

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: July 20, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Penelope D. Buys, Engineering Specialist III, Division of Engineering *POB*
RY

RE: Docket No. 20160248-WS - Application for original certificates to provide water and wastewater service in Polk County by Deer Creek RV Golf & Country Club, Inc.

Please file the attached documents in the docket file. The documents are the Status Report with regards to the accounting and rate portions of the application from Deer Creek.

Penny Buys

From: Penny Buys
Sent: Monday, July 10, 2017 2:49 PM
To: Sonica Bruce; Dylan Andrews
Cc: Shannon Hudson; Amber Norris; Robert Graves
Subject: FW: Docket No. 160248-WS, Deer Creek RV Golf and Country Club
Attachments: Deer Creek Memo to Staff 7-10-17.pdf

FYI

From: Wesley Taylor
Sent: Monday, July 10, 2017 2:41 PM
To: Penny Buys
Subject: FW: Docket No. 160248-WS, Deer Creek RV Golf and Country Club

Hey Penny, just got this update from Frank on Deer Creek

From: Frank Seidman [<mailto:frankdenjup@att.net>]
Sent: Monday, July 10, 2017 1:52 PM
To: Wesley Taylor
Cc: Deer Creek - Mike Caruso; Gerald Buhr; CJNW - Anthony De Santis
Subject: Docket No. 160248-WS, Deer Creek RV Golf and Country Club

Wesley -

On behalf of Deer Creek RV Golf and Country Club, I am submitting the attached Status Report, discussed during our May 1 conference call. At that conference I indicated that I would get back to staff, prior to the extended completion date of July 13, 2017, with a report as to the status of the filing, specifically with regard to the accounting and rate portions, and how we plan to proceed. Although that date has been extended until October 1, 2017, the attached report is timely provided so that staff can continue the certification process. Please let us know if further information is required.

Frank Seidman,

Management & Regulatory Consultants, Inc.

For the Applicant

36 Yacht Club Drive, #403
North Palm Beach, FL 33408
Phone or Fax (561) 207-6083
e-mail: frankdenjup@att.net

Management & Regulatory Consultants, Inc.

July 10, 2017

To: Wesley Taylor
Attorney-Economic Regulation Section
Florida Public Service Commission

Copy by email:

Mike Caruso, Deer Creek RV Golf and Country Club
Anthony De Santis, CJN&W
Gerald Buhr, Esq.

From: Frank Seidman 

Re: Docket No. 160248 –WS, Application of Deer Creek RV Golf and Country Club for Original Certificate of Authorization for a Utility Currently Charging for Service

This is to follow up on the conference call of May 1, 2017 with the PSC Staff. At that conference I indicated that I would get back to staff, prior to the extended completion date of July 13, 2017, with a report as to the status of the filing, specifically with regard to the accounting and rate portions, and how we plan to proceed. Although that date has been extended until October 1, 2017, on behalf of the applicant, the following status report is provided.

1. Financial statement - the most recent audited financial statement, which is for the year ended December 31, 2016, is now available. **See Attachment A.**
2. Accounting - as indicated in the application, the applicant is not primarily a utility and thus its books have not been kept in accordance with the Rule 25.30.115,F.A.C. (NARUC USOA). Therefore, the applicant has retained the services of CJN&W, CPA's of Clearwater, FL to convert its accounting records to comply. CJN&W, founded in 1976, has expertise in regulated utility accounting, ratemaking and rates. It prepares annual reports for several utilities regulated by this commission and members of its staff have represented regulated clients before this commission. Based on its initial assessment, CJN&W estimates complete conversion by August 30, 2017.
3. Initial rates - The applicant purchases water and wastewater services from Polk County, distributes the water and collects and transmits wastewater effluent to Polk County for treatment. In the application it was indicated that the applicant has on its system (1) customers that receive both metered water and wastewater service, through a master Polk

County meter, which is then individually metered and then billed by the applicant, (2) customers within a POA that receive both water and wastewater service using the applicant's mains and lift station, but which is submetered and billed directly by Polk County and for which the applicant currently receives no compensation and (3) several wastewater commercial customers that transmit effluent using the applicant's mains and lift station, but which are billed directly by Polk County and for which the applicant currently receives no compensation. This unique arrangement was in effect when Deer Creek RV Golf and Country Club, Inc. purchased the property.

