

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: July 18, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120078-SU
Company Name: TKCB
Company Code: SU942
Audit Purpose: A1b Staff Assisted Rate Case
Audit Control No: 12-128-2-1

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12 JUL 18 3:36 PM
COMMISSION CLERK

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 were confidential work papers associated with this audit.

PD/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04801 JUL 18 12

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

TKCB, Inc.
Staff Assisted Rate Case

Twelve-Month Period Ended April 30, 2012

Docket No. 120078-SU
Audit Control No. 12-128- 2-1
July 12, 2012

Handwritten signature of Jeffery A. Small in black ink.

Jeffery A. Small
Audit Manager

Handwritten signature of Linda Hill-Slaughter in black ink.

Linda Hill-Slaughter
Reviewer

DOCUMENT NUMBER-DATE

04801 JUL 18 2012

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 7, 2012. We have applied these procedures to the attached schedules prepared by the audit staff in support of TKCB, Inc.'s request for a Staff Assisted Rate Case in Docket No. 120078-SU.

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

Objectives and Procedures

General

Utility Information

TKCB, Inc. is a Class C Utility that provides wastewater services to approximately 291 mobile home customers in Brevard County, Florida. The Utility is managed by Mr. Thad Terry the utilities majority shareholder. In 2011, the Commission granted the Utility Certificate No. 562-S to provide wastewater service. The Utility's rate base was not established at that time.

Utility Books and Records

Objective: Our objective was to determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedure: We reviewed the Utility's accounting system and determined that they are in the process of converting its accounting system to the NARUC USOA. See our discussion of this issue in Finding 1.

Rate Base

General Information

Information for Utility Plant in Service (UPIS), Contributions in Aid of Construction (CIAC), Accumulated Depreciation, and Accumulated Amortization of CIAC balances are not available. See our discussion of this issue in Finding 2.

Land & Land Rights

Objectives: Our objectives were to determine that utility land is: 1) Recorded at original cost and, 2) Owned or secured under a long-term lease.

Procedure: We determined the original cost for land used to provide wastewater service to the Utility's customers. Our recommended wastewater land balance is discussed in Finding 3.

Working Capital

Objective: Our objective was to determine the Utility's working capital balance per Commission rule.

Procedure: We calculated the Utility's working capital adjustment as of April 30, 2012, using one-eighth of operation and maintenance expense as required by Commission Rule 30.433(2), Florida Administrative Code. Our recommended wastewater working capital adjustment is discussed in Finding 5.

Net Operating Income

Operating Revenue

Objectives: Our objectives were to determine the: 1) Utility's test year wastewater revenues based on Commission rules and, that, 2) Revenues are calculated using the Commission approved tariff rates.

Procedures: We compiled the Utility's revenues for the twelve-month period ended April 30, 2012, by obtaining the monthly customer billing records from the City of Cocoa Utilities Department. We recalculated and tested the reasonableness of the Utility's 2011 calendar year revenues using summarized consumption information and its Commission approved tariff rates. Our recommended balance for wastewater revenues is discussed in Finding 4.

Operation and Maintenance Expense

Objectives: Our objectives were to: 1) Compile the Utility's Operation and Maintenance (O&M) Expenses in compliance with NARUC USOA and Commission rules and, 2) Ensure that O&M Expense is representative of ongoing utility operations.

Procedures: We compiled wastewater O&M expenses for the twelve-month period ended April 30, 2012, by reconciling utility invoices to original source documentation. We included invoices for the test year period and verified their recurring nature. We verified the proper allocation of expenses between the Utility's related party operations and its wastewater operations. Our recommended balances for wastewater O&M expense are discussed in Finding 5.

Depreciation and CIAC Amortization Expense

Information for depreciation and CIAC amortization expenses are not available. See our discussion of this issue in Finding 2.

