

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 22, 2020

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, *LMD* Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20200168-WU
Company Name: McLeod Gardens Utilities, LLC
Company Code: WU979
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2020-198-1-1

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.

LMD/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

McLeod Gardens Utilities, LLC
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2019

Docket No. 20200168-WU
Audit Control No. 2020-198-1-1
September 4, 2020

A handwritten signature in black ink that reads "Hymavathi Vedula".

Hymavathi Vedula
Audit Manager

A handwritten signature in blue ink that reads "Marisa N. Glover".

Marisa N. 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 July 14, 2020. We have applied these procedures to the attached schedules prepared by the audit staff in support of McLeod Gardens Utilities, LLC request for a Staff-Assisted Rate Case in Docket No. 20200168-WU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to McLeod Gardens Utilities, LLC

Test year refers to the twelve months ended December 31, 2019.

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

McLeod Gardens Utilities, LLC is a Class “C” water utility serving approximately 96 residential customers in Polk County per the 2019 annual report. Net book value was last established as of September 1, 2016 per Order No. PSC- 2017-0367-PAA- WU, issue September 29, 2017, in Docket No. 20160193-WS.

The Utility uses Florida Utility Services 1, LLC (FUS1) personnel for billing and customer service.

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 our beginning balance as of September 1, 2016 from Order No. PSC-2017-0367-PAA-WU to the general ledger. We scheduled UPIS activity from September 1, 2016 through December 31, 2019. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year-end balance as of December 31, 2019. No exceptions were noted.

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 our beginning balance as of September 1, 2016 from Order No. PSC-2017-0367-PAA-WU to the general ledger. We noted that there were no additions to land. We determined the year-end balances as of December 31, 2019. 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 our beginning balance as of September 1, 2016 from Order No. PSC-2017-0367-PAA-WU to the general ledger. We calculated the accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from September 1, 2016 through December 31, 2019. We determined the year-end balances as of December 31, 2019. 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 reconciled the beginning balances as of September 1, 2016 from Order No. PSC-2017-0367-PAA-WU to the general ledger. We noted that there were no additions to CIAC. We determined the year-end balances as of December 31, 2019. 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 as of September 1, 2016 from Order No. PSC-2017-0367-PAA-WU to the general ledger. We calculated annual accruals to accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C.. We determined the year-end balances as of December 31, 2019. Finding 1 discusses our recommended adjustments to accumulated amortization of CIAC.

Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment

Objectives: The objectives were to determine the year-end balance for the Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment as of December 31, 2019 and the Amortization of Acquisition Adjustment for the test year as set forth by Rule 25-30.0371, F.A.C.

Procedures: We verified that the acquisition adjustment approved in Order PSC-2017-0367-PAA-WU, issued September 29, 2017, was booked correctly and determined year-end balances. We calculated the Accumulated Amortization of Acquisition Adjustment as of December 31, 2019 by the methods set forth in Rule 25-30.0371, F.A.C. We calculated the Amortization expense for the test year. No exceptions were noted.

Working Capital

Objectives: The objective was to determine working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

Procedures: We calculated the Utility's working capital balance as of December 31, 2019 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. No exceptions were noted.

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 stock, paid in capital, and retained earnings. We determined the year-end Capital Structure balance and its weighted average cost as of December 31, 2019. No exceptions were noted.

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, 2019, 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. No exceptions were noted.

Depreciation and Amortization

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

Procedures: We compiled a schedule from audited UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. We also recalculated amortization of CIAC using Commission approved rates for the test year.

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, payroll taxes, and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. Audit staff use the property tax bill issued on November 2019. We recalculated RAF's using the approved RAF rate and the audited revenue balances. Finding 2 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Plant-in-Service, Accumulated Depreciation and Accumulated Amortization of CIAC

Audit Analysis: According to the Utility's general ledger, the plant balance was \$240,330 as of December 31, 2019. Audit staff recalculated plant using the audited UPIS plant support provided by the company. The company did not record the Commission order adjustments correctly for Account 334 Meters and Meter Installation, audit staff made an adjustment to decrease plant in service by \$26 . We determined that the plant year-end balance should be \$240,303 as shown in Table 1-1.

