State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 10, 2006

TO: Jay B. Revell, Regulatory Analyst III, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

RE: **Docket No:** 060254-SU **Company Name:** Mid-County Services, Inc.
Audit Purpose: File and Suspend Rate Case
Audit Control No: 06-209-2-5

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tampa District Office

MID-COUNTY SERVICES INC.

FILE AND SUSPEND RATE CASE INVESTIGATION

AS OF DECEMBER 31, 2005

DOCKET NO. 060254-SU
AUDIT CONTROL NO. 06-209-2-5

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DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT

OCTOBER 4, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 27, 2006. We have applied these procedures to the attached schedules which were prepared by Mid-County Services, Inc in support of its filing for rate relief in Docket No. 060254-SU.

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

OBJECTIVES AND PROCEDURES

RATE BASE

General

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

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2005 and verified that adjustments required in Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, were recorded.

Utility-Plant-in-Service (UPIS)

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

Procedures: We sampled UPIS additions for the period January 1, 2003 through December 31, 2005 for compliance with the stated objectives above. We verified that the utility properly recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility plant sites to observe whether assets additions were completed and to ascertain if asset retirements were properly recorded. We sampled construction project additions and the corresponding source documentation. We verified that the utility used Commission approved AFUDC rates and traced the capitalized salaries to individual employee time sheets.

Land and Land Rights

Objective: To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We verified that there has been no change to utility land since its last rate proceeding by searching the county's public records. Audit Finding No. 1 discusses our adjustments to the utility's land balance and the corresponding 13-month average calculation.

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

Objective: To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff. To verify and insure that all donated property is properly accounted for and recorded as CIAC and UPIS.

Procedures: We sampled CIAC additions for the period January 1, 2003 through December 31, 2005 for compliance with the stated objectives above. We scanned the utility's cash receipts records for unrecorded cash and property. We reviewed developer agreements for unrecorded CIAC. We traced utility CIAC schedules to the general ledger and the utility's authorized tariff rates. We toured the utility's authorized service territory to look for new developments that may have included contributed property. Audit Finding No. 10 provides information on potential unrecorded CIAC from developers. Audit Finding No. 11 provides information on the utility's 2003 CIAC adjusting journal entry that was made to allocate CIAC based on specific UPIS account balances.

Accumulated Depreciation

Objective: To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

Procedures: We traced the accumulated depreciation schedules to the corresponding UPIS schedules. We verified that the utility used Commission authorized rates to depreciate its UPIS accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding UPIS was removed or replaced. We recalculated a sample of accumulated depreciation account balances as of December 31, 2005. Audit Finding No. 7 discusses or adjustments to depreciation expense balances because the utility did not use the proper depreciation rates require in Rule 25-30.140, F.A.C. and the corresponding affect on accumulated depreciation balances.

Accumulated Amortization of CIAC

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

Procedures: We traced the accumulated amortization of CIAC schedules to the corresponding CIAC schedules. We verified that the utility used Commission authorized rates to amortize its CIAC accounts by calculating a sample of accumulated amortization account balances to test for calculation errors. We recalculated a sample of accumulated amortization of CIAC account balances as of December 31, 2005. Audit Finding No. 8 discusses our adjustments to CIAC amortization expense balances because the utility did not use the proper depreciation rates require in Rule 25-30.140 F.A.C. and the corresponding affect on accumulated amortization of CIAC balances.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We recalculated the utility's working capital balance as of December 31, 2005. Audit Finding No. 2 discusses our adjustment to calculate the historical working capital balance.

Other Rate Base Items

Objective: To determine that other component balances affecting rate base are properly stated and authorized by Commission rules or prior orders.

Procedures: Determine that adjustments to include allocated rate base balances for subsidiary operations are properly reported in the filing. Audit Finding No. 3 discusses our adjustments to WSC allocated rate base balances based on the affiliate transaction investigation performed in Docket No. 060253-WS.

NET OPERATING INCOME

General

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

Procedures: We reconciled the following individual component net operating income balances to the utility's general ledger for the 12-month period ended December 31, 2005.

Revenues

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

Procedures: We traced revenues to the utility's general ledger and we reconciled a sample of the third-party billing summaries to the utility's revenue reports.

Operation and Maintenance Expenses (O&M)

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

Procedures: We sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, classification, NARUC account, amount, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives are met. Audit Finding No. 4 discussed our adjustment to reduce material and supplies expense by deferring and amortizing a nonrecurring expense balance recorded in the test year. Audit Finding No. 5 discusses or adjustment to reduce miscellaneous expenses because it included service fees for thirteen periods of cost instead of the expected twelve periods. Audit Finding No. 6 discusses our adjustments to WSC allocated expense balances based on the affiliate transaction investigation performed in Docket No. 060253-WS. Audit Finding No. 12 provides information on the utility's transportation expense balances.

Taxes-Other-Than-Income (TOTI)

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

Procedures: We obtained the regulatory assessment fee (RAF) filings and reconciled them to the general ledger. We obtained the property tax bills for review and to determine if the amount booked reflects the discount amount. Audit Finding No. 9 discusses our adjustments to test year RAF by removing a prior period regulatory assessment fees and recording the actual fees incurred for the test year and removing a year end accrual that overstated the utility's RAF balance.

Depreciation Expense

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

Procedures: We recalculated a sample of UPIS depreciation expense and CIAC amortization expense balances for the period using Commission approved rates and we verified that CIAC amortization expense was properly netted against depreciation expense. Audit Finding No. 7 discusses our adjustments to depreciation expense balances because the utility did not use the proper depreciation rates require in Rule 25-30.140 F.A.C. Audit Finding No. 8 discusses our adjustments to CIAC amortization expense balances because the utility did not use the proper depreciation rates require in Rule 25-30.140 F.A.C.

CAPITAL STRUCTURE

General

Objective: To determine the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations.

Procedures: We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2005. Audit Finding No. 13 provides information on the utility's capital structure component balances that were determined in the affiliate audit investigation performed in Docket No. 060253-WS.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

Procedures: We traced long-term debt balances to the original documents and verified the terms and interest rate of each note payable.

Short-Term-Debt

Objective: To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

Procedures: We traced short-term debt balances to the original documents and verified the terms and interest rate and period. We recalculated test year interest expense.

Accumulated Deferred Income Taxes

Objective To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

Procedures Recalculated a sample of deferred tax balances for the period using Commission authorized rates and federal tax rates. Audit Finding No. 14 provides information on the utility's deferred tax balances.

AUDIT FINDING NO. 1

SUBJECT: ADJUSTMENT TO LAND

SUMMARY: The utility's average rate base is overstated by $200 as of December 31, 2005.

