



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: December 5, 1996
TO: Records and Reporting
FROM: Jackie Gilchrist
RE: Docket No. 961263-SU - Disposition of Gross-up Funds Collected by North Fort Myers Utility, in Lee County.

Please place the attached documentation into the utility's docket file. As instructed, two copies are included with this memo.

cc: O'Sullivan

ACK _____
AFA _____
APP _____
CAF _____
CMU _____
CTR _____
EAG _____
LEG _____
LIN _____
OPC _____
RCH _____
SEC 1
WAS _____
OTH _____

DOCUMENT NUMBER-DATE

12967 DEC-5 96

FPSC-RECORDS/REPORTING



PUBLIC SERVICE COMMISSION

2540 Shumard Oak Boulevard
 CAPITAL CIRCLE OFFICE CENTER
 TALLAHASSEE, FLORIDA 32399-0864

FACSIMILE TRANSMITTAL COVER SHEET

DATE: 10/24/96 TIME SUBMITTED: 4:00 p.m.

PRIORITY TO TRANSMIT:

NOT TO EXCEED 2 HOURS
 NOT TO EXCEED 30 MIN.

TO: Mr. Robert Nixon

OFFICE/BUSINESS: Cronin, Jackson, Nixon & Wilson

FACSIMILE SPEED NO.: _____ (IF AVAILABLE) OR FAX NO.: (813) 799-3662

TELEPHONE NO.: (813) 791-4020

FROM: Jackie Buckhrist

OFFICE/DIVISION: Water & Wastewater

FACSIMILE NO.: (904) TELEPHONE NO.: (904) 413-7019

COMMENTS: Corrected Refund Calculation for North Fl. Yeeps,
Utility.

NUMBER OF PAGES, INCLUDING THIS COVER SHEET: 2

with Fort Myers Utility
 SOURCE: (Line references are from CIAC Reports)
 10/24/96

STAFF CALCULATED GROSS-UP REFUND

	1992	1993
1 Form 1120, Line 30 (Line 15)	\$ 1,746,547	\$ 528,810
2 Less CIAC (Line 7)	(1,129,778)	(409,690)
3 Less Gross-up collected (Line 19)	(563,410)	(191,017)
4 Add First Year's Depr on CIAC (Line 8)	5,794	20,008
5 Add/Less Other Effects (Lines 20 & 21)	(8,478)	(4,300)
6		
7 Adjusted Income Before CIAC and Gross-up	\$ 50,675	\$ (56,189)
8		
9 Taxable CIAC (Line 7)	\$ 1,129,778	\$ 409,690
10 Less first years depr. (Line 8)	\$ (5,794)	\$ (20,008)
11		
12 Adjusted Income After CIAC	\$ 1,174,659	\$ 333,493
13 Less: NOL Carry Forward	\$ 0	\$ 0
14		
15 Net Taxable CIAC	\$ 1,123,984	\$ 333,493
16 Combined Marginal state & federal tax rates	37.63%	37.63%
17		
18 Net Income tax on CIAC	\$ 422,955	\$ 125,493
19 Less ITC Realized	0	0
20		
21 Net Income Tax	\$ 422,955	\$ 125,493
22 Expansion Factor for gross-up taxes	1.6033349	1.6033349
23		
24 Gross-up Required to pay tax effect	\$ 678,139	\$ 201,207
25 Less CIAC Gross-up collected (Line 19)	(563,410)	(191,017)
26		
27 (OVER) OR UNDER COLLECTION	\$ 114,729	\$ 10,190
28		
29		
30 TOTAL YEARLY REFUND	\$ 0	\$ 0
31		
32		
33 PROPOSED REFUND (excluding interest)	0	
34		

Cronin, Jackson, Nixon & Wilson
CERTIFIED PUBLIC ACCOUNTANTS, P.A.

JAMES L. CARLSTEDT, C.P.A.
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JAMES L. WILSON, C.P.A.

2560 GULF-TO-BAY BOULEVARD
SUITE 200
CLEARWATER, FLORIDA 34625-4419
(813) 791-4020
FACSIMILE
(813) 797-3602

RECEIVED
OCT 28 1996

Florida Public Service Commission
Division of Water and Wastewater

October 24, 1996

Ms. Jackie Gilchrist
Regulatory Analyst
Division of Water & Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

BY FACSIMILE (904) 413-7020

Re: North Fort Myers Utility, Inc. - 1992 & 1993 Gross-up Reports
(Fiscal Years Ended May 31, 1993 & 1994)

Dear Jackie:

As requested, I reviewed your revised computations for the disposition of gross-up for North Fort Myers Utility, Inc. related to the years shown above.

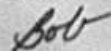
We agree that no refunds are appropriate, although we continue to disagree as a matter of policy and theory for your adjustments related to first year's depreciation on CIAC.

