

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: November 9, 2009
TO: Curt Mouring, Regulatory Analyst III, Division of Economic Regulation
FROM: Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DM*
RE: Docket No.: 090182-SU
Company Name: NI Florida, LLC
Company Code: SU915
Audit Purpose: A1f; Rate Case
Audit Control No: 09-243-2-1

RECEIVED-FPSC
09 NOV 10 AM 10:25
COMMISSION
CLERK

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.

DNM/ch

Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

11224 NOV 10 8

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Tampa District Office

NI FLORIDA, LLC

FILE AND SUSPEND RATE CASE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090182-SU

AUDIT CONTROL NO. 09-243-2-1

A handwritten signature in black ink, appearing to read "Tomer".

Tomer Kopelovich, Audit staff

A handwritten signature in black ink, appearing to read "Simon Ojada".

Simon Ojada, Audit Manager

A handwritten signature in black ink, appearing to read "Jocelyn Y. Stephens".

Jocelyn Y. Stephens, Interim Audit Supervisor

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. UNIFORM SYSTEM OF ACCOUNTS	6
2. UTILITY BOOKS AND RECORDS	7
3. UTILITY PLANT IN SERVICE	8
4. ACCUMULATED DEPRECIATION	10
5. AMORTIZATION OF CIAC.....	13
6. DEPRECIATION & AMORTIZATION EXPENSE	14
7. EMPLOYEE SALARIES AND PENSION	15
8. O&M EXPENSE – CONTRACTUAL SERVICES-OTHER	17
9. UTILITY ADJUSTMENT TO O&M EXPENSE	18
IV. EXHIBITS	
1. RATE BASE	19
2. NET OPERATING INCOME.....	20
3. CAPITAL STRUCTURE.....	21

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT**

OCTOBER 29, 2009

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 dated August 27, 2009. We have applied these procedures to the attached schedules prepared by Ni Florida, LLC in support of its filing for rate relief in Docket No. 090182-SU.

This audit is 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. This report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES

RATE BASE:

General

Objective: To determine that Ni Florida, LLC's (utility or company) 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, 2007. We determined that the company did not make adjustments to its general ledger to record PSC adjustments as per Order No. PSC-09-0017-PAA-SU in Docket No. 070740-SU. However, those adjustments were made in its MFR filings.

Utility-Plant-in-Service (UPIS)

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

Procedures: We traced UPIS balances from the MFR to the utility's 2008 Annual Report and reconciled the balance to the general ledger. We reconciled the beginning balance to the Order No. PSC-09-0017-PAA-SU in Docket No. 070740-SU. The utility did not have plant in service broken up into various accounts in its general ledger. There have been no additions to UPIS since the last PSC order. We toured the plant sites to observe plant assets. Audit Finding Nos. 1 and 2 disclose information and adjustments on the utility's UPIS balances as of December 31, 2008.

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 the utility's land balance has not changed and that no land has been purchased or disposed of since its last Commission proceeding in Docket No. 070740 -SU. The land on which the wastewater system is located was obtained by easements and that the amount of \$9,513 for Land and Land Rights may have been the cost of certain easements.

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

Objective: To test CIAC additions and adjustments since December 31, 2007. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: We examined utility accounting records for cash contributions for the period January 1, 2008 through December 31, 2008. We verified the amount collected to the utility approved tariff.

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 tested annual accruals to accumulated depreciation using FPSC authorized rates prescribed by Rule 25-30.140, F.A.C. We determined that the utility did not use Commission authorized rates in some UPIS accounts. We prepared a schedule of accumulated depreciation balances by plant account from the last order using FPSC approved rates and compared same to company figures. We verified that the utility did not use the correct plant and accumulated depreciation balances as per Order No. PSC-09-0017-PAA-SU in Docket 070740-SU. Audit Finding No. 3 addresses the adjustments to the 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. To verify that CIAC amortization expense accruals are properly recorded and calculated by applying annual depreciation composite rates.

