

M E M O R A N D U M

January 7, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *a*

RE: DOCKET NO. 971065-SU -- MID-COUNTY SERVICES, INC.  
RATE CASE AUDIT REPORT - PERIOD ENDED DECEMBER 31, 1996  
AUDIT CONTROL NO. 97-267-3-1

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The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on two diskettes. The diskettes may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Mid-County Services, Inc.  
Don Rasmussen  
% Utilities, Inc. of Florida  
200 Weathersfield Avenue  
Altamonte Springs, FL 32714-4099

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Jacobs  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Water and Wastewater (Davis)  
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

00434 JAN-88

FPSO-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
BUREAU OF AUDITING*

*Orlando District Office*

MID-COUNTY SERVICES, INC.

RATE CASE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 1996

DOCKET NO. 971065-SU

AUDIT CONTROL NO. 97-267-3-1

A handwritten signature in black ink, appearing to read "Charleston J. Winston", written over a horizontal line.

*Charleston J. Winston, Audit Manager*

A handwritten signature in black ink, appearing to read "Hillary Y. Kemp", written over a horizontal line.

*Hillary Y. Kemp, Audit Staff*

A handwritten signature in black ink, appearing to read "Elbert E. Phillips", written over a horizontal line.

*Elbert E. Phillips, Audit Staff*

A handwritten signature in black ink, appearing to read "Ian J. Forbes", written over a horizontal line.

*Ian J. Forbes, Audit Supervisor*

DOCUMENT NUMBER-DATE

00434 JAN-88

FPSC-RECORDS/REPORTING

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**DECEMBER 19, 1997**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 1996, for Mid-County Services, Inc. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 971065-SU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

## **SUMMARY OF SIGNIFICANT FINDINGS**

Reduce plant-in-service allocation from Utilities, Inc. for \$2,205 because the amount is derived from deferred charges.

Reduce plant-in-service for \$16,644 due to legal expenses being capitalized.

Reduce plant-in-service for \$1,812 for the acquisition costs.

Reduce plant-in-service for \$55,902 for capitalized equipment repairs.

Reduce plant-in-service for \$3,138 for unsupported plant and discount not taken.

Reduce construction work-in-progress for \$158,674 for out-of-period charges with an alternative recommendation for a reduction of \$68,253 for repairs and recording error.

Reduce plant-in-service for \$4,242 for retired plant.

Reduce accumulated depreciation for \$29,199 and depreciation expense for \$17,603 due to plant-in-service adjustments.

Increase Accumulated Amortization of CIAC for \$16,257 and CIAC amortization expense for \$3,468 to reconcile to Order No. PSC-93-1713-FOF-SU and for plant-in-service adjustments.

Sludge hauling expense for \$121,267 was misclassified to the Materials and Supplies account.

Reduce insurance expense for \$3,983 because it is nonutility.

Reduce insurance expense for \$2,886 because the amount was unsupported and for an overpayment credit.

Reduce rate case expense for \$4,764 because the amount is unsupported and misclassified.

Reduce chemicals expense for \$2,045 because of late fees and out-of-period expenses. Reduce materials and supplies expense for \$1,951 because of misclassification and out-of-period expenses. Reduce miscellaneous expense for \$43 because of out-of-period expenses. Increase taxes other than income for \$755 because of misclassification.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**RATE BASE:** Compiled account balances for utility plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from June 30, 1992. Reconciled rate base balances authorized in Commission Orders Nos. PSC-93-1713-FOF-SU and PSC-94-1042-FOF-SU issued November 30, 1993 and August 24, 1994, respectively, to the December 31, 1992 through December 31, 1996 general ledger balances. Tested 100 percent of Mid-County Services, Inc.'s plant additions. Tested \$774,911 of Utilities, Inc.'s plant additions before allocations to Mid-County Service, Inc. Tested supporting documentation for CIAC additions and agreed to FPSC-approved tariff amounts. Recomputed working capital using one-eighth of the company's operation and maintenance expenses. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations. All additions were tested for the proper amount, period, and classification unless otherwise stated.

**NET OPERATING INCOME:** Compiled utility revenue and operation and maintenance accounts for the year ended December 31, 1996. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of operation and maintenance expenses and examined the invoices and other supporting documentation. Tested the calculation of depreciation and amortization expenses. Tested support for taxes other than income. Recalculated income taxes.

**CAPITAL STRUCTURE:** Compiled components of the capital structures for the year ended December 31, 1996. Agreed interest expense to the terms of the debt agreements. Traced the notes to the outside auditor's work papers where they were confirmed with the bank.

