

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: February 19, 2019

TO: Office of Commission Clerk

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

RE: Docket No.: 20180218-SU
Company Name: TKCB, Inc.
Company Code: SU942
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2018-351-1-1

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 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
Tallahassee District Office

Auditor's Report

TKCB, Inc.
Staff-Assisted Rate Case

12 Months Ended September 30, 2018

Docket No. 20180218-SU
Audit Control No. 2018-351-1-1
February 12, 2019



Thomas Wolff
Audit Manager



Marisa 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 December 14, 2018. 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. 20180218-SU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

TKCB, Inc. refers to the Utility.

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 September 30, 2018.

Background

TKCB, Inc. is a class C utility serving approximately 283 residential service wastewater customers in Brevard County. It began providing wastewater in 1984 as the Sun Lake Estates Homeowners Association and became TKCB in November 1986. TKCB, Inc. is owned and managed by Thad Terry. Rate base was last established as of April 30, 2012 by Order No. PSC-2013-0126-PAA-SU.

The Utility files an 1120 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 in compliance.

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-2013-0126-PAA-SU issued March 14, 2013. We scheduled UPIS activity from April 30, 2012 to September 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 September 30, 2018. Finding 1 discusses our recommended adjustments for plant in service.

Land

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-2013-0126-PAA-SU issued March 14, 2013 to the warranty deed obtained from the County Clerk of Court. We noted that there had been no land additions since April 30, 2012. We determined the year-end and simple average land balance as of September 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-2013-0126-PAA-SU issued March 14, 2013. We calculated the accumulated depreciation for wastewater using the depreciation rates established by Rule 25-30.140(2), F.A.C – Depreciation and our audited plant in service balances from April 30, 2012 to September 30, 2018. We determined the year-end and simple average accumulated depreciation balance as of September 30, 2018. Finding 1 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 of \$0 from Order No. PSC-2013-0126-PAA-SU issued March 14, 2013. We noted the Utility did not have CIAC activity from April 30, 2012 to September 30, 2018. We also note that the Utility does not have a tariff for Service Availability. 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: No work was 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 calculated the working capital balance as of September 30, 2018 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C.

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. The common equity consists of Common Stock, Paid in Capital, and Retained Earnings; the balances for these are (\$100), \$960, and (\$50,920), respectively. 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 September 30, 2018.

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 on the Regulatory Assessment Fee Filing. We determined whether the Utility is charging its authorized tariff rates. Finding 2 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. Finding 3 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 depreciation expense for the test year using the rates established by Rule 25-30.140, F.A.C. Finding 1 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. In addition we calculated payroll taxes based on salaries of the Utility employees using the Social Security rate and the Medicare rate. Finding 4 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Utility's general ledger, the UPIS balance was \$17,058 as of September 30, 2018. The utility did not have original cost records to establish original plant so in the last rate case, the Commission established plant at \$1,287 as of April 30 2012 based on the invoices that could be found and included a proforma amount of \$7,400 for a fence. We reduced our beginning balance by the proforma amount and then increased it based on the actual invoice amount of \$1,324 when it was placed in service. We also scheduled other UPIS additions from April 30, 2012 through September 30, 2018 and traced these plant additions to the supporting invoices. We verified 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 depreciable UPIS balance was \$16,433 as of September 30, 2018 as shown in Table 1-1.

Table 1-1

TKCB, Inc. - Wastewater Account - Description	Utility Balance 9/30/2018	Audit Adjustments	Audit Balance 9/30/2018	Simple Average
351 Organization	\$ -	\$ -	\$ -	\$ -
352 Franchises	-	-	-	-
354 Structures and Improvements	1,982	(658)	1,324	1,324
355 Power Generation Equip.	-	-	-	-
360 Collection Sewers-Force	-	-	-	-
361 Collection Sewers-Gravity	2,000	-	2,000	1,000
362 Special Collecting Structures	-	-	-	-
363 Services to Customers	-	-	-	-
365 Flow Measuring Installations	-	-	-	-
366 Reuse Services	-	-	-	-
367 Reuse Meters and Meter Install	-	-	-	-
370 Receiving Wells	5,879	(1)	5,878	5,456
371 Pumping Equipment	-	-	-	-
374 Reuse Distribution Reservoirs	-	-	-	-
375 Reuse Trans and Distrib System	-	-	-	-
380 Treatment and Disposal Equip.	7,197	33	7,230	5,742
381 Plant Sewers	-	-	-	-
389 Other Plant and Misc. Equip./Intangible Plt	-	-	-	-
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	\$ 17,058	\$ (625)	\$ 16,433	\$ 13,523
 353 Land	 \$ 36,203	 -	 \$ 36,203	 \$ 36,203

* No Adjustments made to Land

The prior order set Accumulated Depreciation at \$180 as of April 30, 2012. We scheduled accumulated depreciation from April 30, 2012 through September 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 keeps their general ledger on a cash basis and does not calculate depreciation until year end. The Utility balance is from a depreciation schedule provided by the utility. We determined the accumulated depreciation balance was \$961 as of September 30, 2018, and depreciation expense was \$640 for the twelve months ended September 30, 2018 as shown in Table 1-2.

