

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:** January 12, 2010  
**TO:** Jared Deason, Regulatory Analyst, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DM*  
**RE:** Docket No.: 090477-WU  
Company Name: Alturas Utilities, L.L.C.  
Company Code: WU871  
Audit Purpose: Staff Assisted Rate Case  
Audit Control No: 09-327-2-1

---

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 were no confidential work papers associated with this audit.

DNM/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

RECEIVED-FPSC  
10 JAN 12 PM 4:06  
COMMISSION  
CLERK

DOCUMENT NUMBER-DATE  
00281 JAN 12 0  
FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION  
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING**

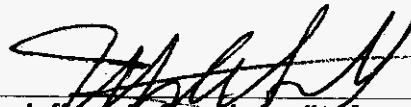
*Tampa District Office*

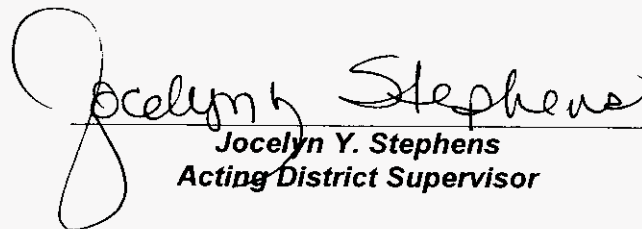
**ALTURAS UTILITIES, L.L.C.**

**STAFF ASSISTED RATE CASE**

**AS OF OCTOBER 31, 2009**

**DOCKET NO. 090477-WU  
AUDIT CONTROL NO. 09-327-2-1**

  
Jeffery A. Small, Audit Manager

  
Jocelyn Y. Stephens  
Acting District Supervisor

DOCUMENT NUMBER-DATE

00281 JAN 12 9

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE .....	1
II. OBJECTIVES AND PROCEDURES .....	2
III. AUDIT FINDINGS	
1. UTILITY BOOKS AND RECORDS .....	6
2. UTILITY PLANT IN SERVICE AND ACCUMULATED DEPRECIATION .....	7
3. LAND .....	10
4. CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) AND AMORTIZATION OF CIAC .....	11
5. REVENUES .....	12
6. OPERATION AND MAINTENANCE EXPENSE .....	14
7. TAXES OTHER THAN INCOME .....	18
8. CAPITAL STRUCTURE .....	19
9. INFORMATION OF PRO-FORMA CAPITAL IMPROVEMENTS .....	20
IV. EXHIBITS	
1. RATE BASE .....	21
2. NET OPERATING INCOME .....	22
3. COST OF CAPITAL .....	23

DOCUMENT NUMBER - DATE

00281 JAN 12 9

FPSC-COMMISSION CLERK

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**DECEMBER 18, 2009**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated November 19, 2009. We have applied these procedures to the attached schedules prepared by the audit staff in support of Alturas Utilities, L.L.C.'s request for a Staff Assisted Rate Case in Docket No. 090477-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.

## OBJECTIVES AND PROCEDURES

### GENERAL

#### Utility Books and Records

*Objective:* To determine that the company maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts (USOA).

*Procedures:* We reviewed the company's accounting system. Audit Finding No. 1 discusses our findings and recommendations for the company's accounting system.

### RATE BASE

#### Utility Plant in Service (UPIS)

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

*Procedures:* We determined the company's UPIS balances that were established in Docket No. 040160-WU.<sup>1</sup> We reviewed company documentation for UPIS additions during the period February 11, 2004 through October 31, 2009 to determine the UPIS balance for this proceeding. We recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant site to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 discusses our findings and recommended UPIS balance as of October 31, 2009. Audit Finding No. 9 provides information on the company's request for pro forma plant.

#### Land

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

*Procedures:* We verified that there has been no change to the company's land balance or ownership since the balance was reaffirmed in Docket No. 040160-WU. Audit Finding No. 3 discusses our findings and the land balance as of October 31, 2009.

#### Contributions-in-Aid-of-Construction (CIAC)

*Objective:* To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC's USOA. To verify and insure that all donated property is properly accounted for and recorded as CIAC.

---

<sup>1</sup> See Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, Docket No. 040160-WU, , In Re: Application for transfer of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.

*Procedures:* We determined the company's CIAC balance that was established in a certificate of transfer proceeding in Docket No. 040160-WU. We reviewed company documentation for CIAC additions during the period February 11, 2004 through October 31, 2009 to determine the CIAC balance for this proceeding. We scanned the company's 2004 through 2008 Federal Income Tax returns for unrecorded cash and property contributions. Audit Finding No. 4 discusses our findings and the CIAC balance as of October 31, 2009.

