

ORIGINAL NEW APPLICATION



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ARIZONA CORPORATION COMM



AZ CORP COMMISSION
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FINANCING APPLICATION

SHEPARD WATER COMPANY

UTILITY NAME

W-01537A-07-0265

DOCKET NO(S).

Arizona Corporation Commission

DOCKETED

MAY 01 2007

DOCKETED BY

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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

Application for Financing Approval

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

Shepard Water Company Inc., an Arizona corporation
John Guth, President
10430 N. Martinez Lake Road
Martinez Lake, AZ 85365

2. Name and address of the person authorized, on behalf of applicant, to receive notices and communications regarding the application.

Wade Noble
Noble Law Offices
1405 W. 16th Street
Yuma, AZ 85364

3. A full description of the financings (debt or equity) proposed to be issued showing the kind, nature, and amount, the interest or dividend rate if any and its frequency, date of maturity, call features, voting privileges, and other detailed information regarding the financing itself. An explanation of whether the assets of the company will be encumbered by the financing (e.g. bank loan that is secured by company assets). If the financing is debt then provide a schedule of interest and principle payments. If the financing is a line of credit then provide a schedule of expected drawdowns. Provide a description of the proposed method of issuing and selling the financing, including any special distribution rights to existing holders of the company's securities.

Financing of WIFA loan in the amount of \$112,100. A Water Utility Deed of Trust and Security Agreement will secure the loan. Interest and principal expenses have been estimated.

4. A statement showing the expected gross proceeds, issuance expenses, and net proceeds from the issuance and sale.

Shepard Water Company is a small utility located in southwestern Arizona with a groundwater well to supply potable water to customers in the Martinez Lake Resort. Water quality tests have shown that the water from the well has an arsenic content slightly above the new EPA Maximum Contaminant Limit. To remedy this a wellhead treatment system, SolmeteX ArsenX Treatment System, has to be installed.

SolmeteX ArsenX Treatment System ("X") is a nanotechnology-based adsorbent design specifically for arsenic removal applications. It combines the properties of ion exchange resin with the chemistry of hydrous iron media. As: X is a nanoparticle-based selective resin that has a high affinity for arsenic and can achieve high levels of arsenic removal in both the arsenate (As(V)) and arsenite (As(III)) forms. No pre-treatment is required since conversion of the As(III) to As(V) is not necessary for effective removal.

Budgetary Cost Estimate

	Cost
Arsenic Treatment System	71,400
Arsenic Treatment System Installation	17,140
Shade structure 1- 10ft x 15ft	7,800
Concrete slab for arsenic treatment	760
Contingency for unknowns	15,000
Total Cost	\$112,100

Costs were developed based on the following assumptions:

- System sized to meet an arsenic discharge of less than 8 ppb
- System treatment performance based on a pH of 7.3 or less
- System treatment performance based on silica content of 35 mg/L or less and little or not phosphates present in the water
- Average yearly production volume has been assumed to be 45% of the maximum yearly well production
- Pricing is based on an existing arsenic concentration of 12 ppb
- Pricing does not include taxes, bonds or permits fees

- Maximum operating pressure of adsorber vessels is 100 psi
- Media purchased directly from McPhee Environmental Supply
- Skid-Mounted footprint is 9 feet by 7 feet, tank height is 9 feet from slab to top of vessel
- The existing site has adequate space
- Chlorination equipment is not required

5. A complete description of the uses of the net proceeds, including descriptions of plant, property, or other assets to be acquired. Provide any capital expenditure budget that supports the proposed use of proceeds.

See Budget outlined in response to No. 4 above.

**6. A statement that demonstrates why the financing is,
(a) within the corporate powers of the applicant;**

Financing is within the corporate powers of the applicant as an Arizona corporation with statutory authority to borrow funds for business purposes.

(b) compatible with the public interest;

Financing is compatible with the public interest because treatment of the water in the system will bring the arsenic content below the EPA Maximum Contaminant Limit level.

