$	(4,816.31)	\$	(66.80)	\$	(4,883.11)
Contributions in Aid of Construction (CIAC)	\$	(288.79)	\$	-	\$	(288.79)
Accumulated Amortization of CIAC	\$	87.46	\$	0.91	\$	88.37
<b>Net Book Value</b>	<b>\$</b>	<b>16,423.29</b>	<b>\$</b>	<b>(65.89)</b>	<b>\$</b>	<b>16,357.40</b>

#### OAKWOOD

Description	Utility Balance	Adjustment	Audit Balance
Utility Plant in Service	\$ 76,147.52	\$ -	\$ 76,147.52
Land and Land Rights	\$ 1,708.00	\$ -	\$ 1,708.00
Accumulated Depreciation	\$ (26,267.72)	\$ (259.84)	\$ (26,527.56)
Contributions in Aid of Construction (CIAC)	\$ (7,513.60)	\$ -	\$ (7,513.60)
Accumulated Amortization of CIAC	\$ 1,388.31	\$ 28.95	\$ 1,417.26
<b>Net Book Value</b>	<b>\$ 45,462.51</b>	<b>\$ (230.89)</b>	<b>\$ 45,231.62</b>