#### Accumulated Depreciation

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

*Procedures:* We determined the company's accumulated depreciation balances that were established in a certificate of transfer proceeding in Docket No. 040160-WU. We compiled accumulated depreciation accruals for the period February 11, 2004 through October 31, 2009 to determine the company's accumulated depreciation balance for this proceeding. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding No. 2 discusses our findings and recommended balance for accumulated depreciation as of October 31, 2009.

#### Accumulated Amortization of CIAC

*Objective:* To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC's USOA.

*Procedures:* We determined the company's accumulated amortization of CIAC balance that was established in a certificate of transfer proceeding in Docket No. 040160-WU. Audit Finding No. 4 discusses our findings and the balance for accumulated amortization of CIAC as of October 31, 2009.

#### Working Capital

*Objective:* To determine that the company's working capital allowance is properly calculated in compliance with Commission rules.

*Procedures:* We calculated the company's working capital allowance as of October 31, 2009 using one-eighth of operation and maintenance expense as required by Commission rule.<sup>2</sup> Audit Finding No. 6 discusses our recommended working capital allowance as of October 31, 2009.

---

<sup>2</sup> See Rule 25-30.433 (2), Florida Administrative Code.

## NET OPERATING INCOME

### Revenues

*Objective:* To determine that revenues are properly recorded in compliance with Commission rules and are based on the company's Commission approved tariff rates.

*Procedures:* We compiled company revenues for the 12-month period ending October 31, 2009 from the company's billing register records. Audit Finding No. 5 discusses our findings and recommended revenue balance.

### Operation and Maintenance Expense

*Objective:* To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled operation and maintenance expense items for the 12-month period ending October 31, 2009 from company documentation and vendor invoices. We reviewed all the invoices provided for the proper amount, period, classification, NARUC account and its recurring nature. Audit Finding No. 6 discusses our findings and recommended operation and maintenance expense balance for the 12-month period ending October 31, 2009.

### Taxes-Other-Than-Income (TOTI)

*Objective:* To determine that TOTI tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled TOTI items for the 12-month period ending October 31, 2009 from company documentation and vendor invoices. We reviewed all company tax invoices provided for the proper amount, period, classification, NARUC account and its recurring nature. Audit Finding No. 7 discusses our findings and recommended TOTI expense balance for the 12-month period ending October 31, 2009.

### Depreciation Expense

*Objective:* To determine that depreciation expense 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 contributions-in-aid-of-construction assets from ongoing utility operations.

*Procedures:* We calculated depreciation expense balances using the UPIS balances determined above. Audit Finding No. 2 discusses our findings and recommended depreciation expense balance for the 12-month period ending October 31, 2009.

## CAPITAL STRUCTURE

### General

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

*Procedures:* We determined the company's capital structure and reconciled that balance to the net rate base balance we determined in our procedures listed above. Audit Finding No. 8 discusses our findings and recommended capital structure balance as of October 31, 2009.



## **AUDIT FINDING NO. 1**

### **SUBJECT: UTILITY BOOKS AND RECORDS**

**AUDIT ANALYSIS:** Order No. PSC-05-0309-PAA-WU approved the sale and transfer of the water company's assets from Keen Sales, Rentals and Utilities, Inc. d/b/a Alturas Water Works to Alturas Utilities, L.L.C. (company) as of February 10, 2004.<sup>3</sup> Additionally, the order put Alturas Utilities, L.L.C. on notice that it would be required to maintain its books in accordance with the NARUC's USOA as required by Commission rules.<sup>4</sup>

The company uses a cash basis accounting system that is currently maintained by its contract manager. The manager, with the help of company officials, compiles the company's general ledger and prepares its annual reports to be filed with the Commission. Additionally, the company contracts with an outside accounting firm to provide federal and state tax reporting services for a January 31 fiscal year end.

The company's current accounting system is not in full compliance with the Commission Order referenced above and was not conducive for our requirements or needs for this rate proceeding. The fact that its records are maintained on a cash basis and that the test year we chose does not equate to a calendar year made it difficult for us to use the information compiled in the company's general ledger.

Our review of the company's annual reports and federal tax returns for that time period reflected that there was no rate base account activity since the transfer was approved. Therefore, the impact on our findings is minimal. The company's underlying records since the transfer were made accessible and deemed sufficient for us to substantially complete our assigned objectives in this proceeding.

We recommend that the company be reminded of its obligation to maintain its books in accordance with the NARUC's USOA and be required to convert from its present cash basis method to an accrual basis method of accounting for future reporting periods.

Subsequent to the transfer, the company has never requested a price index or pass-through rate adjustment.

---

<sup>3</sup> See Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, Docket No. 040160-WU, , In Re: Application for transfer of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.

<sup>4</sup> See Rule 25-30.115, Florida Administrative Code.

