

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: June 7, 2013
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 130010-WS
Company Name: Ni America, LLC (Affiliate Audit of Ni Florida, LLC)
Audit Purpose: A1f File and Suspend Rate Case-Affiliate Transactions
Audit Control No.: 13-071-4-2

RECEIVED
13 JUN - 7 PM 1:59
COMMISSION CLERK

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

LD/

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

03153 JUN-7 2013

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Ni America Capital Management, LLC
Rate Case (PAA)

Twelve Months Ended September 30, 2012

Docket No. 130010-WS
Audit Control No. 13-071-4-2
June 4, 2013

A handwritten signature in cursive script, appearing to read "Kathy Welch", written over a horizontal line.

Kathy Welch
Audit Manager

A handwritten signature in cursive script, appearing to read "Gabriela Leon", written over a horizontal line.

Gabriela Leon
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Cost of Capital	4
2: Allocated Costs by Detailed Account.....	7
3: Payroll	9
4: Due Diligence	10
5: Equity Sponsor Fee	11
6: Advertising and Meals and Entertainment.....	12
7: Direct Costs.....	13
8: Possible Non-Recurring Expenses.....	14

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated March 11, 2013. We have applied these procedures to the attached schedules prepared by Ni America Capital Management, LLC in support of its filing for rate relief in Docket No. 130010-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Ni Florida, LLC.

Parent refers to Ni America Capital Management, LLC.

Utility Information

The Utility is a Class A Utility with a water distribution system in Lee County serving approximately 743 customers and a wastewater distribution system in Pasco County serving approximately 2,621 customers. It is owned by Ni America Capital Management, LLC. Expenses have been allocated from Ni American Capital Management, LLC and another subsidiary of Ni America Capital Management, LLC, Ni America Operating, LLC. A separate audit was performed on Ni Florida's costs.

The Minimum Filing Requirements (MFRs) for this proceeding used a test year ended September 30, 2012. Rate Base was last established for the water system as of December 31, 2009 in Order No. PSC-11-0199-PAA-WU, Docket No. 110149-WU. Rate Base was last established for the wastewater system as of December 31, 2008 in Order No. PSC-10-0168-PAA-SU, Docket No. 090182-SU.

Capital Structure

Objectives: The objectives were to determine whether: 1) the Utility's equity and debt were more appropriate than the parent's equity and debt, 2) the components used agree to the books and records, 3) the cost rates agree with orders and debt instruments, and 4) the weighted cost was correctly computed.

Procedures: We attempted to trace the Utility cost of capital, debt and customer deposit MFRs to the ledger. We prepared a Cost of Capital schedule for the parent using the consolidated audited financial statements for 2011, updated information for 2012, actual loan agreements, monthly loan interest statements. Finding 1 provides the parent capital structure and corrects the Ni Florida capital structure.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether: 1) the gross costs at the parent level were appropriate costs to be allocated to the Florida subsidiary and 2) the Utility could support its allocation methodology.

Procedures: Using the ledgers of Ni America Operating, LLC, we scheduled the allocated costs by account and made the adjustments made in the filing by account. We reviewed the costs for compliance with prior Commission orders. We prepared an analytical review of expenses allocated. We scheduled the allocated costs by detailed account. We selected samples of the

expenses and traced to source documentation for proper timing, amount, classification, and whether the costs were recurring, utility related, reasonable, and prudent. We obtained payroll by employee and determined the allocation for acquisition costs that was made in the prior order based on current salaries. We determined reasonableness of the ERC allocation based on review of customers per division. We reviewed Board of Director's minutes for possible future expansion. Finding 2 shows the allocated costs by detail account. Finding 3 discusses payroll. Finding 4 discusses due diligence. Finding 5 discusses the equity sponsor fee. Finding 6 discusses advertising and entertainment. Finding 7 discusses direct costs which are allocated. Finding 8 discusses possible non-reoccurring costs.

