

State of Florida



## Public Service Commission

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

### Auditor's Report

Zachary Taylor Camping and Lodge, Inc./  
Taylor Arcade, Inc. d/b/a Zachary Taylor RV Resort  
Certificate of Transfer

**As of August 29, 2013**

Docket No. 140188-SU  
Audit Control No. 14-307-4-1

**January 8, 2015**

Handwritten signature of Iliana H. Piedra in blue ink.

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Iliana H. Piedra  
Audit Manager

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Jeffery A. Small  
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Gabriela M. Leon  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting & Finance in its audit service request dated October 31, 2014. We have applied these procedures to determine rate base in support of Zachary Taylor Camping and Lodge, Inc. request for a Transfer of Certificate in Docket No. 140188-SU.

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

## Objectives and Procedures

### **Background**

#### Definitions

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities.

Seller refers to Zachary Taylor Camping and Lodge, Inc.

Buyer refers to Taylor Arcade, Inc. d/b/a Zachary Taylor RV Resort.

#### Utility Information

Zachary Taylor Camping and Lodge Inc. (ZTC) is the parent entity that owned and operated a mobile home and recreational (RV) park as well as a Class C Wastewater Utility of the same name in Okeechobee County, Florida. The Commission approved ZTC's application for a grandfather certificate in Order PSC-06-0666-PAA-SU, issued August 7, 2006. The Utility has been in operation since the early 1970's. Rate base has never been established by the Commission.

The Utility provides wastewater service to ZTC's mobile home and RV sites as well as an adjacent 88 unit condominium complex owned by Taylor Creek Condominium Association (Taylor Creek). Water service is provided by the Okeechobee Utility Authority which is exempt from Commission jurisdiction pursuant to Section 367.022(8), Florida Statutes.

The Order approving ZTC's grandfather certificate noted that ZTC provided wastewater service for 257 mobile home and RV lots within ZTC and 1 bulk service connection for Taylor Creek. The Buyer states that ZTC's service area actually contains 120 rental single family mobile home sites and 80 RV sites of which only 70 are operational and available for lease and the one service connection with Taylor Creek.

The purchase price paid by the buyer of \$2,050,000 includes the Utility and the mobile home and RV park. The contract for purchase, dated June 13, 2013, does not include a detail of purchased assets. The mortgage obtained by Taylor Arcade, Inc. is dated August 29, 2013.

### **General**

**Objectives:** The objectives were to establish a net book value for transfer purposes as of August 29, 2013, and to verify that the Utility's books and records are maintained in compliance with NARUC USOA.

**Procedures:** We performed the following specific objectives and procedures to satisfy the overall objectives identified above.

## **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, and 3) Retirements are made when a replacement asset was put in service.

**Procedures:** We obtained a March 31, 2013 fiscal tax year General Ledger Balance Sheet and Federal Tax Return from the seller. Attempts to reconcile this information to available utility records for UPIS were unsuccessful. Finding 2 provides additional information on this issue.

### Land & Land Rights

**Objectives:** The objectives were to determine whether utility land was: 1) Recorded at original cost and 2) Owned or secured under a long-term lease agreement.

**Procedures:** We searched the Okeechobee County Property Appraisers' official records to determine the original cost of the land when the Utility was established. We searched for additional activity related to the Utility land and none was found. Our recommended balance for land is discussed in Finding 3.

### Accumulated Depreciation

**Objectives:** The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C. and 2) Retirements are recorded when an asset was replaced.

**Procedures:** We obtained a March 31, 2013 fiscal tax year General Ledger Balance Sheet and Federal Tax Return from the seller. Attempts to reconcile this information to available utility records for accumulated depreciation were unsuccessful. Finding 2 provides additional information on this issue.

## **Other**

**Objectives:** The objective was to determine whether the Utility is in compliance with NARUC USOA.

**Procedures:** We requested a general ledger from the buyer to determine compliance with NARUC USOA. Finding 1 provides additional information on this issue.

### Rates and Charges

**Objectives:** The objective was to determine whether the Utility is charging the correct monthly service rates set by Commission tariffs.

**Procedures:** No information was provided.

## Customer Deposits

**Objectives:** The objective was to determine the existence of customer deposits for transfer purposes.

**Procedures:** No information was provided. The Utility's tariff does not authorize customer deposits.

## Audit Findings

### **Finding 1: Utility Books and Records**

**Audit Analysis:** We requested general ledgers, invoices for capital additions, depreciation schedules, tax returns, a schedule of assets transferred and a revenue schedule for utility operations since the transfer from the buyer. Our requests were also provided to the buyers' attorney and accountant. We did not receive answers to our requests. The buyer explained he was trying to locate the records but was not able to do so. The buyers' accountant explained he is in the process of gathering information to prepare the 2013 annual report. Since we did not receive a general ledger, or any other relevant information, we were not able to determine buyers' compliance with NARUC USOA.

