

ORIGINAL
OPEN MEETING AGENDA



**LAW OFFICES
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OF COUNSEL
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REFER TO FILE NO. 1620-4

August 24, 2001

Via Hand-Delivery

Mr. Brian McNeil
Executive Director
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 24 2001

DOCKETED BY *mae*

**Re: Diversified Water Utilities, Inc.'s Application for Authority to Issue Debt
August 28 and 29, 2001 Open Meeting Item No. 29
Docket No. W-02859A-00-0964**

Dear Mr. McNeil:

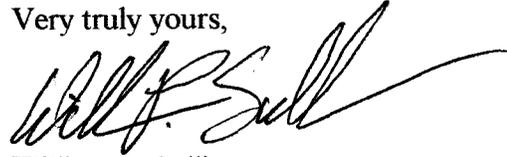
Our office represents Diversified Water Utilities, Inc. We hereby request that the above-referenced Item No. 29 be continued from the Open Meeting Agenda presently scheduled for August 28 and 29, 2001 and scheduled for the immediately following Regular Open Meeting. The reason for this request is that in response to the recommendation, Diversified had its accountants compile its financial reports for the period January 1, 2001 through July 31, 2001, a copy of which is attached hereto as Exhibit A. As anticipated, Diversified's financial condition continues to improve. In fact, our analysis demonstrates that the cash flow available to the company now adequately supports the proposed financing, even without reliance upon connection fees. We attach hereto as Exhibit B, a preliminary analysis utilizing the format utilized in the Staff's amended report, which had recommended approval of the debt. We, therefore, believe it would be extremely productive to review this new data with Staff and the Hearing Division to see if an agreement can be reached on a recommendation to be presented to the Commission for its review and consideration.

In the event this item is not continued to the next Open Meeting, we submit Exhibits A and B as preliminary exceptions and request leave to file additional exceptions no later than noon on Monday, August 27, 2001. This request would have been made earlier but Diversified's accountants provided the compiled financial statements yesterday morning and they could not be reviewed until after close of business yesterday.

Mr. Brian McNeil
August 24, 2001
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If you have any questions, please don't hesitate to contact the undersigned.

Very truly yours,



William P. Sullivan
For the Firm

WPS/tsg

Enclosures: Financial Reports (Exhibit A)
Analysis (Exhibit B)

cc: Docket Control (original and 10 copies) (w/enc)
Diversified Water Utilities, Inc. (w/o enc)

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 **ULLMANN
& COMPANY P.L.C.**
Certified Public Accountants

To The Board of Directors
Diversified Water Utilities, Inc.
Phoenix, Arizona

We have compiled the accompanying statement of assets, liabilities and equity - modified accrual basis of Diversified Water Utilities, Inc. (a corporation) as of July 31, 2001 and the related statement of revenue and expenses - modified accrual basis for the seven months then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the modified accrual basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

Ullmann & Company

Ullmann & Company, P.L.C.
Certified Public Accountants

August 23, 2001

Diversified Water Utilities, Inc.
Statement of Assets, Liabilities and Equity
Modified Accrual Basis

	Jul 31, '01
ASSETS	
Current Assets	
Checking/Savings	
Cash - Checking	14,093.87
Capital Improvement Account	5,007.61
Total Checking/Savings	19,101.48
Other Current Assets	
Accounts Receivable	24,084.54
Total Other Current Assets	24,084.54
Total Current Assets	43,186.02
Fixed Assets	
Plant in Service	
Land	3,200.00
Structures & Improvements	22,185.36
Wells & Springs	88,197.41
Pumping Equipment	52,112.94
Distribution Reservoirs	119,894.36
T&D Mains	334,121.56
Services	17,550.65
Meters	40,645.64
Office Furniture & Equipment	1,606.48
Total Plant in Service	679,514.40
Accumulated Depreciation	(92,074.00)
Total Fixed Assets	587,440.40
Other Assets	
Deferred Legal Fees	33,337.80
Total Other Assets	33,337.80
TOTAL ASSETS	663,964.22
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Accounts Payable	983.00
Due to Shareholder	121,226.95
Note Payable - FIABA	3,108.64
Customer Deposits	7,265.00
Sales Tax Payable	792.83
Total Other Current Liabilities	133,376.42
Total Current Liabilities	133,376.42
Long Term Liabilities	
Note Payable - Harris Trust	20,597.24
AIAC	
Advances in aid of Constr.	290,439.36
Refundable Meter Deposits	116,444.00
Total AIAC	406,883.36
CIAC	
Contributions in aid of Const	34,000.00
Accum. Amort. - CIAC	(883.07)
Total CIAC	33,116.93
Total Long Term Liabilities	460,597.53
Total Liabilities	593,973.95