The rate schedules filed with the application provided only a description of the billing situation rather than a BFC + gallonage charge rate. The PSC staff has requested that actual rates be provided in order to be able to complete the application process. The applicant proposes the following initial rates:

- a. Customers Actually Metered and Billed (Osprey Point, Eagle View, Partridge Pines, Regal Pointe, Regal Ridge/Fawn Ridge, Commercial South) – Currently, these customers are billed for the gallons read on their individual meters based on the published gallonage rates of Polk County for a commercial 12” meter customer plus a proration of the Polk County base charge for a 12” meter, adjusted for a 10% county tax. As the sum of the gallons billed through individual meters is less than the total gallons billed to Deer Creek, this arrangement does not even recover the costs charged to Deer Creek by Polk County. In addition, after Deer Creek receives its certificate from the PSC, the revenues collected by this means will be subject to the 4.5% Regulatory Assessment Fee (RAF). Therefore, the applicant proposes that the initial rates set by the PSC for these customers include a 1.10 multiplier to the gallonage charge to recognize a 10% Unaccounted for Water allowance, and a 1.045 multiplier to the total bill for the PSC Regulatory Assessment Fee. Specifically, the proposed initial rates are:

Water – for all residential and commercial customers

Base Rate, per month	\$2.64
0-3 kgals	3.48 per 1,000 gals
Over 3 kgals	6.52 per 1,000 gals

Wastewater – for all residential and commercial customers

Base Rate, per month	\$8.95
All gallons	6.77 per 1,000 gals

See Attachment B, Development of Initial Rates.

It should be noted that the County has, by resolution authorized an annual index increase in the water rates, effective October 1 of the three years 2017, 2018 and 2019.

- b. Unbilled Wastewater Customers Submetered (Mocking Bird POA) – The POA is billed directly for water and wastewater by Polk County based on a submeter (or bulk meter) that is past the Deer Creek master meter. Deer Creek is not billed by Polk County for usage within Mockingbird POA, nor does it receive any payments from the POA for utility service. The POA is responsible for replacement and maintenance of mains past the submeter. For water service, Deer Creek provides no service to the POA. However, with regard to wastewater service, the POA uses Deer Creek’s main between the POA and lift station and its effluent flows through Deer Creek’s lift station for treatment by the County. Therefore, the POA has a responsibility for the replacement and maintenance of the mains between the POA and the lift station and for the lift station and for its costs; e.g., electric, and operation.

As an initial rate, the applicant proposes a flat monthly charge that allocates annual O&M Expenses related to the wastewater mains and lift station on the basis of total customers served by these assets. These proposed rates will be provided when the applicant’s accountants have completed conversion of the books to comply with PSC requirements..

- c. Unbilled Wastewater Customers in the North Commercial Area - Similar to Mockingbird POA, these users are billed directly for water and wastewater service by Polk County. These users do not use any of Deer Creek’s water mains; they are not on Deer Creek’s water system. However, as with Mockingbird POA, they utilize Deer Creek’s main between their property and lift station and its effluent flows through Deer Creek’s lift station for treatment by the County. Therefore, they have a responsibility for the replacement and maintenance of the mains between the POA and the lift station and for the lift station and for its costs; e.g., electric, and operation.

The applicant proposes the same rates developed under 3.c. above.

4. The applicant notes that the above rates for billed individual meters, even if there were zero system water losses, would only recover the amounts paid to Polk county and no other costs or expenses of the applicant. Deer Creek proposes these rates as INITIAL rates. As they are non-compensatory, Deer Creek proposes that it will follow up the certification with an application to increase rates sufficient to recover all of its legitimate costs of proving service.

