

ORIGINAL

NEW APPLICATION



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Arizona Corporation Commission

DOCKETED

MAY 09 2007

AZ CORP COMMISSION
DOCUMENT CONTROL

| | |
|-------------|--------------------|
| DOCKETED BY | <i>[Signature]</i> |
|-------------|--------------------|

1 Richard L. Sallquist, Esq. (002677)
 2 SALLQUIST & DRUMMOND, P.C.
 3 4500 S. Lakeshore Drive, Suite 339
 4 Tempe, Arizona 85282
 5 Telephone: (480) 839-5202
 6 Fax: (480) 345-0412
 7 Attorneys for Valley Utilities Water Company, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

W-01412A-07-0280

8 IN THE MATTER OF THE APPLICATION OF)
 9 VALLEY UTILITIES WATER COMPANY,)
 10 INC. FOR AUTHORITY TO ADDITIONAL)
 11 COMMON STOCK.)

DOCKET NO. W-01412A-07

APPLICATION

12 Valley Utilities Water Company, Inc. ("Valley" or the "Company"), by and through
 13 undersigned counsel, respectfully states the following in support of this Application:

14 1. Valley is a corporation duly organized and existing under the laws of the State of
 15 Arizona. Its principal place of business is 6808 N. Dysart Road, Suite 112, Glendale, Arizona
 16 85307.

17 2. Valley is a public service corporation primarily engaged in the business of providing
 18 water utility service in its certificated area in portions of Maricopa County, Arizona.

19 3. Valley seeks herein Commission approval for the issuance of 4,000 shares of the
 20 Company's authorized Common Stock as partial payment for certain hereinafter described real
 21 property that is essential to the Company's continued operations.

22 4. In the Staff recommendations in the case resulting in Commission Decision No.
 23 68309 dated November 14, 2005, (the "Decision"), Staff recommended that the Company
 needed to increase its equity position to 40% of its total capital structure, and the Commission
 ordered the Company to file an Equity Plan to that effect within 90 days of the Decision. The

1 Company filed that plan on February 13, 2006, a copy of which is attached hereto as
2 **Attachment One.**

3 5. The Decision also expressed concern with certain transactions between the principals
4 of the Company and the Company, namely certain real property and equipment leases, and
5 certain service contracts. The Company advised the Commission that those equipment lease
6 relationships have terminated, which services are now provided by third-party contractors, albeit
7 at a higher cost than identical services provided by the related entities.

8 6. The real property lease is for an approximate 2.45 acre storage tank and booster
9 station parcel presently owned by Robert L. and Barbara Prince (the "Princes"), who are
10 Officers, Directors, and Shareholders of the Company, which property is essential to the
11 Company's operations. The equipment lease pertains to a utility vehicle and a backhoe used by
12 the Company for normal maintenance and repair. Although not included in the above
13 referenced Equity Plan, it was subsequently determined by the Company that the sale of the real
14 and personal property to the Company in exchange for Common Stock of the Company would
15 address the third-party issue and the common equity issue concerns expressed by the
16 Commission.

17 7. Attached hereto as **Attachment Two** is A Summary Appraisal Report of the real
18 property prepared by Loper & Associates, a respected utility property appraiser, indicating that
19 the value of the real property is \$404,000. Also attached are Bobcat of Phoenix appraisals of the
20 two pieces of equipment being conveyed to the Company by the Princes valued at \$25,000. The
21 total value of the real and personal property is \$429,000.

22 8. The Princes are willing to convey the Real Property to the Company for the
23 appraised value in exchange for 4,000 shares of the Company's Common Stock, plus sufficient

1 cash for the Princes to pay the capital gains taxes associated with the sale of the Real Property
2 the Company. It is anticipated that the sale will close in mid-2007, after the Commission
3 authorizes the issuance of the Common Stock as requested herein.

4 9. The Company may not have sufficient funds to pay the cash portion of the sale price at
5 the time of the closing, but is expected to have said cash within several months thereafter.
6 Therefore, the Company will provide a short-term note payable for up to \$129,000, with no
7 interest and fully payable no more than 360 days after issuance.

8 10. Attached hereto as **Attachment Three** and incorporated herein by reference for all
9 purposes are Valley's compiled financial statements as of December 31, 2006.

10 11. Attached hereto as **Attachment Four**, and incorporated herein by this reference for all
11 purposes, is a proforma capital structure before and after the financing..

12 12. Attached as **Attachment Five** and incorporated herein for all purposes is a form of the
13 Resolution of the Valley's Board of Directors authorizing this Application and the issuance of the
14 Common Stock.

15 13. Valley will provide notice of the filing of this Application in conformity with A.R.S.
16 § 40-302 in the form attached as **Attachment Six** and incorporated herein by this reference, which
17 exhibit contains the form of the Notice of Publication to be filed with the Commission, or in such
18 other form as ordered by the Commission.

19 14. In Valley's opinion the purpose to which proceeds of the issuance of the Common
20 Stock will be applied as set forth above are lawful, and within its powers and are compatible with
21 the public interest, with sound financial practices, and with the proper performance of the
22 Company of service as a public service corporation and will not impair its ability to perform that
23

1 service. The Company is further of the opinion that the issuance of the Common Stock as herein
2 contemplated is reasonably necessary or appropriate for the aforementioned purposes.

3 WHEREFORE, Valley requests that the Commission make such inquiry or investigation
4 that the Commission may deem necessary and appropriate; make the findings required by A.R.S.
5 §40-301 and §40-302 relative to the purposes of issuing the Common Stock as herein stated; and
6 thereafter make an immediately effective order (i) setting the matter for evidentiary hearing only if
7 deemed necessary, (ii) authorizing the Company to issue the Common Stock, in the same manner
8 and for the purposes herein contemplated, (iii) stating that the issuance of the Common Stock, is
9 reasonably necessary or appropriate for the purposes set forth above, (iv) stating that such purposes
10 are within those permitted by A.R.S. §40-301, and (v) approving such purposes to the extent that
11 they may be considered reasonably chargeable to operating expenses or income.

12 Respectfully submitted this 9th day of May, 2007.

13 SALLQUIST & DRUMMOND, P.C.

14 By 
15 Richard L. Sallquist
16 4500 S. Lakeshore Drive, Suite 339
17 Tempe, Arizona 85282
Attorneys for Valley Utilities Water
Company, Inc.

18 Original and ten copies of the
19 foregoing filed this 9th day
20 of May, 2007, with

21 Docket Control
22 Arizona Corporation Commission
23 1200 West Washington
Phoenix, Arizona 85007

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Copies of the foregoing Hand Delivered this 3rd
day of May, 2007 to:

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007



LIST OF EXHIBITS

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ATTACHMENT

DESCRIPTION

| | |
|-------|--|
| ONE | EQUITY PLAN |
| TWO | APPRAISALS OF REAL AND PERSONAL PROPERTY |
| THREE | FINANCIAL STATEMENTS |
| FOUR | PRO FORMA CAPITAL STRUCTURE |
| FIVE | BOARD OF DIRECTORS RESOLUTION |
| SIX | NOTICE OF PUBLICATION |

VALLEY UTILITIES WATER COMPANY, INC.
POSITIVE EQUITY POSITION PLAN
Docket No. W-01412A-04-0736 & W-01412A-04-0849
Decision No. 68309
February 13, 2006

The Subject Decision stated as follows, "IT IS FURTHER ORDERED that Valley Utilities Water Company, Inc. shall develop and institute the plan to produce a positive equity position by December 31, 2010, and shall file a copy of the plan, with the Commission's Docket Control, as a compliance item in this docket within 90 days."