Procedures: We verified that the utility did not adjust the beginning balance of its accumulated amortization of CIAC to Order No. PSC-09-0017-PAA-SU. We recalculated accumulated amortization of CIAC account balances for the test period applying annual composite depreciation rates. The accumulated amortization-of CIAC is understated. Audit Finding No. 4 addresses the adjustment.

Working Capital

Objective: To determine the utility's Working Capital Allowance is properly calculated in compliance with Commission rules.

Procedures: We verified the company's calculation of the Working Capital Allowance which was calculated using the balance sheet method.

NET OPERATING INCOME

Revenues

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

Procedures: We reconciled revenue balances in the MFR to the general ledger. We compared reported revenues to the approved tariff rates. We performed a simple calculation estimation using the billing analysis summaries to determine what test year revenues should be.

Operation and Maintenance Expenses (O&M)

Objectives: 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 reconciled O&M expense balances in the MFR to the utility general ledger. We judgmentally selected accounts from the general ledger for testing. We reviewed the accounts for proper amount, classification, period and recurring nature. We examined invoices and supporting documentation to determine if the above objectives were met. Included in the expense amount were invoices for items that should have been capitalized. Audit Finding Nos. 6 and 7 addresses the adjustments. The utility was unable to provide supporting documentation for all O&M expenses incurred by the previous owners for the period January through April 2008.

Taxes Other Than Income (TOTI)

Objectives: To determine that Taxes other Than Income tax expense is properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We obtained the 2008 regulatory assessment fee (RAF) filing and reconciled it to the general ledger. We obtained and reviewed the property tax bills to determine if the amount booked reflects the discounted amount.

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 operation.

Procedures: We recalculated depreciation expense and CIAC amortization expense using the plant and CIAC balances as determined by staff and applying Commission approved rates and composite depreciation rates respectively. Audit Finding No. 5 addresses the adjustments.

CAPITAL STRUCTURE

Objective: To determine the components of the utility's capital structure and that 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 examined capital structure components to assure that they represent utility debt, capital stock, retained earnings and customer deposits. We reviewed long-term debt balances to the original documents and verified the terms and interest rate of each note payable.

AUDIT FINDING NO. 1

SUBJECT: UNIFORM SYSTEM OF ACCOUNTS

AUDIT ANALYSIS: Commission Rule 25-30.115, Florida Administrative Code, requires that all water and wastewater utilities maintain their accounts and records in conformity with 1996 NARUC Uniform Systems of Accounts adopted by the National Association of Regulatory Utility Commission (NARUC USoA). The utility's current chart of accounts is not in compliance with the NARUC Uniform System of Accounts. The utility's general ledger does not have individual plant accounts for Utility Plant in Service and Accumulated Depreciation. However, its underlying records were sufficient for the audit staff to substantially complete its assigned objectives.

The utility should be required to comply with the NARUC Uniform System of Accounts by creating sub-accounts for its Plant in Service and Accumulated Depreciation. It should also be required to use the NARUC USoA numbering system.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None

EFFECT ON FILING IF FINDING IS ACCEPTED: None

AUDIT FINDING NO. 2**SUBJECT: UTILITY BOOKS AND RECORDS**

AUDIT ANALYSIS: The utility reported \$1,302,104 of O&M expenses in its filing for the year ending December 31, 2008. The amount included January to April expenses by the prior owners of the utility. The utility was unable to provide supporting documentation for any of the O&M expenses incurred by the prior owners for the period January through April 2008. Also, some of the expenses in some of the accounts are no longer being incurred by Ni Florida due to the fact that the utility contracted out the management of the system. Below is the breakdown of all expenses:

	Jan - April 08	May - Dec 08	Amount
	Expenses	Expenses	Per MFR
701 Salaries and Wages - Employees	\$ 28,708	\$ 54,582	\$ 83,290
703 Salaries and Wages - Officers	43,176	64,811	107,987
704 Employee Pensions & Benefits	2,296	16,837	19,133
710 Purchased Sewer Treatment	135,764	314,948	450,712
715 Purchased Power	6,829	16,021	22,850
720 Materials and Supplies	4,212	10,021	14,233
731 Contractual Services- Engineering	7,000	-	7,000
732 Contractual Services- Accounting	3,256	28,886	32,142
733 Contractual Services- Legal	4,076	11,629	15,705
734 Contractual Services- Mgmt Fees	-	115,074	115,074
736 Contractual Services- Other	33,344	296,688	330,032
741 Rental of Building/Real Prop	3,900	6,830	10,730
750 Transportation Expense	8,859	-	8,859
756 Insurance - Vehicle	3,730	-	3,730
757 Insurance - General Liability	2,220	1,488	3,708
758 Insurance - Workman's Comp.	1,256	607	1,863
766 Regulatory Commission Expenses	-	-	-
770 Bad Debt Expense	28,592	17,498	46,090
775 Miscellaneous Expenses	9,339	19,627	28,966
Total Expenses	<u>\$ 326,557</u>	<u>\$ 975,547</u>	<u>\$ 1,302,104</u>

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None

EFFECT ON FILING IF FINDING IS ACCEPTED: Defer to the analyst as to the treatment of expenses incurred by the previous owners.

AUDIT FINDING NO. 3

SUBJECT: UTILITY PLANT IN SERVICE

AUDIT ANALYSIS: Plant in Service was last determined by the Commission in Order No. PSC-09-0017-PAA-SU in Docket No. 070740-SU. It established Utility Plant in Service (UPIS) balance as of December 31, 2007 to be \$7,552,287. The utility did not book the adjustments included in the Commission Order in its general ledger. However, the adjustments were made in the utility's filing.

Account Number	Wastewater Plant Accounts	Bal. Per PSC Order 12/31/2007	Bal. Per Utility 12/31/2007	Difference
351	Organization	\$ 6,247	\$ 6,247	\$ -
354	Structures and Improvement	2,195	2,195	-
360	Collection Sewers - Force	995,236	995,236	-
361	Collection Sewers - Gravity	3,692,850	4,104,643	(411,793)
362	Special Collecting Structures	411,793	-	411,793
363	Service to Customers	991,349	991,349	-
364	Flow Measuring Device	157,854	157,854	-
370	Receiving Wells	550,916	550,916	-
371	Pumping Equipment	540,546	549,097	(8,551)
389	Other Plant and Misc Equipment	6,298	6,298	-
390	Office Furnitures and Equipment	36,751	36,751	-
391	Transportation Equipment	146,609	146,609	-
393	Tools, Shop and Garage Equipment	10,829	10,829	-
397	Miscellaneous Equipment	2,814	2,814	-
		<u>\$ 7,552,287</u>	<u>\$ 7,560,838</u>	<u>\$ (8,551)</u>

The company's records do not reflect any additions to UPIS for the 12 month period ended December 31, 2008. The utility average UPIS is \$7,552,287. We recalculated average UPIS that includes reclassified plant additions as of December 31, 2008 of \$7,610,008 for a difference of \$57,721.

Audit Finding No. 8 of this report makes specific adjustments to the utility's operation and maintenance expense accounts that reclassify the amounts on the next page to the indicated accounts.

Account Number	Account Description	Amount
360	Collection Sewer - Force	\$ 871
361	Collection Sewer - Gravity	96,669
370	Receiving Wells	66,956
371	Pumping Equipment	11,801
		<u>\$ 176,297</u>

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

362	Special Collecting Structures	\$411,793	
361	Collection Sewers – Gravity		\$411,793

108	Accumulated Depreciation	\$ 8,551	
371	Pumping Equipment		\$ 8,551

To adjust for Order No. PSC-09-0017-PAA-SU in Docket No. 070740-SU.

