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DATE: April 23, 2004

TO: Jay Revell, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance

RE: **Docket No.** 030446-SU ; **Company Name:** Mid-County Services, Inc. ;
Audit Purpose: File and Suspend Petition for Rate Relief;
Audit Control No. 04-036-3-4

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

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

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FLORIDA PUBLIC SERVICE COMMISSION

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

Orlando District Office

MID-COUNTY SERVICES, INC.

FILE AND SUSPEND PETITION FOR RATE RELIEF

PINELLAS COUNTY

HISTORICAL PERIOD ENDED DECEMBER 31, 2002

**DOCKET NO. 030446 - SU
AUDIT CONTROL NO. 04-036-3-4**



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

APRIL 16, 2004

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, 2002, for Mid-County Services Inc.'s wastewater operations located in Pinellas County, Florida. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 030446-SU.

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 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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's utility-plant-in-service (UPIS) and accumulated depreciation are overstated by \$157,578 and \$29,297, respectively, and its accumulated amortization of contributions-in-aid-of-construction (CIAC) is understated by \$2,697 as of December 31, 2002.

The utility's UPIS, accumulated depreciation and test year depreciation expenses are overstated by \$31,114, \$9,032 and \$1,993, respectively, for the 12-month period ended December 31, 2002.

The utility's UPIS is understated by \$26,602 as of December 31, 2002.

The utility's land balance is overstated by \$2,603 as of December 31, 2002.

The utility's accumulated depreciation and test year depreciation expenses are understated by \$454,883 and \$87,608, respectively, for the 12-month period ended December 31, 2002.

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.

Scanned - The documents or accounts were read quickly looking for obvious errors.

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

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verified - The item was tested for accuracy and compared to substantiating documentation.

RATE BASE: Reviewed and verified account balances for UPIS, land, contributions-in-aid-of-construction, accumulated depreciation (AD), accumulated amortization of CIAC (AAC), and working capital (WC) for Mid-County Services, Inc. as of December 31, 2002. Reconciled rate base balances authorized in Commission Orders Nos. PSC-98-0524-FOF-SU, issued April 16, 1998, and PSC-99-1912-FOF-SU, issued September 27, 1999, to the utility's general ledger.

NET OPERATING INCOME: Reviewed utility revenues and operating and maintenance accounts for the year ended December 31, 2002. Verified a judgmental sample of operating and maintenance (O&M) expenses. Reviewed the allocation of O&M expenses from Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) cost centers to Mid-County Services, Inc. and verified the accuracy of company allocations based on company-provided allocation schedules. Tested the calculation of depreciation and CIAC amortization expense. Compiled support for taxes other than income and income taxes.

CAPITAL STRUCTURE: Reviewed the components of the capital structure for the year-ended December 31, 2002. Agreed interest expense to the terms of the notes. Verified note balances at December 31, 2002.

OTHER: Scanned the utility's December 31, 2002, Regulatory Assessment Fee Return.

Exception No. 1

Subject: Adjustment to Prior Orders

Statement of Facts: Commission Orders Nos. PSC-98-0524-FOF-SU, issued April 16, 1998, and PSC-99-1912-FOF-SU, issued September 27, 1999, established the following rate base balances for Mid-County Services, Inc. as of December 31, 1996.

	<u>Per Utility(1)</u>	<u>Adjustment</u>	<u>Per Commission</u>
Utility-Plant-in-Service (UPIS)	\$3,918,254	(\$157,578)	\$3,760,676
Land	18,403	0	18,403
Accumulated Depreciation	(1,061,886)	19,930	(1,041,956)
Contributions-in-Aid-of Construction (CIAC)	(2,239,503)	0	(2,239,503)
Accumulated Amortization of CIAC	<u>806,839</u>	<u>2,697</u>	<u>809,536</u>
	\$1,442,107	(\$134,951)	\$1,307,156

- 1) The above utility balances reflect its MFR balance in Docket No. 971065-SU before its adjustment to Orders Nos. PSC-93-1713-FOF-SU, issued November 30, 1993, and PSC-94-1042-FOF-SU, issued August 24, 1994, in its MFR filing for that rate proceeding.

Recommendation: The utility's UPIS and accumulated depreciation are overstated by \$157,578 and \$29,297, respectively, and its accumulated amortization of CIAC is understated by \$2,697 as of December 31, 2002, based on the following audit staff determinations.

- 1) The utility never recorded the rate base adjustments reflected above that were required in the four cited Commission Orders.
- 2) The utility's accumulated depreciation and depreciation expense are each overstated by \$9,367 for the 12-month period ended December 31, 2002, based on depreciation accruals charged on the above UPIS balance that should have been reduced as ordered.

See Schedules A, B(1) and B(2) that follow for the audit staff's calculations.