## **AUDIT FINDING NO. 2**

### **SUBJECT: UTILITY PLANT IN SERVICE AND ACCUMULATED DEPRECIATION**

**AUDIT ANALYSIS:** The company's 2008 annual report reflects ending balances of \$48,034 and \$47,171 for Utility Plant in Service (UPIS) and accumulated depreciation, respectively.

Order No. PSC-05-0309-PAA-WU,<sup>5</sup> established UPIS and accumulated depreciation balances of \$54,948 and \$25,574, respectively, as of February 10, 2004 when the company was sold to the current owners.

We reviewed the company's annual reports, general ledgers and other documentation for the period February 11, 2004 through October 31, 2009 to verify additions or retirements to UPIS and to test the company's depreciation accruals and accumulated depreciation account balances. We determined that the company did not record any additions to UPIS during the period and that it did not use the proper service lives as prescribed by the Commission to depreciate its UPIS assets. We further determined that the company did not record the prescribed balances for UPIS and accumulated depreciation that were required in Order No. PSC-05-0309-PAA-WU, referenced above.

We reclassified two transactions, discussed in Audit Finding No. 6 of this report, from the company's operation and maintenance expense accounts to UPIS and calculated the corresponding balance as of October 31, 2009.

We calculated depreciation expense using the depreciation rates prescribed by Commission rules<sup>6</sup> and compiled accumulated depreciation accruals since the transfer to determine the company's accumulated depreciation balance as of October 31, 2009.

We calculated balances of \$56,194, \$31,436 and \$1,349 for UPIS, accumulated depreciation and depreciation expense, respectively, for the test year ending October 31, 2009.

**EFFECT ON THE FILING:** The Company's UPIS and accumulated depreciation balances are \$56,194 and \$31,436, respectively, and test year depreciation expense is \$1,349 as of October 31, 2009. These balances and a corresponding test year simple average are displayed on the following schedules.

**EFFECT ON THE GENERAL LEDGER:** The Company should adjust its general ledger and annual report to the balances determined above.

---

<sup>5</sup> See Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, Docket No. 040160-WU, , In Re: Application for transfer of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.

<sup>6</sup> See Rule 25-30.140 (1), Florida Administrative Code.

### Utility Plant in Service

Acc#	Account Description	Per Company @ 12/31/2008	Audit Adjustment	Per Audit @ 10/31/2008	Test Year Additions	Per Audit @ 10/31/2009	Simple Average
307.00	Wells & Springs	\$1,500	\$5,487	\$6,987	\$0	\$6,987	\$6,987
311.00	Pumping Equipment	17,476	(9,358)	8,118	304	8,422	8,270
320.00	Water Treatment Equipment	250	(30)	220	0	220	220
330.00	Distribution Reservoirs & Standpipes	11,600	4,665	16,265	0	16,265	16,265
331.00	Transmission & Distribution Mains	5,689	12,948	18,637	0	18,637	18,637
334.00	Meters & Meter Installations	10,569	(5,848)	4,721	942	5,663	5,192
341.00	Transportation Equipment	750	(750)	0	0	0	0
348.00	Other Tangible Plant	<u>200</u>	<u>(200)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Totals	\$48,034	\$6,914	\$54,948	\$1,246	\$56,194	\$55,571

The audit adjustment corrects the company's balance to the balances established in Order No. PSC-05-0309-PAA-WU.

The test year additions are net of the corresponding asset retirements.

### Accumulated Depreciation

Acc#	Account Description	Per Company @ 12/31/2008	Audit Adjustment	Per Audit @ 10/31/2008	Test Year Accruals	Per Audit @ 10/31/2009	Simple Average
307.00	Wells & Springs	\$1,500	\$5,487	\$6,987	\$0	\$6,987	\$6,987
311.00	Pumping Equipment	16,942	(15,348)	1,594	(360)	1,234	1,414
320.00	Water Treatment Equipment	250	(30)	220	0	220	220
330.00	Distribution Reservoirs & Standpipes	11,598	(8,039)	3,559	493	4,052	3,806
331.00	Transmission & Distribution Mains	5,689	12,948	18,637	0	18,637	18,637
334.00	Meters & Meter Installations	10,281	(9,511)	770	(465)	305	538
341.00	Transportation Equipment	711	(711)	0	0	0	0
348.00	Other Tangible Plant	<u>200</u>	<u>(200)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Totals	\$47,171	(\$15,404)	\$31,767	(\$332)	\$31,436	\$31,601

The audit adjustment corrects the company's balance to the balances established in Order No. PSC-05-0309-PAA-WU and recalculates the annual depreciation accruals using the rates prescribed by Commission rule. The adjustment details are displayed on the following schedule.

The test year accruals are net of the corresponding asset retirements.

