

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 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.: 20240105-SU  
Company Name: West Lakeland Wastewater, LLC.  
Company Code: SU967  
Audit Purpose: A1b: Staff-Assisted Rate Case  
Audit Control No.: 2024-227-2-1

---

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 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

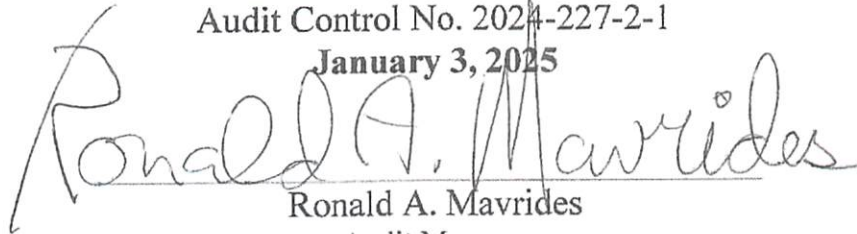
### Auditor's Report

West Lakeland Wastewater, LLC  
Staff-Assisted Rate Case

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

Docket No. 20240105-SU  
Audit Control No. 2024-227-2-1

**January 3, 2025**



Ronald A. Mavrides  
Audit Manager



Lynn M. Deamer  
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

    1: Accumulated Depreciation and Depreciation Expense..... 7

    2: Capital Structure ..... 8

    3: Operating Revenue..... 9

    4: Operations and Maintenance Expense ..... 10

Exhibits

    1: Rate Base ..... 12

    2: Capital Structure ..... 13

    3: Net Operating Income..... 14

## 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 14, 2024. We have applied these procedures to the attached schedules prepared by the audit staff in support of West Lakeland Wastewater, LLC's request for a Staff-Assisted Rate Case in Docket No. 20240105-SU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to West Lakeland Wastewater, 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

West Lakeland Wastewater, LLC is a Class C wastewater utility operating in Polk County. The utility provides service to approximately 316 residential customers. The utility files Federal taxes as a sole proprietor.

#### 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 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 October 31, 2018, in Docket No. 20180202-SU, to the general ledger. We scheduled UPIS activity from October 31, 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.

### 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) Adjustment to land in the Utility's last rate case proceedings were recorded in its general ledger.

**Procedures:** We requested a land deed or land lease agreement from the Utility. Audit staff determined that the Utility holds a land lease for two parcels of property from a third party for use as a spray-field. The Utility owns the land occupied by the wastewater plant. 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) Retirement are properly recorded when an asset was replaced.

**Procedures:** We reconciled the beginning balances for accumulated depreciation, as of October 31, 2018, in Docket No. 20180202-SU, 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 1.

### 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:** There was no change to CIAC since the last rate case proceeding. No exceptions were noted.

### 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:** The adjustments ordered by the last rate case proceeding were recorded in the Utility's general ledger. The Utility used a composite rate based on the amount of CIAC added each year divided by the total amount of CIAC. Since discrepancies were found in the depreciation amounts, staff couldn't use a composite of depreciation rates for the CIAC amortization rates. Staff accepts the Utilities' calculations for the accumulated amortized amount of CIAC and defers final judgement to the analysts.

### 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 2.

## **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 3.

### 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 4.

### 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. Staff accepts the Utility's CIAC amortization expense amounts. No exceptions were noted.

### Taxes Other than Income Taxes

**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: Accumulated Depreciation and Depreciation Expense**

**Table 1-1**

Account No.	Account Description	Balance per		Simple		Depreciation Expense
		Utility 06/30/2024	Audit Adjustment	Balance per Audit 06/30/2024	Average Per Audit 06/30/2024	
354	STRUCTURE AND IMPROVEMENTS	\$ (2,608)	\$ 597	\$ (2,011)	\$ (2,310)	\$ 96
360	COLLECTION SEWER - FORCE	(9,291)	(2,958)	(12,249)	(10,770)	596
361	COLLECTION SEWER - GRAVITY	(97,341)	-	(97,341)	(97,341)	
363	SERVICES TO CUSTOMERS	(16,503)	-	(16,503)	(16,503)	
364	FLOW MEASURING DEVICES	(2,764)	182	(2,582)	(2,673)	180
365	FLOW MEASURING INSTALLATIONS	(993)	41	(952)	(972)	
370	LIFT STATIONS	(39,252)	(1,300)	(40,552)	(39,902)	
371	PUMPING EQUIPMENT	1,226	-	1,226	1,226	1,550
380	TREATMENT & DISPOSAL EQUIP	(87,180)	7,715	(79,465)	(83,322)	140
382	OUT FALL SEWER LINES	(5,694)	815	(4,879)	(5,287)	200
390	OFFICE FURNITURE & EQUIPMENT	(631)	94	(537)	(584)	42
393	TOOLS, SHOP & GARAGE	(142)	(181)	(323)	(233)	130
400	COMMON PLANT	(10,624)	(1,100)	(11,724)	(11,174)	6,582
<b>TOTAL:</b>		<b>\$ (271,798)</b>	<b>\$ 3,906</b>	<b>\$ (267,892)</b>	<b>\$ (269,845)</b>	<b>\$ 9,514</b>

