

<u>Operating Budget</u>						
	Year 1	Year 2	Year 3	Year 4	Year 5	
<u>Operating revenue</u>						
Metered service revenue	\$ 198,851	\$ 365,560	\$ 398,902	\$ 398,902	\$ 398,902	
Flat rate service revenue	\$ 194,708	\$ 357,944	\$ 390,591	\$ 390,591	\$ 390,591	
EPA testing surcharge	\$ -	\$ -	\$ -	\$ -	\$ -	
Re-connect fees	\$ 8,285	\$ 15,232	\$ 16,621	\$ 16,621	\$ 16,621	
Returned check charge	\$ 4,143	\$ 7,616	\$ 8,310	\$ 8,310	\$ 8,310	
Late payment charge	\$ 8,285	\$ 15,232	\$ 16,621	\$ 16,621	\$ 16,621	
Other operating revenue	\$ -	\$ -	\$ -	\$ -	\$ -	
Total operating revenue	\$ 414,273	\$ 761,583	\$ 831,045	\$ 831,045	\$ 831,045	
<u>Operating expenses</u>						
Total salaries and wages (employees only)	\$ -	\$ -	\$ -	\$ -	\$ -	
Outside labor expenses (non-employees)	\$ 174,605	\$ 174,605	\$ 174,605	\$ 174,605	\$ 174,605	
Administrative and office expense	\$ 41,750	\$ 41,750	\$ 41,750	\$ 41,750	\$ 41,750	
Maintenance and repair expense	\$ 20,040	\$ 20,040	\$ 20,040	\$ 20,040	\$ 20,040	
Purchased water	\$ 68,445	\$ 68,445	\$ 68,445	\$ 68,445	\$ 68,445	
Purchased sewage treatment	\$ 17,461	\$ 17,461	\$ 17,461	\$ 17,461	\$ 17,461	
Electric power expense (exclude office)	\$ 34,921	\$ 34,921	\$ 34,921	\$ 34,921	\$ 34,921	
Chemicals expense	\$ 8,893	\$ 8,893	\$ 8,893	\$ 8,893	\$ 8,893	
Testing fees	\$ 2,505	\$ 2,505	\$ 2,505	\$ 2,505	\$ 2,505	
Transportation expense	\$ -	\$ -	\$ -	\$ -	\$ -	
Other operating expense	\$ -	\$ -	\$ -	\$ -	\$ -	
Total operation and maintenance expenses	\$ 368,620	\$ 368,620	\$ 368,620	\$ 368,620	\$ 368,620	
Annual depreciation expense	\$ 87,595	\$ 89,109	\$ 96,680	\$ 96,680	\$ 96,680	
Property taxes paid on utility property	\$ 3,686	\$ 3,686	\$ 3,686	\$ 3,686	\$ 3,686	
Payroll taxes	\$ -	\$ -	\$ -	\$ -	\$ -	
Franchise (gross receipts) tax	\$ 3,686	\$ 3,686	\$ 3,686	\$ 3,686	\$ 3,686	
Annual NCUC regulatory fee	\$ 3,797	\$ 3,797	\$ 3,797	\$ 3,797	\$ 3,797	
Total operating expenses	\$ 467,384	\$ 468,898	\$ 476,469	\$ 476,469	\$ 476,469	
<u>Income Taxes</u>						
State income taxes	\$ -	\$ 7,317	\$ 8,864	\$ 8,864	\$ 8,864	
Federal income taxes	\$ -	\$ 61,464	\$ 74,461	\$ 74,461	\$ 74,461	
Total income taxes	\$ -	\$ 68,781	\$ 83,325	\$ 83,325	\$ 83,325	
Net operating income (loss)	\$ (53,111)	\$ 223,904	\$ 271,251	\$ 271,251	\$ 271,251	
Interest expense	\$ 87,595	\$ 89,109	\$ 96,680	\$ 96,680	\$ 96,680	
Net income (loss)	\$ (140,705)	\$ 134,795	\$ 174,571	\$ 174,571	\$ 174,571	

STATEMENT OF CASH FLOWS

	Year 1	Year 2	Year 3	Year 4	Year 5
PRE-TAX OPERATING INCOME (LOSS)					
Total Operating Revenue	\$ 414,273	\$ 761,583	\$ 831,045	\$ 831,045	\$ 831,045
Operation and Maintenance Expenses	\$ 368,620	\$ 368,620	\$ 368,620	\$ 368,620	\$ 368,620
Taxes Other than Income	\$ 11,169	\$ 11,169	\$ 11,169	\$ 11,169	\$ 11,169
Pre-Tax Operating Income (Loss)	\$ 34,484	\$ 381,794	\$ 451,256	\$ 451,256	\$ 451,256
INCOME TAX CALCULATION					
Pre-Tax Operating Income (Loss)	\$ 34,484	\$ 381,794	\$ 451,256	\$ 451,256	\$ 451,256
CIAC					
Tax Depreciation	\$ 87,595	\$ 89,109	\$ 96,680	\$ 96,680	\$ 96,680
Interest Expense	\$ 87,595	\$ 89,109	\$ 96,680	\$ 96,680	\$ 96,680
Taxable Income (Loss)	\$ (140,705)	\$ 203,576	\$ 257,896	\$ 257,896	\$ 257,896
State Income Tax	\$ -	\$ 7,317	\$ 8,864	\$ 8,864	\$ 8,864
Federal Income Tax	\$ -	\$ 61,464	\$ 74,461	\$ 74,461	\$ 74,461
Total Income Taxes to be Paid	\$ -	\$ 68,781	\$ 83,325	\$ 83,325	\$ 83,325
Net Cash Provided by Operating Activities	\$ 34,484	\$ 313,013	\$ 367,930	\$ 367,930	\$ 367,930
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Utility Plant	\$ 1,751,894	\$ 181,700	\$ -	\$ -	\$ -
Cash Bonds Posted	\$ 194,655	\$ 20,189	\$ -	\$ -	\$ -
CIAC					
Proceeds from Disposal of Utility Plant					
Net Cash Used by Investing Activities	\$ 1,946,549	\$ 201,889	\$ -	\$ -	\$ -
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Short Term Debt					
Principal Repayment of Short Term Debt					
Proceeds from Long Term Debt	\$ 973,274	\$ 100,945	\$ -	\$ -	\$ -
Principal Repayment of Long Term Debt					
Interest Payment for Debt	\$ (87,595)	\$ (89,109)	\$ (96,680)	\$ (96,680)	\$ (96,680)
Proceeds from Equity	\$ 973,274	\$ 100,945	\$ -	\$ -	\$ -
Dividends Paid					
Funds Provided by Owner	\$ 53,111				
Net Cash Provided by Financing Activities	\$ 1,912,065	\$ 112,780	\$ (96,680)	\$ (96,680)	\$ (96,680)
Net Increase (Decrease in Cash)	\$ 0	\$ 223,904	\$ 271,251	\$ 271,251	\$ 271,251
Cash Balance at Beginning of Year	\$ -	\$ 0	\$ 223,904	\$ 495,155	\$ 766,405
Cash Balance at End of Year	\$ 0	\$ 223,904	\$ 495,155	\$ 766,405	\$ 1,037,656

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.
- The Purchase of Utility Plant values found in Year 1 and Year 2 were created using the following assumptions:
 - Purchase Price - [REDACTED]
 - Legal & Engineering Due Diligence Estimates - [REDACTED]
 - Capital Estimates - [REDACTED]
 - 5/6 of the total funds from the estimates above will be utilized in Year 1 and 1/6 of the funds will be utilized in the beginning months of Year 2