Taxes Other than Income

Objectives: Our objectives were to: 1) Compile the Utility's Taxes Other Than Income (TOTI) expenses in compliance with Commission rules and, 2) Ensure that TOTI expenses are representative of ongoing utility operations.

Procedures: We compiled wastewater TOTI expenses for the twelve-month period ended April 30, 2012, by calculating the: 1) Real estate taxes associated with the land and structures used to provide wastewater service determined in this rate proceeding and, 2) Regulatory assessment fees due based on the test year revenues determined in this rate proceeding. We reviewed and recalculated the 2011 regulatory assessment fee return and no exceptions were noted. Our recommended balances for wastewater TOTI expense are discussed in Finding 6.

Capital Structure

General Information

The Utility's capital structure is incomplete and undeterminable by the auditor. See our discussion of this issue in Finding 7.

Audit Findings

Finding 1: Utility Books and Records

Audit Analysis: In Order No. PSC-11-1522-FOF-SU, issued November 7, 2011, the Commission granted the TKCB, Inc. Certificate No. 562-S to provide wastewater service. The Commission also put the Utility on notice that it would be required to maintain its books in accordance with the NARUC USOA as required by Commission rules.

The Utility uses a cash basis accounting method that is maintained by a part-time bookkeeper in Quickbooks™. An outside accounting firm prepares the Utility's federal and state tax returns on a calendar year basis. The Utility, with the help of a consultant, prepared the 2011 annual report that was filed with the Commission.

The Utility's current accounting system is not in full compliance with the Commission Order referenced above and was not conducive for our requirements or needs for this rate proceeding. The fact that the Utility's records are maintained on a cash basis rather than an accrual basis and that the test year we chose does not equate to a calendar year, made it difficult for us to use the information compiled in the Utility's accounting system.

Additionally, the Utility's rate base accounts and a segment of its operating accounts are not included in the Quickbooks™ accounting system. We determined that they are recorded on the books of Sun Lake Estates Homeowners Association, Inc., (SLEHOA), a not-for-profit, related party.

The impact of the Utility's accounting method on our findings, however, was considered minimal because it's underlying records were made fully accessible and deemed sufficient for us to substantially complete our assigned objectives where possible for this proceeding.

The Utility has contracted with an outside consultant to aid in the conversion of its books and records to the NARUC USOA and Commission rules. The process is ongoing. Additionally, we have made recommendations during the course of our audit engagement.

Effect on the General Ledger: None

Effect on the Filing: None

Finding 2: Rate Base

Audit Analysis: The Utility's 2011 Annual Report reflects the following rate base balances.

<u>Rate Base Component</u>	<u>Amount</u>
Utility Plant in Service (UPIS)	\$471,132
Land	30,000
Contributions in Aid of Construction (CIAC)	0
Accumulated Depreciation	(164,493)
Accumulated Amortization of CIAC	0
Total	\$336,639

We requested supporting documents for the rate base balances presented above. TKCB, Inc. (owner) stated that nothing was kept or retrievable from its records that would support the original cost that was invested in the construction of utility assets or the balances included in the Utility's annual report. The owner further stated that the collection system, lift station, and wastewater treatment plant were constructed in 1985 and 1986 when TKCB, Inc. initially developed Phase 1 of the Sun Lakes mobile home community.

In 1987, the wastewater system assets were sold and transferred to SLEHOA, a related party. The Utility provided a copy of a promissory note executed on December 15, 1987, for \$401,892 as evidence for the sale.

In 1994, the wastewater plant was expanded by TKCB, Inc. on behalf of the SLEHOA in anticipation of TKCB, Inc. developing Phase 3 of the Sun Lakes mobile home community. The Utility provided a copy of a promissory note executed on April 1, 1994, for \$100,739 as evidence for the expansion.

We have determined that none of the wastewater system assets, including land, are shown on TKCB, Inc.'s 2010 federal tax return and that they are included on the 2010 federal tax return for SLEHOA. It appears, from the evidence available and discussed above, that TKCB, Inc. has fully recovered its investment in the wastewater treatment system when it was sold and transferred to SLEHOA.

