

State of Florida



Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850

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CLERK

DATE: June 27, 2008
TO: Jared Deason, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance and Consumer Assistance *D*
RE: Docket No. 070695-WS; Company Name: Miles Grant Water and Sewer Company; Audit Purpose: Rate Case; Company Code: WS433; Audit Control No.: 08-078-2-1

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 the response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Office of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

MILES GRANT WATER AND SEWER COMPANY

FILE AND SUSPEND RATE CASE AUDIT

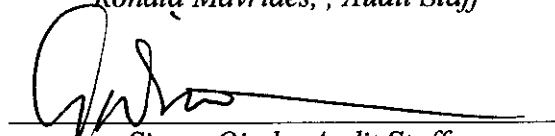
HISTORICAL YEAR ENDED JUNE 30, 2007

DOCKET NO. 070695-WS

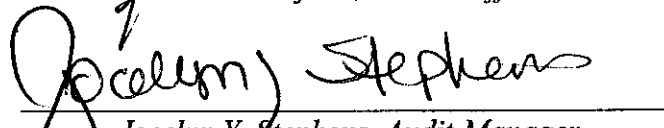
AUDIT CONTROL NO. 08-078-2-1



Ronald Mavrides, , Audit Staff



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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

JUNE 18, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated March 18, 2008. We have applied these procedures to the attached schedules prepared by Miles Grant Water and Sewer Company in support of its filing for rate relief in Docket No. 070695-WS.

This audit was performed following general standards and field work standards found in the ACIPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

RATE BASE

General

Objective: To determine that the utility's filing represents its recorded results from continuing operations.

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of June 30, 2007. Determined that the adjustments required in Order No. 20066, Docket 870981-WS, were not recorded until October 2007. Audit Findings No. 1 and 8 provide information on Commission Adjustments not recorded on the company books.

Utility-Plant-in-Service (UPIS)

Objective: To determine that property exists, is being used in utility operations and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

Procedures: We selected plant additions to be sampled for the period July 1, 1987 through June 30, 2007 for compliance with the stated objectives above. We verified that the utility properly recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether selected plant additions were in existence. We requested supporting documentation for selected construction project additions. Audit Finding No. 2 provides information on plant additions on which the company was not able to provide supporting documentation. Audit Finding No. 7 provides information on capital additions for a company other than Miles Grant. Audit Finding No. 5 provides information on additions to plant which should be recorded as Operation and Maintenance expense.

Land and Land Rights

Objective: To determine that land is recorded at original cost, is being used in utility operations and is owned by the utility or that the utility has a long-term written agreement for use of the land.

Procedures: Verified that the company still retained ownership of land which was documented in the prior rate proceeding before the Commission (Docket 870981-WS). Verified that no land additions occurred subsequent to July 1, 1987.

Contributions-in-Aid-of-Construction (CIAC)

Objective: To determine that additions to CIAC are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff. To verify that all donated property is properly accounted for and recorded as CIAC and UPIS.

Procedures: We began the analysis of CIAC using the ending balance per Commission Order 20066, Docket 870981-WS. We traced all cash contributions to company records for the period July 1, 1987 through June 30, 2007. We determined that cash contributions were billed and recorded in compliance with authorized tariff rates. We scanned cash books provided, for

pertinent cash payments not recorded as CIAC. We were informed that the company has no developer agreements. We toured the utility's authorized service territory for evidence of new developments. Audit Findings No. 8 and 9 address adjustments to CIAC.

Accumulated Depreciation

Objective: To determine that the company's accumulated depreciation balances are properly stated and are in compliance with Commission Rules and the NARUC Uniform System of Accounts. To verify that annual accruals are calculated using Commission authorized depreciation rates and that retirements are properly computed.

Procedures: We requested that the company provide its schedules for the calculation of depreciation expense and accumulated depreciation for the years 1987 through 2007. Company provided water and sewer plant schedules for the years 1999-2007 and transportation schedules for 1998 – 2007. We reviewed the company's calculation of accumulated depreciation and determined that for 1999 through 2005, the company used a flat rate of 2%. For 2006 – 2007, the company used the rates per Commission Rule 25-30.140 F.A.C. We recalculated accumulated depreciation for the period July 1987 through June 2007 using the depreciation rates prescribed by Commission Rule. See Audit Finding No. 3 for information regarding an adjustment for Accumulated Depreciation. Audit Finding No. 4 provides information on removal and transfer of sewage treatment plant.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rules and the NARUC Uniform System of Accounts. To verify the CIAC amortization expense accruals are properly recorded and calculated based on the rates and method used in the utility's last rate proceeding.