**OTHER:** Read external audit work papers and Board of Directors' Minutes for the twelve-month period ended December 31, 1996. Looked for items related to regulatory issues.

**EXCEPTIONS**

**Exception No. 1**

**Subject: Sludge Removal Expense**

**Statement of Fact:** The company recorded \$121,266.50 for sludge removal in Account No. 720, Materials and Supplies for 1996. Per the NARUC Uniform System of Accounts (USOA), sludge removal should be recorded in Account No. 711, Sludge Removal Expense.

**Recommendation:** The company should reclassify the \$121,266.50 to Account No. 711, Sludge Removal Expense.

		<u>Debit</u>	<u>Credit</u>
711	Sludge Removal	\$121,266.50	
720	Materials and Supplies		\$121,266.50

**Exception No. 2**

**Subject: Allocated Miscellaneous Nonutility Expense**

**Statement of Fact:** The company recorded an allocation from the parent company of \$3,982.83 for 1996 Insurance Expense, Account No. 759.

Included in insurance expense are costs for life insurance policies for officers and key employees in which the company is the beneficiary. Also, included in insurance expense are costs for fiduciary policies protecting directors, officers, and pension funds.

Per NARUC, Class B, Account No. 426 Miscellaneous Nonutility Expense,

This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are . . . :

- 7. Life insurance on officers and employees where utility is beneficiary . . . .

**Recommendation:** The purpose of these policies is to protect the company and do not demonstrate a clear benefit to the ratepayers. The company should reclassify \$3,982.83 as scheduled below.

	<u>1996</u> <u>Ins. Expense</u>	<u>Allocation</u> <u>Rate</u>	<u>Debit</u>	<u>Credit</u>
<b>Acct. No. 426 Miscellaneous Nonutility Exp</b>			\$ 3,982.83	
<b>Acct. No. 759 Insurance-Other</b>				
Keyman Life Insurance.	\$ 28,588.34	3.249%		\$ 928.94
Life Insurance	21,749.71	3.249%		706.73
Director/Officer Liability	53,495.28	3.249%		1,738.25
ESOP & Pensions	9,526.03	3.249%		309.53
Accidental/Death Travel	9,213.57	3.249%		299.38

**Exception No. 3**

**Subject: Account No. 759 Insurance - Other**

**Statement of Fact:** The parent company recorded \$72,263.21 for 1996 Insurance Expense, Account No. 759 and allocated \$2,348 to Mid-County.

Also, the parent company received a reimbursement of \$16,548 for overpayment of an insurance policy.

**Recommendation:** The company did not record the credit for this overpayment. Also, the company recorded installment payments for a policy, but did not provide proof of payment for this policy. The audit staff recommends that the following amounts be removed from Account No. 759, Insurance - Other:

	<u>1996 Ins. Expense</u>	<u>Allocation Rate</u>	<u>Amount to Remove</u>
<b>Acct. No. 759 Insurance -Other</b>			
Credit for Overpayment	\$ 16,548.95	3.249%	\$ 537.73
Unsupported Payments	72,263.21	3.249%	2,348.09

**Exception No. 4**

**Subject: Account No. 766 Rate Case Expense**

**Statement of Fact:** The company reported current rate case expense of \$46,456 in the MFRs; however, the amount recorded in the general ledger for Docket No. 971065-SU rate case expense is \$6,097.66.

Also, the company recorded \$66.89 for employees' dinner while waiting on copies from the copier. The NARUC USOA classifies ". . . all expenses other than expenses of utility operations and interest expense" to Account No. 426, Miscellaneous Nonutility Expense.

Rate Case Expense for Docket No. 921293-SU

In PAA Order No. PSC-93-1713-FOF-SU, Docket No. 921293-SU, the Commission granted the company \$54,873 in rate case expense. That order was protested resulting in the Final Order No. PSC-94-1042-FOF-SU. In Order No. PSC-94-1042-FOF-SU, the Commission granted the company the opportunity to present evidence in support of the total rate case expense incurred during Docket No. 921293-SU and to recover such expenses if deemed prudent. Consistent with the Commission Order, the audit staff has reviewed total rate case expense incurred in Docket No. 921293-SU.

The utility recorded \$8,101.64 in rate case expense as listed below.