Staff Exhibit S-2, Schedule DRR 19, states the Company's pro forma capital structure as follows:

| | | |
|-----------------|-------------|---------|
| Common Equity | \$(413,442) | (27.3)% |
| Long Term Debt | \$1,773,563 | 117.2% |
| Short Term Debt | \$152,537 | 10.1% |

The Company's Exhibit A-1, Exhibit A, Schedule E-1, cites virtually the same negative equity position. The Subject Decision approved a WIFA loan in the amount of \$1,926,100 for the mandated arsenic treatment facilities. The Decision found the Fair Value Rate Base to be \$(539,804).

Increasing the Company's equity to a positive amount will require an addition of a minimum \$413,442 in equity through a combination of Common Stock issuance, Paid-in Capital and/or Retained Earnings. The President of the Company has repeatedly testified that the shareholders do not have additional funds available for Paid-In Capital in the Company nor could it attract equity capital from other investors under its current financial condition. Additional equity capital from Paid-In Capital or Common Stock issuance would have no effect on the Company's earnings base (rate base) and thus would not be subject to any return. Such an investment would effectively become a capital loss to an investor. No rational investor would make such an investment under the circumstances.

The Company has stated consistently throughout this proceeding, it believes reaching that objective is not feasible especially since the Company was not granted an ability to recover actual arsenic operating and maintenance costs through a surcharge mechanism. The Decision authorized an Operating Income after taxes of \$95,751. That Decision also denied the Company's request for an Arsenic Operating and Maintenance Recovery Surcharge Mechanism (AOMRSM) which would recover the Company's estimated (and confirmed by the Commission's Engineering Staff) approximate \$210,000 in annual operating expenses associated with the arsenic facilities.

ATTACHMENT ONE

Given the above, the Company's Positive Equity Plan is as follows:

1. Within 60 days, the Company will file an Application with the Commission requesting an Accounting Order authorizing the deferral of any and all Arsenic Operating and Maintenance expenses for recovery in future rate proceedings.

2. Because all equity growth will come from internally generated Retained Earnings derived from Operating Income, the Company will attempt to maintain the operating margin authorized by the Commission by filing new rate applications as often as necessary (annually if need be).

3. File a new Rate Application based upon the Test Year no later than 2007 to provide an additional level of Operating Income that can be reinvested in the Company.

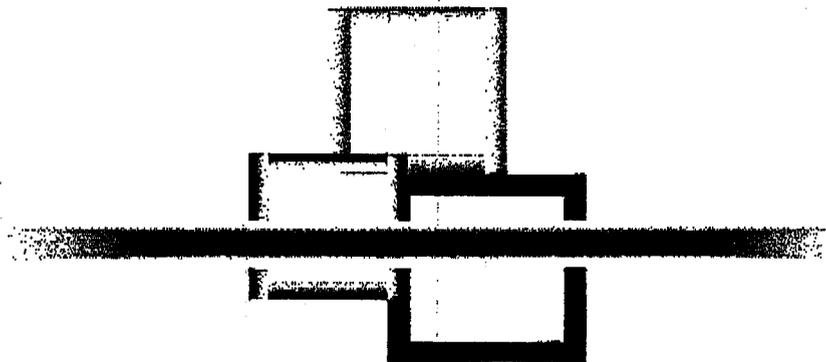
4. When the Company incurs significant, prudent and necessary expenses which it does not have the ability to pay, it will file emergency rate applications as necessary to maintain the authorized operating margin.

5. Reinvest available Operating Income in new plant and equipment. This has the equally important benefit of increasing Rate Base. The Company will also limit reliance on developer funded plant (contributions and advances) where feasible.

6. Apply for Accounting Order(s) as necessary, to defer prudent and necessary expenses for consideration of recovery in subsequent rate cases. This will include a mechanism to authorize Staff's expedited approval under that Accounting Order of expenses as incurred.

7. While the Company has not paid dividends in the past, the Company will continue to suspend dividends.

The Company can not state with any degree of confidence that the above Plan will reach positive equity by December 31, 2010. However, there are no other alternatives.



A SUMMARY APPRAISAL REPORT

**OF
PROPERTY LOCATED AT
12334 W. MARYLAND DRIVE
MARICOPA COUNTY, ARIZONA**

**OWNED BY:
ROBERT AND BARBARA PRINCE**

**FOR
MR. ROBERT PRINCE
AND
VALLEY UTILITIES WATER COMPANY INC
6808 N. DYSART ROAD STE 112
GLENDALE, ARIZONA 85307**

DATE OF APPRAISAL

MAY 13, 2006

DATE OF VALUATION:

MAY 13, 2006

APPRAISER:

**JOHN L. LOPER
LOPER & ASSOCIATES, LLC
7102 NORTH 55TH DRIVE
GLENDALE, ARIZONA 85301**

C:\Files\06Docs\06Apr\2006-030.apr

LOPER & ASSOCIATES



ATTACHMENT TWO

SUMMARY OF SALIENT FACTS

PARCEL NUMBER: 501-56-046-A

TYPE OF PROPERTY: Industrial storage site

PURPOSE: To opine to the current market value of the underlying land of the subject property.

LOCATION: 12334 W. Maryland Avenue, Glendale, Arizona

LEGAL DESCRIPTION: The South Half of the Southeast Quarter of the Southeast Quarter of the Northeast Quarter of Section 11, Township 2 North, 1 West G&SRB&M; Except the West 150.5 feet and Except the East 132.15 feet and Except the South 40 Feet thereof.

SIZE: 2.45 Acres More or Less

OWNERSHIP: Robert and Barbara K. Prince

HIGHEST AND BEST USE: Low density residential

DATE OF VALUE: May 13, 2006

ESTIMATED VALUE: \$404,000



21828 N 7th Street
Phoenix AZ 85024
(623) 850-8000
Fax (623) 850-8005
www.binghamequipment.com

Westside Waterworks
12540 W. Bethany Home Road
Litchfield Park, AZ 85340

RE: Bobcat/Pioneer 1200 Utility Vehicle

Bobcat/Pioneer 1200 Utility Vehicle

S/N ADO125-028464

2001 Model, 628.2 Hrs.

Optional equipment:

Canopy with Full windshield

Cab & Side mounted rear view mirrors

Road package, including turn, tail & brake lights

Horn, reflectors & Grill guard.

Electric bed lift

Winch with front and rear mounting & controls

Present condition rating: Very good

Seats good, Tires 80%, Paint good

Starts and runs good.

New selling price: \$ 8635.00

Replacement Value: \$10467.00

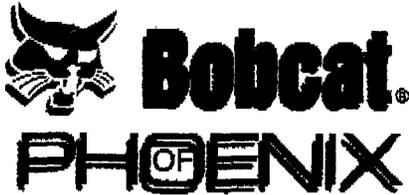
Current Retail Value: \$ 6300.00

Current Wholesale \$ 5000.00

This appraisal is the best estimate of the current value of this machine and does not constitute an offer to buy this unit at this or any other price.

