

State of Florida



# Public Service Commission


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TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** January 6, 2025

**TO:** Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

**FROM:** Lynn Deamer, Bureau Chief, Office of Auditing & Performance Analysis 

**RE:** Docket No.: 20240119-WU  
Company Name: Alturas Water LLC  
Company Code: WU986  
Audit Purpose: A1b: Staff-Assisted Rate Case  
Audit Control No.: 2024-229-2-1

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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.

Attachment: Audit Report

Cc: Office of Auditing & Performance Analysis

State of Florida



## Public Service Commission

Office of Auditing and Performance Analysis  
Bureau of Auditing

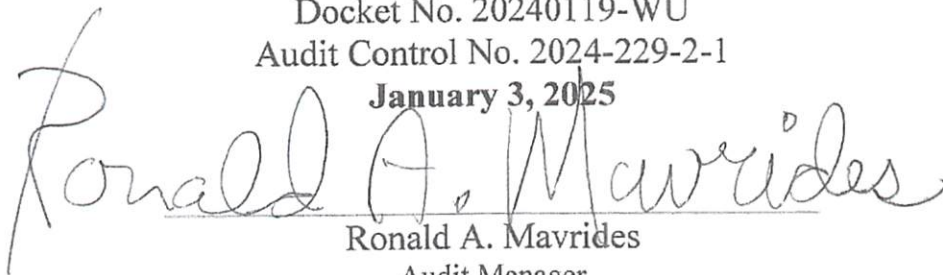
### Auditor's Report

Alturas Water, LLC  
Staff-Assisted Rate Case

**12 Months Ended 6/30/2024**

Docket No. 20240119-WU  
Audit Control No. 2024-229-2-1

**January 3, 2025**



Ronald A. Mavrides  
Audit Manager



Lynn M. Deamer  
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 August 16, 2024. We have applied these procedures to the attached schedules prepared by the audit staff in support of Alturas Water, LLC's request for a Staff-Assisted Rate Case in Docket No.20240119-WU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definintions

Utility refers to Alturas Water, LLC.

The test year for this proceeding is the historical twelve months ended June 30, 2024.

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 System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

#### Background

Alturas Water, LLC, is a Class C water utility operating in Polk County. The Utility provides service to approximately 53 residential customers. The Utility files Federal taxes as a sole proprietor.

#### Utility Books and Records

**Objectives:** 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 determined that the Utility's books are in substantial compliance with 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 the beginning balances for UPIS, as of June 15, 2018, in Docket No. 20180175-WU, to the general ledger. We scheduled UPIS activity from June 15, 2018, to June 30, 2024. We traced asset additions to supporting documentation. We ensured that retirements

were made when an asset was removed or replaced. We determined the simple average and year-end balances as of June 30, 2024. See Finding 1.

### Land & Land Rights

**Objectives:** The objectives were to determine whether Utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease, and 3) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We requested a warranty deed or other evidence of Utility land ownership and received the county property appraisers record of the Utility property from the Utility. There has been no change in land ownership since the last rate proceeding.

### Accumulated Depreciation

**Objectives:** The objectives were to determine whether: 1) Adjustments to accumulated depreciation in the Utility's last rate case proceeding were recorded in its general ledger, 2) Accumulated depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset was replaced.

**Procedures:** We reconciled the beginning balance for accumulated depreciation, as of June 15, 2018, in Docket No. 20180175-WU, to the general ledger. We calculated accumulated depreciation using the depreciation rates established by Commission Rule 25-30.140-Depreciation. We determined the year-end and simple average accumulated depreciation balance as of June 30, 2024. Our recommended adjustments to accumulated depreciation are discussed in Finding 2.

### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine whether; 1) Contributions-in-aid-of-construction (CIAC) is properly recorded in compliance with Commission rules and the NARUC USOA, 2) Donated property is properly accounted for as recorded as CIAC, and 3) Adjustments to CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** Order No. PSC-2019-0304-PAA-WU, issued July 29, 2019 reflected CIAC as fully amortized. The Utility no longer carries this CIAC balance on its books nor reflects it in the annual reports. Audit staff determined there has been no additional CIAC incurred since the last Commission proceeding. No further work was performed.

### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether: 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2)

Retirements are recorded when a contributed asset was replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** Order No. PSC-2019-0304-PAA-WU, issued July 29, 2019 reflected CIAC as fully amortized. The Utility no longer carries this CIAC balance nor the accumulated amortization of said CIAC on its books nor reflects it in the annual reports. Audit staff determined there has been no additional CIAC incurred since the last Commission proceeding. No further work was performed.

### Working Capital

**Objectives:** The objective was to determine the working capital adjustment to be included in the Utility's rate base per Commission Rule 25-30.433(3), F.A.C.