(All amounts on both schedules are rounded to the nearest whole dollar)

## Depreciation Expense

Acc#	Account Description	Test Year Average UPIs	Depreciation Rate	Test Year Dep. Expense	Test Year Retirements	Test Year A/D Accrual
307.00	Wells & Springs	\$6,987	3.704%	\$0	\$0	\$0
311.00	Pumping Equipment	8,270	6.667%	551	(911)	(360)
320.00	Water Treatment Equipment	220	5.882%	0	0	0
330.00	Distribution Reservoirs & Standpipes	16,265	3.030%	493	0	493
331.00	Transmission & Distribution Mains	18,637	2.632%	0	0	0
334.00	Meters & Meter Installations	5,192	5.882%	305	(770)	(465)
341.00	Transportation Equipment	0	16.667%	0	0	0
348.00	Other Tangible Plant	0	10.000%	0	0	0
	Totals	\$55,571		\$1,350	(\$1,681)	(\$331)

Test year depreciation expense is calculated using the rates prescribed by Commission rule and the half-year convention method.

## Accumulated Depreciation – Audit Adjustment

Acc#	Account Description	Per Company @ 12/31/2008	Order Adjustment	Adj Company @12/31/2008	Test Year Accrual	Per Audit @ 10/31/2008	Total Audit Adjustment
307.00	Wells & Springs	\$1,500	\$5,487	\$6,987	\$0	\$6,987	\$5,487
311.00	Pumping Equipment	16,942	(8,692)	8,250	(6,656)	1,594	(15,348)
320.00	Water Treatment Equipment	250	(30)	220	0	220	(30)
330.00	Distribution Reservoirs & Standpipes	11,598	(4,906)	6,692	(3,133)	3,559	(8,039)
331.00	Transmission & Distribution Mains	5,689	12,948	18,637	0	18,637	12,948
334.00	Meters & Meter Installations	10,281	(5,697)	4,584	(3,814)	770	(9,511)
341.00	Transportation Equipment	711	(315)	396	(396)	0	(711)
348.00	Other Tangible Plant	200	(200)	0	0	0	(200)
	Totals	\$47,171	(\$1,405)	\$45,766	(\$13,999)	\$31,767	(\$15,404)

Total audit adjustment equals Order Adjustment plus Accrual Adjustment.

(All amounts on both schedules are rounded to the nearest whole dollar)

**AUDIT FINDING NO. 3**

**SUBJECT: LAND**

**AUDIT ANALYSIS:** The company's annual report does not include a balance for Account No. 303 - Land.

Order No. PSC-05-0309-PAA-WU<sup>7</sup> reaffirmed a land balance of \$500 as of February 10, 2004, when the company was sold and transferred to the current owners.

**EFFECT ON THE FILING:** The Company's land balance is \$500 as of October 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** The Company should adjust its general ledger and annual report to the balance determined above.

---

<sup>7</sup> See Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, Docket No. 040160-WU, , In Re: Application for transfer of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.

#### **AUDIT FINDING NO. 4**

##### **SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION AND ACCUMULATED AMORTIZATION OF CIAC**

**AUDIT ANALYSIS:** The company's annual report does not include any balances for CIAC and Accumulated Amortization of CIAC.

Order No. PSC-05-0309-PAA-WU,<sup>8</sup> established CIAC and accumulated amortization of CIAC balances of \$18,637 and \$18,637, respectively, as of February 10, 2004 when the company was sold and transferred to the current owners.

Although the net effect on rate base is zero, the CIAC and accumulated amortization of CIAC balances should still be maintained for accounting purposes. These balances represent contributions towards plant assets by the company's customers. When those plant assets are replaced and retired, a corresponding retirement to CIAC and accumulated amortization of CIAC would be required.

**EFFECT ON THE FILING:** The Company's CIAC and accumulated amortization of CIAC balances are \$18,637 and \$18,637, respectively, as of October 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** The Company should adjust its general ledger and annual report to the balances determined above.

---

<sup>8</sup> See Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, Docket No. 040160-WU, , In Re: Application for transfer of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County.

**AUDIT FINDING NO. 5**

**SUBJECT: REVENUES**

**AUDIT ANALYSIS:** The company's billing register indicates that it has the potential to provide water service to seventy-six customer's within its service territory as of October 31, 2009.

- The company has one general service connection that is served by a two inch meter.
- The company has nine general service connections that are served by 5/8th inch meters.
- The company has sixty-six residential service connections that are served by 5/8th inch meters. Eleven of the residential service connections were not active or billed during the test year.

We calculated revenues of \$20,656 for the 12-month period ending October 31, 2009 using the customer consumption information from the monthly billing registers and its authorized tariff.