360	Collection Sewer – Force	\$ 871	
361	Collection Sewer – Gravity	\$ 96,669	
370	Receiving Wells	\$ 66,956	
371	Pumping Equipment	\$ 11,801	
215	Unappropriated Retained Earnings		\$176,297

EFFECT ON FILING IF FINDING IS ACCEPTED: Increase test year Average UPIS by \$57,721 to reflect the 13-month average.

AUDIT FINDING NO. 4

SUBJECT: ACCUMULATED DEPRECIATION

AUDIT ANALYSIS: Accumulated Depreciation was last determined by the Commission in Order No. PSC-09-0017-PAA-SU in Docket No. 070740-SU. It established Accumulated Depreciation balance of \$2,870,480 as of December 31, 2007. The utility did not book the adjustments included in the Commission Order in its books and records. However, the adjustments were made in the utility's filing to the average total amount and not to the various plant accounts.

The following schedule allocates the commission amount to the various accounts.

Account Number	Wastewater Plant Accounts	Balance Per PSC Order 12/31/07	Balance Per Utility 12/31/07	Difference
351	Organization	\$ 6,247	\$ 6,247	\$ -
354	Structures and Improvement	1,562	1,577	(15)
360	Collection Sewers - Force	582,640	574,888	7,752
361	Collection Sewers - Gravity	937,648	1,018,143	(80,495)
362	Special Collecting Structures	108,881	-	108,881
363	Service to Customers	266,716	299,098	(32,382)
364	Flow Measuring Device	157,854	146,304	11,550
370	Receiving Wells	263,733	285,416	(21,683)
371	Pumping Equipment	343,008	352,923	(9,915)
389	Other Plant and Misc Equipment	6,298	6,298	-
390	Office Furnitures and Equipment	35,641	35,739	(98)
391	Transportation Equipment	146,609	146,408	201
393	Tools, Shop and Garage Equipment	10,829	10,819	10
397	Miscellaneous Equipment	2,814	2,814	-
		<u>\$ 2,870,480</u>	<u>\$ 2,886,674</u>	<u>\$ (16,194)</u>

The utility did not use PSC approved rates as prescribed in Rule 25-30.140, F.A.C. for some of its depreciable plant accounts. Therefore, we recalculated Accumulated Depreciation for the 12-month period ending December 31, 2008 and the 13-month Average Balance for the test period.

Below is the calculation of the Accumulated Depreciation and the Depreciation Expense associated with the capitalized amounts in Audit Finding No. 3. Depreciation expense on the capitalized amount is based on a half-year convention.

Account Number	Account Description	Amount	Deprec Rate	Avg Accum Deprec	Depr Expense (half yr conv)
360	Collection Sewer - Force	\$ 871	3.33%	\$ 7	\$ 15
361	Collection Sewer - Gravity	96,669	2.22%	537	1,073
370	Receiving Wells	66,956	3.33%	557	1,115
371	Pumping Equipment	11,801	5.56%	164	328
		<u>\$ 176,297</u>		<u>\$ 1,265</u>	<u>\$ 2,531</u>

The Accumulated Depreciation balance per audit at December 31, 2008 includes the capitalized items and adjustment to Depreciation Rates as discussed in Audit Finding No.3.

Wastewater Plant Accounts	Accum Depr	Accum Depr	(Difference)
	Bal Per Audit 12/31/08	Bal Per MFR 12/31/08	
351 Organization	\$ 6,247	\$ 6,247	\$ -
354 Structures and Improvement	1,631	1,658	(27)
360 Collection Sewers - Force	615,834	608,063	7,771
361 Collection Sewers - Gravity	1,020,743	1,110,465	(89,722)
362 Special Collecting Structures	119,176	10,295	108,881
363 Service to Customers	292,804	325,186	(32,382)
364 Flow Measuring Device	157,854	157,854	-
370 Receiving Wells	282,456	307,453	(24,997)
371 Pumping Equipment	373,302	383,428	(10,126)
389 Other Plant and Misc Equipment	6,298	6,298	-
390 Office Furnitures and Equipment	36,751	36,751	-
391 Transportation Equipment	146,609	146,609	-
393 Tools, Shop and Garage Equipment	10,829	10,829	-
397 Miscellaneous Equipment	2,814	2,814	-
	<u>\$ 3,073,348</u>	<u>\$ 3,113,950</u>	<u>\$ (40,602)</u>

