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NEW APPLICATION

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DOCUMENTS ARE SUBJECT TO  
REVIEW BEFORE ACCEPTANCE  
AS A DOCKETED ITEM.

1 Richard L. Sallquist, Esq. (002774)  
 SALLQUIST & DRUMMOND, P.C.  
 2 2525 E Arizona Biltmore Circle, Suite 117  
 Phoenix, Arizona 85019 JUN 23 P 2 29  
 3 Telephone: (602) 224-9222  
 Fax: (602) 224-9366 AZ CORP COMMISSION  
 4 Attorneys for Vail Water Company DOCUMENT CONTROL

**BEFORE THE ARIZONA CORPORATION COMMISSION**

6 IN THE MATTER OF THE APPLICATION OF DOCKET NO. - W. 01651 B-99-0351  
 VAIL WATER COMPANY FOR AUTHORITY ) DOCKET NO. W-01651 B-99-  
 7 TO ISSUE PROMISSORY NOTE(S) AND )  
 OTHER EVIDENCES OF INDEBTEDNESS ) APPLICATION  
 8 PAYABLE AT PERIODS OF MORE THAN )  
 TWELVE MONTHS AFTER THE DATE OF )  
 9 ISSUANCE. )

10 Vail Water Company, ("Vail" or the "Applicant"), by and through undersigned counsel,  
11 respectfully states the following in support of this Application:

12 1. Vail is a corporation duly organized and existing under the laws of the State of  
13 Arizona. Its principal place of business is 5780 N. Swan Road, Suite S-100, Tucson, Arizona  
14 85360.

15 2. Vail is a public service corporation primarily engaged in the business of providing  
16 water utility service in its certificated area in portions of Pima County, Arizona.

17 3. Vail seeks herein Commission approval for the issuance of promissory note(s) and  
18 other evidences of indebtedness in the original amount of up to \$1,112,000.

19 4. Vail proposes to use the proceeds of the financing for three purposes. (1) to  
20 interconnect its water operations to ensure supply and reliability of higher quality water  
21 throughout its system (the WIFA Loan), (2) to refinance existing short-term notes which  
22 financed emergency repairs, replacement of plant and equipment and to pay operating expenses.  
23

1 (the Historic Operating Loan) and (3) to provide funds necessary for operation of the Company  
2 until the Company's rates are adjusted to include those operating expenses (the Operating  
3 Expenses Loan). The details of the proposed refinancing and construction are attached hereto as  
4 Exhibit A and are incorporated herein by this reference for all purposes.

5 5. The existing short term notes totaling \$150,000 are proposed to be refinanced by the  
6 existing lenders in the Historic Operating Loan payable on a fully amortized basis at 10.25%  
7 interest per year for a term of twenty years. This will result in monthly payments totaling  
8 \$3,205.54 and an annual debt service of \$38,466.47.

9 6. The Applicant received a Binding Commitment from a Water Infrastructure Finance  
10 Authority of Arizona (WIFA) in the amount of \$819,000 on June 10, 1999. That Commitment is  
11 attached hereto as Exhibit B. That loan will be utilized for the funding of the WIFA project as  
12 described on Exhibit A. The terms and conditions of that loan are expected to a twenty year  
13 Promissory Note and Deed of Trust bearing a 5.81% interest rate with monthly payments of  
14 \$5,778.18 and annual debt service of \$69,337.84. The Promissory Note and Deed of Trust are  
15 anticipated to be the standard WIFA documents and will be filed with the Commission upon  
16 issuance.

17 7. The Company is presently operating with rates that do not permit it to pay its bills as  
18 they become payable. The shareholders of the Company are willing to loan funds to the Company  
19 until such time as the rates are adjusted to cover those operating expenses. The Company has filed  
20 a permanent rate increase application as of this date. Rates under that Application will not become  
21 effective until July or August, 2000. The Company computes that it will incur additional operating  
22 losses totalling approximately \$143,000 before the proposed rates will become effective. Please  
23 see Exhibit A hereto. This will be funded with the Operating Expense Loan.

