

ORIGINAL

NEW APPLICATION



0000075099

Arizona Corporation Commission

DOCKETED

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 5 Attorneys for Applicant Far West
 Water & Sewer, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

7
 8 IN THE MATTER OF THE
 APPLICATION OF FAR WEST WATER
 & SEWER, INC., AN ARIZONA
 9 CORPORATION, FOR AUTHORITY (1)
 TO ISSUE EVIDENCE OF
 10 INDEBTEDNESS IN AN AMOUNT NOT
 TO EXCEED \$25,215,000 IN
 11 CONNECTION WITH (A) THE
 CONSTRUCTION OF SEWER SYSTEM
 12 INFRASTRUCTURE IMPROVEMENTS
 AND (B) REPAYMENT AND
 13 CONSOLIDATION OF EXISTING DEBT;
 AND (2) TO ENCUMBER ITS REAL
 14 PROPERTY AND PLANT AS SECURITY
 FOR SUCH INDEBTEDNESS.

WS-03478A-07-0442
 DOCKET NO. WS-03478A-07-_____

APPLICATION (FINANCING)

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16 Pursuant to A.R.S. §§ 40-285, 40-301 and 40-302, Far West Water & Sewer, Inc.
 17 ("Far West" or the "Company"), an Arizona public service corporation, hereby applies for
 18 authority from the Arizona Corporation Commission ("Commission") to (1) issue
 19 evidence of indebtedness in an amount not to exceed \$25,215,000 on the terms and
 20 conditions set forth below, and (2) encumber its real property and utility plant as security
 21 for such indebtedness. This debt will be incurred for the purpose of constructing sewer
 22 system infrastructure improvements needed to ensure safe and reliable utility service and
 23 comply with two Consent Orders between the Company and the Arizona Department of
 24 Environmental Quality ("ADEQ") and for the repayment and consolidation of certain
 25 existing debt, which was incurred by the Company on a short-term basis for similar
 26 purposes.

1 In support of this application, Far West states as follows:

2 **A. General Background.**

3 1. Far West is an Arizona public service corporation that provides water and
4 sewer utility services in unincorporated portions of Yuma County, Arizona, pursuant to a
5 Certificate of Convenience and Necessity ("CC&N") issued by the Commission in
6 Decision No. 60799 (April 8, 1998). As of December 31, 2006, Far West had
7 approximately 6,800 permanent sewer connections and an additional 1,700 lots that will
8 require sewer service in the immediate future; and approximately 14,600 permanent water
9 service connections and an additional 2,300 lots that will require water service in the
10 immediate future.

11 2. Far West's business office is located at 13157 East 44th Street, Yuma,
12 Arizona 85367. Its telephone number is (928) 342-1238, and its telecopier number is
13 (928) 342-3347. The Company's primary management contact is Paula Capestro, the
14 Company's President. The person responsible for overseeing and directing the conduct of
15 this application is Andrew J. Capestro, who is acting in this matter as the Company's
16 special counsel. Mr. Capestro's telephone and telecopier numbers are (928) 342-3344 and
17 (928) 342-1242, respectively. His email address is acapestro@aol.com. All discovery,
18 data requests and other requests for information concerning this Application should be
19 directed to Mr. Capestro, with a copy to counsel for the Company in this matter, Norm
20 James (njames@fclaw.com) and Jay L. Shapiro (jshapiro@fclaw.com).

21 3. The Company's current rates and charges for water utility service were
22 approved by the Commission in Decision No. 62649 (June 13, 2000). The Company's
23 current rates and charges for sewer utility service were approved by the Commission in
24 Decision No. 69335 (February 20, 2007). In Decision No. 69335, the Company was
25 ordered to file a general rate case for its sewer division by no later than April 30, 2008.

26

1 4. Audited financial statements for the twelve-month period ending
2 December 31, 2006, are attached at **Exhibit 1**.

3 **B. Purposes of Financial Transactions.**

4 5. The primary purpose of the long-term debt financing contemplated herein is
5 to finance additional plant and improvements to Far West's sewer utility system. The
6 total estimated cost of the additional plant and improvements is approximately
7 \$17,365,765. A detailed breakdown of the estimated cost of the sewer system
8 improvements is attached as **Exhibit 2**.

9 6. The sewer infrastructure improvements are necessary to bring the Company
10 into full compliance with ADEQ regulations in accordance with the March 13, 2006, and
11 October 31, 2006, Consent Orders made between ADEQ and Far West. Copies of the
12 Consent Orders are attached hereto as **Exhibit 3**. The Company's seven existing
13 wastewater treatment plants are being consolidated into four facilities, increasing the
14 Company's total wastewater treatment capacity from just over 1 million gallons per day
15 ("gpd") to nearly 2.3 million gpd and producing a higher quality of effluent. In addition,
16 certain collection system improvements are being constructed, including the conversion of
17 the three remaining plants to lift stations. The total estimated cost of the sewer system
18 improvements is \$17,365,765, as shown in **Exhibit 2**.

19 7. Proceeds from the financing will also be used to retire the existing long-term
20 debt of the Company. Far West has an outstanding loan from the Water Infrastructure
21 Finance Authority with a principal balance of \$4,686,466 as of December 31, 2006. Far
22 West obtained this loan in 1999. The loan was used to finance the construction of the
23 Company's water treatment plant, which, as explained in the preceding paragraph, was
24 necessary to substitute surface water for poor quality groundwater in response to customer
25 complaints. See Decision No. 61713 (May 13, 1999). The Water Infrastructure Finance
26 Authority debt must be paid off, thereby allowing the lender to hold a first-position

1 encumbrance to secure repayment of the new debt.

2 8. Finally, a portion of the new financing will be will be used to retire certain
3 short-term indebtedness and accrued interest. This short-term financing was obtained in
4 December 2006 so that Far West would have sufficient funds to undertake emergency
5 plant upgrades and improvements necessary to ensure adequate sewer utility service and
6 comply with requirements imposed by ADEQ in the Consent Orders. Thus, the short-
7 term financing has served as "bridge" financing until permanent, long-term financing is
8 obtained. The short-term financing has been personally guaranteed by the Company's
9 shareholders, who also pledged their stock in Far West as security. The principal total
10 amount of the short-term debt is \$17,735,000. The balance of the funds from the short-
11 term financing is held in an interest-bearing account and will be used, as necessary, during
12 the next several months to complete construction of the sewer system improvements in
13 accordance with the Consent Orders. The short-term financing (including accrued
14 interest) must be repaid in December 2007.

15 **C. Terms and Conditions of Financial Transactions.**

16 9. Pursuant to Far West's request, the Industrial Development Authority of the
17 County of Yuma ("Authority") adopted a resolution on June 26, 2007, granting
18 preliminary approval to issue revenue bonds in an aggregate principal amount not to
19 exceed \$32,500,000 ("the Bonds"), and to loan the proceeds from the issuance of the
20 Bonds to Far West for the purposes set forth above. A copy of the Authority's Resolution
21 is attached hereto at **Exhibit 4**. The bonds will be repaid by Far West over a term not to
22 exceed 30 years at an interest rate not to exceed 9% per annum consistent with the
23 authority's resolution. The actual interest rate on the Authority's loan is dependent on the
24 interest rate on the Bonds issued by the Authority, and the interest rate on the Bonds will
25 depend on prevailing market and general economic conditions at the time of issuance.
26 However, for purposes of this application, the Company has used an average coupon rate

1 of 6.27%. Far West is advised by the bond underwriter, Crews and Associates, Inc. of
2 Little Rock, Arkansas, that this is a good estimate of the interest rate if the Commission's
3 authorization is obtained and the financing is closed by November 2007.

4 10. As explained in the Resolution, the Bonds will be issued by the Authority in
5 one or more series and will constitute tax-exempt revenue bonds. The Bonds will be sold
6 or placed by the bond underwriter. The Authority in turn will loan the proceeds from the
7 sale or placement of the Bonds to Far West. To ensure repayment of the Bonds, Far West
8 will enter into a loan agreement with the Authority, under which Far West will agree to
9 repay the loan made by the Authority and provide security interests in its plant and other
10 assets to secure repayment.

11 11. In accordance with the Authority's Resolution, Far West applied to the
12 Arizona Department of Commerce ("Department") for an allocation of the "state ceiling,"
13 i.e., permission to utilize a portion of the aggregate amount of tax-exempt, private activity
14 bonds that may be issued in Arizona each year pursuant to the Internal Revenue Code.
15 See A.R.S. §§ 35-901, 39-902. Far West's application was granted on July 2, 2007. To
16 obtain confirmation, however, Far West was required to pay to the Department a security
17 deposit of \$325,000 (which is refunded when the loan closes) and a non-refundable
18 confirmation fee of \$10,400 by July 5, 2007. Those payments were timely made by Far
19 West.

20 12. The \$325,000 security deposit paid by Far West on July 5 will become non-
21 refundable if the bonds are not issued by the Authority on or before October 7, 2007.
22 However, the Company may secure an extension of that deadline until December 15, 2007
23 by paying an additional security deposit equal to \$325,000. If the bonds are not issued on
24 or before December 15, 2007, the Company will forfeit its security deposits to the
25 Department, and the allocation of the state ceiling will terminate. If that occurs, Far West
26 will lose its ability to obtain funding through the Authority at a favorable interest rate, in

1 addition to forfeiting \$650,000.

2 13. Assuming an average interest rate of 6.27%, the maximum annual debt
3 service will be \$1,885,074 which will be paid by Far West in monthly installments. The
4 debt service includes amortization of the principal balance of the loan over a period of 30
5 years. In addition, a debt service reserve fund in the amount of \$940,325 will be
6 established utilizing the proceeds of the loan, a ratable portion of which will be applied to
7 reduce the annual payment. Annual debt service may be higher or lower, depending on
8 the actual interest rate at the time Far West enters into the loan agreement with the
9 Authority and the Authority issues the Bonds.

10 14. As stated, Far West's repayment obligation to the Authority will be secured
11 by the grant of a security interest in its real property and its water and sewer utility plant
12 and system, which property and facilities are more particularly described in **Exhibit 5**
13 attached hereto.

14 15. Additional costs associated with the proposed financing include the fees (or
15 discount) paid to the bond underwriter, which is estimated to be approximately 4.5% of
16 the principal amount of the Bonds, associated fees and costs for bond counsel, and certain
17 fees and costs incurred by the Authority. The total amount of these additional fees and
18 costs is estimated to be approximately \$1,317,509, or about 5% of the principal amount of
19 the bonds, which is comparable to the costs typically incurred by a smaller, non-rated
20 utility that has no prior history in the capital markets and faces substantial construction-
21 related costs and regulatory compliance issues.

22 **D. Effects of Financial Transactions.**

23 16. Far West's proforma balance sheet and income statements for the period
24 ending December 31, 2006, are attached at **Exhibit 6**. The proforma balance sheet and
25 income statement reflect the impact of the financing transactions that are the subject of
26 this Application. The Company's pro forma capital structure consists of approximately

1 83% debt and 17% common equity.

2 17. The loan proceeds will be issued for lawful purposes, and the execution of
3 the loan agreement with the Authority and the grant of a security interest in Far West's
4 real property, plant and system, and the undertaking of the obligations set forth therein are
5 within Far West's corporate powers as reflected in the Corporate Resolution attached
6 hereto as **Exhibit 7**.

7 18. The financial transactions contemplated herein are compatible with sound
8 financial practices. Far West has spent over 12 months exploring various financing
9 options and believes that the financing transactions proposed herein represent the best
10 available terms and conditions for long-term debt available to the Company and its
11 ratepayers.

12 19. The approvals sought herein are compatible with the public interest and with
13 the proper performance of Far West's duties as a public service corporation. The
14 proceeds of the financing will be utilized exclusively to construct sewer treatment
15 facilities and other capital improvements and to repay existing indebtedness previously
16 incurred by the Company in connection with funding such projects. No portion of the
17 proceeds will be used to pay operating expenses. The approvals sought herein are
18 necessary to ensure the Company's ability to continue to provide safe and reliable sewer
19 utility service in compliance with all applicable law and regulation, including the rules
20 and regulations of ADEQ and the Consent Orders between ADEQ and the Company.

21 20. The financing contemplated herein will not impair the Company's ability to
22 perform its duties as a public service corporation providing water and sewer utility
23 service. Far West has previously been ordered by the Commission to file a general rate
24 case for its sewer division by April 30, 2008, and intends to file such application prior to
25 such deadline. If it becomes necessary, Far West will seek interim rate increases for
26 sewer service to ensure that the financing will not impair its financial condition.

1 21. Far West is in the process of providing notice of this application by
2 publishing notice, in the form provided by the Commission, in a newspaper of general
3 circulation in the area in which Far West provides service. Proof of publication and a true
4 copy of the notice as it appeared in the newspaper will be filed with the Commission.

5 Based on the foregoing, Far West respectfully requests the following:

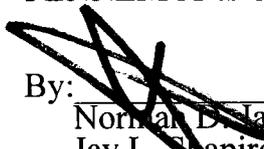
6 A. That the Commission consider this application on an expedited basis,
7 including the scheduling of a hearing, if necessary, on this matter as soon as practicable;

8 B. That the Commission enter an order approving this Application and
9 authorizing Far West to incur indebtedness in an amount not to exceed \$25,215,000 and to
10 encumber its real property and utility plant and system to secure such indebtedness for the
11 purposes described hereinabove; and

12 C. That the Commission authorize Far West to take such other and further
13 action as may be necessary to effectuate the purposes of this Application, as may be
14 appropriate under the circumstances herein.

15 RESPECTFULLY SUBMITTED this 26th day of July, 2007.

16 FENNEMORE CRAIG, P.C.

17
18 By: 

Norman D. James

Jay L. Shapiro

Attorneys for Applicant Far West Water &
Sewer, Inc.

19
20 ORIGINAL and 16 copies delivered this
21 26th day of July, 2007 to:

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

24 COPY hand-delivered this 26th day of July, 2007 to:

25 Gordon Fox, Finance, Rates and Accounting Section
26 Utilities Division
Arizona Corporation Commission

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1200 West Washington
Phoenix, AZ 85007

Keith Layton, Staff Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

By: Mary L House

1941748.1

Far West Water & Sewer, Inc.

