

## Attachment E.1

Addendum to Application for Transfer of Public Utility Franchise and for approval of rates

**STATEMENT OF CASH FLOWS**

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>PRE-TAX OPERATING INCOME (LOSS)</b>					
Total Operating Revenue	\$ 27,080	\$ 44,171	\$ 47,589	\$ 47,589	\$ 47,589
Operation and Maintenance Expenses	\$ 26,600	\$ 26,600	\$ 26,600	\$ 26,600	\$ 26,600
Taxes Other than Income	\$ 806	\$ 806	\$ 806	\$ 806	\$ 806
<b>Pre-Tax Operating Income (Loss)</b>	<b>\$ (326)</b>	<b>\$ 16,765</b>	<b>\$ 20,183</b>	<b>\$ 20,183</b>	<b>\$ 20,183</b>
<b>INCOME TAX CALCULATION</b>					
Pre-Tax Operating Income (Loss)	\$ (326)	\$ 16,765	\$ 20,183	\$ 20,183	\$ 20,183
CIAC					
Tax Depreciation	\$ 9,988	\$ 10,106	\$ 10,695	\$ 10,695	\$ 10,695
Interest Expense	\$ 9,988	\$ 10,106	\$ 10,695	\$ 10,695	\$ 10,695
Taxable Income (Loss)	\$ (20,302)	\$ (3,447)	\$ (1,207)	\$ (1,207)	\$ (1,207)
State Income Tax	\$ -	\$ 166	\$ 237	\$ 237	\$ 237
Federal Income Tax	\$ -	\$ 1,398	\$ 1,993	\$ 1,993	\$ 1,993
Total Income Taxes to be Paid	\$ -	\$ 1,565	\$ 2,230	\$ 2,230	\$ 2,230
<b>Net Cash Provided by Operating Activities</b>	<b>\$ (326)</b>	<b>\$ 15,200</b>	<b>\$ 17,953</b>	<b>\$ 17,953</b>	<b>\$ 17,953</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of Utility Plant	\$ 199,757	\$ 14,143	\$ -	\$ -	\$ -
Cash Bonds Posted	\$ 22,195	\$ 1,571	\$ -	\$ -	\$ -
CIAC					
Proceeds from Disposal of Utility Plant					
<b>Net Cash Used by Investing Activities</b>	<b>\$ 221,953</b>	<b>\$ 15,714</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from Short Term Debt					
Principal Repayment of Short Term Debt					
Proceeds from Long Term Debt	\$ 110,976	\$ 7,857	\$ -	\$ -	\$ -
Principal Repayment of Long Term Debt					
Interest Payment for Debt	\$ (9,988)	\$ (10,106)	\$ (10,695)	\$ (10,695)	\$ (10,695)
Proceeds from Equity	\$ 110,976	\$ 7,857	\$ -	\$ -	\$ -
Dividends Paid					
Funds Provided by Owner	\$ 10,314	\$ 1,444			
<b>Net Cash Provided by Financing Activities</b>	<b>\$ 222,279</b>	<b>\$ 7,053</b>	<b>\$ (10,695)</b>	<b>\$ (10,695)</b>	<b>\$ (10,695)</b>
<b>Net Increase (Decrease in Cash)</b>	<b>\$ 0</b>	<b>\$ 6,539</b>	<b>\$ 7,258</b>	<b>\$ 7,258</b>	<b>\$ 7,258</b>
<b>Cash Balance at Beginning of Year</b>	<b>\$ -</b>	<b>\$ 0</b>	<b>\$ 6,539</b>	<b>\$ 13,797</b>	<b>\$ 21,056</b>
<b>Cash Balance at End of Year</b>	<b>\$ 0</b>	<b>\$ 6,539</b>	<b>\$ 13,797</b>	<b>\$ 21,056</b>	<b>\$ 28,314</b>