**Audit Analysis:** According to the Utility’s general ledger, the accumulated depreciation balance was \$271,798 as of June 30, 2024. Audit staff recalculated accumulated depreciation and depreciation expense using the audited 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 \$267,892 and \$269,845, respectively. Depreciation expense was \$9,514.

Staff included the Commission’s adjustments as of the Order date of October 31, 2018, whereas the Utility booked the adjustments in 2019, which caused variances for the following years. In addition, the Utility depreciated Account 382 over 25 years. Rule 25-30.140 specifies a 30 year period.

**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 \$267,892 and \$269,845, respectively, as of June 30, 2024. Audit staff determined depreciation expense to be \$9,514 for the test year ended June 30, 2024.

**Finding 2: Capital Structure**

**Audit Analysis:** The Utility’s capital structure consists of three long-term bank loans allocated amount several of the parents subsidiaries, 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 4-1 summarizes West Lakelands capital structure.

**Table 2-1**

<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	23,947		23,947	100.00%	1.71%	1.71%
Retained Earnings	(123,013)	123,013	0			
<b>Total Capital</b>	<b>\$ -</b>		<b>\$ 23,947</b>	<b>100%</b>	<b>\$0.166</b>	<b>1.71%</b>

**Effect on the General Ledger:** None

**Effect on the Filing:** The \$23,947 long-term loan current outstanding balance could not be reconciled to the general ledger. Audit staff defers to the analyst as to the treatment of the capital structure.

**Finding 3: Operating Revenue**

**Audit Analysis:** The Utility reported total revenues of \$190,996 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 \$199,638 for a difference of \$8,695. The increase is due to staff using amended tariff sheets from December 25, 2023 and June 1, 2024. In addition, the Utility recorded \$53 for general services revenues, when there were no general service customers.

**Table 3-1**

<b>NARUC</b>	<b>Description</b>	<b>Balance Per Utility 6/30/2024</b>	<b>Adjustments</b>	<b>Balance Per Audit 6/30/2024</b>
522.1	Residential Service	\$ 183,340.32	\$ 8,695.06	\$ 192,035.38
522.2	General Service	53	(53)	-
521.6	Other Revenues:		-	
521.6	Late Fees	7,455	-	7,455
521.6	Connections	148	-	148
<b>Total</b>		<b>\$ 190,996</b>	<b>\$ 8,642</b>	<b>\$ 199,638</b>

**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 \$8,642.

## **Finding 4: Operations and Maintenance Expense**

**Audit Analysis:** According to the Utility's general ledger, the O&M expense balance was \$182,076 as of June 30, 2024. The Utility's balance was overstated by \$2,227, as outlined in Table 4-1. Transportation and miscellaneous expenses were allocated by the parent. Staff statistically took samples of miscellaneous expenses that were allocated to the parents subsidiaries based on customer size. Most of the sampled miscellaneous expenses were for interest expense and meals. Since these were sampled from allocations among many utilities, staff was unable to determine the total amount of under-the-line miscellaneous expenses.

1. Acct. No. 703 – Salaries – Directors is increased by \$2,001 as calculated from allocations from the parents source documents.
2. Acct. No. 704 – Employee Pension And Benefits is reduced by \$5 to remove a chiropractors bill.
3. Acct. No. 710 – Purchased Water is increased by \$3 to reflect supporting documentation.
4. Acct. No. 711 – Sludge Hauling is reduced by \$443 to reflect supporting documentation and to remove late fee.
5. Acct. No. 715 – Purchased Power is increased by \$182 to reflect supporting documentation.
6. Acct. No. 720 – Materials and Supplies is reduced by \$863 to reflect supporting documentation.
7. Acct. No. 736 – Contractual Services – Other is reduced by \$807 to reflect supporting documentation.
8. Acct. No. 740 – Rental of Building/Real Property is reduced by \$2,659 to reflect supporting documentation.
9. Acct. No. 750 – Transportation Expenses is reduced by \$242 to reflect allocations from parent.
10. Acct. No. 755 – Insurance Expense is increased by \$1,073 to reflect source documentation.
11. Acct. No. 775 – Miscellaneous Expense consists of \$2,296 direct costs and \$8,297 which is allocated from the parent. Audit staff reduced the direct costs by \$467 to reflect lack of supporting documentation. The allocated expenses booked to Account 775 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.

