

# ARIZONA CORPORATION CO



AZ CORP COMMISSION  
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## FINANCING APPLICATION

W-03875A-03-0737

W-03875A-03-0870

Mountain Glen Water Service, Inc  
UTILITY NAME

You must complete all items in the application according to the instructions provided. If you have any questions regarding the application, call the Chief, Financial & Regulatory Analysis Section at (602) 542-0743 for assistance.

Send the original and sixteen copies of the application and cover sheet to the following address:

DOCKET CONTROL CENTER  
1200 W WASHINGTON STREET  
PHOENIX AZ 85007-2927

Arizona Corporation Commission  
**DOCKETED**

OCT 21 2005

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*Application for Financing Approval*

Page 1 of 1

Application Information Regarding Arizona Revised Statutes 40-301 and 40-302

1. The applicant's exact name and the address of its principal business office is as follows:

Mountain Glen Water Service, Inc.  
PO Box 897  
Clay Springs, AZ 85923

2. The name and address of the person authorized, on behalf of applicant, to receive notices and communications regarding the applications is:

Bea Parker  
Mountain Glen Water Service, Inc.  
PO Box 897  
Clay Springs, AZ 85923

3. Mountain Glen Water Service, Inc. ("Mountain Glen" or "Company") is proposing debt financing from the Water Infrastructure Finance Authority of Arizona ("WIFA") in the amount of \$182,993.47. Currently, WIFA has stated the interest rate (prime plus 2%) will be approximately 6.125%, for a 20-year term, however, the interest rate is not yet final. It is also understood by the Company that WIFA will not require the assets of Mountain Glen serve as collateral for the loan. A draft Loan Repayment Schedule provided to the Company by WIFA is attached as Exhibit 1.
4. Included with item number 3.
5. The proceeds of the financing will be used to plan, engineer, purchase, and install assets that will be used to reduce water arsenic levels in compliance with the new standards that become effective in January of 2006.
6. The Board of Directors and management of Mountain Glen asserts the requested financing is compatible with the public interest and the proper performance of the Company as a public service corporation, and will not impair its ability to perform that service. The requested financing meets these criteria since the proceeds from the financing will be used to comply with the new EPA standards lowering the allowable arsenic in drinking water from 50 parts per billion to 10 ppb. Water utilities are required to comply with the new EPA standards by January of 2006.
7. N/A
8. The Company requested "documents to be executed in the matter" from WIFA and was told that final loan documents are not available. WIFA provided a copy of Mountain Glen's Loan Resolution, and it is attached as Exhibit 2.

*Application for Financing Approval*  
**Page 2 of 2**

9. Balance sheet as of 12/31/04 and income statement for the period 01/01/04 through 12/31/04 reflecting actual amounts, as well as with proforma adjustments to include the WIFA financing, are attached.

**Income Statement additional information:**

- Income Tax Expense for the 2004 actual column was adjusted to reflect the amount of income taxes that would have been due if the Company did not utilize a net operating loss carryforward in 2004.
  - Also attached is a schedule entitled Calculation of Surcharge for WIFA Loan which applies the mechanism approved in Decision 67163 to actual amounts to determine the revenue requirement. It is Mountain Glen's understanding that these numbers are not actual or final until the loan interest rate is locked.
  - When the current loan numbers are applied to the WIFA surcharge mechanism, the annual debt service on the loan is calculated to be \$16,048.53, which is in close approximation to the amount produced by an amortization schedule. However, Exhibit 1 lists a monthly payment amount of \$1,609.97, which is \$19,319.64 annualized. The Company believes the resulting difference of \$3,271.11 is comprised of the additional monthly payment of \$263.88 to fund the Debt Service Reserve Fund. Shouldn't this additional amount due to WIFA and the corresponding income taxes be included in the mechanism and the resultant surcharge amount?
10. A copy of notice that will be provided to the customers is attached. Proof of noticing will be provided to the Commission once it has been sent to the customers.

