

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: December 31, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150181-WU
Company Name: Neighborhood Utilities, Inc.
Company Code: WU383
Audit Purpose: Staff Assisted Rate Case
Audit Control No.: 15-236-1-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There is no confidential work papers associated with this audit.

LMD/cp

Attachment: Copy of Letter

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

Neighborhood Utilities, Inc.
Staff-Assisted Rate Case

Twelve Months Ended June 30, 2015

Docket No. 150181-WU
Audit Control No. 15-236-1-1
December 22, 2015

A handwritten signature in black ink, appearing to read "Donna D. Brown", written over a horizontal line.

Donna D. Brown
Audit Manager

A handwritten signature in black ink, appearing to read "George Simmons", written over a horizontal line.

George Simmons
Audit Staff

A handwritten signature in blue ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

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 and Finance in its audit service request dated August 20, 2015. We have applied these procedures to the attached schedules prepared by the audit staff in support of Neighborhood Utilities, Inc.'s request for a Staff Assisted Rate Case in Docket No.150181-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform Systems of Accounts as adopted by Rule 25-30.115, Florida Administrative Code (F.A.C.)

The test year is the twelve months ended June 30, 2015

Background

Neighborhood Utilities, Inc. is a Class C utility in Duval County. Rate base was established as of December 31, 2008, in Order PSC-10-0024-PAA-WU, in Docket 090060-WU, issued January 10, 2010. The Utility files an 1120 tax return for federal income purposes.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with 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. Finding 1 discusses the utility's books and records.

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 was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for UPIS, as of December 31, 2008 from the Commission Order to the general ledger. We scheduled UPIS activity from December 31, 2008 through June 30, 2015. 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 and average balances as of June 30, 2015. Finding 2 discusses our recommended adjustments to UPIS.

Land & Land Rights

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

Procedures: We verified that the land is owned by the Utility and determined that there have been no changes to the Utility's cost of land since the last Order No. PSC-10-0024-PAA-WU, dated January 11, 2010. We determined the year end and average balances as of June 30, 2015. 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 was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for accumulated depreciation, as of December 31, 2008 from Order PSC-10-0024-PAA-WU to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from December 31, 2008 to June 30, 2015. We determined the year end and average balances as of June 30, 2015. Finding 3 discusses our recommend 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 was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for CIAC, as of December 31, 2008 from Order No. PSC-10-0024-PAA-WU to the general ledger. We determined the year end and average balances as of June 30, 2015. Finding 4 discusses our recommended adjustments to CIAC.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We scheduled accumulated amortization of CIAC as per Commission Order PSC-10-0024-PAA-WU and recalculated amortization based upon composite depreciation rates from December 31, 2008 to June 30, 2015. We determined the year end and average balances as of

June 30, 2015. Finding 5 discusses our recommended adjustment to accumulated amortization of CIAC.

Working Capital

Objectives: The objective was to determine whether the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the Utility's working capital balance as of June 30, 2015 using one eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 6 discusses our recommended adjustment to working capital.

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 equity, long-term debt, and customer deposits. We determined the year end and average Capital Structure balance and its weighted average cost as of June 30, 2015. Findings 7, 8, and 9 discuss our recommended adjustments to capital structure.

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 NARUC USOA

Procedures: We tested the reasonableness of the utility revenues by multiplying the rates per tariff by the bills per audit and the Kgals per audit. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the initial connection fees and the normal reconnect fees. We also determined the number of miscellaneous service charges by type and traced them to the general ledger. Finding 10 discusses our recommended adjustment to operating revenues.

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 expense 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. Finding 11 discusses our recommended adjustments to O&M expense.

Depreciation and Amortization

Objectives: The objective was to determine the Utility's depreciation and CIAC amortization expense for the twelve months ended June 30, 2015 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 of CIAC using Commission approved rates for the test year. Findings 3 and 5 discuss our recommended adjustments to depreciation and amortization 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 USOA.