<b>Invoices</b>		<b>Checks</b>	
<b>Reference #</b>	<b>Amount</b>	<b>Reference #</b>	<b>Amount</b>
74908	\$ 195.99	84561	\$ 2,445.00
76126	26.70	86766	<u>4,432.80</u>
78366	36.85	Total Checks	\$ 6,877.80
81840	40.12		
85445	<u>924.00</u>		
Total Invoices	\$1,223.66		

Accumulated Amortization

The company reported \$84,344 in accumulated amortization of rate case expense for Docket No. 921293-SU. Although Final Order No. PSC-94-1042-FOF-SU granted the company rate case expense of up to \$110,000, rates were not adjusted to reflect the increase. Order No. PSC-93-1713-FOF-SU granted the utility total rate case expense of \$54,873.

**Recommendation:** The company should be required to reduce Account No. 766, Rate Case Expense by \$4,763.92. The company should increase Acct. No. 186 Miscellaneous Deferred Debits by \$29,471 for Amortization of Rate Case expense. In addition, the company did not provide the invoices and checks listed above. Therefore, the company should be required to reduce Account No. 186, Miscellaneous Deferred Debits by \$8,101.46. Details of the adjustments are as follows:

	<u>Amount per Utility</u>	<u>Auditor Adjustment</u>	<u>Balance per Auditor</u>	
*Dkt. No. 921293-SU	\$162,854.00	\$(8,101.46)	\$154,752.54	
Amortization	(84,344.00)	29,471.00	(54,873.00)	
Dkt. No. 971065-SU	<u>46,456.00</u>	<u>(40,425.23)</u>	<u>6,030.77</u>	**
	\$124,966.00	\$(19,055.69)	\$105,910.31	

	<u>Total Rate Case Exp</u>		<u>Annual Rate Case Exp</u>
Per Audit	\$105,910.31	/ 4 =	\$ 26,477.58
Per MFRs	<u>124,966.00</u>	/ 4 =	<u>31,241.50</u>
<b>Adjustments</b>	<b>\$ (19,055.69)</b>		<b>\$ (4,763.92)</b>

\* In Order No. PSC-94-1042-FOF-SU, the Commission granted the company the opportunity to present evidence in support of the total rate case expense incurred during Docket No. 921293-SU and to recover such expenses if deemed prudent.

\*\* \$6,030.77 = (\$6,097.66 - 66.89)

**Exception No. 5**

**Subject: Other O & M Adjustments**

**Statement of Fact:** The company recorded \$99.93 in fees for late payments in Account No. 718, Chemicals Expense. In Orders No. 13161 issued April 2, 1984, and PSC-96-1083-FOF-SU issued August 22, 1996, the Commission disallowed fees for late payments.

Maintenance Repairs

The company booked an \$800 repair to Mid-County Account No. 720, Materials and Supplies during 1996. The invoice states that the repair is to the Pebble Creek Country Club lift station.

Prior Period

The company recorded \$1,944.90 to Account No. 718, Chemicals Expense and \$396 to Account No. 720, Materials and Supplies during 1996. In addition, the parent company, Utilities, Inc. (UI), recorded \$1,236.44 in the 1996 period and allocated to Mid-County Account No. 775, Miscellaneous Expense, \$42.78. The invoices for these expenses reflect a 1995 purchase date.

Taxes Other Than Income (TOTI)

The company recorded Sales & Use Taxes of \$754.67 to Account No. 720, Materials and Supplies during 1996. The NARUC USOA classifies “. . . all other taxes assessed by federal, state, county, municipal, or other local governmental authorities, except income taxes” to Account No. 408, TOTI.

**Recommendation:** The company should make the reductions as scheduled below.

<b>Acct. No. 718</b>	<b>Chemicals Expense</b>		
		Late fees	(\$99.93)
		1995 expenses recorded in 1996	<u>(1,944.90)</u>
		Total reduction to Chemicals	(\$2,044.83)
<b>Acct. No. 720</b>	<b>Materials and Supplies</b>		
		Should be recorded to Pebble Creek Utilities	(\$800.00)
		1995 expenses recorded in 1996	(396.00)
		Misclassified TOTI	<u>(754.67)</u>
		Total reduction to Mat'ls & Supp	(\$1,950.67)
<b>Acct. No. 775</b>	<b>Miscellaneous Expense</b>		
		1995 expenses recorded in 1996	(\$42.78)
<b>Acct. No. 408</b>	<b>TOTI</b>		
		Increase Sales & Use Taxes	\$754.67

**Exception No. 6**

**Subject: CIAC Reconciliation and Recomputation**

**Statement of Fact:** Commission Order No. PSC-93-1713-FOF-SU issued November 30, 1993, required the company to make an adjustment to increase its accumulated amortization for \$42,563. Per the Order the amount was adjusted to reflect an error in the 1991 amortization expense.