Procedures: We established the beginning balances of accumulated amortization using the amount per prior Commission Order 20066, Docket 870981-WS. We calculated annual amortization using average CIAC balances multiplied by the composite depreciation rate. We observed that the company did not begin accumulating Accumulated Amortization of CIAC until 1989 and those balances did not agree to the amount per Commission Order. We prepared an adjustment for the difference between the amount per filing and staff's calculation. Audit Findings No. 8 and 9 address adjustments to CIAC.

Working Capital

Objectives: To determine that the utility's working capital balance is properly calculated in compliance with Commission Rules

Procedures: We verified the company's calculation of the Working Capital Allowance.

NET OPERATING INCOME.

General

Objective: To determine that the utility's filing represents its results from continuing operations.

Procedures: We reconciled the following individual component net operating income balances to the utility's general ledger for the 12-month period ended June 30, 2007.

Revenues

Objective: To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff pages.

Procedures: We reconciled revenue balances in the MFR to the general ledger. We compiled billing summaries for the test year and traced the total to the filing. Tested customer bills for billing factor per FPSC approved tariff rates. Traced revenues from Regulatory Tax Assessment Fee Form to revenues per general ledger.

Operation and Maintenance Expenses (O&M)

Objective: To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We reconciled O&M expense balances in the MFR to the utility general ledger. We reviewed a sample of utility invoices for proper amount, period, classification, NARUC account and recurring nature.

Taxes Other Than Income (TOTI)

Objective: To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

Procedures: We reconciled TOTI expense balances to the general ledger. We reviewed all utility tax invoices for proper amount, period, classification, NARUC account and recurring nature.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represent the depreciation of UPIS assets and amortization of CIAC assets for ongoing utility operations.

Procedures: We recalculated depreciation expense and CIAC amortization expense using plant and CIAC balances as determined by staff and applying Commission approved rates and composite depreciation rates respectively. Audit Finding No. 10 addresses the adjustment to Depreciation Expense.

CAPITAL STRUCTURE

General

Objective: To determine the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in

compliance with Commission rules and that it accurately represents the ongoing utility operations.

Procedures: We attempted to reconcile individual components of capital structure balances to the utility's general ledger as of June 30, 2007. Audit Finding No. 6 provides information on the results of our analysis.

AUDIT FINDING NO. 1

SUBJECT: PRIOR AUDIT COMMISSION ADJUSTMENTS – PLANT IN SERVICE

STATEMENT OF FACT:

In 1987, Miles Grant Water and Sewer Company was investigated for over earnings in Docket 871981-WS. The final Commission Order for this docket required that the company make adjustments to its rate base.

The company did not post these adjustments to its general ledger until October 2007, subsequent to the current test year. As such, the Commission required adjustments are not included in the company's MFR schedules.

Staff has prepared a schedule of the required adjustments, as shown below.

| | <u>WATER</u> | <u>SEWER</u> |
|------------------------------|-----------------|-----------------|
| Total Adjustment | (49,706) | (101,063) |
| Less: 13-mo Avg Adjust | 17,146 | 14,575 |
| | <u>(32,560)</u> | <u>(86,488)</u> |
| <u>Accounts Adjusted</u> | | |
| 101-14 | (10,229) | |
| 101-25 | (10,560) | |
| 101-32 | (9,866) | |
| 101-43 | (914) | |
| 101-46 | (221) | |
| 101-94 | (772) | |
| | <u>(32,561)</u> | |
| 102-05 | | (75,162) |
| 102-11 | | (11,325) |
| | | <u>(86,488)</u> |

EFFECT ON GENERAL LEDGER:

The general ledger includes these adjustments as of October 2007 so no additional adjustment is needed.

EFFECT ON FILING:

Adjust Rate Base - Water Plant in Service by (\$32,561).
Adjust Rate Base – Sewer Plant in Service by (\$86,488).

