

State of Florida



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

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**DATE:** December 24, 2008  
**TO:** Dale R. Buys, Regulatory Analyst IV, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DNV for DV*  
**RE:** Docket No: 080250-SU; Company Name: Mid-County Services, Inc.;  
Audit Purpose: Rate Case; Company Code: SU291;  
Audit Control No: 08-261-1-3;

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

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
District Offices, File Folder)  
Office of Commission Clerk (2)  
General Counsel  
Office of Public Counsel

Mr. Patrick C. Flynn  
Mid-County Services, Inc.  
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Altamonte Springs, FL 32714-4027

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FPSC-COMMISSION CLERK

STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION  
DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING

Tallahassee District Office

MID-COUNTY SERVICES, INC.

FILE AND SUSPEND RATE CASE

TEST YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 080250-SU  
AUDIT CONTROL NO. 08-261-1-3

Handwritten signature of Donna Brown in cursive script.

Donna Brown, Audit Manager

Handwritten signature of Hymavathi Vedula in cursive script.

Hymavathi Vedula, Audit Staff

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer, Audit Supervisor

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**December 17, 2008**

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the Minimum Filing Requirements (MFRs) prepared by Mid-County Services, Inc. in support for rate relief in Docket No. 080250-SU for the test period ending December 31, 2007.

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

## **I. OBJECTIVES AND PROCEDURES**

### **RATE BASE:**

**A. Objective – Plant in Service:** To determine that property exists and is owned by the utility. To determine that additions 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 were made when a replacement item was put in service.

1. We reconciled the beginning plant in service balance to the utility's books and to the prior Commission orders. We traced the filing additions and retirements by year to the utility's annual reports.
2. We judgmentally selected a sample of additions and retirements from the general ledger. We tested the sample of plant in service additions for the following: date acquired, original cost, account recorded, and appropriate retirements. We tested the sample of retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal.
3. We reconciled the plant in service additions and retirements to the utility's general ledger. Audit Finding 1 addresses the plant in service balances in the filing.

**B. Objective – Accumulated Depreciation and Depreciation Expense:** To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

1. We scheduled accumulated depreciation beginning and ending balances by UPIS sub-account. We reviewed the methodology for calculating annual depreciation expense accruals, the service lives used to determine the depreciation expense, and the methodology for accounting for retirements and adjustments.
2. We reconciled accumulated depreciation accruals to the utility's general ledger. Audit Finding 3 addresses the Accumulated Depreciation balances in the filing.

**C. Objective – Land and Land Rights:** To determine that the Utility’s land exists, is being used in utility operations and is recorded properly in the books.

1. We reconciled the beginning plant in service balance to the utility’s books and to the prior Commission orders. We traced the land additions and retirements by year to the utility’s annual reports.
2. We requested and received land deeds from the company
3. We completed an internet search on the appraiser website for Pinellas County to verify that the land existed.

**D. Objective –Allowance for Funds Used During Construction (AFUDC):** To determine that the AFUDC rates are properly stated and comply with Commission Rule 25-30.116 F.A.C.

1. We determined that the utility has a Commission approved AFUDC rate.
2. We determined that rates used in the computation of AFUDC comply with Commission Rules and Commission Order No. PSC-04-0262-PAA-WS.

**E. Objective – Contributions in Aid of Construction (CIAC):** To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff.

1. We reconciled the beginning CIAC balances to the utility’s books and the prior Commission orders. We read the utility's authorized tariff to determine the type and amount of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received donated property as CIAC.
2. We sampled CIAC additions and reviewed the following: description of asset or fees received, account number where recorded, and if the amount collected is authorized in the utility tariff. We reconciled CIAC additions to the utility's general ledger. Audit Finding 2 addresses the CIAC balances in the filing.

**F. Objective – Accumulated Amortization of CIAC and Amortization Expense:** To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of depreciation rates authorized in the utility's last Commission rate case proceeding.

1. We reconciled beginning balances to the utility’s books and the prior Commission orders.

2. We reconciled accumulated amortization accruals to the utility's general ledger. Audit Finding 4 addresses the Accumulated Amortization of CIAC balances in the filing.

**G. Objective – Working Capital:** To determine that the Working Capital balance is properly calculated in compliance with Commission rules.

1. We recalculated the utility's working capital balance as of December 31, 2007. We traced components of working capital to the general ledger. We reconciled the deferred account balances to supporting documentation. Deferred rate case balances were reconciled to the last rate case order.