**Procedures:** We calculated the Utility's working capital adjustment as of June 30, 2024, using one-eighth of operation and maintenance (O&M) expense as required by Commission Rule 25-30.433(3), F.A.C.

### **Capital Structure**

**Objectives:** The objectives were to determine: 1) Component balances for the Utility's capital structure, 2) Cost rates to be used to arrive at the overall weighted cost of capital and, if 3) Components are properly recorded in compliance with Commission requirements.

**Procedures:** We reviewed the general ledger and determined that the Utility's capital structure is composed of long-term debt and negative retained earnings. We determined the year-end and its weighted average cost as of June 30, 2024. Our recommended adjustment to capital structure is discussed in Finding 3.

### **Net Operating Income**

#### Operating Revenue

**Objectives:** The objectives were to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission-approved rates.

**Procedures:** We compiled the Utility's revenues for the test year ended June 30, 2024, by obtaining the monthly customer billing registers. We reconciled the billing register to the general ledger. We recalculated revenues based on current tariffs in effect by class. We completed a billing analysis as requested by technical staff. See Finding 4.

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether O&M expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Properly recorded in the appropriate period for the correct amount, and 3) Recorded in compliance with NARUC USOA and Commission Rules.

**Procedures:** We reviewed all direct costs for the Utility's O&M expenses for the test year. We reviewed invoices for proper amount, period, classification, NARUC account and whether it was recurring in nature. We verified each direct expense against the invoice and supporting documentation. We verified payroll expense and the current allocation. We reviewed the allocated expenses from the parent. Our recommended adjustments to O&M expenses are discussed in Finding 5.

### Depreciation and CIAC Amortization Expense

**Objectives:** The objectives were to determine whether depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of UPIS assets and the amortization of CIAC for ongoing utility operations.

**Procedures:** We recalculated depreciation expense for the test year ended June 30, 2024, by using the rates established by Commission Rule 25-30.140, F.A.C. No exceptions were noted.

### Taxes Other than Income

**objectives:** The objectives were to determine whether taxes other than income (TOTI) expenses are 1) Properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with the NARUC USOA.

**Procedures:** We verified TOTI expenses for the test year ended June 30, 2024, by tracing the tax amounts to original source documentation. We reviewed the 2023 regulatory assessment fee returns. No exceptions were noted.



## Audit Findings

### **Finding 1: Utility Plant in Service**

**Audit Analysis:** Staff compiled a schedule of UPIS balances beginning from the last Commission order on June 15, 2018, and included the additions that were substantiated with source documents to the test year date of June 30, 2024. Staff compared the audited UPIS balances to the Utility’s general ledger and removed \$511 from account 311 Pumping Equipment and \$1,656 from account 320 Water Treatment Equipment for lack of support.

**Table 1-1**

Acc#	Account Description	Balance Per		Balance Per	Simple
		Utility	Adjustments	Audit	Average
304	STRUCTURE AND IMPROVEMENTS	519	-	519	519
307	WELLS & SPRINGS	6,987	-	6,987	6,987
309	SUPPLY MAINS	237	-	237	237
311	PUMPING EQUIPMENT	15,087	(511)	14,576	14,832
320	WATER TREATMENT EQUIPMENT	2,208	(1,656)	552	1,380
330	DISTRIBUTION RESERVOIRS	22,822	-	22,822	22,822
331	TRANSSION & DISTRIBUTION MAINS	19,162	-	19,162	19,162
334	METERS AND METER INTALLATIONS	6,345	-	6,345	6,345
400	ALLOCATED PLANT	3,854	-	3,854	3,854
	<b>Total UPIS</b>	<b>77,221</b>	<b>(2,167)</b>	<b>75,054</b>	<b>76,138</b>

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

**Effect on the Filing:** Reduce account 311 Pumping Equipment by \$511 and reduce account 320 Water Treatment Equipment by \$1,656.

## Finding 2: Accumulated Depreciation and Amortization

Table 2-1

Account		Balance per	Audit	Balance per	Simple	Depreciation
		Utility	Adjustment	Audit	Average	Expense
No.	Account Descriptions	06/30/2024		06/30/2024	per Audit	
304	STRUCTURES A& IMPROVEMENTS	\$ 249	\$ (0)	\$ 249	\$ 249	\$ 19
307	WELLS & SPRINGS	6,987	-	6,987	6,987	-
309	SUPPLY MAINS	103	0	103	103	7
311	PUMPING EQUIPMENT	(426)	(225)	(651)	(539)	663
320	WATER TREATMENT EQUIPMENT	440	(106)	334	387	32
330	DISTRIBUTION RESERVOIRS	13,864	(30)	13,834	13,849	692
331	TRANSMISSION AND DISTRIBUTION MAINS	19,161	(0)	19,161	19,161	-
334	METERS & METER INSTALLATION	3,652	281	3,933	3,793	373
400	ALLOCATED COMMON PLANT	2,361	(62)	2,299	2,330	662
		<u>\$ 46,391</u>	<u>\$ (141)</u>	<u>\$ 46,249</u>	<u>\$ 46,320</u>	<u>\$ 2,449</u>

**Audit Analysis:** According to the Utility’s general ledger, the accumulated depreciation balance was \$46,391 as of June 30, 2024. Audit staff recalculated accumulated depreciation and depreciation expense using the audit UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Audit staff determined the year-end and simple average balances of the accumulated depreciation to be \$46,249 and \$46,320, respectively. Depreciation expense was \$2,449.