AUDIT FINDING NO.2

SUBJECT: UNDOCUMENTED PLANT ADDITIONS

STATEMENT OF FACT:

We performed an analysis of plant additions for the period July 1, 1987 through June 30, 2007. As part of the analysis, we scheduled plant additions, by year, for each water, sewer, and transportation account. Using the detailed general ledgers, we judgmentally selected amounts greater than \$2,000 or less than (\$2,000). Next, we prepared several document requests listing all selected items and asked that supporting documentation be provided for review. These requests were sent by fax and through email. The company provided partial responses to our requests. We then submitted another request listing all the items that were not received. For this request, the company prepared a schedule of items which had been requested, had been submitted and which were still outstanding. The table below shows total dollars requested and total dollar amounts not received by the end of audit work.

| <u>YEAR</u> | <u>TOTAL REQUESTED</u> | <u>WATER DOCUMENTATION NOT RECEIVED</u> | <u>WASTEWATER DOCUMENTATION NOT RECEIVED</u> | <u>TRANSPORTATION DOCUMENTATION NOT RECEIVED</u> | <u>TOTAL DOCUMENTATION NOT RECEIVED</u> | <u>% NOT RECEIVED</u> |
|-------------|------------------------|---|--|--|---|-----------------------|
| 1987 | (141,601.00) | | (142,601.00) | | (142,601.00) | 100.71% |
| 1988 | 28,882.72 | 4,610.00 | 5,129.00 | 12,479.99 | 22,218.99 | 76.93% |
| 1989 | (24,701.33) | (18,435.52) | (15,064.98) | 3,173.12 | (30,327.38) | 122.78% |
| 1990 | 591,009.60 | | 584,445.31 | (12,479.99) | 571,965.32 | 96.78% |
| 1991 | 50,037.12 | 2,019.92 | 42,339.20 | | 44,359.12 | 88.65% |
| 1992 | 51,066.87 | 5,320.00 | 10,542.00 | 12,732.18 | 28,594.18 | 55.99% |
| 1993 | 11,069.50 | | | | - | 0.00% |
| 1994 | 21,537.69 | 8,700.00 | 1,100.00 | | 9,800.00 | 45.50% |
| 1995 | 51,412.02 | 40,421.30 | 10,990.72 | | 51,412.02 | 100.00% |
| 1996 | 76,807.72 | 21,361.06 | 55,446.66 | | 76,807.72 | 100.00% |
| 1997 | 130,962.31 | | 22,285.90 | 17,114.79 | 39,400.69 | 30.09% |
| 1998 | 95,837.59 | | | | - | 0.00% |
| 1999 | 47,413.73 | | | | - | 0.00% |
| 2000 | 397,354.53 | 73,988.35 | 312,822.03 | | 386,810.38 | 97.35% |
| 2001 | 55,846.88 | | 26,936.09 | 16,219.79 | 43,155.88 | 77.28% |
| 2002 | 86,987.10 | | 33,870.00 | 37,038.00 | 70,908.00 | 81.52% |
| 2003 | 42,713.74 | 15,868.24 | 4,935.50 | | 20,803.74 | 48.71% |

| | | | | | | |
|------|------------|-------------------|-------------------|-------------------|---------------------|--------|
| 2004 | 32,895.19 | 4,641.19 | 6,262.79 | | 10,903.98 | 33.15% |
| 2005 | 153,806.92 | 144,391.43 | | | 144,391.43 | 93.88% |
| 2006 | 250,402.36 | 4,402.00 | 3,147.50 | 190,443.00 | 197,992.50 | 79.07% |
| 2007 | 85,759.00 | | | | - | 0.00% |
| | | <u>307,287.97</u> | <u>962,586.72</u> | <u>276,720.88</u> | <u>1,546,595.57</u> | |

¹ We requested 3 items totalling (\$142,601). The company provided 1 item totalling \$1,000.00.

² We requested 24 items totalling (\$24,701). The company provided 2 items totalling \$5,626.00.

EFFECT ON GENERAL LEDGER:

The effect upon Accumulated Depreciation could not be determined.

EFFECT ON FILING:

As a result of documentation not received, we believe that an adjustment should be made to remove these amounts from rate base consideration for the current rate proceedings for Miles Grant Water and Sewer Company.

Reduce Rate Base – Water Plant by \$307,288.

Reduce Rate Base – Wastewater Plant by \$962,587.

Reduce Rate Base Transportation accounts by \$276,721

AUDIT FINDING NO. 3

SUBJECT: CALCULATION OF ACCUMULATED DEPRECIATION

STATEMENT OF FACTS:

For the analysis of depreciation, accumulated and expense, we requested that the company provide schedules calculating depreciation expense for the years 1987 through June 2007. The Company provided the following items: Depreciation summary schedules for 1993 through October 1995 and detailed schedules for 1999 through June 2007.