Table 1-2

TKCB, Inc. - Wastewater Account - Description	Utility Balance	Audit	Audit Balance	Simple	Audit Balance
	9/30/2018	Adjustments	Accum Dep 9/30/2018	Average	Depreciation 9/30/2018
351 Organization	\$ -	\$ -	\$ -	\$ -	\$ -
352 Franchises	-	-	-	-	-
353 Land	-	-	-	-	-
354 Structures and Improvements	310	(52)	258	233	49
355 Power Generation Equip.	-	-	-	-	-
360 Collection Sewers-Force	-	-	-	-	-
361 Collection Sewers-Gravity	-	19	19	9	19
362 Special Collecting Structures	-	-	-	-	-
363 Services to Customers	-	-	-	-	-
365 Flow Measuring Installations	-	-	-	-	-
366 Reuse Services	-	-	-	-	-
367 Reuse Meters and Meter Install	-	-	-	-	-
370 Receiving Wells	352	96	448	341	214
371 Pumping Equipment	-	-	-	-	-
374 Reuse Distribution Reservoirs	-	-	-	-	-
375 Reuse Trans and Distrib System	-	-	-	-	-
380 Treatment and Disposal Equip.	(9)	246	237	58	358
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:	\$ 653	\$ 308	\$ 961	\$ 641	\$ 640

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 \$16,433 and \$13,523 as of September 30, 2018. We determined the year-end and simple average balances for accumulated depreciation to be \$961 and \$641 as of September 30, 2018. We also determined depreciation expense to be \$640 for the test year. The year-end and simple average balance for land is \$36,203 as of September 30, 2018.

Finding 2: Operating Revenue

Audit Analysis: TKCB, Inc. used the approved tariff rates to charge their residential customers, all of which have 5/8” meters. The Utility does not have any general service customers. There was a tariff price index that was effective on July 1, 2018. Base Facility Charge and gallonage charge (per 1000 gallons) for Residential customers went from \$13.54 to \$13.75 and \$4.07 to \$4.13, respectively. The sewer usage rate is based on water usage, and capped at 6,000 gallons.

The Utility’s operating revenue amount for water was \$83,015 for the twelve months ended September 30, 2018. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register times the most current Commission approved tariff rate (annualized). We determined operating revenue for water to be \$83,684 as shown in Table 2-1. There are no approved miscellaneous service fees, nor did the utility charge any.

Table 2-1

NARUC	Description	Utility		Audit Bal 6/30/18
		Bal 9/30/18	Audit Adj	
521	Metered Water Revenue	\$ 83,015	669	\$ 83,684
		\$ 83,015	669	\$ 83,684
	Other Wastewater Revenues:			
	Late Fees	\$ -	-	\$ -
	Connection Fees	\$ -	-	\$ -
	Disconnection Fees	\$ -	-	\$ -
	Other Fees	\$ -	-	\$ -
		\$ -	\$ -	\$ -
	Grand Total	\$ 83,015	\$ 669	\$ 83,684

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 \$83,684 for the test year. The fall out effect on TOTI (RAF) is an increase of \$16.

Finding 3: Operation 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 3-1.