Thad Terry, the majority shareholder of TKCB, Inc. and of SLEHOA, claimed that the above transfer of wastewater assets by TKCB, Inc. to SLEHOA was subsequently rescinded when it became apparent that SLEHOA could not generate enough cash flow to make the payments on the two promissory notes discussed above. No evidence was located to support this claim.

Absent adequate and verifiable information we can not determine nor can we support the UPIS and accumulated depreciation balances displayed above. Additionally, the corresponding depreciation and amortization expenses balances normally included in the Utility's Net Operating Income are undeterminable as well.

The wastewater land balance is discussed further in Finding No. 3.

Effect on the General Ledger: None

Effect on the Filing: None

Finding 3: Land and Land Rights

Audit Analysis: The Utility's Annual Report reflects a balance of \$30,000 for wastewater land as of December 31, 2011.

We performed a search of the Official Records (OR), as recorded for Brevard County, Florida to determine the date and value of the land used for providing wastewater services to the Utility's customers. We also searched the records of the Florida Department of State, Division of Corporations, to determine the relationships of the various entities and individuals involved with the initial development of the Utility and the subdivisions it serves.

NARUC, Class C, Accounting Instruction No. 3. Utility Plant requires that all utility plant shall be recorded at original cost which is defined as "the cost of such property to the person first devoting it to public service."

We located the following five deeds that are relevant to our determination of the original cost for utility land.

1. Warranty Deed dated October 29, 1982, from Environmental Builders, Inc. to K&P Properties, a general partnership, which transferred 120 acres of vacant land, as recorded in OR Book 2384, page 0554, in Brevard County, Florida.
2. Warranty Deed dated January 26, 1983, from John D. Journey to K&P Properties, which transferred 0.18 acres of vacant land, as recorded in OR Book 2407, page 2341.
3. Warranty Deed dated December, 14, 1983, from K&P Properties to Sunlake Partnership, a general partnership, which transferred 120 acres of vacant land, as recorded in OR Book 2475, page 1958, in Brevard County, Florida.
4. Warranty Deed dated December 14, 1983, from Sunlake Partnership to TKCB, Inc., which transferred 120 acres of vacant land, as recorded in OR Book 2517, page 1959, in Brevard County, Florida.
5. Warranty Deed dated May 31, 1984, from K&P Properties to TKCB, Inc., which transferred a parcel of land that included the 0.18 acres of vacant land in Item 2 above, as recorded in OR Book 2517, page 2460, in Brevard County, Florida.

Additional information for the four entities mentioned is provided below.

1. Environmental Builders, Inc. is an unrelated third party entity to the three others described below.
2. K&P Properties was a partnership comprised of two general partners, Pentagon Mobile Home Sales, Inc. and O.K.&T. Inc. The officers and shareholders of all three entities include a combination of Thad Terry, Ollie King, and Kelly Barnes, all of whom were future shareholders of TKCB, Inc. at the time the property was acquired.
3. Sunlake Partnership was comprised of four general partners, Thad Terry, Ollie King, Robert Clifton, and Kelly Barnes, all of whom were shareholders of TKCB, Inc. at the time the property was acquired.
4. TKCB, Inc. was incorporated on December 14, 1983, with Thad Terry, Ollie King, Robert Clifton, and Kelly Barnes as the founding shareholders. Subsequent reorganizations and

shareholder acquisitions have left Thad Terry (92.5%) and his son, Thad Terry Jr., (7.5%) as the remaining shareholders, as of April 27, 1995.

On December 20, 1984 and March 4, 1985, TKCB, Inc. received approval for the platted subdivisions of Sun Lake Estates Units 1 and 2 from the Board of County Commissioners of Brevard County, Florida, as recorded in Plat Book 31 pages 26 and 54, respectively. Included within these plats were the lands dedicated to the wastewater plant, percolation ponds, and utility easements for the wastewater collection system. The newly formed plats did not include the 0.18 acres discussed separately above. We believe that this event identifies the dates for when the land was dedicated to utility service and the controlling time period for the original cost determination of utility occupied land.

