

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-**

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**DATE:** January 8, 2019

**TO:** Office of Commission Clerk

**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

**RE:** Docket No.: 20180138-SU  
Company Name: North Peninsula Utilities Corporation  
Company Code: SU615  
Audit Purpose: A1b: Staff Assisted Rate Case  
Audit Control No.: 2018-239-4-1

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

LMD/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  
Miami District Office

### Auditor's Report

North Peninsula Utilities Corporation  
Staff-Assisted Rate Case

**12 Months Ended June 30, 2018**

Docket No. 20180138-SU  
Audit Control No. 2018-239-4-1  
**December 4, 2018**

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Yen Ngo  
Audit Manager

Handwritten signature of Gabriela Leon in black ink.

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Gabriela Leon  
Audit Staff

Handwritten signature of George Simmons in black ink.

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George Simmons  
Audit Staff

Handwritten signature of Marisa Glover in black ink.

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Marisa Glover  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report set forth by the Division of Accounting and Finance in its audit request dated August 27, 2018. We have applied these procedures to the attached schedules prepared by the audit staff in support of North Peninsula Utilities Corporation's request for a Staff-Assisted Rate Case in Docket No. 20180138-SU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

NPUC/Utility refers to North Peninsula Utilities Corporation.

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.).

The test year for the instant proceeding is the historical twelve months ended June 30, 2018.

#### Background

North Peninsula Utilities Corporation is a Class B utility, but qualifies for a Staff Assisted Rate Class proceedings under Rule 25-30.455. The utility serves approximately 588 residential and 14 general service wastewater customers located in Volusia County per the utility filing. Audit staff used Class C rates for this proceeding to be consistent with prior Commission Orders. Rate base was last established as of December 31, 1998, in Docket No. 20000715-SU issued September 19, 2000 by Order No. PSC-2000-1676-PAA-SU. Subsequently, Docket 20030601-SU was opened to address possible overearnings. An audit (Audit Control Number 2003-195-3-1) was completed using a test year of December 31, 2002. This audit brought the Rate Base balances forward from Docket 20000717-SU. The final order issued in Docket 20030601-SC addressed a settlement and did not address Rate Base Balances. This Current audit, Docket 20180138-SU, incorporates the prior audit workpapers and utilizes these ending balances as our beginning balances.

NPUC is owned by Robert Hillman and Tyree Wilson. A review of the state corporation records show Tyree Wilson and Robert Hillman own multiple companies not related to the utility. Peninsula Management, Inc. (PMI), an affiliate of the utility performs the management of the utility as written in the management contract. PMI is responsible for all maintenance and operation of the Utility's facilities and infrastructure. These services include: employment and supervision of all individuals or companies hired or contracted with or for the performance of any duties or services for, the Utility and oversee day-to-day accounting services and the maintenance of proper accounting records as required.

Utility files an 1120S tax return.

#### 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 reviewing the records provided for this proceeding and compared them to the NARUC USOA. We noted that the Utility's

accounting system was relatively in compliance. Finding 1 discusses the books and records for NPUC.

## **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 cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceedings were recorded in its books and records.

**Procedures:** We determined our beginning balance from Order No. PSC-2000-1676-PAA-SU as of December 31, 1998. We scheduled UPIS activity from December 31, 2003 to June 30, 2018. 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 simple average balances as of June 30, 2018. Finding 2 discusses our recommended adjustments for plant in service.

### Land & Land Rights

**Objectives:** The objectives were to determine whether 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 were recorded in its books and records.

**Procedures:** We determined our beginning balance from Order No. PSC-2000-1676-PAA-SU as of December 31, 1998 to the warranty deed obtained from the County Clerk of Court. We noted that there had been no land additions during the test year. We determined the year-end and simple average land balance as of June 30, 2018. No further work 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 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 determined our beginning balance from Order No. PSC-2000-1676-PAA-SU as of December 31, 1998. We calculated the accumulated depreciation for wastewater using the depreciation rates established by Rule 25-30.140(2), F.A.C – Depreciation from January 1, 2003 through June 30, 2018. We determined the year-end and simple average accumulated depreciation balance as of June 30, 2018. Finding 2 discusses our recommended 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 required in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We determined our beginning balance from Order No. PSC-2000-1676-PAA-SU as of December 31, 1998 and calculated wastewater CIAC activity from December 31, 2003 through June 30, 2018. We determined the year-end and simple average CIAC balance as of June 30, 2018. No further work 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 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 determined our beginning balance from Order No. PSC-2000-1676-PAA-SU as of December 31, 1998. We recalculated accumulated amortization of CIAC activity from January 1, 2003 through June 30, 2018. The Utility has fully amortized CIAC in year ended 2007. We determined the year-end and simple average accumulated amortization CIAC balance as of June 30, 2018. No further work performed.