See Accountants' Compilation Report

Diversified Water Utilities, Inc.
Statement of Assets, Liabilities and Equity
Modified Accrual Basis

	<u>Jul 31, '01</u>
Equity	
Common Stock	2,000.00
Retained Earnings	30,747.40
Net Income	<u>37,242.87</u>
Total Equity	<u>69,990.27</u>
TOTAL LIABILITIES & EQUITY	<u><u>663,964.22</u></u>

See Accountants' Compilation Report

Diversified Water Utilities, Inc.
Statement of Revenue and Expenses
Modified Accrual Basis

	<u>Jan - Jul '01</u>
Income	
Water Revenue	90,781.52
Sales Tax	(2,723.63)
Other Revenue	885.00
Interest Income	145.38
Total Income	<u>89,088.27</u>
Expense	
Depreciation Expense	13,338.93
Property Taxes	1,812.56
Interest Expense	1,927.37
Purchased Power	4,840.13
Repairs & Maintenance	1,335.46
Billing Fees	5,238.60
Legal & Professional	5,233.50
Testing	6,324.73
Management Expense	3,000.00
Rents	600.00
Transportation	4,049.97
Bank Charges	119.83
Office Expense	2,435.98
Telephone	1,015.04
Licenses & Fees	573.30
Total Expense	<u>51,845.40</u>
Net Income	<u><u>37,242.87</u></u>

See Accountants' Compilation Report

EXHIBIT B**DIVERSIFIED WATER UTILITIES, INC.**
Years Ending December 31, 1999 and 2000

Abbreviated Income Statement

	<u>1999</u>	<u>2000</u>	<u>2001</u> (Projected based on 7/3/01 date)
Revenue	\$ 93,988	\$ 102,606	\$ 175,000
Depreciation	\$ 7,908	\$ 20,154	\$ 26,676
Op. Expenses	<u>\$ 82,431</u>	<u>\$ 67,207</u>	<u>\$ 77,014</u>
Total Op. Expenses	\$ 90,339	\$ 83,157	\$ 103,690
Op. Income	<u>\$ 3,649</u>	<u>\$ 19,449</u>	<u>\$ 78,340</u>
Interest Exp. Net	\$ 5,360	\$ 4,130	\$ 3,854
Net Income	<u>\$ (1,711)</u>	<u>\$ 15,319</u>	<u>\$ 74,486</u>

Abbreviated Balance Sheet

Assets:			
Net Plant	\$ 167,636	\$ 574,317	\$ 587,440
Current assets	\$ 15,911	\$ 24,978	\$ 43,186
Liabilities:			
Current Liabilities	\$ 136,737	\$ 61,437	\$ 133,376
Meter deposits	\$ 68,542	\$ 92,229	\$ 116,444
Advances-in-aid	-	\$ 290,439	\$ 290,439
Contributions	-	\$ 19,373	\$ 34,000
Long term debt	\$ 45,922	\$ 25,039	\$ 20,597
Equity	<u>\$ (21,731)</u>	<u>\$ 32,747</u>	<u>\$ 69,990</u>
Total Capital	\$ 24,191	\$ 459,827	

Cash Available for Deb Service on Proposed Debt

Depreciation	\$ 20,154	\$ 26,676
Net Income	<u>\$ 15,319</u>	<u>\$ 74,486</u>
Subtotal	\$ 35,473	\$ 101,162
less;		
Principal/Harris Trust note	\$ 5,424	\$ 5,600
Meter Deposit Refunds	\$ 7,853	\$ 8,000
Total Cash available for debt service on new debt	<u>\$ 22,196</u>	<u>\$ 87,562</u>
Debt Service for proposed debt of \$412,328.	<u>\$ 47,078</u>	<u>\$ 47,078</u>
Difference between Debt Service and Cash Flow	\$ (24,882)	\$ 40,484