Customer Base	Meter Size	Revenue Amount
Residential Service	5/8"	\$17,122
General Service	5/8"	2,432
General Service	2"	<u>1,102</u>
Total billable service		\$20,656
Miscellaneous service charges		<u>0</u>
Total Revenues		<u>\$20,656</u>

See our calculations on the following page.

**EFFECT ON THE FILING:** The company's revenues are \$20,656 for the 12-month period ending October 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** None

Residential Service - 5/8" Meter				
Gallons	Customers Bills	Tariff Rate		Totals
	618	\$11.00	BFC	\$6,798
3,176,649		\$3.25	Per K/Gal	<u>10,324</u>
			Residential	\$17,122

General Service - 5/8" Meter				
Gallons	Customers Bills	Tariff Rate		Totals
	103	\$11.00	BFC	\$1,133
399,560		\$3.25	Per K/Gal	<u>1,299</u>
			General Service	\$2,432

General Service - 2" Meter				
Gallons	Customers Bills	Tariff Rate		Totals
	12	\$88.00	BFC	\$1,056
14,170		\$3.25	Per K/Gal	<u>46</u>
			General Service	\$1,102



## AUDIT FINDING NO. 6

### SUBJECT: OPERATION AND MAINTENANCE EXPENSE

**AUDIT ANALYSIS:** The company provided a schedule of Operation and Maintenance expense (O&M) disbursements for the test year. Included on the schedule were the following accounts and amounts.

Acct. No.	Account Title	Amount
603	Salaries & Wages - Officers	\$10,844
605	Purchased Power	2,276
618	Chemicals	1,137
620	Materials & Supplies	698
630	Contractual Services - Management & Billing	2,900
631	Contractual Services - Operator	5,288
632	Contractual Services - Accounting	1,320
635	Contractual Services - Testing	0
636	Contractual Services - Other	4,476
640	Rents	375
675	Miscellaneous	6,546
		\$35,860

We reviewed the company's schedule and the balance for each account which was prepared on a cash basis of accounting as discussed in Audit Finding No. 1 of this report. We attempted to verify the amounts for each account balance by using invoices, bank statements and canceled checks provided by the company. The results of our work are described in further detail below.

#### Account No. 603 - Salaries and Wages - Officers

The company's test year schedule reflects a balance of \$10,844 for this account. The balance in this account, based on discussions with the company's manager, represents the cash disbursements to the company's owner for managing and running utility operations during the 12-month test year ending October 31, 2009. No supporting documentation was provided for us to review. We have removed the entire amount for test year. We address this issue further in our discussion for Account No. 630 below.

#### Account No. 615 - Purchased Power

The company's test year schedule reflects a balance of \$2,276 for this account. We have reduced the company's test year balance by \$65 to \$2,211 for the test year. This represents a net adjustment that restates the account balance based on the actual purchased power invoices and removes some late payment charges which are recorded below the line for rate setting purposes.

#### Account No. 618 - Chemicals

The company's test year schedule reflects a balance of \$1,137 for this account. We have reduced the company's test year balance by \$541 to \$596 for the test year. This represents a net adjustment that restates the account balance based on the actual purchased chemical invoices and removes some late payment charges which are

recorded below the line for rate setting purposes.

Account No. 620 - Materials and Supplies

The company's test year schedule reflects a balance of \$698 for this account. No supporting documentation was provided for us to review. We have removed the entire amount from the test year.

Account No. 630 - Contractual Services – Management & Billing

The company's test year schedule reflects a balance of \$2,900 for this account. The balance in this account, based on discussions with the company's manager, represents the service fees charged by the company's manager to manage and operate the utility for its owner. The current management contract is for \$400 per month which includes services for operations management, billing, customer service, accounts payable, accounts receivable and regulatory reporting and compliance. These services, previously performed by the company's owner were turned over to the current contract manager during the test year. We removed the owner's charges of \$10,844 for this service from Acct. No. 603 above. We have increased this balance by \$1,900 to \$4,800 for the test year. This amount reflects the annualized fee for the company's current contract manager. ( $\$400 \times 12\text{-months}$ ). Additionally, the company provided an executed contract that indicates that the monthly management fee will increase to \$600 per month or \$7,200 annually effective January 2010.