Using the schedules provided, we performed an analysis of the company's depreciation rate schedules. We determined that the company used a straight line depreciation rate of 2% to depreciate all of its water and sewer plant accounts until 2006. Effective in 2006, the company used depreciation rates per Commission Rule 25-30.140 F.A.C.. However, four of the sewer account rates do not conform to those rates as stated in the Commission Rule. See the table below:

| <u>A/C NO.</u> | <u>Account Description</u> | <u>Authorized Rate</u> | <u>Rate used by Company</u> |
|----------------|----------------------------|------------------------|-----------------------------|
| 3804004 | Sewer Lagoons | 5.56% | 2.86% |
| 3804005 | Sewage Treatment Plant | 5.56% | 2.86% |
| 3602006 | Sewer Service Lines | 2.63% | 3.33% |
| 3542011 | Lift Stations | 4.00% | 3.33% |

For the depreciation of automobiles, the company used a six (6) year remaining life depreciation method. The depreciation expense for year 1 was calculated at 40% of original cost and included the half-year convention. For years 2-4, depreciation was calculated at 40% of net book value (original cost less accumulated depreciation). For year 5, the net book value at the end of year 3 was divided by 2.5 to calculate depreciation expense. In year 6, depreciation expense was the difference between original cost and accumulated depreciation.

The balances for accumulated depreciation at June 30, 2007, per the filing, are Water - \$603,762; Wastewater - \$660,035.

Neither the depreciation rates used for water and sewer plant accounts nor the applied remaining life methodology used for the depreciation of automobiles conforms to the rates and methodology as prescribed by the Florida Public Service Commission in Rule 25-30.140 F.A.C. We recalculated depreciation for the period July 1, 1987 through June 30, 2007 using the Commission prescribed rates. July 1, 1987 was used as a beginning point because it represents the last time that depreciation was calculated by Commission staff in an Overearnings Audit for the period ended June 30, 1987, Docket 870981-WS.

The balances for accumulated depreciation, per staff computation, are Water - \$927,788; Wastewater - \$1,454,883.

We determined that Accumulated Depreciation, as stated in the Company's MFR Rate Base Schedule should be adjusted by \$324,026 for Water and \$794,848 for wastewater in order to properly reflect accumulated depreciation at June 30, 2007

EFFECT ON GENERAL LEDGER:

None

EFFECT ON FILING:

Increase Water Rate Base - Accumulated Depreciation by \$324,026. Increase Wastewater Rate Base - Accumulated Depreciation by \$794,848.

AUDIT FINDING NO. 4

SUBJECT: REMOVAL AND TRANSFER OF SEWAGE TREATMENT PLANT

STATEMENT OF FACT:

In July 1987, the company "Moved" a sewage treatment plant from Miles Grant to Carrabuso in the amount of \$125,210. In November of 1987, the company "Transferred" a Sewage Treatment Plant from the books of Miles Grant totaling \$17,391. A review of the accumulated depreciation account for 1987 did not reveal a removal of the accumulated depreciation related to the move and transfer.

The company was requested to, but did not, provide any documentation for these two events. As such, we cannot determine the appropriate amount of accumulated depreciation associated with these items at the time of the move.

EFFECT ON GENERAL LEDGER:

None

EFFECT ON FILING:

Cannot be determined by field audit staff.

AUDIT FINDING NO. 5

SUBJECT: CAPITALIZED EXPENSES

STATEMENT OF FACT:

We performed an analysis of plant additions for the period July 1, 1987 through June 30, 2007. As part of the analysis, we reviewed invoices that were submitted by the company. During the review process we noted that several invoices which were capitalized should have more appropriately been expensed. We have prepared a table, shown below, that summarizes these expense amounts.

STAFF ADJUSTMENTS TO PLANT IN SERVICE

| <u>YEAR</u> | <u>WATER O&M EXPENSE</u> | <u>WASTEWATER O&M EXPENSE</u> |
|-------------|--------------------------------------|---|
| 1987 | | |
| 1988 | 2,621.00 | |
| 1989 | | |
| 1990 | | 3,087.52 |
| 1991 | | |
| 1992 | 12,013.06 | |
| 1993 | | 1,828.50 |
| 1994 | | 7,596.11 |
| 1995 | | |
| 1996 | | |
| 1997 | | |
| 1998 | 4,050.00 | 2,670.00 |
| 1999 | | |
| 2000 | | 4,960.65 |
| 2001 | | 1,336.00 |
| 2002 | 3,120.00 | |
| 2003 | 13,290.00 | |
| 2004 | | |
| 2005 | 5,985.49 | |
| 2006 | | |
| 2007 | | |
| | <u>37,959.55</u> | <u>21,478.78</u> |

EFFECT ON GENERAL LEDGER:

Overstates Water and Wastewater Plant accounts by \$37,960 and \$21,479, respectively.