STATEMENT OF FACT: The utility's average land balance in its filing was calculated as follows.

Balance at Dec 2004	Balance at Dec 2005	Average
$18,403	$21,006	$18,603

The utility's land balance in its general ledger is stated below.

Balance at Dec 2004	Balance at Dec 2005
$21,006	$21,006

The utility's balance for land in its general ledger is overstated by $2,603 as of December 31, 2005, because it did not record a Commission adjustment to reduce land for $2,603. The adjustment was made in the utility's last rate case, in Order PSC- 04-0819-PAA-SU, issued August 23, 2004.

It appears that the utility removed the land adjustment of $2,603 from its December 2004 filing balance but not from the December 2005 filing balance. This caused an overstatement of $200 when calculating the average land balance for the filing. The $200 difference should be removed for rate case purposes.

In addition, the utility's general ledger should be reduced by $2,603 to properly record the Commission adjustment discussed above.

EFFECT ON GENERAL LEDGER: The following entry should be made to properly record the utility's land balance.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Debit	Credit
2150000	215	Retained Earnings	$2,603	
3532000	353	Land and Land Rights		$2,603

EFFECT ON FILING: The utility's average land balance should be reduced by $200 as of December 31, 2005, to properly record the prior order adjustment to land discussed above.

AUDIT FINDING NO. 2

SUBJECT: ADJUSTMENT TO WORKING CAPITAL

SUMMARY: The utility's 13-month average working capital balance for wastewater rate base is $88,555, as of December 31, 2005.

STATEMENT OF FACTS: The utility's filing did not include a historical working capital adjustment for wastewater rate base.

The audit staff has calculated the 13-month average working capital balance for wastewater rate base as $88,555 as of December 31, 2005.

The utility's adjusted balance of $187,795 differs from the historical balance because it includes the unamortized rate case balance for the present proceeding.

13-Month Average Working Capital	General Ledger Ending Balance @12/31/2005	13-Month Avg. Balance @12/31/2005
Current & Accrued Assets		
Cash	$0	$0
Special Deposits	60	60
Accounts & Notes Receivable	116	23,588
Deferred Debits	20,412	28,860
Deferred Rate Case Expense (See note below)	52,115	61,590
Miscellaneous	4,138	9,229
Current & Accrued Liabilities		
Accounts Payable	(10,308)	(13,080)
Accrued Taxes	(34,000)	(21,692)
Accrued Interest	0	0
Miscellaneous	0	0
Working Capital	$32,533	$88,555

Note:

The utility's general ledger reflects a 12/31/05 ending balance of $52,557 for net unamortized rate case expense. This balance does not reconcile to the amount approved by the Commission in its last rate proceeding. The amount displayed above was calculated by the audit staff using the approved balance of $75,803 and amortizing it pursuant to Section 367.0816, Florida Statutes.

EFFECT ON THE GENERAL LEDGER: None, because a working capital adjustment is only calculated for rate case proceedings.

EFFECT ON THE FILINGS: Increase rate base by $88,555 as of December 31, 2005.

AUDIT FINDING NO. 3

SUBJECT: ADJUSTMENT TO ALLOCATED WSC RATE BASE

SUMMARY: The utility's allocated 13-month average net rate base from Water Service Corporation (WSC) is $21,410 as of December 31, 2005.

STATEMENT OF FACT: WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common rate base to each subsidiary utility throughout the United States. The utility received $16,581, which is the 13-month average amount as of December 31, 2005. The allocation is net of accumulated depreciation and accumulated deferred income taxes or approximately 0.95 percent of the total WSC average net rate base of $1,740,155. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC rate base components that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that increased the Mid-County Services, Inc. allocated average WSC rate base allocation by $4,829 to $21,410.

The audit staff has incorporated the findings of the above-mentioned audit report to determine the Mid-County Services, Inc. allocated 13-month average WSC rate base balance of $21,410 for this proceeding.

EFFECT ON GENERAL LEDGER: None, because WSC only allocates its net rate base for rate case proceedings.

EFFECT ON FILING: The utility's 13-month average wastewater rate base should be increased by $4,829 for the 12-month period ended December 31, 2005. ($21,410 - $16,581)

AUDIT FINDING NO. 4

SUBJECT: ADJUSTMENT TO MATERIAL AND SUPPLIES EXPENSE

SUMMARY: The utility's operation and maintenance expense balance is overstated by $12,061 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility's filing reflects a balance of $134,676 in Acct. No. 720 - Materials and Supplies for the 12-month period ended December 31, 2005.

Included in the above balance is $16,112 recorded in Utility Acct. No. 7755070 - Sewer Permits for engineering studies and permit renewal fees related to the utility's reuse permit which was composed of $10,412 in accruals reversed from Utility Acct. No. 1651090 - Other Prepayments and $5,700 of direct cost recorded June and December 2005.

The total permit fees recorded in Acct. 1651090 was $14,550 and the reversal of $10,412 discussed above left a remaining balance of $4,138 as of December 31, 2005.

The utility paid a total of $20,250 for the reuse permit renewal. ($16,112 + $4,138)

Costs such as these would be considered nonrecurring and should be amortized over a five year period per Rule 25-30.433 (8), F.A.C.

The amount that should be allowed for test year 2005 is $4,050. ($20,250/5 years) The unamortized balance of $16,200 ($20,250 - $4,050) should be recorded in Acct. No 186 - Deferred Asset.

EFFECT ON GENERAL LEDGER: The following entry should be made to properly record the utility's miscellaneous expense balance.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Debit	Credit
	186	Deferred Asset - Sewer Permit Fees	$16,200	
1651090	165	Other - Prepayments		$4,139
7755070	720	Material & Supplies		$12,061

Calculation: Acct. No. 720 $12,373 = $16,122 - $3,749

EFFECT ON FILING: The utility's operation maintenance expense balance should be reduced by $12,061 for the 12-month period ended December 31, 2005. The utility's 13-month average working capital balance should be increased by $13,426.

Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	13-Month Average
$12,163	$13,118	$13,118	$13,118	$13,118	$13,118	$13,193	$13,193	$13,193	$13,193	$13,193	$14,625	$20,250	$13,738
0	0	0	0	0	0	0	0	0	0	0	0	(4,050)	(312)
$12,163	$13,118	$13,118	$13,118	$13,118	$13,118	$13,193	$13,193	$13,193	$13,193	$13,193	$14,625	$16,200	$13,426

AUDIT FINDING NO. 5

SUBJECT: ADJUSTMENT TO MISCELLANEOUS EXPENSE

SUMMARY: The utility's operation and maintenance (O&M) expense balance is overstated by $1,238 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility included 13-months of garbage and telephone service fees in its filing for the 12-month period ended December 31, 2005.