### Working Capital

**Objectives:** The objective was to determine the working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

**Procedures:** We recalculated the working capital balance as of June 30, 2018 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 3 discusses 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 reviewed the Utility's records and determined that the Utility's capital structure is composed of common equity and long-term debt. The long-term debt totals \$1,044,230. The Utility carries a negative retained earnings on their books, therefore, for ratemaking purposes this is presented as zero in the attached capital structure. We noted the utility does not have a tariff for customer deposits, and does not collect customer deposits. We determined the year-end and simple average capital structure balances and its weighted average cost as of June 30, 2018. Finding 3 discusses 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 determined individual customer consumption for the test year using the Utility's monthly billing registers. We normalized the number of bills by adjusting for customers moving in or out to reflect twelve months of bills for each service address with the data obtained from the billing registers. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the Regulatory Assessment Fee. We determined whether the Utility is charging its authorized tariff rates. Finding 4 discusses our recommended adjustments to operating revenue.

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether Operation and Maintenance Expense (O&M) 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 the NARUC USOA.

**Procedures:** We reviewed the invoices provided in support of the Utility's O&M Expense for the test year. We ensured that all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. We examined the management agreement between North Peninsula and Peninsula Management Incorporated. Finding 5 discusses our recommended adjustments to O&M expense.

### Depreciation Expense

**Objectives:** The objectives were to determine whether depreciation expense is properly calculated and recorded in compliance with the NARUC USOA.

**Procedures:** We calculated the Utility's depreciation expense for the test year ended June 30, 2018, using the rates established by Rule 25-30.140, F.A.C. CIAC amortization expense was recalculated and CIAC was fully amortized by the end of December 31, 2007. Finding 2 discusses our recommended adjustments for depreciation 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 the NARUC USOA.

**Procedures:** We scheduled the Utility's TOTI Expense for the test year using the supporting documentation provided. We included tangible property taxes and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. Finding 4 discusses our recommended adjustments to TOTI.



## Audit Findings

### **Finding 1: Utility Books and Records**

**Audit Analysis:** Rule 25-30.11, 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 Instructions, states,

Each utility shall keep its books of accounts, 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.

The Utility uses credit cards (American Express and Chase) for some payments. Other payments are recorded by the utility on a check ledger. Since 2014 Wildan Financial Services has provided accounting services to prepare the utility's annual reports. Wildan Financial Services maintains detailed records of plant additions, revenues, and expenses on an annual basis, but does not record financial transactions in a general ledger system. The Utility does not maintain a trial balance nor general ledger. Audit staff used the last six months of activity from July through December 2017 provided by Wildan Financial as the Utility's six month total for revenues and expenses. The ending balances from the 2017 annual report were used for plant, accumulated depreciation, and CIAC. We then used all supporting documentation from the first half of 2018 to obtain our ending totals.

The federal income taxes are prepared by Martin, Kayler & Associates, PL.

**Effect on the General Ledger:** No effect

**Effect on the Filing:** Informational Purposes Only

## Finding 2: Utility Plant in Service and Accumulated Depreciation

**Audit Analysis:** As discussed in Finding 1, the Utility does not maintain a general ledger system, and only prepares supporting activity schedules once per year in preparation for the annual report filing. According to the Utility's annual report, the UPIS balance was \$956,116 as of December 31, 2017. We scheduled UPIS from December 31, 2002 through June 30, 2018 and traced plant additions to the supporting invoices. We ensured that retirements were made when a plant item was replaced. We noted that the Utility did not record retirements according to the NARUC accounting instructions. We determined that the UPIS balance was \$882,904 as of June 30, 2018 as shown in Table 2-1.