I believe there is a small error in your calculations for 1993. In determining "Form 1120, Line 30 (Line 15)," the \$4,300 of interest income on gross-up deposits was deducted from income and should have been added. When corrected, this number would change from \$520,210 to \$528,810 and result in an under collection of gross-up of \$10,190. I realize this does not really matter, since no refund is due in any event; however, I believe the computation should be correct.

Please contact me if you have any questions.

Very truly yours,

CRONIN, JACKSON, NIXON & WILSON



Robert C. Nixon

RCN/apf

cc: F. M. Deterding, Esq.
T. Reeves

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2560 GULF-TO-BAY BOULEVARD
SUITE 200
CLEARWATER, FLORIDA 34625-4419
(813) 791-4020
FACSIMILE
(813) 797-3602

June 27, 1996

Ms. Jackie Gilchrist
Regulatory Analyst
Division of Water & Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: 1992 & 1993 Gross-up Reports of North Fort Myers Utility, Inc.
(Fiscal Years Ended May 31, 1993 and 1994)

Dear Ms. Gilchrist:

On behalf of North Fort Myers Utility, Inc., I am responding to your letter and schedules of June 18, 1996.

Although we agree with the end result of your computations, for the record, I have set forth below the Company's strong disagreement with certain conclusions and assumptions contained in your calculations and discussed in your letter.

1. Net Operating Loss (NOL) Deductions

Your letter indicates that Schedules No. 2, in the Company's reports, show below the line NOL deductions for the respective fiscal years ended May 31, 1993 and 1994. You have asked whether any portion of these NOLs are above the line.

All of these NOLs are below the line, as indicated in the Company's original filings. This fact can be demonstrated by a review of the cumulative below the line losses shown in the previous gross-up reports filed with the Commission and the Orders disposing of gross-up for those years.

For your consideration, I have enclosed a schedule which demonstrates that the NOL carryforwards shown on the tax returns are less than the below the line losses contained in the Company's gross-up reports. Thus, the NOLs on the tax return must, by necessity, be below the line losses.

Ms. Jackie Gilchrist
June 27, 1996
Page Two

2. First Year's Depreciation on CIAC - Year Ended May 31, 1993

Your letter indicates that first year depreciation on CIAC of \$5,794 should be an above the line item.

Respectfully, we cannot understand the logic or time consumed in making this adjustment. In the Staff calculation, Line 1 is reduced by \$5,794, which is then added back on Line 4, thus nullifying the above the line classification on Line 1. As you will note, the net result of these unnecessary adjustments is to end up at exactly the same point Staff started. Also, you will note that adjusted income before CIAC and gross-up on Line 7 is identical to the amount shown for this item in the Company's filing on Schedules No. 1 and 2.

3. Interest Earned on the Gross-up Escrow Account

North Fort Myers Utility, Inc. had gross-up escrow earnings of \$8,478 and \$4,300 for the fiscal years ended May 31, 1993 and 1994, respectively.

I believe that the same comments related to above the line classification for first year's depreciation also apply to gross-up interest earnings. As I understand, you will increase income on Line 1 of the Staff computation and then turn around and deduct that same amount on Line 5. As noted above, this will result in exactly the same adjusted income before CIAC and gross-up that was calculated and filed by the Utility.

4. First Year's Depreciation on CIAC for Year Ended May 31, 1994

Staff has imputed \$20,008 of first year depreciation on CIAC on the theory that "the cash CIAC collected has been used or should be used to pay off the Utility's line of credit, which in turn is being used to pay for plant additions."

The Company strongly disagrees with this adjustment and the assumption on which it is based for the following reasons:

1. Staff's adjustment imputes a tax benefit for depreciation on CIAC which does not exist.

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Ms. Jackie Gilchrist
June 27, 1996
Page Three

2. Plant additions have been funded by the Company's line of credit and Industrial Development Revenue Bonds. Such sources of financing bear interest and associated carrying costs. Under IRS regulations, construction of assets with these borrowings results in tax basis, which entitles the Company to the depreciation, irrespective of any reimbursement of investment through cash CIAC collections.
3. Payments on debt are applied first to interest and then to principal. The amount of cash CIAC collected in fiscal years 1993 and 1994 would not pay the interest, much less the principal, on the Utility's debt in these years.
4. There is no Commission rule or requirement that cash CIAC is to be used for any specific purpose. Staff is well aware that cash CIAC is used for all kinds of purposes, including the payment of current operating expenses.
5. Advances from Parent Company - Year Ended May 31, 1994
At May 31, 1994, the balance due to parent was \$1,077,002. The advances bear an interest rate of 8 percent. The amount of interest expense accrued and paid on these advances totalled \$25,540.

Should you have questions concerning the responses contained in this letter or attached schedule, please contact me.

Very truly yours,

CRONIN, JACKSON, NIXON & WILSON

Signature
Robert C. Nixon

RCN/apf

Enclosure

cc: F. M. Deterding, Esq. (w/encl.)
T. Reeves (w/encl.)
J. Schenkman (w/encl.)

