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DATE: November 25, 2009
TO: Lydia Roberts, Regulatory Analysis II, Division of Economic Regulation
FROM: Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DM*
RE: Docket No.: 090414-WU
Company Name: Pinecrest Ranches, Inc.
Company Code: WU779
Audit Purpose: A1b Staff Assisted Rate Case
Audit Control No: 09-258-2-1

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.

DNM/ch
Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER: 11586
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**FLORIDA PUBLIC SERVICE COMMISSION
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS**

Bureau of Auditing

Tampa District Office

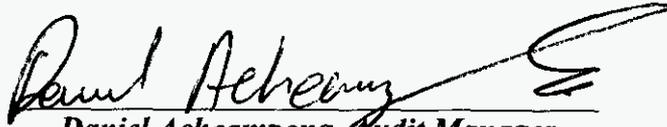
PINECREST RANCHES, INC.

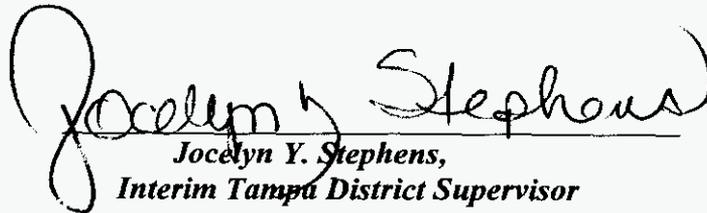
STAFF ASSISTED RATE CASE

HISTORICAL TEST YEAR ENDED JUNE 30, 2009

DOCKET NO. 090414-WU

AUDIT CONTROL NO. 09-258-2-1


Daniel Acheampong, Audit Manager


*Jocelyn Y. Stephens,
Interim Tampa District Supervisor*

DOCUMENT NUMBER: DA 1

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FPSC-COMMISSION CLERK

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

November 18, 2009

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 Economic Regulation in its audit service request dated September 15, 2009. We have applied these procedures to the attached schedules prepared by the audit staff in support of Pinecrest Ranches Inc.'s request for a Staff Assisted Rate Case in Docket No. 090414-WU.

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.

OBJECTIVES AND PROCEDURES

GENERAL

Utility Books and Records

Objective: To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts. (USOA)

Procedures: We reviewed the utility's accounting system. Audit Finding No. 1 discusses our findings and recommendations for improvements to the utility's accounting system.

RATE BASE

Utility Plant in Service (UPIS)

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

Procedures: We compiled the utility's UPIS additions for the period December 31, 2002 through June 30, 2009 to determine the utility's UPIS balance for this proceeding. We recorded retirements to UPIS when a capital item was removed or replaced. We toured the utility's plant sites to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 discusses our findings and recommended UPIS balance as of June 30, 2009.

Land and Land Rights

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

Procedures: We verified that the utility owns the land and determined its cost recorded in the general ledger reconciles with the balance in the last rate case Order No. PSC-03-0008-PAA-WU. Audit Finding No. 3 discusses our findings and recommended UPIS balance as of June 30, 2009.

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

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

Procedures: We compiled CIAC additions for the period December 31, 2002 through June 30, 2009 to determine the utility's CIAC balance for this proceeding. We recorded additions to CIAC when new customers were connected. We scanned through the utility's 2002 and 2004 through 2008 Federal Income Tax returns for unrecorded property contributions. Audit Finding No. 4 discusses our findings and recommended CIAC balance as of June 30, 2009.

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's authorized rates and that retirements are properly recorded.

Procedures: We used the ending balances from the last rate case per Docket No. 020406-WU to determine the utility's accumulated depreciation balance as of December 31, 2002. We compiled accumulated depreciation accruals for the period December 31, 2002 through June 30, 2009 to determine the utility's accumulated depreciation balance for this proceeding. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding No. 2 discusses our findings and recommended balance for accumulated depreciation as of June 30, 2009.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts.

Procedures: We used the ending balances from the last rate case per Docket No. 020406-WU to determine the utility's accumulated depreciation balance as of December 31, 2002. We compiled accumulated amortization of CIAC for the period December 31, 2002 through June 30, 2009 to determine the utility's accumulated amortization of CIAC balance for this proceeding. Audit Finding No. 4 discusses our findings and recommended accumulated amortization of CIAC balance as of June 30, 2009.