Exhibit 1

FAR WEST WATER & SEWER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

**FAR WEST WATER & SEWER, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Far West Water & Sewer, Inc.
Yuma, Arizona

We have audited the accompanying balance sheet of Far West Water & Sewer, Inc., (an Arizona Corporation) as of December 31, 2006, and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far West Water & Sewer, Inc., as of December 31, 2006, and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Little Rock Arkansas
June 19, 2007

Geo. L. Mallory III d/b/a
Mallory & Associates
Mallory & Associates
Certified Public Accountants

FAR WEST WATER & SEWER, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2006

ASSETS

Utility Plant:

Land and land rights	\$ 902,709
Depreciable plant and equipment	43,609,842
Construction work in progress	<u>4,811,326</u>
Total utility plant	49,323,877
Less accumulated depreciation and amortization	<u>11,701,695</u>
Net utility plant	37,622,182

Current assets:

Cash and cash equivalents, unrestricted	362,070
Restricted cash	11,001,478
Customer receivables	1,091,653
Other accounts receivable	59,010
Prepaid expenses	79,817
Prepaid income taxes	100,080
Total current assets	<u>12,694,108</u>

Other assets:

Unamortized debt discount	111,300
Placement agent fees	257,010
WIFA debt service reserve	508,073
Deferred rate case expense	332,263
Total other assets	<u>1,208,646</u>

Total assets **\$ 51,524,936**

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2006

CAPITALIZATION AND LIABILITIES

Capitalization:

Common stock	\$ 1,000,000
Additional paid-in capital	6,233,279
Retained deficit	(2,175,694)
Total Stockholders' equity	<u>5,057,585</u>

Current liabilities:

Short-term bank loan	17,735,000
Current maturities of long-term debt	221,002
Accounts payable	578,107
Payable to related company	2,373,299
Deposits and prepayments	239,568
Accrued wages	34,392
Accrued property and sales taxes	182,746
Accrued interest	22,681
Other accrued liabilities	166,456
Total current liabilities	<u>21,553,251</u>

Other liabilities:

Long-term debt, less current maturities	4,465,464
Advances for construction	14,768,869
Contributions in aid of construction	4,471,102
Judgment payable	1,208,665
Total other liabilities	<u>24,914,100</u>
Total capitalization and liabilities	<u>\$ 51,524,936</u>

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
STATEMENT OF OPERATIONS & CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating revenue	\$ 7,503,827
Operating expenses:	
Administrative and general	2,016,797
Maintenance	1,281,756
Purchased water, sewer, and power	1,093,094
Depreciation and amortization	1,355,776
Property and other taxes	391,134
Legal expense	<u>576,611</u>
Total operating expenses	<u>6,715,168</u>
Net operating income	788,659
Other income and expenses:	
Interest income	187,944
Interest expense	(852,266)
Fines, penalties, and restitution	(1,333,831)
Miscellaneous expense	<u>(2,469)</u>
Net other income and expenses	(2,000,742)
Net loss	(1,211,963)
Retained deficit, December 31, 2005	<u>(963,731)</u>
Retained deficit, December 31, 2006	<u>\$ (2,175,694)</u>

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating activities:

Net loss	\$ (1,211,963)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	1,355,776
Changes in operating assets and liabilities	
Restricted cash	(11,001,478)
Receivables	(191,123)
Prepaid expenses	(100,129)
Accounts payable	(219,563)
Related party payables	(607,963)
Other current liabilities	211,366
Placement agent fees	257,010
Deferred rate case expense	293,808
Net cash used by operating activities	<u>(11,214,259)</u>

Investing activities:

Utility plant expenditures	(2,491,870)
Construction in progress	(4,451,842)
Net cash used in investing activities	<u>(6,943,712)</u>

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Financing activities:

Net increase in short-term borrowings	17,735,000
Advances for construction	791,062
Unamortized debt discount	(111,300)
Contributions in aid of construction	(77,604)
Net cash provided by financial activities	<u>18,337,158</u>
Change in cash and cash equivalents	179,187
Cash and cash equivalents at beginning of year	<u>182,883</u>
Cash and cash equivalents at end of year	<u>\$ 362,070</u>

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest	\$ 852,266
Income taxes	0

See accompanying Notes to Financial Statements

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1. Summary of Significant Accounting Policies

Nature of Operations Far West Water & Sewer, Inc. is an Arizona Corporation providing water and sewer services to customers in the Foothills area of Yuma County. The Company was originally organized and began water utility operations in 1965 as a subsidiary of H&S Developers, Inc. Sewer operations began in 1994. The Company was reorganized and began operating as a separate corporation in 1998.

Water Supply The Company obtains its water from the Colorado River and from the Yuma area aquifer. The long-term availability of water supplies is dependent upon, among other factors, drought conditions, increases in population, water quality standards, and legislation that may potentially reduce water supplies. Various California water systems north of Yuma also draw water from the Colorado River.

Public Utility Regulation The Company is subject to regulation for rates and other matters by the Arizona Corporation Commission and follows accounting policies prescribed by the ACC. The Company prepares its financial statements in accordance with generally accepted accounting principles in the United States of America, which includes the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires cost-based, rate-regulated enterprises to reflect the impact of regulatory decisions in their financial statements. The balance sheet includes regulatory assets and liabilities as appropriate.

Business Risks Although the Company has a diversified base of residential, industrial and other customers, risks arise from weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, litigation, and general business conditions.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Revenue consists of monthly cycle customer billings for regulated water and sewer services. Revenue from metered accounts includes unbilled amounts based on the estimated usage from the latest meter reading to the end of the accounting period. The Company considers accounts receivable to be fully collectable; accordingly, no provision for doubtful accounts is provided for. When accounts become uncollectible, they are charged to operations.

Property and Equipment Depreciation is computed on a straight-line basis at various rates as approved by the Arizona Corporation Commission.

Cash and Cash Equivalents Cash and cash equivalents consist of highly liquid instruments with original maturities at the time of purchase of three months or less. The carrying amount approximates fair value.

Restricted Cash Restricted cash consists of money market cash funds held by a bank. The cash is released from restriction as continuing infrastructure improvements are approved for funding by the bank.

Concentration of Credit Risk The Company maintains its checking account at a bank which is also a related party. Account balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per bank. At December 31, 2006 the Company had \$401,964 on deposit at the bank in excess of the FDIC insured amount.

Utility Plant Utility plant is stated at the original cost of such property when first placed in service. Utility plant accounts are charged with the cost of improvements and replacements. Retired or disposed of depreciable plant is charged to accumulated depreciation and credited to the asset account together with any costs applicable to retirement, less any salvage received. Maintenance of utility plant is charged to expense.

Customers' Advances for Construction and Contribution in Aid of Construction Under the terms of construction contracts with real estate developers, including a related-party developer, and others, the Company periodically receives either advances for the costs of new main installations or title to the main after it is constructed and financed by the developer. Refunds are made, without interest, as services are connected to the main, over periods not exceeding ten years and not in excess of the original advance. Unrefunded balances at the end of the of the contract period are credited to contributions in aid on construction (CIAC) and are no longer refundable.

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes The Company is a "C" corporation for income tax purposes. Accelerated depreciation methods are used for tax purposes, and those methods have the potential to create a deferred income tax liability to the extent that cumulative accelerated depreciation deductions exceed cumulative straight-line depreciation for financial accounting purposes and taxable income results from operations. However, cumulative tax and financial accounting losses at December 31, 2006 are such that neither a current nor a deferred income tax liability exists. Prepaid income taxes on the balance sheet represent amounts the Company expects to recover from amended tax returns filed for tax years prior to 2006.

Debt Service Reserve Fund Funds have been placed into a reserve account with the The Water Infrastructure Authority of Arizona, "WIFA," in accordance with the provisions of the Company's loan from WIFA.

Advances in Aid of Construction Advances for construction of collection and distribution lines and related equipment that have been paid by developers, including related-party developers, are reimbursable in part to those developers as a factor of revenue generated through the use of that infrastructure. No interest is payable on those advances.

Placement Agent Fees Fees paid to obtain anticipated long-term and current short-term financing have been capitalized, and will be amortized over the life of the loans beginning in 2007.

Interest Interest is not capitalized for financial reporting purposes, as such policy is not allowed in the ratemaking process. Interest expense is recoverable through the regulatory process as incurred.

Stockholders' Equity At December 31, 2006 the Company had 100,000 shares of common stock authorized, par value \$10. At that same date, shares outstanding were 100,000. Additional paid-in capital totaled \$6,233,279 at December 31, 2006.

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Note 2. Related Party Transactions

In addition to maintaining its checking account at a related party bank, the Company has transactions and balances with other related parties, including a land development company with which Far West Water & Sewer, Inc. works closely in developing water infrastructure in new subdivisions and has an account payable at December 31, 2006:

Land development company	\$ 2,365,833
Payables to other related parties	<u>7,466</u>
Total related party payables	<u>\$ 2,373,299</u>

Additions to water lines and other utility plant totaling \$1,958,663 during the year ended December 31, 2006 were purchased by the Company from its related development company, and substantially all of the Company's balances of \$14,768,869 for advances for construction, and \$4,471,102 of contributions in aid of construction have arisen from related party transactions with the development company.

Note 3. Short-Term Bank Loan

A bank loan of \$17,735,000, secured by shareholders' stock, at an interest rate of 8.35% has been issued to the Company for purposes of constructing and improving the water and sewer treatment facilities. The loan matures in December 2007, by which time management expects permanent financing will have been obtained.

Note 4. Note Payable

The Company has obtained a loan from The Water Infrastructure Authority of Arizona, "WIFA," secured by plant assets. This loan is payable monthly in the amount of \$42,331 at an interest rate of 5.81%. Total future principal and interest payments are as follows:

For the years ending December 31:	Principal	Interest
2007	221,002	244,637
2008	255,368	252,601
2009	270,607	237,363
2010	286,755	221,215
2011-2015	1,711,801	828,047
2016-2020	1,940,933	258,547
Total	<u>4,686,466</u>	<u>2,042,410</u>

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Note 5. Fines and Penalties Imposed

As a result of an accident in 2001, the Yuma County Superior Court in 2006 imposed fines and penalties against the Company and its former President. The liability for those fines and penalties has been recorded as current expense and as a contingent liability as of December 31, 2006. The fine as been recorded net of discounted imputed interest of 8.25%, since payment of the fine is over several years at \$17,500 per month and no interest is included in the stated amount. The case is under appeal, and management and legal counsel anticipate that a decision will be reached during 2008. If payments were to begin in January 2008, following unsuccessful appeals, the future principal and imputed interest payments would be as follows:

For the years ending December 31:	Principal	Interest
2008	114,552	95,448
2009	124,369	85,631
2010	135,026	74,974
2011	146,597	63,403
2012-2015	<u>688,121</u>	<u>116,879</u>
Total	<u><u>1,208,665</u></u>	<u><u>436,335</u></u>

Note 6. Contingent Asset

Professional services expense includes \$376,480 of legal fees paid on behalf of the former President of the Company, pursuant to Arizona state law, that could potentially be recovered by the Company at the conclusion of that officer's legal appeals process. In accordance with generally accepted accounting principles in the United States, the related legal expense has been charged to current operations, and the contingent receivable from the officer has not been recorded.

Note 7. Taxes Other Than Income Taxes

Taxes other than income taxes consist of the following:

Property taxes	\$ 294,118
Payroll taxes	<u>97,016</u>
Total	<u><u>\$ 391,134</u></u>

FAR WEST WATER & SEWER, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

Note 8. Pension and Other Employee Benefits

The Company maintains a profit sharing contributory 401 (k) plan that covers substantially all employees. Employees who have completed twelve consecutive months of service, have been employed at least 1,000 hours and have attained the age of 21 are eligible to participate in the plan. The Company matches 50% of each employee's contribution up to 8% of gross compensation.

The Company provides health insurance for all full-time employees upon their completion of six months of service. Dependents may be covered at the employees' expense.

Note 9. Subsequent Event - Rate Relief

On February 20, 2007 the Arizona Corporation Commission, at the conclusion of a rate hearing, approved a \$205,384, or 14.04%, increase in the Company's gross annual sewer revenues.

Far West Water & Sewer, Inc.

Exhibit 2

Sewer Project	Total Costs
Section 14 M.B.R. Installation	\$8,604,982.00
Collection System Improvements-Section 14	\$1,447,160.00
Del Oro Temporary M.B.R.	\$1,178,841.00
Del Oro Permanent M.B.R. Installation	\$2,719,198.00
Collection System Improvements-Villa Del Rey & Villa Royale	\$475,800.00
Seasons M.B.R. Installation	\$1,722,834.00
Miscellaneous	\$1,216,950.00
Total	\$17,365,765.00

Section 14 MBR Installation		
Item	Budget Cost	
1	Install V.F.D. on influent pumps	\$30,000.00
2	Disconnect Pretreatment Tank	\$25,000.00
3	2 Rotary brush screens (comes with two duty screenings compactors, one duty screenings conveyor and bagger system)	\$60,000.00
4	Tankage	\$977,000.00
5	Pipe pump discharge of anoxic tank to Head of new tank	\$25,000.00
6	Mixer	\$224,333.00
7	Blowers & Diffusers	\$322,050.00
8	Equipment 1 Z-MODTM L, fully assembled membrane modules for a capacity of 1,300,000 gpd	\$2,019,033.00
	1 Common dryer for compressed air line	
	2 Permeate/backpulse pumps	
	2 Membrane air scouring blowers	
	2 Permeate collection header pipe	
	2 Air scour distribution header pipe	
	1 Backpulse tank	
	1 Sodium Hypochlorite addition system for membrane recovery cleaning, c/w one chlorine dosing system, storage pallet, piping and valves	
	1 Citric acid addition system for membrane CIP cleaning, c/w one duty dosing pump, Storage pallet, piping and valving	
	1 Nema 12 control panel, c/w PLC, HMI, modem interface, dial-out emergency chatter box, motor control hardware	
9	Equipment installation	\$400,000.00
10	Building	\$300,000.00
11	Foundations	\$150,000.00
12	Recycle pumps station	\$10,000.00
13	Influent meter	\$50,000.00
14	Injection Well	\$300,000.00
15	Sludge Thickening	\$200,000.00
	Subtotal Construction	\$7,943,059.96
	Mobilization and bonding (3%)	\$152,772.48
	Yard piping (3%)	\$152,772.48
	Site work (5%)	\$254,620.80
	Electrical (includes instrumentation & controls) (3%)	\$407,393.28
	Mechanical (5%)	\$254,620.80
	Misc. Metals (2%)	\$101,848.32
	Landscape (3%)	\$152,772.48
	Pavement	\$50,000.00
	Construction Total	\$8,604,981.62
	Engineering	\$661,921.66
	Construction Management	\$661,921.66
	Sub-total	\$7,943,059.96
	Contingency	\$661,921.66
	Project Total	\$8,604,981.62

Collection System Improvements			
IMPROVEMENTS	ESTIMATED COST	QUANTITY	UNIT PRICE
Section 14			
Palm Shadows Lift Station	\$300,000.00	1EA	\$300,000.00
Palm Shadows Force Main	\$30.00	28500 LF	\$795,000.00
L.S. No. 18 Force Main to Palm Shadow Force Main	\$20.00	910EA	\$18,200.00
Construction Sub-Total			\$1,113,200.00
Engineering			\$111,320.00
Construction Management			\$111,320.00
Sub Total			\$1,335,840.00
Contingency			\$111,320.00
Project Total			\$1,447,160.00

1	Disconnect Pretreatment Tank from West Tank using Valves	\$5,000.00
2	Replace diffusers in East Tank with Mixers	\$33,200.00
3	Install new 38,000 gallon tank with diffusers	\$29,075.00
4	Pipe pump discharge of East tank to Head of new tank	\$5,000.00
5	Install portable M.B.R. unit	\$50,000.00
6	Pipe pump discharge of West tank to Portable M.B.R. unit	\$37,500.00
7	Install recycle line from M.B.R. to head of East tank (Anoxic tank)	\$5,000.00
8	Connect discharge of M.B.R. to existing effluent line	\$15,000.00
9	Upgrade blowers	\$10,000.00
10	Portable M.B.R. rental	\$477,000.00
11	Portable M.B.R. decommissioning	\$101,700.00
	Mobilization and bonding (3%)	\$0.00
	Yard piping (3%)	\$23,054.25
	Site work (5%)	\$38,423.75
	Electrical (includes instrumentation & controls) (3%)	\$23,054.25
	Mechanical (5%)	\$38,423.75
	Misc. Metals (2%)	\$15,369.50
	Landscape (3%)	\$0.00
	Pavement	\$0.00
	Engineering	\$90,680.05
	Construction Management	\$90,680.05
	Sub total	\$1,088,160.60
	Contingency	\$90,680.05
	Project Total	\$1,178,840.65

Del Oro Permanent M.B.R. Installation	
ITEM	COST
1 Equipment	\$615,769.00
1 Z-MODTM L 96D unit, fully assembled with 48 membranes per unit, 96 total membrane modules for a capacity of 495,000 gpd	
2 Rotary brush screens (comes with two duty screenings compactors, one duty screenings conveyor an bagger system)	
1 Duty air compressor	
1 Common dryer for compressed air line	
2 Permeate/backpulse pumps	
2 Membrane air scouring blowers	
2 Permeate collection header pipe	
2 Air scour distribution header pipe	
1 Backpulse tank	
1 Sodium Hypochlorite addition system for membrane recovery cleaning, c/w one chlorine dosing system, storage pallet, piping and valves	
1 Citric acid addition system for membrane CIP cleaning, c/w one duty dosing pump, Storage pallet, piping and valving	
1 Nema 12 control panel, c/w PLC, HMI, modem interface, dial-out emergency chatter box, motor control hardware	
2 Equipment installation	\$200,000.00
3 Building	\$300,000.00
4 Recycle pumps station	\$10,000.00
5 Influent meter	\$5,000.00
6 Tankage	\$327,000.00
7 Aerators & Blowers	\$124,333.00
8 Mixers	\$100,000.00
9 Foundations	\$75,000.00
10 Sludge Thickening	\$150,000.00
Subtotal Construction	\$2,119,198.52
Mobilization and bonding (3%)	\$57,213.06
Yard piping (1%)	\$19,071.02
Site work (1%)	\$12,950.00
Electrical (includes instrumentation & controls) (3%)	\$57,213.06
Mechanical (2%)	\$38,142.04
Construction Total	\$2,293,587.60
Engineering	\$209,169.12
Construction Management	\$209,169.12
Sub total	\$2,510,029.42
Contingency	\$209,169.12
Project Total	\$2,719,198.52