Table 1-1

Account - Description	Utility Balance		Audit Balance		Simple Average
	Plant	Audit	Pant		
	12/31/2019	Adjustments	12/31/2019		
304 Structures & Improvements	\$ 2,250	\$ -	\$ 2,250		2250
305 Collecting & Impounding		\$ -	-		0
306 Lake, River & Other		\$ -	-		0
307 Wells & Springs	13,348	\$ -	13,348		13348
308 Infiltration Galleries and Tunnels		\$ -	-		0
309 Supply Mains	8,101	\$ -	8,101		8101
310 Power Generation Equip.	15,183	\$ -	15,183		15183
311 Pumping Equip.	30,056	\$ -	30,056		30056
320 Water Treatment Equip.	19,260	\$ -	19,260		19260
330 Distribution Reservoirs	31,582	\$ -	31,582		31582
331 Transmission and Distribution Mains	65,325	\$ -	65,325		65325
333 Services	23,798	\$ -	23,798		23798
334 Meters and Meter Install.	20,597	\$ (26)	20,570		20570.31
335 Hydrants	10,258	\$ -	10,258		10258
336 Backflow Prevention Devices		\$ -	-		0
339 Other Plant And Misc.	572	\$ -	572		572
340 Office Furniture & Equip.		\$ -	-		0
341 Trans. Equip.		\$ -	-		0
342 Stores Equip.		\$ -	-		0
343 Tools, Shop and Garage Equip.		\$ -	-		0
344 Lab Equip		\$ -	-		0
345 Power Operated Equip.		\$ -	-		0
346 Communication Equip.		\$ -	-		0
347 Misc. Equip.		\$ -	-		0
348 Other Tangible Plant		\$ -	-		0
Total:	\$ 240,330	\$ (26)	\$ 240,303		\$240,303

According to the Utility's general ledger, the accumulated depreciation balance was \$(164,389) and the accumulated amortization of CIAC balance was \$73,900 as of December 31, 2019. 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. We also recalculated accumulated amortization of CIAC using the audited CIAC balances and the rates established by the Rule noted above. We determined that the accumulated depreciation year-end balance should be \$(166,716) and the accumulated amortization of CIAC year-end balance should be \$73,491 as shown in Table 1-2

. Table 1-2

Account - Description	Utility Balance	Audit	Audit Balance	Simple
	Accum Dep		Accum Dep	
	12/31/2019	Adjustments	12/31/2019	Average
304 Structures & Improvements	\$ (1,853)	\$ (5)	\$ (1,858)	\$ (1,816)
305 Collecting & Impounding		\$ -	-	\$ -
306 Lake, River & Other		\$ -	-	\$ -
307 Wells & Springs	(11,041)	\$ (16)	(11,058)	\$ (10,810)
308 Infiltration Galleries and Tunnels		\$ -	-	\$ -
309 Supply Mains	(4,692)	\$ (8)	(4,700)	\$ (4,574)
310 Power Generation Equip.	(12,898)	\$ (45)	(12,943)	\$ (12,496)
311 Pumping Equip.	(24,734)	\$ (88)	(24,822)	\$ (23,938)
320 Water Treatment Equip.	(19,260)	\$ 0	(19,260)	\$ (19,260)
330 Distribution Reservoirs	(21,838)	\$ (33)	(21,871)	\$ (21,392)
331 Transmission and Distribution Mains	(34,393)	\$ (65)	(34,457)	\$ (33,598)
333 Services	(13,347)	\$ (29)	(13,376)	\$ (13,036)
334 Meters and Meter Install.	(14,695)	\$ (2,026)	(16,721)	\$ (16,116)
335 Hydrants	(5,233)	\$ (10)	(5,243)	\$ (5,115)
336 Backflow Prevention Devices		\$ -	-	\$ -
339 Other Plant And Misc.	(405)	\$ (2)	(407)	\$ (392)
340 Office Furniture & Equip.		\$ -	-	\$ -
341 Trans. Equip.		\$ -	-	\$ -
342 Stores Equip.		\$ -	-	\$ -
343 Tools, Shop and Garage Equip.		\$ -	-	\$ -
344 Lab Equip		\$ -	-	\$ -
345 Power Operated Equip.		\$ -	-	\$ -
346 Communication Equip.		\$ -	-	\$ -
347 Misc. Equip.		\$ -	-	\$ -
348 Other Tangible Plant		\$ -	-	\$ -
Total:	\$ (164,389)	\$ (2,327)	\$ (166,716)	\$ (162,544)
272 Accumulated Amortization of CIAC	\$ 73,900	\$ (409)	\$ 73,491	\$ 71,403

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

Effect on the Filing: The year-end plant balance should be decreased by \$26 and accumulated depreciation balance should be increased by \$2,327. The year-end accumulated amortization of CIAC should be decreased by \$409.

