

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: May 27, 2022

TO: Office of the Commission Clerk

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

RE: Docket No.: 20220061-SU
Company Name: BFF Corp.
Company Code: SU595
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2022-090-1-1

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

BFF Corp./

CSWR-Florida Utility Operating Company, LLC

Transfer of Certificate

Certificate No. 318-S

As of February 28, 2022

Docket No. 20220061-SU

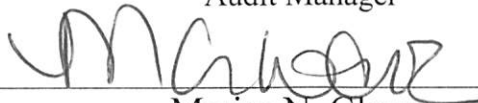
Audit Control No. 2022-090-1-1

May 18, 2022

 *for Ashley Sheffield*

Ashley Sheffield

Audit Manager



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 and Finance in its audit service request, dated March 29, 2022. We have applied these procedures to the attached schedules prepared by BFF Corp./ CSWR-Florida Utility Operating Company, LLC's request for a Transfer of Certificate in Docket No. 20220061-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 BFF Corp.

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

BFF Corp. is a Class "C" wastewater utility that serves approximately 108 wastewater customers in Marion County, per the application. Rate base was established in the last rate case proceeding in Order No. PSC-2002-0487-PAA-SU, issued April 8, 2002.

CSWR-Florida UOC, LLC is purchasing BFF Corp. for \$405,000 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 a Transfer of Certificate on March 15, 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. Finding 1 discusses the Utility's books and records.

Net Book Value

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 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 August 31, 2002, using the Commission-approved balances in Order No. PSC-2002-0487-PAA-SU, issued April 8, 2002, in Docket No. 20010919-SU. We scheduled UPIS activity from August 31, 2002, through February 28, 2022. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. BFF Corp. did not record UPIS additions for the years 2002 through 2006, 2008, and 2017. Finding 2 discusses utility plant in service.

Land and Land Rights

Objectives: The objectives were to determine whether the Utility's land is: 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 are recorded in its books and records.

Procedures: We scheduled land from the Commission-approved balances in Order No. PSC-2002-0487-PAA-SU. We noted that there were no additions to land from August 31, 2002, through February 28, 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 to its books and records.

Procedures: We reconciled accumulated depreciation's beginning balances, as of August 31, 2002, using the Commission-approved balances in Order No. PSC-2002-0487-PAA-SU. We calculated accumulated depreciation using the depreciation rates established in Rule 25-30.140(2), Florida Administrative Code, from August 31, 2002, through February 28, 2022. BFF Corp. did not separate accumulated depreciation by account. Finding 2 discusses accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions-in-aid-of-construction (CIAC): 1) Consisted of cash or property contributions that exists 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 August 31, 2002, using the Commission-approved balances in Order No. PSC-2002-0487-PAA-SU. There were additions made to CIAC from August 31, 2002, through February 28, 2022, but the Utility could not provide supporting documentation. Finding 3 discusses contributions-in-aid-of-construction.

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 to its books and records.

Procedures: We reconciled accumulated amortization of CIAC’s beginning balance, as of August 31, 2002, using the Commission-approved balances in Order No. PSC-2002-0487-PAA-SU. We calculated annual accruals to accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2). There were additions to CIAC from August 31, 2002, to February 28, 2022, but the Utility could not provide supporting documentation. Audit staff calculated a CIAC composite rate of 0.0288 for the accumulated amortization of CIAC. Finding 3 discusses accumulated amortization of contributions-in-aid-of-construction.

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(1), Florida Administrative Code – Acquisition Adjustments.

Procedures: We determined 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 \$365,292. 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 registers for January 2021 and August 2021. We recalculated a sample of customer bills using the Commission-approved tariffs and verified that the Utility is using 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-approved tariffs for the collection of customer deposits. Audit staff determined that the Utility does collect customer deposits. We also noted the Utility’s trial balance for customer deposits is overstated, according to audit staff’s recalculation. Finding 4 discusses customer deposits.

Audit Findings

Finding 1: Books and Records

Audit Analysis: BFF Corp.'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" Wastewater Utilities states,

"All books of accounts, together with records and memoranda supporting the 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 BFF Corp. did not maintain their books and records in accordance with the NARUC USOA. The general ledgers from August 31, 2002, through December 31, 2006, and the years ended December 31, 2008, and December 31, 2017, were not maintained and not available from the Utility. The general ledgers from December 31, 2018, through February 28, 2022, were maintained in conformity with NARUC USOA.