Collection System Improvements

IMPROVEMENTS	UNIT COST	QUANTITY	TOTAL
Villa Del Rey & Villa Royale			
Lift Station - 94 GPM	\$150,000	2EA	\$300,000.00
8" Gravity Main	\$30.00	400 LF	\$12,000.00
4" Force Main	\$12.00	4,500 LF	\$ 54,000.00
Construction Sub-Total			\$366,000.00
Engineering			\$36,600.00
Construction Management			\$36,600.00
Sub total			\$429,200.00
Contingency			\$36,600.00
Project Total			\$475,800.00

Seasons M.B.R. Installation	
ITEM	COST
1 Equipment	\$512,000.00
1 Z-MODTM L 96D unit, fully assembled with 48 membranes per unit, 96 total membrane modules for a capacity of 150,000 gpd	
2 Rotary brush screens (comes with two duty screenings compactors, one duty screenings conveyor and bagger system)	
1 Duty air compressor	
1 Common dryer for compressed air line	
2 Permeate/backpulse pumps	
2 Membrane air scouring blowers	
2 Permeate collection header pipe	
2 Air scour distribution header pipe	
1 Backpulse tank	
1 Sodium Hypochlorite addition system for membrane recovery cleaning, c/w one chlorine dosing system, storage pallet, piping and valves.	
1 Citric acid addition system for membrane CIP cleaning, c/w one duty dosing pump, Storage pallet, piping and valving	
1 Nema 12 control panel, c/w PLC, HMI, modem interface, dial-out emergency chatter box, motor control hardware	
2 Equipment installation	\$100,000.00
3 Building	\$100,000.00
4 Recycle pumps station	\$10,000.00
5 Influent meter	\$5,000.00
6 Tankage	\$250,000.00
7 Aerators & Blowers	\$100,000.00
8 Mixers	\$91,951.00
9 Foundations	\$35,000.00
Mobilization and bonding (3%)	\$36,118.53
Yard piping (1%)	\$12,039.51
Site work (1%)	\$12,950.00
Electrical (includes instrumentation & controls) (3%)	\$36,118.53
Mechanical (2%)	\$24,079.02
Engineering	\$132,525.66
Construction Management	\$132,525.66
Sub-Total Construction	\$1,590,307.91
Contingency	\$132,525.66
Project Total	\$1,722,833.57

Miscellaneous Expenses

Project	Estimated Cost
Tank Covers (3 Process Trains(2 Section 14, 1 Del Oro), 3-24' Diameter Tanks, 6-29' Diameter Tanks, 3-22' Diamter Tanks)	\$ 375,000.00
Enzyme System For Nitrogen Removal	\$ 98,874.99
Sludge Composting Operation	
Site Preperation	\$ 50,000.00
Drainage Lines, Concrete Pads, and Catch Basins	\$ 125,000.00
Equipment For Windrowing Process and Cake Movement	\$ 250,000.00
Hydro Geological Studies for APP's	\$ 198,880.00
Test well for Seasons WWTP	\$ 19,196.36
Odor Control	\$ 15,631.30
Contingency	\$ 100,000.00
Total	\$ 1,216,950.00

Far West Water & Sewer, Inc.

Exhibit 3



BEFORE THE DIRECTOR OF THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

In the Matter of:

CONSENT ORDER

Far West Water & Sewer, Inc. located at 13157 E. 44th Street, Yuma, Arizona

ADEQ Identification Number: 101816

Docket No. P-18-06

To: Far West Water & Sewer, Inc. (Far West) in its capacity as owner and/or operator of two (2) Wastewater Treatment Plants at its Del Oro site located at 11717 Omega Lane, Yuma, Arizona.

RECITALS

Far West acknowledges that no promise of any kind or nature whatsoever was made to induce it to enter into this Consent Order, and Far West has done so voluntarily.

Far West acknowledges that by entering into this Consent Order, it does not resolve any liability it may have for civil penalties for violations of any State or Federal environmental law.

By entering into this Consent Order, Far West does not admit to any civil or criminal liability, or waive any right including but not limited to the assertion of any defense available to Far West under applicable law. Further, Far West does not admit, and both the Arizona Department of Environmental Quality ("ADEQ") and Far West retain the right to controvert in any subsequent proceeding except a proceeding to implement or enforce this Consent Order, the validity of any Findings of Fact or Conclusions of Law contained in this Consent Order.

The undersigned representative of Far West certifies that he is fully authorized to execute this Consent Order on behalf of Far West and to legally bind Far West to this Consent Order.

Far West admits to the jurisdiction of the Director of ADEQ.

Except as to the right to controvert the validity of any Findings of Fact or Conclusion of Law contained in this Consent Order in a proceeding other than to enforce this Consent Order,

Initials

Handwritten initials

1 Far West consents to the terms and entry of this Consent Order and agrees not to contest the
2 validity or terms of this Consent Order in any subsequent proceeding.

3 **THEREFORE, IT IS HEREBY ORDERED** as follows:

4 **I. JURISDICTION**

5 The Director of ADEQ has jurisdiction over the subject matter of this action and is
6 authorized to issue this Consent Order pursuant to the Arizona Revised Statutes ("A.R.S.") § §
7 49-261, and 49-461.

8 **II. FINDINGS**

9 **THE DIRECTOR HEREBY MAKES THE FOLLOWING FINDINGS OF FACT AND
10 CONCLUSIONS OF LAW:**

11 **A. Findings of Fact**

12 1. In May 2003, Far West Submitted an A quifer Protection Permit (APP)
13 application for operation of a 150,000 gallon per day (gpd) Clear Solutions Wastewater
14 Treatment Plant (150K-WWTP). ADEQ has not yet issued an APP based upon the application.

15 2. In March 2004, Far West installed and began operating the 150K-WWTP
16 without first obtaining an individual APP, at the Del Oro site located in Yuma, Arizona. Nine
17 hundred and fifty (950) sewer connections discharge domestic and commercial wastewater into
18 this WWTP. Treated effluent is then discharged to a holding pond to irrigate the 18 Hole Mesa
19 Del Sol Golf Course. During the winter months, when residential occupancy is at its peak,
20 flows into this WWTP occasionally exceed 150,000 gpd.

21 3. a. Previously, and at the same site, Far West operated a 70,000 gpd
22 Santec Wastewater Treatment Plant (70K-WWTP), obtained from Mesa Del Sol, Inc., in
23 September 2001. Far West stopped using this WWTP because the hydraulic and organic
24 loadings exceeded design capabilities.

b. On October 29, 1997 ADEQ issued a letter to Mesa Del Sol, Inc.
authorizing the company to operate this 70K-WWTP under a general APP. At that time the
WWTP had a flow under 20,000 gpd. In the same letter, ADEQ authorized operation of two
other WWTPs, Villa Royale and Villa De Sol, also with flows under 20,000 gpd, under a
general APP.

1 c. During February 1998, ADEQ issued to Mesa Del Sol, Inc. a
2 Reuse permit authorizing the use of effluent from its Villa Royale, Villa Del Sol and Santec
3 WWTPs to irrigate the Mesa Del Sol Golf Course. The Reuse Permit was transferred to Far
4 West in October 2001, and expired February 6, 2003. Far West did not obtain approval to
5 release the reclaimed water for direct reuse under an APP. Far West continues to provide
6 effluent which is then used to irrigate the Mesa Del Sol golf course.

7 4. Far West owns and operates eight (8) WWTPs at seven locations in the
8 Yuma area.

9 5. During January and February 2006, ADEQ received several complaints
10 from residents regarding intense odors and effluent quality concerns from the 150K-WWTP at
11 the Del Oro site. ADEQ inspected the site on February 9, 2006, and met with Far West staff
12 and home owners living in close proximity to the WWTP. ADEQ also met with Far West
13 executive officers, engineer, and chief plant operator, on February 10, 2006 to discuss the
14 complaints and related issues.

15 6. During the February 9 and February 10, 2006 meetings, Far West
16 acknowledged odor related issues at this WWTP, and assured ADEQ the company was prepared
17 to implement short, medium, and long term measures to ensure all issues including operational,
18 maintenance, capacity, and permitting were addressed.

19 A. To date, short-term measures implemented by Far West at the Clear
20 Solutions WWTP include:

21 i. Retrofitting vents on the two (2) sub-surface fiber glass reactors into
22 which raw sewage is piped, such that some vents are made air tight, while the main vents are
23 piped to a granular activated carbon column for odor removal;

24 ii. Raising the decant arm in the reactors to allow longer residence times,
which will facilitate oxidation processes, reduce odorous gas formation, and produce a higher
quality effluent;

iii. Reactivated the 70K-WWTP which is currently treating approximately
40,000 gpd of influent wastewater; and

iv. Meeting with residents to address their concerns regarding efficient and
effective operation of the WWTP.

1 v. Discussions with developers in the Mesa del Sol subdivision regarding
2 problems with the Del Oro WWTP and the need for additional wastewater capacity before
3 service can be extended.

4 During subsequent meetings and via e-mail Far West has stated that, collectively,
5 these measures have resulted in: 1) significant reduction in gaseous odors at and around the
6 WWTP; 2) effluent quality that meets reclaimed water standards; and 3) tempering of residents'
7 concerns. ADEQ conducted a follow up inspection on March 1, 2006 to verify Far West's
8 representations regarding the implementation of short term measures.

9 B. To date, Far West has set in motion the following medium term measures:

10 i. Ordered a 50,000 gpd Biological Nutrient Removal (BNR) Wastewater
11 Treatment Plant (50K-WWTP) into which some of the influent wastewater will be piped, thus
12 reducing the hydraulic and organic load on the Clear Solution WWTP. This 50K-WWTP is
13 scheduled to be installed and made operational by May 31, 2006;

14 ii. Ordered a filtration unit and UV disinfection system to be installed by
15 May 31, 2006. These units will aid in producing higher quality effluent; and

16 iii. Developed plans to aerate flows at Lift Station #12, one of two lift
17 stations that pumps influent to the treatment plants, such that dissolved oxygen concentrations
18 are increased, and odorous gas formation is reduced.

19 C. As a long-term measure, Far West's objective is to install a 450,000 gpd
20 wastewater treatment plant (450K-WWTP) at the Del Oro site, to be completed in phases. This
21 450K-WWTP will replace all of the previously mentioned WWTPs. Far West plans to complete
22 Phase I, which would involve construction and installation of facilities to treat a minimum of
23 225,000 gpd of influent wastewater, by August 31, 2007.

24 B. Conclusions of Law

1. The 150K-WWTP and 70K-WWTP are each a "Facility" pursuant to
A.R.S. § 49-201(17).

2. Far West is a "Person" pursuant to A.R.S. § 49-201(26).

3. By operating the 150K-WWTP without an APP, Far West violated A.R.S.
§ 49-241, which requires that a person who discharges or who owns or operates a facility that
discharges, first obtain an APP.

1 C. By no later than May 31, 2006, Far West shall install and commence operation of
2 the new 50K-WWTP, filtration unit, and ultra violet (UV) disinfection system at the Del Oro
3 site, to treat a maximum monthly daily average of 50,000 gpd of wastewater influent. Prior to
4 operation of this WWTP, Far West shall submit to ADEQ an engineer's certificate of
5 completion signed and sealed by an Arizona Registered Professional Engineer, verifying that
6 this 50K-WWTP is constructed and installed in accordance with all applicable standards. Far
7 West shall also implement the appropriate engineering and other appropriate measures to ensure
8 that odorous or gaseous materials are not generated by and emitted from this 50K-WWTP in
9 such a manner as to interfere with the comfortable enjoyment of life or property of members of
10 the community, and submit to ADEQ a written description of such engineering and other
11 appropriate measures.

12 D. By no later than October 31, 2007 Far West shall cease operation of this 50K-
13 WWTP, and submit to ADEQ's Groundwater Section a complete APP application for its
14 closure. Subsequently, should the Groundwater Section issue to Far West a deficiency letter(s),
15 Far West shall satisfy the conditions of such a deficiency letter(s) within the deadline(s) stated
16 in the letter(s). Far West shall complete all closure requirements associated this WWTP by no
17 later than ninety (90) days after receipt of the APP for closure, or as otherwise provided in the
18 APP.

19 E. Beginning May 1, 2006, Far West shall treat, at the 150K-WWTP, a maximum
20 monthly daily average flow of 80,000 gpd. By no later than October 31, 2007 Far West shall
21 cease operation of this WWTP, and submit to ADEQ's Groundwater Section a complete APP
22 application for its closure. Subsequently, should the Groundwater Section issue to Far West a
23 deficiency letter(s), Far West shall satisfy the conditions of such a deficiency letter(s) within the
24 deadline(s) stated in the letter(s). Far West shall complete all closure requirements associated
this WWTP by no later than ninety (90) days after receipt of the APP for closure, or as
otherwise provided in the APP.

F. Beginning the effective date of this Consent Order, and until further notification
by ADEQ, Far West shall:

i. Collect, on a weekly basis, influent wastewater samples from a location after the
screens, and representative of influent flows. Far West shall have these samples analyzed by an
Arizona state certified laboratory for pH (also to be determined on site), total suspended solids

1 (TSS), 5 day biological oxygen demand (BOD), nitrate -nitrite, alkalinity (also to be determined
2 on site), ammonia, and total kjeldahl nitrogen (TKN);

3 ii. Collect, on a weekly basis, from each WWTP that is operational, representative
4 effluent samples and have them analyzed by an Arizona state certified laboratory for pH (also to
5 be determined on site), TSS, BOD, nitrate-nitrite, alkalinity (also to be determined on site),
6 ammonia, TKN, and fecal coliform;

7 iii. Collect, on a weekly basis, mixed liquor samples from each WWTP that is
8 operational, and determine the TSS and dissolved oxygen concentrations of each sample. Far
9 West shall perform these determinations on site; and

10 iv. Submit copies of all analytical results to ADEQ within five (5) days of
11 notification by the laboratory, or upon determination on site.

12 G. Beginning the effective date of this Consent Order, Far West shall operate each
13 WWTP to meet Class B effluent standards, as follow:

14 i. Five-day BOD - less than 30 mg/l (30-day) average, and less than 45 mg/l (7-day
15 average);

16 ii. TSS - less than 30 mg/l (30-day) average, and less than 45 mg/l (7-day average);

17 iii. pH - to be maintained between 6.0 and 9.0 standard units;

18 iv. A removal efficiency of 85% for BOD and TSS;

19 v. Fecal coliform - four of the last seven samples should show concentrations less
20 than 200 coliform forming units (cfu)/100 ml; and

21 vi. Fecal coliform - a single sample maximum concentration should be less than 800
22 cfu/100 ml.

23 H. By no later than thirty (30) days after the effective date of this Consent Order,
24 Far West shall make available to Premier signs sufficient to be placed at one quarter mile spaced
intervals around the golf course and clearly visible and legible in English and Spanish, at least
two inches high, to be placed. The signs shall state, "Reclaimed Water in use, do not drink."

I. By no later than September 30, 2006, Far West Shall submit to ADEQ's
Groundwater Section an administratively complete APP application for operation of the
proposed new 450K-WWTP. Subsequently, should the Groundwater Section issue to Far West
a deficiency letter(s), Far West shall satisfy the conditions of such deficiency letter(s) within the
stated deadline(s).

1 J. By no later than August 31, 2007, Far West shall complete Phase I of this 450K-
2 WWTP which shall constitute construction, and installation of facilities designed to treat a
3 minimum of 225,000 gpd of influent wastewater in accordance with all applicable requirements
and, obtaining all applicable approvals for operation, and commencing operation of this Phase.

4 K. Immediately upon the Effective Date of this Consent Order and until such time as
5 Phase I of the 450K-WWTP is completed, Far West shall not allow additional sewer line
6 connections from residential dwellings, or wastewater lines from commercial establishments, to
7 any WWTP at the Del Oro site, unless Far West submits, and ADEQ approves in writing, a
8 demonstration that there is sufficient wastewater treatment capacity for the additional
connections.

