

ATTACHMENT B

FPSC DOCKET 920260-TL

**FPSC STAFF AUDIT OF
1994 SURVEILLANCE REPORT**

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AUDIT WORKPAPERS**

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11449 NOV 16 88

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1994

Field Work Completed

October 20, 1995

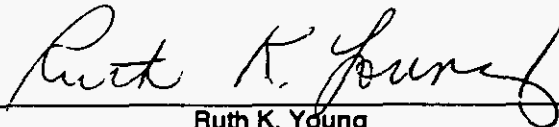
SOUTHERN BELL TELEPHONE COMPANY

FLORIDA

Surveillance Audit

Docket No. 920260-TL

Audit Control No. 95-103-4-1



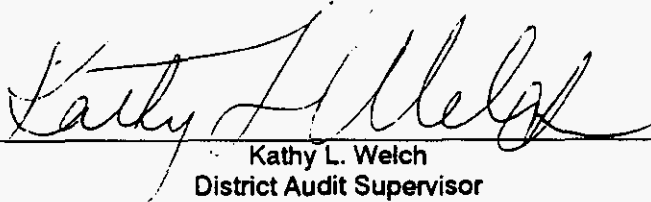
Ruth K. Young
Audit Manager

Audit Staff

Minority Opinion

Gabriella Leon
Raymond Grant
Yen Ngo
Chris Holman

Yes-----No ^{GL}-----
Yes-----No ^{RG}-----
Yes-----No ^{YN}-----
Yes-----No-----



Kathy L. Welch
District Audit Supervisor
Miami

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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I. Executive Summary

Audit Purpose:

We have applied the procedures described in Section II of this report to audit the schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1994 prepared by Southern Bell Telephone for their Surveillance Report.

Scope Limitation:

The audit exit conference was held October 25, 1995. This report is based on confidential information which is separately filed with the Commission Clerk.

Disclaim Public Use:

This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion:

The schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1994 represent Southern Bell Telephone books and records maintained in substantial compliance with the Commission Directives. The expressed opinions extend only to the scope of work described in section II of this report.

II AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report **COMPILED** and **EXAMINED** means that audit work includes:

COMPILED – Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted performed no other audit work.

EXAMINED – Means that the audit staff reconciled exhibit amounts with the general ledger; traced general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, irregularity, or inconsistency observed.

Rate Base:

Compiled Rate Base components and adjustments. Traced Rate Base Adjustments to supporting documentation and to proper Commission Orders.

Examined Working Capital. Analyzed and recalculated the Cash Working Capital Dissallowance schedule. Agreed Cash Working Capital disallowed to the Company's computation of intrastate Cash Working Capital.

Recalculated the Interlata and Intralata percentages used to allocate Regulated Cash Working Capital amounts to Florida.

Net Operating Income:

Recalculated all proforma adjustments. Tested the proforma adjustments on a judgemental basis by tracing to the supporting documentation and to proper Commission Orders.

Examined Net Operating Income for the 12 months ended December 1994. Prepared an Analytical Review for all expenses for the years 1992 through 1994. Fourteen expense accounts were selected for sampling based on the following criteria:

1. Account increased over 10%;
2. Large dollar Amount accounts;
3. Accounts that include Advertising, Lobbying or Liaison Expense.

The attributes tested follow:

1. Proper Amount
2. Proper Account
3. Proper Test Period
4. Proper Documentation
5. Recurring Expense
6. Proper allocation to Reg and nonReg
7. Correct allocation from Parent Company
8. Where applicable, advertising expense followed Commission policy.

Cost of Capital:

Examined Capital Structure accounts. Recalculated the components of the Capital Structure which are allocated from the Parent. Traced cost rates for all components to supporting documentation and Commission orders.

Recalculated Specific Adjustments made to Common Equity and Cost Free Capital. Reconciled amounts to supporting documentation.

GENERAL:

Reviewed Coopers and Lybrand financial and cost allocation working papers for 1994.

Reviewed all 1994 Internal Audit Reports; Board of Directors Minutes and Minutes for meetings of the Committees of the Board of Directors.

Prepared Trial Balance and agreed to the general ledger.

Reviewed selected FPSC off-book adjustments made by the Company to arrive at the amounts included in the Surveillance Report.

Determined the effects of deregulation on accounting policies.

SCOPE LIMITATIONS ON SAMPLE EXPENSE ITEMS:

1. Attribute No. 6 above, % allocated to Reg/Nonreg was not tested for the following accounts:

Account 6121, Land and Building expense because the aggregate amount in this account is allocated to cost pools and subpools by applying factors developed based on floor space coding. The cost pool assignment, and therefore the amount allocated to reg and nonreg, can only be determined on a transaction by transaction basis to determine if the floor space coding is correct. The allocation is done mechanically.

Account 6122, Furniture Expense, because this account is allocated to reg/nonreg based on account 2122. Staff did not audit Account 2122.

Account 6411, Poles Expense, because this account is allocated to reg/nonreg based on account 2411. Staff did not audit Account 2411.

2. Attributes No 4 (Proper Documentation) and 6 above were not tested for Accounts 6611, Product Management, and 6612, Sales, because the majority of the expense items in these accounts were invoices from BellSouth Business Systems (BBS). The expenses were allocated to Florida Regulated from BBS. The BBS system of allocation to reg and nonreg is different than BST.

The individual items that comprised the BBS invoices were not audited, nor was the BBS allocation system.

3. Attribute No. 4 (Proper Documentation) was not tested for certain items in Accounts 6712, Planning, 6722, External Relations, 6723, Human Resources and Account 6725, Legal.

The items in the sample were from BellSouth Corp. BellSouth Corp. bills BST and BST in turn allocates to the states based on the State Allocation System (CSAP). The state then allocates to reg/nonreg.

We did not audit the CSAP system (only agreed the % used by BST on the invoice to BST factors). We did not audit individual vouchers at BSC nor BSC methodology of allocating to affiliates.

AUDIT EXCEPTION NO. 1

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RECOMMENDATION: Remove the above amounts from Rate Base for account 2212 for 1993 and 1994. The majority of the expense adjustment is for 1993 and should be adjusted to the 1993 Surveillance Report which has not been closed.

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COMPANY COMMENT:
The Company calculated the entries, and they are included following this Exception.

PREPARED BY BELLSOUTH TELEPHONE COMPANY

AUDIT EXCEPTION NO. 1
Credits in the Procurement of Central Office Switch Equipment

Year	Account 2212 Amount	Rate Base Impact (Average)				Depreciation Percent	Depreciation Expense			
		1991	1992	1993	1994		1991	1992	1993	1994
1991	68,136	34,068	68,136	68,136	68,136	7.50%	2,555	5,110	5,110	5,110
1992	(310,630)		(155,315)	(310,630)	(310,630)	7.50%		(11,649)	(23,297)	(23,297)
1993	(819,356)			(409,678)	(819,356)	7.50%			(30,726)	(61,452)
1994	2,134				1,067	7.50%				80
Cumulative Asset Amounts				(852,172)	(1,060,783)		2,555	(6,538)	(48,913)	(79,559)
Accumulated Depreciation				(52,896)	(132,455)		2,555	(3,983)	(52,896)	(132,455)
Net Rate Base Impact - Combined				(599,276)	(828,328)					
Regulated Percent				97.7500%	97.6011%					
Intrastate Percent				83.2300%	82.2931%					
Intrastate Rate Base Impact				(487,555)	(745,624)					
Account 6212					1993	1994				
Combined				(155,866)		0				
Regulated Percent				0.9705						
Intrastate Percent				0.760846						
Intrastate Expense Adjustment				(114,914)						
Account 6561 - Depreciation				(48,913)	(79,559)					
Regulated Percent				99.0300%	98.9790%					
Intrastate Percent				75.1792%	75.7492%					
Intrastate Expense Adjustment				(36,416)	(59,850)					
Total Intrastate Expense Adjustment				(151,330)	(59,850)					

AUDIT EXCEPTION NO. 2

SUBJECT: WORKING CAPITAL ADJUSTMENTS

STATEMENTS OF FACTS:

In June 1995, the company prepared a revised Cash Working Capital Analysis for 12 month period ending December 31, 1994. The revision has caused Florida Intrastate Cash Working Capital to increase by (\$12,757,909) from (\$177,074,126) to (\$189,832,029). The allowance for cash working capital was revised to reflect the adjustments made to correct deferred compensation liability and ad-valorem tax contingency reported on the Cash Working Capital Disallowances schedule.

The reasons why Cash Working Capital changed from \$177,074,126 to \$189,832,029 are due to the following;

- 1 The total average Non-Qualified Deferred Plan (NQDP) on Column 3 of \$195,874,866 on the company's schedule of Cash Working Capital Disallowances included subaccounts of account 4310 Other Long Term Liabilities related to the Supplemental Executive Retirement Plan (SERP), Management Savings Plan (MSP) and Shareholders Retirement Cash Plan (SRCP) that were not interest bearing. The total average Non-Qualified Deferred Plan (NQDP) on Column 3 should only have amounts from account 4310.5100-5400.

