

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** June 29, 2021

**TO:** Office of Commission Clerk *PM by AA*

**FROM:** Dale Mailhot, Director, Office of Auditing and Performance Analysis

**RE:** Docket No.: 20210055-WU  
Company Name: Brendenwood Waterworks, Inc.  
Company Code: WU968  
Audit Purpose: A1b Staff-Assisted Rate Case  
Audit Control No.: 2021-104-1-1

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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 are no confidential work papers associated with this audit.

/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



## Public Service Commission

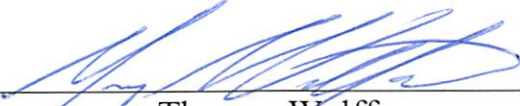
Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

### Auditor's Report

Brendenwood Waterworks, Inc.  
Staff-Assisted Rate Case

**Twelve Months Ended December 31, 2020**

Docket No. 20210055-WU  
Audit Control No. 2021-104-1-1  
**June 25, 2021**

  
\_\_\_\_\_  
Thomas Wolff  
Audit Manager

  
\_\_\_\_\_  
Marisa Glover  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated April 15, 2021. We have applied these procedures to the attached schedules prepared by the audit staff in support of Brendenwood Waterworks, Inc.'s request for a Staff-Assisted Rate Case in Docket No. 20210055-WU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

BWW/Utility refers to Brendenwood Waterworks, Inc..

The test year for this instant proceeding is the historical twelve months ended December 31, 2020.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115 – Uniform Systems of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

#### Background

Brendenwood Waterworks, Inc. is a Class C utility serving approximately 57 water customers in Lake County. Brendenwood is owned by Gary Deremer. The service area is located in the St. Johns River Water Management District and is in a water resource caution area.

Certificate No. 339-W was transferred from Brendenwood Utilities, LLC, to Brendenwood Waterworks, Inc. per Commission Order PSC-2014-0691-PAA-WU. The Utility's net book value (NBV) for transfer purposes was updated to reflect balances as of May 23, 2014.

The Utility files an 1120S Federal Tax Return, and is a Subchapter S Corporation.

#### 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 the Utility's accounting system by examining the records provided for this proceeding and compared them to the NARUC USOA. No exceptions were noted.

### **Rate Base**

#### 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 into 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 UPIS, as of May 23, 2014 from Order No. PSC-2014-0691-PAA-WU to the general ledger. We scheduled UPIS activity from May 23, 2014 to December 31, 2020. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the simple

average and year-end balances as of December 31, 2020. Finding 1 discusses our recommended adjustments to Utility Plant in Service.

### Land & Land Rights

**Objectives:** The objectives were to determine whether the 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 case proceeding were recorded in its books and records.

**Procedures:** We reconciled the beginning balances for land, as of May 23, 2014, to the general ledger. Commission Order No. PSC-2014-0691-PAA-WU established the value of the land for the Utility. There were no additions to land from May 23, 2014 to December 31, 2020. We determined the simple average and year-end balances as of December 31, 2020. No further work performed.

### 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 in its books and records.

**Procedures:** We reconciled the beginning balances for accumulated depreciation, as of May 23, 2014 from Order No. PSC-2014-0691-PAA-WU to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from May 23, 2014 to December 31, 2020. We determined the simple average and year-end balances as of December 31, 2020. Finding 1 discusses our recommended adjustments to accumulated depreciation.

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

**Procedures:** We determined our beginning balance of (\$1,577) from Order No. PSC-2014-0691-PAA-WU issued December 15, 2014. We noted the Utility did not have CIAC activity from May 23, 2014 to December 31, 2020. We also note that the Utility does not have a tariff for Service Availability. No further work performed.

### 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 determined our beginning balance of \$1,577 for AA of CIAC from Order No. PSC-2014-0691-PAA-SU, issued December 15, 2014. We noted the Utility did not have AA CIAC activity from May 23, 2014 to December 31, 2020. Therefore, the balance of AA of CIAC is \$1,577 as of December 31, 2020. No further work performed.