**Table 2-1**

Account - Description	Utility Balance 12/31/2017	Audit Adjustments	Audit Balance 12/31/2017	1/1 - 6/30/2018 Activity	Audit Balance 6/30/2018	Audit Simple Avg
351-Organization Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
352-Franchise Fees	6,310	-	6,310	-	6,310	6,310
354-Structures and Improvements	167,990	(1,365)	166,625	-	166,625	166,576
355-Power Generation Equipment	-	-	-	-	-	-
360-Collection Sewers - Force	325,828	(3,225)	322,603	-	322,603	322,603
361-Collection Sewers - Gravity	5,410	-	5,410	-	5,410	5,410
362-Special Collection Structures	-	-	-	-	-	-
363-Services to Customers	29,139	-	29,139	-	29,139	29,139
370-Receiving Wells	14,124	(12,846)	1,278	-	1,278	1,278
371-Pumping Equipment	36,714	2,608	39,322	4,026	43,348	39,315
380-Treatment and Disposal Equipment	370,601	(62,767)	307,834	357	308,191	307,595
<b>Total:</b>	<b>\$ 956,116</b>	<b>\$ (77,595)</b>	<b>\$ 878,521</b>	<b>\$ 4,383</b>	<b>\$ 882,904</b>	<b>\$ 878,226</b>

According to the Utility's annual report, the accumulated depreciation balance was \$925,036 as of December 31, 2017. In addition, depreciation expense activity from July 1, 2017 through December 31, 2017 was \$13,754. We scheduled accumulated depreciation from December 31, 2002 through June 30, 2018 using the audited UPIS balances and the depreciation rates established by Rule 25-30.140, F.A.C. We noted that the Utility continued to depreciate plant items after they had been fully depreciated. We determined that the accumulated depreciation balance was \$767,477 as of June 30, 2018, and depreciation expense was \$4,371 for the twelve months ended June 30, 2018 as shown in Table 2-2 and Table 2-3.

**Table 2-2**

Account - Description	Utility Balance	Audit	Audit Balance	1/1 - 6/30/2018	Audit Balance	Audit
	12/31/2017	Adjustments	12/31/2017	Activity	6/30/2018	Simple Average
108/403 351-Organization Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
108/403 352-Franchise Fees	6,148	158	6,306	4	6,310	6,269
108/403 354-Structures and Improvements	163,552	(5,806)	157,746	26	157,772	157,876
108/403 355-Power Generation Equipment	-	-	-	-	-	-
108/403 360-Collection Sewers - Force	321,528	(3,145)	318,383	-	318,383	318,363
108/403 361-Collection Sewers - Gravity	3,178	139	3,317	67	3,384	3,317
108/403 362-Special Collection Structures	-	-	-	-	-	-
108/403 363-Services to Customers	29,139	-	29,139	-	29,139	29,139
108/403 370-Receiving Wells	1,926	(799)	1,127	25	1,152	1,127
108/403 371-Pumping Equipment	7,593	3,950	11,543	1,310	12,853	11,543
108/403 380-Treatment and Disposal Equipment	391,972	(153,044)	238,928	(444)	238,484	239,594
<b>Total:</b>	<b>\$ 925,036</b>	<b>\$ (158,546)</b>	<b>\$ 766,490</b>	<b>\$ 987</b>	<b>\$ 767,477</b>	<b>\$ 767,228</b>

**Table 2-3**

Account - Description	Audit Dep Exp 6/30/2018
108/403 351-Organization Costs	\$ -
108/403 352-Franchise Fees	83
108/403 354-Structures and Improvements	89
108/403 355-Power Generation Equipment	-
108/403 360-Collection Sewers - Force	40
108/403 361-Collection Sewers - Gravity	135
108/403 362-Special Collection Structures	-
108/403 363-Services to Customers	-
108/403 370-Receiving Wells	51
108/403 371-Pumping Equipment	2,621
108/403 380-Treatment and Disposal Equipment	1,352
<b>Total:</b>	<b>\$ 4,371</b>
<b>7/1 - 12/31/2017 Activity:</b>	<b>13,754</b>
<b>Audit Adjustment:</b>	<b>\$ (9,383)</b>

**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 and simple average balances for UPIS to be \$882,904 and \$878,226 as of June 30, 2018. We determined the year-end and simple average balances for accumulated depreciation to be \$767,477 and \$767,228 as of June 30, 2018. We also determined that depreciation expense to be \$4,371 for the test year.

