

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 31, 2023

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Donna D. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20230071-WU
Company Name: Pinecrest Utilities, LLC
Company Code: WU954
Audit Purpose: A1b: Staff-Assisted Rate Case
Audit Control No.: 2023-178-2-1

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.

Attachment: Copy of Letter

Cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing

Auditor's Report

Pinecrest Utilities, LLC
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2022

Docket No. 20230071-WU
Audit Control No. 2023-178-2-1
October 31, 2023

Handwritten signature of Hymavathi Vedula in cursive.

Hymavathi Vedula
Audit Manager

Handwritten signature of Tomer Kopelovich in cursive.

Tomer Kopelovich
Audit Staff

Handwritten signature of Brian Lenberg in cursive.

Brian Lenberg
Audit Staff

Handwritten signature of Donna Brown in cursive.

Donna Brown
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting & Finance in its audit service request dated June 27, 2023. We have applied these procedures during the review of the Utility's books and records provided in support of Pinecrest Utilities, LLC's request for a Staff Assisted Rate Case in Docket No. 20230071-WU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Pinecrest Utilities, LLC

FUS1 refers to Florida Utility Services 1, LLC.

Test Year refers to the twelve months ended December 31, 2022.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

Background

Pinecrest Utilities, LLC, (Pinecrest) is a Class C utility serving approximately 140 residential water customers in Polk County. Rate base and rates were last established by the Florida Public Service Commission in Docket No. 20120269-WU by Commission Order No. PSC-2013-0320-PAA-WU, issued August 13, 2013.

Pinecrest filed for a Staff Assisted Rate Case in October 2015, but it was withdrawn and can be found in Docket No. 20150224-WU.

Pinecrest uses Florida Utility Services 1, LLC (FUS1) personnel for operational services.

On May 26, 2023, Pinecrest filed an application for a staff-assisted rate case. A test year ended December 31, 2022, has been established for the purpose of interim and final rates. Pinecrest files income taxes as a sole-proprietorship, and Mike Smallridge is the sole proprietor.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and determined the Utility's books are in substantial compliance with the NARUC USOA. No exceptions were noted.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put into service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances of UPIS as of September 30, 2012, from Commission Order No. PSC-2013-0320-PAA-WU to the general ledger. We scheduled UPIS activity from September 30, 2012, through December 31, 2022. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year-end and simple average balances as of December 31, 2022. Finding 1 discusses our recommended adjustments to UPIS.

Land & Land rights

Objectives: The objectives were to determine whether the Utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and 3) Adjusted to reflect Commissioned-ordered adjustments and is recorded in its general ledger.

Procedures: We reconciled the beginning balances for land, as of September 30, 2012, from Commission Order No. PSC-2013-0320-PAA-WU to the general ledger. We scheduled land activity from September 30, 2012, through December 31, 2022. We verified that the land is owned by the Utility and determined that there have been no changes to the Utility's cost of land since the last rate case. We determined the year-end and simple average balances as of December 31, 2022. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Adjustments to accumulated depreciation in the Utility's last rate case proceeding are recorded in its general ledger, 2) Accumulated depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset is replaced.

Procedures: We reconciled the beginning balances for accumulated depreciation as of September 30, 2012, from Commission Order PSC-2013-0320-PAA-WU to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from September 30, 2012, to December 31, 2022. We determined the year-end and simple average balances as of December 31, 2022. Finding 2 discusses our recommended adjustments to accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission-approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding are recorded to its books and records.

Procedures: We reconciled the beginning balances for CIAC, as of September 30, 2012, from Commission Order No. PSC-2013-0320-PAA-WU to the general ledger. We noted that there were no additions to CIAC since the last rate proceeding. We determined the year-end and simple average balances as of December 31, 2022. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether : 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140 - Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments to accumulated amortization of CIAC required in the Utility's last rate proceeding are recorded to its general ledger.

Procedures: We reconciled the beginning balances for amortization of CIAC as of September 30, 2012, from Commission Order PSC-2013-0320-PAA-WU to the general ledger. We calculated annual accruals to accumulated amortization of CIAC using the depreciation rates established by Rule 25-30.140(2), F.A.C., from September 30, 2012, to December 31, 2022. We determined the year-end and simple average balances as of December 31, 2022. No exceptions were noted.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in the Utility's rate base per Commission Rule 25-30.433(3), F.A.C.