I trust that this is sufficient information for the Commission to proceed with certification. If you need any further information, please let us know.

ATTACHMENT A

Deer Creek RV Golf & Country Club, Inc.

Davenport, Florida

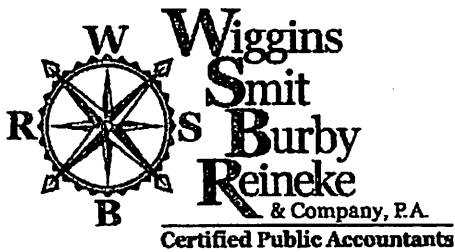
FINANCIAL STATEMENTS

Year Ended December 31, 2016

Deer Creek RV Golf & Country Club, Inc.
FINANCIAL STATEMENTS
Year Ended December 31, 2016

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Turner A. Wiggins, C.P.A.
Donald J. Smit, C.P.A.
Pamela M. Burby, C.P.A.
John S. Reineke, C.P.A.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management
Deer Creek RV Golf & Country Club, Inc.
Davenport, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Deer Creek RV Golf & Country Club, Inc., which comprise the balance sheet as of December 31, 2016, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors and Management
Deer Creek RV Golf & Country Club, Inc.
Page 2

Opinion

In our opinion, the financial statements referred to on the prior page present fairly, in all material respects, the financial position of Deer Creek RV Golf & Country Club, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Wiggins, Smit, Buehly, Reineke & Company, P.A.

Winter Haven, Florida
May 11, 2017

Deer Creek RV Golf & Country Club, Inc.

BALANCE SHEET

December 31, 2016

ASSETS

Current Assets:

Cash - Unrestricted	\$ 239,103
Accounts receivable:	
Assessments	205,338
Water and wastewater	47,823
Inventories	128,865
Prepaid expenses and deposits	54,993
Total current assets	<u>676,122</u>

Property and Equipment (At cost):

Land	593,948
Land improvements	1,194,141
Buildings	1,849,696
Machinery and equipment	76,869
Office equipment, furniture and fixtures	37,261
Leased equipment	44,782
Total	<u>3,796,697</u>
Less accumulated depreciation	<u>(351,768)</u>
Net property and equipment	<u>3,444,929</u>

Other Assets:

Cash - Restricted for Community improvements	9,523
Deferred income tax benefit	38,710
Utility deposits	70,295
Total other assets	<u>118,528</u>

Total assets \$ 4,239,579

Deer Creek RV Golf & Country Club, Inc.

BALANCE SHEET

December 31, 2016

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:

Short-term debt	\$ 102,021
Capital lease - Current portion	15,272
Long-term debt - Current portion	81,786
Accounts payable	111,665
Accrued liabilities	26,709
Assessments received in advance	52,382
Total current liabilities	<u>389,835</u>

Long-Term Liabilities:

Capital lease - Less current portion	9,322
Long-term debt - Less current portion	2,097,459
Deferred revenue	10,364
Deferred income tax liability	42,801
Total long-term liabilities	<u>2,159,946</u>
Total liabilities	<u>2,549,781</u>

Members' Equity:

Contributed capital	1,717,700
Members' equity (Deficit)	<u>(27,902)</u>
Total members' equity	<u>1,689,798</u>
Total liabilities and members' equity	<u>\$ 4,239,579</u>

Deer Creek RV Golf & Country Club, Inc.