### Working Capital

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

**Procedures:** We calculated the Utility's working capital balance as of December 31, 2020 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 3 discusses our recommended adjustment to working capital.

### **Capital Structure**

**Objectives:** The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

**Procedures:** We determined that the Utility's capital structure consists of Common Equity. We noted the utility does have a tariff for customer deposits, but does not collect customer deposits. We determined the year-end Capital Structure balance and its weighted average cost as of December 31, 2020. No further work performed.

### **Net Operating Income**

#### Operating Revenue

**Objectives:** The objectives were to determine whether revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

**Procedures:** We determined individual customer consumption for the test year ended December 31, 2020, using the Utility's monthly customer billings. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the general ledger. We determined whether the Utility is charging its authorized tariff rates. We also determined the number of miscellaneous service charges by type. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the number we determined and traced the amounts to the general ledger. Finding 2 discusses our recommended adjustment to operating revenues.

#### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether operation and maintenance expenses (O&M) are: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

**Procedures:** We reviewed the invoices provided in support of the Utility's O&M expenses for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Finding 3 discusses our recommended adjustments to O&M expense.

#### Depreciation Expense

**Objectives:** The objectives were to determine whether the Utility's depreciation expense is properly calculated using the Commission authorized rates.

**Procedures:** We calculated depreciation expense for the test year using the rates established by Rule 25-30.140, F.A.C. Finding 1 discusses our recommended adjustments to depreciation expense.

#### Taxes Other than Income

**Objectives:** The objectives were to determine whether taxes other than income expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with NARUC USOA.

**Procedures:** We scheduled TOTI based on documentation provided by the Utility. We included property taxes and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. We recalculated RAFs using the approved RAF rate and the audited revenue balances. Finding 4 discusses our recommended adjustments to TOTI.



## Audit Findings

### **Finding 1: Accumulated Depreciation and Depreciation Expense**

**Audit Analysis:** According to the Utility’s general ledger, the accumulated depreciation balance was \$14,304 as of December 31, 2020. We scheduled accumulated depreciation from May 23, 2014 to December 31, 2020. Audit staff recalculated accumulated depreciation using the audited UPIS plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. The Utility calculates their accumulated depreciation as a cumulative amount of all their accounts, not by separate account. Due to this, Audit staff used the approved balances in Order No. PSC-2014-0691-PAA-WU to determine the breakdown of their depreciation by account. We determined that the accumulated depreciation year-end balance is \$15,977 and the simple average is \$14,945 as shown in Table 1-1.

**Table 1-1**

Account - Description	Utility Balance		Audit Balance	
	Accum Dep	Audit	Accum Dep	Simple
	12/31/2020	Adjustments	12/31/2020	Average
301 Organization	\$ -	\$ 583	\$ 583	\$ 549
304 Structures & Improvements	-	5,134	5,134	4,905
311 Pumping Equip.	-	4,594	4,594	4,026
320 Water Treatment Equip.	-	3,600	3,600	3,534
331 Transmission and Distribution Mains	-	81	81	54
333 Services	-	771	771	684
334 Meters and Meter Install.	-	542	542	560
340 Office Furniture & Equip.	-	672	672	634
<b>Total:</b>	<b>\$ 14,304</b>	<b>\$ 1,673</b>	<b>\$ 15,977</b>	<b>\$ 14,945</b>

According to the Utility’s general ledger, the depreciation expense was \$2,096 for the twelve months ended December 31, 2020. The Utility calculates their depreciation expense as a cumulative amount of all their accounts, not by separate account. We determined that the depreciation expense should be \$2,228 as shown in Table 1-2.