Procedures: We scheduled TOTI based on documentation provided by the Utility. We verified property taxes and local business tax incurred for the test year. We recalculated the 2014 RAF form and we calculated the test year Regulatory Assessment Fee (RAF) using the approved RAF rate and the audited revenue balances. In addition we calculated payroll taxes based on salaries of the Utility employees using the Social Security rate and the Medicare rate. Finding 12 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Rule 25-30.115, F.A.C., requires Florida utilities to maintain their books and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, states,

Each utility shall keep its books of account, and all other books, records and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information to any item included in any account. Each entry shall be supported by such detailed information will permit a ready identification, analysis and verification of all facts relevant thereto.

Neighborhood Utilities, Inc.'s records are not consistent with the NARUC USOA. We determined that the Utility maintains its records on a calendar year basis. Although the Utility uses the correct accounts, the general ledger has not been updated since 2010 for most accounts. The annual reports reflect current expenses. Invoices were not consistently booked to the general ledger. However, most invoices audit staff needed to review were provided. The Utility does not increase the accumulated depreciation on its books by the yearly depreciation expense. They do reflect depreciation expense on the annual reports. Reconciling and cross checking all of these balances did cause additional work and research by audit staff in order to determine supported audit balances. Unless otherwise noted, audit staff used the general ledger balances for the Utility.

Finding 2: Utility Plant in Service

Audit Analysis: The Utility recorded \$646,774 for plant in service on its general ledger as of June 30, 2015. Audit staff determined plant in service as of June 30, 2015 to be \$668,364. We reconciled the beginning balances from Order No. PSC-10-0024-PAA to the general ledger, and determined that the Utility did not make any of the ordered adjustments to its ledger.

Account 302 – Franchises. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 304 – Structures and Improvements. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 307 – Wells and Springs. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 311 – Pumping Equipment. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 331 – Mains. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 333 – Services. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 335 – Hydrants. The audit adjustment reflects the ordered adjustment from the prior rate proceeding.

Account 305 – Reservoirs. The audit adjustment to this account is the reclassifying of the hydro tank from this account to Account 320.

Account 309 – Supply Mains. The audit adjustment to this account consists of one addition in 2012 that was not booked

Account 320 – Water Treatment Equipment. The audit adjustment to this account consists of two additions, one in 2014 and the other in early 2015, which they were not recorded in the general ledger.

Account 330 – Standpipes. The audit adjustment to this account consists of \$2,522 in ordered adjustments that were not booked to the general ledger. It also consists of \$28,308 for replacement of a hydro tank in 2009 that was booked to Account 305. Audit staff ensured that the retirement was properly booked by the Utility to the General ledger.

Account 334 – Meter and Meter Installations. The audit adjustment to this account consists of differences between the general ledger and audit staff's calculated balance. The beginning balance for the Utility was \$41,048, whereas the beginning balance per audit staff was \$41,148, which agrees to the prior rate order. We noted that the general ledger had five additions, in which the last one was recorded in 2013, in the amount of \$7,507. The Utility recorded only one retirement in 2011, in the amount of \$1,499. Audit staff determined that there were additions from 2009 to the end of the test period, June 30, 2015, in the amount of \$ 7,892. There were two retirements, one in 2010 and one in 2011, in the amount of \$2,300 and \$720, respectively. The audit adjustment is a decrease of \$1,036 ($\$41,148 + \$7,892 - \$2,300 - \$720 - \$41,048 - \$7,507 + \$1,499$)

We also noted that as per Commission Order No. PSC-10-0024-PAA-WU, the Utility is on a meter replacement program. Per the order, the Utility was to replace 40 meters per year. As of October 23, 2015, the Utility has replaced approximately 57 meters.

Account 339 – Other Plant Miscellaneous and Account 340 – Office Furniture and Equipment. The audit adjustments to these two accounts are due to audit staff reclassifying a portion of the balance to Account 339 and the rest to Account 340.

The utility plant was understated by \$21,590 as shown in Table 2-1.