The company revised Cash Working Capital Disallowance schedule indicates that the correct NQDP amount to be removed from Southern Bell Cash Working Capital is \$123,761,122. A compilation of BellSouth's general ledger confirmed this. The difference in the twelve months average for the NQDP disallowance is \$72,113,743. This amount was allocated to the utility cash working capital using the Regulated %, State% and Intrastate % from the working capital printouts.

- 2 The company tax contingency column 13 of the company's schedule of Cash Working Capital Disallowances changed for the month of December 1994 because a payment had been omitted from the worksheet provided to the tax office. This adjustment increased the total average tax contingency by \$17,246. This amount was allocated to the utility cash working capital using the Regulated %, State% and Intrastate % from the working capital printouts. Staff's calculation follows.

		Amount
Deferred Compensation Liability		
Revised Deferred Comp. Liab. On Working Capital Disallowances Sch. Column No.3		\$123,761,122
Deferred Comp. Liability On Working Capital Disallowances Sch. Column No.3		\$195,874,866

		(\$72,113,744)
Regulated Cash Working Capital	98.9866426%	(\$71,382,974)
State Portion:		
FLORIDA	23.6493668%	(\$16,881,621)
Intrastate Portion:		
FLORIDA	75.5908133%	(\$12,760,955)
Impact on WC		(\$12,760,955)
Tax Contingency Computation		
Revised Average Tax Contingency Per Cash Working Capital Sch. Column No. 13		\$10,426,289
Average Tax Contingency Per Cash Working Capital Sch. Column No. 13		\$10,409,043

		\$17,246
Regulated Cash Working Capital	98.9866426%	\$17,071
State Portion:		
FLORIDA	23.6493668%	\$4,037
Intrastate Portion:		
FLORIDA	75.5908133%	\$3,052
Impact on WC		-----
Total Adjustment to Working Capital Allowance		(\$12,757,903)
		=====

OPINION:

The revised Cash Working Capital Analysis has caused the Working Capital Allowance on the Rate Base Schedule on page 1 of the Telephone Earnings

Surveillance Report to increase by (\$12,757,909) from (\$129,302,875) to (\$142,060,778). In answer to staff auditor's request on when the revised Surveillance Report will be filed with the FPSC, the company stated that since the annual tax true-ups will not be booked until October or November 1994, the revised Surveillance Report would probably not be filed with the FPSC until December 1995.

	Filed	Revised	Difference
Fl. Intrastate Cash			
Working Capital	(\$177,074,126)	(\$189,832,029)	
Less Materials & Supplies - Account 1220	\$47,771,251	\$47,771,251	

Working Capital			
Allowance On Rate Base Schedule	(\$129,302,875)	(\$142,060,778)	\$12,757,903
=====			

RECOMMENDATION:

Staff analyst should review this information to determine the overall impact on Surveillance Report. The Analyst should further note that the revised Surveillance Report may contain additional adjustments to the allowance for working capital.

COMPANY COMMENT: (Verbatim)

During the course of the audit the Company disclosed the working capital adjustments, and therefore agrees with staff's recommendation.

AUDIT EXCEPTION 3

SUBJECT: CAPITAL ITEM EXPENSED – ACCOUNT 6121, LAND AND BUILDING EXPENSE

STATEMENT OF FACTS:

Two invoices payable to Network Construction Corp in the amounts of \$138,680 and \$138,679.27; for a total of \$277,359.27 were included in expense account 6121, Land and Building Expense in October, 1994. The invoice was for renovation of computer space in the Business Repair Center in Sunrise, Florida. Company Financial Systems Documentation AB01 does not mention renovation in this account.

In answer to our request, the company stated:

" This payment to Network Construction Corp. was made for the renovation of computer space into office space for the Business Repair Center which is located in Sunrise, Fl. The project was contracted for in three stages." Because of delays and vendor threats of quitting construction, payment had to be made. "As capital money cannot be spent without a contract, the decision was made to record the payment as expense and move the expenditure to capital after the contract was finalized. Due to an oversight the correction was not made in 1994. The company plans to capitalize \$229,993.65 and debit accumulated depreciation for \$33,362.87 for costs associated with demolition and removal.

Capitalize Plant	229,994	
Accumulated Depreciation	33,363	
Expense 6121		263,357

The Company states that \$14,002.75 of the total \$277,359.27 was properly expensed for painting and rearrangement.

These adjustment will be made to the revised 1994 Surveillance Report to be filed in December, 1994.

OPINION:

As this should be a capital item, staff agrees with Company plans to adjust the revised Surveillance Report in December 1994.

COMPANY COMMENT: (Verbatim)

The Company agrees with the facts as stated, and will make the necessary adjustments to the 1994 Surveillance Report.

AUDIT EXCEPTION 4

**SUBJECT: NONREGULATED AND OTHER STATE ITEMS CHARGED TO
FLORIDA REGULATED.**

STATEMENT OF FACTS:

Our sample test of Account 6611 revealed two invoices that were not for Florida. One invoice, dated 11/21/94, payable to Bank South for Consulting and Developmental Services associated with ADSI screen telephones, home banking, call waiting deluxe, and visual director services, should be billed directly to Georgia per the Company.

The other invoice dated 11/29/94, payable to Northern Telecom for Consultation and Development work on ADSI screen telephones to be applied toward the first 10,000 units purchased from Northern Telecom is for nonregulated services.

OPINION:

The Sureveillance Report is effected as follows:

INVOICE	AMOUNT FL	FL INTRASTATE PER COMPANY
1	114,200.00	80,120.00
2	114,200.00	80,966.00
	-----	-----
	228,400.00	161,086.00
	=====	=====

COMPANY COMMENT: (Verbatim)

The Company agrees with the facts as stated, and will make the necessary adjustments to the 1994 Surveillance Report.

AUDIT EXCEPTION 5

SUBJECT: OUT OF PERIOD EXPENSES

STATEMENT OF FACTS:

Through the audit of the sample, staff noted the following expenses which did not belong to 1994.

1. A journal entry debiting Account 6121 in the amount of \$291,414.80. This amount was a direct state journal entry. The Company explained that this was to correct a 1990 entry that was in error.
2. A journal entry debiting Account 6121 in the amount of \$175,700.00. This amount was a direct state journal entry. The Company explained that this is a correction for a 1991 item.
3. Included in Account 6712, Planning, is an invoice from Comshare, Inc. in the amount of \$97,610 for Consultant fees for the month of October, 1993.

The amount allocated to Florida is .6724, or \$26,100.94.

The Company stated that they plan to adjust the intrastate amounts on the Surveillance Report when they revise it in December.

COMPANY COMMENT: (Verbatim)

The Company agrees with the facts as stated, and will make the necessary adjustments to the 1994 Surveillance Report.

AUDIT EXCEPTION NO. 6

SUBJECT: OTHER REGULATORY ADJUSTMENT

STATEMENT OF FACT: The Company has included a decrease in expenses of \$2,624,000 for Other Regulatory Adjustments on the Schedule of Adjustment to Net Operating Income Intrastate Expense, Page 2A, 2 of 3.

Due to a request for further backup on this adjustment, the Company responded that this adjustment had been revised to \$2,728,000; a difference of \$104,000.

The \$2,624,000 is composed of several items included on Schedule 1 following this exception. The changes made by the Company occurred in component number 2 (BBS/Bellcore Contribution) and component number 5 (BSC Golf and GA Dome Non-advertising).

Component number 2 (Bellcore Contribution)

BBS/Bellcore contribution increased \$9,000 from \$31,000 to \$40,000 intrastate. This change is due to the Company not allocating the matching gifts from BellSouth Business System to Florida for the month of September.

Component number 5 (BSC Golf and GA Dome Non Advertising):

BSC Golf and GA Dome Non Advertising increased \$95,000 from \$192,000 to \$287,000. The reason for the change is due to the Company revising this adjustment from estimate to actual.

OPINION: The result of these two revisions further decrease expenses by \$104,000.

COMPANY COMMENT: (Verbatim)

The Company agrees with the facts as stated.