1           8. The Company will file an Emergency Rate Application with the Commission within  
2 thirty days of this Application seeking to immediately increase rates which will minimize the need  
3 for that short term operating loan from shareholders. The sooner the interim rate relief is granted,  
4 the less short term operating loan draws against the Operating Loan will be required. The terms  
5 and conditions of the Operating Loan will be the same as the historic operating loan, except it will  
6 permit quarterly draws up to the maximum amount.

7           9. The lenders under the pending Application will be the shareholders of the Company. A  
8 list of those lenders, and their respective percentage of the loans is set forth on Exhibit B appended  
9 hereto and incorporated herein for all purposes. The form of the Historic Operating Loan is  
10 appended hereto as Exhibit C and incorporated herein by this reference for all purposes. The  
11 Company anticipates issuing notes for the Operating Loan as a series of notes. The Company will  
12 project its operating needs each calendar quarter, and draw down that portion of the Operating Loan  
13 as will be needed for the ensuing quarter. The form of the Operating Loan will be substantially  
14 that of Exhibit C attached hereto and incorporated herein by this reference for all purposes.

15           10. Attached as Exhibit D and incorporated herein by reference for all purposes are Vail's  
16 audited balance sheet and income statement as of December 31, 1998.

17           11. Attached hereto as Exhibit E, and incorporated herein by this reference for all purposes,  
18 is a proforma capital structure before and after the financing.

19           12. Attached as Exhibit F and incorporated herein for all purposes is a form of the  
20 Resolution of the Vail's Board of Directors authorizing this application and the issuance of the  
21 Promissory Note(s) and the evidences of indebtedness.

22           13. Vail will provide notice of the filing of this Application in conformity with A.R.S. § 40-  
23 302 in the form attached as Exhibit F and incorporated herein by this reference, which exhibit

1 contains the form of the Notice of Publication to be filed with the Commission, or in such other  
2 form as ordered by the Commission.

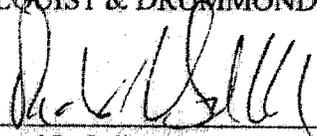
3 14. Attached hereto and incorporated herein as Exhibit I is the Direct Testimony of Ronald  
4 L. Kozoman in support of this Application.

5 15. In Vail's opinion the purpose to which proceeds of the issuance of the Promissory  
6 Note(s) and evidences of indebtedness will be applied as set forth above are lawful, and within its  
7 powers and are compatible with the public interest, with sound financial practices, and with the  
8 proper performance of the Applicant of service as a public service corporation and will not impair  
9 its ability to perform that service. The Applicant is further of the opinion that the issuance of the  
10 Promissory Note(s) and evidences of indebtedness as herein contemplated are reasonably necessary  
11 or appropriate for the aforementioned purposes. To the extent that such purposes may be  
12 considered reasonably chargeable to operating expenses or to income, the Applicant requests that  
13 they be permitted by the Commission in the order sought hereby.

14 WHEREFORE, Vail requests that the Commission make such inquiry or investigation that  
15 the Commission may deem necessary and appropriate; make the findings required by A.R.S. § 40-  
16 301 and § 40-302 relative to the purposes of issuing the Promissory Note(s) and evidences of  
17 indebtedness as herein stated; and thereafter make an immediately effective order (i) authorizing the  
18 Company to issue the Promissory Note(s) and entry into the proposed evidences of indebtedness, in  
19 the same manner and for the purposes herein contemplated, (ii) stating that the issuance of the  
20 Promissory Note(s) and evidences of indebtedness are reasonably necessary or appropriate for the  
21 purposes set forth above, (iii) stating that such purposes are within those permitted by A.R.S. § 40-  
22 301, and (iv) approving such purposes to the extent that they may be considered reasonably  
23 chargeable to operating expenses or income.