Schedule A for Exception No. 1

Adjustment to Utility-Plant-in-Service - \$157,578 (\$131,742 + \$25,836)

Acct. No.	Acct. Description	Per Utility MFRs	Utility Adjustment(1)	Adjusted MFRs	Commission Adjustment(2)	Per Commission
351.10	Organization	\$4,214	(\$51)	\$4,163	(\$1,812)	\$2,351
353.20	Land & Land Rights	18,403	0	18,403	0	18,403
354.20	Structure & Improvements	64,037	(2,868)	61,169	(6,414)	54,755
360.20	Collection Sewers - Forced	1,267,863	(15,360)	1,252,503	(1,803)	1,250,700
361.20	Collection Sewers - Gravity	33,239	(396)	32,843	0	32,843
363.20	Services to Customers	54,614	(635)	53,979	0	53,979
380.40	Treatment & Disposal Equip.	2,344,129	(99,977)	2,244,152	(14,748)	2,229,404
389.20	Other Plant & Misc. Equip.	8,651	(101)	8,550	(720)	7,830
389.40	Other Plant & Misc. Equip.	31,447	(381)	31,066	(4)	31,062
390.50	Office Furniture & Equip.	707	(9)	698	(321)	377
391.50	Transportation Equipment	86,318	(11,715)	74,603	0	74,603
394.50	Laboratory Equipment	4,499	(55)	4,444	(15)	4,429
396.50	Communication Equip.	553	(3)	550	0	550
397.50	Allocated Computer	17,983	(191)	17,792	0	17,792
	Total UPIS and Land	\$3,936,657	(\$131,742)	\$3,804,915	(\$25,836)	\$3,779,079
	Less Land	(18,403)	0	(18,403)	0	(18,403)
	Total UPIS	\$3,918,254	(\$131,742)	\$3,786,512	(\$25,836)	\$3,760,676

1) Adjustments from Orders Nos. PSC-93-1713-FOF-SU and PSC-94-1042-FOF-SU

2) Adjustments from Orders Nos. PSC-98-0524-FOF-SU and PSC-99-1912-FOF-SU

Schedule B(1) for Exception No. 1

Adjustment to Accumulated Depreciation - \$29,297 (\$15,570 + \$4,360 + \$9,367)

Acct. No.	Acct. Description	Per Utility MFRs	Utility Adjustment(1)	Adjusted MFRs	Commission Adjustment(2)	Per Commission
351.10	Organization	\$1,111	(\$1)	\$1,110	(\$9)	\$1,101
354.20	Structure & Improvements	12,242	(181)	12,061	(1,388)	10,673
360.20	Collection Sewers - Forced	327,417	(445)	326,972	(1,803)	325,169
361.20	Collection Sewers - Gravity	5,781	(11)	5,770	0	5,770
363.20	Services to Customers	11,450	(18)	11,432	0	11,432
380.40	Treatment & Disposal Equip.	616,443	(6,783)	609,660	(79)	609,581
389.20	Other Plant & Misc. Equip.	2,694	(3)	2,691	(3)	2,688
389.40	Other Plant & Misc. Equip.	8,521	(11)	8,510	(400)	8,110
390.50	Office Furniture & Equip.	245	0	245	(678)	(433)
391.50	Transportation Equipment	62,483	(8,109)	54,374	0	54,374
394.50	Laboratory Equipment	1,562	(2)	1,560	0	1,560
396.50	Communication Equip.	55	0	55	0	55
397.50	Allocated Computer	12,543	(6)	12,537	0	12,537
398.50	Other Tangible Plant	(661)	0	(661)	0	(661)
	Total Acc. Dep.	\$1,061,886	(\$15,570)	\$1,046,316	(\$4,360)	\$1,041,956

1) Adjustments from Orders Nos. PSC-93-1713-FOF-SU and PSC-94-1042-FOF-SU

2) Adjustments from Orders Nos. PSC-98-0524-FOF-SU and PSC-99-1912-FOF-SU

Schedule B(2) for Exception No. 1

Adjustment to Test Year Accumulated Depreciation and Depreciation Expense

Acct. No.	Acct. Description	UPIS Adjustment	Rule Dep. Rates	Acc. Dep. Adjustment	Dep. Exp. Adjustment
351.10	Organization	(\$1,863)	2.50%	\$47	(\$47)
354.20	Structure & Improvements	(9,282)	3.13%	290	(290)
360.20	Collection Sewers - Forced	(17,163)	3.33%	572	(572)
361.20	Collection Sewers - Gravity	(396)	2.22%	9	(9)
363.20	Services to Customers	(635)	2.63%	17	(17)
380.40	Treatment & Disposal Equip.	(114,725)	5.56%	6,374	(6,374)
389.20	Other Plant & Misc. Equip.	(821)	5.56%	46	(46)
389.40	Other Plant & Misc. Equip.	(385)	5.56%	21	(21)
390.50	Office Furniture & Equip.	(330)	6.67%	22	(22)
391.50	Transportation Equipment	(11,715)	16.67%	1,953	(1,953)
394.50	Laboratory Equipment	(70)	6.67%	5	(5)
396.50	Communication Equip.	(3)	10.00%	0	0
397.50	Allocated Computer	(191)	6.67%	13	(13)
Total additional acc. dep. adjustment		(\$157,578)		\$9,367	(\$9,367)

Exception No. 2

Subject: Miscellaneous UPIS Adjustments

Statement of Facts: The utility's filing reflects the following balances for the indicated accounts as of December 31, 2002.