EFFECT ON FILING:

Reduce Water Plant in Service – Rate Base by \$37,960.
Reduce Wastewater Plant in Service – Rate Base by \$21,479.
Reduce Retained Earnings (Equity) – Capital Structure by \$59,439.
Effect on Accumulated Depreciation could not be determined.

AUDIT FINDING NO. 6

SUBJECT: CAPITAL STRUCTURE

STATEMENT OF FACT:

We have attempted to perform an analysis of the capital structure of Utilities, Inc and the appropriate calculation for Miles Grant as of June 30, 2007. Our analysis was to include: tracing the components of the capital structure to the general ledger; tracing the individual cost rates to supporting source documents; reconciling the capital structure to the rate base; recalculating company adjustments and scanning all other documentation related to the computation of the capital structure.

To date we have received the calculation of deferred income taxes for December 31, 2007, support for cash deposits, the audit report from the independent auditors for the period December 31, 2005, 2006 and 2007.

The complete analysis of the Miles Grant capital structure has not been performed because all requested documentation has not been provided. We traced the calculation of accumulated deferred income tax, customer deposits, and Tax Credits – Zero costs to company prepared schedules in the filing. No exceptions were noted.

EFFECT UPON GENERAL LEDGER:

Cannot be determined.

EFFECT UPON FILING:

Cannot be determined.

AUDIT FINDING NO. 7

SUBJECT: INVOICES IMPROPERLY CHARGED TO MILES GRANT

STATEMENT OF FACT:

Staff determined that an invoice billed to Miles Grant Water and Sewer System should have been recorded on the books of another system - Lake Placid Utilities, a related company.

The \$3,120 invoice was for services performed by KRK Enterprises, on October 16, 2003 at Lake Placid Utilities.

EFFECT UPON GENERAL LEDGER:

Reduce Plant 354.2011 (Lift Stations) by \$3,120.
Reduce Accumulated Depreciation by \$282

EFFECT UPON FILING:

Reduce Plant in Service – Water Rate by \$3,120.
Reduce Accumulated Depreciation by \$282

AUDIT FINDING NO. 8

SUBJECT: PRIOR AUDIT COMMISSION ADJUSTMENTS – CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) AND ACCUMULATED AMORTIZATION - CIAC

STATEMENT OF FACT:

In 1987, Miles Grant Water and Sewer Company was investigated for over earnings in Docket 871981-WS. The final Commission Order for this docket required that the company make adjustments to its rate base.

The company did not post these adjustments to its general ledger until October 2007, subsequent to the current test year rate proceeding. As such, the Commission required adjustments are not included in the company's MFR schedules.

Staff has prepared a schedule of the adjustments that should have been posted to the general ledger for the 1987 rate case, as shown below.

| | <u>WATER</u> | <u>SEWER</u> |
|---|------------------|---------------------|
| CIAC | | |
| Total Adjustment | (81,130) | \$ (122,524) |
| Less: 13-mo Average Adjustment | 22,275 | 11,163 |
| | <u>(103,405)</u> | <u>\$ (133,687)</u> |
| | | |
| <u>Accumulated Amortization CIAC</u> | | |
| Total Adjustment | 66,332 | 19,242 |

EFFECT ON GENERAL LEDGER:

This adjustment is incorporated in Audit Finding No. 9.

EFFECT ON FILING

This adjustment is incorporated in Audit Finding No. 9.

AUDIT FINDING NO. 9

SUBJECT: ADJUST CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) AND ACCUMULATED AMORTIZATION - CIAC

STATEMENT OF FACT:

We performed an analysis of CIAC and related Accumulated Amortization – CIAC at June 30, 2007. Using cash books and other supporting documentation we determined annual additions to CIAC. We noted that the company's filing did not include all entries supported by its documentation. Additionally, we noted that entries were recorded in the filing that attempted to post adjusting entries ordered by the Commission in its prior rate proceeding. However, those adjustments did not agree to the ordered amounts and as such were not included by staff in its analysis.

In our analysis of Accumulated Amortization – CIAC, we observed that company's beginning balance was not recorded until 1989 and the amount recorded at that time did not agree to the amount per PSC Order 20066. Starting with the ending balance from the prior audit, we computed annual amortization of CIAC using staff computed CIAC balances and the annual composite depreciation rates.

