

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 9, 2023

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20230033-SU
Company Name: TKCB, Inc.
Company Code: SU942
Audit Purpose: B1c: Certificate Transfer
Audit Control No: 2023-104-2-1

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

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing

Auditor's Report

TKCB, Inc./
CSWR-Florida Utility Operating Company, LLC

Transfer of Wastewater
Certificate No. 562-S

As of March 31, 2023

Docket No. 20230033-SU
Audit Control No. 2023-104-2-1
May 30, 2023

Handwritten signature of Brian Lenberg in cursive script.

Brian Lenberg
Audit Manager

Handwritten signature of Hymavathi Vedula in cursive script.

Hymavathi Vedula
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 April 14, 2023. We have applied these procedures to the attached schedules prepared by TKCB, Inc./CSWR-Florida Utility Operating Company, LLC in its request for a Transfer of Certificate No. 562-S in Docket No. 20230033-SU.

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 TKCB, 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

TKCB, Inc. is a Class "C" wastewater Utility that serves approximately 207 wastewater customers in Brevard County, per the application. Rate base was last established as of September 30, 2018, in Order No. PSC-2019-0362-PAA-SU, issued on August 26, 2019, in Docket No. 20180218-SU.

On March 13, 2023, CSWR-Florida Utility Operating Company, LLC filed an application with this Commission to transfer wastewater Certificate No. 562-S. CSWR-Florida UOC, LLC is purchasing TKCB, Inc. for \$425,000, with an anticipated closing date of 45 days after Commission approval.

CSWR-Florida UOC is not acquiring any non-regulated assets or operations of the seller and is not assuming any of Sellers's liabilities or obligations. The transaction is limited to the acquisition of assets used to provide regulated utility service.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintained its accounts and records in conformity with the 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 appeared to be in compliance.

Rate Base

Utility Plant in Service

Objectives: The objectives are 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 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 determined the beginning balances of UPIS as of September 30, 2018, from Order No. PSC-2019-0362-PAA-SU, issued August 26, 2019. We scheduled UPIS activity from September 30, 2018, through March 31, 2023. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. No further work was performed.

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 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We compared the beginning balance for land as of September 30, 2018, established in Order No. PSC-2019-0362-PAA-SU, with the Seller's books and records. We reviewed land deeds, as well as the Brevard County Property Appraiser's website for proof of ownership. Furthermore, there were no additions to land from September 30, 2018, through March 31, 2023. No further work was performed.

Accumulated Depreciation

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

Procedures: We reconciled the beginning balances of accumulated depreciation as of September 30, 2018, using the Commission-approved balances in Order No. PSC-2019-0362-PAA-SU. We calculated accumulated depreciation using the depreciation rates established in Rule 25-30.140(2), Florida Administrative Code, from September 30, 2018, through March 31, 2023. Finding 1 discusses accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives are 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 the beginning balance of CIAC as of September 30, 2018, using the Commission-approved balances in Order No. PSC-2019-0362-PAA-SU. As of March 31, 2023, the CIAC balance was \$0. No further work was performed.

Accumulated Amortization of CIAC

Objectives: The objectives are to determine whether accumulated CIAC: 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 to its books and records.

Procedures: We reconciled the beginning balance of accumulated amortization of CIAC as of September 30, 2018, using the Commission-approved balances in Order No. PSC-2019-0362-PAA-SU. As of March 31, 2023, the accumulated amortization of CIAC balance was \$0. No further work was performed.

Acquisition Adjustment

Objective: The objective was 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 that the net book value for the Utility at the time of the transfer was less than the purchase price, which would reflect a positive acquisition adjustment, pursuant to Rule 25-30.0371 - Acquisition Adjustments. The buyer is requesting a positive acquisition adjustment. Audit staff determined the acquisition adjustment to be \$297,122. No exceptions were noted.