Based on the information provided above, we believe that the first two warranty deeds from Environmental Builders, Inc. and John D. Journey should be used to determine the original cost for utility land because they are the last real estate transactions, between unrelated parties, that provide an objective and identifiable purchase price for the land that ultimately was used to provide utility services.

An examination of the first deed indicates that K&P Properties paid Environmental Builders, Inc. \$250,000 for the 120 acres or \$2,083 per acre. The purchase price is calculated using \$1,125 in documentary stamps indicated on the face of the deed divided by the county clerk's 1982 recording fee of \$0.45 per \$100 in purchase price $((\$1,125 / \$0.45) \times \$100)$.

An examination of the second deed indicates that K&P Properties paid John D. Journey \$3,000 for the 0.18 acre parcel that was used to expand the wastewater plant site. The purchase price is calculated using \$13.50 in documentary stamps indicated on the face of the deed divided by the county clerk's 1982 recording fee of \$0.45 per \$100 in purchase price $((\$13.50 / \$0.45) \times \$100)$.

Based on records obtained from the Brevard County Property Appraiser, we have determined that the Utility's wastewater plant and percolation ponds occupy approximately 16.12 acres of the 68.34 acres of the lands originally purchased and now owned by TKCB, Inc. as of April 30, 2012, as illustrated below.

Parcel ID Number	Original Deed	Original Acres	Remaining Acres	Utility Acres	Cost/Acre	Total
24-35-01-25-00001.0-0000.00	OR 2384/0554	240.00	58.16	7.06	\$2,083	\$14,706
24-35-01-25-0000A.0-0000.00	OR 2384/0554	240.00	10.00	8.88	\$2,083	18,497
24-35-01-25-00001.0-0019.00	OR 2407/2341	0.18	<u>0.18</u>	<u>0.18</u>	-	<u>3,000</u>
			68.34	16.12		\$36,203

As disclosed in Finding No. 1, the Utility's land is not included in the 2010 federal tax return for TKCB, Inc. This may indicate that the cost of the land was recovered by some other means, such as the sale of lots in the mobile home community. Therefore, pending staffs inclusion of land for rate base purposes, we recommend a balance of \$36,203 for wastewater land in this rate proceeding.

Effect on the General Ledger: None

Effect on the Filing: The Utility's balance for land dedicated to wastewater service is \$36,203 as of April 30, 2012.

Finding 4: Operating Revenue

Audit Analysis: The Utility has contracted with the City of Cocoa Utilities Department to bill and collect the wastewater fees for its customers.

Utility records indicate that its service territory includes 291 potential wastewater service connections. Records obtained from the City of Cocoa indicate that it billed and collected wastewater fees for an average of 255 customers per month during the twelve-month period ended April 30, 2012.

We compiled the billing records obtained and determined that the Utility's revenues were \$69,705 during this period.

Effect on the General Ledger: None

Effect on the Filing: Wastewater revenues are \$69,705 for the twelve-month period ended April 30, 2012.

Finding 5: Operations and Maintenance Expense

Audit Analysis: We compiled a utility trial balance for the twelve-month period ended April 30, 2012, using information from the Utility's accounting system. The trial balance reflected Operations and Maintenance (O&M) Expenses of \$59,728 for the corresponding period.

We reviewed the transactions that comprised the above trial balance and recommend the following adjustments for the test year.