A handwritten signature in cursive script that reads "David L. Lambert".

David L. Lambert
Store Manager
Bobcat of Phoenix
21728 N. 7th Street
Phoenix, AZ 85024



21028 N 7th Street
Phoenix AZ 85024
(623) 850-6000
Fax (623) 850-6005
www.binghamequipment.com

February 17, 2006
Westside Waterworks
12540 W. Bethany Home Road
Litchfield Park, AZ 85340

RE: Kubota B2910 Tractor

Kubota B2910 Tractor
S/N 54892
2002 Model, 134.8 Hrs.
Hydrostatic Transmission

Optional equipment:

Canopy
Present condition rating: Very good
Seats good, Tires 90%, Paint good
Starts and runs good.

Addition Equipment

Kubota LA 402 Loader
S/N 17519
54" Bucket
Grapple attachment
Kubota B4672A Backhoe
S/N 31750700
Flip pads w/street pads
12" & 16" backhoe buckets

New selling price: \$ 30950.00
Replacement Value: \$ 31770.00
Current Retail Value: \$ 26500.00
Current Wholesale \$ 20000.00

This appraisal is the best estimate of the current value of this machine and does not constitute and offer to buy this unit at this or any other price.

A handwritten signature in black ink that reads "David L. Lambert".

David L. Lambert
Store Manager
Bobcat of Phoenix
21728 N. 7th Street
Phoenix, AZ 85024

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY



VALLEY UTILITIES WATER CO., INC.
6808 N. DYSART ROAD, SUITE 112
GLENDALE, AZ 85307

ANNUAL REPORT

FOR YEAR ENDING

| | | |
|----|----|------|
| 12 | 31 | 2006 |
|----|----|------|

FOR COMMISSION USE

| | |
|--------|----|
| ANN 04 | 06 |
|--------|----|

PROCESSED BY:

SCANNED

ATTACHMENT THREE

COMPANY INFORMATION

| | | | |
|---|-----------------------------|------------------------------------|--|
| Company Name (Business Name) <u>VALLEY UTILITIES WATER CO., INC.</u> | | | |
| Mailing Address <u>6808 N. DYSART ROAD, SUITE 112</u> | | | |
| (Street) | | | |
| <u>GLENDALE</u> | <u>AZ</u> | <u>85307</u> | |
| (City) | (State) | (Zip) | |
| <u>(623) 935-1100</u> | <u>(623) 935-7321</u> | <u>(602) 672-9481</u> | |
| Telephone No. (Include Area Code) | Fax No. (Include Area Code) | Pager/Cell No. (Include Area Code) | |
| Email Address _____ | | | |
| Local Office Mailing Address <u>SAME AS ABOVE</u> | | | |
| (Street) | | | |
| _____ | _____ | _____ | |
| (City) | (State) | (Zip) | |
| Local Office Telephone No. (Include Area Code) | Fax No. (Include Area Code) | Pager/Cell No. (Include Area Code) | |
| Email Address _____ | | | |

MANAGEMENT INFORMATION

| | | | |
|---|-----------------------------|------------------------------------|--------------|
| Management Contact: <u>ROBERT PRINCE</u> | | | |
| (Name) | | (Title) | |
| <u>6808 N. DYSART ROAD, SUITE 112</u> | <u>GLENDALE</u> | <u>AZ</u> | <u>85307</u> |
| (Street) | (City) | (State) | (Zip) |
| <u>(623) 935-1100</u> | <u>(623) 935-7321</u> | _____ | |
| Telephone No. (Include Area Code) | Fax No. (Include Area Code) | Pager/Cell No. (Include Area Code) | |
| Email Address _____ | | | |
| On Site Manager: <u>SAME AS ABOVE</u> | | | |
| (Name) | | | |
| _____ | _____ | _____ | _____ |
| (Street) | (City) | (State) | (Zip) |
| Telephone No. (Include Area Code) | Fax No. (Include Area Code) | Pager/Cell No. (Include Area Code) | |
| Email Address _____ | | | |

Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: RICHARD L SALLQUIST

(Name)

2525 EAST ARIZONA BILTMORE CIRCLE #117

(Street)

PHOENIX

(City)

AZ

(State)

85016

(Zip)

(602) 224-9222

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Attorney: SAME AS ABOVE

(Name)

(Street)

(City)

(State)

(Zip)

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

- | | |
|---|--|
| <input type="checkbox"/> Sole Proprietor (S) | <input checked="" type="checkbox"/> C Corporation (C) (Other than Association/Co-op) |
| <input type="checkbox"/> Partnership (P) | <input type="checkbox"/> Subchapter S Corporation (Z) |
| <input type="checkbox"/> Bankruptcy (B) | <input type="checkbox"/> Association/Co-op (A) |
| <input type="checkbox"/> Receivership (R) | <input type="checkbox"/> Limited Liability Company |
| <input type="checkbox"/> Other (Describe) _____ | |

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

- | | | |
|-------------------------------------|--|-----------------------------------|
| <input type="checkbox"/> APACHE | <input type="checkbox"/> COCHISE | <input type="checkbox"/> COCONINO |
| <input type="checkbox"/> GILA | <input type="checkbox"/> GRAHAM | <input type="checkbox"/> GREENLEE |
| <input type="checkbox"/> LA PAZ | <input checked="" type="checkbox"/> MARICOPA | <input type="checkbox"/> MOHAVE |
| <input type="checkbox"/> NAVAJO | <input type="checkbox"/> PIMA | <input type="checkbox"/> PINAL |
| <input type="checkbox"/> SANTA CRUZ | <input type="checkbox"/> YAVAPAI | <input type="checkbox"/> YUMA |
| <input type="checkbox"/> STATEWIDE | | |

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

UTILITY PLANT IN SERVICE

| Acct. No. | DESCRIPTION | Original Cost (OC) | Accumulated Depreciation (AD) | O.C.L.D. (OC less AD) |
|-----------|--|--------------------|-------------------------------|-----------------------|
| 301 | Organization | | | |
| 302 | Franchises | | | |
| 303 | Land and Land Rights | 44,196 | | 44,196 |
| 304 | Structures and Improvements | 18,907 | 12,860 | 6,047 |
| 307 | Wells and Springs | 1,095,291 | 302,349 | 792,942 |
| 311 | Pumping Equipment | 336,173 | 206,128 | 130,045 |
| 320 | Water Treatment Equipment | 19,258 | 1,969 | 17,289 |
| 330 | Distribution Reservoirs and Standpipes | 290,662 | 197,688 | 92,974 |
| 331 | Transmission and Distribution Mains | 2,552,353 | 1,170,280 | 1,382,073 |
| 333 | Services | 108,339 | 49,214 | 59,125 |
| 334 | Meters and Meter Installations | 394,008 | 126,176 | 267,832 |
| 335 | Hydrants | 147,204 | 18,570 | 128,634 |
| 336 | Backflow Prevention Devices | | | |
| 339 | Other Plant and Misc. Equipment | 1,237 | 108 | 1,129 |
| 340 | Office Furniture and Equipment | 63,705 | 27,959 | 35,746 |
| 341 | Transportation Equipment | 82,788 | 21,528 | 61,260 |
| 343 | Tools, Shop and Garage Equipment | 29,533 | 13,911 | 15,622 |
| 344 | Laboratory Equipment | | | |
| 345 | Power Operated Equipment | 5,930 | 5,930 | 0 |
| 346 | Communication Equipment | | | |
| 347 | Miscellaneous Equipment | | | |
| 348 | Other Tangible Plant | | | |
| | TOTALS | 5,189,584 | 2,154,670 | 3,034,914 |