Other

Rates and Charges

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

Procedures: We obtained and tested the Utility's billing registers for 2022. We recalculated the customer bills using Commission-approved tariffs and verified that the Utility used approved rates. No further work was performed.

Customer Deposits

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

Procedures: We reviewed the general ledger and the Utility's customer deposit ledger. Audit staff determined that the Utility does not collect customer deposits. No further work was performed.

Audit Findings

Finding 1: Accumulated Depreciation

Audit Analysis: Audit staff recalculated accumulated depreciation using the audited plant balances established in Order No. PSC-2019-0362-PAA-SU, and depreciation rates from Rule 25-30.140, Florida Administrative Code, as of March 31, 2023. Audit staff determined the Utility's accumulated depreciation balance to be \$4,488. The Utility calculated its accumulated depreciation balance to be \$5,143. There is a net difference of \$655 between the Utility and audit staff's calculations. This difference is mostly due to the Utility not using a Commission-approved depreciation rate for Account 370. In Account 370, the Utility used a 20-year average service life instead of the 25-year average service life prescribed by the Commission. The change in rates for Account 370 resulted in the difference between staff's calculation and the Utility's calculation, reflected in Table 1-1.

**Table 1-1
Wastewater Accumulated Depreciation**

Description	Audit Balance 3/31/2023	GL 3/31/2023	Adt vs GL Col 56 - 57
1	56	57	58
351 Organization	\$ -	\$ -	\$ -
352 Franchises	-	-	-
353 Land	-	-	-
354 Structures and Improvements	(795)	(807)	12
355 Power Generation Equip.	-	-	-
360 Collection Sewers-Force	-	-	-
361 Collection Sewers-Gravity	(244)	(238)	(7)
362 Special Collecting Structures	-	-	-
363 Services to Customers	-	-	-
365 Flow Measuring Installations	-	-	-
366 Reuse Services	-	-	-
367 Reuse Meters and Meter Install	-	-	-
370 Receiving Wells	1,292	617	675
371 Pumping Equipment	-	-	-
374 Reuse Distribution Reservoirs	-	-	-
375 Reuse Trans and Distrib System	-	-	-
380 Treatment and Disposal Equip.	(4,742)	(4,716)	(26)
381 Plant Swers	-	-	-
389 Other Plant and Misc. Equip.	-	-	-
390 Office Furniture and Equip	-	-	-
391 Transportation Equip.	-	-	-
392 Stores Equip.	-	-	-
393 Tools, Shop, and Garage Equipment	-	-	-
394 Lab Equipment	-	-	-
395 Power Operated Equip.	-	-	-
396 Communication Equip.	-	-	-
397 Misc. Equip.	-	-	-
398 Other Tangible Plant	-	-	-
Total:	\$ (4,488)	\$ (5,143)	\$ 655

Staff notes that the debit balance for Account 370, reflected in Table 1-1, is the result of a 2022 retirement that exceeded the outstanding credit balance. This type of situation is described in NARUC Wastewater Class C Accounting Instructions 5D (page 9). Based on the referenced NARUC instruction, and the fact that there are future accruals for this account, staff left the debit balance since it will likely be reversed within just a few years.

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 accumulated depreciation should be decreased by \$655 as of March 31, 2023.

Exhibits

Exhibit 1: Wastewater Net Book Value

	Balance			Balance	
Description	per Utility	Audit	Audit	per Audit	Simple
	3/31/2023	Adjustments	Finding	3/31/2023	Average
Utility Plant in Service	\$ 96,163	\$ -		\$ 96,163	\$ 96,163
Land	36,203	-		36,203	\$ 36,203
Accumulated Depreciation	(5,143)	655	1	(4,488)	\$ (4,816)
Contributions in Aid of Construction	-	-		-	\$ -
Accumulated Amortization of CIAC	-	-		-	\$ -
NET BOOK VALUE	\$ 127,223	\$ 655		\$ 127,878	\$ 127,551