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September 24, 1996

VIA HAND DELIVERY

Charles H. Hill, Director
Division of Water and Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

~~960000~~

Re: Fountain Lakes Sewer Corporation
Proposed Disposition of Gross-up Funds
Our File No. 25093.02

Dear Mr. Hill:

Attached are six copies of a schedule showing our calculation of the appropriate disposition of gross-up funds collected for the tax year ended December 31, 1995. The Utility proposes to refund, on a pro rata basis, the excess gross-up collected, plus accrued interest to the date of refund.

In accordance with the correspondence received from your office on confidential treatment of tax returns, I am submitting one copy of the tax return directly to the Clerk.

I believe after review of the calculations made by the Utility, you will agree that the disposition proposed by them is appropriate.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC _____
- WAS _____
- OTH _____

Should you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY

F. Marshall Deterding

FMD/lts
Enclosures
cc: Blanca S. Bayo, Director
Mr. Jerry Sherman
Robert C. Nixon, CPA

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EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
10182 SEP 24 88
FPSC-RECORDS/REPORTING

Cronin, Jackson, Nixon & Wilson

CERTIFIED PUBLIC ACCOUNTANTS, P.A.

JAMES L. CARLSTEDT, C.P.A.
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September 19, 1996

Officers and Directors
Fountain Lakes Sewer Corp.

As requested, we have prepared the accompanying Special Report of Fountain Lakes Sewer Corp., consisting of Schedules No. 1 through No. 6. This report is intended solely for use in fulfilling certain reporting requirements related to collection of tax impact charges on contributions in aid of construction, for the year ended December 31, 1995, to be filed with the Florida Public Service Commission. We have not audited or reviewed this Special Report and express no opinion or any other form of assurance on it.

Cronin, Jackson, Nixon & Wilson

CRONIN, JACKSON, NIXON & WILSON

Fountain Lakes Sewer Corp.
 Schedule of Tax on CIAC and Proposed Gross-up Refund
 For the Year Ended December 31, 1995
 (Unaudited)

Line
No.

| | | |
|----|--|-------------------|
| 1 | Taxable CIAC | \$ 78,400 |
| 2 | Less: First year's depreciation | <u>(2,054)</u> |
| 3 | Net taxable CIAC | 76,346 |
| 4 | Marginal tax rate | <u>37.63%</u> |
| 5 | Tax on CIAC | 28,729 |
| 6 | Expansion factor for gross-up taxes | <u>1.6033</u> |
| 7 | Gross-up required to pay tax effect | 46,061 |
| 8 | Gross-up collected | <u>(47,264)</u> |
| 9 | Gross-up (over) under collected | <u>\$ (1,203)</u> |
| 10 | Note: The Utility proposes to refund, on a prorata basis, the tax | |
| 11 | excess gross-up collections of \$1,203, plus accrued interest to the | |
| 12 | date of the refund. | |

Fountain Lakes Sewer Corp.
 Schedule of Above and Below the Line Taxable Income (Loss)
 For the Year Ended December 31, 1995
 (Unaudited)

Line
 No.

| | | |
|----|--|-------------------|
| 1 | <u>Above the line taxable income</u> | |
| 2 | Gross receipts/sales | \$ 191,290 |
| 3 | Deductions: | |
| 4 | Repairs & maintenance (Line 14) (Schedule No. 2) | 57,755 |
| 5 | Taxes other than income (Line 17) (Schedule No. 4) | 11,583 |
| 6 | Interest expense (Line 18) (Schedule No. 4) | 44,637 |
| 7 | Depreciation (Line 21b) (Schedule No. 4) | 25,611 |
| 8 | Other deductions (Line 26) (Schedule No. 3) | <u>38,373</u> |
| 9 | | <u>177,959</u> |
| 10 | Above the line income before CIAC | <u>13,331</u> |
| 11 | Taxable CIAC | 78,400 |
| 12 | Taxable gross-up | <u>47,264</u> |
| 13 | | <u>125,664</u> |
| 14 | Above the line taxable income | <u>138,995</u> |
| 15 | <u>Below the line taxable loss</u> | |
| 16 | Income: | |
| 17 | Gross receipts/sales | 18,355 |
| 18 | Interest | 4,290 |
| 19 | Other | <u>31</u> |
| 20 | | <u>22,676</u> |
| 21 | Deductions: | |
| 22 | Repairs & maintenance (Line 14) (Schedule No. 2) | 2,151 |
| 23 | Taxes other than income (Line 17) (Schedule No. 4) | 5,860 |
| 24 | Interest expense (Line 18) (Schedule No. 4) | 58,785 |
| 25 | Depreciation (Line 21b) (Schedule No. 4) | 64,844 |
| 26 | Other deductions (Line 26) (Schedule No. 3) | <u>31,257</u> |
| 27 | | <u>162,897</u> |
| 28 | Below the line taxable loss | <u>(140,221)</u> |
| 29 | Total taxable loss | <u>\$ (1,226)</u> |
| 30 | Notes: (1) See Page 2 of this schedule for details of income and | |
| 31 | repairs and maintenance shown on tax return. | |
| 32 | (2) Line numbers refer to the Federal Income Tax Return of | |
| 33 | Fountain Lakes Sewer Corp. | |