North Fort Myers Utility, Inc.
Summary of Below the Line Losses and
Above the Line Income and Gross-up Refunds

Approved In PSC Order	Fiscal Year Ended	Below the Line Loss	Above the Line Income Before CIAC	CIAC	Total Above the Line Income	Gross-up Refunds
Yes (1) (First started 06/87)	05/31/88	\$ (758,881)	\$ 22,184	\$ 40,507	\$ 62,691	-
Yes (1)	05/31/89	(1,430,350)	(31,481)	180,704	149,223	\$ 9,663
Yes (1)	05/31/90	(1,643,424)	(13,624)	98,077	84,453	21,415
Yes (2)	05/31/91	(2,137,771)	45,350	282,885	328,235	-
Yes (2)	05/31/92	(2,089,195)	<u>50,742</u>	<u>157,768</u>	<u>208,510</u>	-
Total through 05/31/92			73,171	759,941	833,112	31,078
No	05/31/93	(3,748,484)	50,675	1,129,778	1,180,453	-
No	05/31/94	(1,898,301)	<u>(56,189)</u>	<u>409,690</u>	<u>353,501</u>	-
Total			<u>\$ 67,657</u>	<u>\$ 2,299,409</u>	<u>\$ 2,367,066</u>	<u>\$ 31,078</u>

(1) Order No. PSC-92-0251-FOF-SU

(2) Order No. PSC-94-0443-FOF-SU

1) This table addresses in previous cases

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF WATER &
WASTEWATER
CHARLES HILL
DIRECTOR
(904) 413-6900

Public Service Commission

June 18, 1996

Mr. F. Marshall Deterding
Rose, Sundstrom & Bentley
2548 Blairstone Pines Drive
Tallahassee, Florida 32301

Re: 1992 and 1993 CIAC Reports for North Fort Myers Utility, Inc.

Dear Mr. Deterding:

Pursuant to Order No. PSC-96-0686-FOF-WS, all current Contributions-in-aid-of-Construction (CIAC) gross-up cases or any CIAC gross-up cases filed prior to any change in Commission policy, shall be processed under the provisions of Order Nos. 16791 and 23541. Therefore, the letter originally sent to you on February 15, 1996, requesting a response is being resubmitted. Please note, however, that the preliminary refund calculation and the letter originally sent to you on February 15, 1996, regarding this matter is incorrect and should be replaced with this letter and the attached preliminary calculation.

1992 - For the Fiscal Year ended May 31, 1993

Schedule No. 2 shows a NOL Deduction of \$2,288,696. The utility's annual reports for 1992 and 1993 shows that the utility operated at a loss in 1992 and 1993, therefore, please indicate how much of the \$2,288,696 NOL Deduction should be allocated above the line. In calculating Depreciation for 1993 (Schedule No. 3), total below the line depreciation includes first year's depreciation on CIAC in the amount of \$5,794. First year's depreciation should be included in above the line depreciation, therefore, above the line depreciation has been adjusted accordingly. Total above the line depreciation is \$185,825 and total below the line depreciation is \$252,744. Total above the line taxable income is \$1,738,069 and total below the line loss is (\$3,742,670). How much interest was earned in 1992 and 1993 on the gross-up escrow account?

Letter to Mr. Deterding
June 18, 1996
Page Two of Three

1993 - For the Fiscal Year ended May 31, 1994

On Schedule No. 1, note (1), it is stated that the company did not add any depreciable contributed property to its assets in the fiscal year and that plant additions were funded through draws on the company's line of credit. What did the company do with the cash CIAC collected during the fiscal year? Is the cash CIAC being used to pay off the utility's line of credit? If not, how is the company paying off its line of credit? Staff has assumed that the cash CIAC collected has been used or should be used to pay off the utility's line of credit, which in turn is being used to pay for plant additions. Therefore, staff's refund calculation for 1993 includes an estimated amount for first year's depreciation on CIAC. If this amount appears to be unreasonable, please provide the first year's depreciation on CIAC.

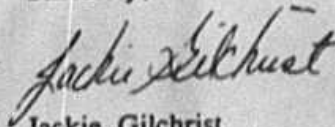
Schedule No. 2 shows a NOL deduction of \$1,368,646. The utility's annual reports for 1993 and 1994 shows that the utility operated at a loss in both years, therefore, please indicate how much of the \$1,368,646 NOL deduction should be allocated above the line. The interest expense calculation for 1994 (Schedule No. 3) shows \$9,864,623 as total long-term debt. This amount includes a loan for \$1,077,002 and according to Statement 9 of the utility's tax return, \$1,077,002 is the balance due to the Parent Company. What is the interest rate on the \$1,007,002 and how much of the interest expense relates to the loan from the Parent Company? How much interest was earned in 1993 and 1994 on the gross-up escrow account?

The information requested above should be filed by July 19, 1996, so that staff can finalize its refund calculation. If the information requested above should impact our preliminary analysis, the refund calculation will be recalculated and resubmitted to you accordingly. If the utility disagrees with staff's calculations, alternative or corrected amounts along with supporting documentation should be provided no later than July 19, 1996, as well.