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

| Acct. No. | DESCRIPTION | Original Cost (1) | Depreciation Percentage (2) | Depreciation Expense (1x2) |
|-----------|--|-------------------|-----------------------------|----------------------------|
| 301 | Organization | | | |
| 302 | Franchises | | | |
| 303 | Land and Land Rights | 44,196 | | |
| 304 | Structures and Improvements | 18,907 | 3.33% | 630 |
| 307 | Wells and Springs | 1,095,291 | 3.33% | 34,789 |
| 311 | Pumping Equipment | 336,173 | 12.50% | 37,217 |
| 320 | Water Treatment Equipment | 19,258 | 3.33% | 620 |
| 330 | Distribution Reservoirs and Standpipes | 290,662 | 2.22% | 6,442 |
| 331 | Transmission and Distribution Mains | 2,552,353 | 2.00% | 50,993 |
| 333 | Services | 108,339 | 3.33% | 3,460 |
| 334 | Meters and Meter Installations | 394,008 | 8.33% | 31,023 |
| 335 | Hydrants | 147,204 | 2.00% | 2,944 |
| 336 | Backflow Prevention Devices | | | |
| 339 | Other Plant and Misc. Equipment | 1,237 | 6.67% | 78 |
| 340 | Office Furniture and Equipment | 63,705 | 6.67% | 3,891 |
| 341 | Transportation Equipment | 82,788 | 20.00% | 13,584 |
| 343 | Tools, Shop and Garage Equipment | 29,533 | 5.00% | 1,302 |
| 344 | Laboratory Equipment | | | |
| 345 | Power Operated Equipment | 5,930 | 5.00% | 0 |
| 346 | Communication Equipment | | | |
| 347 | Miscellaneous Equipment | | | |
| 348 | Other Tangible Plant | | | |
| | SUBTOTALS | 5,189,584 | | 186,973 |
| | Less: Amortization of Contributions | | | 14,329 |
| | TOTALS | 5,189,584 | | 172,644 |

This amount goes on Comparative Statement of Income and Expense Acct. No. 403.

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

To the Board of Directors of
Valley Utilities Water Co., Inc.
Glendale, Arizona

We have compiled the balance sheet of Valley Utilities Water Co., Inc. (a corporation) as of December 31, 2006 and 2005, and the comparative statement of income and expense for the years then ended included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the Arizona Corporation Commission information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the Arizona Corporation Commission, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

All other information contained in the accompanying prescribed form has not been audited, reviewed, or compiled by us and, accordingly, we assume no responsibility for that information.

Ullmann & Company

ULLMANN & COMPANY, P.C.
Certified Public Accountants

March 31, 2007

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

BALANCE SHEET

| Acct. No. | ASSETS | BALANCE AT BEGINNING OF YEAR | BALANCE AT END OF YEAR |
|-----------|---|------------------------------|------------------------|
| | CURRENT AND ACCRUED ASSETS | | |
| 131 | Cash | \$ 823,902 | \$ 947,115 |
| 134 | Working Funds | | |
| 135 | Temporary Cash Investments | | |
| 141 | Customer Accounts Receivable | 78,227 | 71,201 |
| 146 | Notes/Receivables from Associated Companies | | |
| 151 | Plant Material and Supplies | 16,639 | 30,303 |
| 162 | Prepayments | | |
| 174 | Miscellaneous Current and Accrued Assets | 55,767 | 46,972 |
| | TOTAL CURRENT AND ACCRUED ASSETS | \$ 974,535 | \$ 1,095,591 |
| | FIXED ASSETS | | |
| 101 | Utility Plant in Service | \$ 4,904,248 | \$ 5,189,584 |
| 103 | Property Held for Future Use | 40,000 | 40,000 |
| 105 | Construction Work in Progress | 18,075 | 197,012 |
| 108 | Accumulated Depreciation - Utility Plant | 1,971,713 | 2,154,670 |
| 121 | Non-Utility Property | | |
| 122 | Accumulated Depreciation - Non Utility | | |
| | TOTAL FIXED ASSETS | \$ 2,990,610 | \$ 3,271,926 |
| | TOTAL ASSETS | \$ 3,965,145 | \$ 4,367,517 |

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME
VALLEY UTILITIES WATER CO., INC.

BALANCE SHEET (CONTINUED)

| Acct. No. | LIABILITIES | BALANCE AT BEGINNING OF YEAR | BALANCE AT END OF YEAR |
|------------------|---|-------------------------------------|-------------------------------|
| | CURRENT LIABILITES | | |
| 231 | Accounts Payable | \$ 15,818 | \$ 16,329 |
| 232 | Notes Payable (Current Portion) | 7,958 | 11,590 |
| 234 | Notes/Accounts Payable to Associated Companies | | |
| 235 | Customer Deposits | 53,775 | 80,189 |
| 236 | Accrued Taxes | 21,559 | 44,513 |
| 237 | Accrued Interest | | |
| 241 | Miscellaneous Current and Accrued Liabilities | 5,421 | 7,198 |
| | TOTAL CURRENT LIABILITIES | \$ 104,531 | \$ 159,819 |
| | LONG-TERM DEBT (Over 12 Months) | | |
| 224 | Long-Term Notes and Bonds | \$ - | \$ 28,237 |
| | DEFERRED CREDITS | | |
| 251 | Unamortized Premium on Debt | | |
| 252 | Advances in Aid of Construction | 3,726,938 | 3,805,035 |
| 255 | Accumulated Deferred Investment Tax Credits | | |
| 271 | Contributions in Aid of Construction | 865,157 | 1,018,717 |
| 272 | Less: Amortization of Contributions | 257,238 | 271,566 |
| 281 | Accumulated Deferred Income Tax | 30,689 | 29,820 |
| | TOTAL DEFERRED CREDITS | \$ 4,365,546 | \$ 4,582,006 |
| | TOTAL LIABILITIES | \$ 4,470,077 | \$ 4,770,062 |
| | CAPITAL ACCOUNTS | | |
| 201 | Common Stock Issued | \$ 110,000 | \$ 110,000 |
| 211 | Paid in Capital in Excess of Par Value | 4,988 | 4,988 |
| 215 | Retained Earnings | (619,920) | (517,533) |
| 218 | Proprietary Capital (Sole Props and Partnerships) | | |
| | TOTAL CAPITAL | \$ (504,932) | \$ (402,545) |
| | TOTAL LIABILITIES AND CAPITAL | \$ 3,965,145 | \$ 4,367,517 |