Exhibit 1

**Section 3: Loan Repayment Schedule, Repayment Periods 1 through 80**  
**Mountain Glen Water Service**  
 20-Oct-05

Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Fixed Monthly Payment	Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Fixed Monthly Payment
1	12/01/05	6.125%	0.00	41	04/01/09	6.125%	1,609.97
2	01/01/06	6.125%	0.00	42	05/01/09	6.125%	1,609.97
3	02/01/06	6.125%	0.00	43	06/01/09	6.125%	1,609.97
4	03/01/06	6.125%	0.00	44	07/01/09	6.125%	1,609.97
5	04/01/06	6.125%	0.00	45	08/01/09	6.125%	1,609.97
6	05/01/06	6.125%	0.00	46	09/01/09	6.125%	1,609.97
7	06/01/06	6.125%	7,214.14	47	10/01/09	6.125%	1,609.97
8	07/01/06	6.125%	1,609.97	48	11/01/09	6.125%	1,609.97
9	08/01/06	6.125%	1,609.97	49	12/01/09	6.125%	1,609.97
10	09/01/06	6.125%	1,609.97	50	01/01/10	6.125%	1,609.97
11	10/01/06	6.125%	1,609.97	51	02/01/10	6.125%	1,609.97
12	11/01/06	6.125%	1,609.97	52	03/01/10	6.125%	1,609.97
13	12/01/06	6.125%	1,609.97	53	04/01/10	6.125%	1,609.97
14	01/01/07	6.125%	1,609.97	54	05/01/10	6.125%	1,609.97
15	02/01/07	6.125%	1,609.97	55	06/01/10	6.125%	1,609.97
16	03/01/07	6.125%	1,609.97	56	07/01/10	6.125%	1,609.97
17	04/01/07	6.125%	1,609.97	57	08/01/10	6.125%	1,609.97
18	05/01/07	6.125%	1,609.97	58	09/01/10	6.125%	1,609.97
19	06/01/07	6.125%	1,609.97	59	10/01/10	6.125%	1,609.97
20	07/01/07	6.125%	1,609.97	60	11/01/10	6.125%	1,609.97
21	08/01/07	6.125%	1,609.97	61	12/01/10	6.125%	1,609.97
22	09/01/07	6.125%	1,609.97	62	01/01/11	6.125%	1,609.97
23	10/01/07	6.125%	1,609.97	63	02/01/11	6.125%	1,609.97
24	11/01/07	6.125%	1,609.97	64	03/01/11	6.125%	1,609.97
25	12/01/07	6.125%	1,609.97	65	04/01/11	6.125%	1,609.97
26	01/01/08	6.125%	1,609.97	66	05/01/11	6.125%	1,609.97
27	02/01/08	6.125%	1,609.97	67	06/01/11	6.125%	1,341.64
28	03/01/08	6.125%	1,609.97	68	07/01/11	6.125%	1,341.64
29	04/01/08	6.125%	1,609.97	69	08/01/11	6.125%	1,341.64
30	05/01/08	6.125%	1,609.97	70	09/01/11	6.125%	1,341.64
31	06/01/08	6.125%	1,609.97	71	10/01/11	6.125%	1,341.64
32	07/01/08	6.125%	1,609.97	72	11/01/11	6.125%	1,341.64
33	08/01/08	6.125%	1,609.97	73	12/01/11	6.125%	1,341.64
34	09/01/08	6.125%	1,609.97	74	01/01/12	6.125%	1,341.64
35	10/01/08	6.125%	1,609.97	75	02/01/12	6.125%	1,341.64
36	11/01/08	6.125%	1,609.97	76	03/01/12	6.125%	1,341.64
37	12/01/08	6.125%	1,609.97	77	04/01/12	6.125%	1,341.64
38	01/01/09	6.125%	1,609.97	78	05/01/12	6.125%	1,341.64
39	02/01/09	6.125%	1,609.97	79	06/01/12	6.125%	1,341.64
40	03/01/09	6.125%	1,609.97	80	07/01/12	6.125%	1,341.64

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**Section 3: Loan Repayment Schedule, Repayment Periods 81 through 160**  
**Mountain Glen Water Service**  
 20-Oct-05

Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Fixed Monthly Payment	Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Fixed Monthly Payment
81	08/01/12	6.125%	1,341.64	121	12/01/15	6.125%	1,341.64
82	09/01/12	6.125%	1,341.64	122	01/01/16	6.125%	1,341.64
83	10/01/12	6.125%	1,341.64	123	02/01/16	6.125%	1,341.64
84	11/01/12	6.125%	1,341.64	124	03/01/16	6.125%	1,341.64
85	12/01/12	6.125%	1,341.64	125	04/01/16	6.125%	1,341.64
86	01/01/13	6.125%	1,341.64	126	05/01/16	6.125%	1,341.64
87	02/01/13	6.125%	1,341.64	127	06/01/16	6.125%	1,341.64
88	03/01/13	6.125%	1,341.64	128	07/01/16	6.125%	1,341.64
89	04/01/13	6.125%	1,341.64	129	08/01/16	6.125%	1,341.64
90	05/01/13	6.125%	1,341.64	130	09/01/16	6.125%	1,341.64
91	06/01/13	6.125%	1,341.64	131	10/01/16	6.125%	1,341.64
92	07/01/13	6.125%	1,341.64	132	11/01/16	6.125%	1,341.64
93	08/01/13	6.125%	1,341.64	133	12/01/16	6.125%	1,341.64
94	09/01/13	6.125%	1,341.64	134	01/01/17	6.125%	1,341.64
95	10/01/13	6.125%	1,341.64	135	02/01/17	6.125%	1,341.64
96	11/01/13	6.125%	1,341.64	136	03/01/17	6.125%	1,341.64
97	12/01/13	6.125%	1,341.64	137	04/01/17	6.125%	1,341.64
98	01/01/14	6.125%	1,341.64	138	05/01/17	6.125%	1,341.64
99	02/01/14	6.125%	1,341.64	139	06/01/17	6.125%	1,341.64
100	03/01/14	6.125%	1,341.64	140	07/01/17	6.125%	1,341.64
101	04/01/14	6.125%	1,341.64	141	08/01/17	6.125%	1,341.64
102	05/01/14	6.125%	1,341.64	142	09/01/17	6.125%	1,341.64
103	06/01/14	6.125%	1,341.64	143	10/01/17	6.125%	1,341.64
104	07/01/14	6.125%	1,341.64	144	11/01/17	6.125%	1,341.64
105	08/01/14	6.125%	1,341.64	145	12/01/17	6.125%	1,341.64
106	09/01/14	6.125%	1,341.64	146	01/01/18	6.125%	1,341.64
107	10/01/14	6.125%	1,341.64	147	02/01/18	6.125%	1,341.64
108	11/01/14	6.125%	1,341.64	148	03/01/18	6.125%	1,341.64
109	12/01/14	6.125%	1,341.64	149	04/01/18	6.125%	1,341.64
110	01/01/15	6.125%	1,341.64	150	05/01/18	6.125%	1,341.64
111	02/01/15	6.125%	1,341.64	151	06/01/18	6.125%	1,341.64
112	03/01/15	6.125%	1,341.64	152	07/01/18	6.125%	1,341.64
113	04/01/15	6.125%	1,341.64	153	08/01/18	6.125%	1,341.64
114	05/01/15	6.125%	1,341.64	154	09/01/18	6.125%	1,341.64
115	06/01/15	6.125%	1,341.64	155	10/01/18	6.125%	1,341.64
116	07/01/15	6.125%	1,341.64	156	11/01/18	6.125%	1,341.64
117	08/01/15	6.125%	1,341.64	157	12/01/18	6.125%	1,341.64
118	09/01/15	6.125%	1,341.64	158	01/01/19	6.125%	1,341.64
119	10/01/15	6.125%	1,341.64	159	02/01/19	6.125%	1,341.64
120	11/01/15	6.125%	1,341.64	160	03/01/19	6.125%	1,341.64

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**Section 3: Loan Repayment Schedule, Periods 161 through 240**  
**Mountain Glen Water Service**  
**20 Oct-05**

Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Fixed Monthly Payment	Period	Semi-Annual Payment Dates	Combined Interest and Fee Rate	Fixed Monthly Payment
161	04/01/19	6.125%	1,341.64	201	08/01/22	6.125%	1,341.64
162	05/01/19	6.125%	1,341.64	202	09/01/22	6.125%	1,341.64
163	06/01/19	6.125%	1,341.64	203	10/01/22	6.125%	1,341.64
164	07/01/19	6.125%	1,341.64	204	11/01/22	6.125%	1,341.64
165	08/01/19	6.125%	1,341.64	205	12/01/22	6.125%	1,341.64
166	09/01/19	6.125%	1,341.64	206	01/01/23	6.125%	1,341.64
167	10/01/19	6.125%	1,341.64	207	02/01/23	6.125%	1,341.64
168	11/01/19	6.125%	1,341.64	208	03/01/23	6.125%	1,341.64
169	12/01/19	6.125%	1,341.64	209	04/01/23	6.125%	1,341.64
170	01/01/20	6.125%	1,341.64	210	05/01/23	6.125%	1,341.64
171	02/01/20	6.125%	1,341.64	211	06/01/23	6.125%	1,341.64
172	03/01/20	6.125%	1,341.64	212	07/01/23	6.125%	1,341.64
173	04/01/20	6.125%	1,341.64	213	08/01/23	6.125%	1,341.64
174	05/01/20	6.125%	1,341.64	214	09/01/23	6.125%	1,341.64
175	06/01/20	6.125%	1,341.64	215	10/01/23	6.125%	1,341.64
176	07/01/20	6.125%	1,341.64	216	11/01/23	6.125%	1,341.64
177	08/01/20	6.125%	1,341.64	217	12/01/23	6.125%	1,341.64
178	09/01/20	6.125%	1,341.64	218	01/01/24	6.125%	1,341.64
179	10/01/20	6.125%	1,341.64	219	02/01/24	6.125%	1,341.64
180	11/01/20	6.125%	1,341.64	220	03/01/24	6.125%	1,341.64
181	12/01/20	6.125%	1,341.64	221	04/01/24	6.125%	1,341.64
182	01/01/21	6.125%	1,341.64	222	05/01/24	6.125%	1,341.64
183	02/01/21	6.125%	1,341.64	223	06/01/24	6.125%	1,341.64
184	03/01/21	6.125%	1,341.64	224	07/01/24	6.125%	1,341.64
185	04/01/21	6.125%	1,341.64	225	08/01/24	6.125%	1,341.64
186	05/01/21	6.125%	1,341.64	226	09/01/24	6.125%	1,341.64
187	06/01/21	6.125%	1,341.64	227	10/01/24	6.125%	1,341.64
188	07/01/21	6.125%	1,341.64	228	11/01/24	6.125%	1,341.64
189	08/01/21	6.125%	1,341.64	229	12/01/24	6.125%	1,341.64
190	09/01/21	6.125%	1,341.64	230	01/01/25	6.125%	1,341.64
191	10/01/21	6.125%	1,341.64	231	02/01/25	6.125%	1,341.64
192	11/01/21	6.125%	1,341.64	232	03/01/25	6.125%	1,341.64
193	12/01/21	6.125%	1,341.64	233	04/01/25	6.125%	1,341.64
194	01/01/22	6.125%	1,341.64	234	05/01/25	6.125%	1,341.64
195	02/01/22	6.125%	1,341.64	235	06/01/25	6.125%	1,341.64
196	03/01/22	6.125%	1,341.64	236	07/01/25	6.125%	1,341.64
197	04/01/22	6.125%	1,341.64	237	08/01/25	6.125%	1,341.64
198	05/01/22	6.125%	1,341.64	238	09/01/25	6.125%	1,341.64
199	06/01/22	6.125%	1,341.64	239	10/01/25	6.125%	1,341.64
200	07/01/22	6.125%	1,341.64	240	11/01/25	6.125%	1,341.64