**Recommendation:** The Commission should require the company to adjust its books to the Order.

Audit Exceptions Nos. 8 through 13 recommended adjustments to plant-in-service. These adjustments resulted in recalculating accumulated CIAC amortization. With the above adjustment to prior Order and the recomputation of accumulated CIAC amortization, the following adjustments should be made for the period ended December 31, 1996:

	Per Audit	Per Company	Adjustments
Avg. Acc. CIAC Amort.	\$793,712	\$779,980	\$13,732
Acc. CIAC Amort.	825,792	809,535	16,257
Amortization Expense	64,159	60,691	3,468

See the attached schedule for further information.

Exception No. 6 - Schedule									
YEAR	1 BEGINNING CIAC	2 BEGINNING CIAC AMORTIZATION	3 CIAC ADJUSTMENTS	4 CIAC ADDITIONS	5 ENDING CIAC 1+3+4	6 AMORTIZATION RATE	7 CURRENT AMORTIZATION 1+((0.5*3)+(0.5*4))*	8 ADJUSTMENT TO CIAC AMORTIZATION	9 ENDING AMORTIZATION 2+7
1992	1,719,860	581,201	0	5,611	1,725,471	1.25%	21,533	0	602,734
1993	1,725,471	602,734	0	24,116	1,749,587	2.67%	46,392	0	649,126
1994	1,749,587	649,126	0	258,320	2,007,907	2.81%	52,793	0	701,919
1995	2,007,907	701,919	0	102,365	2,110,272	2.90%	59,714	0	761,633
1996	2,110,272	761,633	0	129,231	2,239,503	2.95%	64,159	0	825,792
AVG. CIAC BAL.	2,110,272	+	2,239,503	/	2	=	2,174,888		
AVG ACC CIAC BAL	761,633	+	825,792	/	2	=	793,712		

**Exception No. 7**

**Subject:      Deferred Charges**

**Facts:** The company included \$2,205 in its MFRs as part of rate base under the caption Water Service Corporation. This amount was included in Account No. 186-43, Deferred Charges - Employees Finder Fees, and is being amortized over a three-year period.

**Recommendation:** The above \$2,205 was determined as follows:

	Total Deferred Charges	Mid-County's portion
1995	17,701	367
1996	<u>80,596</u>	<u>4,043</u>
Total:	98,297	4,410
	<u>    /2</u>	<u>    /2</u>
Average Bal	<u>49,149</u>	<u>2,205</u>

Since the company is using the one-eighth of operation and maintenance expenses for working capital allowance, the above \$2,205 should be disallowed as part of plant-in-service that is allocated from the parent company. To include this amount in rate base would be double counting since the amortization expense portion is already included in expenses as stated below.

The amortized portion of the deferred charges is \$1,841 included in operation and maintenance expenses, Account Number 735, Contractual Services-Other.

**Exception No. 8**

**Subject: Capitalized Legal Expenses**

**Statement of Fact:** The company capitalized \$16,644 in legal expenses for the period ended December 31, 1996. These expenditures were related to litigation with the Natural Resources Defense Council.

Per Commission Order PSC-93-1713-FOF-SU, costs of this nature were disallowed.

**Recommendation:** The utility should remove these charges from its books in order to comply with the above Order. Therefore, the audit staff recommends to the Commission that utility plant-in-service be reduced by \$16,644. The accumulated depreciation is discussed in Audit Exception No. 14. For further analysis of capitalized charges, see the attached schedule.

AUDIT EXCEPTION NUMBER 8-SCHEDULE

Acct. #	Date	Vendor	Amount Per Company	Amount Per Audit	Difference	Invoice #	Company Code	Description
354	08/31/92	McDermott, Will & Emery	5,037.32	0.00	(5,037.32)	20748-69	41859	Legal fees related to NRDC
381	09/09/92	McDermott, Will & Emery	2,096.52	0.00	(2,096.52)	20748-69	44156	Legal fees related to NRDC
381	07/30/92	McDermott, Will & Emery	884.80	0.00	(884.80)	20748-69	42740	Legal fees related to NRDC
381	10/09/92	McDermott, Will & Emery	4,267.29	0.00	(4,267.29)	20748-69	46491	Legal fees related to NRDC
381	11/11/92	McDermott, Will & Emery	1,461.33	0.00	(1,461.33)	20748-69	48899	Legal fees related to NRDC
381	11/11/92	McDermott, Will & Emery	465.84	0.00	(465.84)	20748-69	51290	Legal fees related to NRDC
381	12/31/93	McDermott, Will & Emery	617.31	0.00	(617.31)	20748-69	53213	Legal fees related to NRDC
381	02/17/93	McDermott, Will & Emery	802.97	0.00	(802.97)	20748-69	55525	Legal fees related to NRDC
381	03/16/93	McDermott, Will & Emery	827.59	0.00	(827.59)	20748-69	57249	Legal fees related to NRDC
381	04/20/93	McDermott, Will & Emery	182.93	0.00	(182.93)	20748-69	59672	Legal fees related to NRDC
		Totals	16,643.90	0.00	(16,643.90)			