Finding 2: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Utility's trial balance, total UPIS was \$270,192, as of February 28, 2022. The Utility recorded \$38,160 in plant additions between August 31, 2002, through February 28, 2022, according to the annual reports. However, supporting documentation was not provided for this amount. The Utility provided supporting documentation for plant additions in the amount of \$6,731 and did not record any retirements for the audit period. We scheduled plant additions and retirements from August 31, 2002, through February 28, 2022. We used the Commission-approved beginning balances in Order PSC-2002-0487-PAA-SU, issued April 8, 2002. The Utility balance for UPIS was \$270,192, as of February 28, 2022. Audit staff determined the UPIS balance to be \$235,851, as shown in Table 2-1.

Table 2-1

| Account - Description | Utility Balance | | Audit | Audit Balance |
|--------------------------------------|-------------------|--|--------------------|-------------------|
| | UPIS | | Adjustments | UPIS |
| | As of 02/28/2022 | | | As of 02/28/2022 |
| 351 Organization | \$ 2,411 | | \$ - | \$ 2,411 |
| 352 Franchises | - | | - | - |
| 354 Structures and Improvements | 8,240 | | (8,240) | - |
| 360 Collection Sewers - Force | 117,528 | | (6,862) | 110,666 |
| 361 Collection Sewers - Gravity | 77,795 | | - | 77,795 |
| 362 Special Collecting Structures | 18,168 | | (1,125) | 17,043 |
| 363 Services to Customers | 6,219 | | - | 6,219 |
| 365 Flow Measuring Installations | 7,533 | | (7,150) | 383 |
| 370 Receiving Wells | 32,298 | | (10,964) | 21,334 |
| 380 Treatment and Disposal Equipment | - | | - | - |
| 382 Outfall Sewer Lines | - | | - | - |
| 390 Office Furniture and Equipment | - | | - | - |
| 393 Tools, Shop and Garage Equipment | - | | - | - |
| 398 Other Tangible Plant | - | | - | - |
| Total: | \$ 270,192 | | \$ (34,341) | \$ 235,851 |

According to the Utility's trial balance, total accumulated depreciation was \$214,723, as of February 28, 2022. The Utility does not separate accumulated depreciation by account. However, the Utility provided an explanation of how they calculate accumulated depreciation annually. The Utility uses the previous year's annual report itemized by account, and then takes the total amount accrued and divides by twelve to get the total monthly amount for the following year. The monthly amount calculated is multiplied by twelve to get an estimated yearly amount for accumulated depreciation. The Utility makes any needed adjustment at year-end to correct the balances.

On the 2021 annual report, total accumulated depreciation increased by \$8,412. Audit staff took this amount and divided it by the twelve months to get \$701. We then used the \$701 and multiplied it by two for the months of January and February 2022 totaling \$1,402. Audit staff recalculated each account for accumulated depreciation using the same method to get the individual account totals, and reconciled to the \$1,402, per the Utility. Audit staff calculated accumulated depreciation using the approved rates from Rule 25-30.140, Florida Administrative

Code – Depreciation, and the audited plant additions and retirements, as of February 28, 2022. Audit staff determined that the Utility did not use the approved depreciation rates.

We determined that the accumulated depreciation balance was \$190,666, as of February 28, 2022, as shown in Table 2-2.

Table 2-2

| Account - Description | Utility Balance | | Audit Balance |
|--------------------------------------|---|------------------------------|---|
| | Accum. Dep. As of 02/28/2022 | Audit Adjustments | Accum. Dep. As of 02/28/2022 |
| 351 Organization | \$ (1,723) | \$ (195) | \$ (1,918) |
| 352 Franchises | - | - | - |
| 353 Land and Land Rights | - | - | - |
| 354 Structures and Improvements | (5,491) | 5,491 | - |
| 360 Collection Sewers - Force | (90,015) | 3,805 | (86,210) |
| 361 Collection Sewers - Gravity | (79,895) | 5,314 | (74,581) |
| 362 Special Collecting Structures | (10,083) | 760 | (9,323) |
| 363 Service to Customers | (4,500) | (1,719) | (6,219) |
| 365 Flow Measuring Installations | (233) | 15 | (218) |
| 370 Receiving Wells | (22,783) | 10,588 | (12,195) |
| 380 Treatment and Disposal Equipment | - | - | - |
| 382 Outfall Sewer Lines | - | - | - |
| 390 Office Furniture and Equipment | - | - | - |
| 393 Tools, Shop and Garage Equipment | - | - | - |
| 398 Other Tangible Plant | - | - | - |
| Total : | \$ (214,723) | \$ 24,057 | \$ (190,666) |

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

Effect on the Filing: Audit staff determined the UPIS balance should be decreased by \$34,341, to include the total of additions and retirements to UPIS from August 31, 2002, through February 28, 2022. Audit staff determined the accumulated depreciation balance should be decreased by \$24,057, as of February 28, 2022.