Letter to Mr. Deterding
June 18, 1996
Page Three of Three

Should you have any questions, please do not hesitate to contact me.

Sincerely,



Jackie Gilchrist
Regulatory Analyst

JG:tyg(deterdin.ltr)

Enclosure

cc: Division of Water and Wastewater (Hill)
Division of Auditing and Financial Analysis (Causseaux)
Mr. Robert C. Nixon

North Fort Myers Utility
 SOURCE: (Line references are from CIAC Reports)

STAFF CALCULATED GROSS-UP REFUND

	1992	1993
1 Form 1120, Line 30 (Line 15)	\$ 1,738,069	\$ 544,518
2 Less CIAC (Line 7)	(1,129,778)	(409,690)
3 Less Gross-up collected (Line 19)	(563,410)	(191,017)
4 Add First Year's Depr on CIAC (Line 8)	5,794	20,008
5 Add/Less Other Effects (Lines 20 & 21)	0	0
6		
7 Adjusted Income Before CIAC and Gross-up	\$ 50,675	\$ (36,181)
8		
9 Taxable CIAC (Line 7)	\$ 1,129,778	\$ 409,690
10 Less first years depr. (Line 8)	\$ (5,794)	\$ (20,008)
11		
12 Adjusted Income After CIAC	\$ 1,174,659	\$ 353,501
13 Less: NOL Carry Forward	\$ 0	\$ 0
14		
15 Net Taxable CIAC	\$ 1,123,984	\$ 353,501
16 Combined Marginal state & federal tax rates	37.63%	37.63%
17		
18 Net Income tax on CIAC	\$ 422,955	\$ 133,022
19 Less ITC Realized	0	0
20		
21 Net Income Tax	\$ 422,955	\$ 133,022
22 Expansion Factor for gross-up taxes	1.6033349	1.6033349
23		
24 Gross-up Required to pay tax effect	\$ 678,139	\$ 213,279
25 Less CIAC Gross-up collected (Line 19)	(563,410)	(191,017)
26		
27 (OVER) OR UNDER COLLECTION	\$ 114,729	\$ 22,262
28		
29		
30 TOTAL YEARLY REFUND	\$ 0	\$ 0
31		
32		
33 PROPOSED REFUND (excluding interest)	0	
34		

Cronin, Jackson, Nixon & Wilson

CERTIFIED PUBLIC ACCOUNTANTS, P.A.

JAMES L. CARLSTEDT, C.P.A.
JOHN H. CRONIN, JR., C.P.A.
ROBERT H. JACKSON, C.P.A.
BRENDA W. McBARRON, C.P.A.
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HOLLY M. TOWNER, C.P.A.
JAMES L. WILSON, C.P.A.

2560 GULF-TO-BAY BOULEVARD
SUITE 200
CLEARWATER, FLORIDA 34625-4419
(813) 791-4020
TELECOPIER
(813) 797-3602

April 6, 1995

Officers and Directors
North Fort Myers Utility, Inc.

In accordance with your request, we have prepared the accompanying Special Report of North Fort Myers Utility, Inc., consisting of Schedules No. 1 through No. 5. This report is intended solely for use in fulfilling certain reporting requirements related to collections of tax impact charges on contributions in aid of construction (CIAC), for the fiscal year ended May 31, 1994, 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

North Ft. Myers Utility, Inc.
 Schedule of Rate Base and Composite Non-Used and Useful Percentage
 Fiscal Year Ended May 31, 1994

Line
 No.

1	II. <u>Composite non-used and useful percentage</u>		
2	Total plant costs per above	\$5,482,082	\$ 921,053
3	Percent non-used and useful	<u>69.80%</u>	<u>97.35%</u>
4	Amount non-used and useful	<u>\$3,826,493</u>	<u>\$ 897,619</u>
5	Total non-used and useful plant costs		
6	(\$3,826,493 + \$897,619)	<u>\$4,724,112</u>	
7	Divide by total depreciable plant	\$9,120,841	
8	Composite non-used and useful percentage	<u>51.79%</u>	
9	Composite used and useful percentage	<u>48.21%</u>	

North Ft. Myers Utility, Inc.
Income Tax on CIAC and Proposed Gross-up Refund
Fiscal Year Ended May 31, 1994

Line
No.

1	Total above the line taxable income (Schedule No. 2)	\$ 544,518
2	Less: Gross-up collected (Schedule No. 2)	<u>(191,017)</u>
3	Net taxable CIAC (1)	353,501
4	Combined Federal and State tax rate	<u>.3763</u>
5	Income tax on CIAC	133,022
6	Tax expansion factor for gross-up	<u>1.6033</u>
7	Gross-up required to pay tax on CIAC	213,274
8	Actual gross-up collected	<u>(191,017)</u>
9	Under (over) collection of gross-up (2)	<u>\$ 22,257</u>
10	Notes: (1) The Company did not add any depreciable contributed	
11	property to its assets in the fiscal year. Hence, no adjustment for	
12	first year depreciation is made. Plant additions were funded through	
13	draws on Company's line of credit.	
14	(2) No refund is necessary since the Company collected less	
15	gross-up than the amount required to pay tax on net taxable CIAC.	

