

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:** May 3, 2022

**TO:** Office of the Commission Clerk

**FROM:** Rhonda L. Hicks, Director, Office of Auditing and Performance Analysis *RH*

**RE:** Docket No.: 20220026-WU  
Company Name: Leighton Estates Utilities, LLC  
Company Code: WU991  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2022-045-1-1

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

RLH/cm

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

Leighton Estates Utilities, LLC

Staff-Assisted Rate Case

**December 31, 2021**

Docket No. 20220026-WU

Audit Control No. 2022-045-1-1

**April 21, 2022**

A handwritten signature in black ink, appearing to read "V. Hymavathi".

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Hymavathi Vedula

Audit Manager

A handwritten signature in black ink, appearing to read "Marisa N. Glover".

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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 & Finance in its audit service request dated February 11, 2022. We have applied these procedures to the attached schedules prepared by the audit staff in support of Leighton Estates Utilities, LLC's request for a Staff Assisted Rate Case in Docket No. 20220026-WU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to Leighton Estates Utilities, LLC

Test year refers to the twelve months ended December 31, 2021.

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

Leighton Estates Utilities, LLC is a Class “C” water utility serving approximately 80 residential customers in Marion County per the 2021 Annual Report. On September 3, 2010, the Florida Public Service Commission granted an original water certificate to the Utility under the name Arma Water Service, LLC. The Utility was transferred to the present operator in 2021, and the Net book value was last established as of January 1, 2021, per Order No. PSC- 2021-0408-PAA-WU, issued November 1, 2021, in Docket No. 20210043-WU.

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

#### Utility Books and Records

**Objective:** The objective was to determine whether the Utility maintains its books and records in conformity with the 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 is put into service, and 4) Adjustments required in the Utility’s last rate proceeding are recorded in its books and records.

**Procedures:** We reconciled our beginning balance as of January 1, 2021, from Order No. PSC-2021-0408-PAA-WU to the general ledger. We scheduled UPIS activity from January 1, 2021, through December 31, 2021. 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, 2021. 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 January 1, 2021, from Order No. PSC-2021-0408-PAA-WU to the general ledger. We noted that there were no additions to land. We determined the year-end balance as of December 31, 2021. 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 is replaced, and 3) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We reconciled our beginning balance as of January 1, 2021, from Order No. PSC-2021-0408-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 January 1, 2021, through December 31, 2021. We determined the year-end balances as of December 31, 2021. 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 is replaced, and 4) Adjustments in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We reconciled the beginning balance as of January 1, 2021, from Order No. PSC-2021-0408-PAA-WU to the general ledger. We noted the additions to CIAC were traced to the approved tariff for service availability charges. We determined the year-end balances as of December 31, 2021. 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 F.A.C., – Depreciation, 2) Retirements are recorded when a contributed asset is replaced, and 3) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We reconciled the beginning balances as of January 1, 2021, from Order No. PSC-2021-0408-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, 2021. No exceptions were noted.

## Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment

**Objectives:** The objectives were to determine the year-end balance for the Acquisition Adjustment and the related Accumulated Amortization as of December 31, 2019, and the Amortization of the 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-2021-0408-PAA-WU, issued November 1, 2021, was booked correctly and determined year-end balances. We reviewed Rule 25-30.0371, F.A.C., to determine the Accumulated Amortization of the Acquisition Adjustment. The Utility did not include any amortization expense for the Acquisition Adjustment for 2021, since the Order was approved in November 2021.

## Working Capital

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

**Procedures:** We calculated the Utility's working capital balance as of December 31, 2021, 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, 2021. 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 the NARUC USOA

**Procedures:** We determined individual customer consumption for the test year ended December 31, 2021, 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 the Utility is charging its authorized tariff rates. We also classified miscellaneous service charges by type. We calculated miscellaneous service charges by multiplying the Commission-approved tariff by the number for each service type, and traced the amounts to the general ledger. No exceptions were noted.