Working Capital Allowance

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

Procedures: We calculated the utility's working capital allowance as of June 30, 2009 using one-eighth of operation and maintenance expense as required by Commission Rule 25-30.433(2), Florida Administrative Code.

NET OPERATING INCOME

Revenues

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

Procedures: We compiled revenues for the 12-month period ended June 30, 2009 from the utility's monthly sales summary. We selected individual monthly bills and tested to ascertain the use of the Commission approved tariff rates. Audit Finding No. 5 discusses our findings and recommended revenue balance for the 12-month period ended June 30, 2009.

Operation and Maintenance Expense (O&M)

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

Procedures: We compiled the O&M expenses items from the utility's available invoices, bills and bank statements. We reconciled audited amounts to the utility's general ledger amounts. We reviewed the utility's supporting documentation for proper amounts, classification, proper period and recurring nature. Audit Finding No. 6 discusses our findings and recommended operation and maintenance expense balance for the 12-month period ending June 30, 2009.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that TOTI tax expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

Procedures: We compiled TOTI expense items from invoices, receipts and property tax records. We recalculated the utility's regulatory assessment fees based on the test year revenues. Audit Finding No. 7 discusses our findings and recommended TOTI tax expense balance for the 12-month period ending June 30, 2009.

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 and the amortization of utility CIAC assets from ongoing utility operations.

Procedures: We calculated depreciation expense and amortization of CIAC expense balances using the UPIS and CIAC balances determined by staff. Audit Findings No. 2 and 4 discuss our findings and recommended depreciation and amortization of CIAC expense balances for the 12-month period ending June 30, 2009.

CAPITAL STRUCTURE

General

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

Procedures: We determined that the utility's capital structure is made up of long-term debt and equity. We reconciled the long-term debt and equity balances to the net rate base balance. Audit Finding No. 8 discusses our findings and details the loan data as of June 30, 2009.

AUDIT FINDING NO. 1

SUBJECT: UTILITY BOOKS AND RECORDS

AUDIT ANALYSIS: Pinecrest Ranches Inc.'s last application for a staff-assisted rate case was in Docket No. 020406-WU. Commission Order No. PSC-03-0008-PAA-WU, required the utility to make adjustments to bring its books into compliance with the said Order. The utility did not record these adjustments.

Also 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 Commissioners (NARUC USOA). The utility's current chart of accounts is not in compliance with the NARUC Uniform System of Accounts. The utility presently uses an accrual basis of accounting in recording its daily operations.

AUDIT CONCLUSION: The utility should be ordered to maintain its accounting books and records to comply with NARUC Uniform System of Accounts. Additionally, the utility should be ordered to record the Commission adjustments from its prior rate case proceedings as recorded in Order No. PSC-03-0008-PAA-WU.

EFFECT ON GENERAL LEDGER: None.

EFFECT ON FILING: Informational.

AUDIT FINDING NO. 2

SUBJECT: UTILITY PLANT IN SERVICE AND ACCUMULATED DEPRECIATION

AUDIT ANALYSIS: The utility's general ledger amounts did not reflect the Commission adjustments nor did it include all plant additions and retirements since the last rate case. Hence, we used the original cost study per Docket No. 020406-WU as our beginning balances. We used supporting invoices to compile UPIS additions for the period December 31, 2002 through June 30, 2009. The beginning balance from the original cost study as of December 31, 2002 is \$152,387. We recorded net additions of \$33,054 to arrive at the new plant balance of \$185,441 as of June 30, 2009. To arrive at net additions, we retired plant costs at 75% of applicable plant additions. We toured the utility plant site to observe whether asset additions were completed and to ascertain if asset retirements were needed.

The utility could not provide documentation supporting the accumulated depreciation amounts in the general ledger. Therefore, we compiled accumulated depreciation accruals for the period December 31, 2002 through June 30, 2009, using the balances of the original cost study from the last rate case as the beginning amounts to determine the utility's accumulated depreciation balance as of June 30, 2009. We recorded retirements to accumulated depreciation when a capital item was removed or replaced. We depreciated all UPIS assets at the rates established by PSC Rule 25-30.140, F.A.C. to arrive at accumulated depreciation as of June 30, 2009 of \$94,417.