**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 accumulated depreciation and simple average balances to be \$46,249 and \$46,320, respectively, as of June 30, 2024. Audit staff determined depreciation expense to be \$2,449 for the test year ended June 30, 2024.

### Finding 3: Capital Structure

**Audit Analysis:** The Utility’s capital structure consists of one long-term bank loan allocated to several subsidiaries, a mortgage, and a negative common equity balance. Since including negative equity would penalize the Utility’s capital structure by understating the overall rate of return, we have adjusted the negative equity to zero, per Commission practice. Table 3-1 summarizes the Alturas capital structure.

**Table 3-1**

<b>Capital Component</b>	<b>Balance Per Utility 06/30/2024</b>	<b>Audit Adjustment</b>	<b>Balance Per Audit 06/30/2024</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Average Weighted Cost</b>
Long-Term Debt	27,043		27,043	76.52%	5.00%	3.83%
Paid-in-Capital	8,298		8,298	23.48%	11.24%	2.64%
Retained Earnings	(77,197)	77,197	-			
<b>Total Capital</b>	<b>\$ -</b>		<b>\$ 35,341</b>	<b>100%</b>		<b>6.47%</b>

Common Equity cost rate is from Order No. PSC-2024-0165-PAA-WS issued on May 22, 2024

**Effect on the General Ledger:** None

**Effect on the Filing:** Audit staff defers to the analyst as to the treatment of the capital structure.

## Finding 4: Operating Revenue

**Audit Analysis:** The Utility reported total revenues of \$37,330 for the 12-month test year ended June 30, 2024, in its general ledger.

In our analysis of the billing register, we calculated revenues of \$40,590 for a difference of \$3,260. The increase is due to staff using amended tariff sheets effective June 1, 2024.

**Table 4-1**

NARUC	Description	Balance Per		Adjustments	Balance Per		
		Utility	6/30/2024		Audit	6/30/2024	
522.1	Residential Service	\$	31,067	\$	3,650	\$	34,718
522.2	General Service		5,106		(390)		4,717
521.6	Other Revenues:				-		
521.6	Late Fees		1,029		-		1,029
521.6	Conections		90		-		90
521.6	Deposit Interest		(13)				(13)
521.6	Returned Payment Fee		50				50
<b>Total</b>		\$	37,330	\$	3,260	\$	40,590

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

**Effect on the Filing:** Operating revenues should be increased by \$3,260.

## Finding 5: Operations and Maintenance Expense

**Audit Analysis:** According to the Utility’s general ledger, the O&M expense balance was \$37,401 as of June 30, 2024. The Utility’s balance was overstated by \$1,213, as outlined in Table 5-1. Transportation and miscellaneous expenses were allocated by the parent.

**Table 5-1**

NARUC	Description	Balance Per		Balance Per
		Utility	Adjustment	
		06/30/2024		06/30/2024
601	Salaries And Wages - Employees	\$ 8,915	576	\$ 9,491
603	Salaries - Officers - Directors	1,600	444	2,044
604	Employee Pension And Benefits	6	(6)	
615	Purchased Power	2,241	(10)	2,231
618	Chemicals	2,130	(202)	1,927
620	Materials And Supplies	2,525	(2,022)	503
631	Contractual Services - Professional	265	1,515	1,780
635	Contractual Services - Testing	1,460	(1,460)	
636	Contractual Services - Other	7,092	(32)	7,060
640	Rental Of Building/Real Property	1,155	(507)	648
650	Transportation Expenses	1,777	(57)	1,721
655	Insurance	4,706	181	4,887
665	Regulatory Commission Expense	1,143	542	1,685
670	Bad Debt Expense	647	-	647
675	Miscellaneous	2,953	(175)	2,778
	<b>Total</b>	<b>\$38,614</b>	<b>\$ (1,213)</b>	<b>\$ 37,401</b>

1. Acct. No. 601 – Salaries and Wages - Employees is increased by \$576 as calculated from allocations from the parents source documents.
2. Acct. No. 603 – Salaries Officers and Directors is increased by \$444 as calculated from allocations from the parents source documents.
3. Acct. 604 — Employee Pension and Benefits is decreased by \$6 for lack of documentation.
4. Acct. 615 – Purchased Power is reduced by \$10 to reflect source documentation.
5. Acct. 618 – Chemicals is reduced by \$202 to reflect source documentation.
6. Acct. 620 - Materials and Supplies is reduced by \$2,022 to reflect source documentation.