Fountain Lakes Sewer Corp.
 Schedule of Above and Below the Line Taxable Income (Loss)
 For the Year Ended December 31, 1995
 (Unaudited)

| <u>Line No.</u> | | |
|---------------------|--|-------------------|
| 1 | <u>Summary of income per tax return</u> | |
| 2 | Gross receipts/sales: | |
| 3 | Utility revenue | \$ 191,290 |
| 4 | CIAC collections | 78,400 |
| 5 | Gross-up collections | 47,264 |
| 6 | Storage fee revenue | 9,690 |
| 7 | Maintenance building revenue | <u>9,665</u> |
| 8 | Total gross receipts/sales | 335,309 |
| 9 | Interest income | 4,290 |
| 10 | Miscellaneous non-utility income | <u>31</u> |
| 11 | Total income per tax return | <u>\$ 339,630</u> |
| 12 | <u>Summary of repairs and maintenance per tax return</u> | |
| 13 | Utility operations: | |
| 14 | Contract maintenance and operation | \$ 21,180 |
| 15 | Pond maintenance - mowing | 5,360 |
| 16 | Chemicals | 9,245 |
| 17 | Sludge hauling | 6,610 |
| 18 | Testing | 5,826 |
| 19 | Plant repairs and maintenance | 8,080 |
| 20 | Sewer system repairs and maintenance | <u>1,454</u> |
| 21 | Total utility operations | <u>57,755</u> |
| 22 | Non-utility operations: | |
| 23 | Electricity - storage/maintenance building | 1,859 |
| 24 | Water/sewer - storage/maintenance | <u>292</u> |
| 25 | Total non-utility operations | <u>2,151</u> |
| 26 | Total repairs and maintenance | <u>\$ 59,906</u> |

Fountain Lakes Sewer Corp.
 Schedule of Above and Below the Line Other Deductions
 For the Year Ended December 31, 1995
 (Unaudited)

| Line No. | | <u>Total Tax Expense per Return</u> | <u>Below the Line Adjustment</u> | <u>Above the Line Expense</u> |
|-------------|---|---|--|---------------------------------------|
| 1 | Other deductions: | | | |
| 2 | Telephone | \$ 660 | | \$ 660 |
| 3 | Management fee | 10,800 | | 10,800 |
| 4 | Insurance | 1,012 | \$ (761) (A) | 251 |
| 5 | Utility costs | 14,547 | | 14,547 |
| 6 | Office supplies | 1,014 | | 1,014 |
| 7 | Administrative expense | 5,991 | | 5,991 |
| 8 | Miscellaneous | <u>766</u> | | <u>766</u> |
| 9 | | <u>34,790</u> | <u>(761)</u> | <u>34,029</u> |
| 10 | Professional fees: | | | |
| 11 | Legal fees | 2,362 | (1,026) (B) | 1,336 |
| 12 | Audit fees | 1,890 | | 1,890 |
| 13 | Outside accounting | <u>26,837</u> | <u>(26,292) (C)</u> | <u>545</u> |
| 14 | | <u>31,089</u> | <u>(27,318)</u> | <u>3,771</u> |
| 15 | Amortization | <u>3,751</u> | <u>(3,178)</u> | <u>573</u> |
| 16 | Total other deductions | <u>\$ 69,630</u> | <u>\$ (31,257)</u> | <u>\$ 38,373</u> |
| 17 | Adjustments: | | | |
| 18 | (A) Insurance per return | | | \$ 1,012 |
| 19 | Non-utility insurance expense | | | <u>(761)</u> |
| 20 | Above the line amount | | | <u>\$ 251</u> |
| 21 | (B) Total legal fees per return | | | \$ 2,362 |
| 22 | Amount recognized in rate order (1) | | | <u>(1,336)</u> |
| 23 | Below the line amount | | | <u>\$ 1,026</u> |
| 24 | (C) Outside accounting per return | | | \$ 26,837 |
| 25 | Amount allowed per rate order (1) | | | <u>(545)</u> |
| 26 | Below the line amount | | | <u>\$ (26,292)</u> |
| 27 | (D) Total amortization expense | | | \$ 3,751 |
| 28 | Less: Amortization of plant operating permit | | | <u>(573)</u> |
| 29 | Total below the line amortization | | | <u>\$ 3,178</u> |
| 30 | Note (1): Adjustment based on Order No. PSC-93-1189-FOF-WS. | | | |