**DUPLICATE**

**Loan Resolution 2005-022 – Mountain Glen Water Service  
Water Infrastructure Finance Authority of Arizona**

**Section 1: Resolution**

WHEREAS, the Water Infrastructure Finance Authority of Arizona (the "Authority") has received from Mountain Glen Water Service (the "Local Borrower") a request for a loan (the "Loan"); and

WHEREAS, the Authority has determined that the Local Borrower has met the requirements of Arizona Revised Statutes §49-1201 et seq. (the "Act") and the rules promulgated thereunder (the "Rules"); and

WHEREAS, the terms and conditions under which a Loan will be made and the obligations of the Local Borrower will be set forth in a loan agreement or bond purchase agreement (the "Loan Agreement") to be executed by the Local Borrower and the Authority.

NOW, THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE AUTHORITY AS FOLLOWS:

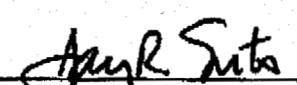
The Executive Director of the Authority is hereby authorized and directed to execute a Loan Agreement with the Local Borrower to evidence a Loan in accordance with the Act, the Rules, the Local Borrower's applications to the Authority, and the Project Summary detailed in Section 2 of this Loan Resolution.

The Executive Director and other Authority officials, as appropriate, are authorized and directed to sign any document and take such actions as necessary and appropriate to consummate the transactions contemplated by this Resolution and the Loan Agreement and to ensure that the Local Borrower has completed all requirements of the Authority as detailed in Section 3, Section 4, and Section 5 of this Loan Resolution.

This Resolution shall take effect immediately and shall terminate one year from the date of Board Action.

Dated: September 21, 2005

By:   
Chairman

Attest:   
Executive Director

## ***Loan Resolution 2005-022 – Mountain Glen Water Service Water Infrastructure Finance Authority of Arizona***

### **Section 2: Project Summary**

DW 053-2005

Ranked #3 on DWRP 2005 Funding Cycle Priority List

The project includes pump removal and abandonment of the existing Linden West drinking water well and replacing it with a new 500-ft deep water production well with a 20 HP 150-gpm pump. The new well shall be drilled in the immediate vicinity of the current well and is expected to produce water with Arsenic concentrations less than 10 ppb.

The project also includes completion of the well head with electrical and mechanical work associated with connecting to the new 88,000-gallon storage tank, as well as the distribution network.

This plan will increase the system capacity, allowing for the Linden East #1 well (Arsenic impacted) to be removed from the distribution system.

During the 2005 Technical Assistance funding cycle, Mountain Glen Water Service received a \$34,254 grant to help them develop a solution to comply with the new Arsenic standard.

September 7, 2005 – Project Finance Committee reviewed the Due Diligence summary and recommended approval by the Board.

# **Loan Resolution 2005-022 – Mountain Glen Water Service Water Infrastructure Finance Authority of Arizona**

## **Section 3: Financial Assistance Terms & Conditions (Section 1 of Due Diligence)**

**Financial Assistance Amount: \$182,993.47**

**Primary Repayment Source: System Revenues**

**Secondary Repayment Source: None**

**Loan Term: 20 years**

**Frequency of Repayment:**

Semi-Annual  Monthly  Other:

**Loan Structure: Level 2 – Fixture Filing**

**Debt Service Reserve Fund Requirements:**

WIFA  Local - Separate  Local – Not Separate  Surety  None

**Repair and Replacement Fund Requirements:**

Local - Separate  Local – Not Separate  None

**Requirements Prior to Loan Execution:**

**Require Legal Opinion:  Yes  No**

**Other: Obtain a long-term debt authorization order from the Arizona Corporation Commission.**

**Requirements Prior to Construction: None**

**Requirement During Construction: None**

**Requirements Prior to Final Disbursements: None**

**Loan Category:**

Qualified, Pledged  Qualified, Not Pledged  Not Qualified

**Policy Exceptions: None**

# ***Loan Resolution 2005-022 - Mountain Glen Water Service Water Infrastructure Finance Authority of Arizona***

## **Section 4: Technical Terms & Conditions (Section 7.1 of Due Diligence)**

**Observation Schedule:**

Schedule A  Schedule B  Schedule C

**Withholding Percentage:**

15%  10%  5%

**Requirements Prior to Loan Execution: None**

**Requirements Prior to Construction: None**

**Prior Review and Approval of Construction Bids:**  Yes  No

**Require Construction Signs:**  Yes  No

**Other: None**

**Requirement During Construction:**

**Prior Review of Changes in Project Scope:**  No  Yes

**Other: none**

**Requirements Prior to Final Disbursements:**

**Require Plan of Operation:**  No  Yes

**Require Final Approval:**  No  Yes

**Other: Engineer's Certificate of Completion**

**Policy Exceptions: None**

## **Section 5: Additional Notice & Reporting Requirements (Section 7.3 of Due Diligence)**

**WIFA to generate Press Release:**  Yes  No

**Other: None**

### Exhibit A of Loan Agreement

**Section I: Financial Assistance Terms and Conditions**  
**Mountain Glen Water Service**  
**20-Oct-05**

Loan Number..... **TBD**

Closing Date..... **11/01/05 - TBD**

**Financial Assistance Terms and Conditions**

Original Loan Amount as of the Closing Date.....	\$ 182,993.47
Final Loan Amount as of Release of Retention.....	\$ 182,993.47
Loan Term.....	20
First Fixed Monthly Payment.....	06/01/06
Final Fixed Monthly Payment.....	11/01/25

**DRAFT**

**Debt Service Reserve Fund Requirements (Held by WIFA)**

Total Reserve Amount.....	\$ 16,099.67
Monthly Deposit.....	\$ 268.33
Reserve Funded by (Date).....	05/01/11

*WIFA will apply earnings on Debt Service Reserve to Principal Repayment.*

**Repair and Replacement Fund Requirement (Held by Borrower)**

Begin Funding on (Date).....	06/01/11
Annual Amount.....	\$ 3,219.93
Monthly Deposit.....	\$ 268.33

**Monthly Payment**

**Period #7 - 1st Debt Service Payment**

Maximum Payment (Includes interest payable from Closing to 1st Payment).....	\$ 7,214.14
Minimum Payment .....	\$ 1,609.97

*WIFA will calculate the first payment due on Period #7; payment will depend on actual loan draws.*

Periods #8 through #66.....	\$ 1,609.97
Periods #67 through #120.....	\$ 1,341.64
Periods #121 through #180.....	\$ 1,341.64
Periods #181 through #240.....	\$ 1,341.64

3:19 PM

10/13/05

Accrual Basis

## Mountain Glen Water Service, Inc.

## Balance Sheet

As of December 31, 2004

	<u>Dec 31, 04</u>
<b>ASSETS</b>	
Current Assets	
Checking/Savings	
131 · Bank of America	13,019.23
Total Checking/Savings	<u>13,019.23</u>
Accounts Receivable	
141 · Customer Accounts Receivable	8,359.33
Total Accounts Receivable	<u>8,359.33</u>
Total Current Assets	21,378.56
Fixed Assets	
101 · Utility Plant in Service	
301 · Organization	2,384.39
303 · Land & Land Rights	8,110.00
304 · Structures & Improvements	9,176.77
307 · Wells & Springs	
307.1 · Pinedale Well	15,656.34
307.4 · Linden East 1 Well	1,463.01
307.5 · Linden East 2 Well	2,879.51
307 · Wells & Springs - Other	<u>10,637.48</u>
Total 307 · Wells & Springs	30,636.34
311 · Pumping Equipment	30,744.54
330 · Distribution Reservoirs & Stand	4,098.63
330.1 · Storage Tanks	20,940.94
331 · Transmission & Distrib Mains	69,443.29
333 · Services	14,704.42
334 · Meters & Meter Installations	18,870.21
340 · Office Furniture & Equipment	1,076.97
340.1 · Computers & Software	7,539.49
341 · Transportation Equipment	<u>11,728.25</u>
Total 101 · Utility Plant in Service	229,454.24
108 · Accumulated Depreciation	
108.301 · Organization Accum Depreciation	-506.68
108.304 · Structures & Improvement Depr	-1,516.75
108.307 · Wells & Springs Depreciation	-6,026.34
108.311 · Pumping Equipment Depreciation	-5,244.99
108.330 · Dist Res & Tank Depreciation	-3,925.64
108.331 · Trans & Distr Main Depreciation	-11,791.31
108.333 · Services Depreciation	-3,022.37
108.334 · Meters Depreciation	-2,972.72
108.340 · Furniture & Computer Depr	-2,244.70
108.341 · Transportation Equipment Depr	<u>-2,785.46</u>
Total 108 · Accumulated Depreciation	<u>-40,036.96</u>
Total Fixed Assets	<u>189,417.28</u>
<b>TOTAL ASSETS</b>	<b><u>210,795.84</u></b>
<b>LIABILITIES &amp; EQUITY</b>	
Liabilities	
Current Liabilities	
Accounts Payable	
231 · Accounts Payable	905.18
Total Accounts Payable	<u>905.18</u>
Other Current Liabilities	
235 · Customer Security Deposits	3,737.00