9 **IV. STATUS REPORTS**

10 A. Far West agrees to submit a written status report to ADEQ every ninety (90)
11 calendar days from the effective date of this Consent Order, until termination of this Consent
12 Order. Each written status report shall describe what measures have been taken under Section
13 III of this Consent Order, and shall certify when compliance with the requirements of Section III
14 of this Order has been achieved. Each report shall be accompanied by evidence of compliance
including, as appropriate, submittal of documents, photographs or copies of any other
supporting information that Far West deems necessary.

15 B. ADEQ will review the status reports and relay any disputes, in writing, to Far
16 West. Far West shall incorporate all required modifications, changes or other alterations, as
requested by ADEQ, within a reasonable time specified by ADEQ.

17 **V. VIOLATIONS OF ORDER/STIPULATED PENALTIES**

18 A. Under A.R.S. § 49-262, violation of this Consent Order subjects Far West to civil
19 penalties of up to \$25,000 per day per violation. ADEQ and Far West agree that the calculation
of civil penalties for violation of this Consent Order would be very difficult.

20 B. ADEQ and Far West therefore agree that if Far West fails to comply with any
21 requirement of this Consent Order, Far West shall pay a stipulated penalty pursuant to the
schedule below:

<u>Period of Failure to Comply</u>	<u>Penalty Per Day of Violation</u>
1 st to 30 th day	\$3,000 per day per violation
31 st to 60 th day	\$4,000 per day per violation
After 60 days	\$5,000 per day per violation

1 C. Except as otherwise provided herein, stipulated penalties shall begin to accrue on
2 the day that performance is due or that a violation of this Consent Order occurs and shall
3 continue to accrue until correction of the act of noncompliance is completed. Neither issuance
4 by ADEQ nor receipt by Far West of a Notice of Violation of the terms and conditions of this
5 Consent Order are conditions precedent to the accrual of stipulated penalties.

6 D. Stipulated penalty payments shall be made pursuant to a civil settlement (e.g.,
7 Consent Judgment) with ADEQ filed in a court of competent jurisdiction. If ADEQ and Far
8 West are unable to reach agreement for payment of stipulated penalties under a civil settlement,
9 or if Far West fails to make payment of stipulated penalties due under a civil settlement, ADEQ
10 may file a civil action seeking the maximum civil penalty allowed under Federal or State law for
11 violation of this Consent Order.

12 E. The stipulated penalties required by this Consent Order shall be in addition to
13 other remedies or sanctions available to ADEQ by reason of any failure by Far West to comply
14 with the requirements of Federal or State laws. The payment of stipulated penalties shall not
15 relieve Far West from compliance with the terms and conditions of this Consent Order or
16 Federal or State laws, nor limit the authority of the State to require compliance with the Consent
17 Order or State law.

18 **VI. COMPLIANCE WITH OTHER LAWS**

19 A. This Consent Order does not encompass issues regarding releases,
20 contamination, sources, operations, facilities or processes not expressly covered by the terms of
21 this Consent Order, and are without prejudice to the rights of the State of Arizona or Far West
22 arising under any federal or Arizona environmental statutes and rules with regard to such issues.

23 B. Nothing in this Consent Order shall constitute a permit of any kind, or a
24 modification of any permit of any kind, or an agreement to issue a permit of any kind under
federal, state or local law, or relieve Far West in any manner of its obligation to apply for,
obtain, and comply with all applicable permits. Nothing in this Consent Order shall in any way
alter, modify or revoke federal, state, or local law, or relieve Far West in any manner of its
obligation to comply with such laws. Compliance with the terms of this Consent Order shall not
be a defense to any action to enforce any such permits or laws.

25 **VII. FORCE MAJEURE**

26 A. Far West shall perform all the requirements of this Consent Order according to
the time limits set forth herein, unless performance is prevented or delayed by events which

1 constitute a *force majeure*. *Force majeure*, for the purposes of this Consent Order, is defined as
2 any event arising from causes beyond the control of Far West or its authorized representatives
3 which delays or prevents the performance of any obligation under this Consent Order and which
4 could not have been overcome or prevented by Far West. The financial inability of Far West to
5 comply with the terms of this Consent Order shall not constitute a *force majeure*.

6 B. In the event of a *force majeure*, the time for performance of the activity affected
7 by the *force majeure* shall be determined by ADEQ and extended for a period no longer than the
8 delay caused by the *force majeure*. The time for performance of any activity dependent on the
9 delayed activity shall be similarly extended. In the event of a *force majeure*, Far West shall
10 notify ADEQ in writing within five (5) calendar days after Far West or its agents become aware
11 of the occurrence. The written notice provided to ADEQ shall describe in detail the event, the
12 anticipated delay, the measures taken and to be taken by Far West to prevent or minimize delay,
13 and a proposed timetable under which those measures will be implemented. Far West shall take
14 all reasonable measures to prevent or minimize any delay caused by the *force majeure*. Failure
15 of Far West to comply with any requirements of this paragraph for a particular event shall
16 preclude Far West from asserting any claim of *force majeure* for that event.

13 **VIII. SITE ACCESS**

14 ADEQ may at any time, upon presentation of credentials to authorized personnel on
15 duty, enter upon the premises at the Facility for the purpose of observing and monitoring
16 compliance with the provisions of this Consent Order. This right of entry shall be in addition to,
17 and not in limitation of or substitution for, ADEQ's rights under applicable law.

17 **IX. CORRESPONDENCE**

18 All documents, materials, plans, notices, or other items submitted as a result of this
19 Consent Order shall be transmitted to the addresses specified below:

19 To ADEQ:

20 Arizona Department of Environmental Quality
21 Water Quality Division
22 Water Quality Enforcement Unit
23 Attention: Robert Casey, Manager
24 1110 West Washington Street
Phoenix, Arizona 85007-2935
Telephone: 602-771-4614

1 Email: rc2@azdeq.gov

2
3 To Far West:

4 Paula Capestro, President
5 Far West Water & Sewer, Inc.
6 12486 Foothills Blvd.
7 Yuma, Arizona 85367

8 and

9 Andrew J. Capestro
10 P.O. Box 791
11 Rancho Sante Fe, California 92067

12 Submissions to ADEQ as a result of this Consent Order shall be deemed submitted upon receipt.

13 **X. RESERVATION OF RIGHTS**

14 A. This Consent Order is based solely upon currently available information. If
15 additional information is discovered which indicates that the actions taken under this Consent
16 Order are or will be inadequate to protect human health, safety, or the environment, or to
17 conform with applicable federal or state laws, ADEQ shall have the right to require further
18 action.

19 B. ADEQ shall have the right: to pursue civil penalties for violations of any and all
20 violations of A.R.S. Title 49, or the rules promulgated thereunder, occurring before entry of this
21 Consent Order; to disapprove of work performed by Far West that fails to comply with this
22 Consent Order; to take enforcement action for any and all violations of this Consent Order; and
23 to take enforcement action for any and all violations of A.R.S. Title 49, or the rules promulgated
24 thereunder, occurring after the entry of this Consent Order.

XI. SEVERABILITY

The provisions of this Consent Order are severable. If any provision of this Consent
Order is declared by a court of law to be invalid or unenforceable, all other provisions of this
Consent Order shall remain in full force and effect.

XII. MODIFICATIONS

Any modifications of this Consent Order shall be in writing and must be approved by
both Far West and ADEQ.

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XIII. EFFECTIVE DATE

The effective date of this Consent Order shall be the date this Consent Order is signed by ADEQ and Far West. If such signatures occur on different dates, the later date shall be the effective date of this Consent Order.

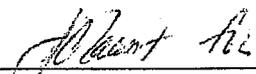
XIV. PARTIES BOUND

No change in ownership, corporate status, or partnership status relating to the subject of this Consent Order will in any way alter the responsibilities of Far West under this Consent Order. Far West will be responsible, and will remain responsible for carrying out all activities required under this Consent Order.

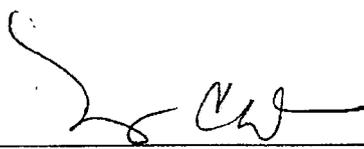
XV. TERMINATION

The provisions of this Consent Order shall be deemed satisfied and this Consent Order shall be terminated upon receipt of written notification from ADEQ that Far West has demonstrated, to the satisfaction of ADEQ, that all of the terms of this Consent Order have been completed. Any denial of a request for termination from Far West will be in writing and describe which terms of the Consent Order have not been completed to the satisfaction of ADEQ. ADEQ reserves the right to terminate this Consent Order unilaterally at any time for any reason. Any termination will include a written explanation of the reason(s) for termination.

ISSUED this 13th day of March, 2002



Joan Card, Director
Water Quality Division
Arizona Department of Environmental Quality

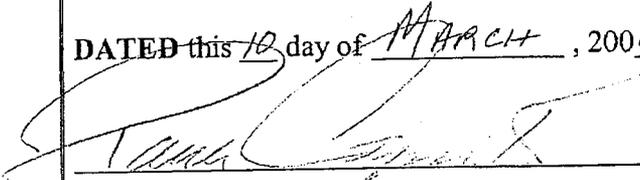


Nancy Wrona, Director
Air Quality Division
Arizona Department of Environmental Quality

CONSENT TO ORDER

The undersigned, on behalf of Far West, hereby acknowledges that she has read the foregoing Consent Order in its entirety, agrees with the statements made therein, consents to its entry and issuance by the Arizona Department of Environmental Quality, and agrees that Far West will abide by the same and waive any right to appeal therefrom.

DATED this 10 day of MARCH, 2006



Paula Capestro, President
Far West Water & Sewer, Inc.

Initials





1
2 **THEREFORE, IT IS HEREBY ORDERED** as follows:

3 **I. JURISDICTION**

4 The Director of ADEQ has jurisdiction over the subject matter of this action and is
5 authorized to issue this Consent Order pursuant to the Arizona Revised Statutes ("A.R.S.") § §
6 49-261, 49-461, and 41-1092.07(F)(5).

7 **II. FINDINGS**

8 **THE DIRECTOR HEREBY MAKES THE FOLLOWING FINDINGS OF FACT AND**
9 **CONCLUSIONS OF LAW:**

10 **A. Findings of Fact**

11 Far West owns and operates seven (7) WWTPs located in the Foothills area of
12 Yuma, Arizona. Far West's service area, authorized under the Arizona Corporation Commission
13 certification, covers approximately twenty four (24) square miles serving about 15,000 water and
14 6,500 wastewater connections.

15 **1. Del Oro WWTPs - Located at 11717 Omega Lane (Del Oro Site)**

16 a During 1986, Mesa Del Sol, Inc. constructed and began operation of a
17 Santec WWTP at the Del Oro Site with a design capacity of 77,000 gallons per day (gpd).
18 Because the actual flow to this plant was less than 20,000 gpd, ADEQ approved its coverage
19 under a General Aquifer Protection Permit (APP) on October 29, 1997. ADEQ also issued a
20 Reuse Permit for use of treated effluent from the Santec WWTP to irrigate the Mesa Del Sol
21 Golf Course.

22 b. On August 9, 2001 ADEQ received a letter from Far West stating the
23 company had accepted operational responsibility, and subsequently confirmed ownership of the
24 Santec WWTP beginning September 30, 2001.

25 c. By September 30, 2001, flow to the Santec WWTP exceeded 20,000 gpd.
26 Far West has not submitted an individual APP application for operation of this WWTP.

27 d. On February 6, 2003 the Reuse permit authorizing irrigation of the Mesa
28 Del Sol Golf Course with treated effluent from the Santec WWTP expired. Far West has not
29 submitted a renewal application, but has continued to use effluent from the Santec WWTP to
30 irrigate the Mesa Del Sol Golf Course.

31 e. On May 19, 2003, Far West submitted to ADEQ an individual APP
32 application for operation of a Clear Solutions WWTP with a design flow of 150,000 gpd at the

1 Del Oro Site. Although ADEQ notified Far West of deficiencies in the application, the
2 deficiencies were not satisfactorily addressed by Far West, and the APP was never issued.

3 f. By June 1, 2004, Far West completed construction of the Clear Solutions
4 WWTP, incorporating some items from the Santec WWTP. Far West proceeded to operate the
5 Clear Solutions WWTP without an APP.

6 g. Because of several complaints of septage odors and effluent quality
7 concerns from residents, ADEQ inspected the Del Oro Site during February 2006, and issued an
8 Notice of Violation (NOV) to Far West citing operation of the Clear Solutions WWTP without a
9 permit, providing reclaimed water for direct reuse without obtaining an APP, and emission of
10 odorous materials in such quantities as to cause air pollution.

11 h. Recently, Far West constructed a temporary 300,000 gpd WWTP to
12 replace both the 77,000 gpd Santec and 150,000 Clear Solutions WWTP at the Del Oro Site. Far
13 West began operations of the new WWTP and currently operates the WWTP at an actual flow
14 capacity of approximately 250,000 gpd. On October 3, 2006, after the WWTP was constructed
15 and operational, Far West submitted an APP application for a 495,000 gpd WWTP. That
16 application is under consideration by ADEQ.

17 i. ADEQ and Far West entered into a Consent Order to address capacity,
18 operational, monitoring, reporting, and permitting issues at the Del Oro Site. The Consent Order
19 became effective March 13, 2006. It is the intent of the parties that this Consent Order supercede
20 and replace the previous Consent Order entered on March 13, 2006.

21 2. Villa Del Rey WWTP - Located at 12342 E. Del Rico (Del Rey Site)

22 a. During 1986, Mesa Del Sol, Inc. constructed and began operating a
23 Santec WWTP at the Del Rey Site with a design capacity of 40,000 gpd. Because the actual
24 flow to this plant was less than 20,000 gpd, ADEQ approved its coverage under a General APP
25 on October 29, 1997. ADEQ also issued a Reuse Permit for use of treated effluent from the Del
26 Rey Santec WWTP to irrigate the Mesa Del Sol Golf Course.

27 b. On August 9, 2001 ADEQ received a letter from Far West stating the
28 company had accepted operational responsibility, and subsequently confirmed ownership of the
29 Del Rey Santec WWTP beginning September 30, 2001.

30 c. By September 30, 2001, flow to the Del Rey Santec WWTP exceeded
31 20,000 gpd. Far West has not submitted an individual APP application for operation of this
32 WWTP.

1 d. The reuse permit issued to Mesa Del Sol, Inc. during February 1998 also
2 authorized use of treated effluent from the Villa Del Rey Santec WWTP for irrigation of the
3 Mesa Del Sol Golf course. This permit expired February 3, 2003 and has not been renewed. Far
4 West continues to irrigate the golf course with treated effluent from the Villa Del Rey Santec
5 WWTP.

6 e. ADEQ inspected the Del Rey Site during March 2006, and issued to Far
7 West a NOV on March 14, 2006 citing Far West for discharging without an APP, and providing
8 reclaimed water for reuse from the Villa Del Rey WWTP without individual APP coverage.

9 3. Villa Royale WWTP - Located at 14,000 E. 14th Street (Villa Royale Site)

10 a. During 1986, Mesa Del Sol, Inc. constructed and began operating a
11 10,000 gpd Santec WWTP at the Villa Royale Site. Because the flow to this plant was less than
12 20,000 gpd, ADEQ approved its coverage under a General APP on October 29, 1997. ADEQ
13 also issued a Reuse Permit for use of treated effluent from the Villa Royale Santec WWTP to
14 irrigate the Mesa Del Sol Golf Course.

15 b. On August 9, 2001 ADEQ received a letter from Far West stating the
16 company had accepted operational responsibility, and subsequently confirmed ownership of this
17 Villa Royale WWTP beginning September 30, 2001.

18 c. The reuse permit issued to Mesa Del Sol, Inc. during February 1998, also
19 authorized use of treated effluent from the Villa Royale Santec WWTP for irrigation of the Mesa
20 Del Sol Golf course. This permit expired February 3, 2003 and has not been renewed. Far West
21 continues to irrigate the Mesa Del Sol Golf Course with effluent from the Villa Royale Santec
22 WWTP.

23 d. ADEQ inspected the Villa Royale Site during March 2006, and issued a
24 March 14, 2006 NOV citing Far West for providing reclaimed water for reuse from the Villa
25 Royale Santec WWTP without individual APP coverage.