The utility recorded a year end accrual of $1,065 to Account 775, Miscellaneous Expenses for garbage expense. This accrual overstated the balance because it already included twelve monthly charges. The balance should be reduced by $1,065.

The utility recorded a year end accrual of $173 to Account 775, Miscellaneous Expenses for telephone expense. This accrual overstated the balance because it already included twelve monthly charges. The balance should be reduced by $173.

EFFECT ON GENERAL LEDGER: The following entry should be made to properly record the utility's miscellaneous expense balance.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Debit	Credit
2151000	215	Retained Earnings	$1,238	
6759140	775	Miscellaneous Expense		$173
6759490	775	Miscellaneous Expense		$1,065

EFFECT ON FILING: The utility's O&M expense balance should be reduced by $1,238 for the 12-month period ended December 31, 2005.

AUDIT FINDING NO. 6

SUBJECT: ADJUSTMENT TO ALLOCATED WSC EXPENSE

SUMMARY: The utility's allocated common operating expense from Water Service Corporation (WSC) is $86,999 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: WSC, the service corporation for the parent company Utilities, Inc., allocates a portion of its common operating expenses to each subsidiary utility throughout the United States. Mid-County Services, Inc. received $89,819, or approximately 1.17 percent of $7,644,705 in total WSC common expenses for the 12-month period ended December 31, 2005. The allocation was calculated using a customer equivalent percentage that equates all customers throughout the United States in terms of equivalent residential connections.

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the WSC common expenses that are allocated to all of its subsidiary operations in 2005. The audit report, issued July 15, 2006, included specific adjustments that reduced Mid-County Services, Inc. allocated common expenses by $2,820 to $86,999.

The audit staff has incorporated the findings of the above-mentioned audit report to determine Mid-County Services, Inc. allocated average WSC common expenses is $86,999 for this proceeding. See audit staff's calculations on the following page.

EFFECT ON GENERAL LEDGER:

G/L Acct.	Description	Debit	Credit
2151000	Retained Earnings	$2,289	
4032098	Dep. Exp. - Computer		$24
4191010	Interest Income	$2	
4272090	Interest Expense	$529	
6329002	Audit Fees		$1,131
6369009	Amtz. Exp. - Computer		$3
6599090	Insurance Exp. - Other		$1,636
6759005	Postage Fees		$26

EFFECT ON FILING: The utility's wastewater O&M expense balances are overstated by $2,820 for the 12-month period ended December 31, 2005.

Mid County Allocation Schedules		Per Company WSC Expense	Per Company Mid County	Adjustment WSC Expense	Adjustment Mid County	Per Audit WSC Expense	Per Audit Mid County
SE51	Allocated Computer	$545,445	$1,491	($12,634)	($27)	$532,811	$1,464
SE52	Allocated Insurance	2,114,495	25,473	(156,711)	(1,636)	1,957,784	23,837
SE60	Allocated General	4,984,765	62,855	(74,972)	(626)	4,909,793	62,229
Per G/L		$7,644,705	$89,819	($244,317)	($2,289)	$7,400,388	$87,530
Remove interest income and expense not included in filing					(531)		(531)
Per MFR					($2,820)		$86,999

SE51

Acct No.		Per Utility	Adjustment	Per Audit
4032098	Dep. - Computer	$1,296	($24)	$1,272
6369009	Amtz. - Computer	12	(3)	9
		$1,308	($27)	$1,281

SE52

Acct No.		Per Utility	Adjustment	Per Audit
6599090	Insurance - Other	$25,473	($1,636)	$23,837

SE60

Acct No.		Per Utility	Adjustment	Per Audit
4191010	Interest Income	($2)	$2	$0
4272090	Interest Expense	(529)	529	0
6329002	Audit Fees	3,322	(1,131)	2,191
6759005	Postage Fees	35	(26)	9
		$2,826	($626)	$2,200

Acct No.		MFR Acct. No.	Adjustment	MFR B-12 0.00% Water	MFR B-12 100.00% W/Water
4032098	Dep. - Computer	403	($24)	$0	($24)
4191010	Interest Income	426 **	0	0	0
4272090	Interest Expense	419/427 **	0	0	0
6329002	Audit Fees	632/732	(1,131)	0	(1,131)
6369090	Amtz. - Computer	636/736	(3)	0	(3)
6599090	Insurance - Other	659/759	(1,636)	0	(1,636)
6759005	Postage Fees	675/775	(26)	0	(26)
			($2,796)	0	($2,796)
	Total WSC allocated expense adjustment		($2,820)	0	($2,820)

** Per utility filing these two allocations from WSC were not carried forward into the MFR filing so no adjustments are

AUDIT FINDING NO. 7

SUBJECT: ADJUSTMENT TO DEPRECIATION EXPENSE

SUMMARY: The utility's rate base and net operating income balances are overstated by $23,111, each, respectively, for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility did not use the service lives established in Rule 25-30.140, F.A.C., to depreciate its utility plant in service balances. The audit staff's recalculation of the utility's test year depreciation expense, based on the rates required in the above rule, can be found on the following page.

EFFECT ON GENERAL LEDGER: The following entry should be made to properly record the utility's depreciation expense balance.

Utility Acct. No.	NARUC Acct. No.	Acct Description	Debit	Credit
1082000	108	Acc/Dep - Transportation		$5,865
1084000	108	Acc/Dep - Sewer		$2,204
1084003	108	Acc/Dep - Building		$71,320
1084004	108	Acc/Dep - Lagoons		$1,109
1084005	108	Acc/Dep - Sewer Treat Plant	$78,305	
1084006	108	Acc/Dep - Services	$694	
1084007	108	Acc/Dep - Force Or Vacuum Mains		$543
1084008	108	Acc/Dep - Gravity		$3,910
1084010	108	Acc/Dep - Manholes		$464
1084011	108	Acc/Dep - Lift Station		$14,725
1084090	108	Acc/Dep - Office Structures		$30
1084091	108	Acc/Dep - Furniture		$1,931
1084095	108	Acc/Dep - Lab		$9
4032092	403	Dep. Expense - Transportation	$5,865	
4033000	403	Dep. Expense - Sewer	$2,204	
4033003	403	Dep. Expense - Building	$71,320	
4033004	403	Dep. Expense - Lagoons	$1,109	
4033005	403	Dep. Expense - Sewer Treat Plant		$78,305
4033006	403	Dep. Expense - Services		$694
4033007	403	Dep. Expense - Force Or Vacuum Mains	$543	
4033008	403	Dep. Expense - Gravity	$3,910	
4033010	403	Dep. Expense - Manholes	$464	
4033011	403	Dep. Expense - Lift Station	$14,725	
4033090	403	Dep. Expense - Office Structures	$30	
4033091	403	Dep. Expense - Furniture	$1,931	
4033095	403	Dep. Expense - Lab	$9	

EFFECT ON FILING: The utility's accumulated depreciation and depreciation expense balances should be increased by $23,111, each, respectively, for the 12-month period ended December 31, 2005.