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Accrual Basis

Mountain Glen Water Service, Inc.  
**Balance Sheet**  
As of December 31, 2004

	Dec 31, 04
<b>236 · Accrued Taxes</b>	
236.01 · FICA Payable	1,090.26
236.02 · Federal Income Tax Withholding	468.00
236.03 · Arizona Income Tax Withholding	366.88
236.04 · FUTA Payable	32.37
236.05 · SUI Tax Payable	17.62
236.06 · Workers Compensation Payable	311.00
236.07 · Arizona Sales Taxes	581.14
236.08 · Municipal Water Tax Payable	7.97
<b>Total 236 · Accrued Taxes</b>	<u>2,875.24</u>
<b>Total Other Current Liabilities</b>	<u>6,612.24</u>
<b>Total Current Liabilities</b>	7,517.42
<b>Long Term Liabilities</b>	
252 · Advances in Aid of Construction	21,692.02
271 · Contrib in Aid of Construction	2,000.00
272 · Amortization of Contributions	-350.00
282.1 · Accum Fed DIT - Liberal Depr	5,760.75
282.2 · Accum AZ DIT - Liberal Depr	2,685.68
<b>Total Long Term Liabilities</b>	<u>31,788.45</u>
<b>Total Liabilities</b>	39,305.87
<b>Equity</b>	
201 · Capital Stock	5,000.00
211 · Paid in Capital - Excess of Par	158,015.91
215 · Retained Earnings	-1,885.92
Net Income	10,359.98
<b>Total Equity</b>	<u>171,489.97</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>210,795.84</u></u>

**Mountain Glen Water Service, Inc.**  
**Balance Sheet as of 12/31/04**  
**Includes Proforma Adjustments for WIFA Financing**

Acct. No.	ASSETS	ACTUAL BALANCE AT YEAR END - 12/31/2004	WIFA LOAN PROFORMA ADJUSTMENTS	WIFA ADJ BAL AT YEAR END - 12/31/2004
	<b>CURRENT AND ACCRUED ASSETS</b>			
131	Cash	\$ 13,019.23	\$ -	\$ 13,019.23
134	Working Funds			
135	Temporary Cash Investments			
141	Customer Accounts Receivable	8,359.33	\$ -	8,359.33
146	Notes/Receivables from Associated Companies			
151	Plant Material and Supplies			
162	Prepayments			
174	Miscellaneous Current and Accrued Assets			
	<b>TOTAL CURRENT AND ACCRUED ASSETS</b>	<b>\$ 21,378.56</b>	<b>\$ -</b>	<b>\$ 21,378.56</b>
	<b>FIXED ASSETS</b>			
101	Utility Plant in Service	\$ 229,454.24	\$ 182,993.47	\$ 412,447.71
103	Property Held for Future Use			
105	Construction Work In Progress			
108	Accumulated Depreciation - Utility Plant ("AD-UP")	(40,036.96)	-	(40,036.96)
121	Non-Utility Property			
122	Accumulated Depreciation - Non Utility ("AD-NU")			
	<b>TOTAL FIXED ASSETS</b>	<b>\$ 189,417.28</b>	<b>\$ 182,993.47</b>	<b>\$ 372,410.75</b>
	<b>TOTAL ASSETS</b>	<b>\$ 210,795.84</b>	<b>\$ 182,993.47</b>	<b>\$ 393,789.31</b>

**Mountain Glen Water Service, Inc.**  
**Balance Sheet as of 12/31/04 (continued)**  
**Includes Proforma Adjustments for WIFA Financing**

Acct. No.	LIABILITIES	ACTUAL BALANCE AT YEAR END - 12/31/2004	WIFA LOAN PROFORMA ADJUSTMENTS	WIFA ADJ BAL AT YEAR END - 12/31/2004
	<b>CURRENT LIABILITIES</b>			
231	Accounts Payable	\$ 905.18	\$ -	\$ 905.18
232	Notes Payable (Current Portion)			
234	Notes/Accounts Payable to Associated Companies			
235	Customer Deposits	3,737.00	-	3,737.00
236	Accrued Taxes	2,875.24	-	2,875.24
237	Accrued Interest			
241	Miscellaneous Current and Accrued Liabilities			
	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 7,517.42</b>	<b>\$ -</b>	<b>\$ 7,517.42</b>
	<b>LONG-TERM DEBT (Over 12 Months)</b>			
224	Long-Term Notes and Bonds	\$ -	\$ 182,993.47	\$ 182,993.47
	<b>DEFERRED CREDITS</b>			
251	Unamortized Premium on Debt			
252	Advances in Aid of Construction	21,692.02	-	21,692.02
255	Accumulated Deferred Investment Tax Credits			
271	Gross Contributions in Aid of Construction	2,000.00	-	2,000.00
272	Less: Amortization of contributions	(350.00)	-	(350.00)
281	Accumulated Deferred Income Tax	8,446.43	-	8,446.43
	<b>TOTAL DEFERRED CREDITS</b>	<b>\$ 31,788.45</b>	<b>\$ -</b>	<b>\$ 31,788.45</b>
	<b>TOTAL LIABILITIES</b>	<b>\$ 39,305.87</b>	<b>\$ 182,993.47</b>	<b>\$ 222,299.34</b>
	<b>CAPITAL ACCOUNTS</b>			
201	Common Stock Issued	\$ 5,000.00	\$ -	\$ 5,000.00
211	Paid in Capital in Excess of Par Value	158,015.91	-	158,015.91
215	Retained Earnings	8,474.06	-	8,474.06
218	Proprietary Capital (Sole Props and Partnerships)			
	<b>TOTAL CAPITAL</b>	<b>\$ 171,489.97</b>	<b>\$ -</b>	<b>\$ 171,489.97</b>
	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 210,795.84</b>	<b>\$ 182,993.47</b>	<b>\$ 393,789.31</b>