STATEMENT OF OPERATIONS

Year Ended December 31, 2016

Revenues:

Assessments, net	\$ 1,758,022
Golf revenues	326,496
Lot sales	70,000
Water and wastewater	305,513
Miscellaneous	80,218
Total revenues	<u>2,540,249</u>

Cost of Revenues:

Equipment rental	17,919
Purchases for resale	15,761
Lot cost	29,639
Water and wastewater	305,513
Total cost of revenues	<u>368,832</u>

Gross Profit

2,171,417

Operating Expenses:

Salaries and wages	317,000
Contract services	41,191
Credit card charges	40,873
Depreciation	121,351
Rental expense	12,907
Propane gas	24,858
Grounds maintenance	433,116
Insurance	57,290
Legal and professional	205,109
Office supplies and expense	39,700
Payroll taxes	29,482
Pool expense	31,832
Repairs and maintenance	115,564
Supplies	7,627
Taxes and licenses	31,381
Telephone	10,522
Trash removal	48,207
Utilities	165,233
Miscellaneous	18,627
Total operating expenses	<u>1,751,870</u>

Income (Loss) From Operations

419,547

Other Income and (Expenses):

Interest earned	2,219
Interest expense	<u>(120,353)</u>
Total other income and (expenses)	<u>(118,134)</u>

Income (Loss) Before Income Taxes

301,413

Provision For Income Tax (Expense) Benefit:

Current provision	-
Deferred	<u>(48,478)</u>
Total	<u>(48,478)</u>

Net Income (Loss)

\$ 252,935

See accompanying notes to the financial statements.

Deer Creek RV Golf & Country Club, Inc.
STATEMENT OF CHANGES IN MEMBERS' EQUITY
Year Ended December 31, 2016

<u>Balance, Beginning of Year</u>	\$ 1,436,863
Members' contributions	-
Net Income (Loss) for the year ended December 31, 2016	<u>252,935</u>
<u>Balance, End of Year</u>	<u>\$ 1,689,798</u>

See accompanying notes to the financial statements.

Deer Creek RV Golf & Country Club, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

Cash Flows From Operating Activities

Net income (loss) per statements of operations	\$ 252,935
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	127,471
Deferred tax expense (benefit)	48,478
(Increase) decrease in:	
Accounts receivable	(161,348)
Inventory	9,718
Prepaid expenses	(33,187)
Increase (decrease) in:	
Accounts payable	(4,449)
Accrued liabilities	(5,947)
Assessments received in advance	(13,982)
Deferred revenue	2,661
Total adjustments	<u>(30,585)</u>
Net cash provided (used) by operating activities	<u>222,350</u>

Cash Flows From Investing Activities

Increase in restricted cash	(1,820)
Purchase of property and equipment	<u>(117,341)</u>
Net cash provided (used) by investing activities	<u>(119,161)</u>

Cash Flows From Financing Activities

New borrowings of short-term debt	109,364
Repayment of short-term debt	(7,343)
Repayment of long-term debt	<u>(98,570)</u>
Net cash provided (used) by financing activities	<u>3,451</u>

Net increase (decrease) in cash

106,640

Cash at the beginning of year

132,463

Cash at the end of year

\$ 239,103

Supplemental Disclosures

Cash paid during the year for:
Interest

\$ 120,353

Deer Creek RV Golf & Country Club, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Deer Creek RV Golf & Country Club, Inc. (the Company) was incorporated in August 2013, in the State of Florida, as a not-for-profit corporation pursuant to the provisions of Chapter 617, Florida Statutes. On December 5, 2013 the Company acquired the recreational facilities, amenities and other property exclusively serving the Osprey Point, Eagle View, Partridge Pine, and Regal Pointe phases of the Deer Creek RV Community (the Community) located in Davenport, Florida. Also included in the purchase, which the Company owns, manages and maintains are the common areas, amenities and recreational facilities (including, but not limited to roads, office building and the Deer Creek golf course, clubhouse and swimming pool) serving all of the Community.

Not included in the purchase are two stand-alone phases, Mockingbird Ridge and Regal Ridge which maintain their separate communities and contribute only common area assessments.

The Company also maintains water and wastewater lines for the Community. The Company pays for water and wastewater usage from a main meter and bills the individual residents.

Organizational Structure

The members of the Company consist of all lot or unit owners in the Deer Creek RV Community who have purchased membership certificates in the Corporation. The affairs of the Corporation are managed by a Board of Directors consisting of no less than three or more than eleven members elected pursuant to the bylaws of the Corporation.