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

| Acct. No. | OPERATING REVENUES | PRIOR YEAR | CURRENT YEAR |
|------------------|---|--------------------|---------------------|
| 461 | Metered Water Revenue | \$ 883,022 | \$ 1,111,620 |
| 460 | Unmetered Water Revenue | | |
| 474 | Other Water Revenues | 38,959 | 114,795 |
| | TOTAL REVENUES | \$ 921,981 | \$ 1,226,415 |
| | | | |
| | OPERATING EXPENSES | | |
| 601 | Salaries and Wages | \$ 274,462 | \$ 337,921 |
| 610 | Purchased Water | 0 | 16,051 |
| 615 | Purchased Power | 119,368 | 132,562 |
| 618 | Chemicals | 6,303 | 10,208 |
| 620 | Repairs and Maintenance | 11,178 | 9,511 |
| 621 | Office Supplies and Expense | 33,045 | 22,512 |
| 630 | Outside Services | 11,829 | 31,520 |
| 635 | Water Testing | 3,782 | 9,538 |
| 641 | Rents | 74,770 | 92,058 |
| 650 | Transportation Expenses | 26,726 | 19,203 |
| 657 | Insurance - General Liability | 19,343 | 29,052 |
| 659 | Insurance - Health and Life | 81,377 | 106,608 |
| 666 | Regulatory Commission Expense - Rate Case | 1,903 | 12,199 |
| 675 | Miscellaneous Expense | 40,497 | 49,465 |
| 403 | Depreciation Expense | 191,094 | 172,644 |
| 408 | Taxes Other Than Income | 21,844 | 26,105 |
| 408.11 | Property Taxes | 31,157 | 35,524 |
| 409 | Income Tax | (587) | 24,905 |
| | TOTAL OPERATING EXPENSES | \$ 948,091 | \$ 1,137,586 |
| | | | |
| | OTHER INCOME/EXPENSE | | |
| 419 | Interest and Dividend Income | \$ 7,912 | \$ 22,455 |
| 421 | Non-Utility Income | 0 | 685 |
| 426 | Miscellaneous Non-Utility Expenses | 0 | 3,069 |
| 427 | Interest Expense | 1,423 | 6,513 |
| | TOTAL OTHER INCOME/EXP | \$ 6,489 | \$ 13,558 |
| | | | |
| | NET INCOME/(LOSS) | \$ (19,621) | \$ 102,387 |

429

COMPANY NAME VALLEY UTILITIES WATER CO., INC.

SUPPLEMENTAL FINANCIAL DATA
Long-Term Debt

| | LOAN #1 | LOAN #2 | LOAN #3 | LOAN #4 |
|------------------------|------------------|---------|---------|---------|
| Date Issued | 01/05/2006 | | | |
| Source of Loan | CHASE BANK | | | |
| ACC Decision No. | | | | |
| Reason for Loan | VEHICLE PURCHASE | | | |
| Dollar Amount Issued | \$35,309 | \$ | \$ | \$ |
| Amount Outstanding | \$28,237 | \$ | \$ | \$ |
| Date of Maturity | 2/19/2010 | | | |
| Interest Rate | 7.99% | % | % | % |
| Current Year Interest | \$2,460 | \$ | \$ | \$ |
| Current Year Principle | \$7,072 | \$ | \$ | \$ |

Meter Deposit Balance at Test Year End \$ 262,798

Meter Deposits Refunded During the Test Year \$ 43,208

| | |
|-----------------------|--|
| COMPANY NAME | VALLEY UTILITIES WATER CO., INC. |
| Name of System | ADEQ Public Water System Number (if applicable) |

WATER COMPANY PLANT DESCRIPTION

WELLS

| ADWR ID Number* | Pump Horsepower | Pump Yield (gpm) | Casing Depth (Feet) | Casing Diameter (Inches) | Meter Size (inches) | Year Drilled |
|------------------------|------------------------|-------------------------|----------------------------|---------------------------------|----------------------------|---------------------|
| #1 55-639720 | 25 | 75 | 650 | 12 | 3 | 1942 |
| #2 55-639721 | 30 | 125 | 650 | 10 | 3 | 1969 |
| #3 55-639723 | 25 | 125 | 425 | 8 | 4 | 1965 |
| #4 55-639722 | 25 | 125 | 800 | 12 | 4 | 1970 |
| #5 55-503273 | 75 | 480 | 850 | 20 | 6 | 1982 |
| #6 55-580082 | 125 | 425 | 810 | 12 | 8 | 2001 |

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

| Name or Description | Capacity (gpm) | Gallons Purchased or Obtained (in thousands) |
|----------------------------|-----------------------|---|
| | | |
| | | |

| BOOSTER PUMPS | | FIRE HYDRANTS | |
|----------------------|-----------------|--------------------------|-----------------------|
| Horsepower | Quantity | Quantity Standard | Quantity Other |
| 15 | 4 | 12 | |
| 20 | 2 | | |
| 40 | 6 | | |
| 50 | 2 | | |

| STORAGE TANKS | | PRESSURE TANKS | |
|----------------------|-----------------|-----------------------|-----------------|
| Capacity | Quantity | Capacity | Quantity |
| 100,000 | 3 | 5,000 | 2 |
| 200,000 | 1 | 7,500 | 1 |
| 560,000 | 1 | 10,000 | 1 |

Note: If you are filing for more than one system, please provide separate sheets for each system.

| | |
|-----------------------|--|
| COMPANY NAME | VALLEY UTILITIES WATER CO., INC. |
| Name of System | ADEQ Public Water System Number (if applicable) |

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

| Size (in inches) | Material | Length (in feet) |
|------------------|----------|------------------|
| 2 | | |
| 3 | | |
| 4 | AC & PVC | 10,000 |
| 5 | | |
| 6 | AC & DIP | 64,514 |
| 8 | AC & DIP | 50,010 |
| 10 | DIP | 2,952 |
| 12 | AC & DIP | 5,925 |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

CUSTOMER METERS

| Size (in inches) | Quantity |
|------------------|----------|
| 5/8 X 3/4 | 191 |
| 3/4 | 765 |
| 1 | 403 |
| 1 1/2 | 6 |
| 2 | 48 |
| Comp. 3 | 5 |
| Turbo 3 | |
| Comp. 4 | |
| Tubo 4 | |
| Comp. 6 | |
| Tubo 6 | |
| | |
| | |
| | |

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

1 - 3" Tablet Chlorinator _____

3 - 50 Gallon Liquid Chlorinator _____

STRUCTURES:

OTHER:

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: VALLEY UTILITIES WATER CO., INC.

Name of System ADEQ Public Water System Number (if applicable)

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2006

| MONTH/YEAR | NUMBER OF CUSTOMERS | GALLONS SOLD (Thousands) | GALLONS PUMPED (Thousands) | GALLONS PURCHASED (Thousands) |
|------------|---------------------|--------------------------|----------------------------|-------------------------------|
| JANUARY | 1358 | 22,417 | 25,143 | |
| FEBRUARY | 1383 | 19,655 | 20,240 | |
| MARCH | 1395 | 19,078 | 19,975 | |
| APRIL | 1403 | 30,089 | 31,376 | |
| MAY | 1413 | 31,422 | 32,254 | |
| JUNE | 1401 | 38,113 | 39,141 | |
| JULY | 1412 | 43,111 | 44,030 | |
| AUGUST | 1421 | 28,420 | 29,621 | |
| SEPTEMBER | 1419 | 27,623 | 28,070 | |
| OCTOBER | 1420 | 30,577 | 31,615 | |
| NOVEMBER | 1417 | 24,406 | 25,635 | |
| DECEMBER | 1418 | 18,713 | 19,514 | |
| TOTALS → | | 333,624 | 346,614 | |

What is the level of arsenic for each well on your system? WELL #1 - 11.50 ppb mg/l

(If more than one well, please list each separately.)