Table 2-1

Acct. No.	Acct. Name	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015	Simple Average
302	Franchises	\$ 243	\$ (243)	\$ -	\$ -
304	Structures and Improvements	\$ 6,922	\$ 7,447	\$ 14,369	\$ 14,369
305	Collecting and Impounding	\$ 119,248	\$ (28,308)	\$ 90,940	\$ 90,940
307	Wells and Springs	\$ 37,693	\$ 7,695	\$ 45,388	\$ 45,388
309	Supply Mains	\$ -	\$ 1,680	\$ 1,680	\$ 1,680
311	Pumping Equipment	\$ 54,498	\$ 674	\$ 55,172	\$ 55,172
320	Water Treatment Equipment	\$ 23,225	\$ 1,242	\$ 24,467	\$ 24,343
330	Distribution Reservoirs and	\$ -	\$ 30,830	\$ 30,830	\$ 30,830
331	Transmission and Distribution	\$ 246,177	\$ (2,570)	\$ 243,607	\$243,607
333	Services	\$ 60,564	\$ 3,880	\$ 64,444	\$ 64,444
334	Meters and Meter Installations	\$ 47,056	\$ (1,036)	\$ 46,020	\$ 45,956
335	Hydrants	\$ 35,512	\$ 300	\$ 35,812	\$ 35,812
339	Other Plant Miscellaneous	\$ -	\$ 13,921	\$ 13,921	\$ 13,921
340	Office Furniture and Equipment	\$ 15,636	\$ (13,922)	\$ 1,714	\$ 1,714
	Total	\$ 646,774	\$ 21,590	\$ 668,364	\$668,176

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

Effect on the Filing: Audit staff determined UPIS to be \$668,364 and the simple average plant in service to be \$668,176 as of June 30, 2015.

Finding 3: Accumulated Depreciation and Depreciation Expense

Audit Analysis: The Utility has not booked depreciation to the general ledger since 2011. The Utility, however, has been booking depreciation on the annual reports. Therefore, audit staff used the ending 2014 balance per the annual report as the Utility balance per June 30, 2015 for adjustment purposes. The balance as per the Utility was \$462,169. Audit staff determined accumulated depreciation as of June 30, 2015 to be \$459,458. Our adjustments also include the ordered adjustments set forth in Order PSC-10-0024-PAA-WU that the Utility did not make. The Utility accumulated depreciation was overstated by \$2,711 as shown in Table 3-1.

Table 3-1

Acct. No.	Acct. Name	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015	Simple Average
304	Structures and Improvements	\$ 6,922	\$ 2,908	\$ 9,830	\$ 9,298
305	Collecting and Impounding Reservoirs	\$ 89,447	\$ (23,024)	\$ 66,423	\$ 64,150
307	Wells and Springs	\$ 37,693	\$ 6,855	\$ 44,548	\$ 44,339
309	Supply Mains	\$ -	\$ 158	\$ 158	\$ 105
311	Pumping Equipment	\$ 54,498	\$ (4,192)	\$ 50,306	\$ 56,794
320	Water Treatment Equipment	\$ 23,225	\$ (117)	\$ 23,108	\$ 23,932
330	Distribution Reservoirs and Standpipes	\$ -	\$ 7,505	\$ 7,505	\$ 6,571
331	Transmission and Distribution Mains	\$ 147,694	\$ 14,066	\$ 161,760	\$ 154,378
333	Services	\$ 27,692	\$ 947	\$ 28,639	\$ 26,798
334	Meters and Meter Installations	\$ 40,325	\$ (5,053)	\$ 35,272	\$ 32,572
335	Hydrants	\$ 20,279	\$ 8,788	\$ 29,067	\$ 28,172
339	Other Plant Miscellaneous Equipment	\$ 13,921	\$ (11,485)	\$ 2,436	\$ 1,740
340	Office Furniture and Equipment	\$ 473	\$ (67)	\$ 406	\$ 291
	Total	\$ 462,169	\$ (2,711)	\$ 459,458	\$ 449,138

In addition, we recalculated depreciation expense based on audited UPIS items. The Utility's depreciation expense was understated by \$9,422, as shown in Table 3-2.