1 Respectfully submitted this 18<sup>th</sup> day of June, 1999.

2 SALLQUIST & DRUMMOND, P.C.

3  
4 By 

5 Richard L. Sallquist  
2525 E. Arizona Biltmore Circle, Suite 117  
Phoenix, Arizona 85016  
Attorneys for Vail Water Company

6 Original and ten copies of the  
7 foregoing filed this 18<sup>th</sup> day  
of June, 1999, with

8 Docket Control  
9 Arizona Corporation Commission  
1200 West Washington  
10 Phoenix, Arizona 85007

11 Copies of the foregoing Hand Delivered this 18<sup>th</sup>  
day of June, 1999 to:

12 Hearing Division  
13 Arizona Corporation Commission  
1200 West Washington  
14 Phoenix, Arizona 85007

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

17 Utilities Division  
18 Arizona Corporation Commission  
1200 West Washington  
19 Phoenix, Arizona 85007

20 

1  
2  
3 **LIST OF EXHIBITS**

4 EXHIBIT

5 DESCRIPTION

6 A

FINANCING DETAILS

7 B

WIFA BINDING COMMITMENT

8 C

LENDER'S PERCENTAGES

9 D

DRAFT SHORT TERM RE-FINANCING NOTE

10 E

FINANCIAL STATEMENTS

11 F

PRO FORMA CAPITAL STRUCTURE

12 G

BOARD OF DIRECTORS RESOLUTION

13 H

NOTICE OF PUBLICATION

14 I

TESTIMONY OF RONALD L. KOZOMAN

15

16

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18

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23

Vail Water Company  
 Adjustment to Revenues and/or Expense  
 Test Year Ended December 31, 1998  
 Adjustment Number 13

EXHIBIT  
 SCHEDULE C-2  
 PAGE 14  
 WITNESS: KOZOMAN

Line No.					
1	Interest On Notes Payable:				
2					
3				Notes	
4				Payable	
5	Total Short-Term Notes Payables				
6	to be converted to Long-Term Debt			\$293,000	
7	Short-Term Notes Already Issued				
8	for operating expenses	150,000			
9	Short-Term Notes to be Issued				
10	for operating expenses	100,000			
11	Short-Term Notes to be Issued				
12	for GAS Delivery Charges	43,000			
13				\$293,000	
14	Repayment Term:				
15	Years			20	
16	Months			140	
17	Interest On Notes Payable:				
18	Annual			10.0500%	
19	Monthly			0.83417%	
20	Annuity Factor for Payments			101.869988	
21	Monthly Payments			2,876.22	
22					
23					
24	Notes Payable:				Balance
25	Yearly	Payment	Interest	Principal	\$293,000
26	1	2,876.22	2,502.71	373.51	\$292,626
27	2	2,876.22	2,499.52	376.70	\$292,250
28	3	2,876.22	2,496.30	379.91	\$291,870
29	4	2,876.22	2,493.06	383.16	\$291,487
30	5	2,876.22	2,489.78	386.43	\$291,100
31	6	2,876.22	2,486.48	389.73	\$290,711
32	7	2,876.22	2,483.15	393.06	\$290,327
33	8	2,876.22	2,479.80	396.42	\$289,941
34	9	2,876.22	2,476.41	399.81	\$289,552
35	10	2,876.22	2,472.99	403.22	\$289,159
36	11	2,876.22	2,469.55	406.67	\$288,771
37	12	2,876.22	2,466.08	410.14	\$288,381
38	Totals	34,515	29,915	4,600	
39	Annual Interest Expense				29,915
40	Test Year Interest Expense related to the above demand notes				2,625
41	Adjustment to Revenues and/or Expenses				27,290

EXHIBIT A

## WIFA Project

The project consists of three elements:

- Building a chlorination facility at Well# 6 and connecting that well to the distribution system with approximately 6,000 feet of 12-inch diameter main (includes crossing of Pantano Wash).
- Making upgrades at two booster stations and completely rebuilding one booster station.
- Constructing 5,700 feet of 12-inch diameter distribution line to replace an inadequately sized 6-inch diameter line



# WIFA



WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

JANE DEE HULL, GOVERNOR

June 10, 1999

Vice President, Vail Water Company  
Attn: Doug Noll  
P.O. Box 13066  
Tucson, AZ 85732

*Row,  
FYE  
Kip*

Re: WIFA Binding Commitment

On June 8, 1999, the Board of Directors of the Water Infrastructure Finance Authority (WIFA) approved a Binding Commitment for Vail Water Company. The Binding Commitment allows WIFA to set aside or "escrow" funding for an eventual loan agreement with this system. As WIFA Project Manager for your project, I am forwarding the following documents:

Attached Documents and Future Actions

- **Binding Commitment Resolution** -- Through the attached resolution, WIFA's Board of Directors delegated authority to WIFA's Executive Director to execute a Binding Commitment with Vail Water Company. *Action required: none; it is attached for your reference and files.*
- **Binding Commitment** -- WIFA's formal commitment to Vail Water Company. *Action required: the Vice President must approve the attached Binding Commitment by signing on the second page of each of the three copies. Once signed, return two copies to WIFA and retain one copy for your reference and files.*

Following execution of the Binding Commitment, the next steps in the loan approval process include: 1) completing the specific terms and conditions required prior to loan resolution approval as listed on Exhibit B of the Binding Commitment, and 2) satisfying the applicable standard terms and conditions outlined in Exhibit C of the Binding Commitment. When these items are completed, WIFA staff will schedule Loan Resolution consideration by WIFA's Board of Directors. I will advise you of the meeting date. Following consideration by the Board, and assuming the Board's reaction is generally positive, WIFA staff will contact you to detail the final action items necessary to execute a loan agreement.

Sincerely,

Richard B. Jeffries  
Technical Coordinator

Water Infrastructure Finance Authority of Arizona, 202 East Earl Drive, Suite 480, Phoenix, AZ 85012

• Telephone: (602) 230-9770 • Fax: (602) 230-1480 • Toll-Free: (877) 298-0425

G:\SHARED\DOWN\WIFA\PROJECT\VAR\BINDING\BC\_APP.WPD

EXHIBIT B

**Resolution 99-019 Authorizing a Binding Commitment  
for Financial Assistance with Vail Water Company**

WHEREAS, the Water Infrastructure Finance Authority of Arizona (the "Authority") has received from Vail Water Company a request for a Binding Commitment for Financial Assistance from Arizona's Drinking Water Revolving Fund (the "Binding Commitment"); and

WHEREAS, the Authority has determined that the Vail Water Company has met or is in the process of meeting the requirements of Arizona Revised Statutes §49-1241 et seq. and the rules promulgated thereunder; and

WHEREAS, the terms and conditions under which a Binding Commitment will be made and the obligations of Vail Water Company for future consideration of a Loan Agreement will be set forth in a Binding Commitment to be executed by Vail Water Company and the Authority; and

WHEREAS, in the interest of proceeding with financial assistance, the estimated Eligible Project Costs is an amount not to exceed \$819,000 at a combined interest and fee rate to be determined prior to closing a financial assistance agreement.

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

**SECTION 1.** The Chairman of the Authority is hereby authorized and directed to execute and the Executive Director of the Board is hereby authorized and directed to attest a Binding Commitment with Vail Water Company not inconsistent with the Act, the Rules, the applications to the Authority of the Local Borrower or the approval thereof by the Authority or the requirements of the federal government, subject to the following conditions:

- a. Prior to Loan Resolution consideration by the Board, Arizona Department of Environmental Quality has determined that Vail Water Company provides water that has no maximum contaminant level violation and meets the quality standards of the Safe Drinking Water Act.
- b. Prior to Loan Resolution consideration by the Board, Vail Water Company must obtain debt authorization from the Arizona Corporation Commission.
- c. Prior to Loan Resolution consideration by the Board, Vail Water Company must obtain rate increases sufficient to generate 1.2 times net revenues coverage from the Arizona Corporation Commission.
- d. Prior to Loan Resolution consideration by the Board, Vail Water Company must clarify Article IX of its Articles of Incorporation relative to its debt authority.
- e. Prior to Loan Execution, Vail Water Company must agree to execute loan documents consistent

JUN. 15. 1999

5:03PM

TEM CORP

NO. 347

P. 5

with a Level 3 Security and agree to the specific, general, and standard terms and conditions contained therein and provide legal descriptions of Vail Water Company's real property and facilities to perfect a Deed of Trust.

f. Prior to Loan Execution, Vail Water Company must obtain or provide evidence of insurance appropriate to the size and scope of the facility and its operations.

g. Prior to Loan Disbursements for construction, Vail Water Company must obtain approval to construct from the Arizona Department of Environmental Quality.

SECTION 2. This Resolution shall take effect immediately.