26 4. Section 14 WWTP - Located at 12651 S. Avenue 14E (Section 14 Site)

27 a. On November 30, 2001, ADEQ issued to Far West an APP for operation
28 of the Section 14 WWTP at a design flow rate of 150,000 gpd. The APP was amended on April
29 29, 2002, but that amendment did not include an increase in the design flow rate.

30 b. On March 25, 2003, ADEQ issued Far West coverage under the Type 2
31 Reclaimed Water General Permit authorizing the company to reuse effluent for irrigation of the
32 Section 14 Golf Course, and for dust control and other construction uses.

1 c. In January, 2005, ADEQ issued Far West a NOV citing various dates on
2 which the Section 14 WWTP exceeded the APP discharge limit of 10 mg/l for total nitrogen.

3 d. In March, 2006, ADEQ inspected the Section 14 WWTP and issued to Far
4 West a NOV citing additional dates on which the WWTP exceeded the APP discharge limit for
5 total nitrogen. Neither the January 2005 nor the March 2006 NOVs has been resolved.

6 5. Palm Shadows WWTP - Located at 2700 E. 40th Street (Palm Shadows Site)

7 a. On April 14, 1999, ADEQ issued Far West an APP for the Palm Shadows
8 WWTP, permitting a design flow of 200,000 gpd. The effluent from the Palm Shadows WWTP
9 is disposed of by evaporation and percolation.

10 b. On May 18, 2001, ADEQ issued Far West a NOV citing dates on which
11 the Palm Shadows WWTP exceeded the APP discharge limit of 10 mg/l for total nitrogen, and
12 for failure to notify ADEQ of the violations. ADEQ closed the NOV on February 19, 2002 after
13 Far West demonstrated compliance by implementing corrective measures and submitting a letter
14 describing the measures implemented.

15 c. During March 2006, ADEQ inspected the Palm Shadows Site and issued
16 Far West a NOV citing violation of the APP discharge limit for total nitrogen, and failure to
17 conduct verification sampling. In response, Far West submitted a March 29, 2006 letter that did
18 not address the total nitrogen violations, but outlined the reason verification sampling was not
19 done. The March 2006 NOV remains unresolved.

20 6. Seasons WWTPs - Located at 10301 E 10th Street (Seasons Site)

21 a. On December 24, 1998, ADEQ issued an individual APP for the Seasons
22 WWTP, permitting a design flow of 50,000 gpd. The effluent from the Seasons WWTP is
23 disposed of by evaporation and percolation.

24 b. On January 3, 2005, ADEQ issued Far West a NOV citing violation
25 of the APP discharge limit of 10 mg/l for nitrogen.

26 c. In 2005, Far West expanded the capacity of the Seasons WWTP from
27 50,000 gpd to 150,000 gpd without seeking a significant amendment of the APP.

28 d. In March 2006, ADEQ inspected the Seasons WWTP and issued to Far
29 West a March 14, 2006 NOV citing operation of the WWTP at a flow of 150,000 gpd without
30 first obtaining a significant APP amendment from ADEQ.

31 7. Marwood WWTP - Located at 14.00 E, 14th Street (Marwood Site)

32 a. On August 30, 1994, APP issued an individual APP for the Marwood

1 WWTP with a permitted design flow of 180,000 gpd. ADEQ amended the APP on December
2 21, 1998 to authorize increased design flow of 340,000 gpd.

3 b. On July 4, 1997, ADEQ issued to Far West a Reclaimed Water Reuse
4 permit authorizing the use of treated effluent for golf course irrigation. This permit was renewed
5 August 2002 for a period of five (5) years.

6 c. On August 15, 2002, ADEQ issued Far West an amended APP
7 classifying the plant as producing Class B effluent for reuse.

8 d. On March 14, 2006, ADEQ issued Far West a NOV citing violations of
9 the APP discharge limits at the Marwood WWTP for turbidity and fecal coliform, and emission
10 of odorous materials in violation of the air quality regulations. ADEQ will close the NOV
11 because the turbidity and fecal coliform limits provided in the APP do not apply to this WWTP.

12 B. Conclusions of Law

13 1. Each WWTP owned and operated by Far West is a "Facility" pursuant to A.R.S. §
14 49-201(17).

15 2. Far West is a "Person" pursuant to A.R.S. § 49-206 (26).

16 3. Del Oro WWTPs

17 a. By operating the 150, 000 gpd Clear Solutions WWTP without an APP,
18 Far West violated A.R.S. § 49-241, which requires that a person who discharges or who owns or
19 operates a facility that discharges first obtain an APP.

20 b. By operating the Santec WWTP in excess of 20,000 gpd without an
21 individual APP, Far West violated A.R.S. § 49-241, which requires that a person who discharges
22 or who owns or operates a facility that discharges first obtain an APP.

23 c. By providing treated effluent for irrigation of the Mesa Del Sol Golf
24 Course without first obtaining an individual APP, Far West violated A.A.C. R18-9-704(A),
25 which requires that a sewage facility owner or operator provide reclaimed water for direct reuse
26 only under an individual APP amended under A.A.C. R18-9-703(C)(2).

27 d. By allowing the emission of odor from the Del Oro WWTP, which
28 unreasonably interfered with the comfortable enjoyment of life or property of members of the
29 community, Far West violated A.A.C. R18-2-730(D), which prohibits any person from emitting
30 odorous or gaseous materials from equipment, operations or premises in such quantities or
31 concentrations as to cause air pollution.

32

1 4. Villa Del Rey WWTP

2 a. By operating the Santee WWTP in excess of 20,000 gpd without an
3 individual APP, Far West violated A.R.S. § 49-241, which requires that a person who discharges
4 or who owns or operates a facility that discharges first obtains an APP.

5 b. By providing treated effluent for irrigation of the Mesa Del Sol Golf
6 Course without first obtaining an individual APP, Far West violated A.A.C. R18-9-704(A),
7 which requires that a sewage facility owner or operator provide reclaimed water for direct reuse
8 only under an individual APP amended under A.A.C. R18-9-703(C)(2).

9 5. Villa Royale WWTP

10 a. By providing treated effluent for irrigation of the Mesa Del Sol Golf
11 Course without first obtaining an individual APP, Far West violated A.A.C. R18-9-704(A),
12 which requires that a sewage facility owner or operator provide reclaimed water for direct reuse
13 only under an individual APP amended under A.A.C. R18-9-703(C)(2).

14 6. Section 14 WWTP

15 a. By discharging effluent with total nitrogen concentrations in excess of 10
16 mg/l, Far West violated APP #P-105014, which includes a discharge limit of 10 mg/l for total
17 nitrogen.

18 7. Palm Shadows WWTP

19 a. By discharging effluent with total nitrogen concentrations in excess of 10
20 mg/l, Far West violated APP #P-103608, which includes a discharge limit of 10 mg/l for total
21 nitrogen.

22 b. By failing to collect verification samples after being notified of discharge
23 limit exceedances, Far West violated APP #P-103608, Part II(C)(2)(2), which requires that the
24 permittee conduct verification sampling within five (5) days of becoming aware of the
25 exceedance of an Alert Level or Discharge Limit.

26 8. Seasons WWTP

27 a. By making physical changes to the Seasons WWTP that increased design
28 flow from 50,000 gpd to 100,000 gpd without an approved significant APP amendment, Far
29 West violated A.A.C. R18-9-A211(B)(2)(b), which requires a significant APP amendment for a
30 physical change or change in method of operation of a sewage treatment facility that is permitted
31 for 500,000 gpd or less when the change increases its design flow treatment capacity by 10% or
32 more.

- 1 b. TSS - less than 30 m/l (30-day) average, and less than 45 mg/l (7-day
- 2 average);
- 3 c. pH - to be maintained between 6.0 and 9.0 standard units;
- 4 d. Fecal coliform - non detect in four of the last seven daily samples;
- 5 e. Fecal coliform - a single sample maximum concentration should be less
- 6 than 23 cfu/100 ml.
- 7 f. Turbidity - 24-hour average of filtered effluent should be less than two
- 8 NTUs or less;
- 9 g. Turbidity - At any time filtered effluent does not exceed five NTUs.
- 10 2. Beginning the month in which this Consent Order becomes effective, and
- 11 on a monthly basis thereafter, until issuance by ADEQ of an APP authorizing a design flow of
- 12 495,000 gpd at the Del Oro WWTP, Far West shall collect representative effluent samples and
- 13 have them analyzed by an Arizona state certified laboratory for the Class A effluent parameters
- 14 listed above plus the following: nitrate, nitrite, ammonia and TKN, and submit the analytical
- 15 results to ADEQ by no later than the fifteenth day of each succeeding month.
- 16 3. Within ninety (90) calendar days after the effective date of this Consent
- 17 Order, Far West shall submit to ADEQ:
- 18 a. An administratively complete APP application for operation of the new
- 19 300,000 gpd MBR WWTP;
- 20 b. An administratively complete application for coverage under the Type 2
- 21 Reclaimed Water General Permit authorizing reuse of treated effluent for irrigation purposes.
- 22 c. An administratively complete APP application for closure of the 77,000
- 23 gpd Santec WWTP, and the 150,000 gpd Clear Solution WWTP. Far West shall complete all
- 24 closure activities with this APP application within ninety (90) days of ADEQ's approval of the
- 25 associated closure plan. Should ADEQ issue to Far West a deficiency letter(s) regarding
- 26 Paragraphs III.E.3.a through c. above, Far West shall satisfy the conditions of such deficiency
- 27 letter(s) within the stated deadline(s).
- 28 4. Until such time as Far West obtains from ADEQ an individual APP for
- 29 operation of a WWTP with a design flow of 495,000 gpd, prior to adding new connections to the
- 30 Del Oro Collection System, Far West shall submit a written request to ADEQ for connection
- 31 approval. Far West shall include in this request the number of connections, their discharge

1 volume, and assessment of the impact of the additional discharge on the operation of the WWTP
2 and effluent quality.

3 F. Villa Del Rey WWTP and Villa Royale WWTP

4 1. Within ninety (90) calendar days of the effective date of this Consent
5 Order, Far West shall submit to ADEQ an administratively complete Notice of Intent (NOI), on a
6 form approved by ADEQ, pursuant to A.A.C. R18-9-A301(B) and A.A.C. R18-9-E301, seeking
7 Construction Authorization under the Type 4 General APP, for expansion of the Del Oro
8 Collection System. The Del Oro Collection System expansion shall include new lift stations and
9 force mains where the Villa Del Rey and Villa Royale WWTPs are located, to pump raw sewage
10 from the areas serviced by the Villa Del Rey and Villa Royale WWTPs to the Del Oro WWTP.
11 Should ADEQ request additional information and/or data to process the NOI, Far West shall
12 submit such additional information and/or data by the deadline provided by ADEQ.

13 2. Within ninety (90) calendar days of receipt of Construction Authorization
14 from ADEQ, Far West shall complete expansion of the Del Oro Collection System, and ensure
15 that expansion conforms to the plans and documents approved by ADEQ in the Construction
16 Authorization.

17 3. Within thirty (30) calendar days of completing expansion of the Del Oro
18 Collection System, Far West shall submit to ADEQ an administratively complete request for
19 Discharge Authorization pursuant to A.A.C. R18-9-A301(D)(f). Should ADEQ request any
20 additional information and/or data to determine whether the Del Oro Collection System
21 expansion conforms to the terms of the Type 4 General APP, Far West shall submit to ADEQ
22 such information and/or data by the deadline provided by ADEQ. Far West shall not begin
23 operation of the expanded sections of the Del Oro Collection System prior to receipt of the
24 Discharge Authorization from ADEQ.

25 4. Within ninety (90) calendar days of the effective date of this Consent
26 Order, Far West shall submit to ADEQ an administratively complete APP application for closure
27 of the Villa Del Rey WWTP pursuant to A.R.S. § 49-252. Should ADEQ request additional
28 information and/or data to process the APP application, Far West shall submit such additional
29 information and/or data by the deadline provided by ADEQ. Far West shall complete all closure
30 requirements associated with the Villa Del Rey WWTP by no later than ninety (90) calendar
31 days after receipt of ADEQ's written approval of the closure plans submitted with its APP
32 application, or sixty (60) calendar days after beginning operation of the Del Oro Collection

1 System, whichever occurs later, and submit written notification to ADEQ confirming such
2 completion.

3 5. Within sixty (60) calendar days of beginning operation of the Collection
4 System, Far West shall close the Villa Royale WWTP pursuant to A.A.C. R18-9-A306(A)(1),
5 which requires that Far West performs the following:

- 6 a. Remove material that may contribute to a continued discharge; and
7 b. Eliminate, to the greatest degree practical, any reasonable probability of
8 further discharge from the facility and of exceeding any Aquifer Water Quality Standard at the
9 applicable point of compliance.

10 Upon completion of this task, Far West shall submit written notification to ADEQ
11 confirming its completion.

12 G. Section 14 WWTP

13 1. Within thirty (30) calendar days of the effective date of this Consent Order,
14 Far West shall submit to ADEQ on a form prescribed by ADEQ, a Request to Expedite third
15 party review of an APP application, pursuant to A.R.S. §§ 49-241.02(D) and 49-203(C). Far
16 West agrees to pay any additional fees associated with a third party expedited review of its APP
17 application. Within this same thirty day period, Far West shall submit to ADEQ a request for a
18 minor modification to the Section 14 WWTP APP authorizing the installation of the appropriate
19 technology that would bring the Section 14 WWTP in compliance with its total nitrogen APP
20 limit. Far West shall install such appropriate technology within sixty (60) days of receipt of the
21 modified APP and submit to ADEQ written documentation confirming this task has been
22 completed.

23 2. Within ninety (90) calendar days of the effective date of this Consent Order,
24 Far West shall submit to ADEQ an administratively complete APP application for expedited
25 review for a significant modification to its current APP, to authorize expansion of the design
26 flow of the WWTP from 150,000 gpd to a 1,300,000 gpd. Far West shall submit to ADEQ any
27 additional information and/or data requested by ADEQ within the deadline provided by ADEQ.

28 3. Within (200) calendar days of the effective date of this Consent Order, Far
29 West shall submit to ADEQ an administratively complete Notice of Intent (NOI), on a form
30 approved by ADEQ, pursuant to A.A.C. R18-9A301(B) and A.A.C. R-18-9-E301, seeking
31 Construction Authorization for expansion of the Section 14 Collection System. The expansion
32 shall include a new lift station, force main and associated structures, devices and appurtenances

1 to pump raw sewage from the area serviced by the Palm Shadows WWTP to the Section 14
2 WWTP. If ADEQ requests additional information and/or data to process the NOI, Far West
3 shall submit such additional information and/or data by the deadline provided by the deadline
4 provided by ADEQ.

5 4. Within sixty (60) calendar days of receipt of Construction Authorization
6 from ADEQ, Far West shall complete expansion of the Section 14 Collection System and ensure
7 that the expansion conforms to the plans and documents approved by ADEQ in the Construction
8 Authorization.

9 5. Within thirty (30) calendar days of completing expansion of the Section
10 14 Collection System, Far West shall submit to ADEQ an administratively complete request for
11 Discharge Authorization pursuant to A.A.C. R18-9-A301(D)(f). Should ADEQ request any
12 additional information and/or data to determine whether the expanded sections of the Section 14
13 Collection System conform to the terms of the Type 4 General APP, Far West shall submit to
14 ADEQ such information and/or data by the deadline provided by ADEQ. Far West shall not
15 commence operation of the expanded sections of the Section 14 Collection System prior to
16 receipt of the Discharge Authorization from ADEQ.

17 H. Palm Shadows WWTP

18 1. Within thirty (30) calendar days of the effective date of this Consent
19 Order, Far West shall submit to ADEQ a request for a minor modification to the Palm Shadows
20 WWTP APP authorizing installation of the appropriate technology that would bring the Palm
21 Shadows WWTP in compliance with its total nitrogen APP limit. Far West shall install such
22 appropriate technology within sixty (60) days of receipt of the modified APP, and submit to
23 ADEQ written documentation confirming this task has been completed.