Table 3-2

Acct. No.	Acct. Name	Depreciation Expense for 2014 Per Utility	Audit Adjustment	Depreciation Expense Per Audit 12 Months ended June 30, 2015
304	Structures and Improvements	\$ -	\$ 532	\$ 532
305	Collecting and Impounding Reservoirs	\$ 1,627	\$ 647	\$ 2,274
307	Wells and Springs	\$ -	\$ 1,681	\$ 1,681
309	Supply Mains	\$ -	\$ 53	\$ 53
311	Pumping Equipment	\$ -	\$ 3,245	\$ 3,245
320	Water Treatment Equipment	\$ -	\$ 1,432	\$ 1,432
330	Distribution Reservoirs and Standpipes	\$ -	\$ 934	\$ 934
331	Transmission and Distribution Mains	\$ 6,474	\$ (63)	\$ 6,411
333	Services	\$ 1,593	\$ 248	\$ 1,841
334	Meters and Meter Installations	\$ 2,713	\$ (10)	\$ 2,703
335	Hydrants	\$ 888	\$ 7	\$ 895
339	Other Plant Miscellaneous Equipment	\$ -	\$ 696	\$ 696
340	Office Furniture and Equipment	\$ 95	\$ 19	\$ 114
	Total	\$ 13,390	\$ 9,422	\$ 22,812

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

Effect on the Filing: Audit staff determined accumulated depreciation and depreciation expense to be \$459,458 and \$22,812, respectively for the test year ended June 30, 2015. We also determined the simple average for accumulated depreciation to be \$449,138.

Finding 4: Contributions in Aid of Construction

Audit Analysis: The Utility recorded \$786,998 for CIAC on its general ledger as of June 30, 2015 to reflect the amount in Order PSC-10-0024-PAA-WU. There have been no additions to CIAC since the last rate proceeding. This amount exceeds the UPIS amount. We reviewed CIAC balances in Orders 13723 and PSC-10-0024-PAA-WU and requested whatever documentation the Utility had to support any amount of CIAC. We could find not evidence to support the CIAC amount. Rule 25-30.570, F.A.C., which states that when the Utility does not have competent substantial evidence, the amount of CIAC shall be imputed to be the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system. Using this Rule we calculate the CIAC to be \$243,607 which is \$543,391 less than the ordered amount.

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

Effect on the Filing: Audit staff did not make an adjustment to CIAC but requests the Commission technical staff determine the regulatory balance of CIAC and the resulting adjustment to Accumulated Amortization of CIAC. Audit staff brought the ordered balance of \$786,998 forward and determined that the simple average is \$786,998.

Finding 5: Accumulated Amortization of CIAC

Audit Analysis: The Utility has not booked amortization to the general ledger since 2011. The Utility, however, has been booking amortization on the annual reports. Therefore, audit staff used the ending 2014 balance per the annual report as the Utility balance as of June 30, 2015 for adjustment purposes. The balance as per the Utility was \$567,803.

Audit staff increases Accumulated Amortization of CIAC by \$7,204, which brings the Utility 2014 balance to June 30, 2015. Yearly Amortization expense is \$14,407.

The Utility accumulated amortization of CIAC was understated by \$7,204 as shown in Table 5-1.

Table 5-1

Acct. Name	Balance Per Utility as of December 31, 2014	Audit Adjustment	Balance Per Audit as of June 30, 2015	Simple Average
A.A. of CIAC	\$ 567,803	\$ 7,204	\$ 575,007	\$ 567,803
Total A.A. of CIAC	\$ 567,803	\$ 7,204	\$ 575,007	\$ 567,803

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

Effect on the Filing: Audit staff determined accumulated amortization of CIAC and amortization expense to be \$575,007 and \$14,407, respectively, for the test year ended June 30, 2015. We also determined the simple average for accumulated amortization of CIAC to be \$567,803.