Account No. 631 - Contractual Services – Operator

The company's test year schedule reflects a balance of \$5,288 for this account. The company pays for a state certified operator to perform the required water testing and monitoring of the water plant and its operation. There is no signed contract for these services. In July 2009, the fee increased from \$265 per month to \$375 per month for the monthly monitoring and the bacteriological testing of the systems water supply. All other required water testing is billed separately as well as any repairs that are made at the water plant site by the operator. We have increased this balance by \$2,008 to \$7,295 for the test year. This amount reflects an adjustment to include and annualize six monthly service fees for \$2,250 ( $\$375 \times 6\text{ months}$ ), to annualize two monthly service fees already included for \$220 ( $(\$375 - \$265) \times 2\text{ months}$ ), to remove the November 2009 monthly service fee for \$375 that was included by the company but was outside the test year and to remove \$87 of included but unsupported cost. ( $\$2,250 + \$220 - \$375 - \$87$ )

Account No. 632 - Contractual Services – Accounting

The company's test year schedule reflects a balance of \$1,320 for this account. The balance in this account, based on discussions with the company's current contract manager, represents the accounting fees paid to an outside accounting firm to prepare the company's federal and state income tax returns. We propose no adjustments to this account for the test year.

Account No. 636 - Contractual Services - Other

The company's test year schedule reflects a balance of \$4,476 for this account. The

balance in this account represents the fees paid to a third party contractor to perform routine maintenance and major repairs to the water plant systems equipment and distribution system. We have reduced the account balance by \$2,484 to \$1,992 for the test year as described below. (\$1,214 + \$162 + \$1,108)

1. We reclassified \$1,214 to Account No. 311 – Pumping Equipment for the replacement of the main electric service panel at the water plant.<sup>9</sup>
2. We reclassified \$162 to Account No. 334 – Meters for the replacement of 10 customer meters during the test year. The \$162 was the final installment paid on an invoice totaling \$1,712 for the water meters replaced. We have removed \$162 from this account but reclassified \$1,712 to Account 334<sup>10</sup>. The difference of \$1,550 was not included in the company's O&M schedule above or as a UPIS addition because it was paid for by the company's owner from a related party checking account.
3. We removed \$1,108 of costs because no supporting documentation was provided

#### Account No. 640 - Rent Expense

The company's test year schedule reflects a balance of \$375 for this account. No supporting documentation was provided for us to review. We have removed the entire amount for test year.

#### Account No. 665 - Regulatory Commission Expenses

The company's test year schedule does not reflect a balance for this account. We increased this account to \$350 for the test year. This amount reflects an adjustment to include one-fourth of the company's projected cost to date for rate case expense in this rate proceeding. ( $[\$1,200 + \$200] / 4$ )

#### Account No. 675 - Miscellaneous Expenses

The company's test year schedule reflects a balance of \$6,546 for this account. The balance in this account reflects the monthly fee paid to read the water meters, to mow the grass at the water plant site and for other miscellaneous costs incurred by the company. We have reduced the account balance by \$3,875 to \$2,671 for the test year as described below. ( $\$45 + \$67 + \$298 + \$2,516 + \$950 = \$3,875$  (rounding))

1. We reduced water meter reading and lawn maintenance costs by \$45 to reflect the annualized amount that was supported by company documentation.
2. We removed bank service fees of \$67 that were for late payment penalties and fees for returned deposits and non-sufficient funds (NSF).
3. We reduced license and permit fees by \$298 to remove \$48 in taxes that are discussed in Audit Finding No. 7 and to remove costs of \$250 because no supporting documentation provided.
4. We removed taxes of \$2,516 that are discussed further in Audit Finding No. 7
5. We removed repair and maintenance costs of \$950 because no supporting documentation was provided.

The operation and maintenance expense balances by NARUC sub-account and our adjustments are displayed on the following schedule.

---

<sup>9</sup> See Audit Finding No. 2 of this report.

<sup>10</sup> ibid

Operation and Maintenance Expense

Acct. No.	Acct. Description	Per Company	Adjustment	Per Audit
601	Salaries & Wages - Employees	\$0	\$0	\$0
603	Salaries & Wages - Officers	10,844	(10,844)	0
604	Employee Pension & Benefits	0	0	0
615	Purchased Power	2,276	(65)	2,211
618	Chemicals	1,137	(541)	596
620	Materials & Supplies	698	(698)	0
630	Contractural Services - Billing	2,900	1,900	4,800
631	Contractural Services - Operator	5,288	2,008	7,295
632	Contractural Services - Accounting	1,320	0	1,320
635	Contractural Services - Testing	0	0	0
636	Contractural Services - Other	4,476	(2,484)	1,992
640	Rents	375	(375)	0
665	Rate Case Expense	0	350	350
670	Bad Debt Expense	0	0	0
675	Miscellaneous Expense	<u>6,546</u>	<u>(3,875)</u>	<u>2,671</u>
		\$35,860	(\$14,625)	\$21,234
	Working Capital (one-eighth of O&M)			\$2,654

All amounts are rounded to the nearest whole dollar.

The company's working capital allowance for rate base purposes is \$2,654 which is calculated as one-eighth of the audit operation and maintenance expense balance for the test year per Commission rule.<sup>11</sup>

**EFFECT ON THE FILING:** The company's operation and maintenance expense balance is \$21,234 for the 12-month period ending October 31, 2009.