Finding 2: Revenues and Taxes other than Income

Audit Analysis: The Utility’s operating revenue was \$33,563 for the twelve months ended December 31, 2019. Audit staff recalculated revenue by determining the number of bills and gallons consumed times the Commission approved tariff rates. We determined operating revenue to be \$33,960 as shown in Table 2-1.

Table 2-1

NARUC	Description	Utility Balance 12/31/2019	Audit Adjustments	Audit Balance 12/31/2019
461.1	Water Residential Customers	\$ 31,790	397	\$ 32,187
461.2	Water Commercial Customers		-	
		\$ 31,790	\$ 397	\$ 32,187
471.1	Initial Connection Fees		-	
471.4	Late Fees	\$ 1,773	-	\$ 1,773
		\$ 1,773	\$ -	\$ 1,773
Grand Total		\$ 33,563	\$ 397	\$ 33,960

The Utility’s TOTI was \$2,794 for the twelve months ended December 31, 2019.

Based on the review of supporting documentation, the adjustments that follow were made to test year expenses.

- We decreased Account 408.2 – Property Taxes by \$63 to remove the late fees for 2018 which was recorded in 2019.
- We increased Account 408.1 – Regulatory Assessment Fees by \$18 based on the audited operating revenue balance.

Audit staff determined TOTI to be \$2,749 as shown in Table 2-2.

Table 2-2

408.3	Property Tax	\$ 681.00	\$ (63.56)	\$ 617.44
408.2	Regulatory Assessment Fee	1,510	18	1,528
408.1	Payroll	603	-	603
Total - TOTI		\$ 2,794	\$ (46)	\$ 2,749

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 \$397 and TOTI should be decreased by \$45 for the test year.

Exhibits

Exhibit 1: Rate Base

**MCLEOD GARDENS UTILITIES, LLC
STAFF ASSISTED RATE CASE
DOCKET NO. 20200168-WU; ACN 2020-198-1-1
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 2019**

Description	Balance per Utility 12/31/2019	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2019	Simple Average
Utility Plant in Service	\$ 240,330	\$ (26)	1	\$ 240,303	\$ 240,303
Land	7,000	-		7,000	7,000
Accumulated Depreciation	(164,389)	(2,327)	1	(166,716)	(162,544)
Contributions in Aid of Construction	(123,776)	-		(123,776)	(123,776)
Accumulated Amortization of CIAC	73,900	(409)	1	73,491	71,403
Acquisition Adjustment	(14,554)			(14,554)	(14,554)
Accumulated Amortization of Acquisition Adjustment	5,331			5,331	5,331
Working Capital Allowance		4,507		4,507	4,507
NET BOOK VALUE	\$ 23,841	\$ 1,745		\$ 25,586	\$ 27,670

Exhibit 2: Capital Structure

**MCLEOD GARDENS UTILITIES, LLC
 STAFF-ASSISTED RATE CASE
 DOCKET NO. 20200168-WU; ACN 2020-198-1-1
 SCHEDULE OF CAPITAL STRUCTURE
 AS OF December 31, 2019**

Cost of Capital	Average 12/31/2019 per Utility	Audit Adjustment	Average 12/31/2019 Per Audit	Ratio	Cost Rate	Weighted Cost
Long Term Debt						
Paid in Capital	\$ 21,568	\$ -	\$ 21,568	88.76%	7.85%	6.97%
Customer Deposits	\$ 2,730		\$ 2,730	11.24%	2.00%	0.22%
Total			\$ 24,298	100.00%		7.19%

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

**MCLEOD GARDENS UTILITIES, LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 20200168-WU; ACN 2020-198-1-1
SCHEDULE OF WATER NET OPERATING INCOME
FOR TEST YEAR ENDED December 31, 2019**

Description	Balance per Utilitiy 12/31/2019	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2019
Operating Revenues	\$ 33,563	\$ 397	2	\$33,960
O&M Expenses	36,054	-		36,054
Depreciation Expense	8,345	(2)		8,343
Amoritization of CIAC	(4,176)	-		(4,176)
Amortization of Acq Adj	(1,599)			(1,599)
Taxes Other than Income	2,794	(45)	2	2,749
Income Tax Expense	11	-		11
Total Operating Expenses:	\$ 41,429	\$ (47)		\$ 41,382
Net Operating Income (Loss)	\$ (7,866)	\$ 444		\$ (7,422)