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

Audit Analysis: According to the trial balance, contributions-in-aid-of-construction was \$41,036, as of February 28, 2022.

We scheduled contributions-in-aid-of-construction from August 31, 2002, through February 28, 2022. The Utility did not provide supporting documentation for additions to contributions-in-aid-of-construction.

Based on the procedures performed above, audit staff determined the contributions-in-aid-of-construction balance to be \$35,402, as of February 28, 2002, as shown in Table 3-1.

Table 3-1

| Account - Description | Utility Balance | | Audit Balance | |
|--------------------------------------|--------------------|-----------------|--------------------|--|
| | CIAC | Audit | CIAC | |
| | As of 02/28/2022 | Adjustments | As of 02/28/2022 | |
| Contributions-in-Aid-of-Construction | \$ (41,036) | \$ 5,634 | \$ (35,402) | |
| Total: | \$ (41,036) | \$ 5,634 | \$ (35,402) | |

According to the trial balance, accumulated amortization of CIAC was \$29,740, as of February 28, 2022. Audit staff calculated the composite rate of accumulated amortization of CIAC to be 0.0288 by taking the additions for accumulated depreciation divided by the net plant in service for the years of August 31, 2002, through February 28, 2022. The Utility stated that the rate had been established at the start of the Utility’s existence and they were unsure of how it was calculated.

Based on the procedures performed above, audit staff determined the accumulated amortization of CIAC to be \$28,346, as of February 28, 2022, as shown in Table 3-2.

Table 3-2

| Account - Description | FPSC Rates | Utility Balance | | Audit Balance | |
|----------------------------------|------------|------------------|-------------------|------------------|--|
| | | AA of CIAC | Audit | AA of CIAC | |
| | | As of 02/28/2022 | Adjustments | As of 02/28/2022 | |
| Accumulated Amortization of CIAC | 0.0288 | \$ 29,740 | \$ (1,394) | \$ 28,346 | |
| Total: | | \$ 29,740 | \$ (1,394) | \$ 28,346 | |

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

Effect on the Filing: Audit staff determined contributions-in-aid-of-construction should be decreased by \$5,634, and accumulated amortization of CIAC should be decreased by \$1,394, as of February 28, 2022.

Finding 4: Customer Deposits

Audit Analysis: The Utility recorded \$6,600 for customer deposits on its trial balance, as of February 28, 2022. Two of the customer deposits on the customer deposit report were collected outside of the test year. The Utility did not collect interest. Once these deposits were removed, audit staff determined customer deposits to be \$6,360, as of February 28, 2022, as shown in Table 4-1.

Table 4-1

| Description | Balance Per Utility, as of February 28, 2022 | Audit Adjustment | Balance Per Audit, as of February 28, 2022 |
|--------------------------------|---|-------------------------|---|
| Customer Deposits | \$ 6,600 | \$ (240) | \$ 6,360 |
| Total Customer Deposits | \$ 6,600 | \$ (240) | \$ 6,360 |

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 decreased by \$240, to reflect the total amount of customer deposits, as of February 28, 2022.

Exhibit

Exhibit 1: Net Book Value

| BFF CORP. | | | | |
|---|--|----------------------|------------------|--|
| TRANSFER OF CERTIFICATE | | | | |
| DOCKET NO. 20220061-SU; ACN 2022-090-1-1 | | | | |
| SCHEDULE OF WASTEWATER NET BOOK VALUE | | | | |
| AS OF FEBRUARY 28, 2022 | | | | |
| Description | Balance per Utility As of 02/28/2022 | Audit Adjustments | Audit Finding | Balance per Audit As of 02/28/2022 |
| Utility Plant in Service | \$ 270,192 | \$ (34,341) | 2 | \$ 235,851 |
| Land | 1,579 | - | | 1,579 |
| Accumulated Depreciation | (214,723) | 24,057 | 2 | (190,666) |
| Contributions In Aid of Construction | (41,036) | 5,634 | 3 | (35,402) |
| Accumulated Amortization of CIAC | 29,740 | (1,394) | 3 | 28,346 |
| NET BOOK VALUE | \$ 45,752 | \$ (6,044) | | \$ 39,708 |