

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-

DATE: September 23, 2009

TO: Lydia Roberts, Regulatory Analyst II, Division of Regulatory Compliance

FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*

RE: Docket No.: 090346-WU
 Company Name: Brendenwood Water System, Inc.
 Company Code: WU202
 Audit Purpose: Staff Assisted Rate Case
 Audit Control No: 09-204-1-2

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 the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/ch
Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Salak, Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

BRENDENWOOD WATER SYSTEM, INC.

STAFF ASSISTED RATE CASE

TEST YEAR ENDED JUNE 30, 2009

DOCKET NO. 090346-WU
AUDIT CONTROL NO. 09-204-1-2

A handwritten signature in black ink, appearing to read "Debra M. Dobiac", written over a horizontal line.

Debra M. Dobiac, Audit Manager

A handwritten signature in black ink, appearing to read "V. Hymavathi", written over a horizontal line.

Hymavathi Vedula, Audit Staff

A handwritten signature in black ink, appearing to read "Donna D. Brown", written over a horizontal line.

Donna D. Brown, Audit Staff

A handwritten signature in black ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

09854 SEP 24 8

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES	2
III. EXHIBITS	6
1. WATER RATE BASE.....	6
2. WATER NET OPERATING INCOME.....	7
3. COST OF CAPITAL.....	8

DOCUMENT NUMBER-DATE

09854 SEP 24 8

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

September 21, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 20, 2009. We have applied these procedures to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of June 30, 2009 for Brendenwood Water System, Inc. The attached schedules were prepared by the audit staff as part of our work in Docket No. 090346-WU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

II. OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

Objective: To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA).

Procedures: The audit staff reviewed the utility's accounting system and found it to be in compliance with the NARUC USoA.

RATE BASE

Utility Plant in Service (UPIS)

Objectives: To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USoA. To verify that proper retirements of UPIS were made when a replacement item was put into service.

Procedures: The audit staff reconciled the beginning plant in service balance to the utility's books and to the prior staff-assisted rate case, Order No. PSC-00-0807-PAA-WU from Docket No. 991290-WU, issued April 25, 2000. We tested additions and retirements from June 30, 1999 to June 30, 2009. We tested the plant in service additions for the following: date acquired, original cost, account recorded, and appropriate retirements. We tested the retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal. We reconciled the plant in service additions and retirements to the utility's general ledger.

Land and Land Rights

Objective: To determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease.

Procedures: We reviewed the warranty deed to verify that the utility owns the land and the method in which the land value was determined.

Contributions in Aid of Construction (CIAC)

Objectives: To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's Commission approved tariffs.

Procedures: We reconciled the beginning CIAC balance to the utility's books and to the prior staff-assisted rate case, Order No. PSC-00-0807-PAA-WU from Docket No. 991290-WU, issued April 25, 2000. The audit staff read the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received any

donated property as CIAC. We reconciled the CIAC balance to the utility's general ledger and noted that there have been no additions to CIAC since the last staff-assisted rate case.

Accumulated Depreciation

Objectives: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USoA. To verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

Procedures: We reconciled the beginning accumulated depreciation balance to the utility's books and to the prior staff-assisted rate case, Order No. PSC-00-0807-PAA-WU from Docket No. 991290-WU, issued April 25, 2000. We scheduled accumulated depreciation accruals up through June 30, 2009 to include: beginning and ending balances by UPIS sub-accounts, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense. The audit staff reconciled accumulated depreciation accruals to the utility's general ledger.

Accumulated Amortization of CIAC

Objectives: To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of the depreciation rates and are in compliance with Commission rules and orders.

Procedures: We reconciled the beginning accumulated amortization of CIAC balance to the utility's books and to the prior staff-assisted rate case, Order No. PSC-00-0807-PAA-WU from Docket No. 991290-WU, issued April 25, 2000. The audit staff scheduled accumulated amortization of CIAC accruals up through June 30, 2009 to include: beginning and ending balances, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense. We reconciled accumulated amortization of CIAC accruals to the utility's general ledger.

Working Capital

Objective: To determine that 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 June 30, 2009 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433(2), Florida Administrative Code.

NET OPERATING INCOME

Revenue

Objectives: To determine that utility charges are those approved by the Commission in the utility's current authorized tariff. To determine that revenue earned from utility property during

the test year are recorded and are properly classified in compliance with Commission rules and the NARUC USoA.

Procedures: The audit staff reviewed the utility's Commission approved tariffs establishing rates. We compiled utility revenue for the 12-month period ending June 30, 2009 from the utility's billing register. We tested the reasonableness of the utility records by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the utility. We selected a judgmental sample of customer bills, recalculated the bills using the authorized rates, and prepared a billing analysis for the test year.

