

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./Lake Osborne Waterworks, Inc.
Transfer of Certificate
Certificate No. 053-W

As of March 28, 2013

Docket No. 130173-WU
Audit Control No. 13-199-4-1
September 25, 2013

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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./Lake Osborne Waterworks, Inc.'s request for a Transfer of Certificate in Docket No. 130173-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 Lake Osborne Waterworks, Inc. (LOW).

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)
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 LOW executed an asset purchase agreement for the following AUF systems in Palm Beach County, Florida, on March 19, 2013, for \$119,231.55. 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>
Lake Osborne (LOW)	462

General

Objectives: The objectives were to establish a net book value for LOW 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 Palm Beach County Clerk of the Courts' official records to verify the transfer of utility land from AUF to LOW. 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 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 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 and wastewater 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 adjustments to Accumulated Amortization 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 LOW 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 reviewed AUF records and determined that there was no UPIS activity for March 2013. Therefore, we have included one month of accumulated depreciation accruals for each system based on AUF depreciation accruals in February 2013. The calculations are shown on the following page.

Accumulated Depreciation should be increased by \$726.55 and Accumulated Amortization of CIAC by \$40.46.

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

Account Number	Description	Debit	Credit
108	Organization Acc. Amt		\$ 1.81
108	Supply Mains Acc. Dep.		\$ 4.05
108	Transmission & Distribution Mains Acc. Dep.		\$ 239.00
108	Services Acc. Dep.		\$ 15.69
108	Meters and Meter Installations Acc. Dep.		\$ 430.71
108	Hydrants Acc. Dep.		\$ 19.54
108	Other Plant and Miscellaneous Equip Acc. Dep.		\$ 15.96
108	Office Furniture & Equipment Acc. Dep.	\$ 0.21	
272	Transmission & Distribution Mains CIAC Acc. Amt.	\$ 40.46	
104	Utility Plant Purchased or Sold	\$ 686.09	

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

Depreciation Expense March 2013

NARUC	Description	Plant Balance	Monthly Rate	Depreciation Expense	Utility's Accumulated Depreciation 2/28/2013	Adjusted Accumulated Depreciation 3/28/2013
301.1	Organization	\$ 870.00	0.21%	\$ 1.81	\$ (314.00)	\$ (315.81)
309.2	Supply Mains	\$ 1,700.00	0.24%	\$ 4.05	\$ (701.00)	\$ (705.05)
331.4	Transmission & Distribution Mains	\$ 123,325.56	0.19%	\$ 239.00	\$ (103,287.00)	\$ (103,526.00)
333.4	Services	\$ 7,532.57	0.21%	\$ 15.69	\$ (386.89)	\$ (402.58)
334.4	Meters and Meter Installations	\$ 103,369.86	0.42%	\$ 430.71	\$ (19,310.72)	\$ (19,741.43)
335.4	Hydrants	\$ 10,550.03	0.19%	\$ 19.54	\$ (2,120.00)	\$ (2,139.54)
339.1	Other Miscellaneous Equipment	\$ 13,806.00	0.46%	\$ -	\$ (17,553.00)	\$ (17,553.00) (A)
339.4	Other Plant and Miscellaneous Equip	\$ 4,787.00	0.33%	\$ 15.96	\$ (622.44)	\$ (638.40)
340.5	Office Furniture & Equipment	\$ (37.00)	0.56%	\$ (0.21)	\$ (63.00)	\$ (62.79)
Total		\$ 265,904.02		\$ 726.55	\$ (144,358.05)	\$ (145,084.60)

Note A: Account 339.1 is fully depreciated.

Amortization of CIAC March 2013

NARUC	Description	CIAC Balance	Monthly Rate	Amortization Expense	Accum. Amtz. Of CIAC	Adjusted Accum. Amtz. Of CIAC
331.4	Transmission & Distribution Mains	\$ (20,878.89)	0.19%	\$ (40.46)	\$ 20,327.00	\$ 20,367.46
334.4	Meters and Meter Installations	\$ (150.00)	0.42%	\$ -	\$ 150.00	\$ 150.00 (B)
Total		\$ (21,028.89)		\$ (40.46)	\$ 20,477.00	\$ 20,517.46

Note (B): Account 334.4 is fully depreciated.

Exhibits

Exhibit 1: Net Book Value – Lake Osborne Waterworks, Inc.

Lake Osborne Waterworks, Inc.

As of March 28, 2013

Description	Utility Balance	Adjustment	Audit Balance
Utility Plant in Service	\$ 265,904.02	\$ -	\$ 265,904.02
Land and Land Rights	\$ -	\$ -	\$ -
Accumulated Depreciation	\$ (144,357.41)	\$ (726.55)	\$ (145,083.96)
Contributions in Aid of Construction (CIAC)	\$ (21,028.89)	\$ -	\$ (21,029.00)
Accumulated Amortization of CIAC	\$ 20,572.36	\$ 40.46	\$ 20,612.82
Net Book Value	\$ 121,090.08	\$ (686.09)	\$ 120,403.88