Schedule No. 1

Other Regulatory Adjustment included in the Surveillance Report Net Operating Income Schedule:

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	BellSouth Contribution	BBS/Belcore Contribution	BellSouth Membership Soc/Serv	BBS Memb/Due Soc/Serv	BSC Golf & GA Dome Non-Adv	Golf Costs Atl & Nash BBS	BellSouth Federal Relations	BellSouth Federal Regulatory	BellSouth Corporate Advertising	BSC to BBS Advertising	Total
BST Allocation	\$2,109,200.00	\$197,300.00	\$295,400.00	\$39,300.00	\$406,900.00	\$983,700.00	\$3,685,000.00	\$3,315,000.00	\$4,027,500.00	\$2,052,900.00	\$17,112,200.00
State Allocation	\$558,000.00	\$41,000.00	\$78,000.00	\$11,000.00	\$108,000.00	\$260,000.00	\$386,000.00	\$295,000.00	\$1,065,000.00	\$543,000.00	\$3,345,000.00
Regulated Amount	\$534,000.00	\$39,000.00	\$76,000.00	\$10,000.00	\$105,000.00	\$245,000.00	\$377,000.00	\$289,000.00	\$1,042,000.00	\$535,000.00	\$3,252,000.00
Intrastate Amount	\$421,000.00	\$31,000.00	\$60,000.00	\$8,000.00			\$298,000.00	\$228,000.00	\$823,000.00	\$386,000.00	\$2,255,000.00
Intra amount of BSC Golf Costs to BBS to BST					\$83,000.00						
Intra amount of BSC sponsorships - other					\$50,000.00						
Intra amount of BBS sponsorships - other					\$47,000.00						
					\$12,000.00						
					\$192,000.00	\$177,000.00					\$369,000.00
											\$2,624,000.00

Other Regulatory Adjustment as revised by the Company:

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	BellSouth Contribution	BBS/Belcore Contribution	BellSouth Membership Soc/Serv	BBS Memb/Due Soc/Serv	BSC Golf & GA Dome Non-Adv	Golf Costs Atl & Nash BBS	BellSouth Federal Relations	BellSouth Federal Regulatory	BellSouth Corporate Advertising	BSC to BBS Advertising	Total
BST Allocation	\$2,109,200.00	\$197,300.00	\$295,400.00	\$39,300.00	\$406,900.00	\$983,700.00	\$3,685,000.00	\$3,315,000.00	\$4,027,500.00	\$2,052,900.00	\$17,112,200.00
State Allocation	\$558,000.00	\$53,000.00	\$78,000.00	\$11,000.00	\$108,000.00	\$260,000.00	\$386,000.00	\$295,000.00	\$1,065,000.00	\$543,000.00	\$3,357,000.00
Regulated Amount	\$534,000.00	\$49,000.00	\$76,000.00	\$10,000.00	\$105,000.00	\$245,000.00	\$377,000.00	\$289,000.00	\$1,042,000.00	\$535,000.00	\$3,262,000.00
Intrastate Amount	\$421,000.00	\$40,000.00	\$60,000.00	\$8,000.00			\$298,000.00	\$228,000.00	\$823,000.00	\$386,000.00	\$2,264,000.00
Intra amount of BSC Golf Costs to BBS to BST					\$83,000.00						
Intra amount of BSC sponsorships - other					\$50,000.00						
Intra amount of BBS entertainment					\$47,000.00						
Intra amount of BST sponsorships - other					\$70,000.00						
					\$37,000.00						
					\$287,000.00	\$177,000.00					\$464,000.00
											\$2,728,000.00

AUDIT DISCLOSURE 1

SUBJECT: SFAS 71

STATEMENT OF FACT: Statement of Financial Accounting Standard 71 allows a regulated enterprise to recognize the economic effects of regulation. The criteria for application are:

1. The enterprise's rates for regulated services or products are established by an independent third-party regulator or by its own governing board.
2. The regulated rates are designed to recover the specific enterprise's costs of providing the regulated service or products.
3. It is reasonable to assume in view of demand for the service or products and the level of competition, that rates established can be charged to and collected from customers.
4. Company operations must meet all three criteria to qualify for SFAS 71 accounting.

According to the Coopers and Lybrand workpapers, three of the Regional Bell Operating Companies have already discontinued SFAS 71. Four have not. US West stated that they discontinued because of competition, market conditions and the development of broadband technology which will be establishing revenues more so than the regulators. For all three companies, regulated assets and liabilities were written off and property, plant and equipment were written down significantly.

According to a recent article in the Sun-Sentinel, BellSouth Corp. will change from SFAS 71 in the second quarter of 1995. The reduction was expected to be \$2.7 billion.

According to the Coopers and Lybrand workpapers, the elimination of SFAS 71 was expected to result in a reduction of plant between 4 and 6 billion.

The entry provided by the company shows a reduction of \$4,896,436,000 in the cable accounts (3100) company wide and a \$998,824,000 reduction for Florida in June of 1995.

COMPANY COMMENT: (Verbatim)

In accordance with the Stipulation and Agreement, the Company has removed the full impact of the transition from SFAS 71 from regulatory reporting. The accounting used for the 1994 Surveillance Report is consistent with previous years' reporting.

AUDIT DISCLOSURE NO. 2

SUBJECT: SHARING LIABILITY

STATEMENT OF FACTS:

The company prepared monthly estimates of their annual earnings to determine the amount of sharing liability that should be accrued monthly. Based on these estimates, the company recorded accruals as listed below through October 1994. In October 1994, the company realized that they had overaccrued for the sharing liability, so they did not record an accrual in November, and recorded a credit of \$12 million in December 1994 (reducing the cumulative sharing amount from \$50 million to \$38 million). The 12 month average of the balance accrued for sharing is (\$25,333,333)

ACCRUALS FOR SHARING AMOUNT BOOKED IN 1994

MONTH	ACCRUALS BOOKED	BALANCE
January	0	0
February	0	0
March	(\$10,000,000)	(\$10,000,000)
April	\$0	(\$10,000,000)
May	(\$5,000,000)	(\$15,000,000)
June	(\$15,000,000)	(\$30,000,000)
July	(\$5,000,000)	(\$35,000,000)
August	(\$5,000,000)	(\$40,000,000)
September	(\$5,000,000)	(\$45,000,000)
October	(\$5,000,000)	(\$50,000,000)
November	\$0	(\$50,000,000)
December	\$12,000,000	(\$38,000,000)
12 Months Average		(\$25,333,333)

In March 1995, when the company determined that the actual sharing liability for 1994 was \$30,450,000, the company made the following adjustments on their Surveillance Report:

ADJUSTMENT NO. 1

Because the average sharing liability of (\$25,333,333) was used in the computation of the Florida Intrastate Cash Working Capital, an adjustment of \$10,108,000 was made on page 1 A of the Surveillance Report to reduce the sharing liability of (\$25,333,333) included in the Allowance for Working Capital to the average balance of actual sharing liability of (\$30,450,000/2) or (\$15,225,000).

	Amount
Avg. of Balance Accrued for Overearnings (Sharing Amt) Included In The Fl. Intrastate Cash Working Capital	\$25,333,333
Avg. of Actual Sharing Amount (\$30,450,000/2)	(\$15,225,000)
Adj. To Working Capital On The Surveillance Report.	\$10,108,333

ADJUSTMENT NO. 2

In 1994, the sharing accrual of \$38 million was recorded as a debit to Account 5264.9900 Misc. Revenues and a credit to Account 4120 Other Accounts Liability Incentive Regulation. This is included on Page 2, Line 6 (Column 3) of the Surveillance Report.

In March 1995, when the company determined that the actual sharing liability for 1994 was \$30,450,000, the company made an adjustment to increase revenues by \$7,550,000 on page 2A (page 1 of 3) of the Surveillance Report.

Balance of Accrued Sharing Liability	\$38,000,000
Actual Sharing Amount 3/15/95	\$30,450,000

Adj. To Revenue On The Surveillance Report.	\$7,550,000
	=====

RECOMMENDATION:

This disclosure should be reviewed by staff analyst to determine if the accruals for sharing liability and the actual sharing liability provided by the company appears reasonable.

COMPANY COMMENT: (Verbatim)

The Company is in agreement with the facts as stated.

1 AUDIT DISCLOSURE 3

2 SUBJECT: ACCOUNTING FOR RESTRUCTURE EXPENSES

3 STATEMENT OF FACT:

4 FPSC analyst requested that we disclose the accounting for restructuring expense and
5 the expense by account in 1994. The Company provided us with a list of the accounts
6 and amounts. This is an exhibit following this disclosure.

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26 **COMPANY COMMENT: (Verbatim)**
27 The Company has accounted for restructure expenses in accordance with the
28 Stipulation and Agreement. Paragraph 9 on page 7 of the Stipulation and Agreement
29 states, "The PARTIES agree that for regulatory purposes, the expenses and any
30 resulting savings that occur as a result of the announced restructuring will be
31 accounted for as the expenses or charges occur."