**Effect on the General Ledger:** For informational purpose only.

**Effect on the Filing:** For informational purpose only.

## **Finding 2: Rate Base**

**Audit Analysis:** The Utility's 2012 Annual Report reflects the following Rate Base balances.

<b>Account</b>	<b>Description</b>	<b>Amount</b>
353	Land and Land Rights	\$ 34,375
361	Collection Sewers Gravity	\$ 41,822
370	Receiving Wells	\$ 5,635
371	Pumping Equipment	\$ 906
389	Other Plant & Misc. Equip.	\$ 1,175
	Total Plant in Service & Land	\$ 83,913
108	Accumulated Depreciation	\$ (35,758)
271	CIAC	\$ -
272	Accumulated Amortization - CIAC	\$ -
	Total Rate Base	\$ 48,155

Our review of the Utility's annual reports indicates that the UPIS and land balance has been fairly consistent and only increased by \$2,911 since 2004. No annual report was filed for 2013. Since we were not able to obtain any documents from the buyer as explained in Finding 1, we contacted the seller and requested the same information. The seller provided a general ledger balance sheet and Federal Tax return as of March 31, 2013, the fiscal tax year end. We attempted to reconcile the assets from the tax return to the balance sheet. The net assets from the balance sheet total \$1,263,745, inclusive of utility division assets of \$197,377 and utility division accumulated depreciation of \$30,375. The net assets from the tax return total \$1,186,362. The tax return does not provide specific detail for utility assets. This represents a difference of \$77,383 for total net assets when comparing the balance sheet and tax return. We attempted to contact the seller's accountant that prepared the tax return to obtain a reconciliation but we did not hear back from them.

The following schedule shows the differences between the Utility's annual report, balance sheet and tax returns that were provided by the seller.



<b>TOTAL COMPANY</b>					
<b>DESCRIPTION</b>	<b>BALANCE SHEET</b>		<b>TAX RETURN</b>		
	<b>AS OF 3/31/13</b>		<b>AS OF 3/31/13</b>		
				<b>DIFFERENCE</b>	
Current Assets	\$	55,079	\$	55,079	\$ -
Other Assets	\$	10,222	\$	11,268	\$ (1,046)
Land	\$	412,500	\$	412,500	\$ -
Fixed Assets					
Buildings	\$	814,048			
Improvrmrts	\$	344,535			
Equipment	\$	101,140			
Park Models	\$	58,367			
Uiltiy Assets	\$	<u>197,377</u>			
Total Assets	\$	1,515,467	\$	1,785,246	\$ (269,779)
Acc/Dep - Park	\$	(699,148)			
Acc/Dep - Utility	\$	<u>(30,375)</u>			
Total Acc Dep	\$	<u>(729,523)</u>	\$	<u>(1,077,731)</u>	\$ 348,208
<b>TOTAL ASSETS</b>	\$	<b>1,263,745</b>	\$	<b>1,186,362</b>	\$ <b>77,383</b>

<b>UTILITY DIVISION</b>					
<b>DESCRIPTION</b>	<b>BALANCE SHEET</b>		<b>ANNUAL REPORT</b>		
	<b>AS OF 3/31/13</b>		<b>AS OF 12/31/12</b>		
				<b>DIFFERENCE</b>	
Current Assets					
Other Assets					
Land	\$	412,500	\$	34,375	\$ 378,125
Fixed Assets					
Buildings					
Improvrmrts					
Equipment					
Park Models					
Uiltiy Assets	\$	<u>197,377</u>	\$	49,538	\$ 147,839
Total Assets	\$	197,377			
Acc/Dep - Park					
Acc/Dep - Utility	\$	<u>(30,375)</u>	\$	(35,758)	\$ 5,383
Total Acc Dep	\$	<u>(30,375)</u>			
<b>TOTAL ASSETS</b>	\$	<b>579,502</b>	\$	<b>48,155</b>	\$ <b>531,347</b>

**Effect on the General Ledger:** For informational purpose only.

**Effect on the Filing:** For informational purpose only.

### **Finding 3: Land and Land Rights**

**Audit Analysis:** The Utility's (Seller) filing in this transfer proceeding does not include rate base balances for UPIS or land, nor is there a 2013 Annual Report on file. The Utility's 2012 Annual Report reflects a balance of \$34,375 for land as of December 31, 2012.

Rate base balances, such as land, have never been established by the Commission.

NARUC USOA, Definitions, 9, defines "Original Cost", as applied to utility plant, to mean the cost of such property to the person first devoting it to public service.

The Utility's (Sellers) land balance for transfer purposes is \$4,450 as of August 29, 2013, based on our findings discussed below.

Property containing the land occupied by the wastewater plant was transferred from Bill Wellman to Charles R. Freed, James P. Hodges, and Arthur L. Williams on April 8<sup>th</sup> 1974, by a warranty deed recorded in Original Record (OR) Book 158 pages 77 and 78 of the Okeechobee County Clerk of the Court. This transaction transferred 10.652 acres of unimproved land that was subsequently developed by the buyers into the present day RV Park with wastewater utility operations that was incorporated as Zachary Taylor Camping and Lodge, Inc. on April 10, 1974. The purchase price was \$141,000 based on the documentary stamps affixed on the deed, which equates to approximately \$13,350 per acre (\$141,000/10.652 acres).

Zachary Taylor Camping and Lodge, Inc. (Seller) transferred the developed RV Park with wastewater utility to Taylor Arcade, Inc. (Buyer) by special warranty deed recorded in OR Book 735 page 1769 and 1770 of the Okeechobee County Clerk of the Court. This transaction transferred the same 10.652 acre parcel of land. The purchase price was \$2,050,000 as evidenced on the face of the deed.

We toured the wastewater plant facility and reviewed Okeechobee County Property Appraiser documents to determine how much of the 10.652 acres is used by the wastewater utility system. Based on our review, we estimate that approximately 14,520 square feet, or 0.33 acres, of land is occupied by the wastewater plant site. This equates to a land value of \$4,450 (\$13,350 x 0.33 acres) as the original cost for land per the NARUC definition cited above.

**Effect on the General Ledger:** There is no effect on the seller's general ledger. The buyer's general ledger should record a beginning balance for wastewater land of \$4,450 as of August 29, 2013.

**Effect on the Filing:** The wastewater land value is \$4,450 for transfer purposes.