Mid-County

Depreciation Expense Recalculation

Utility Acct. No	NARUC Acct. No.		Rule Rates	G/L Balance Dec-04	2001 Adjustment	Utility Reclass	Adjusted G/L Balance Dec-04	2005 Additions	G/L Balance Dec-05	Dep. Exp per Audit	Dep Exp. per G/L (Note 2)	Difference	Dep. Exp Acct. No.	Audit Adjustment	Acc/Dep Acct. No.	Audit Adjustment
1041000	354	Plant Acquired - Sewer	3.13%	$45,880	($11,027)	$0	$34,853	$0	$34,853	$1,089	($1,115)	$2,204	4033000	$2,204	1084000	($2,204)
3406050	390	Computer - WSC Allocated	16.67%	4,464	(191)	0	4,273	768	5,041	Note 1	1,296	-na-	4032098	0	1084098	0
3406050	390	Computer - UIF Allocated	16.67%	0	0	0	0	0	0	Note 1	699	-na-	4032098	0	1084098	0
3406090	354	Office Structures - WSC Allocated	2.50%	0	0	0	0	0	0	Note 1	746	-na-	4032090	0	1084090	0
3406091	390	Furniture - WSC Allocated	6.67%	0	0	0	0	0	0	Note 1	1,093	-na-	4032091	0	1084091	0
3406091	390	Furniture - UIF Allocated	6.67%	0	0	0	0	0	0	Note 1	479	-na-	4032091	0	1084091	0
3406693	390	Telephones - WSC Allocated	6.67%	0	0	0	0	0	0	Note 1	30	-na-	4032093	0	1084093	0
3466097	396	Communication - Allocated	10.00%	0	0	0	0	0	0	Note 1	325	-na-	4032097	0	1084097	0
3511001	351	Organization	2.50%	5,913	(3,563)	0	2,350	0	2,350	59	58	1	4033001	0	1084001	0
3537002	353	Land	-na-	21,006	0	0	21,006		21,006	-na-	-na-	-na-	-na-	-na-	-na-	-na-
3542011	371	Lift Station	4.00%	208,297	(6,896)	0	201,401	29,837	231,238	8,653	(6,072)	14,725	4033011	14,725	1084011	(14,725)
3547003	354	Building	3.13%	11,944	(9,282)	2,282,263	2,284,925	0	2,284,925	71,404	84	71,320	4033003	71,320	1084003	(71,320)
3547012	354	Spray Irrig Fac	3.13%	0	0	0	0		0	0	0	0	4033012	0	1084012	0
3547021	354	Plant Sewer Special	3.13%	0	0	0	0		0	0	0	0	4033021	0	1084021	0
3547050	354	Office Structures - UIF Allocated	3.13%	41,970	0	0	41,970	3,657	45,627	Note 1	1,034	-na-	4032090	0	1084090	0
3602006	360	Services	2.63%	142,929	(33,825)	0	109,104	2,830	111,934	2,908	3,603	(694)	4033006	(694)	1084006	694
3602007	360	Force Or Vacuum Mains	3.33%	279,080	(42,000)	0	237,080	427	237,507	7,902	7,359	543	4033007	543	1084007	(543)
3612008	361	Gravity	2.22%	2,079,843	(231,836)	0	1,848,007	161,338	2,009,345	42,859	38,950	3,910	4033008	3,910	1084008	(3,910)
3612010	361	Manholes	3.33%	83,922	(14,747)	0	69,175	12,864	82,038	2,520	2,056	464	4033010	464	1084010	(464)
3804004	380	Lagoons	5.56%	41,148	0	0	41,148		41,148	2,286	1,177	1,109	4033004	1,109	1084004	(1,109)
3804005	380	Sewer Treat Plant	5.55%	3,038,624	(350,091)	(2,282,263)	406,270	241,200	647,470	29,241	107,546	(78,305)	4033005	(78,305)	1084005	78,305
3824009	382	Outfall Lines	3.33%	0	0	0	0	0	0	0	0	0	4033009	0	1084009	0
3907090	354	Office Structures	2.50%	28,839	(4,800)	0	24,039	0	24,039	601	571	30	4033090	30	1084090	(30)
3907091	390	Furniture	6.67%	2,579	(330)	0	2,249	0	2,249	150	(1,781)	1,931	4033091	1,931	1084091	(1,931)
3917000	391	Transportation	16.67%	83,052	(11,715)	0	71,337	8,199	79,536	12,573	6,708	5,865	4032092	5,865	1082000	(5,865)
3937094	393	Tools - UIF Allocated	6.25%							Note 1	440	-na-	4032094	0	1084094	0
3937094	393	Tools	6.25%	23,753	0	0	23,753	2,999	26,752	1,578	1,578	(0)	4033094	(0)	1084094	0
3947095	394	Lab Equipment - Allocated	6.67%							Note 1	9	-na-	4032095	0	1084095	0
3947095	394	Lab	6.67%	13,607	(70)	0	13,537	285	13,821	912	903	9	4033095	9	1084095	(9)
3967097	396	Communication	10.00%	553	(3)	0	550	0	550	55	55	(0)	4033097	(0)	1084097	0
	Totals			$6,157,404	($720,376)	$0	$5,437,028	$464,403	$5,901,431	$184,791	$167,830	$23,111		$23,111		($23,111)
							(2,601)					Adjustment for land				
							$5,434,427		$5,901,431		$167,830	Reconciles to MFR Schedule A-6 & B-14				

Note 1: These balances are allocated to the utility from WSC and UIF and are discussed in separate findings of this report.

Note 2: The credit balances displayed for the utility's G/L depreciation accounts resulted from a utility adjustment to record the prior order balances. Our schedule corrects posting errors to the utility's depreciation expense acounts.

AUDIT FINDING NO. 8

SUBJECT: ADJUSTMENT TO CIAC AMORTIZATION EXPENSE

SUMMARY: The utility's rate base and net operating income balances are understated by $4,407, each, respectively, for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility did not use the service lives established in Rule 25-30.140, F.A.C., to amortize its contributions in aid of construction (CIAC) balances. The audit staff's recalculation of the utility's test year CIAC amortization expense, based on the rates required in the above rule, can be found on the following page.