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 Accrual Basis

**Mountain Glen Water Service, Inc.**  
**Profit & Loss**  
 January through December 2004

	Jan - Dec 04
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
461 · Metered Water Revenue	139,693.76
474 · Other Water Revenue	2,998.15
<b>Total Income</b>	142,691.91
<b>Cost of Goods Sold</b>	
403 · Depreciation Expense	8,899.41
615 · Purchased Power	9,439.52
620 · Repairs and Maintenance	
620.1 · Materials & Supplies	3,849.73
620.2 · Small Tools	319.54
620 · Repairs and Maintenance - Other	2,218.29
<b>Total 620 · Repairs and Maintenance</b>	6,387.56
635 · Water Testing	4,587.09
<b>Total COGS</b>	29,313.58
<b>Gross Profit</b>	113,378.33
<b>Expense</b>	
403.1 · Depreciation Expense - G & A	2,979.75
406 · Amortization Expense	119.22
408 · Taxes Other Than Income	4,786.03
408.1 · Property Taxes	3,018.78
601 · Salaries and Wages	60,820.75
621 · Office Supplies & Expense	
621.1 · Postage and Delivery	1,478.28
621.2 · Licenses and Permits	69.00
621.3 · Telephone	2,117.28
621.4 · Dues and Subscriptions	335.70
621.5 · Bank Service Charges	544.44
621.6 · Computer	895.83
621.7 · Accounting credits	0.00
621 · Office Supplies & Expense - Other	920.40
<b>Total 621 · Office Supplies &amp; Expense</b>	6,360.93
630 · Outside Services	
630.1 · Legal Fees	6,830.19
630.2 · Accounting & Tax Fees	8,164.68
<b>Total 630 · Outside Services</b>	14,994.87
650 · Transportation Expense	3,284.41
657 · Insurance - General Liability	
657.1 · Workers Compensation Insurance	1,368.00
657 · Insurance - General Liability - Other	2,623.00
<b>Total 657 · Insurance - General Liability</b>	3,991.00
666 · Regulatory Commsn Exp-Rate Case	6.75
675 · Miscellaneous	
675.1 · Education	50.00
675.3 · Bad Debt Expense	102.53
675 · Miscellaneous - Other	138.39
<b>Total 675 · Miscellaneous</b>	290.92
<b>Total Expense</b>	100,653.41
<b>Net Ordinary Income</b>	12,724.92

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Accrual Basis

**Mountain Glen Water Service, Inc.**  
**Profit & Loss**  
January through December 2004

	<u>Jan - Dec 04</u>
<b>Other Income/Expense</b>	
<b>Other Expense</b>	
409.11 · Income Tax - Arizona	45.00
410.10 · Provision for Federal DIT	1,486.14
410.11 · Provision for AZ Def Inc Tax	690.36
427 · Interest Expense	143.44
<b>Total Other Expense</b>	<u>2,364.94</u>
<b>Net Other Income</b>	<u>-2,364.94</u>
<b>Net Income</b>	<u><u>10,359.98</u></u>

**Mountain Glen Water Service, Inc.**  
**Income Statement from January through December of 2004**  
**Includes Proforma Adjustments for WIFA Financing**