The 13-month Average balance of Accumulated Depreciation per audit at December 31, 2008 includes the capitalized items and adjustment to Depreciation Rates as discussed in Audit Finding No.3.

Wastewater Plant Accounts	13-month Average Per Audit	13-month Average Per Filing	Audit Adjustment (Difference)
351 Organization	\$ 6,247	\$ 6,247	\$ -
354 Structures and Improvement	1,596	1,604	(8)
360 Collection Sewers - Force	599,234	599,129	105
361 Collection Sewers - Gravity	978,993	1,014,337	(35,344)
362 Special Collecting Structures	114,028	83,143	30,885
363 Service to Customers	279,760	279,760	-
364 Flow Measuring Device	157,854	161,210	(3,356)
370 Receiving Wells	272,989	274,751	(1,762)
371 Pumping Equipment	358,084	358,039	45
389 Other Plant and Misc Equipment	6,298	6,298	-
390 Office Furnitures and Equipment	36,474	36,519	(45)
391 Transportation Equipment	146,609	146,594	15
393 Tools, Shop and Garage Equipment	10,829	10,829	-
397 Miscellaneous Equipment	2,814	2,814	-
	<u>\$ 2,971,809</u>	<u>\$ 2,981,274</u>	<u>\$ (9,465)</u>

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

108 Accumulated Depreciation	\$40,602	
215 Unappropriated Retained Earnings		\$40,602
To reflect the auditors recalculated Accumulated Depreciation as of December 31, 2008.		

EFFECT ON FILING IF FINDING IS ACCEPTED: Accumulated Depreciation should be increased by \$1,265 for capitalized items and reduced by \$10,730 for using incorrect depreciation rates.

AUDIT FINDING NO. 5

SUBJECT: ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

AUDIT ANALYSIS: Rule 25-30.140, Subsection 9(b), F.A.C. states in part “Where CIAC records are not kept by sub-account, a composite depreciation rate for total plant, excluding general plant, shall be applied to the entire CIAC account”. Subsection 9(c) states “Any composite rate used shall be recalculated each year based on the applicable plant balances and depreciable rates.” Therefore, auditors used the composite rate derived from the recalculated depreciation.

The utility books and records reflected an Accumulated Amortization of CIAC balance of \$1,294,728 and 13-month average of \$1,267,651 as of December 31, 2008. We calculated Accumulated Amortization of CIAC of \$1,313,957 and 13-month average of \$1,268,053 for a difference of \$19,229 and \$402 respectively.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

215 Retained Earnings	\$19,229	
272 Accumulated Amortization of CIAC		\$19,229

EFFECT ON FILING IF FINDING IS ACCEPTED: Increase 13-month average Accumulated Amortization of CIAC by \$402 for the 12 month period ending December 31, 2008.

AUDIT FINDING NO. 6

SUBJECT: DEPRECIATION AND AMORTIZATION EXPENSE

AUDIT ANALYSIS: Accumulated Depreciation and Accumulated Amortization of CIAC was last determined by the Commission in Order No. PSC-09-0017-PAA-SU in Docket No. 070740-SU, issued January 5, 2009. It established Accumulated Depreciation and Accumulated Amortization of CIAC balance as of December 31, 2007 to be \$2,870,481 and \$1,222,171, respectively.