Finding 6: Working Capital

Audit Analysis: Audit staff determined the working capital allowance by calculating 1/8th of operation and maintenance expenses. We determined working capital to be \$14,824 ($\$118,594 \times 1/8$).

Effect on the General Ledger: None

Effect on the Filing: Audit staff determined Working Capital to be \$14,824 as of June 30, 2015.

Finding 7: Common Equity

Audit Analysis: The Utility recorded (\$622,743) for common equity on its general ledger as of June 30, 2015. Common equity consists of \$200 in capital stock, (\$838) in proprietary capital, \$21,300 in other paid in capital, and (\$643,360) in retained earnings. We reconciled the Utility's common equity components, capital stock and other paid in capital to the Utility's 2014 tax return. We were unable to reconcile proprietary capital to the 2014 tax return or the annual report, therefore audit staff did not include the (\$883) in capital structure. We requested additional support, but as of October 23, 2015, documentation was unavailable.

Because including negative equity would penalize the Utility by understating the overall rate of return, the negative equity was adjusted to zero.

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

Effect on the Filing: Audit staff determined common equity to be zero as of June 30, 2015.

Finding 8: Long-term Debt

Audit Analysis: The Utility recorded \$178,919 (\$42,808+\$46,961+\$9,253+\$72,825+ \$7,072) for long-term debt on its general ledger as of June 30, 2015. The \$7,072 is a debt with U.S. Water Services Corp. which pertains to a loan associated with the replacement of the hydro tank. Audit staff determined long-term debt to be \$102,140 (\$48,809+\$46,259+\$7,072).

We determined that the Utility had the following debts noted on its general ledger, but Mr. O'Steen told audit staff that it has been paid. No documentation was provided. We did not include these two in the long-term debt calculation.

- Bety O'Steen (mother of Mr. O'Steen)- \$42,808
- Vystar Credit Union - \$46,961

The following debts were noted on the Utility's general ledger, but payments have not been made in several years. Mr. O'Steen stated that these debts are no longer enforceable, and therefore will not be paid. No documentation was provided. We did not include these two in the long-term debt calculation.

- G.W. Whitmire - \$9,253
- St. John's Service Company - \$72,825

The following debts were not noted on the Utility's general ledger, but promissory notes were provided.

- Lanis F. O'Steen (sibling of Mr. O'Steen)- \$48,809
- Loy Latrelle O'Steen (sibling of Mr. O'Steen)- \$46,259

The Utility's Long-Term Debt was overstated by \$76,779 as shown in Table 8-1.

Table 8-1

Description	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance per Audit as of June 30, 2015	Simple Average
Long-term Debt	\$ 178,919	\$ (76,779)	\$ 102,140	\$ 103,447
Total Long-term Debt	\$ 178,919	\$ (76,779)	\$ 102,140	\$ 103,447

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

Effect on the Filing: Audit staff determined the Utility's long-term debt simple average to be \$102,140 as of June 30, 2015.

Finding 9: Customer Deposits

Audit Analysis: The Utility recorded \$7,995 for customer deposits on its general ledger as of June 30, 2015. Audit staff determined customer deposits to be \$9,333 by reviewing the deposit log. We noted that the last entry to customer deposits on the general ledger was in 2011. The Utility accrues and pays two percent interest on deposits, which are credited on customer bills. We also noted that the Utility has not consistently returned the deposits within the time frame allotted by Rule 25-30.311, F.A.C.

The Utility's customer deposits' are understated by \$1,338 as shown in Table 9-1.

Table 9-1

Description	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015	Simple Average
Customer Deposits	\$ 7,995	\$ 1,338	\$ 9,333	\$ 7,550
Total Customer Deposits	\$ 7,995	\$ 1,338	\$ 9,333	\$ 7,550

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

Effect on the Filing: Audit staff determined the Utility's customer deposits to be \$9,333 as of June 30, 2015, and the simple average to be \$7,550.