WELL #2 - 12.50 ppb

WELL #3 - 6.8 ppb

WELL #4 - 12 ppb

WELL #5 - 13 ppb

WELL #6 - 11 ppb

If system has fire hydrants, what is the fire flow requirement? 1000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?

Yes

No

Is the Water Utility located in an ADWR Active Management Area (AMA)?

Yes

No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

Yes

No

If yes, provide the GPCPD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system.

COMPANY NAME VALLEY UTILITIES WATER CO., INC. YEAR ENDING 12/31/2006

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2006 was: \$ 34,234

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. _____

**VERIFICATION
AND
SWORN STATEMENT**
Taxes

VERIFICATION

STATE OF ARIZONA
I, THE UNDERSIGNED
OF THE

| | |
|--------------------------------|----------------------------------|
| COUNTY OF (COUNTY NAME) | MARICOPA |
| NAME (OWNER OR OFFICIAL) TITLE | ROBERT L. PRINCE, PRESIDENT |
| COMPANY NAME | VALLEY UTILITIES WATER CO., INC. |

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

| | | |
|-------|-----|------|
| MONTH | DAY | YEAR |
| 12 | 31 | 2006 |

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS DAY OF

(SEAL)

| | |
|-------------|-------|
| COUNTY NAME | |
| MONTH | ,20__ |

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

COMPANY NAME VALLEY UTILITIES WATER CO., INC. YEAR ENDING 12/31/2006

INCOME TAXES

For this reporting period, provide the following:

| | |
|---|---------------|
| Federal Taxable Income Reported | <u>77,119</u> |
| Estimated or Actual Federal Tax Liability | <u>14,470</u> |

| | |
|---|----------------|
| State Taxable Income Reported | <u>162,302</u> |
| Estimated or Actual State Tax Liability | <u>11,304</u> |

Amount of Grossed-Up Contributions/Advances:

| | |
|---|----------|
| Amount of Contributions/Advances | <u>0</u> |
| Amount of Gross-Up Tax Collected | <u>0</u> |
| Total Grossed-Up Contributions/Advances | <u>0</u> |

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

SIGNATURE

DATE

PRINTED NAME

TITLE

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

**VERIFICATION
STATE OF ARIZONA
I, THE UNDERSIGNED
OF THE**

| |
|--|
| COUNTY OF (COUNTY NAME) MARICOPA |
| NAME (OWNER OR OFFICIAL) TITLE ROBERT L. PRINCE, PRESIDENT |
| COMPANY NAME VALLEY UTILITIES WATER CO., INC. |

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

| | | |
|-------|-----|------|
| MONTH | DAY | YEAR |
| 12 | 31 | 2006 |

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2006 WAS:

| |
|--|
| Arizona Intrastate Gross Operating Revenues Only (\$) \$ <u>1,294,697</u> |
|--|

**(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 68,282
IN SALES TAXES BILLED, OR COLLECTED)**

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS **DAY OF**

(SEAL)

| | |
|-------------|-------|
| COUNTY NAME | |
| MONTH | .20__ |

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
Intrastate Revenues Only**

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

| | |
|--|--------------------------------|
| <small>COUNTY OF (COUNTY NAME)</small> MARICOPA | |
| <small>NAME (OWNER OR OFFICIAL)</small> ROBERT L. PRINCE | <small>TITLE</small> PRESIDENT |
| <small>COMPANY NAME</small> VALLEY UTILITIES WATER CO., INC. | |

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

| | | |
|----------------------|--------------------|---------------------|
| <small>MONTH</small> | <small>DAY</small> | <small>YEAR</small> |
| 12 | 31 | 2006 |

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2006 WAS:

| |
|--|
| <small>ARIZONA INTRASTATE GROSS OPERATING REVENUES</small> |
| \$ 859,155 |

**THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 45,312
IN SALES TAXES BILLED, OR COLLECTED)**

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.**

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS **DAY OF**

| | |
|-----------------------------------|--------|
| <small>NOTARY PUBLIC NAME</small> | |
| <small>COUNTY NAME</small> | |
| <small>MONTH</small> | , 20__ |

(SEAL)

MY COMMISSION EXPIRES

X _____
SIGNATURE OF NOTARY PUBLIC



**MARICOPA COUNTY
TREASURER**

DAVID SCHWEIKERT, TREASURER
301 W JEFFERSON ST - RM 100
PHOENIX, AZ 85003-2199

PROPERTY DESCRIPTION

SEC/LOT TWN/BLK RNG/TR:

TOTAL VALUE OF OPERATING PROPERTY

*Property address: SITUS ADDRESS NOT AVAILABLE.

**MARICOPA COUNTY
2006 PROPERTY TAX
STATEMENT**

TO UPDATE YOUR MAILING ADDRESS
please go to:

<http://treasurer.maricopa.gov>



1662 1724 *****AUTO**5-DIGIT 85340
VALLEY UTILITIES WATER CO INC
12540 W BETHANY HOME RD
LITCHFIELD PARK, AZ 85340-9303

SIGN UP FOR "PARCEL WATCH"
and receive an e-mail reminder for
second half payments.
<http://treasurer.maricopa.gov>

\$25.00 CHARGE IF CHECK
FAILS TO CLEAR BANK.
YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 366,520

Secondary Assessed Value 366,520

Tax Area Code: 790000

| PRIMARY | CONTACT # | COMPARATIVE 2005 AMT | RATE / 100 | 2006 AMT DUE |
|------------------------------------|----------------|----------------------|-----------------------|-----------------|
| LITCHFIELD ELEMENTARY | (623) 535-6000 | 6080.87 | 20284 | 7434.50 |
| AGUA FRIA HIGH SCHOOL | (623) 932-7000 | 7228.39 | 22412 | 8214.45 |
| GENERAL COUNTY FUND | (602) 506-8511 | 3857.65 | 11794 | 4322.74 |
| COMMUNITY COLLEGE DIST. | (480) 731-8621 | 2879.62 | 8815 | 3230.87 |
| EDUCATION EQUALIZATION | (602) 506-8511 | 1404.37 | 0000 | .00 |
| SUBTOTAL | | 21450.90 | 63305 | 23202.56 |
| SECONDARY | | | | |
| FLOOD CONTROL OF MARICOPA COUNTY | (602) 506-1501 | 79.72 | 2047 | 76.00 |
| CENTRAL ARIZONA WATER CONSV. DIST. | (623) 869-2333 | 386.70 | 1200 | 439.82 |
| FIRE DISTRICT ASSISTANCE | (602) 506-8511 | 22.24 | 0068 | 24.92 |
| COUNTY LIBRARY | (602) 652-3000 | 187.90 | 0507 | 185.82 |
| COUNTY HEALTHCARE DISTRICT | (602) 344-5978 | 388.62 | 1184 | 433.96 |
| *BONDS** | | | | |
| -COUNTY | | .00 | 0000 | .00 |
| -CITY | | .00 | 0000 | .00 |
| -SCHOOLS | | 5097.62 | 17089 | 6263.46 |
| -COMMUNITY COLLEGE | | 444.38 | 1831 | 571.10 |
| SCHOOL DISTRICT OVERRIDES | | 2966.94 | 8773 | 3215.48 |
| SUBTOTAL | | 10554.12 | 32698 | 11310.56 |
| SPECIAL DISTRICT | DISTRICT # | | | |
| WEST-MEC | 30002 | (623) 873-1860 | 161.12 | 0500 |
| | | | | 183.26 |
| | | 32166.14 | TOTAL FOR 2006 | 34696.38 |

*Property address is provided by the Maricopa County Assessor's Office.