COMPANY:
TITLE:
PERIOD:

SBT
Exhibit to Accounting for Restructure Charges
TYE 12/31/94

ACCOUNT DESCRIPTION	COMPANY	TOTAL FLORIDA
General Support Property Expenses		
6112 Motor Vehicle Expense	13,000	3,123
6116 Other Work Equipment Expense	26,000	6,245
6121 Land and Building Expense	14,287,000	3,431,645
6122 Furniture and Artwork Expense	15,203,000	3,651,663
6123 Office Equipment Expense	3,444,000	827,227
6124 General Purpose Computer Expense	47,537,000	11,418,081
Central Office Equipment Expenses		
6211 COE - Analog Electronic Exp	165,000	33,549
6212 COE - Digital Electronic Exp	1,351,000	274,691
6220 COE - Operator systems Exp	14,000	4,501
Central Office Transmission Exp		
6231 Radio systems Exp	2,000	475
6232 Circuit Equipment Exp	517,000	122,725
Terminal Equipment Expenses		
6311 Station Apparatus Exp	1,000	126
6351 Public Tele Terminal Equip Exp	(11,000)	(2,299)
6362 Other Terminal Equipment Exp	15,000	4,200
Cable and Wire Exp		
6411 Poles Expense	2,000	294
6421 Aerial Cable Exp	20,000	2,946
6422 Underground Cable Exp	9,000	2,570
6423 Buried Cable Exp	118,000	28,161
6426 Intrabuilding Network Cable Exp	2,000	429
Property Expense		
6512 Provisioning Expense	381,000	86,091
Other Network Expense		
6532 Network Adm Expense	1,883,000	483,064
6533 Testing Expense	2,390,000	531,740
6534 Plant Operations Adm Exp	64,536,000	16,696,681
6535 Engineering Expense	28,295,055	7,161,157
Customer Operations Expense		
6611 Product Management	3,261,000	676,367
6612 Sales	7,778,000	1,649,971
6613 Product Advertising	84,000	16,690
6621 Call Completion Services	1,333,000	302,868
6622 Number Services	1,859,000	528,902
6623 Customer Services	32,096,000	8,449,573
6711 Executive	320,000	76,862
6712 Planning	548,000	131,626
6721 Accounting and Finance	10,478,000	2,516,748
6722 External Relations	2,402,000	576,945
6723 Human Resources	39,153,000	9,155,413
6724 Information Management	133,543,791	32,076,357
6725 Legal	18,000	4,323
6726 Procurement	176,000	42,274
6728 Other G&A	27,867,044	6,693,484
Operating Income and Expense Accounts		
7370 Special Charges	34,000	7,513
	441,150,890	107,675,001

AUDIT DISCLOSURE 4

SUBJECT: SOFTWARE COSTS

STATEMENT OF FACT:

In December, 1994 the Company determined that certain items booked to account 6724, Corporate Operations Expense, Information Management, were prepaid assets and should not have been expensed in 1994. A COPS journal entry was made in 12/94 to transfer these items to Account 1330, Other Prepayments, and credit account 6724. A list of items is included as an exhibit following this Disclosure.

Subsequently, after the Surveillance Report was filed, the Company decided that a number of these items did belong in 1994 expenses and is planning a reversing entry to be used in the revised Surveillance Report to be filed approximately December 1995. A list of the items to be reversed is also in the first exhibit following this disclosure.

The amounts are as follows:	TOTAL COMPANY	FLORIDA AMOUNT
		0.2645
Software Costs originally determined to be prepaid in 12/94 journal entry	19,777,022.76	5,231,022.52
Software Costs Co says should be prepaid subsequent to filing of Surveillance Report	2,430,802.00	642,947.13
	-----	-----
	17,346,220.76	4,588,075.39
LESS HARDWARE FOR 94 (included in error)	222,390.39	58,822.26
	-----	-----
AMOUNT TO BE FURTHER EXPENSED IN 94	17,123,830.37	4,529,253.13
AMOUNT REGULATED .944796		4,279,220.24
AMOUNT INTRA .789941		3,380,331.52
CORRECTION OF BOOKING ERROR		72,437.75

TOTAL INTRA ADJUSTMENT FOR EXPENSE SUBSEQUENT TO FILING		3,452,769.27
		=====

The Company explained their rationale for first excluding these items from expense and then reversing the items to be included in expense. Prior to closing the books in 1994, in early January 1995, the company reviewed the December charges to account 6724. Based on this review, the company made the original entry above. The company performed this review in a compressed time at year end and there was an understanding within the company that a further investigation of the reclassification would occur.

The company went on to explain that: "After the books were closed a more detailed study of the related vouchers and contracts was performed. The Company's policy in accounting for software purchases is that purchases of application software (license

fees) are expensed when the software is both available for use and has been accepted by the Company. Software license fees are paid to obtain rights to use a certain vendor's software. The rights of usage inure completely to the purchaser at the acceptance date..." The company concluded that the subsequent amounts charged to expense follow the rules for accounting for Right-to-Use Fees.

COMPANY COMMENT:

The Company's comment follows this Disclosure.

PREPARED BY BST

FPSC Surveillance Report Audit - 1994
Request No. 25
July 24, 1995

Voucher Serial	JFC	Account	Vendor	Explanation	Voucher Amount	Reclassified to Prepaid	0.2645 Charged to Florida Allocation	0.944796 Regulated	0.789941 Intra	Charged to Acct. 6728	0.953561 Regulated	0.789941 Intra		
03824	55C1	6724	Amer. Managemen	License Fee	5,000,000.00	5,000,000.00								
02890	55C1	6724	Amer. Managemen	Programming/Sys Dev.	587,781.72	<u>587,781.72</u>								
						5,587,781.72	1,477,968.26							
65218	55C1	6724	Compuware	Software Mlce & Lic Fee	1,087,030.00	996,444.17								
86313	55C1	6724	BMC Software	Software Upgrade Protec.	1,209,110.48	846,377.33								
86316	55C1	6724	Compuware	Software Lic Fee & Mlce	1,654,130.00	1,516,285.83								
86315	55C1	6724	Compuware	Software Lic Fee & Mlce	1,310,160.00	1,200,980.00								
92068	55C1	6724	BMC Software	Software Mlce Fee	1,215,885.85	1,215,885.85								
86314	55C1	6724	BMC Software	Software Lic Fee & Mlce	859,951.74	820,863.03								
90407	55C1	6724	BMC Software	Software Lic Fee & Mlce	754,228.50	719,945.38								
92067	55C1	6724	Computer Assoc Int'	Software Lic Fee Buyout	875,080.00	875,080.00								
65219	55C1	6724	BMC Software	Software Lic. & Upgrade	659,000.72	126,601.95								
98354	55C1	6724	Sybase	Software Lic Fee & Mlce	3,162,856.68	3,162,856.68								
86338	55C1	6724	BGS Systems	Software & Mlce	649,375.00	<u>649,375.00</u>								
						12,130,695.22	3,208,568.89							
02887	55C1	6724	Amer. Mgt. Systems	Software Prog & Sys Dev	384,813.50	384,813.50								
02900	55C1	6724	Amer. Mgt. Systems	Software Prog & Sys Dev	420,863.18	420,863.18								
04028	55C1	6724	AMDOCS, Inc.	Software Prog & Sys Dev	300,000.00	300,000.00								
65217	55C1	6724	AMDAHL Corporati	Software License Fee	395,503.59	307,613.89								
86311	55C1	6724	Sterline Software	Software License Fee	258,625.50	<u>129,312.75</u>								
						1,642,603.32	408,018.58							
83453	1500	6124	Netmanage, Inc.	Software & Maintenance	355,982.00	32,362.00	8,559.75							
93298	1550	6724	Centerline Software	Software Tools	310,465.00	69,500.00								
93299	1550	6724	Rogue Wave Softw	Software Tools	261,590.50	<u>261,590.50</u>								
						331,090.50	87,573.44							
03573	57CD	6724	Accugraph	Software Prog. Support	517,868.43	152,490.00	40,333.81							
						Sub-total	19,777,022.76	5,231,022.52	10,462,045.04	9,884,498.31	7,808,170.48	(10,462,045.04)	(9,978,198.13)	(7,880,607.93)
						Reverse prepaid	17,123,830.00	4,529,253.04						
								0.944796						
								4,279,220.15	Reg					
									0.789941					
								3,380,331.44	Intra					
						To correct booking error		<u>72,437.45</u>						
						Total Surveillance Rpt Adj.		<u>3,452,768.90</u>				7,808,170.48		(7,880,607.93)

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AUDIT DISCLOSURE NO. 4

Subject: Software Costs

Company Response: Page 3, paragraph 3 of the Stipulation and agreement states, "...it is the OPC's and SOUTHERN BELL's intent that SOUTHERN BELL shall continue to record its operations for regulatory purposes and to make the reports required of it by the FPSC using the same format, standards and guidelines adopted by the FPSC in the Order and subsequently used by SOUTHERN BELL in filing its surveillance reports since October 1988." In accordance with Company accounting policy for application software, as consistently applied for regulatory reporting purposes, expenses for application software available for use in 1994 should be included on the Surveillance Report.

AUDIT DISCLOSURE 5

SUBJECT: LICENSING FEE AGREEMENT

STATEMENT OF FACTS:

The following items were included in 1994 expenses in Account 6724:

An invoice from ATT in the amount of \$8,600,000 to Bell South Telecommunications dated March 1994. According to the contract, this was an amendment to a prior contract and shall be effective March 31, 1995. The invoice states that "...the fee is included in contract #PR7247A and will support the Centers Redesign initiative for Reengineering."