Procedures: We calculated the Utility's working capital balance as of December 31, 2022 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 3 discusses our recommended adjustments to working capital.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We determined that the Utility's capital structure consists of common equity, long-term debt, and customer deposits. We reconciled capital structure components to the general ledger. We determined that the Utility used the Commission-approved tariff rate. We recalculated the interest on customer deposits and verified that the deposit was returned after twenty-three months. We also determined the year-end and simple average Capital Structure balance and its weighted average cost as of December 31, 2022. Finding 4 discusses our recommended adjustments to common equity.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission-approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We determined individual customer consumption for the test year ended December 31, 2022, using the Utility's monthly customer billings. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the general ledger. We selected a statistically-valid sample of customers' bills and recalculated the bills using the Commission-approved tariff. We also determined the number of miscellaneous service charges by type. We calculated miscellaneous service charges by multiplying the Commission-approved tariff rates by the number of miscellaneous service connections and traced the amounts to the general ledger. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance expense (O&M) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Properly recorded in the appropriate period for the correct amount, and 3) Recorded in compliance with the NARUC USOA and Commission rules.

Procedures: We reviewed the invoices provided in support of the Utility's O&M expenses for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. We examined related-party transactions with other utilities owned or managed by Mr. Smallridge, including the employee salaries from FUS1. We determined the most recent costs that are common to all of Mr. Smallridge's utilities and obtained an allocation percentage based on the number of customers. Finding 3 discusses our recommended adjustments to O&M expenses.

Depreciation and Amortization

Objectives: The objectives were to determine whether the Utility's depreciation and CIAC amortization expenses are properly calculated using the Commission-authorized rates.

Procedures: We compiled a schedule from audited UPIS items and recalculated depreciation expense based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. We also recalculated amortization of CIAC using Commission-approved rates for the test year. Finding 2 discuss our recommended adjustments to depreciation expense.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income (TOTI) expense are: 1) Properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with NARUC USOA.

Procedures: We reviewed the TOTI documentation provided by the Utility. We traced the property taxes and regulatory assessment fees (RAF) for the test year to the general ledger. We obtained RAF returns and recalculated the RAF using the Commission-approved RAF rate and the audited revenues. In addition, we calculated the allocated payroll taxes by multiplying the allocated rate by FUS1's total payroll tax balance. No exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: According to the Utility's general ledger, the UPIS balance was \$257,346 as of December 31, 2022. Audit staff determined the UPIS balance to be \$253,449. Audit staff recommends the following actions:

1. Reclassified \$1,093 from 636 O&M Account – Contractual Services to Plant Account 311 – Pumping Equipment for the replacement of a control box.
2. Decreased Account 330 – Distribution Reservoirs by \$1,218 due to the lack of supporting documentation.
3. Decreased Account 334 – Meters and Meter Installation by \$284 due to the lack of supporting documentation.
4. Reclassified \$7,729 from Account – 400 to Account 341- Transportation Equipment as follows:
 - a. Reclassified \$7,945 from Account 400 to Account 341 – Transportation Equipment as it belongs to the Transportation Account.
 - b. Decreased Account 341- Transportation Equipment by \$216 due to the lack of supporting documentation.
 - c. This resulted in a net effect of \$7,729 (\$7,945 - \$216) for Account 341 – Transportation Equipment.
5. Decreased Account 345 – Power Operated Equipment by \$3,271 due to the lack of supporting documentation.

The Utility Plant in service balance was overstated by \$3,897 as shown in Table 1-1.

Table 1-1
Utility Plant In Service

Description	Utility Balance 12/31/2022	Adjustments	Audit Balance 12/31/2022	Simple Average
301 Organization	\$ -	\$ -	\$ -	\$ -
302 Franchises	-	-	-	-
304 Structures & Improvements	5,753	-	5,753	5,753
305 Collecting & Impounding	-	-	-	-
306 Lake, River & Other	-	-	-	-
307 Wells & Springs	27,125	-	27,125	25,997
308 Infiltration Galleries and Tunnels	-	-	-	-
309 Supply Mains	3,165	-	3,165	3,165
310 Power Generation Equip.	-	-	-	-
311 Pumping Equip.	18,821	1,093	19,914	19,367
320 Water Treatment Equip.	8,130	-	8,130	8,130
330 Distribution Reservoirs	28,690	(1,218)	27,472	27,472
331 Transmission and Distribution Mains	100,736	-	100,736	100,736
333 Services	15,363	-	15,363	15,363
334 Meters and Meter Install.	24,456	(284)	24,172	24,172
335 Hydrants	8,444	-	8,444	8,444
336 Backflow Prevention Devices	-	-	-	-
339 Other Plant And Misc.	-	-	-	-
340 Office Furniture & Equip.	76	-	76	76
341 Trans. Equip.	1,363	7,729	9,091	7,500
342 Stores Equip.	-	-	-	-
343 Tools, Shop and Garage Equip.	7	-	7	7
344 Lab Equip	-	-	-	-
345 Power Operated Equip.	7,271	(3,271)	4,000	4,000
346 Communication Equip.	-	-	-	-
347 Misc. Equip.	-	-	-	-
348 Other Tangible Plant	-	-	-	-
400 Allocated Plant	7,945	(7,945)	-	-
Total	\$ 257,346	\$ (3,897)	\$ 253,449	\$ 250,182