Audit Findings

Finding 1: Cost of Capital

Audit Analysis: The Utility revised Schedule D-1, Cost of Capital, did not include Customer Deposits. We prepared a cost of capital schedule for both the Utility and the consolidated Ni America Capital Management LLC and subsidiaries. We used the 13-month average of ledger balances for the Utility. We obtained the 2011 audited financial statements for Ni America Capital Management LLC and subsidiaries. The 2012 financial statements were not completed. However, the Utility provided the schedules that are being included in the financial statements with balances for September 30, 2012. We averaged the December 31, 2011 and September 30, 2012 balances for the parent company cost of capital. The schedules follow this finding.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: The Utility cost of capital should be reduced from 8.01% to 7.85%. The Parent cost of capital is 7.43%.

Ni Florida LLC
Florida Cost of Capital
Test Year Ended September 31, 2012

Account	13-Month Average Balances	Prorate Without Deposits	Prorate	Rates	Ratio	Weighted Cost
Equity	\$ 6,177,231.25	70.23%	\$ 2,461,306.60	9.48%	69.29%	6.57%
Note Payable B of A	\$ 2,362,385.43	26.86%	\$ 941,288.19	3.60%	26.50%	0.95%
Note Payable Hudson	\$ 255,613.81	2.91%	\$ 101,848.86	8.50%	2.87%	0.24%
	\$ 2,617,999.24	29.77%	\$ 1,043,137.05			
Total Equity and Debt	\$ 8,795,230.49	100.00%	\$ 3,504,443.65			
Customer Deposits	\$ 47,573.35		\$ 47,573.35	6.00%	1.34%	0.08%
Rate Base	\$ 3,552,017.00		\$ 3,552,017.00		100.00%	7.85%
Used by Utility						8.01%

Equity Rate Per Commission Order PSC-12-0339-PAA-WS, Docket 120006-WS, issued 6/28/12

Return=5.84+(2.521/equity ratio)

9.48=5.84+(2.521/.6929)

**Parent Cost of Capital Using 2011-Sept. 2012 Average
Test Year Ended September 31, 2012**

Account	12/31/2011	9/30/2012	Average	Rates	Ratio
Equity	\$ 23,208,368.00	\$ 23,201,052.00	\$ 23,204,710.00		58.81%
Note Payable B of A	\$ 14,962,500.00	\$ 16,175,000.00	\$ 15,568,750.00	3.60%	39.46%
Note Payable to a Seller	\$ 29,804.00	\$ 10,102.00	\$ 19,953.00	7.00%	0.05%
Note Payable Security Federal		\$ 811,298.00	\$ 405,649.00	3.00%	1.03%
Note Payable Hudson	\$ 245,729.00	\$ 265,510.00	\$ 255,619.50	8.50%	0.65%
	\$ 15,238,033.00	\$ 17,261,910.00	\$ 16,249,971.50		41.19%
Total Equity and Debt	\$ 38,446,401.00		\$ 39,454,681.50		100.00%

Note used 13-Month average for Bank of America and Average of 12/31/11 and 9/30/12 for other components.

Account	Balance	Prorate Parent	Rates	Ratio	Weighted Cost
Equity	\$ 2,061,088.71	58.81%	10.18%	58.03%	5.91%
Note Payable B of A	\$ 1,382,847.48	39.46%	3.60%	38.93%	1.40%
Note Payable to a Seller	\$ 1,772.27	0.05%	7.00%	0.05%	0.00%
Note Payable Security Federal	\$ 36,030.55	1.03%	3.00%	1.01%	0.03%
Note Payable Hudson	\$ 22,704.63	0.65%	8.50%	0.64%	0.05%
	\$ 3,504,443.65				
Customer Deposits	\$ 47,573.35		6.00%	1.34%	0.08%
Rate Base	\$ 3,552,017.00			100.00%	7.48%
Used by Utility					8.01%

Equity Rate Per Commission Order PSC-12-0339-PAA-WS, Docket 120006-WS, issued 6/28/12

$$\text{Return} = 5.84 + (2.521 / \text{equity ratio})$$

$$10.184 = 5.84 + (2.521 / .58.03)$$

Finding 2: Allocated Costs by Detailed Account

Audit Analysis: Schedule B-12 of the MFRs shows net allocated expenses of \$62,537 for water and \$239,395 for wastewater. We prepared the detail of these costs by detailed account. A schedule follows this finding.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: This finding is provided for informational purposes only.