Table 3-1

Description	NARUC Acct.	Per Utility GL as of September 30, 2018	Audit Adjustment	Per Audit as of September 30, 2018
Salaries & Wages - Employees	701	\$ 3,400	\$ -	\$ 3,400
Salaries & Wages - Officers, Etc.	703	8,140	-	8,140
Employee Pension & Benefits	704	-	-	-
Purchased Sewage Treatment	710	-	-	-
Sludge Removal Exp	711	764	36	800
Purchased Power	715	9,570	(78)	9,491
Fuel for Power Purchased	716	-	-	-
Chemicals	718	502	9	511
Materials & Supplies	720	720	122	841
Contractual Services - Billing	730	3,643	(22)	3,621
Contractual Services - Professional	731	753	-	753
Contractual Services - Acct.	732	-	-	-
Contractual Services - Legal	733	-	-	-
Contractual Services - Mgmt. Fees	734	-	-	-
Contractual Services - Testing	735	3,647	(13)	3,634
Contractual Services - Other	736	20,381	(1,570)	18,811
Rents	740	12,000	-	12,000
Rental of Building/Real Property	741	-	-	-
Rental of Equipment	742	-	-	-
Transportation Expenses	750	-	-	-
Insurance Expense	755	501	-	501
Insurance - Vehicle	756	-	-	-
Insurance - General Liability	757	-	-	-
Insurance - Worker's Comp.	758	-	-	-
Insurance - Other	759	-	-	-
Advertising Expense	760	-	-	-
Reg. Comm. Exp.	765	162	(162)	-
Reg. Comm. Exp. - Rate Case Amort.	766	-	-	-
Reg. Comm. Exp. - Other	767	-	-	-
Bad Debt Expense	770	1,818	(974)	844
Miscellaneous Expenses	775	2,015	(69)	1,945
Total Utility Expenses		\$ 68,014	\$ (2,721)	\$ 65,292

Working Capital \$ 8,162

Based on supporting documentation, we recommend the following adjustments.

- Account 701- Employees. We note that the Salary is based on what was approved for the bookkeeper in the 2013 order which was \$3,000. This amount has been increased each year based on the approved index in Order PSC-2018-0612-PAA-WS issued December 27, 2018.
- Account 703- Officers. We note that the Salary is based on what was approved for the president in the 2013 order which was \$6,311. This amount has been increased each year based on the approved index in Order PSC-2018-0612-PAA-WS issued December 27, 2018.
- Account 711- Sludge Removal. We noted that the Utility's general ledger had a balance of \$764. We increased this account by \$36 using supporting documentation provided by the Utility.
- Account 715- Purchased Power. We removed \$78 in late fees as of September 30, 2018.
- Account 718- Chemicals. We noted that the Utility's general ledger had a balance of \$502. We increased this account by \$9 using the supporting documentation provided by the Utility.
- Account 720 Material and Supplies. We noted that the Utility's general ledger had a balance of \$720. We increased this account by \$122 using the supporting documentation provided by the Utility.
- Account 730- Contractual Services- Billing. We removed \$22 as not supported by documentation from the Utility.
- Account 735- Contractual Services- Testing. We removed \$13 using supporting documentation provided by the Utility.
- Account 736- Contractual Services- Other. We noted that the Utility's general ledger had a balance of \$20,381. We removed \$1,570 (-\$1,000-\$1,300-\$70+\$800) for outside of the test year or not utility related. We removed a \$1,000 Christmas bonus to Jerry Padrick, \$1,300 invoice for wastewater management, and a \$70 adjustment to the general ledger that was outside the test year. We increased this account by \$800 for mowing service of the utility owned land that was not recorded in the Utility's general ledger.
- Account 765- Regulatory Commission Expense. We removed \$162 from this account as this is the remainder of the Rate Case Expenses incurred in the last rate proceeding and is currently fully amortized. Technical staff should determine the rate case expense applicable to this proceeding.
- Account 770- Bad Debt Expense. We noted that the Utility's general ledger had a balance of \$1,818 as of December, 31, 2017. We removed \$1,818 from this account for outside of the test year period since the actual dates fell on September 15, 2017. However, we increased this account to \$844. This was based off of a statement provided with the actual dates of September 18, 2018, although it was not in the general ledger. The Utility writes off bad debt every September, but does not enter it in the general ledger until the end of December. We decreased this Account by \$974 (\$1,818 - \$844). We refer to the analyst to determine the appropriate amount.

- Account 775- Miscellaneous Expenses. We noted that the Utility's general ledger had a balance of \$2,015. We removed \$96 which consisted of Corporate Fees for Sun Lake Estate, and Overdraft fee from this account using the supporting documentation provided by the Utility. We increased this account by \$27 using supporting documentation provided by the Utility. This account consists of Corporate Fees, Waste Management Service (for solid trash removal), Bank of American service fees, and Permit fee. We decreased this Account by \$69 (\$27 - \$96).

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 \$65,292. Working capital was calculated to 1/8 of O&M to be \$8,162 for the test year ended September 30, 2018.

Finding 4: Taxes Other than Income

Audit Analysis: According to the Utility’s general ledger, the TOTI balance was \$5,000 for the twelve months ended September 30, 2018. Audit staff determined that the TOTI balance amount should be \$7,750 as shown in Table 4-2.