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on Staff Prepared Exhibits: Audit staff determined the year-end balance should be decreased by \$3,897. We also determined the UPIS balance to be \$253,449 and the simple average UPIS to be \$250,182 as of December 31, 2022.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, the accumulated depreciation balance was \$192,282 as of December 31, 2022. Audit staff recalculated accumulated depreciation and depreciation expense using the audited UPIS plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. The differences between the Utility's accumulated depreciation and audit staff's calculations were due to the Utility inconsistently recording accumulated depreciation since the last rate case and the adjustments audit staff made to several UPIS accounts. We noted the following as shown in Table 2-1.

1. Increased Account 307 – Wells & Springs by \$223
2. Increased Account 309 – Supply Mains by \$16
3. Increased Account 311 – Pumping Equipment by \$627
4. Increased Account 320 – Water Treatment Equipment by \$118
5. Increased Account 331 – Transmission and Distribution Mains by \$844
6. Increased Account 333 – Services by \$110
7. Increased Account 335 – Hydrants by \$53
8. Reclassified \$2,930 from Account 400 to Account 341 – Transportation Equipment as follows:
 - a. Reclassified \$3,955 from Account 400 to Account 341 as it belongs to Transportation Equipment Account.
 - b. Decreased Account 341 – Transportation Equipment by \$1,025
 - c. This resulted in a net effect of \$2,930 (\$3,955-\$1,025)
9. Decreased Account 330 – Distribution Reservoirs by \$106 due to an audit staff adjustment to the plant account
10. Decreased Account 334 – Meters and Meter Installation by \$284
11. Decreased Account 345 – Power Operated Equipment by \$4,471

Table 2-1
Accumulated Depreciation

Description	Utility		Audit Balance 12/31/2022	Simple Average
	Balance 12/31/2022	Adjustments		
301 Organization	\$ -	\$ -	\$ -	\$ -
302 Franchises	-	-	-	-
304 Structures & Improvements	(5,753)	(0)	(5,753)	(5,753)
305 Collecting & Impounding	-	-	-	-
306 Lake, River & Other	-	-	-	-
307 Wells & Springs	(18,798)	(223)	(19,022)	(18,541)
308 Infiltration Galleries and Tunnels	-	-	-	-
309 Supply Mains	(3,148)	(16)	(3,165)	(3,119)
310 Power Generation Equip.	-	-	-	-
311 Pumping Equip.	(16,406)	(627)	(17,033)	(16,464)
320 Water Treatment Equip.	(6,264)	(118)	(6,382)	(6,143)
330 Distribution Reservoirs	(5,121)	106	(5,014)	(4,598)
331 Transmission and Distribution Mains	(79,258)	(844)	(80,102)	(78,777)
333 Services	(14,722)	(110)	(14,832)	(14,612)
334 Meters and Meter Install.	(24,456)	284	(24,172)	(23,893)
335 Hydrants	(5,709)	(53)	(5,762)	(5,656)
336 Backflow Prevention Devices	-	-	-	-
339 Other Plant And Misc.	-	-	-	-
340 Office Furniture & Equip.	(51)	1	(51)	(43)
341 Trans. Equip.	(1,363)	(2,930)	(4,293)	(3,668)
342 Stores Equip.	-	-	-	-
343 Tools, Shop and Garage Equip.	(7)	(0)	(7)	(6)
344 Lab Equip	-	-	-	-
345 Power Operated Equip.	(7,271)	4,471	(2,800)	(2,600)
346 Communication Equip.	-	-	-	-
347 Misc. Equip.	-	-	-	-
348 Other Tangible Plant	-	-	-	-
400 Allocated Plant	(3,955)	3,955		
Total	\$ (192,282)	\$ 3,896	\$ (188,386)	\$ (183,874)

According to Utility's general ledger, the depreciation expense was \$9,021 as of December 31, 2022. However, audit staff determined depreciation expense to be \$9,889 as shown in Table 2-2.

