

**Attachment E.1**  
**Docket Nos.: W-938, Sub 6 and W-1328, Sub 8**

OFFICIAL COPY

JUN 02 2021

<u>Income Statement</u>									
	Year 1	Year 2	Year 3	Year 4	Year 5				
<u>Operating revenue</u>									
Metered service revenue	\$ -	\$ -	\$ -	\$ -	\$ -				
Flat rate service revenue	\$ 12,259	\$ 29,273	\$ 32,675	\$ 32,675	\$ 32,675				
EPA testing surcharge	\$ -	\$ -	\$ -	\$ -	\$ -				
Re-connect fees	\$ 258	\$ 616	\$ 688	\$ 688	\$ 688				
Returned check charge	\$ 129	\$ 308	\$ 344	\$ 344	\$ 344				
Late payment charge	\$ 258	\$ 616	\$ 688	\$ 688	\$ 688				
Other operating revenue	\$ -	\$ -	\$ -	\$ -	\$ -				
<b>Total operating revenue</b>	<b>\$ 12,905</b>	<b>\$ 30,813</b>	<b>\$ 34,395</b>	<b>\$ 34,395</b>	<b>\$ 34,395</b>				
<u>Operating expenses</u>									
Total salaries and wages (employees only)	\$ -	\$ -	\$ -	\$ -	\$ -				
Outside labor expenses (non-employees)	\$ 57,600	\$ 57,600	\$ 57,600	\$ 57,600	\$ 57,600				
Administrative and office expense	\$ 1,550	\$ 1,550	\$ 1,550	\$ 1,550	\$ 1,550				
Maintenance and repair expense	\$ 744	\$ 744	\$ 744	\$ 744	\$ 744				
Purchased water	\$ -	\$ -	\$ -	\$ -	\$ -				
Purchased sewage treatment	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1				
Electric power expense (exclude office)	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000				
Chemicals expense	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000				
Testing fees	\$ 93	\$ 93	\$ 93	\$ 93	\$ 93				
Transportation expense	\$ -	\$ -	\$ -	\$ -	\$ -				
Other operating expense	\$ -	\$ -	\$ -	\$ -	\$ -				
<b>Total operation and maintenance expenses</b>	<b>\$ 72,988</b>	<b>\$ 72,988</b>	<b>\$ 72,988</b>	<b>\$ 72,988</b>	<b>\$ 72,988</b>				
Annual depreciation expense	\$ 9,535	\$ 9,719	\$ 10,637	\$ 10,637	\$ 10,637				
Property taxes paid on utility property	\$ 730	\$ 730	\$ 730	\$ 730	\$ 730				
Payroll taxes	\$ -	\$ -	\$ -	\$ -	\$ -				
Franchise (gross receipts) tax	\$ 730	\$ 730	\$ 730	\$ 730	\$ 730				
Annual NCUC regulatory fee	\$ 752	\$ 752	\$ 752	\$ 752	\$ 752				
<b>Total operating expenses</b>	<b>\$ 84,735</b>	<b>\$ 84,919</b>	<b>\$ 85,837</b>	<b>\$ 85,837</b>	<b>\$ 85,837</b>				
<u>Income Taxes</u>									
State income taxes	\$ -	\$ -	\$ -	\$ -	\$ -				
Federal income taxes	\$ -	\$ -	\$ -	\$ -	\$ -				
Total income taxes	\$ -	\$ -	\$ -	\$ -	\$ -				
Net operating income (loss)	\$ (71,830)	\$ (54,105)	\$ (51,442)	\$ (51,442)	\$ (51,442)				
Interest expense	\$ 9,535	\$ 9,719	\$ 10,637	\$ 10,637	\$ 10,637				
<b>Net income (loss)</b>	<b>\$ (81,366)</b>	<b>\$ (63,824)</b>	<b>\$ (62,079)</b>	<b>\$ (62,079)</b>	<b>\$ (62,079)</b>				

**STATEMENT OF CASH FLOWS**

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>PRE-TAX OPERATING INCOME (LOSS)</b>					
Total Operating Revenue	\$ 12,905	\$ 30,813	\$ 34,395	\$ 34,395	\$ 34,395
Operation and Maintenance Expenses	\$ 72,988	\$ 72,988	\$ 72,988	\$ 72,988	\$ 72,988
Taxes Other than Income	\$ 2,212	\$ 2,212	\$ 2,212	\$ 2,212	\$ 2,212
<b>Pre-Tax Operating Income (Loss)</b>	<b>\$ (62,295)</b>	<b>\$ (44,386)</b>	<b>\$ (40,804)</b>	<b>\$ (40,804)</b>	<b>\$ (40,804)</b>
<b>INCOME TAX CALCULATION</b>					
Pre-Tax Operating Income (Loss)	\$ (62,295)	\$ (44,386)	\$ (40,804)	\$ (40,804)	\$ (40,804)
CIAC					
Tax Depreciation	\$ 9,535	\$ 9,719	\$ 10,637	\$ 10,637	\$ 10,637
Interest Expense	\$ 9,535	\$ 9,719	\$ 10,637	\$ 10,637	\$ 10,637
Taxable Income (Loss)	\$ (81,366)	\$ (63,824)	\$ (62,079)	\$ (62,079)	\$ (62,079)
State Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Income Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Total Income Taxes to be Paid	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Cash Provided by Operating Activities</b>	<b>\$ (62,295)</b>	<b>\$ (44,386)</b>	<b>\$ (40,804)</b>	<b>\$ (40,804)</b>	<b>\$ (40,804)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of Utility Plant	\$ 190,707	\$ 22,035	\$ -	\$ -	\$ -
Cash Bonds Posted	\$ 21,190	\$ 2,448	\$ -	\$ -	\$ -
CIAC					
Proceeds from Disposal of Utility Plant					
<b>Net Cash Used by Investing Activities</b>	<b>\$ 211,897</b>	<b>\$ 24,483</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	\$ 105,949	\$ 12,241	\$ -	\$ -	\$ -
Principal Repayment of Long Term Debt					
Interest Payment for Debt	\$ (9,535)	\$ (9,719)	\$ (10,637)	\$ (10,637)	\$ (10,637)
Proceeds from Equity	\$ 105,949	\$ 12,241	\$ -	\$ -	\$ -
Dividends Paid					
Funds Provided by Owner	\$ 71,830	\$ 58,073	\$ 55,418	\$ 55,418	\$ 55,418
<b>Net Cash Provided by Financing Activities</b>	<b>\$ 274,192</b>	<b>\$ 72,837</b>	<b>\$ 44,781</b>	<b>\$ 44,781</b>	<b>\$ 44,781</b>
<b>Net Increase (Decrease in Cash)</b>	<b>\$ (0)</b>	<b>\$ 3,968</b>	<b>\$ 3,976</b>	<b>\$ 3,976</b>	<b>\$ 3,976</b>
<b>Cash Balance at Beginning of Year</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ 3,968</b>	<b>\$ 7,944</b>	<b>\$ 11,921</b>
<b>Cash Balance at End of Year</b>	<b>\$ (0)</b>	<b>\$ 3,968</b>	<b>\$ 7,944</b>	<b>\$ 11,921</b>	<b>\$ 15,897</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.
- 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