<u>Acct. No.</u>	<u>Description</u>	<u>UPIS</u>
351	Organization Costs	\$5,913
354	Structures and Improvements	\$40,783
360	Collection Sewers - Forced	\$278,822
380	Treatment & Disposal Equipment	\$2,946,167
398	Other Tangible Plant	\$58,087

NARUC Accounting Instruction 2.A. states that each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account.

NARUC, Class A, Accounting Instruction 27.B.(2) requires that, when a retirement unit is retired from utility plant with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included. The book cost shall be determined from the utility's records and if this cannot be done, it shall be estimated.

The utility's retirement policy is to reduce UPIS and accumulated depreciation by 75 percent of the invoice cost when the original cost of the asset being retired cannot be determined.

Recommendation: The utility's UPIS, accumulated depreciation, and test year depreciation expenses are overstated by \$31,114, \$9,032 and \$1,993, respectively, for the 12-month period ended December 31, 2002, based on the following audit staff determinations.

- 1) The \$5,913 balance in Account No. 351 above includes \$1,700 of capitalized executive time for the Florida Regional Director's efforts to secure a renewed Florida Department of Environmental Protection (FDEP) operating permit. The audit staff believes that such permit renewals are a recurring expense that should be recorded in Account No. 701 - Salaries and Wages Employees in the year of occurrence.
- 2) The \$40,783 balance in Account No. 354 above includes an invoice for \$6,400 to replace a fence at the WWTP that should have included a retirement amount of 75 percent per the NARUC rule cited above.
- 3) The \$278,822 balance in Account No. 360 above includes \$2,585 of invoices for recurring maintenance expenses that should have been recorded in Account No 736 - Contractual Services-Other in the year of occurrence.

Exception No. 2, continued

- 4) The \$2,946,167 balance in Account No. 380 above includes \$3,454 of capitalized executive time that should have been recorded in Account No. 701, an invoice for \$4,208 that should have been recorded to another subsidiary system, and an invoice for \$1,101 that should have been recorded in Account No. 736. The account also includes a \$2,239 invoice for a chlorine gas scale that should be retired because the utility no longer uses chlorine gas for wastewater treatment purposes.
- 5) The \$58,087 balance in Account No. 398 above includes \$11,027 of invoices that should have been recorded in Account No 733 - Contractual Services-Legal or removed for lack of supporting documentation.

See Schedule C that follows for the audit staff's determinations and calculations.

Additionally, the utility's O&M expenses for the 12-month period ended December 31, 2002, should be increased by \$3,203, which is the sum of the audit staff's adjustments above that are reclassifications from UPIS in 2002. (Line 8 + 22 = \$3,203 displayed on Schedule C that follows)

Schedule C for Exception No. 2

Line	Year	MFR Acct.	Utility Acct.	Utility Invoice Reference No.	Invoice Description	Audit Staff Determination	Amount	Rule Dep. Rate	Adjust. to Acc. Dep.
1	2000	351	3511001	SE71 Oper Time	4 hours capitalized time for DEP operating permit	S/B O&M Expense	\$618.00		
2	2000	351	3511001	SE71 Oper Time	6 hours capitalized time for DEP operating permit	S/B O&M Expense	309.00		
3	2000	351	3511001	SE71 Oper Time	8 hours capitalized time for DEP operating permit	S/B O&M Expense	463.50		
4	2000	351	3511001	SE71 Oper Time	4 hours capitalized time for DEP operating permit	S/B O&M Expense	<u>309.00</u>		
5							\$1,699.50	2.50%	\$42.49
6									
7	1998	360	3602006	091412	Clean and locate sewer laterals	S/B O&M Expense	1,225.00		
8	2002	360	3602007	091220	Locate and mark 4" sewer line for DOT	S/B O&M Expense	<u>1,360.00</u>		
9							\$2,585.00	3.33%	86.17
10									
11	1997	380	3804005	SE80 Ex. Time	22 hours capitalized time for Montague WTP	Remove	3,454.00		
12	2000	380	3804005	054408	Unknown	No support	4,208.38		
13	2001	380	3804005	066874	Maintenance repairs at WWTP	S/B O&M Expense	<u>1,101.19</u>		
14							\$8,763.57	5.56%	486.87
15									
16	2001	398	1041000	077774	Legal fees for condemnation and easement research	S/B O&M Expense	6.00		
17	2001	398	1041000	078659	Legal fees for condemnation and easement research	S/B O&M Expense	8.00		
18	2001	398	1041000	074066	Legal fees for condemnation and easement research	S/B O&M Expense	350.00		
19	2002	398	1041000	090148	Unknown	No support	2,881.55		
20	2002	398	1041000	091697	Unknown	No support	393.75		
21	2002	398	1041000	094106	Unknown	No support	1,111.25		
22	2002	398	1041000	096811	Legal fees for condemnation and easement research	S/B O&M Expense	1,842.60		
23	2002	398	1041000	000788	Unknown	No support	1,550.00		
24	2002	398	1041000	001436	Unknown	No support	<u>2,883.60</u>		
25							\$11,026.75	10.00%	1,102.68
26									
27	1998	380	3804005	091305	Two chlorine scales	Retire 100 percent	2,239.24		
28						Retirement amount	<u>\$2,239.24</u>	5.56%	124.40
29									
30	2001	354	3907090	077805	Replace fence at WWTP	Retire 75 percent	6,400.00		
31						Retirement amount	<u>\$4,800.00</u>	3.13%	150.00
32									
33							<u>\$31,114.06</u>		<u>\$1,992.60</u>
34									
35									<u>7,039.24</u>
36									
37									<u>\$9,031.84</u>