North Ft. Myers Utility, Inc.
 Schedule of Above and Below the Line Taxable Income (Loss)
 Fiscal Year Ended May 31, 1994

Line No.		
1	<u>Above the line taxable income</u>	
2	Gross receipts/sales (Line 1c)	<u>\$ 1,026,290</u>
3	Cost of goods sold (Line 2, Schedule A, Statement 3):	
4	Cost of labor	226,931
5	Utilities	70,904
6	Repairs and maintenance	20,250
7	Supplies	<u>25,634</u>
8		<u>343,719</u>
9	Gross profit	<u>682,571</u>
10	Deductions:	
11	Salaries and wages (Line 13a)	132,419
12	Repairs and maintenance (Line 14)	6,233
13	Rents (Line 16)	7,123
14	Taxes and licenses (Line 17) (Schedule No. 3)	90,291
15	Interest (Line 18) (Schedule No. 3)	167,745
16	Depreciation (Line 21b) (Schedule No. 3)	216,672
17	Other deductions (Line 26) (Schedule No. 4)	<u>118,277</u>
18		<u>738,760</u>
19	Above the line taxable income before CIAC	<u>(56,189)</u>
20	CIAC	409,690
21	Gross-up	<u>191,017</u>
22		<u>600,707</u>
23	Total above the line taxable income	<u>544,518</u>
24	<u>Below the line taxable income (loss)</u>	
25	Income:	
26	Interest (Line 5)	33,504
27	Miscellaneous (Line 10, Statement 1)	<u>5,226</u>
28		<u>38,730</u>
29	Deductions:	
30	Cost of goods sold (Line 2, Schedule A, Statement 3):	
31	Security	682
32	Engineering and testing	221,749
33	Officers compensation (Line 12)	179,888
34	Taxes (Line 17) (Schedule No. 3)	18,870
35	Interest (Line 18) (Schedule No. 3)	1,082,815
36	Depreciation (Line 21b) (Schedule No. 3)	256,954
37	Other deductions (Line 26) (Schedule No. 4)	<u>176,073</u>
38		<u>1,937,031</u>
39	Total below the line tax loss	<u>(1,898,301)</u>
40	Total taxable income (loss) (Line 28)	(1,353,783)
41	Below the line net operating loss deduction (Line 29c)	<u>(1,368,646)</u>
42	Total taxable income (loss) (Line 30)	<u>\$ (2,722,429)</u>

North Ft. Myers Utility, Inc.
 Above and Below the Line Taxes, Interest, and Depreciation
 Fiscal Year Ended May 31, 1994

Line No.			
1	(A)	<u>Taxes</u>	
2		(1) <u>Property taxes</u>	
3		Total property taxes	\$ 21,699
4		Composite non-used and useful percent	
5		(Schedule No. 5)	<u>51.79%</u>
6		Below the line property taxes	<u>11,238</u>
7		(2) <u>Payroll taxes</u>	
8		Officers salary subject to social security tax	85,100
9		Payroll tax rate	<u>6.2%</u>
10			<u>5,276</u>
11		Officers salary subject to Medicare tax	162,500
12		Medicare tax rate	<u>1.45%</u>
13			<u>2,356</u>
14		Total below the line payroll taxes	<u>7,632</u>
15		Below the line taxes	18,870
16		Above the line taxes	<u>90,291</u>
17		Total taxes	<u>\$ 109,161</u>
18	(B)	<u>Interest</u>	
19		Total long-term debt	<u>\$9,864,623</u>
20		Rate base	\$1,358,718
21		Less: Customer deposits	<u>(65,692)</u>
22		Rate base supported by long-term debt	<u>\$1,293,026</u>
23		Long-term debt in excess of rate base	<u>\$8,571,597</u>
24		Percentage excess	86.89%
25		Interest expense, net of \$4,369 interest on	
26		customer deposits	<u>\$1,246,191</u>
27		Below the line interest expense	1,082,815
28		Above the line interest expense	<u>167,745</u>
29		Total interest expense	<u>\$1,250,560</u>

North Ft. Myers Utility, Inc.
 Above and Below the Line Taxes, Interest, and Depreciation
 Fiscal Year Ended May 31, 1994