1. We have increased Acct. No. 701-Salaries & Wages - Employees by \$3,000 to include the allocated salary for the Utility's bookkeeper. She is an employee of Atlantis Investments, Inc., a related party. She spends approximately ten hours per month performing general office, bookkeeping, and accounting activities for the Utility. Atlantis Investments, Inc. charges the Utility \$25 per hour for these services (\$25 x 10 hours x 12 months).
2. We have reduced Acct. No. 703 -Salaries & Wages - Officers by \$10,400 to \$4,800 to include only the allocated salary for the Utility's president. He is the president and owner of Atlantis Investments, Inc. and the Utility. He spends approximately 26 hours per month performing administrative duties managing accounting, customer service, contract vendors, and daily service operations for the Utility. Atlantis Investments, Inc. charges the Utility \$400 per month for his services. The \$15,200 included in this account before our adjustment was described as distributions towards the outstanding promissory note described earlier in Finding 2.
3. We have included Acct. No. 711-Sludge Hauling Expense and its corresponding amount of \$1,400 for hauling and disposing of sludge from the Utility's wastewater plant during the test year.
4. We have reduced Acct. No. 715-Purchased Power Expense by \$85 to \$10,810 to record the actual amount charged for purchased power during the test year based on the following adjustments. (\$984 - \$901)
 - a. We removed two electric bills totaling \$985 for April 2011 service which is outside our test year.
 - b. We included two electric bills totaling \$901 for April 2012 service which is inside our test year.
5. We have reduced Acct. No. 718-Chemicals Expense by \$4 to \$280 to record the actual amount charged for chemicals purchased during the test year based on the following adjustments (\$54 - \$58).
 - a. We removed \$58 for a circuit breaker that we reclassified to Acct. No. 720-Materials & Supplies below.
 - b. We included two invoices totaling \$54 (\$33.41 + \$20.21) for chlorine that were reclassified from Acct. Nos. 720 and 736-Contractual Services – Other, respectively, below.
6. We have reduced Acct. No. 720-Material & Supplies Expense by \$2,689 to \$1,932 to record the actual amount charged for items purchased during the test year based on the following adjustments (\$58 - \$110 - \$2,574 - \$33 - \$30).

- a. We included \$58 for a circuit breaker that was reclassified from Acct. No. 718 above.
 - b. We removed \$110 for a labor charge to clean the wastewater plant site that we reclassified to Acct. No. 736 below.
 - c. We removed \$2,574 for 2-3/4hp wastewater surge pumps that should be capitalized and recorded in Acct. No. 380-Treatment & Disposal Equipment.
 - d. We removed \$33 for chlorine that was reclassified to Acct. No. 718 above.
 - e. We removed \$30 for a transaction that lacked any supporting documentation.
7. We have increased Account No. 730-Contractual Services – Billing by \$3,091 to record service fees charged by the City of Cocoa Utilities Department (COC) for customer billing services during the test year. The Utility contracts with the COC to bill, collect, and manage delinquent accounts for wastewater services based on the customers' monthly water consumption. The COC charged \$0.98 per customer bill levied through December 31, 2011. The fee was increased to \$1.01 per customer bill effective January 1, 2012. The \$3,091 above was calculated by annualizing the average number of customer bills per month times the COC fee (12 months x 255 average bills x \$1.01 fee per bill).
 8. We have included Acct. No. 731-Contractual Services – Professional and its corresponding amount of \$525 for fees charged by the Utility's outside accountant to prepare and file its federal tax returns during the test year.
 9. We have reduced Acct No. 735-Contractual Services – Testing by \$85 to \$4,702 to record the actual amount charged for wastewater tests performed during the test year based on the following adjustments (\$215 - \$300).
 - a. We removed two invoices totaling \$300 for wastewater tests performed during April 2011, which is outside our test year.
 - b. We included one invoice for \$215 for wastewater tests performed during April 2012, which is inside our test year.
 10. We have reduced Acct. No. 736 – Contractual Services – Other by \$405 to \$20,688 to record the actual amount charged for wastewater contract services performed during the test year based on the following adjustments. (\$1,000 + \$110 - \$1,350 - \$145 - \$20)
 - a. We included a \$1,000 adjustment to annualize the certified operator service fee that increased during the test year.
 - b. We included \$110 for a labor charge to clean the wastewater plant site that we reclassified from Acct. No. 720 above.
 - c. We removed 18 invoices totaling \$1,350 (\$75 each) for aquatic weed spraying within the Sun Lake Estates mobile home community that is not related to utility operations.
 - d. We removed \$145 for two mileage reimbursement charges that were reclassified to Acct. No. 750 – Transportation below. (\$85 + \$60)
 - e. We removed \$20 for chlorine that was reclassified to Acct. No. 718 above.
 11. We have increased Acct. No. 750 – Transportation Expense by \$145 to include two mileage reimbursements that were reclassified from Acct. No. 736 above.