(505493 = PRTCNTL)

DETACH AND RETURN WITH PAYMENT



2006 SECOND HALF PAYMENT STUB
DUE MARCH 1, 2007
DELINQUENT AFTER MAY 1, 2007

2

PARCEL/ACCOUNT # 628-57-900-1

PRINT THE ABOVE PARCEL / ACCOUNT
NUMBER ON YOUR CHECK

MAKE CHECK PAYABLE TO:

U.S. FUNDS ONLY

VALLEY UTILITIES WATER CO INC

Maricopa County Treasurer
P O Box 52133
Phoenix, AZ 85072-2133

| | |
|-------------|-------------|
| SECOND HALF | \$17,348.19 |
|-------------|-------------|

MAKE CHANGES TO MAILING ADDRESS BELOW
OR GO TO <http://treasurer.maricopa.gov>

PLEASE REMEMBER YOUR SECOND HALF PAYMENT IS DUE IN MARCH
AND THAT NO ADDITIONAL NOTIFICATION IS SENT.

0600000000200034696380001734819628579000013

65000068582925560000002556000000E0000000090

Your total tax bill is one hundred dollars (\$100.00)
 or less and must be paid in full on or
 before November 1, 2006. ARS 42-18052-C

PARCEL/ACCOUNT # 628-58-900-5



**MARICOPA COUNTY
 TREASURER**
 DAVID SCHWEIKERT, TREASURER
 301 W JEFFERSON ST - RM 100
 PHOENIX, AZ 85003-2199

PROPERTY DESCRIPTION
 SEC/LOT: TWN/BLK: RNG/TR:

TOTAL VALUE OF OPERATING PROPERTY

*Property address: SITUS ADDRESS NOT AVAILABLE.

**MARICOPA COUNTY
 2006 PROPERTY TAX
 STATEMENT**

TO UPDATE YOUR MAILING ADDRESS
 please go to:
<http://treasurer.maricopa.gov>

1662 1724 *****AUTO**5-DIGIT 85340
 VALLEY UTILITIES WATER CO INC
 12540 W BETHANY HOME RD
 LITCHFIELD PARK, AZ 85340-9303

SIGN UP FOR "PARCEL WATCH"
 and receive an e-mail reminder for
 second half payments.
<http://treasurer.maricopa.gov>

\$25.00 CHARGE IF CHECK
 FAILS TO CLEAR BANK.
 YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 980

Secondary Assessed Value 980

Tax Area Code: 890000

| PRIMARY | CONTACT # | COMPARATIVE 2005 AMT | RATE / 100 | 2006 AMT DUE |
|------------------------------------|----------------------|----------------------|-----------------------|--------------|
| DYSART UNIFIED | (623) 876-7000 | 54.63 | 51144 | 50.12 |
| GENERAL COUNTY FUND | (602) 506-8511 | 11.97 | 11794 | 11.56 |
| COMMUNITY COLLEGE DIST. | (480) 731-8621 | 8.94 | 8815 | 8.64 |
| EDUCATION EQUALIZATION | (602) 506-8511 | 4.36 | 0000 | .00 |
| SUBTOTAL | | 79.90 | 71753 | 70.32 |
| SECONDARY | | | | |
| FLOOD CONTROL OF MARICOPA COUNTY | (602) 506-1501 | 2.12 | 2047 | 2.00 |
| CENTRAL ARIZONA WATER CONSV. DIST. | (623) 869-2333 | 1.20 | 1200 | 1.18 |
| FIRE DISTRICT ASSISTANCE | (602) 506-8511 | .06 | 0068 | .05 |
| COUNTY LIBRARY | (602) 652-3000 | .52 | 0507 | .50 |
| COUNTY HEALTHCARE DISTRICT | (602) 344-5978 | 1.20 | 1184 | 1.16 |
| *BONDS** | | | | |
| -COUNTY | | .00 | 0000 | .00 |
| -CITY | | .00 | 0000 | .00 |
| -SCHOOLS | | 5.24 | 5419 | 5.31 |
| -COMMUNITY COLLEGE | | 1.38 | 1831 | 1.79 |
| SCHOOL DISTRICT OVERRIDES | | 11.68 | 12959 | 12.70 |
| SUBTOTAL | | 23.40 | 25215 | 24.70 |
| SPECIAL DISTRICT | DISTRICT # | | | |
| WEST-MEC | 30002 (623) 873-1860 | .50 | 0500 | .50 |
| PAID Oct 30 2006 | | | | |
| CHK# 5041 \$95.52 | | | | |
| | | 103.80 | TOTAL FOR 2006 | 95.52 |

*Property address is provided by the Maricopa County Assessor's Office.

Valley Utilities Water Company
Year Ended December 31, 2006 and Projected Year
Summary of Capital Structure

| Line No. | Item of Capital | December 31, 2006 | | End of Projected Year | |
|----------|-----------------------------|-------------------|------------------|-----------------------|------------------|
| | | Dollar Amount | Percent of Total | Dollar Amount | Percent of Total |
| 1 | Long-Term Debt ¹ | \$ 28,237 | -5.92% | \$ 1,919,666 | 106.96% |
| 2 | | | | | |
| 3 | Stockholder's Equity | \$ (504,932) | 105.92% | \$ (124,932) | -6.96% |
| 4 | | | | | |
| 5 | Totals | (476,695) | 100.00% | 1,794,734 | 100.00% |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |

¹ New WFA debt of \$1,926,100 less amortization. See page 2.

² Details of Equity Capital

| | December 31, 2006 | End of Projected Year |
|----------------------------|-------------------|-------------------------|
| Capital Stock | \$ 110,000 | \$ 410,000 ^A |
| Additional Paid-in-Capital | 4,988 | 4,988 |
| Retained Earnings | (619,920) | (539,920) ^B |
| | \$ (504,932) | \$ (124,932) |

^A Change due to issuance of 4,000 shares of common stock for \$300,000 for purchase of land and equipment.

^B Projected year net income of \$80,000.

MINUTES OF THE MEETING OF A
SPECIAL BOARD OF DIRECTORS
OF
VALLEY UTILITIES WATER COMPANY, INC.