24 2. Within two hundred (200) calendar days of the effective date of this
25 Consent Order, Far West shall submit to ADEQ a Closure Plan for the Palm Shadows WWTP
26 pursuant to A.A.C. R18-9-A306 and Part II.E of APP No. P-103608. Should ADEQ request
27 additional information and/or data to process the Closure Plan, Far West shall submit such
28 additional information and/or data by the deadline provided by ADEQ.

29 3. Within ninety (90) calendar days of the receipt of ADEQ's written
30 approval of the Closure Plan, Far West shall complete all closure requirements associated with
31 the Palm Shadows WWTP.

1 4. Beginning on the effective date of this Consent Order, unless approved by
2 ADEQ, Far West shall not construct any new connections to the existing Palm Shadows WWTP
3 collection system.

4 I. Seasons WWTP

5 1. Within thirty (30) calendar days of the effective date of this Consent
6 Order, Far West shall submit to ADEQ an application to amend APP No. P-103618 authorizing
7 an increase in design flow of the Seasons WWTP from 50,000 gpd to 150,000 gpd pursuant to
8 A.A.C. R18-9-A211(B). Should ADEQ request additional information and/or data to process the
9 application, Far West shall submit such additional information and/or data by the deadline
10 provided by ADEQ. Within this same thirty (30) calendar day period, Far West shall submit to
11 ADEQ a request for a minor modification to the Seasons WWTP APP authorizing installation of
12 the appropriate technology that would bring the Seasons WWTP in compliance with its total
13 nitrogen APP limit. Far West shall install such appropriate technology within sixty (60) days of
14 receipt of the modified APP, and submit to ADEQ written documentation confirming this task
15 has been completed.

16 2. Until such time as ADEQ issues to Far West the amended APP for
17 operation at a design flow of 150,000 gpd, Far West shall operate the Seasons WWTP with a
18 maximum design flow of 70,000 gpd, and meet all other terms and conditions of APP No. P-
19 103618.

20 3. If the amended APP does not provide a schedule for completion of the
21 expansion of the Seasons WWTP, Far West shall complete all approved upgrades within ninety
22 (90) days of the issuance of the amended APP.

23 IV. STATUS REPORTS

24 A. Far West agrees to submit a written status report to ADEQ every ninety (90)
25 calendar days from the effective date of this Consent Order, until termination of this Consent
26 Order. Each written status report shall describe what measures have been taken under Section III
27 of this Consent Order, and shall certify when compliance with the requirements of Section III of
28 this Order has been achieved. Each report shall be accompanied by evidence of compliance
29 including, as appropriate, submittal of documents, photographs or copies of any other supporting
30 information that Far West deems necessary.

1 B. ADEQ will review the status reports and relay any disputes, in writing, to Far
2 West. Far West shall incorporate all required modifications, changes or other alterations, as
3 requested by ADEQ, within a reasonable time specified b ADEQ.

4 **V. VIOLATIONS OF ORDER/STIPULATED PENALTIES**

5 A. Under A.R.S. § 49-262, violation of this Consent Order subjects Far West to civil
6 penalties of up to \$25,000 per day per violation. ADEQ and Far West agree that the calculation
7 of civil penalties for violation of this Consent Order would be very difficult.

8 B. ADEQ and Far West therefore agree that if Far West fails to comply with any
9 requirement of this Consent Order, Far West shall pay a stipulated penalty pursuant to the
10 schedule below:

<u>Period of Failure to Comply</u>	<u>Penalty Per Day of Violation</u>
11 1 st to 30 th day	\$3,000 per day per violation
12 31 st to 60 th day	\$4,000 per day per violation
13 After 60 days	\$5,000 per day per violation

14 C. Except as otherwise provided herein, stipulated penalties shall begin to accrue on
15 the day that performance is due or that a violation of this Consent Order occurs and shall
16 continue to accrue until correction of the act of noncompliance is completed. Neither issuance
17 by ADEQ nor receipt by Far West of a Notice of Violation of the terms and conditions of this
18 Consent Order are conditions precedent to the accrual of stipulated penalties.

19 D. Stipulated penalty payments shall be made pursuant to a civil settlement (e.g.,
20 Consent Judgment) with ADEQ filed in a court of competent jurisdiction. If ADEQ and Far
21 West are unable to reach agreement for payment of stipulated penalties under a civil settlement,
22 or if Far West fails to make payment of stipulated penalties due under a civil settlement, ADEQ
23 may file a civil action seeking the maximum civil penalty allowed under Federal or State law for
24 violation of this Consent Order.

25 E. The stipulated penalties required by this Consent Order shall be in addition to
26 other remedies or sanctions available to ADEQ by reason of any failure by Far West to comply
27 with the requirements of Federal or State laws. The payment of stipulated penalties shall not
28 relieve Far West from compliance with the terms and conditions of this Consent Order or Federal
29 or State laws, nor limit the authority of the State to require compliance with the Consent Order or
30 State law.
31

32

1 **VIII. SITE ACCESS**

2 ADEQ may at any time, upon presentation of credentials to authorized personnel on duty,
3 enter upon the premises at the Facility for the purpose of observing and monitoring compliance
4 with the provisions of this Consent Order. This right of entry shall be in addition to, and not in
5 limitation of or substitution for, ADEQ's rights under applicable law.

6 **IX. CORRESPONDENCE**

7 All documents, materials, plans, notices, or other items submitted as a result of this
8 Consent Order shall be transmitted to the addresses specified below:

9
10 **To ADEQ:**

11 Arizona Department of Environmental Quality
12 Water Quality Division
13 Water Quality Enforcement Unit
14 Attention: Robert Casey, Manager
15 1110 West Washington Street
16 Phoenix, Arizona 85007-2935
17 Telephone: 602-771-4614
18 Email: rc2@azdeq.gov
19

20 **To Far West:**

21 Paula Capestro, President
22 Far West Water & Sewer, Inc.
23 12486 Foothills Blvd.
24 Yuma, Arizona 85367
25

26 Submissions to ADEQ as a result of this Consent Order shall be deemed submitted upon receipt.

27 **X. RESERVATION OF RIGHTS**

28 A. This Consent Order is based solely upon currently available information. If
29 additional information is discovered which indicates that the actions taken under this Consent
30 Order are or will be inadequate to protect human health, safety, or the environment, or to
31 conform with applicable federal or state laws, ADEQ shall have the right to require further
32 action.

33 B. ADEQ shall have the right: to pursue civil penalties for violations of any and all
34 violations of A.R.S. Title 49, or the rules promulgated thereunder, occurring before entry of this
35 Consent Order; to disapprove of work performed by Far West that fails to comply with this
36 Consent Order; to take enforcement action for any and all violations of this Consent Order; and

1 to take enforcement action for any and all violations of A.R.S. Title 49, or the rules promulgated
2 thereunder, occurring after the entry of this Consent Order.

3 **XI. SEVERABILITY**

4 The provisions of this Consent Order are severable. If any provision of this Consent
5 Order is declared by a court of law to be invalid or unenforceable, all other provisions of this
6 Consent Order shall remain in full force and effect.

7 **XII. MODIFICATIONS**

8 Any modifications of this Consent Order shall be in writing and must be approved by
9 both Far West and ADEQ.

10 **XIII. EFFECTIVE DATE**

11 The effective date of this Consent Order shall be the date this Consent Order is signed by
12 ADEQ and Far West. If such signatures occur on different dates, the later date shall be the
13 effective date of this Consent Order.

14 **XIV. PARTIES BOUND**

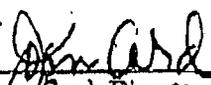
15 No change in ownership, corporate status, or partnership status relating to the subject of
16 this Consent Order will in any way alter the responsibilities of Far West under this Consent
17 Order. Far West will be responsible, and will remain responsible for carrying out all activities
18 required under this Consent Order.

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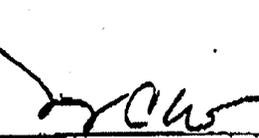
XV. TERMINATION

The provisions of this Consent Order shall be deemed satisfied and this Consent Order shall be terminated upon receipt of written notification from ADEQ that Far West has demonstrated, to the satisfaction of ADEQ, that all of the terms of this Consent Order have been completed. Any denial of a request for termination from Far West will be in writing and describe which terms of the Consent Order have not been completed to the satisfaction of ADEQ. ADEQ reserves the right to terminate this Consent Order unilaterally at any time for any reason. Any termination will include a written explanation of the reason(s) for termination.

ISSUED this 21st day of October, 2006



Joan Card, Director
Water Quality Division
Arizona Department of Environmental Quality



Nancy Wrona, Director
Air Quality Division
Arizona Department of Environmental Quality

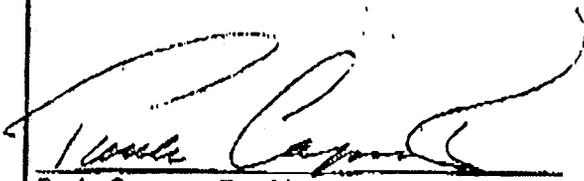


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CONSENT TO ORDER

The undersigned, on behalf of Far West, hereby acknowledges that he has read the foregoing Consent Order in its entirety, agrees with the statements made therein, consents to its entry and issuance by the Arizona Department of Environmental Quality, and agrees that Far West will abide by the same and waive any right to appeal therefrom.

DATED this 25 day of October, 2006



Paula Capestro, President
Far West Water & Sewer, Inc.



Far West Water & Sewer, Inc.

Exhibit 4

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA RELATING TO THE FINANCING, REFINANCING, ACQUISITION, CONSTRUCTION, REHABILITATION, IMPROVEMENT, EQUIPPING AND OPERATION OF A PROJECT BY FAR WEST WATER & SEWER, INC. AND GRANTING PRELIMINARY APPROVAL TO THE ISSUANCE OF ITS WATER AND SEWER REVENUE BONDS (FAR WEST WATER & SEWER, INC. PROJECT) SERIES 2007 OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA IN PRINCIPAL AMOUNT NOT TO EXCEED \$32,500,000 TO FINANCE THE PROJECT.

WHEREAS, The Industrial Development Authority of the County of Yuma (the "Authority"), a nonprofit corporation designated a political subdivision of the State of Arizona (the "State"), incorporated with the approval of the County of Yuma (the "County"), pursuant to the provisions of the Constitution of the State and under Title 35, Chapter 5, Arizona Revised Statutes, as amended (the "Act"), is authorized and empowered, among other things (a) to issue its revenue bonds, for the purpose of carrying out any of its powers and for the purpose of financing the costs of a "project" (as defined in Section 35-701, Arizona Revised Statutes, as amended); (b) to make loans of the proceeds from the sale of its revenue bonds to any person to provide for financing and/or refinancing of sewage facilities and facilities for furnishing of water located within the County and to pledge all or any part of the revenues and receipts to be received by the Authority from or in connection with such loans in order to secure the payment of the principal or redemption price of and interest on such bonds; and (c) to enact this Resolution upon the terms and conditions provided herein; and

WHEREAS, Far West Water & Sewer, Inc., or its nominee or nominees, (the "Applicant"), an Arizona public service corporation has submitted an application to the Authority requesting that the Authority issue its Water & Sewer Revenue Bonds (Far West Water & Sewer, Inc. Project) Series 2007 (the "Bonds") and loan the proceeds thereof to the Applicant to finance the acquisition, construction, rehabilitation, improvement, equipping and operation of one or more sewage facilities and facilities for furnishing of water located in the County of Yuma including the refinancing of Applicant's \$17,735,000 Short Term Refunding and Capital Notes, Series 2006B ("Series 2006 Taxable Notes") (collectively, the "Project"), to fund and capitalize any necessary reserves and to pay certain costs and expenses incidental thereto; and

WHEREAS, in furtherance of the purposes of the Act, the Authority is preliminarily considering the issuance of the Bonds, the proceeds of which will be loaned to the Applicant for the purposes stated above; and

WHEREAS, it is intended that the Authority take official action within the meaning of the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations promulgated thereunder for the purpose of issuing the Bonds in an amount not to exceed \$32,500,000 for the purpose of loaning the proceeds thereof to the Applicant for a term not to exceed 40 years at an interest rate not to exceed 9% (the "Loan") to finance and/or refinance all or a portion of the cost of the acquisition, construction, rehabilitation, improvement, equipping and operation of the Project; and

WHEREAS, the Applicant will agree in a loan agreement (the "Loan Agreement") with the Authority to make payments sufficient to pay the principal of such Bonds and the redemption premium, if any, and interest thereon and the Applicant by submitting its application to the Authority, has agreed, and in that Loan Agreement with the Authority will agree, to indemnify the Authority and the County of Yuma (the "County") for, from and against, any and all expenses as may be incurred by the Authority, its board and staff advisors (including reasonable attorney's fees) in connection with the financing and/or refinancing of the Project; and

WHEREAS, the Authority intends that prior to the issuance of the Bonds, certain costs relating to the Project, including those incurred and paid from the proceeds of the Applicant's Series 2006 Taxable Notes (the "Expenditures") will be incurred and paid from certain funds and accounts established and administered by the Applicant; and

WHEREAS, the Authority wishes to express its current intent to reimburse certain funds and accounts for all Expenditures related to the Project from the proceeds of the Bonds or the notes and desires that, with respect to any tax-exempt obligations, such reimbursement comply with Treasury Regulation Section 1.150-2 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the Authority has determined that the funds that have been or are to be advanced to pay Expenditures by Applicant are or will be only for a temporary period and it is necessary to reimburse Applicant with respect to the Project from the proceeds of the Bonds; and

WHEREAS, as of the date hereof, there are no other funds of the Applicant from sources other than the proceeds of the Bonds that are, or are reasonably expected to be, reserved, allocated on a long-term basis, or otherwise set aside by Applicant or any member of the same to pay the Expenditures; and

WHEREAS, the Authority desires to hire and appoint Jack, Lyon & Jones, P.A., Little Rock, Arkansas, as Bond Counsel ("Bond Counsel") and Crews & Associates, Inc., Little Rock, Arkansas, as Underwriter ("Underwriter"); and

WHEREAS, the Authority desires to authorize the Applicant, Underwriter, Bond Counsel and other representatives of the Applicant to apply to the Arizona Department of Commerce for an allocation of volume cap that is necessary to the issuance of the

Bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA THAT:

Section 1. The Board of Directors of the Authority finds and determines that the issuance of the Bonds under the Act and the making of a loan to the Applicant for the purpose of financing and/or refinancing the acquisition, construction, rehabilitation, improvement, equipping and operation of the Project and the costs and expenses incidental thereto are in furtherance of the purposes of the Authority under the Act and the Project will constitute a "project" within the meaning of the Act.

Section 2. The Authority grants preliminary approval to the issuance of the Bonds pursuant to the Act in an aggregate principal amount not to exceed \$32,500,000, and to the loaning of the proceeds thereof to the Applicant for a term not to exceed 40 years at an interest rate not to exceed 9% per annum, to finance, or reimburse the Applicant for, all or a portion of the costs of the Project and the costs and expenses that are incidental thereto, such Bonds to be secured by and payable from revenues or other payments to be derived by the Authority under the terms of the Loan Agreement to be entered into between the Authority and the Applicant. Final approval of the Authority relating to the issuance of the Bonds is conditioned upon satisfaction of the requirements hereinbefore or hereinafter imposed by the Authority, including, but not limited to, the following requirements:

- 2.1 The Applicant must fully comply with all applicable policies of the Authority.
- 2.2 An opinion of Jack, Lyon & Jones, P.A., as Bond Counsel in a form acceptable to the Authority, that interest on the Bonds will be exempt from all federal income taxes under existing statutes, regulations and court decisions must be addressed to and provided to the Authority.
- 2.3 The Applicant must deliver an opinion or opinions, addressed and in a form acceptable to the Authority, prior to closing, to the effect that all of the statements and information contained in the offering materials distributed in connection with the offer and sale of the Bonds is correct and complete in all material respects, and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.
- 2.4 Prior to consideration of final approval by the Authority, the Applicant must submit the bond purchase/placement agreement or Investor Letter (or other purchase document) for the Bonds in final form, including, without limitation, any exhibits, appendices or attachments, except for information pertaining to

the maturities, interest rates, yields and redemption provisions on the Bonds, in form and substance acceptable to Deason Law Firm, as the Authority's legal advisor (the "Legal Advisor").