Additionally, we calculated a balance of \$6,211 for UPIS depreciation expense for the 12-month period ended June 30, 2009. This amount is included in the accumulated depreciation balance of \$94,417. The utility's UPIS, accumulated depreciation and depreciation expense balances by NARUC sub-account are displayed on the following schedule.

Plant Account	Description	UPIS	Accumulated Depreciation	Depreciation Expense
304	Structures & Improvements	\$5,533	\$3,991	\$204
304.1	Structures & Improvements-Fire	220	170	8
307	Wells & Springs	6,836	3,370	249
307.1	Wells & Springs-Fire	4,630	3,682	172
309	Supply Mains	2,289	1,496	72
309.1	Supply Mains-Fire	551	369	18
311	Pumping Equipment	5,680	4,884	379
311	Pumping Equipment-Fire	2,536	3,337	170
320	Water Treatment Equipment	630	1,141	90
330	Distribution Reservoirs & Stand	11,448	7,978	347
331	Transmission and Distribution	92,713	43,151	2,438
331.1	Transmission and Distribution-Fire	8,024	1,267	212
333	Services	15,363	8,907	440
334	Meters & Meter Installations	20,544	7,762	1,205
335	Hydrants	8,444	2,912	212
339	Other Plant & Miscellaneous Equipment	-	-	-
	Difference Due to Rounding			(5)
Total		\$185,441	\$94,417	\$6,211

UPIS Adjustments

		6/30/2009	06/30/2009	
Account.		Balance per	Recommended	Balance per
	Account Description	General		
No.		Ledger	Adjustments	Audit
304	Structures & Improvements	\$4,071	\$1,462	\$5,533
304.1	Structures & Improvements-Fire		220	220
307	Wells & Springs	88,207	(81,371)	6,836
307.1	Wells & Springs-Fire	-	4,630	4,630
309	Supply Mains	14,432	(12,143)	2,289
309.1	Supply Mains-Fire	-	551	551
311	Pumping Equipment	17,874	(12,194)	5,680
311	Pumping Equipment-Fire	-	2,536	2,536
320	Water Treatment Equipment	1,439	(809)	630
330	Distribution Reservoirs & Stand	15,144	(3,696)	11,448
331	Transmission and Distribution	27,106	65,607	92,713
331.1	Transmission and Distribution-Fire	-	8,024	8,024
333	Services	3,819	11,544	15,363
334	Meters & Meter Installations	9,800	10,744	20,544
335	Hydrants	-	8,444	8,444
339	Other Plant & Miscellaneous Equipment	2,774	(2,774)	-
	Total	\$184,666	\$775	\$185,441

Accumulated Depreciation

Account. No.	Account Description	6/30/2009		06/30/2009
		Balance per Books	Recommended Adjustments	Balance per Audit
304	Structures & Improvements		-	\$3,991
304.1	Structures & Improvements-Fire		-	170
307	Wells & Springs		-	3,370
307.1	Wells & Springs-Fire		-	3,682
309	Supply Mains		-	1,496
309.1	Supply Mains-Fire		-	369
311	Pumping Equipment		-	4,884
311	Pumping Equipment-Fire		-	3,337
320	Water Treatment Equipment		-	1,141
330	Distribution Reservoirs & Stand		-	7,978
331	Transmission and Distribution		-	43,151
331.1	Transmission and Distribution-Fire		-	1,267
333	Services		-	8,907
334	Meters & Meter Installations		-	7,762
335	Hydrants		-	2,912
339	Other Plant & Miscellaneous Equipment		-	-
Total		\$165,612	(\$71,195)	\$94,417

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

101	UPIS	\$775	
215	Retained Earnings		\$775
108	Accumulated Depreciation	\$71,195	
215	Retained Earnings		\$71,195

EFFECT ON FILING IF FINDING IS ACCEPTED: UPIS should be increased by \$775 and accumulated depreciation should be decreased by \$71,195.

AUDIT FINDING NO. 3

SUBJECT: LAND AND LAND RIGHTS

AUDIT ANALYSIS: Utility land and land rights balance is \$6,500 as of June 30, 2009, based on our audit. The utility's general ledger indicates land and land rights balance of \$6,500, a reduction of \$10,000 from the last rate case. The utility sold a tract of land for an amount of \$10,000 to Dlanter-Goodin, LLC an unrelated party on January 23, 2009. There were no additions to land and lands rights.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None.