12. We have included Acct. No. 765-Regulatory Commission Expense and its corresponding amount of \$327 for various fees incurred to secure its original wastewater certificate from the Commission that occurred during the test year. We have not included rate case expense for this rate proceeding.
13. We have increased Acct. No. 770 - Bad Debt Expense by \$2,712 for the test year. The COC evaluates all of its outstanding accounts receivable balances each year and calculates a bad debt write-off that is recorded in September of each year. Water and wastewater accounts deemed uncollectable are written off and, subsequently, TKCB, Inc's. September revenue disbursement is reduced by an amount the COC writes off that is attributed to the Utility's customers. The amount written off in 2009, 2010, and 2011 was \$2,516, \$2,830, and \$2,804, respectively. The three year average was \$2,712, which is included above.
14. We have reduced Acct. No. 775-Miscellaneous Expense by \$105 to \$490 to record the actual amount charged for wastewater services performed during the test year. We removed \$105 in bank overdraft fees charged in November 2011.

Effect on the General Ledger: None

Effect on the Filing: The Utility's O&M Expense is \$54,903 for the twelve-month period ended April 30, 2012. See the schedule that follows for a summary of our adjustments by NARUC account below.

The Utility's working capital for rate base determination is \$6,863, which is calculated as 1/8 of our recommended O&M expense balance.

Acct. No.	Acct. Description	Trial Balance	Adjustment	Audit Balance
701	Salaries & Wages - Employees	\$0	\$3,000	\$3,000
703	Salaries & Wages - Officers	15,200	(10,400)	4,800
711	Sludge Removal Expense	1,400	0	1,400
715	Purchased Power Expense	10,895	(85)	10,810
718	Chemical Expense	284	(4)	280
720	Materials & Supplies Expense	4,622	(2,689)	1,933
730	Contractual Services - Billing	0	3,091	3,091
731	Contractual Services - Professional	525	0	525
735	Contractual Services - Testing	4,787	(85)	4,702
736	Contractual Services - Other	21,093	(405)	20,688
750	Transportation Expense	0	145	145
755	Insurance Expense	0	0	0
765	Regulatory Commission Expense	327	0	327
770	Bad Debt Expense	0	2,712	2,712
775	Miscellaneous Expense	<u>595</u>	<u>(105)</u>	<u>490</u>
	Totals	\$59,728	(\$4,826)	\$54,903

Finding 6: Taxes Other Than Income

Audit Analysis: We compiled a utility trial balance for the twelve-month period ended April 30, 2012, using information from the Utility's accounting system. The trial balance did not include any amount for Taxes Other Than Income (TOTI) during the test year.

The Utility's TOTI is \$3,897 for the twelve-month period ended April 30, 2012, based on the following (\$3,137 + \$760).

1. We determined that the Utility's operating revenues are \$69,705 for the test year in Finding 4. Regulatory assessment fees of \$3,137 would be due on this amount. ($\$69,705 \times 4.5\%$)
2. We determined in Finding 3 that the Utility land encompasses 16.12 acres of land owned by TKCB, Inc. Real estate taxes associated with this amount of land equate to \$760 as calculated below.