As a result of the discrepancies described above, there was a difference between the amount per staff calculation and the amount recorded by the company. See schedule below.

| | <u>WATER</u> | <u>SEWER</u> |
|---|---------------|---------------|
| CIAC | | |
| Per Filing | 457,173 | 294,822 |
| Per Staff | 504,040 | 327,556 |
| Difference | <u>46,867</u> | <u>32,734</u> |
| <u>Accumulated Amortization CIAC</u> | | |
| Per Filing | 195,065 | 126,756 |
| Per Staff | 416,557 | 303,250 |
| Difference | 221,492 | 176,494 |

EFFECT ON GENERAL LEDGER:

Increase CIAC-Water and CIAC – Wastewater by \$46,867 and \$32,734 respectively.
Increase Accumulated Amortization Water and Sewer by \$221,492 and \$176,494 respectively.

EFFECT ON FILING

Adjust Rate Base – CIAC Water and Sewer by \$46,867 and \$32,734 respectively.
Adjust Rate Base – CIAC Accumulated Amortization – CIAC Water and Wastewater
respectively by \$221,492 and \$176,494.

AUDIT FINDING NO. 10

SUBJECT: ADJUSTMENT TO NET DEPRECIATION EXPENSE

STATEMENT OF FACT:

We performed an analysis of Depreciation Expense and determined that an adjustment was required. The adjustment include only the effect of the staff adjustment to the beginning balance of Plant in Service as recorded in Audit Finding No. 1

This adjustment is required because of : (1) Commission adjustments from prior audit, Docket 870981-WS, Order No. 20066, were not posted to the books; (2) the use of depreciation rates that differ from the Commission prescribed rates in Rule 25-30.140 F.A.C.

| | | <u>Analysis of Depreciation Expense</u> | | |
|------------------|--------------------------------------|--|-------------------|-----------------------|
| | | <u>Water</u> | <u>Wastewater</u> | <u>Transportation</u> |
| <u>Per Staff</u> | <u>Depr Exp</u> | | | |
| | 1/1/07-6/30/07 | 32,004 | 32,698 | 5,803 |
| | To annualize | 32,004 | 32,698 | 5,803 |
| | To allocate Transp between W & WW | 5,803 | 5,803 | (11,606) |
| <u>Per Staff</u> | <u>Amort Expense</u> | <u>(19,254)</u> | <u>(10,515)</u> | <u>0</u> |
| | Total Per Staff | <u>50,556</u> | <u>71,200</u> | <u>-</u> |
| | Total Per Filing | <u>66,370</u> | <u>76,497</u> | |
| | Adjustment | (15,814) | (5,297) | |

EFFECT ON GENERAL LEDGER:

Decrease Depreciation Expense Water and Wastewater by \$15,814 and \$5297 respectively.

EFFECT ON FILING

Decrease Depreciation Expense Water and Wastewater by \$15,814 and \$5297 respectively.

IV) EXHIBITS

Company: Miles Grant Water and Sewer Company
 Docket No.: 070695-WS
 Test Year Ended: June 30, 2007
 Interim Final
 Historical Projected

Schedule D-1
 Page 1 of 1

Preparer: Michelle Rochow

Explanation: Provide a schedule which calculates the requested cost of capital on a simple average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

| Line No. | Class of Capital | (1) | (2) | (3) | (4) | (5) |
|----------|---------------------------------|--------------------------------------|---------|--------|-------|-----------|
| | | Reconciled to Requested Rate Base | | | Ratio | Cost Rate |
| | | AYE | | | | |
| 1 | Long Term Debt | 1,009,187 | 38.96% | 6.63% | 2.58% | |
| 2 | Short Term Debt | 241,398 | 9.32% | 0.25% | 0.02% | |
| 3 | Preferred Stock | - | 0.00% | 0.00% | 0.00% | |
| 4 | Common Equity | 918,310 | 35.46% | 11.78% | 4.18% | |
| 5 | Customer Deposits | 17,763 | 0.69% | 6.00% | 0.04% | |
| 6 | Tax Credits - Zero Cost | 23,297 | 0.90% | 0.00% | 0.00% | |
| 7 | Tax Credits - Weighted Cost | - | 0.00% | 0.00% | 0.00% | |
| 8 | Accumulated Deferred Income Tax | 380,029 | 14.67% | 0.00% | 0.00% | |
| 9 | Other (Explain) | - | 0.00% | 0.00% | 0.00% | |
| 10 | | | | | | |
| 11 | Total | 2,589,983 | 100.00% | | 6.82% | |

Supporting Schedules: D-2
 Recap Schedules: A-1, A-2

Reconciliation of Capital Structure to Requested Rate Base
Simple Average Balance

Company: Miles Grant Water and Sewer Company
Docket No.: 070695-WS
Test Year Ended: June 30, 2007
Interim Final
Historical Projected