EFFECT ON GENERAL LEDGER: The following entry should be made to properly record the utility's depreciation expense balance.

Utility Acct. No.	NARUC Acct. No.	Acct. Description	Debit	Credit
2723000	272	Acc/Amortz. - Undistributed	$4,847	
2723003	272	Acc/Amortz. - Building	$23,149	
2723004	272	Acc/Amortz. - Lagoons	$373	
2723005	272	Acc/Amortz. - Sewer Treat Plant		$23,126
2723006	272	Acc/Amortz. - Services		$287
2723008	272	Acc/Amortz. - Gravity	$12	
2723011	272	Acc/Amortz. - Lift Station	$371	
2723098	272	Acc/Amortz. - Manholes	$1	
2723010	272	Acc/Amortz. - Cash CIAC		$933
4073000	407	Amortz. Exp. - Undistributed		$4,847
4073003	407	Amortz. Exp. - Building		$23,149
4073004	407	Amortz. Exp. - Lagoons		$373
4073005	407	Amortz. Exp. - Sewer Treat Plant	$23,126	
4073006	407	Amortz. Exp. - Services	$287	
4073008	407	Amortz. Exp. - Gravity		$12
4073011	407	Amortz. Exp. - Lift Station		$371
4073098	407	Amortz. Exp. - Manholes		$1
4073010	407	Amortz. Exp. - Cash CIAC	$933	

EFFECT ON FILING: The utility's accumulated amortization of CIAC and CIAC amortization expense balances should be increased by $4,407, each, respectively, for the 12-month period ended December 31, 2005.

Utility Acct. No.	NARUC Acct. No	Acct. Descript	Rule Rate	Balance 12/31/04	Utility Reclass	Adjusted Balance 12/31/04	2005 Additions	Balance 12/31/05	CIAC Amortz. Exp. per Audit	CIAC Amortz. Exp. per G/L	Difference	CIAC Amortz. Exp. Acct. No.	Adjustment	Acc. Amortz. Acct. No.	Adjustment
2721000	271	CIAC - Undis	3.07%	($850,496)	$0	($850,496)	$0	($850,496)	($26,109)	($21,262)	($4,847)	4073000	($4,847)	2723000	$4,847
2721003	271	CIAC - Buildi	3.13%	(4,010)	(740,762)	(744,771)	0	(744,771)	(23,274)	(126)	(23,149)	4073003	(23,149)	2723003	23,149
2721004	271	CIAC - Lagoc	5.56%	(13,813)	0	(13,813)	0	(13,813)	(768)	(395)	(373)	4073004	(373)	2723004	373
2721005	271	CIAC - Sewer	5.56%	(989,019)	740,762	(248,257)	0	(248,257)	(13,792)	(36,918)	23,126	4073005	23,126	2723005	(23,126)
2721006	271	CIAC - Servic	2.63%	(41,114)	0	(41,114)	0	(41,114)	(1,082)	(1,369)	287	4073006	287	2723006	(287)
2721007	271	CIAC - Mains	3.33%	(93,600)	0	(93,600)	0	(93,600)	(3,117)	(3,117)	0	4073007	0	2723007	(0)
2721008	271	CIAC - Gravit	2.22%	(535,385)	0	(535,385)	0	(535,385)	(11,897)	(11,886)	(12)	4073008	(12)	2723008	12
2721009	271	CIAC - Outfall Lines		0	0	0	0	0	0	0	0		0		0
2721011	271	CIAC - Lift St	4.00%	(55,439)	0	(55,439)	0	(55,439)	(2,218)	(1,846)	(371)	4073011	(371)	2723011	371
2721012	271	CIAC - Spray Irrig Fac		0	0	0	0	0	0	0	0		0		0
2721050	271	CIAC - Reuse		0	0	0	0	0	0	0	0		0		0
2721098	271	CIAC - Manh	3.33%	(23,460)	0	(23,460)	0	(23,460)	(782)	(781)	(1)	4073098	(1)	2723098	1
2721010	271	CIAC - Cash	3.07%	(356,625)	0	(356,625)	(19,982)	(376,607)	(11,255)	(12,188)	933	4073010	933	2723010	(933)
				($2,962,962)	$0	($2,962,962)	($19,982)	($2,982,944)	($94,294)	($89,887)	($4,407)		($4,407)		$4,407

AUDIT FINDING NO. 9

SUBJECT; ADJUSTMENT TO TAXES OTHER THEN INCOME

SUMMARY: The utility's Taxes Other Than Income (TOTI) balance is overstated by $7,441 for the 12-month period ended December 31, 2005.

STATEMENT OF FACT: The utility's filing reflects a balance of $69,303 for regulatory assessment fees (RAF) for the 12-month period ended December 31, 2005.

Jul-Dec 2004	Jan - Jun -2005	Dec 2005 Accrual	Total
$27,867	$31,436	$10,000	$69,303

The utility's RAF balance for the test year is overstated by $7,441 as shown below.

RAF	Amount	Explanation
Per Audit	$30,426	Add Jul-Dec 2005 RAF filing
Per Utility	(27,867)	Remove Jul-Dec 2004 RAF filing
Difference	$2,559	
Per Audit	(10,000)	Remove December 2005 accrual
Audit Adjustment	($7,441)	

EFFECT ON GENERAL LEDGER: The utility's 2005 RAF should be reduced by a net $7,441 to properly record the actual RAF for the period.

EFFECT ON FILING: The utility's TOTI balance should be reduced by $7,441 for the 12-month period ended December 31. 2005.

AUDIT FINDING NO. 10

SUBJECT: INFORMATION ON POTENTIAL UNRECORDED CIAC

SUMMARY: The Utility has had several new developments added since its last rate case in Docket No. 030446-SU. The utility's records, however, do not reflect any new additions to utility plant in service (UPIS) or contributions in aid of construction (CIAC) for wastewater mains or lift stations that you would expect to find.

STATEMENT OF FACT: The utility did not record contributed property from A-Chalet Construction, Inc. for Estancia Place Townhomes and from Coastal Builders, Inc. for Highland Woods Phase 3.

A letter dated October 22, 2004, to A-Chalet Construction, Inc. states,

All off-site facilities from the property line to the point of connection, as well as all necessary easements, shall be transferred at no cost to our Company.

The developer agreement with Coastal Builders, Inc. dated January 4, 2005, states,

All of the facilities installed by Developer pursuant to this Agreement shall become the property of Utility as installed.

It does not appear that the utility recorded the connection fees due from Coastal Builders, Inc. either because the agreement continues, stating,

Developer agrees to pay Utility the Commission approved connection fees and review fee for service to the property in the amount of twenty-five thousand five hundred ninety-four dollars ($25,594). Payment in the amount of $2,559.40 shall be due upon execution of this Agreement. The balance of $23,034.60 shall be due the earlier of one year from the date of this Agreement, or prior to connection of the Facilities.