This meeting was held at the Corporate Offices located at 6808 North Dysart Road, Suite 112, on the 12th day of January, 2007.

The following Directors were present:

Robert L. Prince
Barbara K. Prince
Scott D. Keith
Lisa M. Mycke

The following Director was absent:

Steven C. Prince

Robert L. Prince acted as Chairman of the meeting and called the meeting to order. The Chairman noted that a quorum was present for voting purposes. Barbara K. Prince, Secretary of the Corporation, recorded the minutes.

The Chairman stated that the first item for consideration of the Board of Directors of the Corporation was the need to seek an Accounting Order from the Arizona Corporation Commission ("ACC") designed to permit deferral of the arsenic treatment operation and maintenance expenses not recovered in the recent ACC Decision No. 68309. After a full discussion and upon motion duly made and seconded, it was unanimously:

RESOLVED, that the Officers of the Company be authorized, and are hereby directed, to file an Application with the ACC seeking an Accounting Order to appropriately defer the arsenic treatment operation and maintenance expenses not recovered in Decision No. 68309, which Order will permit recovery of those costs in subsequent rate applications.

The Chairman stated that the next item was the need for the Company to both increase equity in the Company and discontinue related party leases between the Company and shareholders of the Company as directed by the ACC in Decision No. 68309. As a supplement to the Positive Equity Plan filed with the ACC on February 13, 2006, shareholders Robert L. Prince and Barbara K. Prince have agreed to sell certain real and personal property presently leased to the Company by the Shareholders in exchange for additional shares of Common Stock of the Company, plus sufficient cash to pay the capital gains taxes associated with that sale. Appraisals of the real and personal

property were presented by the Board and are attached to these minutes as Exhibit 1. After a full discussion and agreement that the real and personal property to be acquired was fairly valued at \$429,000, and the value of that property was equivalent to 4,000 shares of the Company's Common Stock, plus cash not to exceed \$129,000 for reimbursement of the shareholders capital gains taxes, and upon motion duly made and seconded, it was unanimously:

FURTHER RESOLVED, that the Officers of the Company be authorized, and are hereby directed, to file an Application with the ACC seeking authorization to issue an additional 4,000 shares of its authorized, but not outstanding, Common Stock to Robert L. Prince and Barbara K. Prince in exchange for the real and personal property described in Exhibit 1 hereto, and the Officers of the Company are further authorized to reimburse Robert L. Prince and Barbara K. Prince, in cash or a short term note not to exceed \$129,000 with no interest and payable on or before April 15, 2008, for the payment of capital gains taxes associated with the sale.

The next item on the Agenda was presented by the Chairman and was the matter of the Central Arizona Project Subcontract (the "Subcontract") that was tendered to the Corporation for 250 acre feet of CAP water, annually for a term of 100 years. The cost for the Subcontract include the accrued "Contract Costs" is a one-time payment of \$163,000.00, or alternatively, five annual installment payments of \$36,000.00. There will be semi annual capital payments thereafter, plus the annual "OM&R Costs" (both such Costs being hereinafter described). Following much discussion among the Board Members, it was unanimously resolved as follows:

WHEREAS, there are substantial additional areas within the Certificated area as granted by the Arizona Corporation Commission (the "Commission") which are not presently being served with the Corporation's existing ground water wells; and

WHEREAS, growth into that underserved area, and possibly adjacent areas, will most certainly occur; and

WHEREAS, existing or future groundwater supplies are subject to many seasonal and cyclical variations; and

WHEREAS, a secure surface water supply will enhance the water available for existing and future customers; and

WHEREAS, the immediate purchase price of the five annual payments of \$36,000.00, plus the semi annual payments for the future payments of the capital costs under the Subcontract (the "Contract Costs") can be capitalized by the Corporation, and the commodity costs referred to as Project Operations, Maintenance and Replacement Costs ("OM&R Costs") are capable of being appropriately passed through to the Corporation's customers after obtaining Commission approval; and

WHEREAS, said Contract Costs and OM&R Costs are reasonable costs to the Corporation and its customers; and

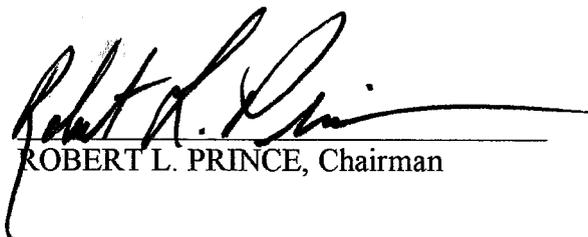
WHEREAS, the Corporation can and should acquire this valuable asset and thereafter coordinate with adjacent municipal and public service corporations regarding the most effective and efficient manner to treat and deliver the CAP Water to the Corporation's Service Area.

THEREFORE IT IS RESOLVED that this Board directs the Officers and Directors of the Corporation to accept the Subcontract with the installment payment provision, and to execute any and all documents necessary to effectuate the entry into, and validation of, the Subcontract and delivery of CAP Water to the Corporation's Service Area; and

FURTHER RESOLVED, that the Officers of the Corporation are directed to account for such transactions appropriately, and are hereby authorized to seek appropriate treatment of those investments and expenses in financing and/or rate-making application(s) before the Commission

There being no further business to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.

Respectfully submitted,


ROBERT L. PRINCE, Chairman


BARBARA K. PRINCE, Secretary

1 Richard L. Sallquist (002677)
SALLQUIST & DRUMMOND, P.C.
2 4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
3 Telephone: (480) 839-5202
Fax: (480) 345-0412
4 Attorneys for Valley Utilities Water Company, Inc.

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6 IN THE MATTER OF THE APPLICATION)
OF VALLEY UTILITIES WATER) DOCKET NO. W-01412A-07-____
7 COMPANY, INC. FOR AUTHORITY TO)
ISSUE ADDITIONAL COMMON STOCK.) **NOTICE OF PUBLICATION**

8 _____
9 STATE OF ARIZONA)
10)ss
County of Maricopa)

11 I, Robert Prince, President of Valley Utilities Water Company, Inc. hereby file the
12 original Affidavit of Publication attached hereto as Exhibit 1 and incorporated herein by
13 reference for all purposes, as published by _____, a newspaper of general
14 circulation in the area subject to the application, said application being completed on the date set
15 forth in the attached Affidavit of Publication.

16 DATED this ____ day of _____, 2007.

17 VALLEY UTILITIES WATER
18 COMPANY, INC.

19 By: _____
20 Robert Prince, President

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The foregoing instrument was acknowledged before me this ____ day of May, 2007, by

Robert Prince.

Notary Public

My Commission Expires:

Original and ten copies of the
foregoing filed this ____ day
of May, 2007:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing Hand Delivered this _____
day of May, 2007 to:

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

**PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER AUTHORIZING
THE ISSUANCE OF COMMON STOCK
BY
VALLEY UTILITIES WATER COMPANY INC.**

Valley Utilities Water Company, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue 4,000 shares of its Common Stock to its existing Shareholders. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 6880 N. Dysart Road, Suite 112 Glendale, Arizona 85307.

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 the Applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone 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 proceedings.
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 15th day after this notice.

If you have any questions or concerns about this application or have any objections to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.