Table 2-2
Depreciation Expense

Description	Utility Balance 12/31/2022	Adjustments	Audit Balance 12/31/2022
301 Organization	\$ -	\$ -	\$ -
302 Franchises	-	-	-
303 Land	-	-	-
304 Structures & Improvements	-	0	0
305 Collecting & Impounding	-	-	-
306 Lake, River & Other	-	-	-
307 Wells & Springs	963	(0)	963
308 Infiltration Galleries and Tunnels	-	-	-
309 Supply Mains	99	(0)	99
310 Power Generation Equip.	-	-	-
311 Pumping Equip.	1,107	32	1,139
320 Water Treatment Equip.	478	(0)	478
330 Distribution Reservoirs	869	(37)	832
331 Transmission and Distribution Mains	2,651	(0)	2,651
333 Services	439	0	439
334 Meters and Meter Install.	1,027	395	1,422
335 Hydrants	211	-	211
336 Backflow Prevention Devices	-	-	-
339 Other Plant And Misc.	-	-	-
340 Office Furniture & Equip.	5	(0)	5
341 Trans. Equip./allocation	-	1,250	1,250
342 Stores Equip.	-	-	-
343 Tools, Shop and Garage Equip.	-	0	0
344 Lab Equip	-	-	-
345 Power Operated Equip.	-	400	400
346 Communication Equip.	-	-	-
347 Misc. Equip.	-	-	-
348 Other Tangible Plant	-	-	-
400 Allocated Plant	1,171	(1,171)	-
Water Plant	<u>\$ 9,021</u>	<u>\$ 868</u>	<u>\$ 9,889</u>

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on Staff Prepared Exhibits: Audit staff determined accumulated depreciation and depreciation expense to be \$188,386 and \$9,889, respectively for the test year ended December 31, 2022. We also determined the simple average for accumulated depreciation to be \$183,874.

Finding 3: Operations and Maintenance Expense

Audit Analysis: The Utility’s O&M expense amount was \$69,474 for the twelve months ended December 31, 2022. Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were Utility related. We determined O&M expenses to be \$68,379 as shown in Table 3-1.

Table 3-1
Operations and Maintenance Expense

Acct. Description	Utility		Audit		Direct Costs	Allocated Costs
	Balance 12/31/2023	Adjustment	Balance 12/31/2023			
601 Salaries & Wages - Employees	\$ 16,421	\$ (0)	\$ 16,421	\$ -	\$ 16,421	
603 Salaries & Wages - Officers	3,201	(0)	3,201	-	3,201	
604 Employee Pension & Benefits	4	-	4	-	4	
615 Purchased Power	8,350	(0)	8,350	8,350	-	
616 Fuel for Power Production	65	-	65	65	-	
618 Chemicals	4,887	(0)	4,887	4,887	-	
620 Materials & Supplies	5,421	(0)	5,421	4,350	1,071	
631 Contractual Services - Professional	1,055	0	1,055	249	806	
635 Contractual Services - Testing	2,750	-	2,750	2,750	-	
636 Contractual Services - Other	8,908	(1,093)	7,815	7,743	73	
640 Rents	2,049	0	2,049	-	2,049	
645 Telephone and Internet	-	-	-	-	-	
650 Transportation Expense	2,561	(0)	2,561	-	2,561	
655 Insurance Expense	8,004	(0)	8,004	6,115	1,889	
660 Business Licenses	-	-	-	-	-	
665 Reg. Commission Expense	816	(0)	816	816	-	
670 Bad Debt Expense	763	-	763	763	-	
675 Misc. Expense	4,219	0	4,219	1,268	2,952	
Total	\$ 69,474	\$ (1,093)	\$ 68,379	\$ 37,355	\$ 31,024	
Working Capital Adjustment	\$ 8,684	\$ (137)	\$ 8,547			

Based on the review of supporting documentation, audit staff reclassified \$1,093 from Account 636 – Contractual Services for the labor and parts to replace a control box. We reclassified this charge to Plant Account 311 – Pumping Equipment.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on Staff Prepared Exhibits: Audit staff determined O&M expense to be \$68,379 and working capital to be \$8,547 for the test year ended December 31, 2022

Finding 4: Common Equity

Audit Analysis: The Utility recorded a negative balance of \$60,481 for common equity on its general ledger as of December 31, 2022. The Utility's Common equity consists of a Proprietor Capital Contribution in the amount of (\$18,408), Member's Equity in the amount of \$12,281, Retained Earnings in the amount of \$23,377, Equity in Allocated Plant in the amount of (\$6,759), Accounts Payable to Mike Smallridge in the amount of (\$27,510), and Accounts Payable to FUS1 in the amount of (\$43,461). We decreased the equity balance by removing the Accounts Payable to Mike Smallridge in the amount of \$27,510 and the Accounts Payable to FUS1 in the amount of \$43,461. As a result, we decreased Common Equity by a total of \$70,972 due to the lack of supporting documentation as shown in Table 4-1.