Acct. No.	Account Title	NI Operations Test Year	NI Capital Management	Remove Palmetto	Net Costs	Allocated Tamiami 1.89%	Allocate Hudson 7.22%
601	Salaries	\$ 583,317	\$ -	\$ (112,733)	\$ 470,584	\$ 8,894	\$ 33,976
408	Payroll Taxes	\$ 49,793	\$ -	\$ (8,982)	\$ 40,811	\$ 771	\$ 2,947
603	Salaries Directors and Officers	\$ 1,001,409	\$ -	\$ (90,047)	\$ 911,362	\$ 17,225	\$ 65,800
408	Payroll Taxes	\$ 75,561	\$ -	\$ (11,324)	\$ 64,237	\$ 1,214	\$ 4,638
604	Pensions and Benefits	\$ 306,003	\$ -	\$ (40,335)	\$ 265,668	\$ 5,021	\$ 19,181
620	Repairs and Maintenance	\$ 15,743	\$ -	\$ -	\$ 15,743	\$ 298	\$ 1,137
632	Contract Services Accounting	\$ 1,730	\$ 196,055	\$ -	\$ 197,785	\$ 3,738	\$ 14,280
633	Contract Services Legal	\$ 34,678	\$ 39,148	\$ -	\$ 73,825	\$ 1,395	\$ 5,330
634	Director's Fees	\$ -	\$ 553,875	\$ -	\$ 553,875	\$ 10,468	\$ 39,990
636	Contract Services Other	\$ 60,638	\$ -	\$ -	\$ 60,638	\$ 1,146	\$ 4,378
641	Rent Expense	\$ 38,139	\$ -	\$ -	\$ 38,139	\$ 721	\$ 2,754
642	Equipment Rental	\$ 1,172	\$ -	\$ -	\$ 1,172	\$ 22	\$ 85
650	Transportation Expense	\$ -	\$ 36,665	\$ -	\$ 36,665	\$ 693	\$ 2,647
650.2	Travel Expense Corporate	\$ 176,811	\$ -	\$ (97,264)	\$ 79,547	\$ 1,503	\$ 5,743
655	Insurance Expense	\$ 5,505	\$ -	\$ -	\$ 5,505	\$ 104	\$ 397
659	Insurance Other	\$ 11,884	\$ -	\$ -	\$ 11,884	\$ 225	\$ 858
660	Advertising and Promotion	\$ 35,016	\$ -	\$ -	\$ 35,016	\$ 662	\$ 2,528
661	Bank Service Charges	\$ 4,131	\$ -	\$ -	\$ 4,131	\$ 78	\$ 298
675.1	Telephone Expense	\$ 55,471	\$ -	\$ -	\$ 55,471	\$ 1,048	\$ 4,005
675.2	Utilities	\$ 15,714	\$ -	\$ -	\$ 15,714	\$ 297	\$ 1,135
675.3	Meals and Entertainment	\$ 35,549	\$ 5,381	\$ -	\$ 40,929	\$ 774	\$ 2,955
675.4	Dues and Professional Org.	\$ 5,583	\$ 2,635	\$ -	\$ 8,218	\$ 155	\$ 593
675.5	Computer and Internet	\$ 22,791	\$ -	\$ -	\$ 22,791	\$ 431	\$ 1,646
675.6	Utility Associations	\$ 1,104	\$ -	\$ -	\$ 1,104	\$ 21	\$ 80
401	Bank Charges	\$ 1,729	\$ -	\$ -	\$ 1,729	\$ 33	\$ 125
675.7	Office Supplies	\$ 10,053	\$ -	\$ -	\$ 10,053	\$ 190	\$ 726
675.8	Postage	\$ 8,335	\$ -	\$ -	\$ 8,335	\$ 158	\$ 602
675.9	Other	\$ 46,885	\$ -	\$ -	\$ 46,885	\$ 886	\$ 3,385
675.10	Education and Supplies	\$ 20,697	\$ -	\$ -	\$ 20,697	\$ 391	\$ 1,494
680	Due Diligence	\$ 302,402	\$ -	\$ -	\$ 302,402	\$ 5,715	\$ 21,833
426.6	Charitable Contributions	\$ 1,980	\$ -	\$ -	\$ 1,980	\$ 30	\$ 116
	Reduction Per Schedule B-12	\$ 2,916,210	\$ 847,371	\$ (360,684)	\$ 3,402,896	\$ 64,308	\$ 245,662
	Net Costs				\$ 3,312,896	\$ 62,619	\$ 239,202
	Total Costs Per Schedule B-12				\$ 62,537	\$ 239,395	\$ (193)