**Exception No. 9**

**Subject: Acquisition Costs**

**Statement of Fact:** Mid-County Services, Inc. capitalized \$1,812 in acquisition costs for the period ended December 31, 1996. These costs were for travel and executive labor costs.

Per Commission Order PSC-93-1713-FOF-SU issued November 30, 1993, acquisition costs are disallowed for ratemaking purposes.

**Recommendation:** The company had already existed when it was purchased by the parent company, Utilities, Inc. The ratepayers should not have to pay for the acquisition costs.

The audit staff recommends to the Commission that utility plant-in-service be reduced by \$1,812 to comply with the above Order. The accumulated depreciation is discussed in Audit Exception No. 14. For further analysis of the capitalized charges, see the attached schedule.

AUDIT EXCEPTION NUMBER 9-SCHEDULE

Acct. #	Date	Vendor	Amount Per Company	Amount Per Audit	Difference	Invoice #	Company Code	Description
351	11/03/92	Leslie Cohen	412.26	0.00	(412.26)	111092	49100	Acquisition costs
351	12/31/93	SE80.Exec.cap.time	1,400.00	0.00	(1,400.00)			Capitalized labor
		Totals	1,812.26	0.00	(1,812.26)			

**Exception No. 10**

**Subject: Capitalized Equipment Repairs**

**Statement of Fact:** The company capitalized \$55,902 in equipment repairs for the period ended December 31, 1996. The expenditures include pump repairs, lift station repairs, finance charges, and several motor rewinds.

Per Commission Rule 25-30.433, (8), "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period can be justified."

**Recommendation:** The utility incorrectly capitalized these expenditures. These items are repairs, but not recurring in nature. The appropriate treatment would be to amortize these costs over a five-year period. The finance charges recorded by the company are to be borne by the shareholders of the company. The ratepayers should not have to pay for the company's imprudent actions.

The audit staff recommends to the Commission that utility plant-in-service should be reduced by \$55,902 in order to comply with the above Commission rule. The accumulated depreciation is discussed in Audit Exception No. 14. For further analysis of the capitalized charges, see the attached schedule.