**Table 4-1
Common Equity**

Description	Utility		Audit
	Balance	Adjustments	
	12/31/2022		12/31/2022
Proprietor Capital Contribution	\$ (18,408)	\$ -	\$ (18,408)
Member's Equity	12,281	-	12,281
Retained Earnings	23,377	-	23,377
Equity in Allocated Plant	(6,759)	-	(6,759)
Accounts Payable (Mike)	(27,510)	27,510	
Accounts Payable (FUS1)	(43,461)	43,461	
Total Equity	\$ (60,481)	\$ 70,971	\$ 10,490

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on Staff Prepared Exhibits: Audit staff determined common equity should have a debit balance in the amount of \$10,490 as of December 31, 2022.

Exhibits

Exhibit 1: Rate Base

PINECREST UTILITIES, LLC
STAFF ASSISTED RATE CASE
DOCKET NO. 20230071-WU; ACN 2023-178-2-1
SCHEDULE OF RATE BASE
TWELVE MONTHS ENDED DECEMBER 31, 2022

Description	Utility Balance 12/31/2022	Audit Adjustments	Audit Finding	Audit Balance 12/31/2022	Simple Average
Utility Plant in Service	\$ 257,346	\$ (3,897)	1	\$ 253,449	\$250,182
Land	6,500	-		6,500	6,500
Accumulated Depreciation	(192,282)	3,896	2	(188,386)	(183,874)
Contributions in Aid of Construction	(100,352)	-		(100,352)	(100,351)
Accumulated Amortization of CIAC	100,352	-		100,352	98,946
Acquisition Adjustment	-	-		-	-
Accumulated Amortization of Acquisition Adjust	-	-		-	-
Working Capital Allowance	-	8,684		8,684	8,684
RATE BASE	\$ 71,563	\$ 8,683		\$ 80,246	\$ 80,088

Exhibit 2: Capital Structure

PINECREST UTILITIES, LLC
DOCKET NO. 20230071-WU; ACN 2023-178-2-1
SCHEDULE OF CAPITAL STRUCTURE
TWELVE MONTHS ENDED DECEMBER 31, 2022

Capital Components	Utility Balance 12/31/2022	Audit Adjustment	Audit Balance 12/31/2022	Ratio	Cost Rate	Weighted Cost
Long Term Debt	\$ (1,726)	\$ -	\$ (1,726)	-33.15%	5.40%	-1.79%
Common Equity	(60,482)	70,972	10,490	201.48%	8.23%	16.58%
Customer Deposit	(3,558)	0	(3,558)	-68.33%	2.00%	-1.37%
Total	\$ (65,765)	\$ 70,972	\$ 5,207	100.00%		13.43%

Equity Formula used as approved by Commission Order PSC 2023-0189-PAA-W, issued June 28, 2023, Leverage Formula:

$$\text{ROE} = 7.00 + (1.468/\text{equity ratio})$$

$$\text{ROE} = 7.00 + (1.468/1.20)=8.23$$

$$\text{Equity Ratio} = \text{Common Equity}/(\text{Common equity}+\text{Preferred Equity}+\text{Long-Term and Short-Term Debt})$$

$$\text{Equity Ratio} = 10,490/(10,490+0+(1,726)+0)=1.20$$

Equity Ratio	1.20
Common Equity	10,490
Preferred Equity	0
Long-Term Debt	(1,726)
Short Term Debt	0
Total	8,764

Exhibit 3: Net Operating Income

PINECREST UTILITIES, LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 20230071-WU; ACN 2023-178-2-1
SCHEDULE OF WATER NET OPERATING INCOME
TWELVE MONTHS ENDED DECEMBER 31, 2022

Description	Utility Balance 12/31/2022	Audit Adjustments	Audit Finding	Audit Balance 12/31/2022
Operating Revenues	\$ 59,184			\$ 59,184
Operation & Maintenance Expenses	69,474	(1,095)	3	68,379
Depreciation Expense	9,021	868	2	9,889
Amortization Expense		-		-
Taxes Other than Income	3,939	-		3,939
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 82,434	\$ (226)		\$ 82,207
Net Operating Income (Loss)	\$ (23,250)	\$ (226)		\$ (23,023)