**EFFECT ON THE GENERAL LEDGER:** None

<sup>11</sup> See Rule 25-30.433 (2), Florida Administrative Code.

## AUDIT FINDING NO. 7

### SUBJECT: TAXES OTHER THAN INCOME

**AUDIT ANALYSIS:** The company provided a schedule of Operation and Maintenance expense disbursements for the test year. Included on the schedule were the following items.

Acct. No.	Account Title	Item Identification	Amount
675	Miscellaneous Expense	Local property tax	\$359
675	Miscellaneous Expense	Polk County Utility Tax	928
675	Miscellaneous Expense	Regulatory Assessment Fee	<u>1,229</u>
			\$2,516

- The \$359 local property tax item was paid to the Polk County Tax Collector for the company's 2008 tangible property tax on its utility assets.
- The \$928 utility tax item was paid to the Polk County Health Department for the county's ten percent utility surcharge assessed on the customer's monthly bill.
- The \$1,229 regulatory assessment fee item was paid to the Commission for the company's regulatory assessment fees due on its 2008 reported revenues. The amount included \$353 for penalties and interest for failing to file its 2008 regulatory assessment fees and its 2006 and 2008 annual report in a timely manner.

We have determined that the company's TOTI tax balance for the 12-month test year ending October 31, 2009 is \$1,380.

Acct. No. 408 - Taxes Other Than Income	Amount
Property Taxes	\$451
Polk County Utility Tax	0
Regulatory Assesment Fees	<u>930</u>
	\$1,380

We determined this balance using the company's transaction activities identified above and other company documentation obtained during our audit investigation. Our specific adjustments are detailed below.

1. We reduced the \$359 tangible property tax amount by \$15 to maximize the discount for the early payment of tangible property taxes. We included \$107 for real estate taxes paid in 2008 for the real property associated with the water plant site. ( $\$359 - \$15 + \$107$ )
2. We removed the Polk County utility tax amount because it was not included in our calculation of test year water revenues in Audit Finding No. 4.
3. We reduced the \$1,229 regulatory assessment fee amount by \$299 to record our estimate of regulatory assessment fees based on our calculated test year revenue amount determined in Audit Finding No. 5. ( $\$20,656 \times 4.5\% = \$930$ )

**EFFECT ON THE FILING:** The company's TOTI tax balance is \$1,380 for the 12-month test year ending October 31, 2008.

**EFFECT ON THE GENERAL LEDGER:** None

## AUDIT FINDING NO. 8

### SUBJECT: CAPITAL STRUCTURE

**AUDIT ANALYSIS:** The company's capital structure was composed of the following debt and equity component balances which are reflected in its 2008 annual report.

<u>Class of Capital</u>	<u>Balance at 12/31/08</u>
Note Payable - Shareholder	\$8,900
Note Payable - Lesage	6,118
Note Payable - Sunrise	5,127
Customer Deposits	0
Equity	<u>3,112</u>
Total	\$23,257

We reviewed the company's balance for each capital and equity item. The results of our work are described in further detail below.

#### Notes Payable

The company's note payable balances are based on cash flow exchanges between related parties and its sole shareholder. There are no documents to support the debt that describe the terms, obligations or repayment of the debt. Under this scenario the Commission has treated the entire amount as contributed capital in prior rate cases and included it as equity for capital structure presentation purposes.<sup>12</sup>

#### Customer Deposits

The company collected \$325 in customer deposits during the test year which is included in our cost of capital calculation. Although authorized in the company's tariff, there were no customer deposits transferred in Docket No. 040160-WU, nor were customer deposits collected as of year end 2008.

The company's capital structure balance, before rate base reconciliation, is displayed below.

<u>Class of Capital</u>	<u>Balance at 12/31/08</u>
Equity	\$23,257
Customer Deposits	<u>325</u>
Total	\$23,582

**EFFECT ON THE FILING:** The company's capital structure balance, after rate base reconciliation, is \$27,237, as of October 31, 2009, and the corresponding rate for the weighted average cost of capital is 9.62 percent. Our calculations are displayed in Exhibit 3 of this report.

**EFFECT ON THE GENERAL LEDGER:** None, all deposits collected occurred in 2009.

<sup>12</sup> See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In Re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

## AUDIT FINDING NO. 9

### SUBJECT: INFORMATION ON PRO-FORMA CAPITAL IMPROVEMENTS

**AUDIT ANALYSIS:** The company provided the following estimates for proposed capital improvements that it is seeking recovery of in this rate proceeding as pro-forma UPIS.