### Finding 3: Long Term Debt

**Audit Analysis:** We scheduled the details of the terms and conditions of the Utility’s long-term debt. The results are summarized in Table 3-1.

**Table 3-1**

Long Term Debt	Issued Date	Maturity Date	Original Principal	Balance at 6/30/17	Balance at 6/30/18	Average Balance	Annual Interest	Interest Cost Rate	Effective Cost Rate
Intracoastal Bank	10/30/13	11/15/23	\$ 825,000	\$ 733,634	\$ 720,981	\$ 727,307	\$ 38,656	5.25%	5.31%
Line of Credit - PNC	09/13/16	09/13/18	\$ 20,000	\$ 17,037	\$ 17,234	\$ 17,136	\$ 1,764	9.75%	10.29%
Business Card - PNC			\$ 20,000	\$ 15,019	\$ 12,374	\$ 13,696	\$ 1,997	14.99%	14.58%
SeaCoast Bank	09/26/07	On Demand	\$ 75,000	\$ 68,896	\$ 68,896	\$ 68,896	\$ 4,191	6.00%	6.08%
Intracoastal Bank	05/21/14	On Demand	\$ 225,000	\$ 218,968	\$ 218,968	\$ 218,968	\$ 13,320	6.00%	6.08%
<b>Total</b>			<b>\$ 1,165,000</b>	<b>\$ 1,053,554</b>	<b>\$ 1,038,454</b>	<b>\$ 1,046,004</b>	<b>\$ 59,928</b>		

- Intracoastal Bank – This mortgage of \$825,000 was issued on October 30, 2013 for the Utility, which used as security all of the borrower’s real property, equipment, furniture, fixtures, inventory, accounts receivable, and operational assets. Peninsula Management, Inc. (PMI) was the guarantor. Audit staff was not able to determine the purpose of this loan.
- PNC Bank – This line of credit in the amount of \$20,000 is renewed annually on September 13. Audit staff was not able to determine what this line of credit was used for.
- PNC Bank – This business credit card has a credit limit of \$20,000. Audit staff was not able to determine what this credit card was used for.
- Floridian/SeaCoast Bank – As stated on the loan documents, this consolidation loan was issued on September 26, 2007 in the amount of \$75,000 for the Utility. We noted that only interest payments were made and nothing was applied to the principal. Audit staff was not able to determine the purpose of this loan.
- Intracoastal Bank – This is a revolving line of credit issued on May 21, 2014 in the amount of \$225,000. According to the promissory note, this loan was for NPUC and PMI. According to the loan documents, the proceeds from this loan was to be used exclusively for 1) repayment of an unsecured credit line in the approximate amount of \$50,000 to Intracoastal Bank, 2) fund improvements for present and future customers of the Borrower, and 3) fund improvements at Sunrise Cove, a non-utility affiliate. We also noted that an affiliate company, HW Peninsula LLC, was paying \$500 of the interest payment due each month and nothing was applied to the principal. Audit staff was not able to determine the purpose of this loan.

Audit staff also noted that plant additions, excluding retirements, were \$139,495 from 2007 through June 30, 2018.

**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 and simple average balances for long-term debt to be zero, as of June 30, 2018, because the Utility could not provide sufficient documentation to show that these funds were used for Utility purposes.

## Finding 4: Operating Revenue

**Audit Analysis:** North Peninsula Utilities uses a flat rate to charge their customers for all accounts regardless of meter size. There was a price index that took effect on July 20, 2017 that changed the flat rate for Residential customers from \$32.72 to \$33.11 and \$444.43 to \$449.76 for General Service customers. The Utility did not increase their flat rates until September of 2017.

Audit staff decreased revenues by \$700 for an inspection fee and \$762 for a connection fee, respectively. According to the Commission approved tariffs, the Utility does not have an approved tariff for connection fees or inspection fees. We determined revenues to be \$239,970 compared to the Utility's RAF amount of \$242,282. We recommend an adjustment in the amount of (-\$903- \$700 -\$762+ \$53) \$2,312 to decrease revenues. Table 4-1 shows our recalculated adjustments for revenues.