### 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 Expense

**Objective:** The objective was 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 expense of CIAC using Commission-approved rates for the test year. 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 USO

**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 in November 2021. We recalculated fees using the approved RAF rate and the audited revenue balances. No exceptions were noted.



## Audit Findings

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

**Audit Analysis:** According to the Utility’s general ledger, the accumulated depreciation balance was (\$123,116) as of December 31, 2021. 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. Audit Staff determined that the Utility did not calculate the depreciation for Account 320- Water Treatment Equipment correctly. The water treatment equipment had additions of \$400 and \$300 in retirements. We used the approved depreciation rates and determined that the Utility overstated depreciation expense and accumulated depreciation by \$36 for the water treatment equipment account. We determined that the accumulated depreciation year-end balance should be (\$123,081) and the simple average is (\$116,948) as shown in Table 1-1

**Table 1-1**

<u>Account - Description</u>	<u>Utility Balance</u>		<u>Audit Balance</u>		<u>Simple Average</u>
	<u>Accum Dep</u>	<u>Audit</u>	<u>Accum Dep</u>		
	<u>12/31/2021</u>	<u>Adjustments</u>	<u>12/31/2021</u>		
301 Organization	\$ (1,783)	\$ -	\$ (1,783)		\$ (1,706)
302 Franchises		-	-		-
303 Land		-	-		-
304 Structures & Improvements	(4,702)	0	(4,701)		(4,468)
305 Collecting & Impounding		-	-		-
306 Lake, River & Other		-	-		-
307 Wells & Springs	(8,386)	(0)	(8,386)		(7,929)
308 Infiltration Galleries and Tunnels		-	-		-
309 Supply Mains	(2,264)	0	(2,264)		(2,165)
310 Power Generation Equip.		-	-		-
311 Pumping Equip.	(6,841)	(0)	(6,841)		(6,259)
320 Water Treatment Equip.	(23,914)	36	(23,878)		(22,954)
330 Distribution Reservoirs	(836)	(0)	(836)		(800)
331 Transmission and Distribution Mains	(62,866)	0	(62,866)		(59,813)
333 Services	(4,009)	0	(4,008)		(3,834)
334 Meters and Meter Install.	(3,392)	0	(3,391)		(3,213)
335 Hydrants		-	-		-
336 Backflow Prevention Devices		-	-		-
339 Other Plant And Misc.	(1,035)	-	(1,035)		(990)
340 Office Furniture & Equip.	(1,687)	0	(1,686)		(1,613)
341 Trans. Equip.	(1,404)	(0)	(1,404)		(1,206)
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		-	-		-
<b>Total:</b>	<b>\$ (123,116)</b>	<b>\$ 36</b>	<b>\$ (123,081)</b>		<b>\$ (116,948)</b>

According to Utility’s general ledger, the depreciation expense was \$12,600 as of December 31, 2021. However, audit staff determined depreciation expense to be \$12,564 as shown in Table 1-2

**Table 1-2**

<b>Account - Description</b>	<b>Utility Balance</b>		<b>Audit Balance</b>	
	<b>Plant</b>	<b>Audit</b>	<b>Pant</b>	<b>Pant</b>
	<b>12/31/2021</b>	<b>Adjustments</b>	<b>12/31/2021</b>	
301 Organization	\$ 155	\$ -	\$ 155	
302 Franchises		-	-	
303 Land		-	-	
304 Structures & Improvements	467	(0)	467	
305 Collecting & Impounding		-	-	
306 Lake, River & Other		-	-	
307 Wells & Springs	915	0	915	
308 Infiltration Galleries and Tunnels		-	-	
309 Supply Mains	197	(0)	197	
310 Power Generation Equip.		-	-	
311 Pumping Equip.	1,165	(0)	1,165	
320 Water Treatment Equip.	2,185	(36)	2,149	
330 Distribution Reservoirs	73	(0)	73	
331 Transmission and Distribution Mains	6,105	0	6,105	
333 Services	349	0	349	
334 Meters and Meter Install.	358	(0)	358	
335 Hydrants		-	-	
336 Backflow Prevention Devices		-	-	
339 Other Plant And Misc.	90	-	90	
340 Office Furniture & Equip.	147	(0)	147	
341 Trans. Equip.	397	-	397	
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		-	-	
<b>Total:</b>	<b>\$ 12,600</b>	<b>\$ (36)</b>	<b>\$ 12,564</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 decreased by \$36, as of December 31, 2021, and the simple average is (\$116,948). We also determined the depreciation expense should be decreased by \$36 for the test year.