The amount allocated to Florida was .2645 % for a total of \$2,274,700.00.

An invoice in the amount \$1,656,000 from CSC Intelicom for Right to Use fees for ASAV/P Release 2.1 and Installation Fees fo ASAV/P. According to the contract the time period is from September 1, 1994 through August 31, 1997.

The amount allocated to Florida was .2645 for a total of \$438,012.

An invoice in the amount of \$1,030,700 to Unisys Corporation dated March 13, 1994. The description on the invoice is "Annual Software Maintenance for Equipment located in Brimingham Center - covers period of 2/18/94 through 2/17/99."

The amount allocated to Florida was .2645 for a total of \$272,620.15.

OPINION:

For the ATT invoice, it appears that this contract although paid in 1994, was to be in effect in 1995 and is a prepaid item in 1994 and out of period expense.

The CSC Invoice is for part of 1994 and then future years.

The Unisys Invoice is part of 1994 and then future years.

RECOMMENDATION:

The Commission's position on Disclosure 4 on Software Costs should be applied to these items.

COMPANY COMMENT:

The Company comment follows this Disclosure.

AUDIT DISCLOSURE NO. 5

Subject: Licensing Fee Agreement

Company Response: Page 3, paragraph 3 of the Stipulation and agreement states, "...it is the OPC's and SOUTHERN BELL's intent that SOUTHERN BELL shall continue to record its operations for regulatory purposes and to make the reports required of it by the FPSC using the same format, standards and guidelines adopted by the FPSC in the Order and subsequently used by SOUTHERN BELL in filing its surveillance reports since October 1988." In accordance with Company accounting policy for application software, as consistently applied for regulatory reporting purposes, expenses for application software available for use in 1994 should be included on the Surveillance Report.

AUDIT DISCLOSURE NO. 6

SUBJECT: ABANDONED PROJECTS

STATEMENT OF FACT: The Company made an adjustment on the Surveillance Report (Page 2A, 2 of 3) to increase expense and reduce net operating income in the amount of \$705,316 and \$433,240 respectively for Abandoned Projects.

When staff asked for an order whereby the Commissions allows the Company to make this adjustment their reply was as follows:

"The Commission has not specifically approved or disapproved this adjustment. Whereas other items are booked below-the-line to Account 7370 per Part 32 accounting are specifically disallowed (social and service memberships, contributions, lobbying, etc.) abandoned projects have not been disallowed by the Florida Public Service Commission. Therefore, since 1988, we have made an adjustment to include this expense in regulated operations on the Surveillance Report."

"FPSC Order Number PSC-94-0172-FOF-TL, dated February 11, 1994, approves the Stipulation and Implementation Agreement in Docket 920260TL. The Stipulation and Agreement, page 3, paragraph 3, provides that " Southern Bell shall continue to record its operations for regulatory purposes and to make the reports required of it by the FPSC using the same format, standards and guidelines adopted by the FPSC in the Order No. 20162, 10/13/88 and subsequently used by Southern Bell in filing its Surveillance reports since October of 1988."

COMPANY COMMENT: (Verbatim)

Abandoned projects were accounted for in accordance with the Stipulation and Agreement, in that, on the 1994 Surveillance Report they were accounted for in the same manner as on previous years' Surveillance Reports.

AUDIT DISCLOSURE 7

SUBJECT: ACCOUNT 6122 – FURNITURE EXPENSE

STATEMENT OF FACT:

In PSC staff analytical review of expense accounts, we determined that Account 6122 Furniture Expense increased from \$1.9 million in 1993 to \$6 million in 1994. Bellsouth Telecommunications Accounts and Subsidiary Records categories describe this account as follows: "...includes individual items of furniture and artwork of small value (\$500 or less) or having a service life of less than one year." This agrees with FPSC Order No. 18497, and Rule 25-4.0178.

The Company stated that this increase was related to restructure. There were large amounts paid to furniture companies in October and December 1994.

AMOUNT	PAYEE
\$1.001 MILLION	THOMAS W RUFF & CO. OF MIRAMAR FL
\$497 MILLION	PERDUE OFFICE INTERIORS OF ORLANDO FL
\$398 MILLION	PERDUE OFFICE INTERIORS OF ORLANDO
\$352 MILLION	PERDUE OFFICE INTERIORS OF JACKSONVILLE.

This accounts for approximately \$2,248 million.

Because of the large increase, staff included Account 6122 in the judgmental sample of expense invoices.

The total in account 6122 in 1994 is \$6,076,513.87. A frequency distribution of the account showed that all transactions over \$40,000 (32) represented 63% of the dollars in the account. Staff audited 19 items over \$40,000; for a total of \$2,637,982.

OPINION:

Results of the audit of this account showed that in all 19 invoices, all items expensed to 6122 were under the \$500 limit as noted above. However, staff questions whether the increase in the furniture account was necessary. Considering the downsizing of employees in the restructure, why is new furniture being purchased instead of using the surplus that probably is available due to downsizing.

COMPANY COMMENT:

The Company Comment follows this Disclosure.

AUDIT DISCLOSURE NO. 7

Subject: Account 6122 - Furniture Expense

Company Response: Southern Bell has to the extent possible utilized existing furniture rather than acquire new furniture, however; it was considered more cost effective to purchase new furniture for some of the restructured operations. As part of restructuring, modified office arrangement accounted for some of the efficiencies that were gained, as well as aiding employees to better meet customer needs. Since existing furniture was not conducive to the center arrangement, new furniture was purchased.

AUDIT DISCLOSURE 8

SUBJECT: ALLOCATIONS FROM BELLSOUTH CORPORATION

STATEMENT OF FACTS:

The audit service request asked us to determine if the methodology used in calculating the general allocator used to allocate BellSouth Corporation HQ costs to Southern Bell Telephone is appropriate. (Re: FCC Order 95-31, Southwestern Bell Telephone Company (SWBT).)

FCC Order 95-31, Adopted: January 26, 1995, Released: March 3, 1995 orders SWBT "... to show cause why certain expenses retained by SBC (Southwestern Bell Corporation) as retained expenses should not be included in the computation of the general allocator used to allocate residual costs to SWBT and SWBT affiliates pursuant to Section 64.901(b)(3)(iii)."

The order states that the FCC rules mandate that "... this general allocator is to be computed by using a ratio based upon all expenses directly assigned or attributed to regulated and nonregulated activities."

FCC auditors found that "...SBC did not include "retained expenses" (i.e. certain expenses not passed on to affiliates, but retained on the books of SBC) in the base used for calculating its general allocator."

The FCC agrees with their auditors' description of how the general allocator should be included in that calculation. "Section 64.901(b)(3)(iii) clearly provides that the general allocator must be computed by using '... the ratio of all expenses directly assigned or attributed to regulated and non regulated activities.'..."

The FCC auditors calculated that "... if the general allocator had been computed properly, SWBT's share of costs allocated through the general allocator would drop from almost 70 per cent to about 43 percent for 1992 alone."

COMPANY COMMENT:

The Company's response to our request for information regarding this topic follows this Disclosure. PSC staff did not audit the Company's calculations. The Company further responded at the audit exit conference as follows: "The Company believes the general allocator used to allocate corporate expenses is consistent with the existing FCC's affiliate transaction rules. The general allocator used in 1994 is consistent with prior years' accounting and Surveillance Reports."

REQUEST:

FCC Order No. 95-31 re. SWBT (attached) orders "SWBT to show cause why certain expenses retained by SBC as retained expenses should not be included in the computation of the general allocator used to allocate residual costs to SWBT and SWBT affiliates pursuant to Section 64-901(b)(3)(iii)."

a. What was the result of this show cause?

Did BSC calculate the general allocator as prescribed by the FCC in Order No. 95-31 for SBT in 1994. If not, why not? If not, please recalculate using the prescribed formula from the FCC in 95-31. Also, show formula and amounts in the methodology used by BSC in 1994. Show the differences.

b. Also attached are workpapers obtained from C&L audit re. BSC allocations. If BSC did not calculate the general allocator per FCC, show how the % on Page 12 and 13 would be changed if the general allocator was calculated per the FCC.

RESPONSE:

BellSouth Corporation objects to the Florida Public Service Commission's request that BSC recalculate its general allocator to include retained expenses in order to comply with FCC Order No. 95-31 in the matter of Southwestern Bell Telephone Company (SWBT). The request is immaterial, irrelevant and beyond the scope of an audit of the 1994 Surveillance Report.

BSC's general allocator was calculated consistent with the existing FCC's Joint Cost Order and related rules-- section 64.901(b)(3)(iii) in allocating applicable costs to SBT in 1994. BSC's cost allocation process has been reviewed as part of the annual FCC's ARMIS Joint Cost Report 43-03 compliance audits. None of these audits has resulted in adverse findings or audit exceptions in this area.