We examined the cash receipts and asked the utility to provide information on the property discussed above on September 5, 2006. The utility's response, provided on September 29, 2006, arrived too late for the audit staff to properly analyze and include in this report. The response is included in the audit staff's work papers for the analyst in Tallahassee to review.

The recording of contributed property would have no net effect on the utility's net rate base, and O&M expenses because the asset and expense accounts would offset each other. The NARUC Uniform System of Accounts, however, requires recording all UPIS and CIAC additions to the general ledger.

EFFECT ON GENERAL LEDGER: When an amount of contributed assets is determined, UPIS and CIAC should be increased and the corresponding additions should then be depreciated and amortized at the same rates as prescribed in Rule 25-30.140, F.A.C. and recorded in the appropriate rate base accounts.

EFFECT ON FILING: The contributed infrastructure balances, when determined, would be offsetting so that there in no effect on the utility's filing. The unrecorded connection fees, when determined, could potentially reduce rate base by the difference between the unrecorded CIAC balance and the accumulated amortization of the CIAC balance. The net depreciation expense balance in the filing would need to be reduced also because of the additional CIAC amortization expense on the unrecorded connection fees.

AUDIT FINDING NO. 11

SUBJECT: INFORMATION ON 2003 CIAC ADJUSTMENT

SUMMARY: The utility allocated its Contributions in Aid of Construction (CIAC) in 2003 in order to comply with Rule 25-30.140 F.A.C., which required CIAC for contributed property which can be specifically associated with a corresponding utility plant in service (UPIS) account to be amortized using the same depreciation rates as the UPIS account.

STATEMENT OF FACT: In 2003, the utility made an adjusting journal entry to re-distribute its combined CIAC account balances into several specific accounts based on the percentage of UPIS account balances excluding balances in organization, franchise, transportation and office equipment. The utility's calculations are displayed on the following page.

The utility first determined a balance for undistributed CIAC which represented cash collections. The amount was determined by estimating the total tap fees collected for the utility system. The remaining CIAC balance was then redistributed to specific CIAC sub-accounts based on the allocation methodology described above.

However, the audit staff notes that there are two problems with the utility's calculation.

1. The utility did not book Commission adjustments from the last rate case until 2005 and therefore the plant balances used by the utility to reallocate its CIAC balance did not reflect the Commission balances.
2. The utility allocated the CIAC to all of its UPIS accounts excluding organization, franchise and transportation equipment.

Usually when the utility receives contributed plant from a developer, it consists of service lines, lift stations, and customer service extensions. The utility's allocation method redistributed a portion of its CIAC balance to accounts containing buildings and structures, treatment plant, sewer lagoons and pumping equipment. These accounts are not normally associated with contributed property for wastewater utility systems.

The audit staff defers this issue to the analyst in Tallahassee for final disposition.

EFFECT ON GENERAL LEDGER: If the utility's CIAC allocation is recalculated by the analyst, the accumulated amortization of CIAC and CIAC amortization expense balances will all need to be adjusted accordingly.

EFFECT ON FILING: The total balance for CIAC reflected in the utility's filing will not change. However, the accumulated amortization of CIAC would need to be adjusted along with the 13-month average balance for the test year. Additionally the recalculated amortization of CIAC expense balance will affect the net depreciation expense presented in the utility's filing.

Mid-County-Wastewater
Recalculation of CIAC and Amortization of CIAC

Acct. Nos UPIS	CIAC	Acct. Description	UPIS Balance @12/31/02	UPIS Balance Percentage	CIAC Allocation @12/31/02	CIAC Additions Jan-Jun '03	CIAC Balance @12/31/02	CIAC Amtz. Rate	CIAC Amtz. Jan-Jun '03	CIAC Amtz. Jul-Dec '03	CIAC Amtz Total
3542011	2721011	Lift Station	$165,147	3.20%	$55,439	0	$55,439	3.13%	$866	$866	$1,732
3547003	2721003	Structures & Imp.	11,944	0.23%	4,010	0	4,010	3.13%	63	63	125
3547012	2721012	Spray Irrigation Facilities	0	0.00%	0	0	0	3.13%	0	0	0
3602006	2721006	Sewage Service Lines	122,475	2.37%	41,114	0	41,114	3.33%	685	685	1,370
3602007	2721007	Force Mains	278,822	5.40%	93,600	0	93,600	3.33%	1,560	1,560	3,120
3612008	2721008	Sewer Mains	1,528,180	29.59%	513,005	0	513,005	2.22%	5,700	5,700	11,400
3612010	2721098	Manholes	69,883	1.35%	23,460	0	23,460	2.22%	261	261	521
3804004	2721004	Sewer Lagoons	41,148	0.80%	13,813	0	13,813	2.86%	197	197	395
3804005	2721005	Treatment Plant	2,946,167	57.05%	989,019	0	989,019	2.86%	14,129	14,129	28,258
3824009	2721009	Outfall Lines	0	0.00%	0	0	0	3.33%	0	0	0
			$5,163,766	100.00%	$1,733,460	0	$1,733,460				$46,922

271	CIAC Balance per T/B @12/31/02	$2,825,700	
	Less Tap Fee portion of CIAC	(1,092,240)	
	Less Tap Fee Refunds	0	
	Less known CIAC Sub-Acct. Balance	0	
	Unidentified CIAC balance	$1,733,460	
271	CIAC Additions (Jan-Jun '03)	$2,470	
407.6	Amtz. Of CIAC Expense @12/31/03		$78,314
	Less Tap Fees Amtz of CIAC (Jan-Jun '03)		(15,073)
	Less Tap Fees Amtz of CIAC (Jul-Dec '03)		(15,107)
	Less known Amtz. Of CIAC Sub-Acct. Balance		0
	Unidentified Amtz. Of CIAC balance		$48,134
	Recalculated Amtz. Of CIAC balance above		(46,922)
	Retained Earnings Adjustment		$1,212

AUDIT FINDING NO. 12

SUBJECT: INFORMATION ON TRANSPORTATION EXPENSE

SUMMARY: The supporting documentation supplied by the utility for transportation expense was not sufficient to determine that the charges relate to the specific vehicles used in each system.

STATEMENT OF FACT: The utility uses GE Capital Fleet to manage its fleet of vehicles. GE Capital provides gas cards for the employees to buy fuel for their vehicles and oversees the maintenance of the fleet. The utility provided the total invoice and its internal allocations of those invoices to each utility system. This did not provide us the information necessary to determine that the charges allocated by the utility actually related to vehicles for that system or whether the repairs were reasonable. We requested additional information, however, the utility's subsequent response was still insufficient and no time was left for further inquiry.