Line No.		
1	(C) <u>Depreciation</u>	
2	(1) <u>Net depreciation</u>	
3	Total depreciation per Line 21b	\$ 530,882
4	Less: Depreciation on pre-1987 CIAC assets	<u>(57,256)</u>
5	Net depreciation expense included on return	473,626
6	Less: Depreciation on prior years	
7	contributed property	<u>(24,192)</u>
8	Net depreciation on invested property	<u>\$ 449,434</u>
9	(2) <u>Above and below the line depreciation</u>	
10	Net depreciation on invested property	
11	per above	\$ 449,434
12	Composite used and useful percentage	
13	(Schedule No. 5)	<u>48.21%</u>
14	Above the line depreciation	216,672
15	Below the line depreciation	<u>256,954</u>
16	Total net depreciation	<u>\$ 473,626</u>
17	Note (1): "Other income" on Line 10 and Statement 1 consists of the	
18	following:	
19	Taxable CIAC	\$409,690
20	Taxable gross-up	191,017
21	Amortization of pre-1987 CIAC assets	<u>57,256</u>
22		<u>657,963</u>
23	Miscellaneous income	<u>5,226</u>
24	Total	<u>\$663,189</u>

North Ft. Myers Utility, Inc.
Schedule of Above and Below the Line "Other Deductions"
Fiscal Year Ended May 31, 1994

Line
No.

1	Above the line "Other deductions":	
2	Insurance	\$ 52,901
3	Accounting	30,000
4	Telephone	12,951
5	Office expense and bank charges	<u>22,425</u>
6	Total above the line "Other deductions"	<u>118,277</u>
7	Below the line "Other deductions":	
8	Accounting	18,517
9	Legal	122,553
10	Travel and entertainment	19,533
11	Amortization	<u>15,670</u>
12	Total below the line "Other deductions"	<u>176,073</u>
13	Total "Other deductions"	<u>\$294,350</u>

North Ft. Myers Utility, Inc.
 Schedule of Rate Base and Composite Non-Used and Useful Percentage
 Fiscal Year Ended May 31, 1994

Line
 No.

1	I. <u>Rate base</u>		
2	Utility plant in service		\$ 9,120,841
3	Land		252,453
4	Non-used and useful plant		(4,036,447)
5	Accumulated depreciation		(1,246,641)
6	CIAC (net)		<u>(2,731,488)</u>
7	Rate base		<u>\$ 1,358,718</u>
8	Note (1): Non-used and useful plant was calculated as follows:		
9	(A) <u>Treatment plant</u>		
10	Peak average month flow (March, 1994) (mgd)		<u>.604</u>
11	Divide by plant capacity (mgd)		2.000
12	Percent used and useful		30.20%
13	Percent non-used and useful		<u>69.80</u>
14	Total		<u>100%</u>
15	(B) <u>Deepwell</u>		
16	Peak average month flow to deepwell		
17	(March, 1994) (mgd)		<u>.053</u>
18	Divide by deepwell capacity (mgd)		2.000
19	Percent used and useful		2.65%
20	Percent non-used and useful		<u>97.35</u>
21	Total		<u>100%</u>
22	(C) <u>Amounts non-used and useful</u>		
23		<u>Treatment</u>	<u>Deepwell</u>
24	Total plant costs	\$5,482,082	\$ 922,053
25	Accumulated depreciation	(846,247)	(99,624)
26	Net plant	4,635,835	822,429
27	Percent non-used and useful	<u>69.80%</u>	<u>97.35%</u>
28	Net non-used and useful plant	<u>\$3,235,812</u>	<u>\$ 800,635</u>
29	Total net non-used and useful plant		<u>\$4,036,447</u>

LAW OFFICES
ROSE, SUNDBSTROM & BENTLEY

A PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

2548 BLAIRSTONE PINES DRIVE
TALLAHASSEE, FLORIDA 32301

(904) 877-6555

ROBERT A. ANTISTA
CHRIS H. BENTLEY, P.A.
F. MARSHALL DETERDING
MARTIN S. FRIEDMAN, P.A.
JOHN R. JENKINS
ROBERT M. C. ROSE, P.A.
WILLIAM E. SUNDBSTROM, P.A.
DIANE D. TREMPER, P.A.
JOHN L. WHARTON

MAILING ADDRESS
POST OFFICE BOX 1567
TALLAHASSEE, FLORIDA 32302-1567
TELECOPIER (904) 877-4029

July 14, 1994

VIA HAND DELIVERY

Ms. Blanco S. Bayo
Director of Records and Reporting
Florida Public Service Commission
Fletcher Building
101 East Gaines Street
Tallahassee, FL 32399-0850

Re: North Fort Myers Utilities, Inc.
Proposed Disposition of Gross-up Funds
Our File No. 16319.29

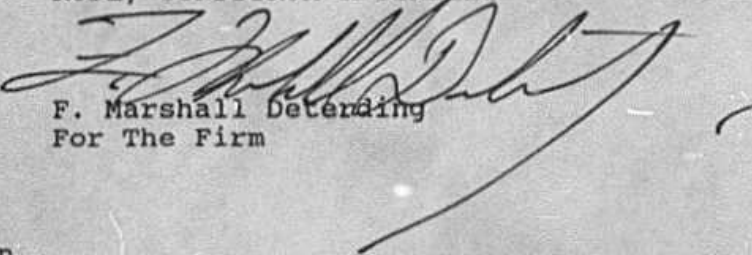
Dear Mr. Bayo:

Attached is one copy of tax return information submitted on behalf of North Fort Myers Utilities, Inc., to justify its proposed disposition of gross-up funds collected during the tax year ended May 31, 1993. In accordance with the letter received from Chuck Hill, this tax return is confidential information pursuant to Order No. 16971 and is being submitted directly to you in conjunction with the filing of an annual CIAC gross-up report for disposition of funds filed today with the Division of Water and Wastewater.