Accounts Receivable – Assessments, Water and Wastewater

Residents of the Community are subject to monthly assessments to provide funds for the expenses of their phases and for the common property of the Company. The two stand-alone phases contribute only common area assessments.

Accounts receivable at the balance sheet date represent unpaid assessments. Monthly maintenance fees are due on the fourth day of each month and delinquent if not paid by the tenth day of the month. The Company's policy is to retain legal counsel and place liens on the properties of owners whose assessments are thirty days or more delinquent. The Company considers all of these assessments receivable to be fully collectible and, accordingly, no allowance for uncollectible accounts is deemed necessary. Accounts receivable are pledged as collateral on the mortgage payable (see Note 7).

Other receivables are the amounts due from the residents of the Community for their use of the water and wastewater utilities.

Inventories

Inventories consist principally of lots purchased in the Community valued at the lower of cost or market. Cost of the lots is determined using average cost. Also included in inventories is merchandise purchased for sale in the golf shop. Cost of this merchandise is determined by specific identification.

Deer Creek RV Golf & Country Club, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont'd)
December 31, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred.

Depreciation

Depreciation is calculated on the straight-line method which is applied to each individual asset at the time it is placed in service. The estimated useful lives are: 40 years for buildings; 20 years for land improvements; 10 years for machinery, equipment, furniture and fixtures; 5 years for computer equipment; and 3 years for computer software. For income tax purposes, depreciation is computed using the accelerated cost recovery system and the modified accelerated cost recovery system.

Deferred Revenue

Deferred revenue consists of money contributed by residents for specific projects that have not yet occurred. Such amounts will be recognized as income when the corresponding expenses are recorded. Deferred revenue of \$9,523 is offset by an equal amount recorded in restricted cash. Current year revenues of \$12,337 have been recognized in miscellaneous revenue to equal the amount of money expended during the year. Deferred revenue also consisted of unearned revenue for rent of \$841.

Loan Costs

Loan costs incurred for bank financing have been accounted for as a reduction in the related outstanding loans (see Note 7) and are being amortized by the straight-line method over the life of the loan to interest expense. Amortization of loan costs included in interest expense for the year amounted to \$6,120.

Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets as a result of the use of different depreciation methods and lives for financial statement and income tax purposes. Deferred tax assets and liabilities represent the future tax consequence for those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are provided for deferred tax assets based on management's projection of the sufficiency of future taxable income to realize the assets. As of December 31, 2016, a valuation allowance of 20% was deemed necessary due to the uncertainty of future taxable income.

The Company is required to recognize, measure, classify, and disclose in the financial statements uncertain tax positions taken or expected to be taken in the Company's tax returns. Management has determined that the Company does not have any accruals for uncertain tax positions as of December 31, 2016.

Deer Creek RV Golf & Country Club, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income taxes (Cont'd)

The Company's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes the tax returns essentially remain open for possible examination for a period of three years after the respective filing of those returns.

At December 31, 2016, the Company has a federal and state net operating loss carryforward of \$237,354, of which \$107,846 expires in September 2034, \$123,417 expires in 2035 and \$6,091 expires in 2036. The carryforward is available to reduce taxable income in subsequent years.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from these estimates.

Date of Management's Review

Management has evaluated subsequent events through May 11, 2017, the date on which the financial statements were available to be issued.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be "cash equivalents" for the purposes of the Statement of Cash Flows.

2. Cash

Custodial Credit Risk-Deposits

The Company maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, the Company's uninsured cash balances total \$2,242.

3. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits consist of the following at December 31, 2016:

Prepaid insurance	\$ 38,912
Prepaid expenses	7,115
Deposits on planned capital expenditures	8,966
Total	<u>\$ 54,993</u>

Deer Creek RV Golf & Country Club, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont'd)
December 31, 2016

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31, 2016:

Salaries, wages and vacation	\$ 3,226
Insurance	16,134
Interest	<u>7,349</u>
	<u>\$ 26,709</u>

5. CAPITAL LEASE OBLIGATIONS

The Company leases its phone system and copier under leases classified as capital leases. The leases are financing the acquisition of the assets, and accordingly, are recorded in the Company's assets and liabilities. The leased equipment is amortized over 3 years. The present value of the leases is \$24,594. The interest rate related to the lease obligations is 5.75% and the maturity date is July 2018.

The following is a schedule showing the future minimum lease payments under capital lease by years:

Year Ending September 30,	
<u>2017</u>	\$ 16,287
2018	<u>9,501</u>
Total minimum lease payments	25,788
Less: amount representing interest	<u>1,194</u>
Present value of minimum lease payments	<u>\$ 24,594</u>

6. SHORT-TERM DEBT

The following is a summary of short-term debt:

Notes payable totaling \$65,000, from the Deer Creek residents on April 14, 2016, 3% interest capitalized, repayable in one year with one year extension, unsecured.	\$ 66,364
The Company has a Line of Credit through a financial institution for \$43,000, 4.375% interest, unsecured.	<u>35,657</u>
Total short-term debt	<u>\$ 102,021</u>

Deer Creek RV Golf & Country Club, Inc.
NOTES TO FINANCIAL STATEMENTS (Cont'd)
December 31, 2016

7. LONG-TERM DEBT

The following is a summary of long-term debt:

The Company has a mortgage through a financial institution on certain property in the Deer Creek RV Community as described in Note 1. This mortgage is collateralized by real property and a security interest in all personal property. Note payable of \$2,400,000, payable \$15,707 monthly, 4.9% interest, due December 5, 2018. The face amount of the loan is \$2,177,188 and is shown net of unamortized loan costs of \$12,241.

\$ 2,164,947

Note payable of \$28,646, under a retail installment contract, payable \$478 monthly, 0% interest, due June 9, 2019, secured by a tractor.

14,298

2,179,245

Less (current portion)

(81,786)

Long-term portion

\$ 2,097,459

Future maturities of long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Notes Payable</u>	<u>Loan Fee Amortization</u>	<u>Total</u>
2017	\$ 87,906	\$ (6,120)	\$ 81,786
2018	2,100,738	(6,120)	2,094,618
2019	2,841	-	2,841
Total	<u>\$ 2,191,485</u>	<u>\$ (12,240)</u>	<u>\$ 2,179,245</u>

Total interest expense for the year ended December 31, 2016 was \$120,353 which included amortization of loan costs amounting to \$6,120.

8. OPERATING LEASE COMMITMENTS

The Company leases golf carts under three agreements with one expiring in December 2018 and the others expiring in December 2019. The Company also leases credit card machines under an agreement which terminates in November 2017.

Future minimum lease payments on these operating leases are as follows:

<u>Year Ending September 30,</u>	
2017	\$ 25,322
2018	24,512
2019	<u>23,995</u>
	<u>\$ 73,829</u>

Equipment rental expense related to these leases totaled \$17,919 for the year ended December 31, 2016.

Deer Creek RV Golf & Country Club, Inc.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2016

9. INCOME TAXES

The provision for income taxes consists of the following:

Current tax (expense) benefit	\$ -
Tax (expense) benefit of depreciation differences	(19,382)
Tax benefit of net operating loss carry forward	(36,648)
Change in valuation allowance	<u>7,552</u>
Net provision for income taxes	<u>\$ (48,478)</u>

Deferred tax assets and liabilities consist of the following:

Deferred tax asset - Benefit of net operating loss	\$ 38,710
Deferred tax liability - Taxable temporary differences	<u>(42,801)</u>
Net deferred assets and liabilities	<u>\$ (4,091)</u>

10. CONTINGENCIES

The Company is a party to legal actions that arise in the course of its business activities, the aggregate effect of which, in management's and legal counsel's opinion could not be estimated at this time.