AUDIT EXCEPTION NUMBER 10-SCHEDULE

Acct. #	Date	Vendor	Amount Per Company	Amount Per Audit	Difference	Invoice #	Company Code	Description
354	02/15/94	Electrical & Mechanical Svcs.	1,736.19	0.00	(1,736.19)	8367	82771	Pump repair
354	06/07/94	Electrical & Mechanical Svcs.	2,451.89	0.00	(2,451.89)	8811	88288	Pump repair
354	06/07/94	Electrical & Mechanical Svcs.	967.88	0.00	(967.88)	9073	92294	Pump repair
354	09/07/95	Electrical & Mechanical Svcs.	707.20	0.00	(707.20)	2182	20159	Motor rewind
354	09/17/96	Electrical & Mechanical Svcs.	3,014.84	0.00	(3,014.84)	3923	45899	Capitalized repair
354	09/19/95	Electrical & Mechanical Svcs.	2,001.12	0.00	(2,001.12)	2240	20710	Motor rewind
354	07/31/92	Ellis K. Phelps & Co.	1,508.21	0.00	(1,508.21)	006407	40650	Lift Station Repair
354	08/01/92	Electrical & mechanical Svcs.	643.97	0.00	(643.97)	V8512	41887	Lift Station Repair
354	02/10/93	U. S. Pipeline Services	1,500.00	0.00	(1,500.00)	1548	56169	Sand removal for existing L. S. line
354	03/02/93	Electrical & Mechanical Svcs.	1,758.01	0.00	(1,758.01)	6003	57361	Pump repair for lift station
354	08/04/93	Electrical & Mechanical Svcs.	1,513.78	0.00	(1,513.78)	6632	68135	Motor rewind
361	12/31/96	U. S. Pipeline	1,000.00	0.00	(1,000.00)	1145	50443	Manhole rehab
363	02/14/94	U. S. Pipeline Services, Inc.	1,000.00	0.00	(1,000.00)	167	89692	Capitalized Repair
381	01/14/94	Electrical & Mechanical Svcs.	1,822.53	0.00	(1,822.53)	8133	80803	Repair of Flygt pump
381	02/29/96	Pat's Pumps	3,074.00	0.00	(3,074.00)	3979	31648	Rebuilt sutorbilt 8m Blower-cap. repair
381	03/06/96	Pat's Pumps	2,915.00	0.00	(2,915.00)	3987	32127	Rebuilt sutorbilt 8m Blower-cap. repair
381	03/23/94	Pat's Pumps	1,027.20	0.00	(1,027.20)	2151	84305	Blower motor repair
381	04/11/95	A. W. K. Industries	652.33	0.00	(652.33)	95364	10053	Capitalized repair
381	04/17/95	Electrical & Mechanical Svcs.	853.36	0.00	(853.36)	1941	16423	Rebuilt blower motor
381	04/17/95	Pat's Pump	3,169.40	0.00	(3,169.40)	03149	11155	Rebuilt blower motor
381	05/19/94	Electrical & Mechanical Svcs.	659.80	0.00	(659.80)	8719	87943	Pump repair
381	06/07/94	Electrical & Mechanical Svcs.	881.42	0.00	(881.42)	8820	88034	Pump repair
381	07/19/94	A. W. K. Industries, Inc.	1,811.28	0.00	(1,811.28)	094551	91131	Chlorine & SO2 controller repairs
381	07/29/96	Pat's Pumps	2,239.78	0.00	(2,239.78)	04323	41931	610 RAI Blower-cap. repair
381	08/03/95	Electrical & Mechanical Svcs.	1,528.50	0.00	(1,528.50)	2200	20114	Motor rewind
381	09/09/94	Electrical & Me*SEWA	941.09	0.00	(941.09)	9275	V8512	Motor rewind
381	09/21/94	Florida Detroit diesel	1,227.22	0.00	(1,227.22)	131490	2325	Generator engine repair
381	09/21/94	Florida Detroit diesel	18.41	0.00	(18.41)	131490		Finance charge
381	10/08/96	Electrical & Mechanical Svcs.	2,503.55	0.00	(2,503.55)	4052	46795	pump/motor rewind-cap. repair
381	10/12/95	Electrical & Mechanical Svcs.	1,034.15	0.00	(1,034.15)	2344	22328	Pump repair
381	10/23/95	Electrical & Mechanical Svcs.	1,009.05	0.00	(1,009.05)	2389	23618	Gorman Rupp pump repaired
381	10/31/94	Pat's Pump	1,134.20	0.00	(1,134.20)	02681	2155	Motor rewind
381	12/30/96	Pat's Pumps	4,897.20	0.00	(4,897.20)	4729	51463	Capitalized repair
381	07/27/92	Electrical & Mechanical Svcs.	1,160.57	0.00	(1,160.57)	V6512	41884	Motor rewind
381	11/08/93	Electrical & Mechanical Svcs.	919.29	0.00	(919.29)	7045	76423	Motor rewind
394	01/24/96	Gas Tech	619.37	0.00	(619.37)	628163	32430	Capitalized repair
		Totals	55,901.59	0.00	(55,901.59)			

**Exception No. 11**

**Subject:       Unsupported Plant/Discounts Not Taken**

**Statement of Fact:**   The company charged \$8,601 to utility plant-in-service for the period ended December 31, 1996. In the above amount, \$3,138 are for discounts not taken, first class airfare, and insufficient supporting documentation for entries made on the company's books.

**Recommendation:**   The utility was unable to provide appropriate documentation for the entries it made on its books. The company also did not avail itself of the discount opportunities presented to it. The ratepayers should not have to pay for the company's decision not to take advantage of the discounts offered. The shareholders of the company should bear that cost as well as the cost for first class airfare.

The audit staff recommends to the Commission that utility plant-in-service be reduced by \$3,138 to remove the entries made on its books. The accumulated depreciation is discussed in Audit Exception No. 14. For further analysis of the capitalized charges, see the attached schedule.