EFFECT ON FILING IF FINDING IS ACCEPTED: None.

AUDIT FINDING NO. 4

SUBJECT: CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)

AUDIT ANALYSIS: The utility's general ledger does not contain an amount for CIAC and related amortization. The utility did not record the Commission's adjustments from the last rate case in Order No. PSC-03-0008-PAA-WU.

We used the balance from the original cost study in the last rate case per Docket No. 020406-WU. We determined that the utility's proper CIAC balance as of June 30, 2009 is \$100,351. We also calculated accruals for amortization of CIAC for the period December 31, 2002 through June 30, 2009 to determine the utility's accumulated amortization of CIAC balance as of June 30, 2009, using depreciation rates established by PSC Rule 25-30.140, F.A.C. We determined the proper accumulated amortization of CIAC and CIAC amortization as of June 30, 2009, is \$57,354 and \$2,826, respectively. Our CIAC schedule is displayed below.

<u>Account Description</u>	Original Cost Study Docket No. 020406-WU 12/31/2002	Additions from 12/31/2002 to 06/30/2009	CIAC Balance 06/30/2009
Structures & Improvements-Fire	\$220		\$220
Wells & Springs	4,630		4,630
Supply Mains	551		551
Pumping Equipment	2,536		2,536
Transmission and Distribution	72,807		72,807
Services	15,363		15,363
Hydrants	4,244		4,244
Total	\$100,351		\$100,351

Acct. No.	Account Description	CIAC Balance 06/30/09	Accumulated Amortization 06/30/09	CIAC Amortization 06/30/09
	Beginning Balance Per Order			
	No. PSC-03-0008-PAA-WU		\$38,984	
304.1	Structures & Improvements-Fire	\$220	53	\$8
307.1	Wells & Springs	4,630	1,114	171
309.1	Supply Mains	551	112	17
311	Pumping Equipment	2,536	1,099	169
331	Transmission and Distribution	72,807	12,446	1,915
333	Services	15,363	2,856	440
335	Hydrants	4,244	690	106
	Total	\$100,351	\$57,354	\$2,826

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

215 Retained Earnings	\$100,351	
271 CIAC		\$100,351
272 Accumulated Amortization of CIAC	\$57,354	
215 Retained Earnings		\$57,354

EFFECT ON FILING IF FINDING IS ACCEPTED: CIAC should be increased by \$100,351 and accumulated amortization should be increased by \$57,354.

AUDIT FINDING NO. 5

SUBJECT: REVENUES

AUDIT ANALYSIS: The utility's revenues are \$48,836 for the 12-month period ended June 30, 2009. The utility's customer base includes a monthly average of 135 residential and zero general service customers during the 12-month period ended June 30, 2009. The utility charges were based on Commission approved tariff.

We recalculated the utility's residential water revenues to be \$48,836 for the 12-month period ended June 30, 2009. The utility general ledger recorded \$51,497. These revenues included a monthly support fee from two other related companies. The connection fees are not for new customers, it is for new tenants, hence, we did not classify it as CIAC. Based on our calculations, we have determined an adjustment of \$2,661 needs to be made to the utility books. The comparison of the audited amounts and the utility's general ledger amounts are displayed on the following schedule.

Description	Per Utility General	Audit Adjustments	Per Audit	Explanation
Base Rate	\$20,479	(\$195)	\$20,284	(a)
Metered Water	26,863	(411)	26,452	(a)
Visitation Fees	80	15	95	(a)
Connection Fees	240	-	240	
Reconnection Fees	480	(60)	420	(a)
Disconnection Fees	450	-	450	
Miscellaneous Repairs of Damage	938	(938)	-	(c)
Monthly Office Support Service	1,000	(1,000)	-	(c)
Other Water Revenue	(13)	13	-	(b)
Late Fees	850	(60)	790	(a)
NSF Fees	130	(25)	105	(a)
Total	\$51,497	(\$2,661)	\$48,836	

Note:(a) The Difference resulted from staff recalculation of revenues.

(b) Discount given to an employee

(c) These were other related party (Water Supply Inc.) revenues, recorded as part of Pinecrest revenues.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

400 Water Operating Revenue	\$2,661	
141 Customer Account Receivable		\$2,661

EFFECT ON FILING IF FINDING IS ACCEPTED: Water service revenues should be decreased by \$ 2,661.