Fountain Lakes Sewer Corp.
 Above and Below the Line Interest, Depreciation, and Taxes
 For the Year Ended December 31, 1995
 (Unaudited)

| <u>Line No.</u> | | |
|---------------------|--|------------------|
| 1 | (A) <u>Interest</u> | |
| 2 | Total long-term debt | \$998,487 |
| 3 | Rate base (Schedule No. 5) | <u>430,912</u> |
| 4 | Debt in excess of rate base | <u>\$567,575</u> |
| 5 | Percent excess | 56.84% |
| 6 | Interest expense per return | <u>\$103,422</u> |
| 7 | Below the line interest | 58,785 |
| 8 | Above the line interest | <u>44,637</u> |
| 9 | Total | <u>\$103,422</u> |
| 10 | (B) <u>Depreciation</u> | |
| 11 | Total tax depreciation | \$ 90,455 |
| 12 | Less: Depreciation on CIAC assets | <u>21,792</u> |
| 13 | Tax depreciation on invested assets | 68,663 |
| 14 | Composite used and useful percent (Schedule No. 6) | <u>37.30%</u> |
| 15 | Above the line depreciation | 25,611 |
| 16 | Below the line depreciation | <u>64,844</u> |
| 17 | Total depreciation expense | <u>\$ 90,455</u> |
| 18 | (C) <u>Taxes other than income</u> | |
| 19 | Total taxes other than income per return | \$ 17,443 |
| 20 | Less: Regulatory assessment fees and licenses | 8,692 |
| 21 | Non-utility property taxes | <u>1,000</u> |
| 22 | Property taxes portion (utility) | 7,751 |
| 23 | Composite non-used and useful percent | |
| 24 | (Schedule No. 6) | <u>62.70%</u> |
| 25 | Below the line property taxes | 4,860 |
| 26 | Non-utility property taxes | <u>1,000</u> |
| 27 | Total below the line taxes other than income | 5,860 |
| 28 | Above the line taxes other than income | <u>11,583</u> |
| 29 | Total taxes other than income per return | <u>\$ 17,443</u> |

Fountain Lakes Sewer Corp.
 Schedule of Rate Base
 For the Year Ended December 31, 1995
 (Unaudited)

Line
No.

| | | |
|----|---|-------------------|
| 1 | Utility plant in service | \$1,729,737 |
| 2 | Land | 72,352 |
| 3 | Non-used and useful plant (Note 1) | (557,882) |
| 4 | Accumulated depreciation | (270,446) |
| 5 | CIAC (net) | <u>(542,849)</u> |
| 6 | Rate base | <u>\$ 430,912</u> |
| 7 | Notes: (1) Non-used and useful plant was calculated as follows: | |
| 8 | Total non-used and useful plant (Schedule No. 6) | \$ 645,194 |
| 9 | Accumulated depreciation (Note 2) | <u>(87,312)</u> |
| 10 | Net non-used and useful plant | <u>\$ 557,882</u> |
| 11 | (2) Detail of accumulated depreciation | |
| 12 | A/D - plant and plant sewers | \$ 112,798 |
| 13 | Percent non-used and useful | |
| 14 | (Schedule No. 6) | <u>61.02%</u> |
| 15 | | <u>68,829</u> |
| 16 | A/D - collection system | 141,848 |
| 17 | Percent non-used and useful | |
| 18 | (Schedule No. 6) | <u>13.03%</u> |
| 19 | | <u>18,483</u> |
| 20 | Total non-used and useful accumulated | |
| 21 | depreciation | <u>\$ 87,312</u> |

Fountain Lakes Sewer Corp.
Average Composite Used and Useful Percentage
For the Year Ended December 31, 1995
(Unaudited)

| Line No. | | |
|-------------|---|--------------------|
| 1 | I. <u>Used and useful percentage</u> | |
| 2 | (A) <u>Treatment plant</u> | |
| 3 | Capacity of treatment plant (gpd) | <u>190,000</u> |
| 4 | Average daily flow (peak month) | <u>74,065</u> |
| 5 | Percent used and useful | 38.98% |
| 6 | Percent non-used and useful | <u>61.02%</u> |
| 7 | Total | <u>100.00%</u> |
| 8 | (B) <u>Collection plant</u> | |
| 9 | Number of connected ERC's | 434 |
| 10 | Divide by capacity - ERC's | <u>499</u> |
| 11 | Percent used and useful | 86.97% |
| 12 | Percent non-used and useful | <u>13.03%</u> |
| 13 | Total | <u>100.00%</u> |
| 14 | II. <u>Composite non-used and useful percentage</u> | |
| 15 | Cost of treatment plant and plant sewers | \$ 905,267 |
| 16 | Percent non-used and useful | <u>61.02%</u> |
| 17 | Treatment plant non-used and useful | <u>552,394</u> |
| 18 | Cost of collection system (structures and | |
| 19 | improvements, force and gravity sewers, | |
| 20 | lift stations) | 712,201 |
| 21 | Percent non-used and useful | <u>13.03%</u> |
| 22 | Collection system non-used and useful | <u>92,800</u> |
| 23 | Total non-used and useful plant | <u>\$ 645,194</u> |
| 24 | Divide by total depreciable plant | <u>\$1,729,737</u> |
| 25 | Composite non-used and useful percentage | 37.30% |
| 26 | Composite used and useful percentage | <u>62.70%</u> |
| 27 | | <u>100.00%</u> |