AUDIT EXCEPTION NUMBER 11-SCHEDULE

Acct. #	Date	Vendor	Amount Per Company	Amount Per Audit	Difference	Invoice #	Company Code	Description
354	08/11/95	Utility Supply of America	309.91	303.87	(6.04)	542662	18413	No discount taken
354	08/16/95	Utility Supply of America	180.41	176.94	(3.47)	55111	18951	No discount taken
354	08/17/95	Utility Supply of America	107.48	105.45	(2.03)	55271	18951	No discount taken
354	08/22/95	Utility Supply of America	73.25	71.90	(1.35)	55778	18951	No discount taken
381	01/31/93	77038 R52849	1,000.00		(1,000.00)			No support found
381	03/27/95	Utility Supply of America	442.92	434.28	(8.64)	42326	8311	No discount taken
381	12/31/93	American Express	1,947.00	1,544.00	(403.00)		52857	Insufficient support
381	12/31/93	Utility Supply of America	448.47	439.83	(8.64)		53303	No discount taken
381	07/10/92	Steve Kennedy	223.44		(223.44)	V3011	40175	Insufficient support
381	08/30/92	American Express	817.00		(817.00)	V3456	44337	First class airline ticket
381	02/18/93	Utility Supply of America	300.17	294.48	(5.69)	004517	55531	No discount taken
389	11/01/92	Utility Supply of America	186.68	183.12	(3.56)	001672	47321	No discount taken
390		Home Depot	318.90		(318.90)			Insufficient support
390	05/26/94	Home Depot	388.27	386.56	(1.71)	52694	89798	No discount taken
393		Home Depot	95.79		(95.79)		16058	Insufficient support
393	01/25/95	A-1 Fire Safety	194.21		(194.21)		3848	No support found
393	03/05/95	Utility Supply of America	79.94	78.44	(1.50)	4591	57105	No discount taken
393	06/28/95	Utility Supply of America	180.86	177.24	(3.62)	050733	15065	No discount taken
393	09/28/94	Dunedin Lawn Equipment	310.25	289.95	(20.30)		7667	Insufficient support
393	12/04/95	Utility Supply of America	238.40	233.79	(4.61)	065961	25996	No discount taken
394	02/17/93	Utility Supply of America	757.26	742.30	(14.96)	4419	55533	No discount taken
			8,600.61	5,462.15	(3,138.46)			

**Exception No. 12**

**Subject: Construction Work-In-Progress**

**Statement of Fact:** The company recorded \$296,659 in construction work-in-progress for the period ended December 31, 1996. Charges for 1997 are included in the above amount. The company also did not use an average balance when calculating the capitalized interest. The company included \$18,046 for a non-recurring repair and \$4,500 for a charge booked twice in 1997 amounts.

Per Commission Rule 25-30.116, 3(b), "The monthly AFUDC rate, carried out to six decimal places, shall be applied to the average monthly balance of eligible CWIP that is not included in rate base."

**Recommendations:** The audit staff recalculated construction work-in-progress at December 31, 1996 and 1997, to be \$137,985 and \$228,406, respectively. The amount was calculated in accordance with the above Commission rule and Commission Order PSC-93-1713-FOF-SU.

The audit staff recommends to the Commission that construction work-in-progress be reduced by \$158,674 (\$296,659-\$137,985) to remove the out-of-period charges. The audit staff further recommends to the Commission that the company be required to comply with the above Commission rule.

**Alternative Recommendation:** If the 1997 pro forma charges are allowed in construction work-in-progress, then the audit staff recommends to the Commission a reduction of \$68,253 (\$296,659-\$228,406) to remove the repairs and recording error.

**Exception No. 13**

**Subject: Unrecorded Retirements**

**Statement of Fact:** The company failed to record several retirements totaling \$4,242 for the period ended December 31, 1996.

<u>Acct. #</u>	<u>Description</u>	<u>Amount</u>	<u>Year</u>
360	Collection Sewers-Force	\$1,803	1994
381	Plant Sewers	\$ 300	1994
393	Tools, Shop, Garage	\$ 400	1994
354	Structures & Improv.	\$1,364	1995
381	Plant Sewers	\$ 375	1996
	Total	\$4,242	

**Recommendation:** The audit staff discovered that the company did not record the retirements. The audit staff recommends to the Commission that utility plant-in-service be reduced by \$4,242 to remove the retired plant. The accumulated depreciation is discussed in Audit Exception No. 14.

**Exception No. 14**

**Subject: Accumulated Depreciation**

**Statement of Fact:** The company recorded \$1,051,134 in accumulated depreciation for the period ended December 31, 1996. The amount the company records indicates that depreciation expense for 1996 is \$127,053.