The utility did not use PSC approved rates as prescribed in Rule 25-30.140, F.A.C. for some of its depreciable plant accounts. Therefore, we recalculated Accumulated Depreciation for the 12-month period ending December 31, 2008 which includes capitalized items. The utility books and records reflected Depreciation Expense of \$227,275 and Amortization of CIAC of \$104,216 as of December 31, 2008. We recalculated Depreciation and Amortization of CIAC expenses as of December 31, 2008 to be \$202,868 and \$91,786 respectively.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

215 Retained Earnings	\$24,407	
403 Depreciation Expense		\$24,407
215 Retained Earnings	\$12,430	
407 Amortization of CIAC Expense		\$ 12,430

EFFECT ON FILING IF FINDING IS ACCEPTED: Decrease Depreciation expense by \$24,407 and Amortization of CIAC expense by \$12,430 for the 12-month period ending December 31, 2008.

AUDIT FINDING NO. 7**SUBJECT: ADJUSTMENTS TO SALARIES AND PENSION EXPENSES**

AUDIT ANALYSIS: The utility's records reflect the following balances for Salaries and Wages-Employees, Salaries and Wages-Officers, and Employee Pensions and Benefits for the 12-month period ended December 31, 2008.

	Direct Jan - April 2008	Allocated May - Dec 2008	Total Jan - Dec 2008
701 Salaries & Wages -Employees	28,708	54,582	83,290
703 Salaries & Wages -Officers	43,176	64,811	107,987
704 Employee Pensions & Benefits	2,296	16,837	19,133

Our review of the general ledger and other company supplied documents indicated the following:

1. The January through April Salaries and benefits were incurred and recorded by the prior owners of the utility. The utility was unable to provide the auditors supporting documentation to verify those expenses.
2. The May through December 2008 expenses were allocated. We requested and received a list of employees and officers job descriptions for Ni Florida. We also requested the detail supporting documentation for the salary overhead calculation. We verified that the allocation calculation included salaries of other employees whose names were not included as employees and officers of the utility.

We recalculated allocated Salaries and Pension Benefits as follows: For salaries, we determined total salaries of Ni America Operating LLC (corporate) employees charging time to the utility. We applied the allocated percentage from corporate to these salaries. We then recalculated salaries expense to be charged to the utility. For Pension and Benefits, we determined total number of corporate employees charging time to the utility compared to total corporate employees. Using the employee percentage, we recalculated Pension and Benefits to be charged to the utility. Our results are shown below.

	Total Salaries and Benefits May- Dec 08	Allocation Percentages	Total Per Audit	Total Per Utility	Audit Adj. (Diff.)
Employee Salaries	\$ 81,250	9.94%	\$ 8,076	\$ 54,582	\$ (46,506)
Officers Salaries	514,333	7.84%	40,324	64,813	(24,489)
Pension and Benefits	\$ 16,837	40.00%	\$ 6,735	\$ 16,837	(10,102)
					<u>\$ (81,097)</u>

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

701 Salaries and Wages - Employee	\$46,506	
703 Salaries and Wages – Officers	\$24,489	
704 Employee Pensions and Benefits	\$10,102	
215 Retained Earnings		\$81,097

EFFECT ON FILING IF FINDING IS ACCEPTED: Decrease wastewater O&M expenses by \$81,097 for the 12-month period ended December 31, 2008.

AUDIT FINDING NO. 8

SUBJECT: CONTRACTUAL SERVICES -OTHER

AUDIT ANALYSIS: The utility books and records reflected, Contractual Services–Other, expense of \$330,032 for the 12-month period ended December 31, 2008.

Our review of the general ledger and the vendor invoices indicated that the following adjustments are needed.

1. Included in the expense amount were invoices totaling \$176,297 for items that should have been capitalized.
2. The utility included \$3,210 of Ni America signs and stickers for Hudson liftstation. This amount should be amortized over four years. Therefore, one fourth of the amount (\$803) should be included in the rate case. The remaining \$2,407 should be removed from O&M expense.