AUDIT FINDING NO. 6

SUBJECT: OPERATION AND MAINTENANCE EXPENSES

AUDIT ANALYSIS: The utility's operation and maintenance (O&M) expenses are \$60,069 for the 12-month period ended June 30, 2009. The utility did not record all its expenses in the general ledger, therefore we reconstructed the utility expenses based on the available supporting documentation. We included all direct expenses incurred by the utility and we included the following allocated expense categories for the 12-month period ended June 30, 2009 that were posted in the utility's disbursement ledger and that benefited utility operations.

- 1) **Contractual Services:** The utility does not have employees. All office work and operations were conducted by a related party company, Water Supply Inc. The utility's general ledger reflects payments made to this company. Staff reviewed the invoices and requested for the breakdown of the various responsibilities and the corresponding charges to these responsibilities. The Water Supply Inc. management duties include; bookkeeping, billing and collection, paying vendors, customer contact, meter readings, plant maintenance and the overall management of the company's day-to-day activities. We determined the management company's annual payment to be \$31,917 based on the invoices received from the management company.
- 2) **Rent Expense:** The utility office is located in a building owned by Richard Little, a related party and shared by Water Supply Inc. and Norman Duncan Enterprise. The rent and other office expenses are shared based on the revenue generated by these companies. Pinecrest pays 45% of the rent and other office expenses. We determined the rent expenses to be \$1,620. The other office expenses are included in the miscellaneous expenses.
- 3) **Transportation and Truck Insurance Expense:** The utility recorded truck insurance expense and fuel expense. However, the utility does not own any trucks. The management company's invoice breakdown also includes charges for mileage. The management company used the approved Internal Revenue rate for billing. We removed the auto insurance expenses and the fuel charges, since the utility assets do not include trucks and instead used the standard mileage rate, which is included as part of contractual services-other. We also increased the liability insurance for plant to reflect the actual liability insurance charges. Total net adjustment is \$889.
- 4) **Miscellaneous Expense:** We included actual telephone expenses, bank charges, postal services and office supplies of \$5,828. We also included \$150 for filing an annual report and \$1,000 for ongoing cost, for a health permit license for total miscellaneous expenses of \$6,978.
- 5) We included actual purchased power for the water plant and fire hydrant system, and the utility's portion of office power to calculate purchased power of \$3,711.
- 6) The utility recorded \$3,942 as regulatory assessment fee for 2006 (\$1,759) and 2008 (\$2,183) as regulatory commission expense in the test year. Staff reversed this entry and made the appropriate adjustment in taxes other than income.

- 7) We calculated a working capital allowance of \$7,509 to be added to the utility's rate base, based on 1/8th of the O&M expense balance determined above. (\$60,069/ 8)

The utility's O&M expense balances by NARUC sub-account are displayed on the following schedule.

ACCT No.	TITLE	Per General Ledger	Audit Adjustments	Per Audit
615	Purchased Power	\$4,236	(\$525)	\$3,711
616	Fuel for Power Production		48	48
618	Chemicals	2,296	332	2,628
620	Materials & Supplies	487	203	690
630	Contractual Services - Billing		4,512	4,512
631	Contractual Services - Professional	6,848	(6,098)	750
635	Contractual Services - Testing	1,084	875	1,959
636	Contractual Services - Other	14,470	17,447	31,917
640	Rent	1,440	180	1,620
650	Transportation Expense	1,755	(1,755)	-
655	Insurance (Liabilities & Auto)	2,541	889	3,430
665	Regulatory Comm. Expense	3,942	(3,942)	-
670	Bad Debt Expense	1,827	-	1,827
675	Miscellaneous Expense	5,881	1,097	6,978
	Difference Due to Rounding		(3)	
Total		\$46,809	\$13,260	\$60,069

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

616	Fuel for Power Production	\$48
618	Chemicals	332
620	Materials and Supplies	203
630	Contractual Services-Billing	4,512
635	Contractual Services-Testing	875
636	Contractual Services	17,447
640	Rent	180
655	Insurance	889
675	Miscellaneous Expenses	1,097

615	Purchased Power	\$525
631	Contractual Services-Professional	6,098
650	Transportation Expenses	1,755
665	Regulatory Commission Expenses	3,942
215	Retained Earnings	13,260
	Difference Due to Rounding	3

EFFECT ON FILING IF FINDING IS ACCEPTED: O & M expenses should be increased by \$13,260.