Finding 10: Operating Revenues

Audit Analysis: The Utility recorded \$135,972 for operating revenues on its general ledger for the test year ended June 30, 2015. Audit staff determined operating revenues to be \$133,212. We tested the reasonableness of the utility revenues by multiplying the rates per tariff by the bills per audit and the Kgals per audit. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the initial connection fees and the normal reconnect fees.

The Utility had been charging customers \$20 for a disconnect and reconnect fee to recoup the costs the Utility would pay to U.S. Water Services Corporation for this service. We removed these as not supported by the Commission approved tariffs.

The Utility's operating revenues are overstated by \$2,760, as shown in Table 10-1.

Table 10-1

	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance per Audit as of June 30, 2015
Residential Revenues	\$ 134,866	\$ (6,129)	\$ 128,737
General Service Revenues	\$ -	\$ 3,405	\$ 3,405
Miscellaneous Service Charges	\$ 1,106	\$ (36)	\$ 1,070
Total Revenues	\$ 135,972	\$ (2,760)	\$ 133,212

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

Effect on the Filing: Audit staff determined the Utility's revenues to be \$133,212 for the test year ended June 30, 2015.

Finding 11: Operations and Maintenance Expense

Audit Analysis: The Utility recorded \$133,012 for operation and maintenance expense on its general ledger as of June 30, 2015. Audit staff determined operations and maintenance expense to be \$118,594. We noted the following:

- Account 601 – Salaries & Wages - Employees. We reviewed the documentation and increased this account by \$223 to reflect what was paid. We also noted that as of January 1, 2015, there was a change in employees at the Utility. Sandra Wintz had been replaced by Alyssa McElroy. McElroy is the only full time employee and provides full time staff service and monthly accounting services. Mr. O’Steen does not pay any benefits to the employee. If Alyssa is not available, accounting services are provided by Menava Financial. No cost for this could be established.
- Account 603 – Salaries & Wages - Officers. We reclassified Mr. O’Steen’s salary, in the amount of \$26,400 from Account 657 – Management Fees to Account 603 – Salaries & Wages - Officers.
- Account 618 – Chemicals. We determined that the Utility’s general ledger had a balance of \$5,709. We determined that the Utility had recorded a transaction on October 20, 2014, in the amount of \$370 in this account and we reclassified this to Account 620 – Materials & Supplies. We also noted that on July 26, 2014, the utility recorded a transaction in the amount of \$635, which is outside of the test year. We decreased this Account by \$1,005 (\$370+\$635).
- Account 620 – Materials & Supplies. We noted that the Utility’s general ledger had a balance of \$177. We reclassified \$370 from Account 618 - Chemicals and \$753 from Account 675 – Miscellaneous Expense. We increased this account by \$1,123.
- Account 630 – Contractual Services – Billing. We noted that the Utility included several bills that were outside the test year. We decreased this account by \$1,137.
- Account 635 – Contractual Services – Testing. We decreased this account by \$39 to reflect actual supporting documentation.
- Account 640 – Rent Expense. We noted that the Utility moved its office facilities in 2010 from downtown to an office closer to the service area. The building where the utility operates out of belongs to Menava Financial, an unrelated company. The Utility currently does not pay rent, and as of October 23, 2015, an agreement for rent has not been made. Technical staff should determine if rent is appropriate for regulatory purposes and if so, in what amount.
- Account 650 – Transportation Expense. We noted that the Utility’s general ledger had a balance of \$5,536. We reviewed transactions charged to Mr. O’Steen’s credit card for all transportation expenses. We increased this account by \$632 to reflect actual supporting documentation.
- Account 655 – Insurance Expense. We noted that the Utility’s general ledger had a balance of \$4,670. We increased this account by \$1,344 to reflect actual supporting documentation. This account consists of property insurance, auto insurance, and life insurance in the amount of \$1,170, \$993, and \$3,346, respectively. We reclassified \$506

to Account 675 – Miscellaneous Expense because the transactions were for vehicle registration. In addition, audit staff verified that the Utility is the beneficiary on the life insurance policy. This results in a net increase of \$838 to this account.