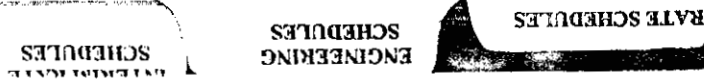
Schedule D-2
Page 1 of 1

Preparer: Michelle Rochow

Explanation: Provide a reconciliation of the simple average structure to requested rate base. Explain all adjustments. Submit an additional schedule if a year-end basis is used.

| Line No. | (1) Class of Capital | (2) 6/30/2006 Prior Year Balance | (3) 6/30/2007 Test Year Balance | (4) Simple Average | (5) Reconciliation Adjustments | | (6) Pro Rata Percentage | (7) Reconciled to Requested Rate Base AYE |
|----------|---|---|--|--------------------------|--------------------------------|----------------|-------------------------------|--|
| | | | | | Pro Rata | Pro Rata | | |
| 1 | Long Term Debt | 180,000,000 | 97,275,520 | 138,637,760 | (137,628,573) | 46.53% | 1,009,187 | |
| 2 | Short Term Debt | - | 66,317,000 | 33,158,500 | (32,917,102) | 11.13% | 241,398 | |
| 3 | Preferred Stock | - | - | - | - | 0.00% | - | |
| 4 | Common Equity | 158,486,089 | 93,830,258 | 126,158,164 | (125,239,854) | 42.34% | 918,310 | |
| 5 | Customer Deposits | 17,575 | 17,950 | 17,763 | - | n/a | 17,763 | |
| 6 | Tax Credits - Zero Cost | 23,650 | 22,944 | 23,297 | - | n/a | 23,297 | |
| 7 | Tax Credits - Weighted Cost | - | - | - | - | 0.00% | - | |
| 8 | Accumulated Deferred Income Taxes | 369,226 | 390,831 | 380,029 | - | n/a | 380,029 | |
| 9 | Other (Explain) | - | - | - | - | 0.00% | - | |
| 11 | Total | <u>338,896,520</u> | <u>257,854,503</u> | <u>298,375,513</u> | <u>(295,785,530)</u> | <u>100.00%</u> | <u>2,589,983</u> | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | Notes: Long term debt, short term debt, preferred stock, and common equity are actual for Miles Grant's parent company, Utilities, Inc. | | | | | | | |

Supporting Schedules: C-7, C-8, D-3, D-4, D-5, D-7
Recap Schedules: D-1



Schedule C Water Net Operating Income

Florida Public Service Commission

Company: Miles Grant Water and Sewer Company
 Docket No.: 070685-WS
 Test Year Ended: June 30, 2007
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: John Hoy

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

| Line No. | (1) Description | (2) Balance Per Books | (3) Utility Test Year Adjustments | (4) Utility Adjusted Test Year | (5) Requested Revenue Adjustment | (6) Requested Annual Revenues | (7) Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1 | OPERATING REVENUES | \$ 337,176 | \$ 4,458 (A) | \$ 341,635 | \$ 300,568 (A) | \$ 642,203 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 289,385 | 70,873 (B) | 360,258 | (B) | 360,258 | B-6, B-3 |
| 4 | Depreciation, net of CIAC Amort. | 56,172 | 20,325 (C) | 76,497 | (C) | 76,497 | B-14, B-3 |
| 5 | | | | | | | |
| 6 | Amortization | - | | 0 | | - | |
| 7 | | | | | | | |
| 8 | Taxes Other Than Income | 45,184 | 4,089 (D) | 49,273 | 13,526 (D) | 62,799 | B-15, B-3 |
| 9 | | | | | | | |
| 10 | Provision for Income Taxes | (51,241) | (18,319) (E) | (69,560) | 108,014 (E) | 38,454 | C-1, B-3 |
| 11 | | | | | | | |
| 12 | OPERATING EXPENSES | 338,499 | 76,968 | 416,467 | 121,540 | 538,008 | |
| 13 | | | | | | | |
| 14 | NET OPERATING INCOME | \$ (2,323) | \$ (72,509) | \$ (74,833) | \$ 179,028 | \$ 104,195 | |
| 15 | | | | | | | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | \$ 1,556,620 | \$ (28,839) | \$ 1,527,781 | | \$ 1,527,781 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | (0.15) % | | (4.90) % | | 6.82% | |