#### **CAPITAL STRUCTURE:**

**A. Objective – Capital Structure:** To determine that capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations.

1. We noted that the utility did not have any customer deposits. We traced the deferred income taxes to the general ledger. We recalculated deferred income taxes. The other components of the capital structure are reviewed and discussed in a separate audit of allocations.

#### **REVENUE AND EXPENSES:**

**A. Objective - Revenue:** To verify that revenues earned from the utility property during the test year are recorded and included in the filed exhibits, to verify that the utility is billing the approved tariff rates, and that the revenues are classified in compliance with the Commission Rules and Uniform System of Accounts.

1. We tested the reasonableness of the utility revenues by multiplying average consumption times the number of customers for each class of service, and compared it to a schedule of utility revenues by customer class for the historical test year.
2. We reconciled revenues reported on the Regulatory Assessment Fee (RAF) filing to the utility's books and records, and recalculated the amount of RAF fees due based on the utility's revenues reported. We agreed revenue balances in the MFR to the utility trial balance.
3. We tested some bills to check the reasonableness of the utility billing but found that in some bills the utility did not follow the tariff. Audit Finding 5 discusses the billing registers.

**B. Objective – Operation and Maintenance Expenses:** To determine that operation and maintenance costs are classified according to the Commission Rules and Uniform System of Accounts, that expenditures are appropriate for regulatory policy, that the amounts on the invoice agree with the general ledger, and that expenditures are recorded in the proper period.

1. We reconciled the general ledger Operation and Maintenance Expenses to the MFR Operation and Maintenance Expenses.
2. Salaries and benefits are allocated and were reviewed in a separate audit of allocations.
3. For utility purchased sewage treatment, sludge removal expense, purchased power, and materials and supplies expenses, we traced amounts to the utility's books and records, obtained contracts or other service contracts, and traced a sample of transactions to supporting documentation.
4. For utility contractual service expenses, transportation expense, miscellaneous expenses and utility insurance expense, we traced amounts to the utility's books and records, and traced a sample of transactions to supporting documentation. The major portion of these expenses are allocated and reviewed under a separate audit of allocations.
5. For utility regulated commission expense and rate case expense amortization, we traced amounts to the general ledger and recalculated the amortization amounts based on the applicable orders.

**C. Objective – Taxes other than Income Taxes:** To determine the appropriate expense for taxes other than income taxes for the test year.

1. We verified real estate and tangible property tax incurred by the utility for the historical test year, and ensured that all property tax expense reflects the maximum discount available, and that real estate taxes incurred are only for utility property in service. We also reconciled taxes other than income amounts to the utility's general ledger. Audit Finding 6 discusses our adjustments to test year RAF by removing prior period regulatory assessment fees and recording the actual fees incurred for the test year.



## II. AUDIT FINDINGS

### AUDIT FINDING NO. 1

#### SUBJECT: UPIS - Capitalized Time

**AUDIT ANALYSIS:** In March of 2007, Mid-County Services, Inc. capitalized time to its Account 380 Treatment and Disposal. The company did not have sufficient documentation for capitalized time valued at \$31.25 and \$468.75. Therefore, both amounts should be removed from the books.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2007.

NARUC			
Acct. No	Account Description	Debit	Credit
215	Retained Earnings	\$500	
108	Accumulated Depreciation	\$ 14	
403	Depreciation Expense		\$ 14
380	Treatment and Disposal		\$500

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The Account 380 Plant in Service 13-month average balance should be reduced by \$385 and the Plant in Service end of year balance for 2007 should be reduced by \$500. Account 108 Accumulated Depreciation 13-month average balance should be reduced by \$11 and the year end balance should be reduced by \$14. Account 403 Depreciation Expense should be reduced by \$14.

**AUDIT FINDING NO. 2**

**SUBJECT: CIAC – Tap Fees**

**AUDIT ANALYSIS:** In 2007, Mid-County, Inc. recorded a total of \$2,896.48 in tap fees. Of the \$2,896.48 in tap fees, \$1,646.48 should not be included.

The utility stated that this amount of \$1,646.48 should have been booked to another company outside of Florida.

No amortization expense was accumulated for the year.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** Account 398.7 Plant Mod Fee should be reduced by \$1,646.48.

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The Account 398.7- CIAC 13-month average should be reduced by \$633 and the year end balance of Account 398.7- CIAC should be reduced by \$1,646.