Exception No. 3

Subject: Allocated Common UPIS

Statement of Facts: The utility's general ledger reflects balances of \$47,060 and \$11,504 for the allocated UPIS and accumulated depreciation, respectively, from Utilities, Inc. of Florida (UIF) as of December 31, 2002.

The utility's general ledger does not include any allocations from Water Service Corporation (WSC), its parent operations in Northbrook, IL. The WSC common plant allocation schedule indicates that Mid County Services, Inc. should have received \$26,602 in net common plant allocations as of December 31, 2002, for this rate proceeding.

Recommendation: The utility's UPIS in its filing is understated by \$26,602 as of December 31, 2002, because it did not include the above-mentioned net allocated common plant from WSC.

Exception No. 4

Subject: Land

Statement of Facts: The utility's filing reflects a balance of \$21,006 for land as of December 31, 2002.

Recommendation: The utility's land balance above is overstated by \$2,603 because it included two invoices, one for \$1,628 of legal expenses that should have been recorded in Account No. 733 in the year incurred and one for \$975 that the utility could not provide any supporting documentation. (\$1,628 + \$975)

<u>Utility Acct. No.</u>	<u>Year</u>	<u>Utility Invoice Reference No.</u>	<u>Invoice Description</u>	<u>Audit Staff Determination</u>	<u>Amount</u>
3537002	2001	066601	Unknown	No support	\$975.00
3537002	2001	068671	Legal fees for easement research	S/B O&M expense	<u>1,628.25</u>
			Land adjustment		\$2,603.25

Exception No. 5

Subject: Depreciation Rates

Statement of Facts: Rule 25-30.140, Florida Administrative Code, prescribes specific depreciation rates for each NARUC subaccount balance. Specifically, the rule establishes the following rates for the indicated accounts.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Service Life</u>	<u>Depreciation Rate</u>
354	Structures and Improvements	32 years	3.13%
371	Pumping Equipment	18 years	5.56%
380	Treatment & Disposal Plant	18 years	5.56%

Recommendation: The utility's accumulated depreciation and test year depreciation expense are understated by \$454,883 and \$87,608, respectively, for the 12-month period ended December 31, 2002, based on the following audit staff determinations.

- 1) The utility depreciated Account No. 354 using an average rate of less than 2.00 percent based on a recalculation of the utility's balances for average UPIS and depreciation expense for the period 1997 through 2002. The audit staff recalculated the utility's accumulated depreciation using the same average UPIS balances and the corresponding rule depreciation rate stated above for the periods 1997 through 2002.
- 2) The utility depreciated Account No. 371 using an average rate of less than 2.00 percent based on a recalculation of the utility's balances for average UPIS and depreciation expense for the period 1997 through 2002. The audit staff recalculated the utility's accumulated depreciation using the same average UPIS balances and the corresponding rule depreciation rate stated above for the periods 1997 through 2002.
- 3) The utility depreciated Account No. 380 using an approximate rate of 2.86 percent based on a recalculation of the utility's balances for average UPIS and depreciation expense for the period 1997 through 2002. The audit staff recalculated the utility's accumulated depreciation using the same average UPIS balances and the corresponding rule depreciation rate stated above for the periods 1997 through 2002.
- 4) The utility's depreciation expense should be increased by \$87,608 for the 12-month period ended December 31, 2002, based on the above-mentioned audit staff adjustments.

See Schedule D that follows for the audit staff's calculations.

Schedule D for Exception No. 5

Year	Acct. No. 354 Average UPIS	Rule Depreciation Rate	Depreciation Accrual per Audit(1)	Depreciation Rate per Utility(2)	Depreciation Accrual per Utility	Audit Staff Adjustment(3)
1997	\$21,397	3.13%	\$669	1.39%	\$298	\$371
1998	33,794	3.13%	1,056	1.06%	359	697
1999	34,005	3.13%	1,063	1.07%	364	699
2000	34,156	3.13%	1,067	1.09%	372	695
2001	37,482	3.13%	1,171	1.00%	374	797
2002	40,783	3.13%	1,274	0.92%	374	<u>900</u>
						\$4,159