**Table 4-1**

**For the 12 Month Ended 6/30/18**

NARUC	Description	Utility Bal (Annual		Audit Bal
		RAF as of	Audit Adj	
		6/30/18)		6/30/18
521	Metered Water Revenue	\$ 239,162	\$ (1,235)	\$ 237,927
		<b>\$ 239,162</b>	<b>\$ (1,235)</b>	<b>\$ 237,927</b>
	<b>Other Wastewater Revenues:</b>			
	Late Fees		\$ 2,045	\$ 2,045
	Connection Fees		\$ -	\$ -
	Disconnection Fees	\$ -	\$ -	\$ -
	Other Fees	\$ 3,120	\$ (3,120)	\$ -
		<b>\$ 3,120</b>	<b>\$ (1,075)</b>	<b>\$ 2,045</b>
	<b>Grand Total</b>	<b>\$ 242,282</b>	<b>\$ (2,312)</b>	<b>\$ 239,970</b>

\* Effect on the RAF is a difference of \$104.47

The Utility provided customer ledger accounts to show proof of payment and charges on each account. Audit staff recognized that the Utility has been charging customers per ERC for late fee payments. According to Commission approved tariffs, the Utility is required to charge a late fee of \$6.77 per bill and not based on ERC. Below in Table 4-2 shows the amount the Utility charged each account as well as audit staff's adjustments:

**Table 4-2**

**For the 12 Month Test Year Ended 6/30/18**

<b>Date</b>	<b>Customer Acct (ERCs)</b>	<b>Utility Late Fee</b>	<b>Adj</b>	<b>Audit Late Fee</b>
2/12/2018	1049 (14 ERCs)	\$ 94.78	\$ 88.01	\$ 6.77
3/13/2018	1049 (14 ERCs)	\$ 94.78	\$ 88.01	\$ 6.77
2/12/2018	1675 (70 ERCs)	\$ 300.00	\$ 293.23	\$ 6.77
3/13/2018	1830 (65 ERCs)	\$ 440.05	\$ 433.28	\$ 6.77
<b>Total</b>		<b>\$ 929.61</b>	<b>\$ 902.53</b>	<b>\$ 27.08</b>

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

**Effect on the Filing:** Audit staff determined the operating revenues to be \$239,970 for the test year ended June 30, 2018. The effect on TOTI (RAF) is decreased by \$104.47.

## Finding 5: Operations and Maintenance Expense and Working Capital

**Audit Analysis:** Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were utility related. Our recommended adjustments are shown in Table 5-1.

**Table 5-1**

Description	NARUC Acct.	Per Utility from July 1, 2017 to 12/31/2017	Audit Adjustment 2017	Additions provided by supporting documentation from 1/1/2018 to 6/30/2018	Per Audit as of June 30, 2018
Salaries & Wages - Employees	701	\$ -	\$ -		\$ -
Salaries & Wages - Officers, Etc.	703	-	-		-
Employee Pension & Benefits	704	-	-		-
Purchased Sewage Treatment	710	-	-		-
Sludge Removal Exp	711	16,407	(2,107)	8,560	22,860
Purchased Power	715	6,023	(12)	6,211	12,223
Fuel for Power Purchased	716	-	-		-
Chemicals	718	3,349	(507)	2,933	5,776
Materials & Supplies	720	2,344	(2,021)	290	613
Contractual Services - Engineering	731	800	-	-	800
Contractual Services - Acct.	732	1,800	(800)	2,900	3,900
Contractual Services - Legal	733	1,030	(1,030)	-	-
Contractual Services - Mgmt. Fees	734	51,707	13,091	65,320	130,118
Contractual Services - Testing	735	5,744	-	6,844	12,588
Contractual Services - Other	736	20,336	(1,072)	15,524	34,788
Rental of Building/Real Property	741	-	-		-
Rental of Equipment	742	-	-		-
Transportation Expenses	750	-	-		-
Insurance - Vehicle	756	-	-		-
Insurance - General Liability	757	1,353	282	566	2,201
Insurance - Worker's Comp.	758	-	-		-
Insurance - Other	759	-	-		-
Advertising Expense	760	-	-		-
Reg. Comm. Exp. - Rate Case Amort.	766	-	-		-
Reg. Comm. Exp. - Other	767	-	-		-
Bad Debt Expense	770	-	-		-
Miscellaneous Expenses	775	3,314	538	3,205	7,057
Total Utility Expenses		\$ 114,207	\$ 6,363	\$ 112,354	\$ 232,923

Working Capital	\$	29,115
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Based on the review of supporting documentation, which included credit card statements, invoices, and statements. The adjustments that follow were made to the test year expenses.

