

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: June 14, 2022

TO: Office of the Commission Clerk

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

RE: Docket No.: 20220019-WU
Company Name: Neighborhood Utilities, Inc
Company Code: WU383
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2022-031-1-1

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

RLH/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Neighborhood Utilities, Inc./
CSWR-Florida Utility Operating Company, LLC

Certificate of Transfer
Certificate No. 430-W

As of January 31, 2022

Docket No. 20220019-WU
Audit Control No. 2022-031-1-1

June 13, 2022

Handwritten signature of Demetrius Jones in cursive script.

Demetrius Jones
Audit Manager

Handwritten signature of Ashley Sheffield in cursive script.

Ashley Sheffield
Audit Staff

Handwritten signature of Marisa N. Glover in cursive script.

Marisa N. Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting & Finance in its audit service request dated January 31, 2022. We have applied these procedures to the attached schedules prepared by Neighborhood Utilities, Inc./CSWR-Florida Utility Operating Company, LLC in its request for a Transfer of Certificate in Docket No. 20220019-WU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Buyer/Utility refers to Central States Water Resources (CSWR)-Florida Utility Operating Company (UOC), LLC, which is wholly owned by CSWR-Florida Utility Holding Company, LLC.

Seller refers to Neighborhood Utilities, Inc.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115, Florida Administrative Code.

Utility Information

Neighborhood Utilities, Inc. is a Class "C" water Utility that serves approximately 443 water customers in Duval County per the application. Rate base was established in the last rate case proceeding in Order No. PSC-2016-0537-PAA-WU, issued November 23, 2016, in Docket No. 20150181-WU.

CSWR-Florida UOC, LLC is purchasing Neighborhood Utilities, Inc. for \$460,000, and has an anticipated closing date of 45 days after Commission approval. CSWR-Florida UOC, LLC is not acquiring any non-regulated assets or operations of the Seller and is not assuming any of the Seller's liabilities or obligations. The transaction is limited to the acquisition of assets used to provide regulated utility service. CSWR-Florida UOC, LLC filed an application with the Commission for Transfer of Certificate on January 14, 2022.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

Procedures: Based upon the review of the general ledger provided by the Seller, the Utility's books and records are not maintained according to the NARUC USOA. The Utility's general ledgers provided total balances only. No detail was provided. Audit staff used the Utility's annual reports from 2016 through 2021, in addition to the general ledger, to review account balances. Finding 1 discusses Utility books and records.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the 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 recorded 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 UPIS beginning balances as of June 30, 2015, using the Commission-approved balances in Order No. PSC-2016-0537-PAA-WU. We scheduled UPIS activity from June 30, 2015, through January 31, 2022. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. Neighborhood Utilities, Inc. did not record UPIS additions in 2015, 2016, and 2018 through 2021, per the annual reports. Audit staff used the 2021 annual report to determine the detail of the Utility's plant balance reflected in its general ledger. Finding 2 discusses UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the Utility land was: 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 proceeding are recorded in its books and records.

Procedures: We scheduled land from the approved balances in Order No. PSC-2016-0537-PAA-WU. There were no additions to land from June 30, 2015, through January 31, 2022. No further work was performed.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140, Florida Administrative Code, – Depreciation, 2) Retirements are recorded when an asset is replaced, and 3) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

Procedures: We reconciled accumulated depreciation's beginning balances as of June 30, 2015, using the Commission-approved balances in Order No. PSC-2016-0537-PAA-WU. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), Florida Administrative Code, from June 30, 2015, through January 31, 2022. Finding 2 discusses accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions-in-aid-of-construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission-approved tariffs, 3) Retirements are recorded when a contributed asset is replaced, and 4) Adjustments in the Utility's last rate proceeding are recorded in its books and records.

Procedures: We reconciled CIAC's beginning balance, as of June 30, 2015, using the Commission-approved balances in Order No. PSC-2016-0537-PAA-WU. There were no additions to CIAC from June 30, 2015, through January 31, 2022. No further work was performed.

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, Florida Administrative Code, – Depreciation, 2) Retirements are recorded when a contributed asset is replaced, and 3) Adjustments required in the Utility’s last rate proceeding are recorded in its books and records.

Procedures: We reconciled accumulated amortization of CIAC’s beginning balance, as of June 30, 2015, using the Commission-approved balances in Order No. PSC-2016-0537-PAA-WU. We calculated annual accruals to accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), Florida Administrative Code, from June 30, 2015, through January 31, 2022. There were no additions to CIAC from June 30, 2015, through January 31, 2022. Finding 3 discusses accumulated amortization of CIAC.