EFFECT ON GENERAL LEDGER: Expenses may need to be re-allocated among systems.

EFFECT ON FILING: Expenses may need to be reduced.

AUDIT FINDING NO. 13

SUBJECT: INFORMATION ON CAPITAL STRUCTURE BALANCES

SUMMARY: The utility's 13- month average capital structure balance is $232,154,246 as of December 31, 2005 and its cost rate for long-term and short-term debt is 6.58 percent and 5.14 percent, respectively.

STATEMENT OF FACT: The utility's filing reflects the following capital structure balances prior to the reconciliation with rate base as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	13-Month Average	Cost Rate
Long Term Debt	$112,803,215	$135,285,191	$133,025,102	6.65%
Short Term Debt	18,768,000	3,926,000	$4,522,923	5.01%
Common Equity	88,963,597	92,611,247	$91,510,699	11.87%
Customer Deposits	0	0	$0	6.00%
Acc. Deferred Income Tax	122,702	111,313	$121,826	0.00%
Totals	$220,657,514	$231,933,751	$229,180,550	

The Commission's Division of Regulatory Compliance and Consumer Assistance, at the request of The Division of Economic Regulation, performed an affiliate transaction audit of Utilities, Inc. and its subsidiary WSC for the 12-month period ended December 31, 2005, in Docket No. 060253-WS. The scope of the audit included a review of the Utilities, Inc., the parent, capital structure component balances as of December 31, 2005. The audit report, issued July 15, 2006, determined the following 13-month average balances for Mid-County's parent, Utilities Inc. as of December 31, 2005.

Class of Capital	Prior Year 12/31/2004	Test Year 12/31/2005	13-Month Average	Cost Rate
Parent Level				
Long Term Debt	$112,803,215	$135,285,191	$133,025,102	6.58%
Short Term Debt	18,768,000	3,926,000	$4,403,615	5.14%
* Common Equity	92,087,507	95,673,345	$94,603,703	
Mid-County Level				
** Customer Deposits	0	0	$0	6.00%
** Acc. Deferred Income Tax	122,702	111,313	$121,826	0.00%
Totals	$223,781,424	$234,995,849	$232,154,246	

* The cost rate for common equity to be determined after reconciliation to the utility's average rate base.

** These balances do not include other audit adjustments in this report where applicable.

Based on the above-mentioned affiliate audit report findings the 13-month average common equity balance should be increased by $3,093,004 ($94,603,703 - $91,510,699), the long-term debt cost rate should be reduced by 0.07 percent (6.65% - 6.58%) and the short term debt cost rate should be increased by 0.13 percent (5.14% - 5.01%) as of December 31, 2005.

EFFECT ON GENERAL LEDGER: None, because capital structure balances are only used in rate case proceedings

EFFECT ON FILING: To be determined by the analyst in Tallahassee.

AUDIT FINDING NO. 14

SUBJECT: INFORMATION ON DEFERRED TAXES

SUMMARY: The utility reports $111,313 upon its books in net deferred income taxes in 2005. This amount is reported at 13-month average as a liability of $121,826. As a result of our testing as described below, the average balance used in this case should be changed from $121,826 by $42,953 to report a net deferred tax balance of $164,779. This amount contains estimates which have been presented to the utility and are subject to adjustments based upon further findings during this case.

Calculations:	Average	Year End
Beginning Balance	$121,826	$111,313
Deferred Income Tax		
Corrections		
13-Month Average	(4,818)	-na-
State Depreciation	48,996	48,995
State Intangible	129	129
Federal Intangible	(1,354)	(3,154)
Federal Depreciation	Pending	Pending
Total	$164,779	$157,283

EFFECT ON FILING: If all the findings are accepted there is no direct effect on rate base or utility income. The effect on capital structure is to reduce the provision for equity and debt by $42,953 and increase deferred taxes by $42,953.

Deferred Taxes -- Item 1: 13-Month Average
The utility's calculation of average deferred income taxes may be considered incorrect. General Instruction No. 4, NARUC Uniform System of Accounts, provides that accounts are kept monthly. The utility did not keep its deferred income tax accounts monthly. Based on estimates, if the deferred income taxes were kept on a monthly basis, the utility's 13 month average balance would change from $121,826 by ($4,818) to report $117,008. This is a ratemaking adjustment and no entries are needed to the accounts.

Deferred Taxes -- Item 2: Accelerated Depreciation - State of Florida
When the utility takes tax benefits due to accelerated depreciation, the utility must record deferred income taxes. In this case, the utility failed to record sufficient state deferred taxes in its accounts. The estimated correction at average is $48,996 and at year end is $48,995. This estimate was presented to the utility and is subject to adjustment during the case.

EFFECT ON GENERAL LEDGER:

NARUC Acct. No.	Acct. Description	Debit	Credit
215	Retained Earnings	$48,996	
190	State Deferred Taxes – Depreciation		$48,996

Deferred Taxes -- Item 3: Deferred Taxes Intangible Plant – Federal and State of Florida
Intangible plant is recorded as an asset in water and sewer plant accounts as either organization plant or as franchise plant. For income tax purposes, this intangible plant is expensed and deferred taxes are recorded. Intangible plant and deferred taxes for intangible plant during the normal course of business are not reduced unless a utility's assets are sold.

Utility intangible plant did not match the expected balance of deferred income taxes. Further the State of Florida deferred taxes had not been properly recorded. The estimated correction to Federal deferred accounts at average is a decrease of $1,354 and at year end is a decrease of $1,354. The estimated correction to state deferred account is $129 at average and at year end is $129. These estimates were presented to the utility and are subject to adjustment during this rate case proceeding.

EFFECT ON GENERAL LEDGER:

NARUC Acct. No.	Acct. Description	Debit	Credit
215	Retained Earnings		$1,225
190	Federal Deferred Taxes – Intangible Plant	$1,354	
190	State Deferred Taxes – Intangible Plant		$129

Deferred Taxes -- Item 4: Accelerated Depreciation – Federal
Accelerated depreciation is a difficult account for a utility to maintain and difficult for the Commission to audit. We found there was a possibility of errors and non utility effects in the account. There was not enough available audit time for staff to verify the details in this account sufficiently to comment the account was free of error, free of non utility effects and reflected necessary Commission adjustments appropriately.