- 2.5 The Authority shall receive such legal opinions, certificates and other proceedings as are necessary and advisable to evidence compliance by the Applicant and the other financing participants with the Authority's policies and procedures and applicable federal and state laws as Legal Advisor may deem necessary or appropriate, in the form and substance satisfactory to the Legal Advisor.
- 2.6 The Applicant shall pay, at or prior to the closing of the sale of the Bonds (unless otherwise agreed to in writing by the Authority), all fees and expenses of the Authority incurred in connection with the issuance and sale of the Bonds and the financing and/or refinancing of the Project, including without limitation, the fees and expenses of the Authority's Legal Advisor. The Applicant shall also pay the applicable Authority's annual fee for so long as the Bonds are outstanding.
- 2.7 The Authority will not execute any agreement, certificate, document or instrument, or consent to the execution of any agreement, certificate, document or instrument until it is in a form and substance acceptable to the Legal Advisor.
- 2.8 The Authority, its officers and directors, and the County must be provided with full indemnification in connection with the issuance and sale of the Bonds, in form and substance satisfactory to the Authority's Legal Advisor, from a credit-worthy source.
- 2.9 All requirements imposed by the Code must be satisfied, including, without limitation, the requirement of final approval by the Board of Supervisors of the County of Yuma after a public hearing following reasonable notice.
- 2.10 The Bonds shall bear such dates, mature at such time or times, bear interest at such rate or rates and contain such other terms or provisions as shall be determined in a subsequent bond resolution of the Authority. At a subsequent date, the Applicant has indicated that it will request the Authority to adopt a bond resolution that will authorize such Bonds and authorize and direct officers of the Authority to execute appropriate bond financing documents, including, but not limited to, a trust indenture with a bond trustee for such Bonds, the Loan Agreement with the Applicant, and a purchase agreement relating to the sale of the Bonds with Underwriter, if necessary, provided that the principal amount and interest rates on such Bonds shall

not exceed the limits set forth in the bond resolution and the provisions of such bond financing documents are approved by the Applicant and Legal Advisor.

- 2.11 The Authority and the Applicant shall enter into the Loan Agreement, the terms of which shall be agreeable to the Applicant and the Authority and in the form and substance acceptable to Legal Advisor, and which shall provide that the Applicant will be obligated to make payments sufficient (i) to pay the principal of and redemption premium, if any, and interest on the Bonds, as and when the same shall become due and payable and (ii) to indemnify the Authority and the County for, from and against any and all expenses relating to the issuance of the Bonds, including expenses incurred by the Authority for legal counsel and otherwise.
- 2.12 Prior to closing, the Applicant shall provide to the Authority detailed information relating to any litigation or potential litigation in which it is currently involved.
- 2.13 Prior to closing, the Applicant shall provide evidence satisfactory to the Authority's Legal Advisor of the financial feasibility of the Project as provided by Government Capital Corporation as financial advisor ("Financial Advisor").

Section 3. The Authority is hereby authorized to determine, in consultation with the Applicant, a date for a public hearing on the plan of financing of the Project and the proposed issuance of the Bonds, as required by Section 147(f) of the Code, and to publish a public notice of such hearing in such form as approved by the Applicant and Bond Counsel.

Section 4. Legal Advisor and officers of the Authority are hereby authorized and directed to prepare and disseminate, or cause to be prepared and disseminated any necessary related documents and agreements with respect to the proposed issuance of the Bonds.

All actions of the officers, staff, directors and agents of the Authority which are in conformity with the purposes and intent of this Resolution and in furtherance thereof, whether heretofore or hereafter taken, shall be and are hereby ratified, confirmed and approved. The proper officers, staff, directors and agents of the Authority are hereby authorized and directed to do all such acts on behalf of the Authority as may be deemed necessary or desirable to carry out the terms and intent of this Resolution.

Section 5. Nothing contained in this Resolution nor in any other instrument may be considered as obligating the Authority or the County to any pecuniary liability or charge upon the general credit of the Authority or the County. Furthermore, it is understood that no costs are to be borne by the Authority with respect to the Project and the issuance and sale of the Bonds, and that the Applicant will promptly reimburse the Authority for any other expenses reasonably incurred by the Authority, including the fees of its Legal Advisor, whether or not the Bonds are issued or sold.

Section 6. The Authority reasonably expects to reimburse Applicant for original Expenditures to be paid by Applicant from general funds of Applicant or from the Series 2006 Taxable Notes in connection with the Project with the proceeds of the Bonds. It is the intent of the Authority that this Resolution declaration of official intent intended to comply with the requirements of Treasury Regulation Section 1.150-2(e).

Section 7. The Authority hereby hires and appoints Jack, Lyon & Jones, P.A., Little Rock, Arkansas, as Bond Counsel and Crews & Associates, Inc., Little Rock, Arkansas, as Underwriter. The Authority further authorizes Bond Counsel, Legal Advisor, Underwriter and Applicant to do all things necessary to apply for and receive an allocation of volume cap for the Bonds from the Arizona Department of Commerce.

Section 8. If any section, paragraph, clause or provision of this Resolution is for any reason held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision does not affect any of the remaining provisions of this Resolution.

Section 9. All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed, and this Resolution shall be in immediate effect from and after its adoption.

Section 10. Any provisions of any bylaws, orders, procedural pamphlets and resolutions of the Authority inconsistent herewith are hereby waived to the extent only of such inconsistency. This waiver shall not be construed as repealing any bylaw, order, procedural pamphlet or resolution or any part thereof.

Section 11. Arizona Revised Statutes Section 38-511 requires that every contract to which the State, its political subdivisions or any of the departments or agencies of the State or its political subdivisions is a party include notice that such contract is subject to cancellation, within three years after its execution, by the State, political subdivision, department or agency which is a party to such contract if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, political subdivision, department or agency is, at any time while the contract is in effect, an employee of any other party to the contract or an agent or consultant of any other party to the contract with respect to the subject matter of the contract.

Section 12. It is found and determined that all formal actions of the Authority and its Board concerning and relating to the adoption of this Resolution were adopted in an open meeting and that all deliberations that resulted in those formal actions were in meetings open to the public, in compliance with all legal requirements of the State and the Authority.

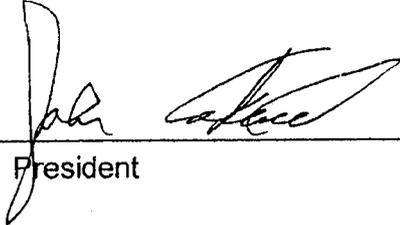
Section 13. Prior to final approval of this request for issuance of bonds, Applicant shall comply with such conditions and requests as may be imposed by the Authority, including, without limitation, the execution of an Agreement substantially in the form of Exhibit A attached hereto, the execution of which by the President or Vice President and Secretary or any Assistant Secretary of the Authority is hereby approved and authorized.

Section 14. This Resolution is effective immediately.

[Remainder of Page Left Blank Intentionally]

Adopted this 26 day of June, 2007.

THE INDUSTRIAL DEVELOPMENT
AUTHORITY OF THE COUNTY OF YUMA

By: 
Title: President

MEMORANDUM OF AGREEMENT

THIS MEMORANDUM OF AGREEMENT (sometimes referred to as Preliminary Agreement) between THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA, ARIZONA, (the "AUTHORITY"), and FAR WEST WATER & SEWER, INC., an Arizona corporation, (hereinafter referred to as the "APPLICANT").

1. Preliminary Statement. Among the matters of mutual inducement which resulted in the execution of this Agreement are the following:

A. The AUTHORITY was duly organized under Title 35, Chapter 5, of the Arizona Revised Statutes (the "Act") as THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA, ARIZONA. Under the Act, the AUTHORITY is a political subdivision of the State of Arizona and has the power to issue its Bonds for the purpose of financing the acquisition, installation, or construction of land, buildings and equipment which shall be suitable for use by the APPLICANT all for the purpose of increasing the availability of mental health services in and about the County of Yuma, Arizona, and upon such terms and conditions as the Board of Directors of the AUTHORITY deem advisable and as authorized by the Act.

B. The APPLICANT proposes to acquire, construct, rehabilitate, improve, and operate one or more sewage facilities and facilities for furnishing of water located in the County of Yuma including the refinancing of Applicant's \$17,735,000 Short Term Refunding and Capital Notes, Series 2006B ("Series 2006 Taxable Notes") (collectively, the "Project")

It is anticipated that the cost of the Project will not exceed THIRTY-TWO MILLION FIVE HUNDRED THOUSAND AND NO/100 (\$32,500,000.00) DOLLARS. Monies will be provided from the proceeds of the Industrial Development Revenue Bonds to be issued by the AUTHORITY which proceeds will be loaned by the AUTHORITY to the APPLICANT for such purposes and be repaid by the APPLICANT in amounts sufficient to pay the principal of the Bonds and the premium (if any) and interest on the Bonds.

C. The AUTHORITY has indicated its willingness to proceed with the issuance of the Bonds as provided by the Act and has advised the APPLICANT that subject to due compliance with all requirements of law, demonstrated financial capacity, and the obtaining of all necessary consents and approvals and the happening of all acts, conditions and things required precedent to such financing, the AUTHORITY, pursuant to the Act, will issue the Bonds in a principal amount sufficient to acquire, construct and equip the facilities and pay the costs of issuing the Bonds.

D. The AUTHORITY considers that the acquisition, constructing, equipping and financing of the Project for the APPLICANT will promote and further the purposes of the Act, serve a public purpose, and generally promote public health, welfare, safety, convenience and prosperity of the residents of the County of Yuma, Arizona.

2. Undertakings on the Part of the AUTHORITY. Subject to the conditions stated in this Agreement, the AUTHORITY agrees as follows:

A. The AUTHORITY will issue the Bonds pursuant to the terms of the Act and upon the terms and conditions mutually satisfactory to the APPLICANT and the AUTHORITY in a principal amount sufficient to pay the costs of acquiring and equipping the Project and to pay the costs incident to the authorization, sale and issuance of the Bonds, not to exceed an aggregate principal amount of THIRTY-TWO MILLION FIVE HUNDRED THOUSAND AND NO/100 (\$32,500,000.00) DOLLARS.

B. The AUTHORITY will adopt such proceedings and authorize (i) the execution and delivery of such documents as may be reasonably necessary or advisable for the authorization, issuance and sale of the Bonds, (ii) the execution of a Loan Agreement with the APPLICANT, (iii) the execution of a Bond Purchase Agreement with the APPLICANT and the Underwriter and such other documents as shall be authorized by the Act or other law and as shall be mutually satisfactory to the AUTHORITY and the APPLICANT.

C. The AUTHORITY shall submit the proceedings pursuant to which the Bonds will be issued to the Board of Supervisors of the County of Yuma, Arizona, for the approval of that Body; Bonds will be issued only after such approval has been obtained.

D. The AUTHORITY shall notify the Attorney General of the State of Arizona of its intention to issue the Bonds as provided by A.R.S. Sec. 35-721(F); Bonds will be issued only if the Attorney General does not render a negative opinion within ten (10) days of submission as to whether the Project comes within the purview of Chapter 5, Title 35, Arizona Revised Statutes.

E. The AUTHORITY will conduct a public hearing prior to closing for the purpose of eliciting public comment concerning this Project. Notice will be published in a newspaper having general circulation in the Yuma area at least fourteen (14) days prior to the date of the hearing. The notice will specify the issuer, the maximum principal amount of the proposed issue, the specific location, brief description of, and the intended use of the proposed facility as well as the names of the principal users, all as shall be approved by Bond Counsel. Bonds will be issued only after public comment has been received and evaluated and arguments both for and against weighed, and the AUTHORITY determines that Bond issuance is still in the public interest.

F. The AUTHORITY will take such other acts and adopt further proceedings as may reasonably be required to implement the aforesaid undertakings and as it may deem appropriate in pursuance thereof.

G. The Bonds shall provide that they shall be payable solely out of and secured by a pledge of revenues, proceeds and receipts out of which the principal, redemption premium and interest are made payable pursuant to the provisions of the Loan Agreement, that they shall never constitute a debt of indebtedness of the AUTHORITY, the County of Yuma, or the State of Arizona within the meaning of any constitutional or statutory provision whatsoever of the State of Arizona, and that they shall not constitute or give rise to any pecuniary liability of the AUTHORITY, the County of Yuma, or the State of Arizona, nor shall they constitute a charge against the general credit or taxing powers of any such bodies.

3. Undertakings on the Part of the APPLICANT. Subject to the conditions in this Agreement, the APPLICANT agrees as follows:

A. The APPLICANT will use the Bond proceeds loaned to it pursuant to the Loan Agreement to enter into one or more contracts for the acquisition, construction and equipping of the Project.

B. Before the delivery of the Bonds, the APPLICANT will enter into a Loan Agreement with the AUTHORITY under the terms of which (i) the AUTHORITY will loan the Bond proceeds to the APPLICANT for the acquisition, construction and equipping of the Project, and (ii) to the extent not payable out of the proceeds of the Bonds, the APPLICANT will pay to the AUTHORITY sums sufficient in the aggregate to pay or reimburse the AUTHORITY for all expenses incurred by it in connection with the authorization, issuance and sale of the Bonds, including reasonable attorney's fees, and (iii) the APPLICANT will make or cause to be made loan payments or other payments sufficient to pay the principal of and interest and premium, if any, on the Bonds as and when the same shall become due and payable, all fees and expenses of any trustee for the benefit of the holders of the Bonds incurred under any trust indenture, all utility charges, taxes, assessments, casualty and liability insurance premiums, and any other expenses or charges relating to the ownership, use, operation, maintenance, occupancy and upkeep of the Project, such Loan Agreement to contain such other provisions as may be required by law and shall be mutually acceptable to the AUTHORITY and the APPLICANT and (iv) provide such security for the loan as the parties shall mutually agree upon and as shall be approved by Bond Counsel, and (v) indemnify the AUTHORITY to its satisfaction from any and all liability resulting from the issuance of the Bonds or acquisition, construction or equipping the Project and the operation thereof.

C. The APPLICANT will take such further action and adopt such further proceedings as may be required to implement its aforesaid undertakings or as it may deem appropriate in pursuance thereof.

D. The APPLICANT may, at its option, select an underwriter for the purchase and sale of the Bonds provided that the AUTHORITY shall not incur any liability for the payment of the fees and expenses of said underwriter except that the same may be paid out of the proceeds of the sale of Bonds.

E. The APPLICANT will, prior to and as a precondition of closing, comply with and satisfy the provisions contained in the AUTHORITY'S "Policy and Procedures", previously provided to APPLICANT, together with such Additional Conditions as determined by the AUTHORITY and as more specifically set forth on Exhibit A, attached hereto, and incorporated herein by this reference.

F. Any attorney or attorneys selected as Bond Counsel by the APPLICANT shall have a reputation in the bonding field as Bond Counsel and be generally recognized as such, and the AUTHORITY shall not incur any liability for the payment of the fees and expenses of said Bond Counsel except that the same may be paid out of the proceeds of the sale of Bonds.

G. APPLICANT agrees to pay to the AUTHORITY the balance of its THREE THOUSAND FIVE HUNDRED AND NO/100 DOLLAR (\$3,500.00) Application Fee on

signing this Agreement, and the APPLICANT agrees to do so within ten (10) days of the date of the resolution.

H. The APPLICANT agrees to provide periodic progress reports to the AUTHORITY during the period between the AUTHORITY'S initial approval and final approval and supply all information reasonably requested by it.

I. The APPLICANT will involve the AUTHORITY in document preparation and solicit the AUTHORITY'S comments concerning any documents drafted.

J. The APPLICANT acknowledges that all representations made to the AUTHORITY have been true and correct and shall be deemed continuing. Any material change in the financial circumstances of the APPLICANT or any fact becoming known to the APPLICANT during the Bonding process which would affect the accuracy of such representations shall be promptly made known by the APPLICANT to the AUTHORITY.

4. General Provisions.

A. All commitments of the AUTHORITY under Section 2 hereof and of the APPLICANT under Section 3 hereof are subject to the conditions that on or before one (1) year from the date of this Agreement, the AUTHORITY and the APPLICANT shall have agreed to mutually acceptable terms for the Bonds and for the issuance, sale and delivery thereof, and mutually acceptable terms and conditions for the Loan Agreement, Trust Indenture and any other documents referred to in Sections 2 and 3 hereof, and the AUTHORITY and the APPLICANT shall have complied with all of the provisions of the Act applicable to the issuance, sale and delivery of the Bonds.