Finding 3: Payroll

Audit Analysis: The Utility provided supporting documentation for the payroll included in the schedule in Finding 2. The ledger did not include \$9,000 of credits for capitalized wages. Therefore, \$9,000 should be removed from total costs.

According to the job descriptions, some of the employees in the salaries only work on the South Carolina Utilities. Any cost that can be directly attributed to a specific utility should be charged to that utility. The total salaries for employees that specifically work on South Carolina according to their job descriptions, after removal of capitalized wages, are \$65,372.42.

The total salaries to be removed follow:

	Total	Water 1.89%	Wastewater 7.22%
Capitalized Wages	\$ (9,000.00)	\$ (170.10)	\$ (649.80)
South Carolina Direct	\$ (65,376.42)	\$ (1,235.61)	\$ (4,720.18)
Total	\$ (74,376.42)	\$ (1,405.71)	\$ (5,369.98)
Taxes at 7.6%	\$ (5,652.61)	\$ (106.83)	\$ (408.12)
Benefits at 19.22%	\$ (14,295.15)	\$ (270.18)	\$ (1,032.11)
Total	\$ (94,324.18)	\$ (1,782.73)	\$ (6,810.21)

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Water expenses should be reduced by \$1,782.73 and wastewater by \$6,810.21.

Finding 4: Due Diligence

Audit Analysis: Commission Order No. PSC-11-0199-PAA-WU removed all due diligence costs and salaries related to due diligence. Due diligence are the costs the Utility spends on future acquisitions. According to the schedule of costs in Finding 2, the costs included in the filing for Account 680-Due Diligence were \$302,402. This does not include salaries. The Utility identified one employee who spends 100% of his time on due diligence and four employees who spends 10% of their time on due diligence. The total amount of salaries allocated based on these time allocations was \$152,098.53 in the test year. The following schedule totals costs for due diligence. The Utility did remove \$90,000 of total costs and \$1,689 of water and \$6,460 of wastewater costs for items that were removed in the last case. This adjustment was net out of the adjustment determined here.

	Total	Water 1.89%	Wastewater 7.22%
Due Diligence Salaries	\$ (152,098.53)	\$ (2,874.66)	\$ (10,981.51)
Taxes at 7.6%	\$ (11,559.49)	\$ (218.47)	\$ (834.60)
Benefits at 19.22%	\$ (29,233.34)	\$ (552.51)	\$ (2,110.65)
Total Salaries and Benefits	\$ (192,891.36)	\$ (3,645.65)	\$ (13,926.76)
Account 680-Due Diligence	\$ (302,402.00)	\$ (5,715.40)	\$ (21,833.42)
Total Due Diligence	\$ (495,293.36)	\$ (9,361.04)	\$ (35,760.18)
Less Adjustment on B-12 of the MFR's	\$ 90,000.00	\$ 1,689.00	\$ 6,460.00
Net Adjustment	\$ (405,293.36)	\$ (7,672.04)	\$ (29,300.18)

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Water expenses should be reduced by \$7,672.04 and wastewater by \$29,300.18.

Finding 5: Equity Sponsor Fee

Audit Analysis: Commission Order No. PSC-11-0199-PAA-WU removed the equity sponsor fee paid to Metalmark Capital, LLC. The Utility paid Metalmark \$315,000 in the test year for the sponsor fee. The sponsor fee is a 0.5 percent fee to have access to funds from a private equity fund. No debt is recorded from Metalmark Capital, LLC. The order found that the Utility's share of the equity sponsor fee was recovered through the approved return on equity. The portion allocated to water was \$5,953.50 and wastewater was \$22,743.