The invoices reclassified and capitalized in Item No. 1 above are discussed further in Audit Finding No. 3 of this report.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

215 Retained Earnings	\$176,297	
736 Contractual Services – Other		\$176,297

EFFECT ON FILING IF FINDING IS ACCEPTED: Decrease wastewater O&M expense by \$178,708 (\$176,297 + \$2,407) for the 12-month period ending December 31, 2008.

AUDIT FINDING NO. 9

SUBJECT: UTILITY ADJUSTMENT TO O&M EXPENSE

AUDIT ANALYSIS: The utility made adjustments in its filing to Operation & Maintenance Expenses totaling \$74,076 for the 12-month period ending December 31, 2008.

1. Adjustment to reflect corrected billing for wastewater purchased from Pasco County in the amount of \$48,236.
2. Adjustment to annualize increase in electricity costs in the amount of \$653.
3. Adjustment to annualize increase in sewer treatment cost in the amount of \$2,687.
4. Adjustment to include one fourth of rate case expense in operating expenses in the amount of \$22,500.

No documentation was provided to support or explain the adjustment to reflect corrected billing for wastewater purchased from Pasco County in the amount of \$48,236. Our review is based on actual historical expense amounts, therefore, the annualized amount of \$653 and \$2,687 should not be included in the test year. According to the utility, the rate case expense is an estimated amount, therefore, it should not be included until the actual amount is provided to the analyst.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None

EFFECT ON FILING IF FINDING IS ACCEPTED: Reduce O&M expenses by the \$74,076 for the 12-month period ending December 31, 2008.

EXHIBIT II

**NI FLORIDA, LLC.
WASTEWATER NET OPERATING INCOME
YEAR END DECEMBER 31, 2008
DOCKET NO. 090182-SU**

DESCRIPTION	PER COMPANY @12/31/2008	AUDIT ADJUSTMENTS	REFER TO	PER AUDIT @12/31/2008
OPERATING REVENUES	\$ 1,470,837			\$ 1,470,837
Operation & Maintenance	1,355,829	(81,097) AF-7 (74,076) AF-9 (176,297) AF-3 & 8 (2,407) AF-8		1,021,952
Depreciation Expense	227,275	(24,407) AF-6		202,868
Amortization of CIAC	(104,216)	12,430 AF-6		(91,786)
Taxes Other Than Income	136,300			136,300
TOTAL OPERATING EXPENSE	\$ 1,615,188	\$ (345,854)		\$ 1,269,334
NET OPERATING INCOME	\$ (144,351)	\$ 345,854		\$ 201,503

EXHIBIT III

NI FLORIDA, LLC
 CAPITAL STRUCTURE
 YEAR END DECEMBER 31, 2008
 DOCKET NO. 090182-SU

Line No.	Cost of Capital	13-Month Avg Per Utility	Pro-Rata	13-Month Adj Audit Balance	Cost Rate	Weighted Cost
1	Long Term Debt	\$ 140,463.00	4.94%	\$ 124,389	8.50%	0.42%
2	Short Term debt	-	-	-	0.00%	-
3	Preferred stock	-	-	-	0.00%	-
4	Common Equity	2,693,736	94.79%	2,386,815	9.58%	9.08%
5	Customer Deposits	7,674	0.27%	6,799	6.00%	0.02%
6	Tax Credits - Zero Co.	-	-	-	0.00%	-
7	Tax Credits - Weighte	-	-	-	0.00%	-
8	Accumulated Deferrec	-	-	-	0.00%	-
9	Other	-	-	-	0.00%	-
10	Total	<u>\$ 2,841,873</u>	<u>100.00%</u>	<u>\$ 2,518,003</u>		<u>9.52%</u>

Note: The year end balances are used because Ni Florida LLC acquired the system in May of 2008 the prior year balances are no longer meaningful.