FCC Order No. 95-31, Order to Show Cause, is neither final nor binding upon BSC. SWBT has complied with the Order by filing a response which is currently under review before the FCC. SWBT is the only party subject to the Order's authority. Furthermore, the Order is inapplicable in the immediate proceeding due to factual differences between the SWBT matter and the immediate audit.

Since BSC's current method of calculating the general allocator is consistent with the existing FCC's affiliate transaction rules and FCC Order No. 95-31 is neither final nor binding upon BSC, it does not ordinarily perform the calculation prescribed within the terms of the above-referenced Order. However, notwithstanding and subject to the foregoing objection, as a matter of comity and for purposes of the immediate proceeding only, BSC has re-calculated the general allocator to include retained expenses in this computation.

In a representative month, this calculation would have resulted in a percentage change in BST's allocation factor of .41% (from 80.36% to 79.95%), a relatively insignificant change. According to BSC's re-calculation, the impact to Florida intrastate operations would have been a reduction of allocation of approximately \$34,000 for 1994. The information provided herein is the proprietary and confidential property of BellSouth Corporation. However, the nature of this information and this proceeding permits BSC to provide this data in hard copy.

AUDIT DISCLOSURE 9

SUBJECT: MEMBERSHIP FEES AND DUES

STATEMENT OF FACTS:

According to the Board of Directors Minutes of BellSouth Telephone, authorization was given to contribute an amount to the Atlanta Chamber of Commerce Foundation Olympic Centennial Park from account 6728.9000, Other G&A Expenses, not to exceed \$750,000.

When asked, the company responded that in December 1994, a \$375,000 payment was made to this Foundation and charged to account 6728.9000. \$96,525 was allocated to Florida and \$72,708 to Florida Intrastate. This amount was included in the Surveillance Report as part of corporate operations expense, page 2, line 11.

According to the Florida Public Service Commission's Digest of Regulatory Philosophy, "...Image building or institutional advertising is generally disallowed for ratemaking.

(Image or institutional advertising – designed to enhance or preserve the corporate image of the company, and to present it in a favorable light to the general public and to potential investors.) Order No 7926, P.19 (8/10/77)."

"We agree ...that institutional or image advertising benefits the nonregulated portions of the business to a greater extent than the regulated operations. ... We will continue our policy of excluding institutional or image advertising from the cost of service. United Telephone Co. of Florida, Order No. 24049, p. 23 (1/31/91)."

OPINION:

Based on past FPSC orders, the amount charged for the Atlanta Chamber of Commerce Foundation Olympic Centennial Park should not be included in expenses for the Surveillance Report.

COMPANY COMMENT:

The Company agrees to remove this expense from the 1994 Surveillance Report.

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

Page 1

Company : Southern Bell Tel. & Tel. Co.
12 Months Ended : December 31, 1994

RATE BASE(000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company Columns (2 + 3)	Interstate Toll	Total Intrastate Columns (4 + 7)	Intrastate Toll Columns (5 + 6)	IntraToll		Local
					Inter- territory	Intra- territory	
AVERAGE RATE BASE							
1. General Support	\$1,235,530	\$259,627	\$975,903	\$198,640	\$90,602	\$108,038	\$777,263
2. Central Office	3,569,869	849,396	2,720,473	550,540	247,773	302,767	2,169,933
3. Information Orig/Term	162,970	41,015	121,955	23,409	13,815	9,594	98,546
4. Cable and Wire Facilities	4,728,775	1,188,679	3,540,096	716,316	396,345	319,971	2,823,780
5. Amortizable Assets	19,070	3,994	15,076	3,069	1,400	1,669	12,007
6. Plant in Service	\$9,716,214	\$2,342,711	\$7,373,503	\$1,491,974	\$749,935	\$742,039	\$5,881,529
7. Accumulated Depreciation and Amortization	4,296,627	1,034,077	\$3,262,550	664,633	336,583	328,050	2,597,917
8. Net Plant in Service	\$5,419,587	\$1,308,634	\$4,110,953	\$827,341	\$413,352	\$413,989	\$3,283,612
9. Property Held for Future Use	227	54	173	35	18	17	138
10. TPUC (No IDC)	42,611	10,209	32,402	6,539	3,280	3,259	25,863
11. Acquisition Adjustments	0	0	0	0	0	0	0
12. Working Capital Allowance	(160,663)	(31,360)	(129,303)	(25,970)	(12,584)	(13,386)	(103,333)
13. Per Book Average Rate Base	<u>\$5,301,762</u>	<u>\$1,287,537</u>	<u>\$4,014,225</u>	<u>\$807,945</u>	<u>\$404,066</u>	<u>\$403,879</u>	<u>\$3,206,280</u>
14. % Distribution	100%	24.29%	75.71%	15.24%	7.62%	7.62%	60.48%

ADJUSTMENTS TO AVERAGE RATE BASE

15. Adjustments for Achieved Rate Base	\$16,390
16. Adjusted Achieved Rate Base	<u>\$4,030,615</u>

ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE

17. Year End Rate Base per Books	4,016,129
18. Adjustments for Year End Rate Base	(7,190)
19. Adjusted Year End Rate Base	<u>\$4,008,939</u>

RATES OF RETURN

20. Average Per Book	9.52%	12.37%	8.61%	19.91%	18.77%	21.05%	5.76%
21. Average Adjusted Achieved			<u>8.74%</u>				
22. Adjusted Year End			<u>7.86%</u>				

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

Page 1A

Company : Southern Bell Tel. & Tel. Co.

12 Months Ended : December 31, 1994

ADJUSTMENTS TO RATE BASE (000)	(1) Plant In Service	(2) Accumulated Depreciation and Amortization	(3) Property Held for Future Use	(4) ST Plant Under Construction	(5) Acquisition Adjustment	(6) Working Capital Allowance	(7) Per Book Average Rate Base
1. Intrastate Rate Base per Books	\$7,373,503	\$3,262,550	\$173	\$32,402	\$0	(\$129,303)	\$4,014,225

INTRASTATE ACHIEVED ADJUSTMENTS

2. Excess Plug-in Units	(23,598)	\$0	\$0	\$0	\$0	\$0	(\$23,598)
3. WECO Tax Credits	34,468	23,350	0	0	0	0	11,118
4. BELLCORE Investment	5,197	0	0	0	0	0	5,197
5. Net Sharing Adjustment		0	0	0	0	10,108	10,108
6. Other Rate Base Adjustments	979	(12,586)	0	0	0	0	13,565
7. Total Accounting Adjustments, Intrastate Achieved	\$17,046	\$10,764	\$0	\$0	\$0	\$10,108	\$16,390
8. Achieved Intrastate Rate Base	\$7,390,549	\$3,273,314	\$173	\$32,402	\$0	(\$119,195)	\$4,030,615

9. Intrastate Year End Rate Base per Books	\$7,479,084	\$3,371,092	\$172	\$24,796	\$0	(\$116,831)	\$4,016,129
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INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

FPSC ADJUSTMENTS:

10. Excess Plug-in Units	(\$23,598)	\$0	\$0	\$0	\$0	\$0	(\$23,598)
11. WECO Tax Credits	34,961	23,685	0	0	0	0	11,276
12. BELLCORE Investment	5,132	0	0	0	0	0	5,132
13.							
14. Other Rate Base Adjustments	0	0	0	0	0	0	0

ANNUALIZING ADJUSTMENTS:

15.
16.
17.
18.

PRO FORMA ADJUSTMENTS:

19.
20.
21.