**Table 1-2**

Account - Description	Utility Balance		Audit Balance	
	Depreciation Expense	Audit	Depreciation Expense	
	12/31/2020	Adjustments	12/31/2020	
301 Organization	\$ -	\$ 69	\$ 69	
304 Structures & Improvements	-	458	458	
311 Pumping Equip.	-	1,135	1,135	
320 Water Treatment Equip.	-	133	133	
331 Transmission and Distribution Mains	-	54	54	
333 Services	-	173	173	
334 Meters and Meter Install.	-	128	128	
340 Office Furniture & Equip.	-	77	77	
<b>Total:</b>	<b>\$ 2,096</b>	<b>\$ 133</b>	<b>\$ 2,228</b>	

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Audit staff determined the year-end balances for accumulated depreciation should be increased by \$1,673, as of December 31, 2020 and the simple average is \$14,945. We also determined the depreciation expense should be increased by \$133 for the test year.

## Finding 2: Operating Revenue

**Audit Analysis:** Brendenwood Waterworks, Inc. used the approved tariff rates to charge their residential customers, all of which have 5/8” meters. The Utility has only one general service customer, which also has a 5/8” meter. The Base Facility Charge is \$13.71 for 5/8” meters for both residential and general service customers. The gallonage charge for Residential customers has three levels, the first level is capped at 5,000 gallons (Kgals), the second level capped at 10,000 gallons, and the third level is for over 10,000 gallons, each with their own approved tariff rates. The tariff rates for the first level is \$1.87/Kgals, the second level is \$2.08/Kgals, and the final level is \$4.16/Kgals. The utility charges the tariff rate on Kgals accrued at each level, dependent on the usage by the customer.

The Utility’s operating revenue amount was \$28,510 for the twelve months ended December 31, 2020. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register times the most current Commission approved tariff rate. We determined operating revenue to be \$29,940 as shown in Table 2-1. There are approved miscellaneous service fees, and the utility charged them correctly.

**Table 2-1**

NARUC	Description	Utility Balance 12/31/2020	Audit Adjustments	Audit Balance 12/31/2020
461.1	Residential Revenues	\$ 27,693	1,427	\$ 29,120
461.2	Commercial Revenues	\$ 258	3	261
		<b>\$ 27,951</b>	<b>\$ 1,430</b>	<b>\$ 29,381</b>
471	Other Water Revenues	\$ 559	-	\$ 559
		<b>\$ 559</b>	<b>\$ -</b>	<b>\$ 559</b>
	<b>Grand Total</b>	<b>\$ 28,510</b>	<b>\$ 1,430</b>	<b>\$ 29,940</b>

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Operating revenue should be increased by \$1,430 for the test year. The fall out effect on TOTI (RAF) is an increase of \$64.

### Finding 3: Operations and Maintenance Expense and Working Capital

**Audit Analysis:** Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were utility related. Our recommended adjustments are shown in Table 3-1.

**Table 3-1**

Description	NARUC Acct.	Per Utility GL as of December 31, 2020	Audit Adjustment	Per Audit as of December 31, 2020
Salaries & Wages - Officers	603	2,650	-	2,650
Purchased Power	615	1,878	-	1,878
Chemicals	618	182	-	182
Accounting Fees	632	400	-	400
Legal Fees	633	300	-	300
Testing	635	31	-	31
Contractual Services - Other	636	19,965	-	19,965
Insurance Expense	657	1,184	75	1,259
Bad Debt Expense	670	388	-	388
Miscellaneous Expense Other	675	650	-	650
Trans. & Dist Exp - Operations	675.5	42	-	42
Total Utility Expenses		\$ 27,669	\$ 75	\$ 27,744
			Working Capital:	\$ 3,468

Based on supporting documentation, we recommend the following adjustments.

- Account 657 – Insurance Expense. We reviewed contract and determined amount for insurance expense to be \$1,259, not \$1,184, as of December 31, 2020.

**Effect on the General Ledger:** The utility should determine the effect on the general ledger.

**Effect on the Filing:** Audit staff determined the O&M expense to be \$27,744. Working capital was calculated to 1/8 of O&M to be \$3,468 for the test year ended December 31, 2020.

## Finding 4: Taxes Other than Income

**Audit Analysis:** According to the Utility's general ledger, the TOTI balance was \$1,933 for the twelve months ended December 31, 2020. Audit staff determined that the TOTI balance amount should be \$1,866, as shown in Table 4-1.

