

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: June 29, 2021

TO: Office of Commission Clerk *DM by DA*

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

RE: Docket No.: 20210043-WU
Company Name: Arma Water Service, LLC
Company Code: WU930
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2021-097-1-1

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.

/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

Arma Water Services, LLC/
Leighton Estates Utilities, LLC

Transfer of Certificate
Certificate Nos. **652-W**

As of January 1, 2021

Docket No. 20210043-WU
Audit Control No. 2021-097-1-1

June 28, 2021

A handwritten signature in black ink, appearing to read "Jonathan Miller".

Jonathan Miller
Audit Manager

A handwritten signature in blue ink, appearing to read "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 June 7, 2020. We have applied these procedures to the attached schedules prepared by the audit staff in support Arma Water Services, LLC/Leighton Estates Utilities, LLC's request for a Transfer of Certificates in Docket NO. 20210043-WU

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Buyer/Utility refers to Leighton Estates Utilities, LLC, which is wholly-owned by Florida Utilities 1, LLC.

Seller refers to Arma Water Service, LLC,

NARUC refers to the National Association of Regulatory Utility Commissioners.

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

Utility Information

Arma Water Service, LLC is a Class “C” Utility that serves approximately 75 water customers in Marion County. They applied for a certificate to operate water in Order No. PSC-2010-0552-PAA-WU, issued September 3, 2010.

Leighton Estates Utilities, LLC purchased Arma Water Service, LLC for \$172,000 on January 1, 2021 which includes the assets of Arma Water Service, LLC and other non-regulated assets. Leighton Estates Utilities, LLC filed an application with this Commission for Transfer of Certificates on February 16, 2021.

Utility Books and Records

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

Procedures: Based upon the review of the general ledger provided by the seller, it was not maintained according to the NARUC USOA. However, the buyer stated in its application that the utility books and records will be maintained using the NARUC USOA.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the 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 recorded 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 scheduled UPIS from December 31, 2010 to January 1, 2021 from the Utility’s annual reports, and traced the ending balances to the Buyer’s proposed plant value provided by the utility’s consultant in this application for transfer. Finding 1 discusses UPIS.

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 proceeding were recorded in its books and records.

Procedures: We scheduled land from December 31, 2010 to January 1, 2021 from the Utility's annual report, and traced the ending balance to the Buyer's proposed land value provided by the utility's consultant in this application for transfer. We obtained a warranty deed dated October 27, 2009. There were no additions to land from December 31, 2010 to January 1, 2021. 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 to its books and records.

Procedures: We recalculated accumulated depreciation from December 31, 2010 to January 1, 2021 from the Utility's annual report, and traced the ending balance to the Buyer's proposed plant value provided by the utility's consultant in this application for transfer. Finding 1 discusses 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 noted that the Utility's annual reports do not reflect a correct balance for CIAC. We imputed CIAC by multiplying the customer growth for each year, from December 31, 2010 to January 1, 2021, times the approved service availability charges from Order No. PSC-2010-0552-PAA-WU. We also imputed CIAC based on Rule 25-30.370, F.A.C. We scheduled CIAC activity from December 31, 2010 through January 1, 2021, and traced CIAC additions to the supporting documentation provided by utility's consultant in this application for transfer. Finding 2 discusses CIAC.

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 recalculated accumulated amortization of CIAC from December 31, 2010 to January 1, 2021 based on the CIAC balances imputed from the customer activity from December

31, 2010 to January 1, 2021. We also imputed accumulated amortization of CIAC based on Rule 25-30.370, F.A.C. Finding 2 discusses accumulated amortization of CIAC.

Acquisition Adjustment

Objectives: The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this Utility at the time of transfer is more than the purchase price, which would reflect a negative acquisition adjustment. Pursuant to Rule 25-30.0371(3)-Acquisition Adjustment. The Utility is not requesting an acquisition adjustment. No further work performed.

Other

Rates and Charges

Objectives: The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained and tested the Utility's billing register for September 2020. We recalculated a sample of customer bills using the Commission approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We inquired about the deposit policy. The Seller's authorized tariff did provide for the collection of customer deposits and no customer deposits were noted on the Seller's books and records. No further work performed.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: Audit Analysis: According to the schedule provided by the utility consultant, the UPIS balance was \$372,047 as of January 1, 2021. Audit staff determined the UPIS balance to be \$362,277 as of January 1, 2021.

We noted the beginning balance for UPIS from the 2010 Annual Report, and the schedule provided by the utility's consultant which tied as of December 31, 2010. We scheduled the additions from December 31, 2010 to January 1, 2021, and traced to supporting documentation.

We determined the plant balance to be \$362,277 as of January 1, 2021 as shown in Table 1-1.