Absent available audit resources, we have asked the utility to present additional information concerning its deferred taxes in this matter. Absent additional audit procedures, we recommend industry staff use reported plant additions, retirements and Commission adjustments along with known state and federal depreciation rates to determine what level for Federal Accumulated Deferred Income Tax is reasonable. Once a Federal Deferred Tax – Accelerated Depreciation level is set, it would be appropriate to revise the estimate presented in item 2: Deferred Taxes -- Accelerated Depreciation State of Florida.

Possible Accounts Affected upon General ledger:

Retained Earnings
State Deferred Income Taxes – Depreciation
Federal Deferred Income Taxes – Depreciation
State Non Utility Deferred Income Taxes – Depreciation
Federal Non Utility Deferred Income taxes -- Depreciation

Deferred Taxes -- Item 5: Accounting for Post 2000 Tap Fees
Treasury Regulation Section 1.118-2(b) (3) excludes customer connection fees from the definition of CIAC for tax purposes. Therefore, Commission staff has advised that subsequent to the year 2000, CIAC in the form of cash tap fees paid to the utility is taxable. This appears to be a significant item in future utility accounting and ratemaking.

The utility records the effects of (1) taxable CIAC and (2) its amortization correctly in its deferred tax accounts, but the also utility reports (3) additional book depreciation in its reports where no book depreciation exists. Further, it appears that the taxable CIAC effects are at an accelerated rate rather than the straight line rate used by the utility. This reporting does not affect the setting of rates in this case, but it clouds the auditing and determination of deferred taxes and the utility's ongoing and future reports such as annual report schedule F-23 and MFR schedules C-1 and C-2, and C-5. Clarification on this matter is needed.

From the auditor's perspective, it appears the proper accounting for taxable CIAC is to treat the amortization of tax on CIAC as income statement amortization and not provide a corresponding provision for income taxes on this amortization in ratemaking. Treating this item entirely in deferred tax accounts on the balance sheet seems to cause long-lived problems in assessing the impact of taxable CIAC and accelerated depreciation on rates.

Deferred Taxes -- Item 6: Error in Utility MFR
Utility information contained in its filing schedules C-1, C-2 and C-5 that report the provision for income taxes did not match utility schedule B-1 or Annual Report Schedule F-23 or Annual Report Schedule F-3. This type of error causes audit inefficiencies. Staff has relied upon annual report schedules during this audit of deferred income taxes.

Deferred Taxes -- Item 7: AFUDC
Based upon a review of cash flow model, it is apparent that when setting rates for a utility receiving both an income tax allowance and AFUDC, for ratemaking, it is appropriate to adjust the final calculations for income tax expense by the tax effect of equity AFUDC depreciation.

In the past, this item could be considered immaterial but the issue grows as AFUDC is accrued by utilities year-after-year which receive allowances for federal income tax.

Due to audit time constraints, the auditor was not able to fully research this utility's AFUDC history or determine the correct amount of equity AFUDC depreciation in this case.

EXHIBIT 1

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Mid-County Services, Inc.
Docket No.: 060254-SU
Schedule Year Ended: December 31, 2005
Interim [ ] Final [X]
Historic [X] Projected [ ]

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.

Line No.	(1) Description	(2) 13 Mo Avg Per Books	(3) A-3 Utility Adjustments		(4) Adjusted Utility Balance	(6) Supporting Schedule(s)
1	Utility Plant in Service	$ 5,413,941	$ 226,971	(A)	$ 5,640,912	A-6, A-3
1a	Allocated WSC Net Plant in Service	-	16,581	(A1)	16,581	A-3
2	Utility Land & Land Rights	18,603			18,603	A-6
3	Less: Non-Used & Useful Plant		-	(B)	-	A-7, A-3
4	Construction Work in Progress	144,135	(144,135)	(C)	-	A-3
5	Less: Accumulated Depreciation	(1,633,555)	(5,299)	(D)	(1,638,854)	A-10, A-3
6	Less: CIAC	(2,977,668)			(2,977,668)	A-12
7	Accumulated Amortization of CIAC	1,444,003			1,444,003	A-14
8	Acquisition Adjustments					-
9	Accum. Amort. of Acq. Adjustments					-
10	Advances For Construction					A-16
11	Working Capital Allowance	-	187,795	(E)	187,795	A-17, A-3
12	Total Rate Base	$ 2,409,460	$ 281,913		$ 2,691,373	

EXHIBIT 2

Schedule of Wastewater Net Operating Income

Company: Mid-County Services, Inc.
Docket No.: 060254-SU
Test Year Ended: December 31, 2005
Interim [ ] Final [X]
Historic [X] or Projected [ ]

Florida Public Service Commission

Schedule: B-2
Page 1 of 1
Preparer: Seidman, 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	$ 1,374,712	$ 17,405	(A)	$ 1,392,117	$ 377,730	(G)	$ 1,769,847	B-4, E-2
2	Operation & Maintenance	1,139,821	72,428	(B)	1,212,249	53,420	(H)	1,265,669	B-8, B-3
3	Depreciation, net of CIAC Amort.	77,943	10,599	(C)	88,542	-		88,542	B-14, B-3
4	Amortization		27,000	(D)	27,000	-		27,000	B-3
5	Taxes Other Than Income	105,210	4,536	(E)	109,747	9,557	(I)	119,304	B-15, B-3
6	Provision for Income Taxes	(35,478)	35,478	(F)	-	45,680	(J)	45,680	C-1, B-3
7	OPERATING EXPENSES	1,287,497	150,041		1,437,538	108,657		1,546,195	
8	NET OPERATING INCOME	$ 87,216	$ (132,636)		$ (45,421)	$ 269,074		$ 223,653	
9	RATE BASE	$ 2,409,460			$ 2,691,373			$ 2,691,373	
10	RATE OF RETURN	3.62 %			(1.69) %			8.31 %	

EXHIBIT 3

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

Florida Public Service Commission

Company: Mid-County Services, Inc.
Docket No.: 060254-SU
Test Year Ended: December 31, 2005
Schedule Year Ended: December 31, 2005
Historic [X] or Projected [ ]

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) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	1,492,258	55.45 %	6.65 %	3.69 %
2	Short-Term Debt	50,737	1.89 %	5.01 %	0.09 %
3	Preferred Stock	-			
4	Customer Deposits	-	%	6.00 %	0.00 %
5	Common Equity	1,026,553	38.14 %	11.87 %	4.53 %
6	Tax Credits - Zero Cost	-			
7	Accumulated Deferred Income Tax	121,826	4.53 %	0.00 %	%
8	Other (Explain)	-			
9	Total	2,691,373	100.00 %		8.31 %

Note: Cost of Equity based on Order Nos. PSC-05-0680-PAA-WS.

Note: Long term debt, short term debt, preferred stock and common equity are actual for Mid-County Services, Inc.'s parent company, Utilities, Inc.