<u>Capital Project</u>	<u>Amount</u>	<u>Purpose</u>
Buildings	\$2,000	To provide cover for electric panel and well head.
Meters	1,500	To initiate a meter replacement program.
Master Meter	1,800	Replace master flow meter that broke in test year.
Supply Mains	3,000	To replace galvanized service mains north of the water plant site.
Tanks	2,000	To inspect and install a liner inside the hydropneumatic tank.
Transmission & Distribution Mains	<u>5,900</u>	To replace galvanized distribution mains north of the water plant site.
Total	\$16,200	

No supporting documentation for the above estimates was provided as of the date of this report. The company was instructed to provide the information to the analyst and engineer in Tallahassee.

**EXHIBIT 1**

**ALTURAS UTILITIES, L.L.C.  
RATE BASE  
AS OF OCTOBER, 31, 2009  
DOCKET NO. 090477-WU**

DESCRIPTION	PER UTILITY @12/31/08 (a)	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @10/31/09
UTILITY PLANT IN SERVICE	\$48,034	\$8,160	AF-2	\$56,194
LAND AND LAND RIGHTS	\$0	\$500	AF-3	\$500
CONTRIBUTIONS IN AID OF CONSTRUCTION	\$0	(\$18,637)	AF-4	(\$18,637)
AMORTIZATION OF CIAC	\$0	\$18,637	AF-4	\$18,637
ACCUMULATED DEPRECIATION	(\$47,171)	\$15,735	AF-2	(\$31,436)
WORKING CAPITAL (b)	\$0	\$2,654	AF-6	\$2,654
		-----		-----
NET RATE BASE (c)	\$863	\$27,049		\$27,912

Notes to above schedule:

- a) The company's books are maintained on a cash basis for income tax purposes. Amounts posted in the general ledger are not comparable to the audited test year. We have included the 2008 Annual Report balances for comparative purposes.
- b) Working Capital is calculated as 1/8th of the test year operation and maintenance expense balance displayed in Exhibit 2 of this report.
- c) All amounts are rounded to the nearest whole dollar.



**EXHIBIT 2****ALTURAS UTILITIES, L.L.C.  
NET OPERATING INCOME  
AS OF OCTOBER, 31, 2009  
DOCKET NO. 090477-WU**

<b>DESCRIPTION</b>	<b>PER UTILITY @09/30/2008 (a)</b>	<b>AUDIT ADJUSTMENTS</b>	<b>REFER TO</b>	<b>PER AUDIT @09/30/2008</b>
REVENUES	\$19,488	\$1,168	AF-5	\$20,656
OPERATION AND MAINTENANCE EXPENSE	\$28,232	(\$6,998)	AF-6	\$21,234
DEPRECIATION EXPENSE	\$4,568	(\$3,219)	AF-2	\$1,349
CIAC AMORTIZATION EXPENSE	\$0	\$0	AF-4	\$0
TAXES OTHER THAN INCOME TAX EXPENSE	\$0	\$1,380	AF-7	\$1,380
PROVISION FOR INCOME TAX EXPENSE (b)	\$0	\$0		\$0
		-----		-----
OPERATING EXPENSE	\$32,800	(\$8,837)		\$23,963
		-----		-----
NET OPERATING INCOME (c)	(\$13,312)	\$10,005		(\$3,307)

## Notes to above schedule:

- a) The company's books are maintained on a cash basis for income tax purposes. Amounts posted in the general ledger are not comparable to the audited test year. We have included the 2008 Annual Report balances for comparative purposes.
- b) The company's 2008 Federal tax return, for the 12-month tax period ending January 31, 2009, reflects a net operation loss carry forward of \$21,610. This loss will offset any federal income tax liability for the 12-month test year and future tax liabilities in subsequent years.
- c) All amounts are rounded to the nearest whole dollar.

**EXHIBIT 3**

**ALTURAS UTILITIES, L.L.C.  
CAPITAL STRUCTURE  
AS OF OCTOBER, 31, 2009  
DOCKET NO. 090477-WU**

CLASS OF CAPITAL	BALANCE	ADJUSTMENTS	ADJUSTED BALANCE (a)	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY(b)	23,257	4,270	27,527	98.62%	9.67%	9.54%
CUSTOMER DEPOSITS	325	60	385	1.38%	6.00%	0.08%
TOTALS(c)	\$23,582	\$4,330	\$27,912	100.00%		9.62%

Notes to above schedule:

a) Adjustment calculations:

Common Equity adjustment of \$4,270 equals  $(\$23,257/\$23,582)$  times Net Rate Base of \$27,912

Customer Deposit adjustment of \$60 equals  $(\$325/\$23,582)$  times Net Rate Base of \$27,912

b) Common equity cost rate set at 9.67% for 100% equity per Order No. PSC-09-0430-PAA-WS, issued June 19, 2009.

c) All amounts are rounded to the nearest whole dollar.