7. Acct. 631 – Contractual Services – Professional is increased by \$1,515 to reflect source documentation and to add \$1,440 erroneously entered as Contractual Services – Testing.
8. Acct. 635 – Contractual Services – Testing is reduced by \$1,460 to reflect source documentation and to remove \$1,440 entered erroneously.
9. Acct. 636 – Contractual Services – Other is reduced by \$32 to reflect source documentation.
10. Acct. 640 – Rental of Building/Real Property is reduced by \$507 to reflect source documentation.
11. Acct. 650 – Transportation Expense is reduced by \$57 to reflect allocations from the parent.
12. Acct. 655 – Insurance is increase by \$181 to reflect source documentation.
13. Acct. 665 – Regulatory Commission Expense is increased by \$542 to reflect the amount of the 2023 Regulatory Commission Expense paid.
14. Acct. 675 – Miscellaneous Expense consists of \$1,075 direct costs and \$1,878 which is allocated from the parent. Audit staff reduced the direct costs by \$175 to reflect lack of supporting documentation. The allocated expenses booked to Account 675 were sampled and found that most of the sampled items pertain to interest and meals. which are normally not recoverable for ratemaking purposes. Staff defers the determination of the adjustment of the allocated portion to technical staff.

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

**Effect on the Filing:** Audit staff defers to the analyst as to the treatment of miscellaneous expenses.

Exhibits

**Exhibit 1: Rate Base**

**ALTURAS WATER, LLC  
STAFF ASSISTED RATE CASE  
TWELVE MONTH PERIOD ENDED JUNE 30, 2024  
DOCKET NO. 20240119-WU; ACN 2024-229-2-1  
SCHEDULE OF WATER RATE BASE**

Description	Balance per Utility 6/30/2024	Audit Adjustments	Balance per Audit 6/30/2024	Simple Average
Utility Plant in Service	\$ 77,221	(2,167)	\$ 75,054	\$ 76,138
Land	500	-	500	\$ 500
Accumulated Depreciation	(46,391)	142	(46,249)	\$ (46,320)
Contributions in Aid of Construction	-	-	-	\$ -
Accumulated Amortization of CIAC	-	-	-	\$ -
<b>NET BOOK VALUE</b>	<b>\$ 31,330</b>	<b>\$ (2,025)</b>	<b>\$ 29,305</b>	<b>\$ 30,318</b>

## Exhibit 2: Capital Structure

**ALTURAS WATER, LLC**  
**STAFF ASSISTED RATE CASE**  
**TWELVE MONTH PERIOD ENDED JUNE 30, 2024**  
**DOCKET NO. 20240119-WU; ACN 2024-229-2-1**  
**SCHEDULE OF CAPITAL STRUCTURE**

<b>Capital Component</b>	<b>Balance Per Utility 06/30/2024</b>	<b>Audit Adjustment</b>	<b>Finding Number</b>	<b>Balance Per Audit 06/30/2024</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Average Weighted Cost</b>
Long-Term Debt	27,043			27,043	76.52%	5.00%	3.83%
Paid-in-Capital	8,298			8,298	23.48%	11.24%	2.64%
Retained Earnings	(77,197)	77,197	3	-			
<b>Total Capital</b>	<b>\$ -</b>			<b>\$ 35,341</b>	<b>100%</b>		<b>6.47%</b>

Common Equity cost rate is from Order No. PSC-2024-0165-PAA-WS issued on May 22, 2024



**Exhibit 3: Net Operating Income**

**ALTURAS WATER, LLC  
 STAFF ASSISTED RATE CASE  
 DOCKET NO. 20240119-WU; ACN 2024-229-2-1  
 SCHEDULE OF WATER NET OPERATING INCOME  
 TWELVE MONTH PERIOD ENDED JUNE 30, 2024**

<b>DESCRIPTION</b>	<b>Balance Per Utility 6/30/2024</b>	<b>Adjustments</b>	<b>Audit Finding No.</b>	<b>Balance Per Audit 6/30/2024</b>
<b>Operating Revenues</b>	37,330	3,260	4	40,590
		-		
<b>Operation &amp; Maintenance Expense</b>	38,614	(1,213)	5	37,401
		-		
<b>Depreciation Expense</b>	580	1,870	2	2,450
		-		
<b>Taxes Other Than Income</b>	5,854			5,854
		-		
<b>Total Operating Expense</b>	45,048	657		45,705
		-		
<b>Net Operating Income (Loss)</b>	\$ (7,718)	\$ 2,603		\$ (5,115)