- Account 657 – Management Fees. We reclassified Mr. O’Steen’s salary from Account 657 to Account 603 – Salaries & Wages - Officers.
- Account 670 – Bad Debt Expense. We determined the Utility’s general ledger had a balance of \$387. The utility could not provide documentation as to how this amount was determined. We decreased this account by \$387 and request technical staff to determine the appropriate amount.
- Account 675 – Miscellaneous Expense. We determined the Utility’s general ledger had a balance of \$44,977. We removed \$8,998 in costs because they were outside of the test period. We also reclassified \$1,210 to Account 650 – Transportation Expense because these were for fuel and auto supplies. We removed \$2,100 for the 2013 Regulatory Assessment Fee payment plan as it is outside the test year. We removed \$7,895 in costs due to lack of support. We reclassified \$506 from Account 655 – Insurance Expense because it was for vehicle registration. We also included \$5,032 that was supported by invoices, but not recorded on the general ledger. The total adjustment to this account is \$14,665 (\$5,032 - \$8,998 - \$1,210 - \$2,100 - \$7,895 + \$506)

The Utility’s Operations and Maintenance Expense balance was overstated by \$14,417, as shown in Table 11-1.

Table 11-1

Acct. Nos.	Acct. Description	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015
601	Salaries & Wages - Employees	\$ 17,777	\$ 223	\$ 18,000
603	Salaries & Wages - Officers	\$ -	\$ 26,400	\$ 26,400
615	Purchased Power	\$ 5,261	\$ -	\$ 5,261
618	Chemicals	\$ 5,709	\$ (1,005)	\$ 4,704
620	Materials & Supplies	\$ 177	\$ 1,123	\$ 1,300
630	Contractual Services - Billing	\$ 14,326	\$ (1,137)	\$ 13,189
631	Contractual Services - Professional	\$ 2,400	\$ -	\$ 2,400
635	Contractual Services - Testing	\$ 2,632	\$ (39)	\$ 2,593
650	Transportation Expense	\$ 5,536	\$ 632	\$ 6,167
655	Insurance Expense	\$ 4,670	\$ 838	\$ 5,508
656	Generator's Lease	\$ 2,760	\$ -	\$ 2,760
657	Management Fees	\$ 26,400	\$ (26,400)	\$ -
670	Bad Debt Expense	\$ 387	\$ (387)	\$ -
675	Miscellaneous Expense	\$ 44,977	\$ (14,665)	\$ 30,312
Total	O&M Expense	\$ 133,012	\$ (14,417)	\$ 118,594

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

Effect on the Filing: Audit staff determined the Utility's operation and maintenance expense to be \$118,594 for the test year ended June 30, 2015.

Finding 12: Taxes Other than Income

Audit Analysis: The Utility recorded \$11,550 for TOTI on its general ledger as of June 30, 2015. We noted that the Utility did not adjust their real property tax and tangible property tax for the maximum discount allotted for early payment of tax bill. Audit staff adjusted both real property and tangible property tax accounts by \$47 and \$147, respectively.

The Utility’s TOTI balance was overstated by \$194, as shown in Table 13-1.

Table 13-1

	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015
Real Property Tax	\$ 493	\$ (47)	\$ 446
Tangible Property Tax	\$ 3,667	\$ (147)	\$ 3,520
Payroll Tax	\$ 1,377	\$ -	\$ 1,377
Regulatory Assessment Fee (RAF)	\$ 5,996	\$ (1)	\$ 5,995
Other	\$ 17	\$ -	\$ 17
Total TOTI	\$ 11,550	\$ (194)	\$ 11,355

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

Effect on the Filing: Audit staff determined the Utility’s TOTI to be \$11,355 for the test year ended June 30, 2015.

Finding 13: Proforma

Audit Analysis: Neighborhood Utilities, Inc. is five years past due for a tank inspection. Audit staff obtained a proposal from U.S. Water Services Corporation for tank inspection for all three tanks in the amount of \$6,926. However, at the present time, the Utility does not have the money to have this project completed.