DEER CREEK RV GOLF & COUNTRY CLUB (DCC)
DEVELOPMENT OF INITIAL RATES FOR METERED SERVICE

POLK COUNTY WATER RATES

Water - 12" Meter	Water - 12" Meter
Base Rate	\$ 2,084.41
0-2150 kgals	\$ 2.45
2151-4300 kgals	\$ 4.86
PWRJ/AWS	\$ 0.30
Polk CountyTax	10%
PSC Reg. Assmt. Fee	4.5%

DEER CREEK INDIVIDUAL METER WATER RATES Based on 907 Billing Units			
Water-All Meters			
Base Rate	\$ 2.64		
0-3 kgals	\$ 3.48	per 1,000 gal	
over 3 kgals	\$ 6.52	per 1,000 gal	

Incorporated into above rates
Incorporated into above rates
Incorporated into above rates
Initial gallonage charge increased by 10% for UAW

Rates eff. 10/1/17

Base Rate	\$ 2,136.52
0-2150 kgals	\$ 2.51
2151-4300 kgals	\$ 4.98
PWRJ/AWS	\$ 0.30
Polk CountyTax	10%

Water-All Meters			
Base Rate	\$ 2.71		
0-3 kgals	\$ 3.55	per 1,000 gal	
over 3 kgals	\$ 6.68	per 1,000 gal	
Incorporated into above rates			
Incorporated into above rates			

Rates eff. 10/1/18

Base Rate	\$ 2,189.93
0-2150 kgals	\$ 2.57
2151-4300 kgals	\$ 5.11
PWRJ/AWS	\$ 0.30
Polk CountyTax	10%

Water-All Meters			
Base Rate	\$ 2.78		
0-3 kgals	\$ 3.63	per 1,000 gal	
over 3 kgals	\$ 6.84	per 1,000 gal	
Incorporated into above rates			
Incorporated into above rates			

Rates eff. 10/1/19

Base Rate	\$ 2,244.68
0-2150 kgals	\$ 2.64
2151-4300 kgals	\$ 5.23

Water-All Meters			
Base Rate	\$ 2.84		
0-3 kgals	\$ 3.72	per 1,000 gal	
over 3 kgals	\$ 7.00	per 1,000 gal	

POLK COUNTY WASTEWATER RATES

WW - 12" Meter	WW - 12" Meter
Base Rate	\$ 7,768.89
All gals	\$ 6.48

PSC Reg. Assmt. Fee 4.5%

DEER CREEK INDIVIDUAL METER WASTEWATER RATES Based on 907 Billing Units			
Water-All Meters			
Base Rate	\$ 8.95		
All gals	\$ 6.77	per 1,000 gal	

Incorporated into above rates

EXPLANATION OF RATE DEVELOPMENT

DCC is billed for all water by Polk County based on its published Commercial rate for a 12" meter. Wastewater is billed based on the same gallons based on the County's published commercial rate for a 12" meter. Added to the water rate is a \$0.30 per 1,000 gallons surcharge for water resource & alternative water supply. In addition, there is a 10% tax on water charges. The surcharge and tax do not apply to the wastewater charges. The County has passed a resolution authorizing a 2.5% annual index increase in the water rates, exclusive of the surcharge. These increase will be effective on October 1 of the years 2017-2019.

There are 907 billing units in Deer Creek. Each individually metered customer is billed the prorated Polk County base charge plus the Polk County gallonage charge based on metered gallons. The rate block of 0-3 kgals reflects the prorated Polk County block [2,150 kgals/907 = 3 kgals. Although there are 4 rate blocks in the Polk County rate, Deer Creek never uses water in excess of the second block.

The summation of DCC's individual meter readings does not total the gallonage billed by the County because those meter readings do not include an allowance for Unaccounted for Water. As the PSC allows 10% Unaccounted for Water as a reasonable amount, the initial gallonage charge for water has been increased by 10% to recognize this.

In addition, the developed rates include a multiplier to recover the 4.5% Regulatory Assessment Fee for which the utility will be responsible.