Metalmark was also reimbursed for expenses of \$61,313.27 by the Parent for audit, tax and compliance expenses, travel costs and various other expenses. The Parent received invoices from Metalmark listing the expenses, but did not provide any additional backup.

Account	Description	Total Amount	Water 1.89%	Wastewater 7.22%
632.0	State and Federal Tax Preparation	\$ 29,969.00	\$ 566.41	\$ 2,163.76
632.0	Consulting and Tax	\$ 2,730.00	\$ 51.60	\$ 197.11
633.0	Davis and Polk Borrowing Group Structure	\$ 6,256.50	\$ 118.25	\$ 451.72
650.0	Airfare and Travel	\$ 822.28	\$ 15.54	\$ 59.37
650.0	Overtime and Taxis	\$ 15.90	\$ 0.30	\$ 1.15
675.4	State Annual Report Monitoring Fees	\$ 1,910.05	\$ 36.10	\$ 137.91
675.4	Statutory Representation Fees	\$ 1,440.45	\$ 27.22	\$ 104.00
675.3	Meals and Entertainment	\$ 2,708.78	\$ 51.20	\$ 195.57
675.3	Meals and Entertainment	\$ 1,722.69	\$ 32.56	\$ 124.38
633.0	Legal Davis and Polk	\$ 8,479.00	\$ 160.25	\$ 612.18
650.0	Airfare	\$ 1,186.35	\$ 22.42	\$ 85.65
675.4	Business License Fees	\$ 414.45	\$ 7.83	\$ 29.92
675.3	Meals, Travel and Entertainment	\$ 3,657.82	\$ 69.13	\$ 264.09
	Total	\$ 61,313.27	\$ 1,158.82	\$ 4,426.82

We have not adjusted these costs in the effect on the filing below.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Water expenses should be reduced by \$5,953.50 and wastewater by \$22,743 for the equity sponsor fee.

Finding 6: Advertising and Meals and Entertainment

Audit Analysis: Account 660 - Advertising Expense and Promotion and Account 675.3-Meals and Entertainment consisted of sponsorship of a cook-off, rodeo tickets, George Straight concert tickets, a dove hunting trip and another hunting trip, and Texas A & M football tickets. As shown in Finding 2, the total costs in these accounts and the allocations to the Utility follow:

	Total	Water 1.89%	Wastewater 7.22%
Account 680 Advertising & Promotion	\$(35,016.00)	\$ (661.80)	\$(2,528.16)
Account 675.3 Entertainment	\$(40,929.00)	\$ (773.56)	\$(2,955.07)
Total	\$(75,945.00)	\$(1,435.36)	\$(5,483.23)

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Water expenses should be reduced by \$1,435.36 and wastewater by \$5,483.23.

Finding 7: Direct Costs

Audit Analysis: Some amounts in Account 650-Transportation expense were specifically related to other individual utilities owned by the parent. Some of these amounts were directly for this Utility. If these amounts were removed from the parent's books and charged directly to the utility that they relate to, water expenses would be decreased by \$1,034.10 and wastewater expenses would be increased by \$9,979.92.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Water expenses should be decreased by \$1,034.10 and wastewater expenses increased by \$9,979.92.

Finding 8: Possible Non-Recurring Expenses

Audit Analysis: The Parent accrued \$34,500 for an Operation Manager to relocate to South Carolina. This cost should have been direct to South Carolina. This amount allocated to water at 1.89% and wastewater at 7.22% amounts to \$652.05 included in water expenses and \$2,490.90 are included in wastewater expenses.

The Parent also increased an allocation for relocation fees for the Chief Financial Officer by \$9,175. The original accrual of \$25,000 was outside of the test year. Audit staff asked the Utility if these costs were non-recurring and the response was that the Utility may pay other relocation fees in the future. The 1.89% and 7.22% for water and wastewater, respectively, also apply to the \$9,175. We have not adjusted this amount in the effect on the filing below.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Water expenses should be reduced by \$652.05 and wastewater by \$2,490.90.