### **AUDIT FINDING NO. 3**

#### **SUBJECT: Accumulated Depreciation**

**AUDIT ANALYSIS:** FPSC Order No. PSC-07-0134-PAA-SU, issued February 16, 2007, required an adjustment of \$23,111 to increase Accumulated Depreciation balance as of December 31, 2005. The utility made this adjustment to its general ledger in May 2007, but did not adjust MFR balances as filed in the current docket. In addition the utility did not use depreciation rates to calculate depreciation expense for 2006 and 2007 as prescribed in Rule 25-30.140 F.A.C. The net effect of this is a decrease of \$334 to Accumulated Depreciation and a decrease of \$14,482 to Depreciation Expense for 2007. Therefore, the MFR balance of Accumulated Depreciation balance for 2007 should be increased by \$22,777 (\$23,111-\$334) and the MFR balance of Depreciation Expense for 2007 should be decreased by \$14,482.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:** The effect on the general ledger if finding is accepted is to decrease Accumulated Depreciation by \$334 and to decrease Depreciation Expense for 2007 by \$14,482.

**EFFECT ON FILING IF FINDING IS ACCEPTED:** The effect on filing if finding is accepted would be to increase the Accumulated Depreciation balance by \$22,777 and to decrease Depreciation Expense for 2007 by \$14,482.

#### **AUDIT FINDING NO. 4**

##### **SUBJECT: Accumulated Amortization of CIAC**

**AUDIT ANALYSIS:** FPSC Order No. PSC-07-0134-PAA-SU, issued February 16, 2007, required an adjustment of \$4,407 to increase Accumulated Amortization of CIAC balance as of December 31, 2005. The utility made this adjustment to its general ledger in May 2007, but did not adjust MFR balances as filed in the current docket. In addition the utility did not use correct rates to calculate amortization expense for 2006 and 2007 as prescribed in Rule 25-30.140 F.A.C. The net effect of this is an increase of \$23,910 to Accumulated Amortization of CIAC and an increase of \$16,034 to Amortization of CIAC expense for 2007. Therefore, the MFR balance of Accumulated Amortization of CIAC balance for 2007 should be increased by \$28,317(\$23,910 + \$4,407) and the MFR balance of Amortization of CIAC Expense for 2007 should be increased by \$16,034.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:** The effect on the general ledger if finding is accepted is to increase Accumulated Amortization of CIAC by \$23,910 and increase Amortization of CIAC Expense for 2007 by \$16,034.

**EFFECT ON FILING IF FINDING IS ACCEPTED:** The effect on filing if finding is accepted is to increase the MFR balance of Accumulated Amortization of CIAC balance for 2007 by \$28,317 (\$23,910 + \$4,407) and to increase the MFR balance of Amortization of CIAC Expense for 2007 by \$16,034.

## **AUDIT FINDING NO. 5**

### **SUBJECT: Billing Registers**

**AUDIT ANALYSIS:** FPSC Order PSC-06-0653-PCO-SU, issued August 4, 2006, states on Schedule 4 that the interim residential gallonage charge of \$2.85 should be capped at 10,000 gallons. The tariff that was filed stated that the residential gallonage charge of \$2.85 should be capped at 20,000 gallons. The utility billed using this tariff from its effective date of October 1, 2006, until April 7, 2007.

Audit staff tested the billing on a random basis and believes that the utility overbilled residential customers that used in excess of 10,000 gallons per billing cycle for the time frame of October 1, 2006 through April 7, 2007. Audit staff did not obtain complete billing records for this time frame and is unable to provide an amount.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** Revenues were overstated from October 1, 2006 through April 6, 2007. However, the audit staff did not recalculate revenues.

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** Revenues were overstated from January 1, 2007 through April 6, 2007. However, the audit staff did not recalculate revenues.

**AUDIT FINDING NO. 6****SUBJECT: Taxes Other Than Income Taxes****AUDIT ANALYSIS:**

The utility combines the Regulatory Assessment Fees paid for July to December 2006 and the Regulatory Assessment Fees paid for January to June 2007 on Schedule B-15 of the MFR filed in this docket. The MFR should be adjusted as shown in the schedule below.

DATE	PER MFR SCHEDULE B-15	PER AUDIT	DIFFERENCE TO ADJUST
Jul-Dec 2006	\$30,385	\$0	\$30,385
Jan-Jun 2007	\$34,959	\$34,959	\$0
Jul-Dec 2007	\$0	\$32,478	\$32,478
Total	\$65,344	\$67,437	\$ 2,093

However, multiplying the revenues of \$1,624,068 reported on MFR Schedule B-2 by the Regulatory Assessment Fee rate of 0.045 results in a RAF due for 2007 of \$73,083. This is an additional increase of \$5,645(\$73,083 – \$67,437) to RAF. Combining both adjustments increases RAF recorded in the MFR to \$7,739(\$5,645+\$2,094).