Year	Acct. No. 371 Average UPIS	Rule Depreciation Rate	Depreciation Accrual per Audit(1)	Depreciation Rate per Utility(2)	Depreciation Accrual per Utility	Audit Staff Adjustment(3)
1997	\$60,646	5.56%	\$3,369	1.48%	\$899	\$2,470
1998	68,416	5.56%	3,801	1.31%	899	2,902
1999	84,682	5.56%	4,705	1.06%	899	3,806
2000	111,679	5.56%	6,204	0.81%	899	5,305
2001	137,995	5.56%	7,666	0.85%	1,177	6,489
2002	158,324	5.56%	8,796	0.74%	1,177	<u>7,619</u>
						\$28,590

Year	Acct. No. 380 Average UPIS	Rule Depreciation Rate	Depreciation Accrual per Audit(1)	Depreciation Rate per Utility(2)	Depreciation Accrual per Utility	Audit Staff Adjustment(3)
1997	\$2,358,474	5.56%	\$131,026	2.86%	\$67,350	\$63,676
1998	2,383,020	5.56%	132,390	2.85%	68,024	64,366
1999	2,436,442	5.56%	135,358	2.81%	68,428	66,930
2000	2,532,972	5.56%	140,721	2.80%	70,873	69,848
2001	2,744,262	5.56%	152,459	2.71%	74,234	78,225
2002	2,924,204	5.56%	162,456	2.85%	83,367	<u>79,089</u>
						\$422,134

- 1) The audit staff's calculations above use the average of the beginning and ending UPIS balances times the corresponding Commission rule depreciation rate.
- 2) Recalculated by the audit staff as the ratio of utility depreciation expense to average UPIS to determine the approximate rate used by the utility to calculate its depreciation accruals. A small percentage of the difference can be attributed to the utility's method of calculating depreciation accruals on a monthly basis.
- 3) The accumulated depreciation adjustment is \$454,883 (\$4,159+\$28,591+\$422,134), and the depreciation expense adjustment is \$87,608 (\$900+\$7,619+\$79,089) for the 12-month period ended December 31, 2002.

Disclosure No. 1

Subject: Pro Forma Additions to UPIS

Statement of Facts: The utility's filing reflects the following requested pro forma additions to UPIS, accumulated depreciation, and depreciation expense for this rate proceeding.

<u>Item</u>	<u>Pro Forma Addition</u>	<u>UPIS</u>	<u>Acc./Dep.</u>	<u>Dep./Exp.</u>
A	Repair/Realign sections of 8" mains	\$104,769	(\$2,328)	\$2,328
B	Brookfield CIPP main repair	300,000	(6,667)	6,667
C	Silk Oak lift station improvements	10,368	(314)	314
D	Curlew Road utility relocation of 8" forced mains	78,555	(2,619)	2,619
E	Colonial Ct. main	13,300	(296)	296
F	Splitter box	10,000	(556)	556
G	Wilshire S/D emergency repairs	22,000	(489)	489
H	Replace 5 lift station electrical boxes and components	<u>32,495</u>	<u>(2,166)</u>	<u>2,166</u>
		\$571,487	(\$15,435)	\$15,435

The utility also has requested that following construction project and UPIS plant addition be included as pro forma UPIS for this rate proceeding.

<u>Item</u>	<u>Project No.</u>	<u>Description</u>	<u>UPIS</u>
I	G/L Acct. No. 380	Replace pipes for surge tank pumps	\$6,291
J	0645-116-03-04	Brookfield sewer repairs	<u>28,955</u>
			\$35,246

Recommendation: The utility's pro forma UPIS, accumulated depreciation, depreciation expense and property taxes are overstated by \$415,630, \$97,182, and \$10,921, respectively, based on the following audit staff determinations.

- 1) The audit staff requested supporting documentation for the above pro forma additions. Specifically, we asked for invoices, contractor estimates, third-party bids, and utility designs.
- 2) Item A listed above actually cost \$105,670 based on supporting documentation and was recorded in Account No. 3612008 as of December 31, 2003. Additionally, the utility did not include a pro forma retirement of \$59,175 for this project that it actually recorded in Account No. 3612008.

Disclosure No. 1, continued

- 3) Item B listed above is estimated to cost \$47,399 based on a bid received from an outside contractor.
- 4) Item C listed above has incurred only \$732 of capitalized operator's time which it recorded in C/P Project Account No. 0645-116-03-02 as of December 31, 2003. The utility did not provide any of the support for this project that was requested in Item No. 1 above. All of the UPIS, accumulated depreciation, and depreciation expense balances for these projects should be removed.
- 5) Item D listed above has incurred \$12,916 of cost as of January 31, 2004, in C/P Project Accounts Nos. 0645-116-03-01 and 0645-116-03-03, respectively. Both projects are currently open and ongoing. The utility did not provide any of the support for this project that was requested in Item No. 1 above.
- 6) Item E listed above has incurred \$15,626 of cost as of June 30, 2003, in Account No. 3612008.
- 7) Item F listed above is estimated to cost \$18,080 based on a bid from an outside contractor.
- 8) Item G listed above actually cost \$27,955 based on supporting documentation and was recorded in Account No. 3612008 as of December 31, 2002, and should not be included as a pro forma UPIS addition.
- 9) Item H listed above actually cost \$32,883 based on supporting documentation and was recorded in Account No. 3542011 as of December 31, 2003. Additionally, the utility did not include a pro forma retirement of \$24,662 for this project that it recorded in Account No. 3542011.
- 10) Item I listed above cost \$6,291 and was recorded in Account No. 3804005 as of December 31, 2003. The utility should have also recorded a retirement for this project.
- 11) Item J listed above has incurred \$6,241 of cost as of January 31, 2004, in C/P Project Account No. 0645-03-04 and is currently open and ongoing with an estimated final cost of \$28,955. The utility did not provide any of the support for this project that was requested in Item No. 1 above.