AUDIT FINDING NO. 7

SUBJECT: TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The utility's taxes other than income expense is \$2,395 for the 12-month period ended June 2009. The utility recorded taxes other than income as part of regulatory commission expense. We recalculated the Regulatory Assessment Fees based on the test year revenue (4.5% x 48,523). Utility does not have employees. We determined utility's taxes other than income expense to be \$2,395.

The utility's TOTI expense balance by NARUC sub-account is displayed below.

Tax Description	Per Company	Audit Adjustments	Per Audit
Property Tax	\$202	(\$4)	\$197
Regulatory Assessment Fees		2,198	2,198
Total	\$202	\$2,194	\$2,395

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

408 Taxes Other than Income	\$2,194	
231 Account Payable		\$2,194

EFFECT ON FILING IF FINDING IS ACCEPTED: Taxes Other Than Income should be increased by \$2,194.

AUDIT FINDING NO. 8

SUBJECT: CAPITAL STRUCTURE

AUDIT ANALYSIS: We performed an analysis on the utility's capital structure and determined that two long-term debt instruments were recorded in the general ledger, as well as negative retained earnings. A note payable from a current 50% owner has an outstanding balance as of June 30, 2009, of \$43,349. The utility did not provide a formal contract for this loan and there is no indication of consistent payments on the loan. We could not determine the purpose or the use of the loan.

The second loan is from CenterState Bank of Florida and has an outstanding balance as of June 30, 2009, of \$52,782. This loan has an interest rate of 7.5%. This loan was used to purchase the utility from its previous owners.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None.

EFFECT ON FILING IF FINDING IS ACCEPTED: None.

Exhibit I

PINECREST RANCHES INC.
 DOCKET NO. 090414-WU
 RATE BASE -WATER
 TEST YEAR ENDED 06/30/09

Description	Balance Per	Audit	Balance Per
	T/B	Adjustments	Audit
Utility Plant in Service	\$184,666	\$775	\$185,441
Land	6,500	0	6,500
CIAC	-	(100,351)	(100,351)
Amortization of CIAC	-	57,354	57,354
Accumulated Depreciation	(165,612)	71,195	(94,417)
Working Capital	5,851	1,658	7,509
Total	\$31,405	\$30,631	\$62,036

1. Working Capital Formula: 1/8 Operating and Maintenance Expense.
2. All amounts rounded to the nearest whole dollar.

Exhibit II

PINECREST RANCHES INC.
 DOCKET NO. 090414-WU
 NET OPERATING INCOME
 TEST YEAR ENDED 06/30/09

Description	Balance Per Utility General Ledger	Balance Per Audit
Revenues	\$51,497	\$48,836
Expenses		
Operation and Maintenance Expenses	46,809	60,069
Depreciation Expenses		6,211
CIAC Amortization Expenses		(2,826)
Taxes Other than Income	202	2,395
Total Expense	47,011	65,849
Net Operating Loss	\$4,486	(\$17,013)

Exhibit III

PINECREST RANCHES INC.
 DOCKET NO. 090414-WU
 CAPITAL STRUCTURE
 TEST YEAR ENDED 06/30/09

Description	Balance Per T/B	Audit Adjustments	Balance Per Audit	Pro Rata Adjustments	Capital Reconciled to Rate Base
Note-Payable-Center State	52,782	(0)	52,782	17,206	35,576
Long-Term Debit- Officer	43,349	43,349	-	-	-
Customer Deposits	384	(64)	448	146	302
Sub-total Long-Term Debit & Customer Deposits	96,515	43,285	53,230	17,352	35,878
Common-Stock	100	-	100	33	67
Retained Earnings.	(196,846)	(192,205)	(4,641)	(1,513)	(3,128)
Paid-in-Capital	111,317	67,968	43,349	14,131	29,218
Sub-total Common Equity	(85,429)	(124,237)	38,808	12,650	26,158
TOTAL	11,086	(80,952)	92,038	30,002	62,036

Notes: Rate Base Reconciliation

Total of long term debt plus Total of common equity = (92,038)

Individual item divided by the total common equity (92,038) multiply by the rate base = rate base reconciliation

Individual balance per audit less rate base reconciliation = Adjustments.