Audit staff believes that the utility owes this Commission an additional RAF of \$5,645 for 2007.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The utility's 2007 RAF expense should be increased by a net of \$5,645 to properly record the actual RAF for the period.

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The utility's TOTI balance should be increased by \$7,739 for the 12-month period ended December 31, 2007.

### III. EXHIBITS

#### EXHIBIT NO. 1 – Rate Base

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Mid-County Services, Inc.  
 Docket No.: 090250-SU  
 Schedule Year Ended: December 31, 2007  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

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

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/3 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	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 6,244,515	\$ 305,162 (A)	\$ 6,549,677	A-3, A-6
2	Utility Land & Land Rights	20,148		20,148	A-6
3	Less: Non-Used & Useful Plant		- (B)	-	A-3, A-7
4	Construction Work In Progress	46,438	(46,438) (C)	-	A-3, A-18
5	Less: Accumulated Depreciation	(1,984,790)	(30,393) (D)	(2,015,183)	A-3, A-10
6	Less: CIAC	(3,025,365)		(3,025,365)	A-12
7	Accumulated Amortization of CIAC	1,838,280	9,211 (E)	1,845,491	A-3, A-14
8	Acquisition Adjustments				-
9	Accum. Amort. of Acq. Adjustments				-
10	Advances For Construction				A-15
11	Working Capital Allowance		246,216 (F)	246,216	A-3, A-17
12	Total Rate Base	\$ 2,937,226	\$ 483,757	\$ 3,420,983	

# EXHIBIT NO. 2 – Net Operating Income

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Mid-County Services, Inc.  
 Docket No.: 080250-SU  
 Test Year Ended: December 31, 2007  
 Interim [ ] Final [X]  
 Historic [X] or Projected [ ]

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

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

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 1,524,055	\$ 68,549 (A)	\$ 1,712,613	\$ 386,286 (F)	\$ 2,098,901	B-4, E-2
2	Operation & Maintenance	1,308,986	55,405 (B)	1,364,393	71,711 (G)	1,436,104	B-6, B-3
3	Depreciation, net of CIAC Amort.	141,732	32,815 (C)	174,547	-	174,547	B-14, B-3
4	Amortization			0	-	-	B-3
5	Taxes Other Than Income	104,113	6,173 (D)	110,286	25,121 (H)	135,406	B-15, B-3
6	Provision for Income Taxes	(5,751)	5,751 (E)	-	\$2,743 (I)	62,743	C-1, B-3
7	OPERATING EXPENSES	1,549,083	100,144	1,649,226	159,575	1,808,802	
8	NET OPERATING INCOME	\$ 74,982	\$ (11,595)	\$ 53,387	\$ 226,712	\$ 290,089	
9	RATE BASE	\$ 2,937,226		\$ 3,420,683		\$ 3,420,983	
10	RATE OF RETURN	2.55 %		1.65 %		8.40 %	



# EXHIBIT NO. 3 – Capital Structure

Reconciliation of Capital Structure to Requested Rate Base (Final)  
12 Month Average

Company: Mid-County Services, Inc.  
Cochise No.: 000260-BU  
Test Year Ended: December 31, 2007  
Schedule Year Ended: December 31, 2007  
Historic (X) Projected ( )

Florida Public Service Commission

Schedule D-2

Page 1 of 1

Prepared: Kirsten Weeks

Subsidiary ( ) or Consolidated (X)

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

Line No.	Class of Capital	(1)			(2) Thirteen Month Average	(3) Reconciliation Adjustments		(4) Percentage	(5) Percentage Amount	(6) Reconciled To Requested Rate Base
		Prior Year 12/31/06	Test Year 12/31/07			Specific	Percent %			
1	Long-Term Debt	180,000,000	180,000,000	180,000,000		86.86 %	(178,173,753)	7,826,247		
2	Short-Term Debt	-	10,000,000	1,536,763		0.47 %	(1,518,238)	18,525		
3	Preferred Stock	120,181,844	158,372,419	141,658,760		43.87 %	(140,417,527)	1,241,233		
4	Common Equity	-	-	-						
5	Customer Deposits	-	-	-						
6	Tax Credits - Inst. Cost	-	-	-						
7	Tax Credits - Inv. Cost	-	-	-						
8	Accum. Deferred Income Tax	138,470	133,130	138,957				138,957		
9	Other (negative)	-	-	-						
10										
11	Total	300,181,844	348,372,419	321,627,522	\$ -	100.00 %	(319,988,509)	3,629,013		

Note: Customer Deposits and Accum. Deferred Income Tax are assets for Mid-County Services, Inc.