The Utility’s general ledger had a 2017 balanced of \$482 in real property taxes for accounts 2400270, 2400344, and 2400508. We noted the Utility did not record 2017 property taxes for account 3013931. The total for the 2018 property taxes on all four accounts were \$3,115. We then removed the \$482 for the three accounts that were recorded for 2017, and used the actual bills received in November 2018.

Table 4-1

Accounts	Location	Per GL Utility as of 12/31/2017	Audit Adjustment	Audit Balance for 2018
2400270	616 Emerald Lake Dr.	\$ 303	\$ (145)	\$ 158
2400344	Sun Lake Estates Unit 1	170	(3)	166
2400508	Lot 19 Blk 1 & 1/2	10	-	9
3013931	Sewer Plant	-	2,781	2,781
		<u>\$ 482</u>	<u>\$ 2,633</u>	<u>\$ 3,115</u>

Based on the review of the supporting documentation, the adjustments that follow were made to the test year expenses:

1. We increased Account 408.2 – Real Property Taxes by \$2,633 . We used the 2018 taxes to reflect the most current property taxes.
2. We increased Account 408.3 – Payroll Taxes by \$101 to reflect the payroll taxes based on salaries discussed in Finding 3.
3. We increased Account 408.1 – Regulatory Assessment Fees by \$16 based on audit staff recalculations of RAF.

Table 4-2

Description	Per Utility 9/30/2018	Audit Adjustments	Per Audit 9/30/2018
Real Property Tax	\$ 482	\$ 2,633	\$ 3,115
Payroll Tax	782	101	883
Regulatory Assessment Fees (RAF)	3,736	16	3,752
Total	<u>\$ 5,000</u>	<u>\$ 2,750</u>	<u>\$ 7,750</u>

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

Effect on the Filing: Audit staff determined the TOTI to be \$7,750 for the test year ended September 30, 2018.

Exhibits

Exhibit 1: Rate Base

**TKCB, Inc.
STAFF ASSISTED RATE CASE
DOCKET NO. 20180218-SU; ACN: 2018-351-1-1
RATE BASE SCHEDULE
AS OF SEPTEMBER 30, 2018**

Description	Balance per Utilitiy 9/30/2018	Audit Adjustments	Audit Finding	Balance per Audit 9/30/2018	Simple Average
Utility Plant in Service	\$ 17,058	\$ (626)	1	\$ 16,432	\$ 13,523
Land	36,203	-		36,203	36,203
Accumulated Depreciation	(961)	308	1	(653)	(641)
Contributions in Aid of Construction	-	-		-	-
Accumulated Amortization of CIAC	-	-		-	-
Working Capital Allowance	-		3	8,162	8,162
TOTAL RATE BASE	\$ 52,300	\$ (318)		\$ 60,144	\$ 57,247

Exhibit 2: Capital Structure

TKCB, INC.
STAFF-ASSISTED RATE CASE
DOCKET NO. 20180218-SU; ACN: 2018-351-1-1
CAPITAL STRUCTURE
AS OF SEPTEMBER 30, 2018

Capital Component	Balance Per Utility as of 06/30/2016	Audit Adjustment	Balance Per Audit as of 06/30/2016	Simple average	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ 50,060	\$ -	\$ 50,060	\$ -	100.00%	8.11%	8.11%
Long Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Total	\$ 50,060	\$ -	\$ 50,060	\$ -	100.00%		8.11%

* Equity Formula Using Order No. PSC-2018-0327-PAA-WS

* Return = 6.24 + (1.88/ equity ratio)

Exhibit 3: Net Operating Income

TKCB, INC.
STAFF ASSISTED RATE CASE
Dkt: 20180218-SU; ACN: 2018-351-1-1
NET OPERATING INCOME
FOR TEST YEAR ENDED SEPTEMBER 30, 2018

Description	Balance per Utility 9/30/2018	Audit Adjustment	Audit Finding	Balance per Audit 9/30/2018
Operating Revenues	\$ 83,015	\$ 669	2	\$ 83,684
Operation & Maintenance Expenses	\$ 68,014	\$ (2,722)	3	\$ 65,292
Depreciation Expense	\$ 577	\$ 63		\$ 640
Amortization Expense	\$ -	\$ -		\$ -
Taxes Other Than Income	\$ 5,000	\$ 2,750	4	\$ 7,750
Total Operating Expenses:	\$ 73,591	\$ 91		\$ 73,682
Net Operating Income (Loss)	\$ 9,424	\$ 578		\$ 10,002