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

Sincerely,

ROSE, SUNDBSTROM & BENTLEY



F. Marshall Deterding
For The Firm

FMD/lts
Enclosure

cc: Mr. Chuck Hill
Mr. Jack Schenkman
Ms. Joann Boley
Mr. Tony Reeves
Robert C. Nixon, CPA

Cronin, Jackson, Nixon & Wilson
CERTIFIED PUBLIC ACCOUNTANTS, P.A.

JAMES L. CARLSTEDT, C.P.A.
JOHN H. CRONIN, JR., C.P.A.
ROBERT H. JACKSON, C.P.A.
BRENDA W. McBARRON, C.P.A.
ROBERT C. NIXON, C.P.A.
HOLLY M. TOWNER, C.P.A.
JAMES L. WILSON, C.P.A.

2560 GULF-TO-BAY BOULEVARD
SUITE 200
CLEARWATER, FLORIDA 34625-4419
(813) 791-4020
TELECOPIER
(813) 797-3502

July 11, 1994

Officers and Directors
North Fort Myers Utility, Inc.

In accordance with your request, we have prepared the accompanying Special Report of North Fort Myers Utility, Inc., consisting of Schedules No. 1 through No. 6. This report is intended solely for use in fulfilling certain reporting requirements related to collections of tax impact charges on contributions in aid of construction (CIAC), for the fiscal year ended May 31, 1993, 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

North Fort Myers Utility, Inc.
Income Tax on CIAC and Proposed Refund
Year Ended May 31, 1993

Total above the line taxable income (Schedule No. 2)	\$ 1,743,863
Less: Above the line taxable income before CIAC (Schedule No. 2)	(50,675)
CIAC gross-up (Schedule No. 2)	<u>(563,410)</u>
Taxable CIAC	1,129,778
Less: First year depreciation on CIAC property (Schedule No. 3)	<u>(5,794)</u>
Net taxable CIAC	1,123,984
Effective combined tax rate	<u>0.3763</u>
Income tax on CIAC	422,955
Expansion factor for gross-up	<u>1.6033</u>
Gross-up required to pay tax on CIAC	678,124
Actual gross-up collected	<u>(563,410)</u>
Under collection of gross-up (Note 1)	<u>\$ 114,714</u>

Note (1): No refund is required since gross-up collected was less than that required to pay tax.

North Fort Myers Utility, Inc.
 Schedule of Above and Below the Line Taxable Income (Loss)
 Year Ended May 31, 1993

Above the line taxable income

Gross receipts/sales (line 1c)	\$ 789,047
Cost of goods sold (line 2, Schedule A):	
Cost of labor	158,536
Utilities	83,338
Repairs & Maintenance	33,524
Supplies	7,838
	<u>281,236</u>
	507,811
Other above the line income:	
Miscellaneous service income (Statement 1)	6,099
Amortization of pre 1987 CIAC (Note 1)	58,481
Gross above the line profit	<u>570,391</u>
Deductions:	
Salaries & wages (line 13c)	150,135
Rents (line 16)	7,123
Taxes (line 17, Schedule No. 3)	70,528
Interest (line 18, Schedule No. 3)	19,083
Depreciation (line 21b, Schedule No. 3)	180,031
Other deductions (line 26, statement 2, Schedule No. 4)	92,816
	<u>519,716</u>
Above the line income before CIAC	50,675
CIAC (line 10, statement 1, note 1)	1,129,778
CIAC gross-up (line 10, note 1)	563,410
	<u>1,693,188</u>
Total above the line taxable income	<u>1,743,863</u>

Below the line taxable income (loss)

Income:	
Interest (line 5)	52,789
Deductions:	
Cost of goods sold (line 2, Schedule A)	
Security	700
Engineering & testing	136,791
Officers compensation (line 2)	166,144
Taxes (line 17, Schedule No. 3)	18,364
Interest (line 18, Schedule No. 3)	760,532
Depreciation (line 21b, Schedule No. 3)	258,538
Other deductions (line 26, statement 2, Schedule No. 4)	171,488
	<u>1,512,557</u>
Below the line income (loss) before NOL deduction	(1,459,768)
Below the NOL deduction (see previous years filings) (line 29c)	(2,288,696)
Total below the line taxable income (loss)	<u>(3,748,464)</u>
Total taxable income (loss) (line 30)	<u>\$ (2,004,601)</u>

Note (1): A breakdown of "Other Income" shown on line 10 and statement 1 of the tax return is as follows:

CIAC	\$ 1,129,778
CIAC gross-up	563,410
Amortization of pre 1987 CIAC	58,481
	<u>1,751,669</u>
Miscellaneous	6,099
Total (line 10)	<u>\$ 1,757,768</u>

All line references relate to page 1 of the Federal income tax return. Statement references relate to documents attached to and filed with the Federal tax return.