See Schedule E that follows for the audit staff's calculations.

Schedule E for Disclosure No. 1

Acct. No.	Pro Forma Additions	UPIS (1)	Rule Dep. Rate	Acc./Dep.(2)	Dep./Exp.(2)
A 361.2	Repair/Realign sections of 8" mains	\$105,670	2.22%	(\$2,348)	\$2,348
	Retirement	(59,175)	2.22%	59,175	(1,315)
B 361.2	Brookfield CIPP main repair	47,399	2.22%	(1,053)	1,053
C 354.2	Silk Oak lift station improvements	0	3.13%	0	0
D 360.2	Curlew Road utility relocation of 8" forced mains	12,916	3.33%	(431)	431
E 361.2	Colonial Ct. main	15,626	2.22%	(347)	347
F 380.4	Splitter box	18,078	5.56%	(1,004)	1,004
G 361.2	Wilshire S/D emergency repairs	\$0	2.22%	\$0	\$0
H 371.3	Replace 5 lift station electrical boxes and components	\$32,883	5.56%	(\$1,827)	\$1,827
	Retirement	(\$24,662)	5.56%	\$24,662	(\$1,370)
I 380.4	Replace pipes for surge tank pumps	\$6,291	5.56%	(\$350)	\$350
	Retirement	(\$5,410)	5.56%	\$5,410	(\$301)
J 361.2	Brookfield sewer repairs	<u>\$6,241</u>	2.22%	<u>(\$139)</u>	<u>\$139</u>
	Pro forma per audit staff	\$155,857		\$81,748	\$4,513
	Pro forma per utility	<u>571,487</u>		<u>(15,434)</u>	<u>15,434</u>
	Audit staff adjustment	(\$415,630)		\$97,182	(\$10,921)

- 1) The per audit UPIS balance displayed is the actual cost discussed above.
- 2) The accumulated depreciation and depreciation expense balances were calculated using the indicated Commission depreciation rule rates for each account.

Disclosure No. 2

Subject: Construction Projects - Retirements

Statement of Facts: NARUC, Class A, Accounting Instruction 27.B.(2) requires that, when a retirement unit is retired from utility plant with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included. The book cost shall be determined from the utility's records and if this cannot be done, it shall be estimated.

The utility's records reflect that the following construction projects were completed and recorded in its general ledger as indicated below.

<u>Project No.</u>	<u>Acct. No.</u>	<u>Year</u>	<u>Amount</u>	<u>Description of Work Performed</u>
645-116-95-11	3602007	1997	\$11,951	Relocate 300' of main on Curlew Rd.
645-116-96-12	3612088	1997	\$101,151	Relocate mains on Curlew Rd.
645-116-96-13	3612008	1997	\$87,987	Relocate mains of Belcher Rd.
645-116-97-22	3612010	1999	\$19,149	Repair manholes and laterals.
645-116-98-26	3602007	1999	\$19,352	Repair Cypress Dr and Evans Dr mains.
645-116-99-34	3612008	2000	\$97,515	Rehabilitate 8" mains and manholes.
645-116-99-36	3804005	2000	\$33,745	Rebuild south WWTP clarifier.
645-116-99-38	3804005	2000	\$18,072	Replace Spanish Oak lift station.
645-116-00-01	3804005	2000	\$13,960	Replace 40hp motor.
645-116-00-05	3612008	2000	\$21,933	Replace 24' of main and repair manhole.
645-116-00-09	3804005	2001	\$52,403	Replace north WWTP blowers.
645-116-01-02	3804005	2001	\$23,809	Replace lift station pumps.
645-116-01-03	3804005	2001	\$30,657	Repair/replace clarifier, baffels and floor rails.
645-116-01-04	3602006	2001	\$41,525	Repair/replace 18' of mains and services.
645-116-01-05	3804005	2001	\$127,973	Repair/replace mains at Doral Village MHP.
645-116-01-06	3542011	2001	\$9,195	Modify master lift station at WWTP.

The utility maintains the following policy concerning the retirement of capitalized assets.

- a) The retirement amount is the cost of the retired equipment if known.
- b) If the amount of the retired equipment is known and is less than \$250 and the year that it was placed in service is between 1990 and 1996, do not retire.
- c) If the amount of the retired equipment is known and is greater than \$100 and the year it was placed in service is prior to 1990, retire the known amount.