22. Total Accounting Adjustments, Intrastate Annualized	\$16,495	\$23,685	\$0	\$0	\$0	\$0	(\$7,190)
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23. Intrastate Annualized/Pro Forma Year End Rate Base	\$7,495,579	\$3,394,777	\$172	\$24,796	\$0	(\$116,831)	\$4,008,939
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FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.
12 Months Ended : December 31, 1994

Page 2

NET OPERATING INCOME (000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Total Company Columns (2 + 3)	Interstate Toll * Toll *	Total Intrastate Columns (4 + 7) #	Intrastate Toll Columns (5 + 6)	—IntraToll— Inter- territory		Intra- territory Local

BOOKED REVENUE

1. Basic Local Service Revenue	\$1,549,045	\$198	\$1,548,847	\$0	\$0	\$0	\$1,548,847
2. Network Access Revenue	1,087,259	788,074	299,185	299,185	291,747	7,438	0
3. Long Distance Revenue	360,474	439	360,035	360,035	0	360,035	0
4. Miscellaneous Revenue	299,868	30,245	269,623	15,858	12,071	3,787	253,765
5. Uncollectible Revenues	37,100	3,660	33,440	6,772	1,404	5,368	26,668
6. Net Booked Revenue	<u>\$3,259,546</u>	<u>\$815,296</u>	<u>\$2,444,250</u>	<u>\$668,306</u>	<u>\$302,414</u>	<u>\$365,892</u>	<u>\$1,775,944</u>

OPERATING EXPENSES

7. Plant Specific Operation Expense	623,013	147,691	475,322	95,930	48,178	47,752	379,392
8. Plant Non-Specific Operations Exp	265,565	62,621	202,944	48,957	19,818	29,139	153,987
9. Depreciation and Amortization	669,417	166,143	503,274	104,194	50,606	53,588	399,080
10. Customer Operations Expense	462,884	81,179	381,705	88,321	33,795	54,526	293,384
11. Corporate Operations Expense	355,635	85,424	270,211	57,290	26,125	31,165	212,921
12. Other Income and Expense	(224)	(50)	(174)	(34)	(17)	(17)	(140)

13. Total Operating Expense	<u>\$2,376,290</u>	<u>\$543,008</u>	<u>\$1,833,282</u>	<u>\$394,658</u>	<u>\$178,505</u>	<u>\$216,153</u>	<u>\$1,438,624</u>
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14. % Distribution	<u>100%</u>	<u>22.85%</u>	<u>77.15%</u>	<u>16.61%</u>	<u>7.51%</u>	<u>9.10%</u>	<u>60.54%</u>
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OPERATING TAXES

15. Federal Income Tax	169,781	63,349	\$106,432	\$69,102	32,099	37,003	37,330
16. State Income Tax	34,230	15,629	18,601	17,391	6,538	10,853	1,210
17. Other Taxes	174,397	34,077	140,320	26,295	9,418	16,877	114,025
18. Total Operating Taxes	<u>\$378,408</u>	<u>\$113,055</u>	<u>\$265,353</u>	<u>\$112,788</u>	<u>\$48,055</u>	<u>\$64,733</u>	<u>\$152,565</u>

NET OPERATING INCOME

19. Per Book NOI	<u>\$504,848</u>	<u>\$159,233</u>	<u>\$345,615</u>	<u>\$160,860</u>	<u>\$75,854</u>	<u>\$85,006</u>	<u>\$184,755</u>
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20. NOI Effect of Adjustments(Achieved)			<u>6,563</u>				
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21. Adjusted Achieved NOI			<u>\$352,178</u>				
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22. NOI Effect of Adjustments(Annual/Pro Forma)			<u>(37,226)</u>				
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23. Annualized/Pro Forma NOI			<u>\$314,952</u>				
------------------------------	--	--	------------------	--	--	--	--

* Includes \$ 12,824,232 for Universal Service Fund

Above expenses include regulatory and legislative liaison expenses of \$ 1,261,000. See the Lobbying Expense and Other Regulatory Adjustments proformas for the legislative and liaison expenses excluded for rate making purposes.

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.

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12 Months Ended : December 31, 1994

ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE REVENUE (000)	(1) Basic Local Service Revenue	(2) Inter- Territory Revenues	(3) Intra- Territory Revenue	(4) Misc Revenue	(5) Uncollectible Revenues	(6) Net Booked Revenue
1. Total Intrastate Revenue per Books	\$1,548,847	\$303,818	\$371,260	\$253,765	\$33,440	\$2,444,250

INTRASTATE ACHIEVED ADJUSTMENTS

OUT OF PERIOD ADJUSTMENTS:

2. Rev & Sett (Ind Co)	25	1,308	4,483	(76)		\$5,740
3. Expenses						0
4. MR & FR Taxes						0
5. Other Out of Period Revenue	4,235	0	371	133	(\$113)	5,252
6.						
7.						
8.						
9. Net Sharing Adjustment				7,550		7,550
10. Bond Refinancing	(176)					(176)
11. Other Reg/Nonreg Adjustments				(7)		(7)
12. Yellow Page Profits				0	0	0
13. Gains on Sales of Property	37				0	37
14. Income Related to Temp Cash Inv	13					13
15. Interest Reconciliation						0
16. Interest Imputation						0
17.						
18. Lobbying Expense						0
19. Corporate Advertising Expense						0
20. Abandoned Projects						0
21. Bellcore Dividends	672					672
22.						
23. Other Regulatory Adjustments						0
24. Total Accounting Adjustments, Intrastate Achieved	\$4,806	\$1,308	\$4,854	\$7,600	(\$513)	\$19,081
25. Total Achieved Intrastate Revenue	\$1,553,653	\$305,126	\$376,114	\$261,365	\$32,927	\$2,463,331

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.
12 Months Ended : December 31, 1994

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ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE REVENUE (000)	(1) Basic Local Service Revenue	(2) Inter- Territory Revenues	(3) Intra- Territory Revenue	(4) Misc Revenue	(5) Uncollectible Revenues	(6) Net Booked Revenue #
25. Total Achieved Intrastate Revenue	\$1,553,653	\$305,126	\$376,114	\$261,365	\$32,927	\$2,463,331

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

26.
27.

FPSC ADJUSTMENTS (PRO FORMA):

28.
29.

PRO FORMA ADJUSTMENTS:

30.
31.
32.
33.
34.
35.

36. Elimination of TouchTone Charge	(5,073)				(75)	(4,998)
37. Addl Rate Reductions Eff 7/1/94	(30,000)				(442)	(29,558)
38. Rate Red Eff 1/95 Per Sett Order	(11,000)				(146)	(10,854)
39. High Cost Universal Service Fund						0
40. Rate Red Eff 10/95 Per Sett Order	(20,000)				(266)	(19,734)
41.						
42. Total Accounting Adjustments, Intrastate Annualized	(\$66,073)	\$0	\$0	\$0	(\$929)	(\$65,144)
43. Total Annualized Intrastate Revenue	\$1,487,580	\$305,126	\$376,114	\$261,365	\$31,998	\$2,398,187

These revenues include accruals for sharing of 1994 earnings.

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.

12 Months Ended : December 31, 1994

ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE EXPENSE (000)	(1) Plant Specific Operations Expense	(2) Other Non-Plant Specific Oper. Exp.	(3) Depreciation and Amortization	(4) Customer Operations Expense	(5) Corporate Operations Expenses	(6) Other Income and Expenses	(7) Total Operating Expense
1. Total Intrastate Expense per Books	\$475,322	\$202,944	\$503,274	\$381,705	\$270,211	(\$174)	\$1,833,282

INTRASTATE ACHIEVED ADJUSTMENTS

OUT OF PERIOD ADJUSTMENTS:

2. Rev & Sett (Ind Co)							\$0
3. Expenses	(2,258)		20,812		(402)		18,152
4. MR & FR Taxes							0
5. Other Out of Period Revenue							0
6.							
7.							
8.							
9. Net Sharing Adjustment							0
10. Bond Refinancing							0
11. Other Reg/Nonreg Adjustments	53	46	69	12	(150)	0	30
12. Yellow Page Profits							0
13. Gains on Sales of Property						142	142
14. Income Related to Temp Cash Inv							0
15. Interest Reconciliation							0
16. Interest Imputation							0
17.							
18. Lobbying Expense					(428)		(428)
19. Corporate Advertising Expense					(115)		(115)
20. Abandoned Projects						705	705
21. Belcoore Dividends							0
22.							
23. Other Regulatory Adjustments						(2,624)	(2,624)
24. Total Accounting Adjustments							
Intrastate Achieved	(\$2,205)	\$46	\$20,881	\$12	(\$1,095)	(\$1,777)	\$15,862
25. Total Achieved Intrastate Expense	\$473,117	\$202,990	\$524,155	\$381,717	\$269,116	(\$1,951)	\$1,849,144

Note: The casualty expense program is no longer included due to the FPSC approval of a casualty reserve.

FLORIDA PUBLIC SERVICE COMMISSION
 TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.
 12 Months Ended : December 31, 1994

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ADJUSTMENTS TO NET OPERATING INCOME INTRASTATE EXPENSE (000)	Plant Specific Operations Expense	Other Non-Plant Specific Oper. Exp.	Depreciation and Amortization	Customer Operations Expense	Corporate Operations Expenses	Other Income and Expenses	Total Operating Expense
25. Total Achieved Intrastate Expenses	\$473,117	\$202,990	\$524,155	\$381,717	\$269,116	(\$1,951)	\$1,849,144

INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS

ANNUALIZING ADJUSTMENTS:

- 26.
- 27.

FPSC ADJUSTMENTS (PRO FORMA):

- 28.
- 29.

PRO FORMA ADJUSTMENTS:

- 30.
- 31.
- 32.
- 33.
- 34.
- 35.