Real Property Description / Parcel ID Number	Taxable Size in Acres	Utility Size in Acres	Gross Real Estate Tax	Discounted Real Estate Tax (4%)	Utility Land Area Percentage	Utility Real Estate Tax
W/Water Treatment Plant Site 24-35-01-25-00001.0-0019.00	0.180	0.180	\$11.28	\$10.83	100.00%	\$10.83
W/Water Treatment Plant Site / South Percolation Ponds 24-35-01-00-00001.0-0000.00	58.160	7.060	\$5,357.40	\$5,143.10	12.14%	\$624.32
North Percolation Ponds 25-35-01-04-0000A.0-0000.00	10.000	<u>8.880</u>	\$146.37	\$140.52	88.80%	<u>\$124.78</u>
Totals		16.120				\$759.92

Effect on the General Ledger: None

Effect on the Filing: The Utility's TOTI is \$3,897 for the twelve-month period ended April 30, 2012.

Finding 7: Capital Structure

Audit Analysis: The Utility's 2011 annual report includes the following balances for its capital structure as of December 31, 2011.

<u>Liability and Capital</u>	<u>Balance</u>
Common Stock	\$0
Preferred Stock	0
Other Paid in Capital	329,692
Retained Earnings	3,006
Long Term Debt	0
Customer Deposits	<u>0</u>
	\$332,698

We could not reconcile the above balances to a general ledger or to the federal tax returns of the Utility or to SLEHOA, where some of the utility assets are recorded which we disclosed in Finding 1.

As discussed in Finding No. 2, the Utility provided a copy of a promissory note that transferred the Utility's assets to SLEHOA for a price of \$401,892. There was a second promissory note provided that was executed in 1994 between both entities for \$100,739. The common owner of both entities stated that there has been little to no payment activity on either of the promissory notes in several years because of the Utility's limited amount of cash flow. No payment history was provided or available.

Effect on the General Ledger: None

Effect on the Filing: None.

Finding 8: Pro-Forma Request

Audit Analysis: The Utility provided the following estimates for two proposed projects outside the test year for consideration in this rate proceeding.

Project 1 – Repair the fence around the percolation ponds

1. A quote from East Coast Fence for \$6,975 to replace a 1,200 foot section of chain link fence around the wastewater percolation ponds.
2. A quote from Superior Fence & Rail, Inc. for \$8,078 to replace a 900 foot section of chain link fence around the wastewater percolation ponds.
3. A quote from Hercules & Atlas Fence for \$7,126 to replace a 1,200 foot section of chain link fence around the wastewater percolation ponds.

Project 2 – Pump and haul excess sand accumulated in the wastewater plant surge tanks

1. A quote from Coastal Septic Services, Inc. for \$3,280 plus fuel to pump out excess sand and sludge from the wastewater surge tanks.

Effect on the General Ledger: None

Effect on the Filing: None

Exhibit

Exhibit 1: Net Operating Income

**TKCB, INC.
TWELVE-MONTH PERIOD ENDED APRIL 30, 2012
DOCKET NO. 120078-SU**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
REVENUES	\$64,108	\$5,597 AF-4	\$69,705
OPERATION AND MAINTENANCE EXPENSE	\$59,728	(\$4,825) AF-5	\$54,903
DEPRECIATION EXPENSE (a)	\$0		TBD
CIAC AMORTIZATION EXPENSE (a)	\$0		TBD
TAXES OTHER THAN INCOME TAX EXPENSE	\$0	\$3,897 AF-6	\$3,897
PROVISION FOR INCOME TAX EXPENSE (a)	\$0	\$0	\$0
	-----	-----	-----
OPERATING EXPENSE	\$59,728	(\$928)	\$58,800
	-----	-----	-----
NET OPERATING INCOME (b)	\$4,380	\$6,525	\$10,905

All amounts are rounded to the nearest whole dollar.

Notes to above schedule:

- a) To be determined by the analyst in Tallahassee
- b) The Utility is a S-Corporation for federal income tax purposes. All income(losses) flow through to its owners. Therefore no income tax expense is included.