Disclosure No. 2, continued

- d) If the amount of the retired equipment is not given, but the year it was placed in service is known, use the *Handy Whitman Index* to determine its retirement. Multiply the percentage from the index times the total invoice cost to determine the amount of retirement.
- e) If neither the retirement amount is known nor the year it was placed in service is given, retire 75 percent of the invoice amount.

Recommendation: The utility's records indicate that the above-mentioned capital additions were added to its general ledger without a corresponding retirement amount. The utility's response to the audit staff inquiries about the above issue indicates that retirements should have been made but it offers no suggested retirement amounts. Each of the construction projects should have been evaluated by the utility at the time of completion to determine an appropriate retirement amount per the NARUC rule cited above.

The above construction projects contain multiple components of capital assets such as capitalized labor and AFUDC in addition to the vendor invoices. The audit staff believes that the utility's retirement policy as stated above may not be the appropriate method to determine the requisite retirement amounts for the capital projects listed above because it is predicated on the purchase of individual assets additions.

The audit staff defers this issue to the staff engineer in Tallahassee to determine the appropriate retirement amounts for each of the capital projects.

Disclosure No. 3

Subject: Rate Case Expense

Statement of Facts: The utility's filing reflects an estimated rate case expense of \$104,479 for this rate proceeding. MFR filing, Schedule B-10, Line 19 - Prior Unamortized Rate Case Expense has no balance reflected.

The utility's records reflect \$178,387 charged to Account 1863019-Deferred Rate Case Expense for the prior rate case. The unamortized balance as of December 31, 2002 is \$33,052.

The utility began amortizing the above rate case expense balance in 1999 and included \$44,592 in Account No. 766 - Regulatory Commission Expense for the 12-month period ended December 31, 2002.

Order No. PSC-99-1912-FOF-SU approved \$153,681 of rate case expenses for the utility's last rate proceeding in Docket No. 971065.

Recommendation: The \$44,592 of rate case expense included in the utility's O&M expenses and the unamortized rate case expense balance of \$33,052 discussed above should have been disclosed by the utility in its filing because the audit staff believes that it has a material effect on the utility's current rate proceeding.

Additionally, the 13-month average balance for Account No. 1863019 is \$55,348 as of December 31, 2002, and should be considered for inclusion in the utility's working capital calculation for this rate proceeding.

The audit staff defers these issues to the staff analyst in Tallahassee for final disposition.

Disclosure No. 4

Subject: Deferred Maintenance Expense

Statement of Facts: The utility's records reflect the following balances in its deferred maintenance accounts and the corresponding amortization charge to Account No. 720 - Material and Supplies for the 12-month period ended December 31, 2002.

<u>Asset Acct. No.</u>	<u>Description</u>	<u>Unamortized Asset Balance</u>	<u>Charges Included in 2002 O&M Expense</u>
1862048	Deferred Charges Other	\$2,146	\$2,004
1862053	Deferred Charges - Jet Sewer Mains	0	2,016
1862067	Deferred Charges - Sewer Tank Repairs	0	5,412
1862068	Deferred Charges - Sewer Tank Repairs	<u>7,771</u>	<u>7,800</u>
		\$9,917	\$17,232

Recommendation: The utility's charges for deferred maintenance expense will be fully amortized immediately following the 2002 test year for this rate proceeding.

Additionally, the following 13-month average balances for the above-mentioned asset accounts are included in the utility's working capital calculation for this rate proceeding.

<u>Asset Acct. No.</u>	<u>Description</u>	<u>Unamortized Asset Balance @12/31/2002</u>	<u>Unamortized 13-Month Average @12/31/2002</u>
1862048	Deferred Charges Other	\$2,146	\$3,148
1862053	Deferred Charges - Jet Sewer Mains	0	1,003
1862067	Deferred Charges - Sewer Tank Repairs	0	2,715
1862068	Deferred Charges - Sewer Tank Repairs	<u>7,771</u>	<u>11,671</u>
		\$9,917	\$18,538

The audit staff defers disposition of these issues to the staff analyst in Tallahassee.

Disclosure No. 5

Subject: Pro Forma Adjustments to Operation and Maintenance Expenses (O&M)

Statement of Facts: The utility’s filing reflects the following requested additions to O&M expenses for this rate proceeding.

<u>Pro Forma</u>	<u>Increase</u>	<u>Total</u>
Adjust employee salaries.	3.00%	\$5,899
Adjust health care cost.	25.86%	6,577
Adjust other insurance cost.	36.88%	<u>4,333</u>
		\$16,809

Recommendation: The audit staff requested supporting documentation for the above pro forma adjustments. Specifically, we compared 2002 historical costs with 2003 historical costs and asked for other supporting schedules and calculations to support the utility’s requested increases.

- 1) The 3.00 percent increase is supported in that the utility’s 2003 historical salaries increased 4.80 percent over the corresponding 2002 historical salaries reported in the utility’s filing.
- 2) The 25.86 percent increase to health care cost should be reduced to 9.83 percent which represents the actual increase in health care cost over the corresponding 2002 historical test year. See the audit staff calculations that follow for the recommended adjustment.
- 3) The 36.88 percent increase to other insurance cost should be increased to 42.93 percent which represents the actual increase in other insurance cost over the corresponding 2002 historical test year. See the audit staff calculations that follow for the recommended adjustment.