**Table 4-1**

<b>NARUC</b>	<b>Description</b>	<b>Amount per Utility 06/30/2024</b>	<b>Adjustment</b>	<b>Amount per Audit 06/30/2024</b>
701	Salaries And Wages - Employees	\$ 42,711	0	\$ 42,711
703	Salaries - Officers - Directors	7,197	2,001	9,198
704	Employee Pension And Benefits	5	(5)	-
710	Purchased Water	560	3	564
711	Sludge Hauling	33,918	(443)	33,475
715	Purchased Power	13,338	182	13,521
718	Chemicals	2,715	-	2,715
720	Materials And Supplies	8,000	(863)	7,137
731	Contractual Services - Engr	1,092	0	1,092
735	Contractual Services - Testing	1,240	-	1,240
736	Contractual Services - Other	30,148	(807)	29,341
740	Rental Of Building/Real Property	9,591	(2,659)	6,932
750	Transportation Expenses	7,985	(242)	7,743
755	Insurance	8,506	1,073	9,579
770	Bad Debt Expense	4,506	0	4,506
775	Miscellaneous	10,563	(467)	10,097
	<b>Total</b>	<b>\$182,076</b>	<b>(2,226)</b>	<b>\$ 179,850</b>

**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**

**WEST LAKELAND WASTEWATER, LLC  
STAFF ASSISTED RATE CASE  
TWELVE MONTH PERIOD ENDED JUNE 30, 2024  
DOCKET NO. 20240105-SU; ACN 2024-227-2-1  
SCHEDULE OF WASTEWATER RATE BASE**

Description	Balance per Utility 6/30/2024	Audit Adjustments	Balance per Audit 6/30/2024	Simple Average
Utility Plant in Service	\$ 309,485	-	\$ 309,485	\$ 309,485
Land	356	-	356	\$ 356
Accumulated Depreciation	(271,798)	3,906	(267,892)	\$ (269,845)
Contributions in Aid of Construction	(221,480)	-	(221,480)	\$ (221,480)
Accumulated Amortization of CIAC	164,343	-	164,343	\$ 164,343
<b>NET BOOK VALUE</b>	<b>\$ (19,094)</b>	<b>\$ 3,906</b>	<b>\$ (15,188)</b>	<b>\$ (17,141)</b>

## Exhibit 2: Capital Structure

**WEST LAKELAND WASTEWATER, LLC**  
**STAFF ASSISTED RATE CASE**  
**DOCKET NO. 20240105-SU; ACN 2024-227-2-1**  
**TWELVE MONTH PERIOD ENDED JUNE 30, 2024**  
**SCHEDULE OF CAPITAL STRUCTURE**

<b>Capital Component</b>	<b>Balance Per Utility 06/30/2024</b>	<b>Audit Adjustment</b>	<b>Audit Finding</b>	<b>Balance Per Audit 06/30/2024</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Average Weighted Cost</b>
Long-Term Debt	23,947			23,947	100.00%	1.71%	1.71%
Retained Earnings	(123,013)	123,013	2	0			
<b>Total Capital</b>	<b>\$ -</b>			<b>\$ 23,947</b>	<b>100%</b>	<b>\$0.166</b>	<b>1.71%</b>

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



**Exhibit 3: Net Operating Income**

**WEST LAKELAND WASTEWATER, LLC  
STAFF ASSISTED RATE CASE  
TWELVE MONTH PERIOD ENDED JUNE 30, 2024  
DOCKET NO. 20240105-SU; ACN 2024-227-2-1  
NET OPERATING INCOME**

<b>DESCRIPTION</b>	<b>Balance Per Utility 6/30/2024</b>	<b>Adjustments</b>	<b>Balance Per Audit 6/30/2024</b>
Operating Revenues	190,996	8,642	199,638
		-	
Operation & Maintenance Expense	182,516	(2,667)	179,849
		-	
Depreciation Expense	10,093	(578)	9,515
		-	
CIAC Amortized Expense	3,419	-	3,419
		-	
Taxes Other Than Income	8,487	-	8,487
		-	
Total Operating Expense	204,515	(3,245)	201,270
		-	
<b>Net Operating Income (Loss)</b>	<b>\$ (13,519)</b>	<b>\$ 11,887</b>	<b>\$ (1,632)</b>