Company: Miles Grant Water and Sewer Company

Schedule: B-1

Docket No.: 070695-WS

Page 1 of 1

Test Year Ended: June 30, 2007

Preparer: John Hoy

Interim Final Historic Projected

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

| Line No. | (1) Description | (2) Balance Per Books | (3) Utility Test Year Adjustments | (4) Utility Adjusted Test Year | (5) Requested Revenue Adjustment | (6) Requested Annual Revenues | (7) Supporting Schedule(s) |
|----------|----------------------------------|--------------------------------|--|---|---|--|----------------------------------|
| 1 | OPERATING REVENUES | \$ 272,800 | \$ 11,538 (A) | \$ 284,338 | \$ 217,662 (A) | \$ 502,000 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 209,477 | 75,257 (B) | 284,734 | (B) | 284,734 | B-5, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of GIAC Amort. | 151,703 | (85,333) (C) | 66,370 | (C) | 66,370 | B-13, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | | | 0 | | | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 37,118 | 4,806 (D) | 41,924 | 9,795 (D) | 51,719 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | (76,862) | 25,376 (E) | (51,486) | 78,221 (E) | 26,735 | C-1, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 321,436 | 20,106 | 341,543 | 88,016 | 429,559 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | \$ (48,637) | \$ (8,568) | \$ (57,205) | \$ 129,647 | \$ 72,442 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | \$ 1,034,946 | \$ 27,256 | \$ 1,062,202 | | \$ 1,062,202 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | (4.70) % | | (5.39) % | | 6.82% | |

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Miles Grant Water and Sewer Company
 Docket No.: 070895-WS
 Schedule Year Ended: June 30, 2007
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-2
 Page 1 of 1
 Preparer: John Hoy

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

| Line No. | (1) Description | (2) Average Amount Par Books | (3) A-3 Utility Adjustments | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| 1 | Utility Plant in Service | \$ 2,175,149 | \$ 99,543 (A) | \$ 2,274,692 | A-3, A-6 |
| 2 | | | | | |
| 3 | Utility Land & Land Rights | 35,303 | - (A) | 35,303 | A-3, A-6 |
| 4 | | | | | |
| 5 | Less: Non-Used & Useful Plant | - | - | - | A-7 |
| 6 | | | | | |
| 7 | Construction Work in Progress | 148,759 | (148,759) (B) | - | A-3 |
| 8 | | | | | |
| 9 | Less: Accumulated Depreciation | (830,257) | (24,655) (C) | (654,912) | A-3, A-10 |
| 10 | | | | | |
| 11 | Less: CIAC | (294,822) | | (294,822) | A-12 |
| 12 | | | | | |
| 13 | Accumulated Amortization of CIAC | 122,488 | | 122,488 | A-14 |
| 14 | | | | | |
| 15 | Acquisition Adjustments | | | | - |
| 16 | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | | | | - |
| 18 | | | | | |
| 19 | Advances For Construction | | | | A-16 |
| 20 | | | | | |
| 21 | Working Capital Allowance | - | 45,032 (D) | 45,032 | A-17 |
| 22 | | | | | |
| 23 | Total Rate Base | \$ 1,556,620 | \$ (28,839) | \$ 1,527,781 | |

Schedule of Water Rate Base

Florida Public Service Commission

Company: Miles Grant Water and Sewer Company
 Docket No.: 070695-WS
 Schedule Year Ended: June 30, 2007
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-1
 Page 1 of 1
 Preparer: John Hoy

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

| Line No. | (1) Description | (2) Average Amount Per Books | (3) A-3 Utility Adjustments | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| 1 | Utility Plant in Service | \$ 1,721,034 | \$ 38,297 (A) | \$ 1,759,331 | A-3, A-5 |
| 2 | | | | | |
| 3 | Utility Land & Land Rights | 33,863 | - (A) | 33,863 | A-3, A-5 |
| 4 | | | | | |
| 5 | Less: Non-Used & Useful Plant | | | - | A-7 |
| 6 | | | | | |
| 7 | Construction Work in Progress | 117,904 | (117,904) (B) | - | A-3 |
| 8 | | | | | |
| 9 | Less: Accumulated Depreciation | (568,165) | 71,271 (C) | (496,894) | A-3, A-9 |
| 10 | | | | | |
| 11 | Less: CIAC | (457,173) | | (457,173) | A-12 |
| 12 | | | | | |
| 13 | Accumulated Amortization of CIAC | 187,483 | | 187,483 | A-14 |
| 14 | | | | | |
| 15 | Acquisition Adjustments | | | | - |
| 16 | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | | | | - |
| 18 | | | | | |
| 19 | Advances For Construction | | | | A-16 |
| 20 | | | | | |
| 21 | Working Capital Allowance | - | 35,592 (D) | 35,592 | A-17 |
| 22 | | | | | |
| 23 | Total Rate Base | \$ 1,034,946 | \$ 27,256 | \$ 1,062,202 | |