North Fort Myers Utility, Inc.
 Above and Below the Line Taxes, Interest and Depreciation
 Year Ended May 31, 1993

(A) Taxes

Below the line taxes:		
Emergency excise tax	\$	72
Property taxes		15,685
Composite non-used and useful percentage		62.55 %
Below the line property taxes		9,811
Payroll taxes:		
Officer's salaries subject to payroll tax		110,860
Payroll tax rate		7.65 %
Below the line payroll taxes		8,481
Total below the line taxes		18,364
Above the line taxes		70,528
Total taxes (line 17)	\$	88,892

(B) Interest

Total long term debt	\$	8,724,404
Rate base (Schedule No. 5)	\$	221,860
Less: Customer deposits		(43,533)
Rate base supported by long term debt	\$	178,327
Debt in excess of rate base	\$	8,546,077
Percent excess		97.96%
Total interest expense (line 18)	\$	779,615
Less: interest on customer deposits		(3,245)
Interest on long term debt		776,370
Percent in excess of rate base		97.96%
Below the line interest		760,532
Above the line interest		19,083
Total interest expense	\$	779,615

(C) Depreciation

Tax depreciation on treatment plant	\$	342,392
Tax depreciation on deep well		61,675
Composite non-used and useful percentage		404,067
Below the line depreciation		62.55%
Add first year depreciation on CIAC		252,744
Total below the line depreciation		5,794
Above the line depreciation		258,538
Total depreciation (line 21b)	\$	180,031

North Fort Myers Utility, Inc.
Schedule of Above and Below the Line "Other Deductions"
Year Ended May 31, 1993

Above the line "other deductions"	
Insurance	\$ 33,737
Repairs & maintenance	8,177
Accounting	20,300
Telephone	2,100
Uniforms	4,317
Miscellaneous	15,250
Office expenses & bank charges	<u>8,935</u>
	<u>92,816</u>
Below the line "other deductions"	
Accounting	41,433
Legal	97,294
Telephone	3,173
Travel & entertainment	20,894
Amortization (loan costs)	<u>8,694</u>
	<u>171,488</u>
Total "other deductions"	<u>\$ 264,304</u>

North Fort Myers Utility, Inc.
 Schedule of Rate Base and Composite Non-Used and Useful Percentage
 Year Ended May 31, 1993

I. Rate base

Utility plant in service	\$ 7,769,097
Land	162,149
Non-used & useful plant (note 1)	(4,271,196)
Accumulated depreciation & amortization	(1,031,182)
CIAC (net)	<u>(2,406,508)</u>
 Rate base	 <u>\$ 221,860</u>

Note (1): Non-used and useful plant was calculated as follows:

(A) Treatment plant

Peak average month flow (Oct. 1993) (mgd)	0.549
Divide by plant capacity (mgd)	<u>2.000</u>
 Percent used and useful	 27.45%
Percent non-used and useful	<u>72.55</u>
 Total	 <u>100%</u>

(B) Deep well

Peak average months flow to deep well (Oct. 1993) (mgd)	0.142
Divide by deep well capacity (mgd)	<u>4.000</u>
 Percent used & useful	 3.55%
Percent non-used and useful	<u>96.45</u>
 Total	 <u>100%</u>

(C) Amounts non-used and useful

	Treatment	Deepwell
Total plant costs	\$ 5,479,004	\$ 917,141
Accumulated depreciation	<u>(709,234)</u>	<u>(76,573)</u>
	4,769,770	840,568
Percent non-used and useful	<u>72.55%</u>	<u>96.45%</u>
 Net non-used and useful plant	 <u>\$ 3,460,468</u>	 <u>\$ 810,728</u>
 Total net non-used and useful plant	 <u>\$ 4,271,196</u>	

II. Composite non-used and useful percentage

Total plant costs per above	\$ 5,479,004	\$ 917,141
Percent non-used and useful	<u>72.55%</u>	<u>96.45%</u>
 Amount non-used and useful	 <u>\$ 3,975,017</u>	 <u>\$ 884,582</u>
 Total non-used and useful plant costs (\$3,975,017 + \$884,582)	 <u>\$ 4,859,599</u>	
Divide by total depreciable plant	<u>\$ 7,769,097</u>	
Composite non-used and useful percentage	<u>62.55%</u>	

North Fort Myers Utility, Inc.
Detailed Statement of Tax Impact Account
Year Ended May 31, 1993

Balance at beginning of fiscal year	\$ 195,325
Gross-up collected	533,410
Refunds (principal only)	(1,181)
Amounts retained	<u>(176,018)</u>
Balance, end of fiscal year	<u>\$ 561,536</u>