- Account 711- Sludge Removal. We removed \$2,107 for insufficient support as of December 31, 2017. We increased this account by \$8,560 using supporting documentation and annualized the reoccurring expense to reflect six months of activity in 2018.
- Account 715- Purchased Power. We removed \$12 in late fees as of December 31, 2017. We increased this account by \$6,211 using supporting documentation to reflect six months of activity in 2018.
- Account 718- Chemicals. We removed \$507 for insufficient support as of December 31, 2017. We increased this account by \$2,933 using supporting documentation to reflect six months of activity in 2018.
- Account 720 Material and Supplies. We removed \$2,021 for insufficient support as of December 31, 2017. We increased this account by \$290 using supporting documentation to reflect six months of activity in 2018.



- Account 732- Contractual Services- Accounting. We removed \$800 for insufficient support as of December 31, 2017. We increased this account by \$2,900 using supporting documentation to reflect six months of activity in 2018. Willdan Financial Services accounts for \$2,400 which is payment for the preparation and filing of annual reports. The remaining \$500 was to Martin, Klayer & Associates for filing taxes.
- Account 733- Contractual Services- Legal. We removed \$1,030 for insufficient support as of December 31, 2017. The utility states that a lien was placed on two properties for nonpayment. The utility was not able to provide supporting documentation to audit staff confirming these liens.
- Account 734- Contractual Services- Management Fees. The total amount paid to PMI per the activity from July 1, 2017 through December 31, 2017 was \$51,707. Based on the contract, audit staff calculated this amount to be \$64,798, which is an increase of \$13,091 as of December 31, 2017. We also increased this account by \$65,320 based off the management contract as of June 30, 2018. See finding 6 for additional information.
- Account 735- Contractual Services- Testing. We increased this account by \$6,844 using supporting documentation to reflect six months of activity in 2018. These invoices are from Wetherell Treatment Systems and are required DEP inspections of the plant.
- Account 736- Contractual Services- Other. We removed \$1,072 for insufficient support. We increased this account by \$15,524 using supporting documentation to reflect six months of activity in 2018. The utility contracts William Alderson and Wetherall Treatment Systems to handle repairs and maintenance on the treatment plant. Mr. Alderson works after hours for the utility on as needed basis.
- Account 757- Insurance- General Liability. We increased this account by \$282 as of December 31, 2017 using supporting documentation provided by the utility. We increased this account by \$566 using supporting documentation to reflect six months of activity in 2018.
- Account 775- Miscellaneous Expenses. We increased this account by \$538 as of December 31, 2017 using supporting documentation provided by the utility. We increased this account by \$3,205 using supporting documentation to reflect six months of activity in 2018. These charges were for postage, plumbing, annual licenses for billing software, and Roto-Rooter.

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

**Effect on the Filing:** Audit staff determined the O&M expense to be \$232,923. Working capital was recalculated to 1/8 of O&M to be \$29,115 for the test year ended June 30, 2018.

**Finding 6: Management Fees- Peninsula Management, Inc.**

**Audit Analysis:** The utility is managed by Peninsula Management Inc. (PMI), an affiliate. The contract that exists between PMI and the utility specifies the services to be provided and the compensation required. PMI is responsible for the maintenance and operation of the Utility’s facilities and infrastructure. According to the management contract “the cost of all maintenance and operations will be borne by the utility”. These services include: employment and supervision of all individuals or companies hired or contracted with for the performance of any duties or services to, or for, the Utility and oversee day-to-day accounting services and the maintenance of proper accounting records as required.

The contract states a compensation rate of \$13.99 in 2017, and \$14.18 in 2018 per connected sewer customer per month. The contract also states \$1,280 per month for overhead and administration costs, as well as \$400 a week each for Robert Hillman and Tyree Wilson who are the only stockholders. Our recommended adjustments are shown in Table 6-1.