**Recommendation:** The audit staff recalculated accumulated depreciation and depreciation expense due to Audit Exceptions Nos. 8 through 12. The recalculated amount is \$1,020,935 and \$109,450, respectively.

The audit staff recommends to the Commission that the company be required to reduce accumulated depreciation by \$29,199 (\$1,051,134-\$1,021,935) and depreciation expense by \$17,603 (\$127,053-\$109,450) to correctly state the account balances.

**EXHIBIT I**

Schedule of Sewer Plant in Service, by Primary Account

Florida Public Service Commission

Company: Mid-County Services, Inc.  
 Docket No. : 971065-SU  
 Schedule Year Ended: 12/31/96  
 Interim [ ] Final [X]  
 Historical [X]

Schedule: A-2  
 Page 1 of 1  
 Preparer: FPG

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. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Average Balance Per Books YE 12/31/96	(3) Utility Adjustments	(4) Adjusted Average Balance YE 12/31/96	(5) Supporting Schedule(s)
1	Utility Plant in Service	3,880,925	(131,742)	3,749,183	A-6
2	Utility Land & Land Rights	18,403	0	18,403	A-6
3	Less: Non-Used & Useful Plant	0	0	0	A-7
4	Construction Work in Progress	0	148,330	148,330	A-6
5	Less: Accumulated Depreciation	(1,004,622)	10,754	(993,868)	A-10
6	Less: CIAC	(2,174,889)	0	(2,174,889)	A-12
7	Accumulated Amortization of CIAC	777,284	2,696	779,980	A-14
8	Water Service Corporation	0	58,787	58,787	A-6
9	Working Capital Allowance	103,144	(2,048)	101,096	A-17
10	Total Rate Base	<u>1,600,246</u>	<u>86,777</u>	<u>1,687,022</u>	

Schedule of Sewer Net Operating Income

Company: Mid-County Services, Inc.  
 Docket No. : 971065-SU  
 Schedule Year Ended: 12/31/96  
 Interim [ ] Final [X]  
 Historical [X]

Schedule: B-2  
 Page 1 of 1  
 Preparer: FPG

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) Utility Test Year	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	Supporting Schedule(s)
1	OPERATING REVENUES	883,000	30,593	913,593	312,306	1,225,899	B-3 & B-4
2	Operation & Maintenance	825,155	(16,385)	808,770	0	808,770	B-6
3	Depreciation	122,236	4,817	127,053	0	127,053	B-3 & B-14
4	CIAC Amortization	(59,110)	(1,581)	(60,691)	0	(60,691)	B-3
5	Taxes Other Than Income	92,989	1,934	94,923	14,054	108,977	B-3 & B-15
6	Provision for Income Taxes	(64,608)	44,282	(20,326)	104,020	83,694	B-3 & C-1
9	OPERATING EXPENSES	916,662	33,067	949,729	118,074	1,067,803	
10	NET OPERATING INCOME	(33,662)	(2,474)	(36,136)	194,232	158,096	
11	RATE BASE	1,600,246		1,687,022		1,687,022	
12	RATE OF RETURN	(2.10%)		(2.14%)		9.37%	

Schedule of Requested Cost of Capital  
Beginning and End of Year Average

Florida Public Service Commission

**EXHIBIT III**

Schedule: Utilities, Inc. (Parent Company)  
Company: Mid-County Services, Inc.  
Docket No. : 971065-SU  
Test Year Ended: 12/31/96  
Schedule Year Ended: 12/31/96  
Historical [X]

Schedule: D-1  
Page 1 of 2  
Preparer: FPG

Subsidiary [X] or Consolidated [ ]

Simple average capital structure.

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base AYE 12/31/96	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	845,741	50.13%	9.18%	4.60%
2	Short-Term Debt	26,038	1.54%	9.74%	0.15%
3	Preferred Stock	0	0.00%	0.00%	0.00%
4	Customer Deposits	0	0.00%	0.00%	0.00%
5	Common Equity	761,342	45.13%	10.22%	4.61%
6	Tax Credits - Zero Cost	0	0.00%	0.00%	0.00%
7	Tax Credits - Wtd. Cost	0	0.00%	0.00%	0.00%
8	Accum. Deferred Income Taxes	53,901	3.20%	0.00%	0.00%
9	Other (Explain)	0	0.00%	0.00%	0.00%
10	Total	1,687,022	100%		9.37%

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

Note: Leverage Formula:  $8.38 + 0.832/ER$