Operation and Maintenance Expense (O&M)

Objective: To determine that O&M expenses are properly recorded in compliance with Commission rules, and are reasonable and prudent for ongoing utility operations.

Procedures: We compiled O&M expense items from the utility's general ledger and sub-ledgers. We traced all of the utility's expenses to the cancelled checks, and reviewed a judgmental sample of invoices for proper amount, period, classification, NARUC account, and recurring nature.

Depreciation and Amortization Expense

Objective: To determine that depreciation is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility CIAC assets for ongoing utility operations.

Procedures: The audit staff reviewed the utility's books and records for depreciation and amortization expense. We recalculated depreciation expense on UPIS balances and verified amortization expense on CIAC balances.

Taxes Other Than Income (TOTI)

Objective: To determine the appropriate amounts for TOTI for the test year ended June 30, 2009.

Procedures: We compiled TOTI expenses from the utility's general ledger and sub-ledgers. We reviewed the property tax invoices and the regulatory assessment fee forms for proper amount, period, classification, NARUC account, and recurring nature. The audit staff traced the TOTI amounts to the utility's general ledger.

CAPITAL STRUCTURE

GENERAL

Objective: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall cost of capital are properly recorded in compliance with Commission rules.

Procedures: We reviewed the trial balance for the capital structure components. In Exhibit No. 3 - Cost of Capital, we determined the cost of capital based on the leverage formula from Docket No. 090006-WS, FPSC Order No. PSC-09-0430-PAA-WS, issued June 19, 2009.

III. EXHIBITS

EXHIBIT NO. 1 – WATER RATE BASE

**BRENDENWOOD WATER SYSTEM, INC.
 STAFF-ASSISTED RATE CASE
 DOCKET NO. 090346-WU; ACN 09-204-1-2
 SCHEDULE OF WATER RATE BASE
 FOR TEST YEAR ENDED JUNE 30, 2009**

Description	Balance per Utility 6/30/2009	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2009	Simple Average Per Audit
Utility Plant in Service	11,679	-	N/A	11,679	10,948
Land	1,100	-	↓	1,100	1,100
Accumulated Depreciation	(1,846)	-	↓	(1,846)	(1,631)
Contributions in Aid of Construction	(1,577)	-	↓	(1,577)	(1,577)
Accumulated Amortization of CIAC	1,333	-	↓	1,333	1,285
Working Capital Allowance:	-	3,386		3,386	3,386
RATE BASE	\$ 10,689	\$ 3,386		\$ 14,075	\$ 13,511

EXHIBIT NO. 2 – WATER NET OPERATING INCOME

**BRENDENWOOD WATER SYSTEM, INC.
 STAFF-ASSISTED RATE CASE
 DOCKET NO. 090346-WU; ACN 09-204-1-2
 SCHEDULE OF NET OPERATING INCOME
 FOR TEST YEAR ENDED JUNE 30, 2009**

Description	Balance per Utility 6/30/2009	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2009
Operating Revenues	\$ 30,373	\$ -	N/A	\$ 30,373
Operation & Maintenance Expenses	27,088	-	↓	27,088
Depreciation Expense	718	-	↓	718
CIAC Amortization Expense	(95)	-	↓	(95)
Taxes Other than Income	1,767	-	↓	1,767
Income Tax Expense ¹	-	-	↓	-
Total Operating Expenses:	\$ 29,478	\$ -		\$ 29,478
Net Operating Income (Loss)	\$ 895	\$ -		\$ 895
Rate Base	\$ 10,689			\$ 13,511
Rate of Return	8.37%			6.62%

¹ The utility is a Sub-chapter S Corporation. Sub-chapter S Corporations are not subject to federal or state income taxes and the Commission does not allow income tax expense because they are not taxable entities.

EXHIBIT NO. 3 – COST OF CAPITAL

**BRENDENWOOD WASTER SYSTEM, INC.
 STAFF-ASSISTED RATE CASE
 DOCKET NO. 090346-WU; ACN 09-204-1-2
 Weighted Cost of Capital
 FOR TEST YEAR ENDED JUNE 30, 2009**

Description	Balance per Utilitiy 6/30/2009	Audit Adjustments	Balance per Audit 6/30/2009	Ratio	Cost Rate	Weighted Cost
Common Equity	12,438	-	12,438	100.00%	9.670%	9.67%
TOTAL CAPITAL	\$ 12,438	\$ -	\$ 12,438	100.00%		9.67%

As per order PSC-09-0430-PAA-WS, issued June 19, 2009:

Leverage Formula: $\text{Return on Common Equity} = 8.58\% + 1.087/\text{Equity Ratio}$
 Where $\text{Equity Ratio} = \frac{\text{Common Equity}}{(\text{Common Equity} + \text{Preferred Equity} + \text{Long-Term and Short-Term Debt})}$
 Range: 9.67% @ 100% equity to 11.30% @ 40% equity