**Table 4-1**

Description	Per Utility 12/31/2020	Audit Adjustments	Per Audit 12/31/2020
Property Tax	\$ 650	\$ (131)	\$ 519
Regulatory Assessment Fees (RAF)	\$ 1,283	\$ 64	\$ 1,347
Other	\$ -	\$ -	\$ -
Total	\$ 1,933	\$ (67)	\$ 1,866

Based on review of the supporting documentation, we recommend the following adjustment:

- Regulatory Assessment Fees (RAF). Should be increased by \$64 based on the audited operating revenue balance.
- Property Tax. Should be decreased by \$131 to based on audited amounts paid in 2020.

**Effect on the General Ledger:** The Utility should determine the effect of the general ledger.

**Effect on the Filing:** Audit Staff determined the TOTI to be \$1,866 for the test year ended December 31, 2020.

Exhibits

**Exhibit 1: Rate Base**

<b>BRENDENWOOD WATERWORKS, INC</b> <b>STAFF-ASSISTED RATE CASE</b> <b>DOCKET NO. 20210005-WU; A.C.N. 2021-104-1-1</b> <b>SCHEDULE OF WATER RATE BASE</b> <b>AS OF DECEMBER 31, 2020</b>					
Description	Utility 12/31/2020	Audit Adjustments	Audit Finding	Audit 12/31/2020	Simple Average
Utility Plant in Service	\$ 48,200	\$ (2)	NOTE	\$ 48,198	\$ 48,171
Land	1,100	-		1,100	1,100
Accumulated Depreciation	(14,304)	(1,673)	1	(15,977)	(14,945)
Contributions in Aid of Construction	(1,577)	-		(1,577)	(1,577)
Accumulated Amortization of CIAC	1,577	-		1,577	1,577
Working Capital Allowance:	-	3,468	3	3,468	3,468
<b>RATE BASE</b>	<b>\$ 34,995</b>	<b>\$ 1,793</b>		<b>\$ 36,789</b>	<b>\$ 37,794</b>

Note: Immaterial Variance in UPIS due to rounding, accepting balance. TW

**Exhibit 2: Capital Structure**

**BRENDENWOOD WATERWORKS, INC.**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20210055-WU; ACN 2021-104-1-1**  
**CAPITAL STRUCTURE**  
**AS OF DECEMBER 31, 2020**

Capital Components	Balance Per Utility as of 12/31/2020	Audit Adjustment	Balance Per Audit as of 12/31/2020	Simple Average	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ 25,000	\$ -	\$ 25,000	\$ 25,000	100.00%	7.85%	7.85%
Long Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accum. Derferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
<b>Total</b>	\$ 25,000	\$ -	\$ 25,000	\$ 25,000	100.00%		7.85%

2019 Equity Formula used as approved at the June 11, 2019 Agenda Conference:

Return = 6.05 + (1.800/equity ratio)  
 Return = 6.05 + (1.800/1.000)  
 Return = 7.85

**Exhibit 3: Net Operating Income**

**BRENDENWOOD WATERWORKS, INC.  
 STAFF-ASSISTED RATE CASE  
 DOCKET NO. 20210055-WU; ACN 2021-104-1-1  
 SCHEDULE OF WATER NET OPERATING INCOME  
 FOR TEST YEAR ENDED DECEMBER 31, 2020**

Description	Balance Per Utility 12/31/2020	Audit Adjustments	Audit Finding	Balance Per Audit 12/31/2020
Operating Revenues	\$ 28,510	\$ 1,430	2	\$ 29,940
Operation & Maintenance Expenses	27,669	75	3	27,744
Depreciation Expense	2,096	132	1	2,228
Amortization Expense	0	0		0
Taxes Other Than Income	1,933	(67)	4	1,866
Income Tax Expense	0	0		0
<b>Total Operation Expenses:</b>	<b>\$ 31,698</b>	<b>\$ 141</b>		<b>\$ 31,839</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (3,188)</b>	<b>\$ 1,289</b>		<b>\$ (1,899)</b>