

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./The Woods Utility Company
Application for Transfer of Certificate
Certificate Nos. 507-W and 441-S

As of March 28, 2013

Docket No. 130171-WS
Audit Control No. 13-199-2-1
September 23, 2013

A handwritten signature in blue ink, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in blue ink, appearing to read "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./The Woods Utility Company's request for a Transfer of Certificate in Docket No.130171-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 The Woods Utility Company.

Seller/ refers 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>
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)
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 The Woods Utility Company executed an asset purchase agreement on March 19, 2013, for \$13,940. 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>
The Woods Utility Company	67	67

General

Objectives: The objectives were to establish a net book value for the Utility's 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.

Procedures: We reconciled the beginning balances for water and wastewater UPIS as of April 30, 2010, established in Docket No. 100330-WS, with the Seller's books and records. We scheduled water and wastewater 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 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.

Procedures: We reconciled the beginning balances for water and wastewater land as of April 30, 2010, reaffirmed in Docket No. 100330-WS, with the Seller's books and records. We searched 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 in its books and records.

Procedures: We reconciled the beginning balances for water and wastewater 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 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.

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 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.

Procedures: We reconciled the beginning balances for water and wastewater 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 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 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 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.

Procedures: We inquired and verified that no customer deposits were transferred from AUF to the Utility 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

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

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 were 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 @ 02/28//13	Balance Per Books @ 03/28/13	Mar 2013 Dep Accruals	Audit Adj Balance 03/28/13
\$171,721	\$171,721	\$1,345	\$173,066
Wastewater			
Balance @ 02/28//13	Balance Per Books @ 03/28/13	Mar 2013 Dep Accruals	Audit Adj Balance 03/28/13
\$101,315	\$101,315	\$305	\$101,620

Table 2

Acct No.	Account Description	Depr. Rates	Depr. Amount
302.1	Franchises	2.50%	\$1
304.2	Structures & Improvements	3.13%	3
304.3	Structures & Improvements	3.13%	62
309.2	Supply Mains	2.86%	10
311.2	Pumping Equipment	5.00%	0
311.4	Pumping Equipment	5.00%	20
320.3	Water Treatment Equipment	4.55%	971
330.4	Distribution Reservoirs & Standpoints	2.70%	78
331.4	Transmission & Distribution Mains	2.33%	32
333.4	Meter & Meter Installations	2.50%	5
334.4	Meter & Meter Installations	5.00%	83
339.1	Misc. Equipment	5.56%	0
340.5	Office Furniture	6.67%	0
343.5	Tools, Shop, & Garage Equipment	6.25%	80
Total			\$1,345
Acct No.	Description	Depr. Rates	Depr. Amount
352.1	Franchises	2.50%	\$1
354.2	Structures & Improvements	3.13%	61
354.4	Structures & Improvements	3.13%	48
360.2	Collection - Force	3.33%	27
361.2	Collection - Gravity	2.22%	55
365.2	Flow Measuring Installations	2.63%	2
371.3	Pumping Equipment	5.56%	39
380.4	Treatment & Disposal Equip	5.56%	35
380.5	Treatment & Disposal Equip	5.56%	1
381.4	Plant Sewers	2.86%	2
389.4	Misc. equipment	5.56%	0
390.7	Office Furniture	6.67%	1
398.7	Other Tangible Plant	10.00%	34
Total			\$305

Table 3

Water					
Acct No.	Acct Description	Accum. Amort of CIAC Bal 2/1/13	Amort. Rates	Amortization of CIAC	Accum. Amort of CIAC Bal 3/1/13
320.3	Water Treatment Equipment	(\$1,011)	0	\$0	(\$1,011)
331.4	Transmission & Distribution Mains	23	2.33%	0	23
334.4	Meters & Meters Installations	(591)	5.00%	0	(591)
339.1	Misc Equipment	(\$90,041)	5.56%	0	(\$90,041)
Total		(\$91,620)			(\$91,620)
Wastewater					
361.2	Collection - Gravity	(\$16)	2.22%	(\$1)	(\$17)
380.4	Treatment & Disposal Equipment	(906)	5.56%	(12)	(918)
389.1	Misc Equipment	(62,042)	5.56%	0	(62,042)
Total		(\$62,963)		(\$14)	(\$62,977)

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

Water

Acct No.	Account Description	Debit	Credit
104	Utility Plant Purchased or Sold	\$1,345	
108	Acc. Depreciation		\$1,345
To adjust account for Accumulated Depreciation for water for one month.			
Acct No.	Account Description	Debit	Credit
104	Utility Plant Purchased or Sold	\$305	
108	Acc. Depreciation		\$305
To adjust account for Accumulated Depreciation for wastewater for one month.			

Wastewater

Acct No.	Account Description	Debit	Credit
108	Utility Plant Purchased or Sold	\$14	
272	Accumulated Amortization CIAC		\$14
To adjust account for Accumulated Amortization CIAC for water for one month.			

Effect on the Filing: None

Exhibit

Exhibit 1: Net Book Value – The Woods Utility Company

The Woods Utility Company

As of March 28, 2013

Water	Utility Balance	Adjustment	Audit Balance
Plant	\$ 492,504	\$ -	\$ 492,504
Land	0	-	0
Accumulated Depreciation	(171,721)	(1,345)	(173,066)
CIAC	(90,583)	-	(90,583)
Accumulated Amortization - CIAC	91,620	14	91,634
TOTAL	\$ 321,819	\$ (1,331)	\$ 320,488

Wastewater	Utility Balance	Adjustment	Audit Balance
Plant	\$ 185,484	\$ -	\$ 185,484
Land	7,500	-	7,500
Accumulated Depreciation	(101,315)	(305)	(101,620)
CIAC	(65,285)	-	(65,285)
Accumulated Amortization - CIAC	62,963	-	62,963
TOTAL	\$ 89,347	\$ (305)	\$ 89,042