36. Elimination of TouchTone Charge							0
37. Addl Rate Reductions Eff 7/1/94							0
38. Rate Red Eff 1/95 Per Sett Order							0
39. High Cost Universal Service Fund					(3,672)		(3,672)
40. Rate Red Eff 10/95 Per Sett Order							0
41.							
42. Total Accounting Adjustments, Intrastate Annualized	\$0	\$0	\$0	\$0	(\$3,672)	\$0	(\$3,672)
43. Total Annualized Intrastate Expenses	\$473,117	\$202,990	\$524,155	\$381,717	\$265,444	(\$1,951)	\$1,845,472

FLORIDA PUBLIC SERVICE COMMISSION
 TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.
 12 Months Ended : December 31, 1994

ADJUSTMENTS TO NET OPERATING INCOME	(1)	(2)	(3)	(4)	(5)
INTRASTATE TAXES (000)	Federal Income Tax	State Income Tax	Other Taxes	Total Operating Taxes	NOI
1. Total Intrastate Taxes per Books	\$106,432	\$18,601	\$140,320	\$265,353	\$345,615
INTRASTATE ACHIEVED ADJUSTMENTS					
OUT OF PERIOD ADJUSTMENTS:					
2. Rev & Sett (Ind Co)	1,873	312	76	\$2,261	\$3,479
3. Expenses	(6,004)	(998)		(7,002)	(11,150)
4. MR & FR Taxes	(5,974)	756	1,408	(3,810)	3,810
5. Other Out of Period Revenue	1,714	285	69	2,068	3,184
6.					
7.					
8.					
9. Net Sharing Adjustment	2,606	102	0	2,708	4,842
10. Bond Refinancing	(57)	(10)	(2)	(69)	(107)
11. Other Reg/Non-reg Adjustments	(3,032)	(487)	10	(3,509)	3,472
12. Yellow Page Profits	0	0	0	0	0
13. Gains on Sales of Property	(35)	(5)	0	(40)	(65)
14. Income Related to Temp Cash Inv	4	1	0	5	8
15. Interest Reconciliation	3,375	561		3,936	(3,936)
16. Interest Imputation	(788)	(131)		(919)	919
17.					
18. Lobbying Expense	142	23		165	263
19. Corporate Advertising Expense	38	6		44	71
20. Abandoned Projects	(233)	(39)		(272)	(433)
21. Belcore Dividends	67	11		78	594
22.					
23. Other Regulatory Adjustments	868	144		1,012	1,612
24. Total Accounting Adjustments, Intrastate Achieved	(\$5,436)	\$532	\$1,561	(\$3,344)	\$6,563
25. Total Achieved Intrastate Taxes	\$100,996	\$19,133	\$141,881	\$262,008	\$352,178

FLORIDA PUBLIC SERVICE COMMISSION
 TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.
 12 Months Ended : December 31, 1994

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	(1)	(2)	(3)	(4)	(5)
ADJUSTMENTS TO NET OPERATING INCOME				Total	
INTRASTATE OPERATING TAXES	Federal	State		Operating	
(000)	Income Tax	Income Tax	Other Taxes	Taxes	NOI
25. Total Achieved Intrastate Taxes	\$100,996	\$19,133	\$141,881	\$262,008	\$352,178
INTRASTATE ANNUALIZED/PRO FORMA ADJUSTMENTS					
ANNUALIZING ADJUSTMENTS:					
26.					
27.					
FPSC ADJUSTMENTS (PRO FORMA):					
28.					
29.					
PRO FORMA ADJUSTMENTS:					
30.					
31.					
32.					
33.					
34.					
35.					
36. Elimination of TouchTone Charge	(1,631)	(271)	(66)	(1,968)	(3,030)
37. Addl Rate Reductions Eff 7/1/94	(9,648)	(1,605)	(388)	(11,641)	(17,917)
38. Rate Red Eff 1/95 Per Sett Order	(3,541)	(589)	(147)	(4,277)	(6,577)
39. High Cost Universal Service Fund	1,214	202	0	1,416	2,256
40. Rate Red Eff 10/95 Per Sett Order	(6,439)	(1,071)	(266)	(7,776)	(11,958)
41.					
42. Total Accounting Adjustments, Intrastate Annualized	<u>(\$20,045)</u>	<u>(\$3,334)</u>	<u>(\$867)</u>	<u>(\$24,246)</u>	<u>(\$37,226)</u>
43. Total Annualized Intrastate Taxes	<u>\$80,951</u>	<u>\$15,799</u>	<u>\$141,014</u>	<u>\$237,762</u>	<u>\$314,952</u>

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

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Company : Southern Bell Tel. & Tel. Co.
12 Months Ended : December 31, 1994

AVERAGE CAPITAL(INTRASTATE) (000)	(1) Average Per Books	(2) Specific Adjustments	(3) # Pro Rate Adjustments	(4) Adjusted Amount	(5) % of Total	(6) ---Cost Rate--- Sharing	(7) Ceiling	(8) -Weighted Cost Rate- Sharing	(9) Ceiling
1. Long Term Debt	1,114,839		(17,300)	\$1,097,539	27.23%	7.44%		2.03%	
2. Short Term Debt	188,155		(2,920)	185,235	4.59%	4.32%		0.20%	
3. Preferred Stock	0		0	0	0.00%	0.00%		0.00%	
4. Customer Deposits	35,886		(557)	35,329	0.88%	6.94%		0.06%	
5. Common Equity	1,994,905	23,527	(31,322)	1,987,110	49.30%	12.00%	14.00%	5.92%	6.90%
6. Investment Tax Credits	91,358		(1,418)	89,940	2.23%	11.15%	11.67%	0.25%	0.26%
7. Cost Free Capital	627,148	18,331	(10,017)	635,462	15.77%	0.00%		0.00%	
8. Total Capital	<u>\$4,052,291</u>	<u>\$41,858</u>	<u>(\$63,534)</u>	<u>\$4,030,615</u>	<u>100.00%</u>			<u>8.46%</u>	<u>9.45%</u>

INTERNAL FUNDS

9. % Internal funds to construction expenditures after dividends (Total Company) - YTD	110.06%
10. Times interest earned (NI+Interest+Income Tax)/Interest (Total Company)	4.96
11. Long Term Debt / Capital (Intrastate)	33.57%
12. Short Term Debt / Capital (Intrastate)	5.66%
13. Average adjusted achieved return on equity (Intrastate)	12.59% @
14. Adjusted year end return on equity (Intrastate)	10.85% @

See Attachment A to Page 3 for signature.

See Page 6 for details.

@ This ROE includes accruals of \$30.5M for sharing of 1994 earnings.


FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

Attachment A
to Page 3

Company : Southern Bell Tel. & Tel. Co.
12 Months Ended : December 31, 1994

I am aware that Section 837.06, Florida Statutes, provides:
Whoever knowingly makes a false statement in writing with
the intent to mislead a public servant in the performance of
his official duty shall be guilty of a misdemeanor of the
second degree punishable as provided in s. 775.082,
s. 775.083, or s 775.084.

T. F. Lohman - Assistant Vice President
(Name and Title of
Chief Financial Officer)



(Signature)

March 15, 1995
(Date)

FLORIDA PUBLIC SERVICE COMMISSION
TELEPHONE EARNINGS SURVEILLANCE REPORT

Company : Southern Bell Tel. & Tel. Co.

12 Months Ended : December 31, 1994

ADJUSTMENTS TO AVERAGE CAPITAL (000)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
LONG TERM DEBT	SHORT TERM DEBT	PREFERRED STOCK	CUSTOMER DEPOSITS	COMMON EQUITY	INVESTMENT TAX CREDITS	COST FREE CAPITAL	TOTAL CAPITAL	TOTAL CAPITAL

1. Total Capital Per Books 1,474,834 248,913 0 35,886 2,639,084 119,485 812,455 \$5,330,657

DESCRIPTION OF ADJUSTMENTS TO SPECIFIC SOURCES

2. Accrued Dividends	31,124							
3. WECO Tax Credits	24,234							
4. Accrual for Florida Refund	0							
5.	0							

6. Sub-total of Specific Adjustments to Sources \$0 \$0 \$0 \$31,124 \$0 \$24,234 \$55,358

7. Adjusted Total Capital \$1,474,834 \$248,913 \$0 \$35,886 \$2,670,208 \$119,485 \$836,689 \$5,386,015

DESCRIPTION OF PRO RATA ADJUSTMENTS

8. Various Diff From Rate Base # (19,130) (3,229) 0 (465) (34,636) (1,550) (10,853) (\$69,863)

12. Sub-total of Pro Rata Adjustments to Sources (\$19,130) (\$3,229) \$0 (\$465) (\$34,636) (\$1,550) (\$10,853) (\$69,863)

13. Subtotal Pro Rata Adjusted Total Capital \$1,455,704 \$245,684 \$0 \$35,421 \$2,635,572 \$117,935 \$825,836 \$5,316,152

14. Interstate Separation Factor \$358,165 \$60,449 \$0 \$92 \$648,462 \$27,995 \$190,374 \$1,285,537

15. Adjusted Jurisdictional Capital \$1,097,539 \$185,235 \$0 \$35,329 \$1,987,110 \$89,940 \$635,462 \$4,030,615

See Page 6 for details.