Acquisition Adjustment

Objective: The objective is to determine the acquisition adjustment, if any, based on audit staff’s net book value pursuant to Rule 25-30.0371, Florida Administrative Code – Acquisition Adjustments.

Procedures: We determined the Net Book Value for the Utility, at the time of transfer, was less than the purchase price, which would reflect a positive acquisition adjustment, pursuant to Rule 25-30.0371 – Acquisition Adjustment. The Buyer is requesting a positive acquisition adjustment. Audit staff determined the acquisition adjustment to be \$399,937. No further work was performed.

Other

Rates and Charges

Objective: The objective is to determine whether the Utility is charging monthly service rates authorized by Commission-approved tariffs.

Procedures: We obtained and tested the Utility’s billing register for July 2021 and January 2022. We recalculated a sample of customer bills using the Commission-approved tariffs and verified the Utility is using the approved rates. No further work was performed.

Customer Deposits

Objective: The objective is to determine whether the Seller collected customer deposits and whether the balances are transferred to the Buyer.

Procedures: We inquired about the deposit policy. The Seller has Commission-authorized tariffs for the collection of customer deposits. Audit staff determined that the Utility does collect customer deposits. We also noted the Utility’s customer deposits were understated according to audit staff’s recalculation. Finding 4 discusses customer deposits.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Neighborhood Utilities, Inc.'s books and records are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA).

NARUC USOA for Class "C" Water Utilities states,

"All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction."

Rule 25-30.115, Florida Administrative Code requires utilities to maintain their books and records in conformity with the NARUC USOA.

Audit staff noted that Neighborhood Utilities, Inc. did not maintain their books and records in accordance with the NARUC USOA. The general ledgers from June 30, 2015, through January 31, 2022, excluding the year ended December 31, 2016, only provided ending balances for UPIS, Accumulated Depreciation, CIAC, and Accumulated Amortization of CIAC. The general ledger for the year ended December 31, 2016, did not include any balances for UPIS, Accumulated Depreciation, CIAC, and Accumulated Amortization of CIAC.

Finding 2: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Utility’s 2021 general ledger, total UPIS including land was \$673,155, as of December 31, 2021. The Utility recorded \$150 in plant additions between June 30, 2015, and January 31, 2022, according to the annual reports. However, supporting documentation was not provided for this amount. Audit staff captured the Utility’s UPIS balances from the 2021 annual report. The Utility provided supporting documentation for plant additions in the amount of \$5,799 for the test period, but did not record any retirements. We scheduled plant additions and retirements from June 30, 2015, through January 31, 2022. We used the beginning UPIS balances that were approved by the Commission in Order No. PSC-2016-0537-PAA-WU, issued November 23, 2015. Audit staff determined the UPIS balances to be \$673,454, as shown in Table 2-1.

Table 2-1

Account - Description	Utility Balance	Utility Balance	Audit	Audit Balance
	UPIS Per GL w/land 12/31/2021	UPIS w/o land 12/31/2021		Adjustments
304 Structures & Improvements	\$ -	\$ 14,967	\$ -	\$ 14,967
305 Collecting and Impounding Reservoirs	-	90,940	-	90,940
307 Wells and Springs	-	45,388	-	45,388
309 Supply Mains	-	5,505	-	2,708
311 Pumping Equipment	-	56,878	-	58,328
320 Water Treatment Equipment	-	33,508	-	33,508
330 Distribution Reservoirs and Standpipes	-	30,830	-	30,830
331 Transmission and Distribution Mains	-	245,510	-	248,307
333 Services	-	64,444	-	64,444
334 Meters and Meter Installations	-	32,738	-	32,587
335 Hydrants	-	35,812	-	35,812
339 Other Plant Misc. Equipment	-	13,921	-	13,921
340 Office Furniture and Equipment	-	1,714	-	1,714
Total:	\$ 673,155	\$ 672,155	\$ 1,299	\$ 673,454

According to the Utility’s 2021 general ledger, total accumulated depreciation was \$540,622, as of December 31, 2021. Audit staff recalculated accumulated depreciation using the audited plant balances based on the previously-mentioned Order and depreciation rates from Rule 25-30.140, Florida Administrative Code, as of January 31, 2022. Audit staff determined accumulated depreciation balance to be \$562,367, as shown in Table 2-2.