(c) compatible with sound financial practices; and,

Financing is compatible with sound financial practices as a source for the funds to accomplish the tasks mandated for the system.

(d) compatible with the proper performance by the applicant of service as a public service corporation and will not impair its ability to perform that service.

Financing is compatible with the proper performance by the applicant of service as a public service corporation because applicant is required to maintain the required standards for drinking water.

7. The name and address of any person receiving, or entitled to, a fee for service in connection with the issuance or sale of the financing and a demonstration that such fees do not exceed customary fees for such service in an arms-length transaction and are reasonable.

None.

8. Provide a copy of any documents to be executed in the matter.

Loan documents will be submitted upon receipt.

9. Provide the most recent balance sheet and income statement showing booked amounts and pro forma adjustments to record and show the effect of the transaction. Provide any other statements (such as pro forma statements from prior periods) that would demonstrate that the security issuance and sale is consistent with sound financial practices.

The following financial reports for Shepard Water Company have been provided:

- a. Profit and Loss Statement June 2005 through May 2006
- b. Trial Balance as of May 31, 2006
- c. Balance Sheet September 30, 2005
- d. Annual Report 2004
- e. Annual Report 2005
- f. Corporate Returns 2004
- g. Balance Sheet 2004

Attached are the following:

- a. Pro Forma financial statements
- b. Corporate Resolution

10. The Commission requires the Company to notice customers of the financing application. Attached is a copy of the notice to be used. Fill in the notice's blanks and either insert a copy of the notice in customers' next bill or have it published at least once in a newspaper of general circulation in the area in which the company serves. Please send proof of noticing to the Commission. Proof consists of the dated bill insert, a copy of the notice as it appeared in the newspaper or the receipt from the newspaper showing the date the notice is to be published.

A copy of the notice which will be sent to the customers is attached hereto.

11. Submit an original and sixteen (16) copies of the application and supporting documents to the following:

**ARIZONA CORPORATION COMMISSION
ATTN DOCKET CONTROL CENTER
ROOM 130
1200 W WASHINGTON STREET
PHOENIX AZ 85007-2927**

Original and 16 copies and supporting documents attached.

**PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER
AUTHORIZING THE ISSUANCE OF
BY SHEPARD WATER COMPANY**

Shepard Water Company filed an Application with the Arizona Corporation Commission for an order authorizing Applicant to issue \$112,100 of corporate debt in the form of a secured promissory note payable to the Water Infrastructure and Finance Authority of Arizona. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's offices at Martinez Lake, 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 15th day after this notice.

SHEPARD WATER COMPANY, INC.

RESOLUTION

Resolution adopted by the Shareholders and Directors of Shepard Water Company, Inc.

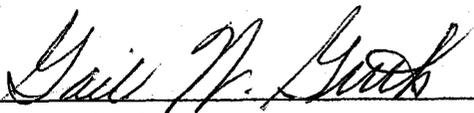
Shepard Water Company, Inc. must meet the requirements for arsenic content as prescribed by the EPA Maximum Containment Limit.

BE IT RESOLVED the Shareholders and Directors of Shepard Water Company, Inc. authorize the president John W. Guth to make application for WIFA loan financing to install a wellhead treatment system to control the arsenic content and to meet the EPA requirements.

FURTHER, John W. Guth is authorized to make application for financing approval of the WIFA loan with the Arizona Corporation Commission.