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<u>Operating Budget</u>						
	Year 1	Year 2	Year 3	Year 4	Year 5	
<b><u>Operating revenue</u></b>						
Metered service revenue	\$ 2,166	\$ 3,534	\$ 3,807	\$ 3,807	\$ 3,807	\$ 3,807
Flat rate service revenue	\$ 23,560	\$ 38,429	\$ 41,403	\$ 41,403	\$ 41,403	\$ 41,403
EPA testing surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Re-connect fees	\$ 542	\$ 883	\$ 952	\$ 952	\$ 952	\$ 952
Returned check charge	\$ 271	\$ 442	\$ 476	\$ 476	\$ 476	\$ 476
Late payment charge	\$ 542	\$ 883	\$ 952	\$ 952	\$ 952	\$ 952
Other operating revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total operating revenue</b>	<b>\$ 27,080</b>	<b>\$ 44,171</b>	<b>\$ 47,589</b>	<b>\$ 47,589</b>	<b>\$ 47,589</b>	<b>\$ 47,589</b>
<b><u>Operating expenses</u></b>						
Total salaries and wages (employees only)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Outside labor expenses (non-employees)	\$ 18,302	\$ 18,302	\$ 18,302	\$ 18,302	\$ 18,302	\$ 18,302
Administrative and office expense	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700
Maintenance and repair expense	\$ 1,296	\$ 1,296	\$ 1,296	\$ 1,296	\$ 1,296	\$ 1,296
Purchased water	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Purchased sewage treatment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electric power expense (exclude office)	\$ 2,484	\$ 2,484	\$ 2,484	\$ 2,484	\$ 2,484	\$ 2,484
Chemicals expense	\$ 1,656	\$ 1,656	\$ 1,656	\$ 1,656	\$ 1,656	\$ 1,656
Testing fees	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162
Transportation expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other operating expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total operation and maintenance expenses</b>	<b>\$ 26,600</b>	<b>\$ 26,600</b>	<b>\$ 26,600</b>	<b>\$ 26,600</b>	<b>\$ 26,600</b>	<b>\$ 26,600</b>
Annual depreciation expense	\$ 9,988	\$ 10,106	\$ 10,695	\$ 10,695	\$ 10,695	\$ 10,695
Property taxes paid on utility property	\$ 266	\$ 266	\$ 266	\$ 266	\$ 266	\$ 266
Payroll taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise (gross receipts) tax	\$ 266	\$ 266	\$ 266	\$ 266	\$ 266	\$ 266
Annual NCUC regulatory fee	\$ 274	\$ 274	\$ 274	\$ 274	\$ 274	\$ 274
<b>Total operating expenses</b>	<b>\$ 37,394</b>	<b>\$ 37,512</b>	<b>\$ 38,101</b>	<b>\$ 38,101</b>	<b>\$ 38,101</b>	<b>\$ 38,101</b>
<b><u>Income Taxes</u></b>						
State income taxes	\$ -	\$ 166	\$ 237	\$ 237	\$ 237	\$ 237
Federal income taxes	\$ -	\$ 1,398	\$ 1,993	\$ 1,993	\$ 1,993	\$ 1,993
Total income taxes	\$ -	\$ 1,565	\$ 2,230	\$ 2,230	\$ 2,230	\$ 2,230
Net operating income (loss)	\$ (10,314)	\$ 5,094	\$ 7,258	\$ 7,258	\$ 7,258	\$ 7,258
Interest expense	\$ 9,988	\$ 10,106	\$ 10,695	\$ 10,695	\$ 10,695	\$ 10,695
<b>Net income (loss)</b>	<b>\$ (20,302)</b>	<b>\$ (5,011)</b>	<b>\$ (3,437)</b>	<b>\$ (3,437)</b>	<b>\$ (3,437)</b>	<b>\$ (3,437)</b>

### **Projected Income Statement Assumptions**

- Pre-rate increase revenues are based on multiplying the rates found in a system's most recent tariff and adding in a usage charge assuming 3,000-gallon usage per household per month.
- Flat Rate and Metered service revenues are expected to be 95% of total revenues with an allocation between the two derived from the allocation found in the most recent annual report.
- Reconnect fees are assumed to be 2% of revenues.
- Returned Check Charges are assumed to be 1% of revenues.
- Late Payment Charges are assumed to be 2% of revenues.
- Property Taxes are assumed to be 1% of total expenses.
- Franchise Tax are assumed to be 1% of total expenses.
- Annual NCUC Regulatory Fees are assumed to be 1% of total expenses.
- A water rate increase to \$73.44 and a sewer rate increase to \$92.46 is assumed to take place approximately 14 months post-acquisition. The Company is aware that any future increases in rates for the system at issue must be vetted and approved by the North Carolina Utilities Commission, which, after considering all relevant factors, is required by law to set rates that are fair and reasonable and consistent with applicable legal standards.
- Assumptions for O&M expense, chemicals, repairs, power, and purchased water/wastewater were made on a per system basis depending on specific plant specifications and geographic location.
- The following assumptions were made on an annual per connection basis:
  - Maintenance Expense - \$2 per connection
  - Testing Fees - \$.25 per connection
  - Administrative Expense - \$50 per connection
- The following assumptions were made regarding tax rates:
  - State Tax Rate – 2.5%
  - Federal Tax Rate - 21%

### **Cash Flow Assumptions**

- The cash flow values are derived from balance sheet and income statement information.
- The cash flow projections utilize a hypothetical capital structure of 50% debt and 50% equity.
- The hypothetical debt assumes a term length of 240 months.
- The hypothetical debt assumes an interest rate of 9%.
- Depreciation expense assumes an average depreciation rate of 4.5%.
- Funds Provided by Owner change year-over-year to bring the Cash Balance at End of Year from a negative dollar amount to \$0.