Table 2-2

Account - Description	Utility Balance		Audit	Audit Balance
	Accum Dep	Per GL		Accum Dep
	12/31/2021		Adjustments	1/31/2022
304 Structures & Improvements	\$ -	-	\$ -	\$ (13,179)
305 Collecting and Impounding Reservoirs	-	-	-	(81,390)
307 Wells and Springs	-	-	-	(45,388)
308 Infiltration Galleries and Tunnels	-	-	-	-
309 Supply Mains	-	-	-	(557)
311 Pumping Equipment	-	-	-	(57,907)
320 Water Treatment Equipemnt	-	-	-	(31,588)
330 Distribution Reservoirs and	-	-	-	(13,655)
331 Transmission and Distribution Mains	-	-	-	(202,216)
333 Services	-	-	-	(40,761)
334 Meters and Meter Installations	-	-	-	(32,587)
335 Hydrants	-	-	-	(34,961)
336 Backflow Prevention Devices	-	-	-	-
339 Other Plant Misc. Equipment	-	-	-	(7,018)
340 Office Furniture & Equip.	-	-	-	(1,158)
Total:	\$ (540,622)		\$ (21,745)	\$ (562,367)

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

Effect on the Filing: Audit staff determined the balance for UPIS should be increased by \$1,299, to include the actual total of additions and retirements to UPIS from June 30, 2015, through January 31, 2022. Audit staff determined the accumulated depreciation balance should be increased by \$21,745, as of January 31, 2022.

Finding 3: Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization of CIAC

Audit Analysis: According to the Utility’s 2021 general ledger, CIAC was \$76,431, as of December 31, 2021. There were no additions to CIAC from June 30, 2015, through January 31, 2022. Audit staff calculated CIAC to be \$269,576 for the same period, which is shown in Table 3-1.

Table 3-1

Account - Description	Utility Balance of CIAC Per GL 12/31/2021	Audit Adjustments	Audit Balance of CIAC 1/31/2022
CIAC - Transmission & Distribution Mains	\$ -	\$ -	\$ (243,607)
CIAC - Meter Installation Fees	-	-	(25,969)
Total:	\$ (76,431)	\$ (193,145)	\$ (269,576)

According to the Utility’s 2021 general ledger, there was no accumulated amortization of CIAC, as of December 31, 2021. There were no additions to accumulated amortization of CIAC from June 30, 2015, through January 31, 2022. Audit staff calculated accumulated amortization of CIAC to be \$217,552 for the same period, which is shown in Table 3-2.

Table 3-2

Account - Description	Utility Balance AA of CIAC Per GL 12/31/2021	Audit Adjustments	Audit Balance AA of CIAC 1/31/2022
Accumulated amortization of CIAC - Transmission & Distribution Mains	\$ -	\$ -	\$ 187,642
Accumulated amortization of CIAC - Meter Installation Fees	-	-	29,910
Total:	\$ -	\$ 217,552	\$ 217,552

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

Effect on the Filing: Audit staff determined CIAC should be increased by \$193,145, and accumulated amortization of CIAC should be increased by \$217,552, as of January 31, 2022.

Finding 4: Customer Deposits

Audit Analysis: The Utility recorded \$12,718 for customer deposits, as of February 15, 2022. In order to get the customer deposit balance, as of December 31, 2021, audit staff removed deposits made in January and February 2022, and added refunds made to customer accounts in February 2022. This resulted in a net increase of \$944, making the Utility's customer deposit balance \$13,662, as of December 31, 2021. Audit staff determined customer deposits to be \$13,749, as of January 31, 2022, as shown in Table 4-1.

Table 4-1

Description	Utility Balance 1/31/2022	Audit Adjustment	Audit Balance 1/31/2022
Customer Deposits	\$ 13,662	\$ 87	\$ 13,749
Total Customer Deposits	\$ 13,662	\$ 87	\$ 13,749

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

Effect on the Filing: Audit staff determined customer deposits should be increased by \$87 to reflect the total amount of customer deposits, as of January 31, 2022.

Exhibit

Exhibit 1: Net Book Value

NEIGHBORHOOD UTILITIES INC. CERTIFICATE OF TRANSFER DOCKET NO. 20220019-WU; ACN 2022-031-1-1 SCHEDULE OF WATER NET BOOK VALUE AS OF JANUARY 31, 2022				
Description	Balance per Utility As of 12/31/2021	Audit Adjustments	Audit Finding	Balance per Audit As of 1/31/2022
Utility Plant in Service	\$ 672,155	\$ 1,299	2	\$ 673,454
Land	1,000	-		1,000
Accumulated Depreciation	(540,622)	(21,745)	2	(562,367)
Contributions in Aid of Construction	(76,431)	(193,145)	3	(269,576)
Accumulated Amortization of CIAC	-	217,552	3	217,552
NET BOOK VALUE	\$ 56,102	\$ 3,961		\$ 60,063