Exhibits

**Exhibit 1: Rate Base**

**LEIGHTON ESTATES UTILITIES, LLC  
STAFF ASSISTED RATE CASE  
DOCKET NO. 20220026-WU; ACN 2022-045-1-1  
SCHEDULE OF WATER RATE BASE  
AS OF DECEMBER 31, 2021**

Description	Balance per Utility 12/31/2021	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2021	Simple Average
Utility Plant in Service	\$ 366,405	\$ -		\$ 366,405	\$364,341
Land	30,000	-		30,000	30,000
Accumulated Depreciation	(123,116)	36	1	(123,081)	(116,948)
Contributions in Aid of Construction	(10,165)	-		(10,165)	(9,083)
Accumulated Amortization of CIAC	846	0		846	680
Acquisition Adjustment	(47,985)			(47,985)	(47,985)
Accumulated Amortization of Acquisition Adjustment	-			-	-
Working Capital Allowance		3,818		3,818	3,818
<b>NET BOOK VALUE</b>	<b>\$ 215,984</b>	<b>\$ 3,854</b>		<b>\$ 219,838</b>	<b>\$224,823</b>

## Exhibit 2: Capital Structure

**LEIGHTON ESTATES UTILITIES, LLC**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20220026-WU; ACN 2022-045-1-1**  
**SCHEDULE OF CAPITAL STRUCTURE**  
**AS OF December 31, 2021**

Cost of Capital	Average 12/31/2021 per Utility	Audit Adjustment	Average 12/31/2021 Per Audit	Ratio	Cost Rate	Weighted Cost
<b>Long Term Debt</b>						
Capital City Bank 7551	\$ 165,385		\$ 165,385	91.56%	5.50%	5.04%
Capital City Bank 2286	\$ 11,199		\$ 11,199	6.20%	5.95%	0.37%
<b>Paid in Capital</b>	\$ 3,355	\$ -	\$ 3,355	1.86%	7.85%	0.15%
<b>Customer Deposits</b>	\$ 700		\$ 700	0.39%	2.00%	0.01%
<b>Total</b>			\$ 180,639	2.24%		5.56%

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

$$\text{Return} = 6.05 + (1.800/\text{equity ratio})$$

$$\text{Return} = 6.05 + (1.800/1.000)$$

$$\text{Return} = 7.85$$

**Exhibit 3: Net Operating Income**

**LEIGHTON ESTATES UTILITIES, LLC  
STAFF ASSISTED RATE CASE  
DOCKET NO. 20220026-WU; ACN 2022-045-1-1  
SCHEDULE OF WATER NET OPERATING INCOME  
FOR TEST YEAR ENDED DECEMBER 31, 2021**

Description	Balance per Utilitiy 12/31/2021	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2021
<b>Operating Revenues</b>	\$ 28,105	\$ 0		\$28,105
<b>Operation &amp; Maintenance Expenses</b>	30,544	-		30,544
<b>Depreciation Expense</b>	12,600	(36)	1	12,564
<b>Amoritization Expense</b>	(333)	0		(333)
<b>Amortization of Acq Adj</b>	-			-
<b>Taxes Other than Income</b>	2,258	-		2,258
<b>Income Tax Expense</b>		-		
<b>Total Operating Expenses:</b>	\$ 45,070	\$ (36)		\$ 45,034
<b>Net Operating Income (Loss)</b>	\$ (16,965)	\$ 36		\$ (16,929)