Effect on the General Ledger: None

Effect on the Filing: This audit finding is for informational purposes only.

Finding 14: U.S. Water Services Corporation

Audit Analysis: Audit staff determined that U.S. Water Corporation provides services for the operation of Neighborhood Utilities, Inc. This includes the following services.

- Account 618 – Chemicals, for chlorine. Audit staff determined that for the test year, 100 percent of costs for this account were from U.S. Water Services Corp.
- Account 630 – Billing, for Utility Service Billing and Meter Reading Services. Audit staff determined that for the test year, 71 percent of costs for this account were from U.S. Water Services Corp. The other 29 percent of costs for this account were for fees the utility pays to allow the customer to pay by credit card.
- Account 635 – Contractual Services – Testing, for regulatory sampling. Audit staff determined that for the test year, 100 percent of costs for this account were from U.S. Water Services Corp.
- Account 675 – Miscellaneous Services. Audit staff determined that for the test year, 34 percent of costs for this account were from U.S. Water Services Corp for Utility maintenance and repairs.

Effect on the General Ledger:

Effect on the Filing: This audit finding is for informational purposes only.

Exhibits

Exhibit 1: Rate Base

**Neighborhood Utilities, Inc.
Staff Assisted Rate Case
Docket No. 150181-WU; ACN 15-236-1-1
Rate Base Schedule
As of June 30, 2015**

Description	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015	Test Year Average
Utility Plant in Service	\$ 646,774	\$ 21,590	\$ 668,364	\$ 668,176
Land & Land Rights	\$ 1,000	\$ -	\$ 1,000	\$ 1,000
Accumulated Depreciation	\$ (462,169)	\$ 2,711	\$ (459,458)	\$ (449,138)
Contributions in Aid of Construction	\$ (786,998)	\$ -	\$ (786,998)	\$ (786,998)
Accumulated Amortization of CIAC	\$ 567,803	\$ 7,204	\$ 575,007	\$ 567,803
Working Capital Allowance	\$ 16,627	\$ (1,803)	\$ 14,824	\$ 14,824
Total Rate Base	\$ (16,963)	\$ 29,702	\$ 12,739	\$ 15,667

Exhibit 2: Capital Structure

Staff Assisted Rate Case
Docket No. 150181-WU; ACN 15-236-1-1
Capital Structure
As of June 30, 2015

Capital Component	Simple Average Per Utility as of June 30, 2015	Audit Adjustment	Simple Average Per Audit as of June 30, 2015	Adjustments	Adjusted to Rate Base	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ (622,743)	\$ 622,743	\$ -	\$ -	\$ -	0.00%	11.16%	0.00%
Long Term Debt	\$ 178,919	\$ (75,472)	\$ 103,447	\$ (88,846)	\$ 14,601	93.20%	6.85%	6.38%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ 7,995	\$ (445)	\$ 7,550	\$ (6,484)	\$ 1,066	6.80%	2.00%	0.14%
Total	\$ (435,829)	\$ 546,826	\$ 110,997	\$ (95,330)	\$ 15,667	100.00%		6.52%

Exhibit 3: Net Operating Income

Neighborhood Utilities, Inc.
Staff Assisted Rate Case
Docket No. 150181-WU; ACN 15-236-1-1
Net Operating Income
Test Year Ended June 30, 2015

Description	Balance Per Utility as of June 30, 2015	Audit Adjustment	Balance Per Audit as of June 30, 2015
Operating Revenues	\$ 135,972	\$ (2,760)	\$ 133,212
Operating & Maintenance Expenses	\$ 133,012	\$ (14,418)	\$ 118,594
Depreciation Expense	\$ 13,390	\$ 9,422	\$ 22,812
Amortization Expense	\$ (14,407)	\$ -	\$ (14,407)
Taxes Other Than Income	\$ 11,549	\$ (194)	\$ 11,355
Total Operating Expenses:	\$ 143,544	\$ (5,190)	\$ 138,354
Net Operating Income (Loss)	\$ (7,572)	\$ 2,430	\$ (5,142)