Acct. No.	OPERATING REVENUES	2004 ACTUAL	WIFA LOAN PROFORMA ADJUST- MENTS	WIFA ADJ AMOUNTS FOR 2004
461	Metered Water Revenue	\$ 139,693.76	\$ 17,302.55	\$ 156,996.31
460	Unmetered Water Revenue	-	-	-
474	Other Water Revenues	2,998.15	-	2,998.15
	<b>TOTAL OPERATING REVENUES</b>	<b>\$ 142,691.91</b>	<b>\$ 17,302.55</b>	<b>\$ 159,994.46</b>
	<b>OPERATING EXPENSES</b>			
601	Salaries and Wages	\$ 60,820.75	\$ -	\$ 60,820.75
610	Purchased Water		-	-
615	Purchased Power	9,439.52	-	9,439.52
618	Chemicals		-	-
620	Repairs and Maintenance	6,387.56	-	6,387.56
621	Office Supplies & Expense	6,360.93	-	6,360.93
630	Outside Services	14,994.87	-	14,994.87
635	Water Testing	4,587.09	-	4,587.09
641	Rents		-	-
650	Transportation Expenses	3,284.41	-	3,284.41
657	Insurance - General Liability	3,991.00	-	3,991.00
659	Insurance - Health and Life	-	-	-
666	Regulatory Commsn Exp-Rate Case	6.75	-	6.75
675	Miscellaneous Expense	290.92	-	290.92
403	Depreciation Expense	11,998.38	6,093.68	18,092.06
408	Taxes Other Than Income	4,786.03	-	4,786.03
408.1	Property Taxes	3,018.78	-	3,018.78
409	Income Tax	2,177.01	1,254.02	3,431.03
	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 132,144.00</b>	<b>\$ 7,347.70</b>	<b>\$ 139,491.70</b>
	<b>OPERATING INCOME/(LOSS)</b>	<b>\$ 10,547.91</b>	<b>\$ 9,954.84</b>	<b>\$ 20,502.75</b>
	<b>OTHER INCOME/(EXPENSE)</b>			
419	Interest and Dividend Income	\$ -	\$ -	\$ -
410	Deferred Income Taxes	2,176.50		2,176.50
421	Non-Utility Income	-	-	-
426	Miscellaneous Non-Utility Exp	-	-	-
427	Interest Expense	143.44	11,309.00	11,452.44
	<b>TOTAL OTHER INCOME/(EXPENSE)</b>	<b>\$ 2,319.94</b>	<b>\$ 11,309.00</b>	<b>\$ 13,628.94</b>
	<b>NET INCOME/(LOSS)</b>	<b>\$ 8,227.97</b>	<b>\$ (1,354.16)</b>	<b>\$ 6,873.81</b>

**MOUNTAIN GLEN WATER SERVICE, INC.  
CALCULATION OF SURCHARGE FOR WIFA LOAN**

Step 1: Find the Annual Payment on the Loan

Annual payment conversion factor	0.0877
* Times total amount of the loan	\$ 182,993.47
= Equals annual debt service on the loan	\$ 16,048.53

Step 2: Find the Annual Interest Payment on the Loan

Annual interest payment conversion factor	0.0618
* Times total amount of the loan	\$ 182,993.47
= Equals annual interest expense on the loan	\$ 11,309.00

Step 3: Find the Annual Principal Payment on the Loan

Annual principal payment conversion factor	0.0259
* Times total amount of the loan	\$ 182,993.47
= Equals annual principal payment on the loan	\$ 4,739.53

Step 4: Find the Gross Revenue Conversion Factor

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}} = \frac{1}{0.7908}$$

$$\text{GRCF} = 1.2646$$

Step 5: Find the Incremental Income Tax Factor

$$\begin{aligned} \text{Incremental Income Tax Factor} &= \text{GRCF} - 1 \\ \text{Incremental Income Tax Factor} &= 0.2646 \end{aligned}$$

Step 6: Find the Annual Income Tax Component of the Surcharge Revenue

Incremental income tax conversion factor	0.2646
* Times the annual principal payment on the loan	\$ 4,739.53
= Equal the annual income tax component of the annual surcharge revenue	\$ 1,254.02

Step 7: Find the Debt Service Component of the Annual Surcharge Revenue

Annual interest payment on the loan	\$ 11,309.00
+ Plus annual principal payment	4,739.53
= Equals the debt service component of the annual surcharge revenue	\$ 16,048.53

**MOUNTAIN GLEN WATER SERVICE, INC.**  
**CALCULATION OF SURCHARGE FOR WIFA LOAN**

Step 8: Find the Total Annual Surcharge Revenue Requirement for the Loan

Annual income tax component of the surcharge revenue	\$ 1,254.02
+ Plus annual debt service component of the surcharge revenue	16,048.53
= Equals the total annual surcharge revenue requirement for the loan	<u>\$ 17,302.55</u>

Step 9: Find the monthly surcharge per customer

Total annual surcharge revenue requirement needed for the loan	\$ 17,302.55
/ Divided by 12	12
= Equals total monthly surcharge revenue requirement needed for the loan	<u>\$ 1,441.88</u>
/ Divided by number of customers at filing time	299
= Equals the monthly surcharge per customer	<u>\$ 4.82</u>

PUBLIC NOTICE  
OF  
AN APPLICATION FOR AN ORDER  
AUTHORIZAING THE ISSUANCE OF DEBT  
BY MOUNTAIN GLEN WATER SERVICE, INC.

Mountain Glen Water Services, Inc. ("Mountain Glen" or "Company") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to Issue \$182,993.47 of debt. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's offices in Clay Springs, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15<sup>th</sup> day after this notice.