**Table 6-1**

<b>Management Fees per contract</b>		<b>7/01/2017 - 12/31/2017</b>	<b>1/1/2018- 06/30/2018</b>	<b>Total</b>
Overhead and Administration	\$1,280 per month \$400 each week @ 26 * for R. Hillman	\$ 7,680	\$ 7,680	\$ 15,360
Stockholder	and T. Wilson	\$ 20,800	\$ 20,800	\$ 41,600
Compensation per connected sewer per month	\$13.99 for 2017 \$14.18 for 2018	\$ 36,318	\$ 36,840	\$ 73,158
		<u>\$ 64,798</u>	<u>\$ 65,320</u>	<u>\$ 130,118</u>

**Effect on the General Ledger:** No effect

**Effect on the Filing:** Informational Purposes Only

Exhibits

**Exhibit 1: Rate Base**

**NORTH PENINSULA UTILITIES CORPORATION  
STAFF-ASSISTED RATE CASE  
DOCKET NO. 20180138; ACN 2018-239-4-1  
SCHEDULE OF WASTEWATER RATE BASE  
AS OF JUNE 30, 2018**

Description	Utility Balance 12/31/2017	Audit Adjustment	Audit Finding	Audit Balance 6/30/2018	Audit Test Year Average
Utility Plant in Service	\$ 956,116	\$ (73,212)	2	\$ 882,904	\$ 878,227
Land & Land Rights	\$ 46,800	\$ -		\$ 46,800	\$ 46,800
Accumulated Depreciation	\$ (925,036)	\$ 157,559	2	\$ (767,477)	\$ (767,227)
Contributions in Aid of Construction	\$ (640,994)	\$ -		\$ (640,994)	\$ (640,994)
Accumulated Amortization of CIAC	\$ 640,994	\$ -		\$ 640,994	\$ 640,994
Working Capital Allowance			5		\$ 29,115
<b>Total Rate Base</b>	<b>\$ 77,880</b>	<b>\$ 84,347</b>		<b>\$ 162,227</b>	<b>\$ 186,915</b>

## Exhibit 2: Capital Structure

**NORTH PENINSULA UTILITIES CORPORATION**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20180138; ACN 2018-239-4-1**  
**SCHEDULE OF WASTEWATER RATE BASE**  
**AS OF JUNE 30, 2018**

Capital Component	Per Utility		Per Audit	
	as of 12/31/17	Adjustments	as of 6/30/18	
Common Equity	\$ -	\$ -	\$ -	-
Long Term Debt	\$ 1,044,230	\$ (1,044,230)	\$ -	-
Short Term Debt	\$ -	\$ -	\$ -	-
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	-
Investment Tax Credits	\$ -	\$ -	\$ -	-
Customer Deposits		\$ -		-
<b>Total</b>	<b>\$ 1,044,230</b>	<b>\$ (1,044,230)</b>	<b>\$ -</b>	<b>-</b>

\* The Utility carries a negative retained earnings on their books, therefore, for ratemaking purposes this is presented as zero.

\* The analyst needs to determine the appropriate Capital Structure and Cost rate.

### Exhibit 3: Net Operating Income

**NORTH PENINSULA UTILITIES CORPORATION**  
**STAFF-ASSISTED RATE CASE**  
**DOCKET NO. 20180138; ACN 2018-239-4-1**  
**SCHEDULE OF WASTEWATER RATE BASE**  
**FOR TWELVE MONTHS ENDED JUNE 30, 2018**

Description	Balance per Utility 6/30/2018	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2018
Operating Revenues	\$ 242,282	\$ (2,312)	4	\$239,970
O&M Expenses	114,207	118,716	5	232,923
Depreciation Expense	27,508	(23,137)	2	4,371
Amoritization Expense	-	-		-
Taxes Other than Income	18,653	(104)	4	18,548
Income Tax Expense	-	-		-
<b>Total Operating Expenses:</b>	<b>\$ 160,368</b>	<b>\$ 95,475</b>		<b>\$ 255,842</b>
<b>Net Operating Income (Loss)</b>	<b>\$ 81,914</b>	<b>\$ (97,787)</b>		<b>\$ (15,872)</b>