<u>Pro Forma Salaries</u>	<u>Increase</u>	<u>Total(a)</u>
Adjustment per utility	3.00%	\$5,899
Adjustment per audit	3.00%	<u>5,899</u>
Audit staff adjustment		\$0
(a) 2002 historical cost of \$196,630 x % increase		

<u>Pro Forma Health Care Cost</u>	<u>Increase</u>	<u>Total(b)</u>
Adjustment per utility	25.86%	\$6,577
Adjustment per audit	9.83%	<u>2,498</u>
Audit staff adjustment		(\$4,080)
(b) 2002 historical cost of \$25,407 x %		

<u>Pro Forma Other Insurance Cost</u>	<u>Increase</u>	<u>Total(c)</u>
Adjustment per utility	36.88%	\$4,333
Adjustment per audit	42.93%	<u>6,297</u>
Audit staff adjustment		\$1,964
(c) 2002 historical cost of \$14,669 x %		

EXHIBIT I

Schedule of Wastewater Rate Base

Company: Mid-County Services, Inc.
 Docket No.: 030448-SU
 Schedule Year Ended: December 31, 2002
 Interim [] Final [X]
 Historic [X] Projected []

Florida Public Service Commission

Schedule: A-2
 Page 1 of 1
 Preparer: Seidman, F.

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.

(1) Line No.	(2) Description	(2) Average Amount Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	\$ 5,205,483	\$ 571,487 (A)	\$ 5,776,970	A-6, A-3
2	Utility Land & Land Rights	21,006		21,006	A-6
3	Less: Non-Used & Useful Plant		(81,039) (B)	(81,039)	A-7, A-3
4	Construction Work In Progress	27,269	(27,269) (C)		
5	Less: Accumulated Depreciation	(1,469,255)	(15,434) (D)	(1,484,689)	A-10, A-3
6	Less: CIAC	(2,818,225)		(2,818,225)	A-12
7	Accumulated Amortization of CIAC	1,179,210		1,179,210	A-14
8	Acquisition Adjustments				
9	Accum. Amort. of Acq. Adjustments				
10	Advances For Construction				
11	Working Capital Allowance		87,076 (E)	87,076	A-16
12	Total Rate Base	\$ 2,145,489	\$ 554,821	\$ 2,700,309	A-17, A-3

EXHIBIT II

Schedule of Wastewater Net Operating Income

Company: Mid-County Services, Inc.
 Docket No.: 030448-SU
 Test Year Ended: December 31, 2002
 Interim Final
 Historic or Projected

Florida Public Service Commission

Schedule: B-2
 Page 1 of 1
 Preparer: Seldman, F.

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

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 1,052,687	\$ (24,006) (A)	\$ 1,028,687	\$ 412,731 (G)	\$ 1,441,418	B-4, E-13
2	Operation & Maintenance	690,029	16,609 (B)	606,538	26,120 (H)	632,958	B-6, B-3
3	Depreciation, net of CIAC Amort.	63,077	12,933 (C)	96,010		96,010	B-14, B-3
4	Amortization		8,920 (D)	8,920		8,920	B-3
5	Taxes Other Than Income	78,847	2,687 (E)	61,534	16,680 (I)	100,215	B-16, B-3
6	Provision for Income Taxes	(22,971)	22,971 (F)		52,487 (J)	52,487	C-1, B-3
7	OPERATING EXPENSES	1,028,683	64,320	1,093,302	97,287	1,190,589	
8	NET OPERATING INCOME	\$ 23,684	\$ (88,328)	\$ (64,645)	\$ 315,504	\$ 250,858	
9	RATE BASE	\$ 2,145,489		\$ 2,700,309		\$ 2,700,308	
10	RATE OF RETURN	1.10 %				9.29 %	

EXHIBIT III

Schedule of Requested Cost of Capital (Final Rates)
13 Month Average

Florida Public Service Commission

Company: Mid-County Services, Inc.
Docket No.: 030446-SU
Test Year Ended: December 31, 2002
Schedule Year Ended: December 31, 2002
Historic [] or Projected [X]

Schedule: D-1
Page 1 of 1
Preparer: Seidman, F.

Subsidiary [] or Consolidated [X]

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.	(1) Total Capital	(2) Ratio	(3) Cost Rate	(4) Weighted Cost	
1	Long-Term Debt	1,283,075	46.78 %	8.04 %	3.78 %
2	Short-Term Debt	238,014	8.81 %	3.93 %	0.35 %
3	Preferred Stock				
4	Customer Deposits		%	6.00 %	0.00 %
5	Common Equity	1,212,887	44.92 %	11.54 %	5.18 %
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax	(13,647)	(0.51)		
8	Other (Explain)				
9	Total	2,700,309	100.00 %		9.29 %

Note: Cost of Equity based on Order Nos. PSC-03-0707-PAA-WS and PSC-03-0799-CO-WS.