Table 1-1

Account - Description	Utility Balance		Audit		Audit Balance	
	UPIS		Adjustments		UPIS	
	As of 1/1/2021		As of 1/1/2021		As of 1/1/2021	
301 Organization	\$ 6,200		\$ -		\$ 6,200	
304 Structures & Improvements	12,600		-		12,600	
307 Wells & Springs	24,700		-		24,700	
309 Supply Mains	6,300		-		6,300	
311 Pumping Equip.	19,800		-		19,800	
320 Water Treatment Equip.	36,480		-		36,480	
330 Distribution Reservoirs	2,400		-		2,400	
331 Transmission and Distribution Mains	231,997		-		231,997	
333 Services	20,012		(7,812)		12,200	
334 Meters and Meter Install.	7,558		(1,958)		5,600	
339 Other Plant and Misc.	1,800		-		1,800	
340 Office Furniture & Equip.	2,200		-		2,200	
Total :	\$ 372,047		\$ (9,770)		\$ 362,277	

According to the schedule provided by the utility consultant, the accumulated depreciation balance was \$121,439 as of January 1, 2021. Audit staff calculated accumulated depreciation to be \$109,809 using the approved rates from Rule 25-30.140–Depreciation, F.A.C. and the audited plant additions and retirements as of January 1, 2021. Audit staff determined the utility does not calculate the approved depreciation rates.

We determined that the accumulated depreciation year-end balance to be \$109,809 as of January 1, 2021 as shown in Table 1-2.

Table 1-2

Account - Description	Utility Balance		Audit Balance
	Accum. Dep.	Audit	Accum. Dep.
	As of 1/1/2021	Adjustments	As of 1/1/2021
301 Organization	\$ (1,626)	\$ (2)	\$ (1,628)
304 Structures & Improvements	(4,900)	665	(4,235)
307 Wells & Springs	(9,606)	2,135	(7,471)
309 Supply Mains	(2,067)	-	(2,067)
311 Pumping Equip.	(12,229)	6,553	(5,676)
320 Water Treatment Equip.	(22,532)	503	(22,029)
330 Distribution Reservoirs	(764)	1	(763)
331 Transmission and Distribution Mains	(56,760)	(1)	(56,761)
333 Services	(5,089)	1,429	(3,660)
334 Meters and Meter Install.	(3,381)	347	(3,034)
339 Other Plant and Misc.	(945)	-	(945)
340 Office Furniture & Equip.	(1,540)	-	(1,540)
Total :	\$ (121,439)	\$ 11,630	\$ (109,809)

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

Effect on the Filing: The water UPIS balance should be decreased by \$9,770 and the accumulated depreciation balance should be increased by \$11,630.

Finding 2: CIAC and Accumulated Amortization of CIAC

Audit Analysis: According to the schedule provided by the utility consultant, the CIAC balance was \$20,000 as of January 1, 2021. Audit staff determined the CIAC balance to be \$8,000 as of January 1, 2021.

We scheduled the additions to CIAC from December 31, 2010 to January 1, 2021, and traced to supporting documentation. The Utility stated they had 20 new customers and we only able to determine 8 new customers. Audit staff recalculated CIAC and AA of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C. to impute CIAC based on cost of plant assets. CIAC was separated into two accounts: Meter Installation Charge and Tap-In Fees. Each of these balances are amortized at different rate.

Based on the procedures performed above, audit staff has determined the CIAC to be \$8,000 as of January 1, 2021. As shown in Table 2-1:

Table 2-1

Account - Description	Utility Balance		Audit Balance	
	CIAC	Audit	CIAC	
	As of 1/1/2021	Adjustments	As of 1/1/2021	
Meter Installation Charge	\$ (2,500)	\$ 1,500	\$ (1,000)	
Tap-in Charge	(17,500)	\$ 10,500	(7,000)	
Total:	\$ (20,000)	\$ 12,000	\$ (8,000)	

Based on the procedures performed above, audit staff has determined AA of CIAC to be \$513 as of January 1, 2021. As shown in Table 2-2.

Table 2-2

Account - Description	FPSC Rates	Utility Balance		Audit Balance	
		AA of CIAC	Audit	AA of CIAC	
		As of 1/1/2021	Adjustments	As of 1/1/2021	
Meter Installation Charge	0.0588	\$ 691	\$ (588)	\$ 103	
Tap-in Charge	0.0335	2,765	\$ (2,355)	410	
Total:		\$ 3,456	\$ (2,943)	\$ 513	

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

Effect on the Filing: Audit staff determined the balance for CIAC and AA of CIAC to be \$8,000 and \$513, as of January 1, 2021.

Exhibits

Exhibit 1: Net Book Value

ARMA WATER SERVICE, LLC TRANSFER OF CERTIFICATE AUDIT DOCKET NO. 20210043-WU; ACN 2021-097-1-1 SCHEDULE OF WATER NET BOOK VALUE AS OF JANUARY 1, 2021				
Description	Balance per Utilitiy As of 1/1/2021	Audit Adjustments	Audit Finding	Balance per Audit As of 1/1/2021
Utility Plant in Service	\$ 372,047	\$ (9,770)	1	\$ 362,277
Land	30,000	-		30,000
Accumulated Depreciation	(121,439)	11,630	1	(109,809)
Contributions in Aid of Construction	(20,000)	12,000	2	(8,000)
Accumulated Amortization of CIAC	3,456	(2,943)	2	513
NET BOOK VALUE	\$ 264,064	\$ 10,917		\$ 274,981