B. Regardless of whether or not the Project proceeds to completion and the Bonds are sold, the APPLICANT agrees that the AUTHORITY shall retain the entire Application Fee, without necessity of accounting, and APPLICANT will, in addition, pay the AUTHORITY'S reasonable legal fees, costs, expenses and charges.

C. In the event APPLICANT is successful in obtaining issuance of Bonds to finance its project, and so long as any Bonds remain outstanding, APPLICANT agrees to pay annually its pro rata share of AUTHORITY operating expenses based upon the relative proportions of bonds issued to finance all projects. In no event shall that amount exceed TWO THOUSAND AND NO/100 DOLLARS (\$2,000.00) or be less than ONE THOUSAND AND NO/100 DOLLARS (\$1,000.00) per annum per applicant.

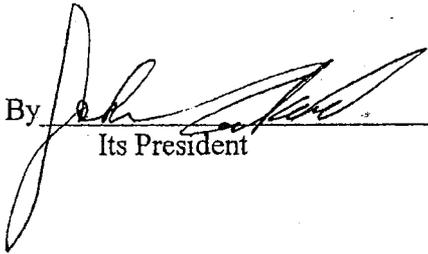
D. The APPLICANT hereby covenants and agrees to protect, exonerate, defend, indemnify and save harmless the AUTHORITY from and against any and all claims, loss, damage, costs, expense or liability, including witness fees, legal fees and costs incurred by the AUTHORITY as a result of same, based on personal injury or death or loss or damage to property claimed, suffered or incurred by any person, firm or corporation (including the AUTHORITY) and arising out of or attributable to the construction, condition, use, operation, maintenance and/or financing of the Project, any disclosure, representation or warranty made by the APPLICANT in connection with the issuance or sale of the Bonds.

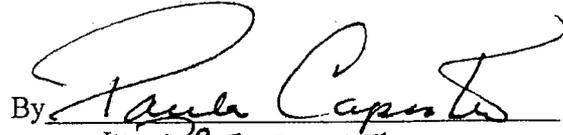
E. Neither the members of the governing body of the Authority nor any official, agent, representative or employee of the Authority nor any person executing the bonds shall be liable personally on the bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

IN WITNESS WHEREOF, the parties have entered into this Agreement this 26 day of June, 2007.

THE INDUSTRIAL DEVELOPMENT
AUTHORITY OF THE COUNTY OF
YUMA, ARIZONA

FAR WEST WATER & SEWER, INC.

By  _____
Its President

By  _____
Its PRESIDENT

to Memorandum of Agreement

Additional Conditions Required of
APPLICANT Prior to Closing

1. Submission to the AUTHORITY of all proposed financing documents in a timely manner.
2. Submission to the AUTHORITY, upon their completion, the plans and specifications for the proposed facilities
3. Submission to the AUTHORITY of corporate records for FAR WEST WATER & SEWER, INC., including but not limited to, Articles of Incorporation, Bylaws, resolution relating to the financing of the "Project" facilities and good standing certificates from all jurisdictions in which this corporation is authorized to do business.
4. The Bond transaction must be closed and the Bonds issued within one (1) year from the date of the issuance of the Resolution of Inducement.
5. APPLICANT shall have secured private placement of the Bonds with a financial institution or other party satisfactory to the AUTHORITY, or shall have retained the services of a Bond underwriting firm acceptable to the AUTHORITY for purposes of marketing the Bonds publicly.
6. Submission to the AUTHORITY of compiled financial statements and Federal income tax returns for the past three (3) years for APPLICANT.
7. Applicant's payment in the amount of ONE THOUSAND AND NO/100 DOLLARS (\$1,000.00) which is the remaining balance of the Application Fee is due and payable within ten (10) days from the issuance of the Resolution of Inducement.
8. The payment, at closing, of all expenses incurred by the AUTHORITY in processing the application and issuing the Bonds, including but not limited to, fees and costs of legal counsel.

Far West Water & Sewer, Inc.

Exhibit 5

Assets:	Market value	Cost	Depreciated cost
Land: 71.59 acres at \$50,000 an acre	\$3,579,500		
Land at cost:		\$902,709	\$902,709
Water Treatment facilities:	\$12,484,684	\$9,220,074	
Cost less depreciation			\$4,997,749
Water Distribution	\$14,503,950	\$14,503,950	
Cost less depreciation			\$11,463,185
Water meters	\$584,306	\$584,306	
Cost less depreciation			\$244,687
Water Wells	\$569,306	\$569,272	
Cost less depreciation			\$287,054
Pumping Equipment not included above	\$305,737	\$305,737	
Cost less depreciation			\$181,668
Totals (without land)	\$28,447,949	\$25,183,339	\$17,174,343

	Market value	Cost	Depreciated cost
Wastewater treatment facilities:	\$8,175,519	\$6,757,581	
Cost less depreciation			\$5,314,429
Collection Systems	\$9,088,837	\$9,088,837	
Cost less depreciation			\$8,058,530
Totals (Wastewater)	\$17,264,356	\$15,846,418	\$13,372,959
Cash in construction Account:	\$11,233,870	\$11,233,870	\$11,233,870
Construction in progress:	\$4,811,326	\$4,811,326	\$4,811,326
Grand totals	\$65,337,001	\$57,977,662	\$47,495,207
New Plants to be built	\$23,876,211	\$23,876,211	\$23,876,211
Totals with new plant	\$89,213,212	\$81,853,873	\$71,371,418

Water Land		
Acreage	Parcel number	Description
25.38	112 09 001	Land at canal with raw water pump station
8.60	728 20 907	Water Plant
3.80	701 09 002	Mesa Del Sol Pump Station
3.03	701 21 002A	Hanks Highway Pump Station
4.00	701 21 003A	Hanks Highway Pump Station
1.24	701 34 156A	Orange Tree Wells
1.49	701 42 143	Far West Ave Pump Station
1.87	701 42 144	Far West Ave Pump Station
1.94	701 50 277B	Far West Ave Pump Station
1.92	701 57 900	40th Street Pump Station
0.34	702 18 020	Foothills North Pump Station
0.67	728 53 900	52nd Street Wells

Total Acreage 54.28

Deeds available upon request

Sewer Land		
Acreage	Parcel number	Description
1.91	14-700-16-150-00-2	Del Oro WWTP
2.87	14-729-17-003-00-5	Section 14 WWTP
10.00	14-112-20-040-03-7	Palm Shadows WWTP
1.41	14-700-01-037-00-4	Seasons WWTP
2.19	14-729-57-137B	Marwood WWTP
0.08	14-729-33-045A	Lift Station 15

Total Acreage 18.49

Deeds available upon request

Far West Water & Sewer, Inc.

Exhibit 6

Far West Water & Sewer, Inc.
Proforma Balance Sheet
For the Year Ended December 31, 2006

Exhibit 6
Page 1

Line			
<u>No.</u>			
1	<u>ASSETS</u>		
2	Plant In Service	\$	61,878,316
3			
4	Non-Utility Plant		-
5	Construction Work in Progress		-
6	Less: Accumulated Depreciation		<u>(11,701,695)</u>
7	Net Plant	\$	<u>50,176,621</u>
8			
9	CURRENT ASSETS		
10	Cash and Equivalents	\$	362,070
11	Restricted Cash		-
12	Accounts Receivable, Net		1,091,653
13	Other Accounts Receivable		59,010
14	Prepaid Expenses		79,817
15	Prepaid Income taxes		100,080
16	Other Current Assets		-
17	Total Current Assets	\$	<u>1,692,630</u>
18			
19	Other Assets		
20	Unamortized Debt Discount	\$	1,134,675
21	Placement Agent Fees		182,834
22	Debt Reserve Fund		940,325
23	Deferred rate Case Expense		<u>332,263</u>
24	Deferred Debits	\$	<u>2,590,097</u>
25			
26	Other Investments & Special Funds	\$	<u>-</u>
27			
28	TOTAL ASSETS	\$	<u><u>54,459,348</u></u>
29			
30			
31	<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
32			
33	Shareholder Equity	\$	<u>5,057,585</u>
34			
35	Long-Term Debt	\$	<u>24,880,000</u>
36			
37	CURRENT LIABILITIES		
38	Accounts Payable	\$	578,107
39	Current Portion of Long-Term Debt		335,000
40	Short-term Bank Loan		-
41	Payables to Associated Companies		2,373,299
42	Deposits and Repayments		239,568
43	Accrued Wages		34,392
44	Accrued Taxes		182,746
45	Accrued Interest		163,559
46	Other Current Liabilities		166,456
47	Total Current Liabilities	\$	<u>4,073,127</u>
48	DEFERRED CREDITS		
49	Advances in Aid of Construction	\$	14,768,869
50	Contributions In Aid of Construction, Net		4,471,102
51	Judgment Payable		<u>1,208,665</u>
52	Total Deferred Credits	\$	<u>20,448,636</u>
53			
54	Total Liabilities & Common Equity	\$	<u><u>54,459,348</u></u>
55			

Far West Water and Sewer, Inc.
Proforma Income Statement
For the Year Ended December 31, 2006

Exhibit 6
Page 2

Line No.		
1	Revenues	
2	Operating Revenue	\$ 7,709,211
3		
4		
5	Total Revenues	<u>\$ 7,709,211</u>
6	Operating Expenses	
7	Administrative and General	\$ 2,016,797
8	Maintenance	1,281,756
9	Purchased Water, Sewer, Power	1,093,094
10	Depreciation and Amortization	1,980,944
11	Property and other Taxes	391,134
12	Legal Expense	200,131
13	Income Taxes	-
14	Total Operating Expenses	<u>\$ 6,963,856</u>
15	Operating Income	<u>\$ 745,355</u>
16	Other Income (Expense)	
17	Interest Income	-
18	Other income	-
19	Interest Expense	(1,541,875)
20	Fines, Penalties and Restitution	(210,000)
21	Other Expense	-
22		
23	Total Other Income (Expense)	<u>\$ (1,751,875)</u>
24	Net Profit (Loss)	<u><u>\$ (1,006,520)</u></u>
25		
26		
27		
28		
29		
30		

Far West Water and Sewer, Inc.
Proforma Capital Structure
For the Year Ended December 31, 2006

Exhibit 6
Page 3

Line No.	<u>Item of Capital</u>	<u>Dollar Amount</u>	<u>Percent of Total</u>
1			
2	Long-term Debt	\$ 25,215,000	83.29%
3			
4	Shareholder Equity	\$ 5,057,585	16.71%
5			
6	Total	<u>\$ 30,272,585</u>	<u>100.00%</u>
7			
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Far West Water and Sewer Company
Debt Service Coverage ("DSC") and Times Interest Earned Ratio ("TIER")

Exhibit 6
Page 4

Line			
<u>No.</u>			
1			
2	[1]	Operating Income Per 2006 Pro-forma Financial Statements	\$ 745,355
3		Add:	
4	[2]	Depreciation and Amortization	1,980,944
5	[3]	Income Taxes	-
6	[4]	Non-Recurring Legal Expenses	-
7	[5]	Rate Increase for Sewer Division (A.C.C. 69335, Feb. 20, 2007)	-
8	[6]	Debt Service Reserve Credit ⁴	60,315
8		Less:	
9	[7]	Refunds of Advances-in-aid of Construction	285,000
10	[8]	Other ³	210,000
11			
12	[9]	Cash Available for Debt Service	<u>\$ 2,291,614</u>
13			
14	[10]	Interest ¹	\$ 1,541,875
15	[11]	Principle ²	335,000
16	[12]	Annual Debt Service [9] plus [10]	<u>\$ 1,876,875</u>
17			
18	[13]	DSC [9] divided by [12]	1.22
19	[14]	TIER [1] plus [3] divided by [10]	0.48
20			
21			
22			
23		¹ 2008 Interest per Debt Service Schedule dated 07-24-2007	
24		² 2008 Principle per Debt Service Schedules dated 07-24-2007	
25		³ Contingent liabilities for fine and penalties of \$210,000 annually included. Case is currently under appeal.	
26		See notes to audited financials.	
27		⁴ Funded out of initial loan proceeds.	
28		⁵ \$376,480 of non-recurring legal fees are already excluded from pro-forma operating income.	
29		⁶ \$205,384 rate increase for sewer division is already included in pro-forma operating income.	

Far West Water & Sewer, Inc.

Exhibit 7

**RESOLUTION OF FAR WEST WATER AND SEWER, INC,
AUTHORIZING APPLICATION TO THE INDUSTRIAL
DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA AND THE
ARIZONA DEPARTMENT OF COMMERCE FOR APPROVAL OF
ISSUANCE OF WATER AND SEWER BONDS NOT TO EXCEED
\$32,500,000.**

WHEREAS FAR WEST WATER AND SEWER, INCORPORATED has been required by the State of Arizona to expand and improve its sewer facilities; and

WHEREAS, FAR WEST WATER AND SEWER, INCORPORATED is desirous of expanding its water drinking facilities to meet the growth being experienced in the region serviced by Far West Water and Sewer, Inc.; and

WHEREAS, FAR WEST WATER AND SEWER, INCORPORATED has received bids, projections and contracts, both proposed and entered, exceeding the ability of Far West to pay without financing at a reasonable rate; and

WHEREAS, FAR WEST WATER AND SEWER, INCORPORATED has obtained short term financing in the amount of \$17,735,000 to pay for the expansion and improvements required by the State, which must be paid on or before December 27, 2007; and

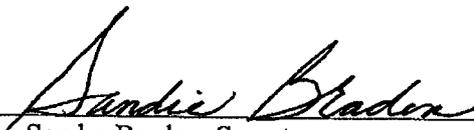
WHEREAS, the officers of the Corporation have researched and investigated various options for that financing and have reported that the most reasonable financing for the Company would be through bonds approved and issued by the Industrial Development Authority,

IT IS HEREBY RESOLVED: That the Corporation is authorized to apply to the Industrial Development Authority of the County of Yuma for the issuance of bonds not to exceed \$32,500,000, at an interest rate not to exceed 9%, with a term not to exceed 40 years.

BE IT FURTHER RESOLVED: that the President of Far West shall be authorized to sign such documents as may be necessary to process this application, including, but not limited to the signing of agreements with the Yuma County IDA, making any and all deposits required by such organization, and requesting an allocation from the State of Arizona upon receiving approval from the Yuma County IDA

Dated: June 12, 2007

FAR WEST WATER AND SEWER, INC.


Sandra Braden, Secretary

**RESOLUTION OF FAR WEST WATER AND SEWER, INC,
AUTHORIZING APPLICATION CORPORATION COMMISSION FOR
THE STATE OF ARIZONA TO APPROVE LONG TERM FINANCING**

WHEREAS FAR WEST WATER AND SEWER, INCORPORATED obtained the agreement and preliminary approval of the INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YUMA to issue of bonds not to exceed \$32,500,000, and

WHEREAS, FAR WEST WATER AND SEWER, INCORPORATED has obtained the allocation required by the State Department of Commerce for the Yuma County IDA to issue such bonds, and

WHEREAS, FAR WEST WATER AND SEWER, INCORPORATED must now obtain the approval of the Arizona Corporation Commission to proceed with the issuance of such bonds,

IT IS HEREBY RESOLVED: that the Corporation is authorized to apply to the Arizona Corporation Commission to obtain approval of the financing contemplated by the agreement with the Yuma County IDA, in an amount necessary to comply with the consent order signed by the President of the Corporation with the Arizona Department of Environmental Quality for the improvement and expansion of the wastewater treatment plants and related facilities, and

BE IT FURTHER RESOLVED that the Corporation is authorized to also request that the loan presently with WIFA be refinanced as part of the bond issue, and that the financing include the related costs, discounts and other matters relating to the bonds, and

BE IT FURTHER RESOLVED: that the Corporation is authorized to apply for the short term debt incurred by the Company required to comply with the Consent Order, be included in the Bond issue.

BE IT FURTHER RESOLVED: That the President, Paula Capestro, is authorized to sign any and all documents on behalf of the Corporation that made be reasonable necessary to carry out this resolution.

Dated: July 7, 2007

FAR WEST WATER AND SEWER, INC.



Sandra Braden, Secretary