DATED:

July 24, 2006



Gail W. Guth
Secretary



L I A B I L I T I E S A N D S H A R E H O L D E R S ' E Q U I T Y

Pro Forma
Amount

Modifications

Current Liabilities:				
Current portion of long-term debt	\$ 26,628	\$ -	\$ 26,628	
Current portion of long-term debt, arsenic level equip	-	2,220	2,220	
Accounts payable	1,090	-	1,090	
Advance customer payments	920	-	920	
Sales taxes payable	263	-	263	
Income taxes payable	6,330	-	6,330	
Interest payable	1,985	-	1,985	
Total Current Liabilities	37,216	2,220	39,436	

Long-term Debt:

Note payable, WIFA, net of current portion, undischursed				
	155,449	-	155,449	
Note payable, WIFA, arsenic level equipment, net of current portion	-	125,000	-	
	-	(2,005)	-	
	-	(2,220)	-	

Loan payable, stockholders'				
	118,956	-	118,956	
	274,405	120,775	395,180	
	502	-	502	

Deferred tax liability				
	312,123	122,995	435,118	

Shareholders' Equity:

Common stock				
	1,000	-	1,000	
Other paid-in capital	6,096	-	6,096	
Retained Earnings	97,208	(11,118)	86,090	
	104,304	(11,118)	93,186	

Total Liabilities and Shareholders' Equity				
	<u>\$ 416,427</u>	<u>\$ 111,877</u>	<u>\$ 528,304</u>	

SHEPARD WATER COMPANY, INC.
PRO FORMA STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Amount	Modifications	Pro Forma Amount
Revenues:			
Water revenues	\$ 49,188	\$ -	\$ 49,188
Surcharge fees - rework water system	13,270	-	13,270
Other	218	-	218
	<u>62,676</u>	<u>-</u>	<u>62,676</u>
Cost of Revenue:			
Contract labor	8,400	-	8,400
Repairs	1,327	-	1,327
Supplies	120	-	120
Water testing	3,786	-	3,786
Depreciation	780	⁴ 5,000	<u>5,780</u>
	<u>14,413</u>	<u>5,000</u>	<u>19,413</u>
Cost of Revenue			
	<u>48,263</u>	<u>5,000</u>	<u>43,263</u>
Gross Profit			
Operating Expenses:			
Accounting	10,342	-	10,342
Bank charges	195	-	195
Bookkeeping	2,520	-	2,520
Depreciation	51	-	51
Dues and subscriptions	125	-	125
Insurance	3,879	-	3,879
Interest	760	³ 12,720	13,480
Licenses and permits	911	-	911
Miscellaneous	91	-	91
Office supplies	217	-	217

Continued

SHEPARD WATER COMPANY, INC.
PRO FORMA STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Amount</u>	<u>Modifications</u>	<u>Pro Forma Amount</u>
Postage and delivery	868	-	868
Regulatory commission expense -			
Rate Case:			
Legal	7,156	-	7,156
Accounting	1,230	-	1,230
Management fee	2,000	-	2,000
Property taxes	2,692	-	2,692
Utilities	1,585	-	1,585
	<u>34,622</u>	<u>12,720</u>	<u>47,342</u>
Income before Income Taxes	13,641	<u>(17,720)</u>	<u>(4,079)</u>
Income Taxes:			
Deferred income tax	(114)	7	(709)
Current income taxes:			
Federal	4,016	6	-
State	1,991	6	-
	<u>5,893</u>	<u>(6,602)</u>	<u>(709)</u>
Net Income	7,748	<u>(11,118)</u>	(3,370)
Retained Earnings, beginning of year	<u>89,460</u>		<u>89,460</u>
Retained Earnings, end of year	<u>\$ 97,208</u>		<u>\$ 86,090</u>

SHEPARD WATER COMPANY, INC.
PRO FORMA MODIFICATIONS LEGEND
DECEMBER 31, 2006

1. Records a 12/1/05 WIFA loan to purchase equipment to lower arsenic level
2. Records the 1/1/06 purchase of equipment to lower arsenic level
3. Records 12 monthly WIFA loan payments of \$1,227.07 including 10.25% interest (\$125,000 loan, interest at prime +2%, 20 year term)
4. Records depreciation on cost of equipment \$125,000, 25 year life, straight-line method
5. Realigns to current, the portion of December 31, 2006, debt to be paid in 2007
6. Current year income taxes are eliminated by increased interest and depreciation expense
7. Deferred income taxes decrease \$595 by recognizing the income tax benefit of the operating loss carryforward