Dated: June 8, 1999

Water Infrastructure Finance Authority of Arizona

By John F. Fincher  
Chairman

Attest:

[Signature]  
Executive Director



# WIFA



WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

JANE DEE HULL, GOVERNOR

## ARIZONA'S DRINKING WATER REVOLVING FUND BINDING COMMITMENT

June 10, 1999

Vail Water Company  
P.O. Box 13066  
Tucson, AZ 85732

RE: Binding Commitment -- DWRF Financial Assistance

Introduction. The Water Infrastructure Finance Authority of Arizona ("*Authority*") hereby commits to provide the Vail Water Company with Financial Assistance from Arizona's Drinking Water Revolving Fund ("*DWRF*") as more fully described in this Binding Commitment, in consideration of the Local Borrower's reliance on the promises contained herein, and agreement with the terms and conditions described below.

Binding Commitment. The Authority hereby commits to Loan an amount not to exceed \$819,000 to the Local Borrower for the purpose of providing financial assistance for the Project as described in Exhibit A, subject to the Specific Terms and Conditions set forth in Exhibit B, and subject to the Standard Terms and Conditions set forth in Exhibit C. The commitment to Loan made herein shall be binding on the Authority and is made expressly subject to the Terms and Conditions.

Acceptance of Commitment. The Local Borrower will accept this commitment by executing the agreement and acceptance signatory blank at the end of this letter. Acceptance of this commitment must be made by the Local Borrower and delivered to the Authority before the close of business on July 23, 1999.

Please call Greg G. Swartz (602) 230-9770, if you have any questions regarding this Binding Commitment.

Sincerely,

Greg Swartz, Executive Director  
Water Infrastructure Finance Authority of Arizona

The governing body of the Vail Water Company has approved this Binding Commitment, the Specific Terms and Conditions attached as Exhibit B, the Standard Terms and Conditions attached as Exhibit C, and has authorized the official whose signature appears below to sign and deliver this Binding Commitment on behalf of the Local Borrower. Agreed and accepted for and on behalf of the Vail Water Company as of the date set forth below.

Signature

Name (Print or Type)

Title

Date

**ATTACH COPY OF RESOLUTION OR MINUTES OF MEETING OF GOVERNING BODY APPROVING THE BINDING COMMITMENT.**

**EXHIBIT A**  
**PROJECT DESCRIPTION**

The project consists of three elements:

- Building a chlorination facility at Well# 6 and connecting that well to the distribution system with approximately 6,000 feet of 12-inch diameter main (includes crossing of Pantano Wash).
- Making upgrades at two booster stations and completely rebuilding one booster station.
- Constructing 6,700 feet of 12-inch diameter distribution line to replace an inadequately sized 6-inch diameter line

EXHIBIT B  
SPECIFIC TERMS AND CONDITIONS

The following terms and conditions, together with those contained or referenced in Exhibit C constitute the terms and conditions under which the Authority has committed to provide Financial Assistance to the Local Borrower for the Project.

- a. Prior to Loan Resolution consideration by the Board, the Arizona Department of Environmental Quality has determined that Vail Water Company provides water that has no maximum contaminant level violations and meets the quality standards of the Safe Drinking Water Act.
- b. Prior to Loan Resolution consideration by the Board, Vail Water Company must obtain debt authorization from the Arizona Corporation Commission.
- c. Prior to Loan Resolution consideration by the Board, Vail Water Company must obtain rate increases sufficient to generate 1.2 times net revenues coverage from the Arizona Corporation Commission.
- d. Prior to Loan Resolution consideration by the Board, Vail Water Company must clarify Article IX of its Articles of Incorporation relative to its debt authority.
- e. Prior to Loan Execution, Vail Water Company must agree to execute loan documents consistent with a Level 3 Security and agree to the specific, general, and standard terms and conditions contained therein and provide legal descriptions of Vail Water Company's real property and facilities to perfect a Deed of Trust.
- f. Prior to Loan Execution, Vail Water Company must obtain or provide evidence of insurance appropriate to the size and scope of the facility and its operations.
- g. Prior to Loan Disbursements for construction, Vail Water Company must obtain approval to construct from the Arizona Department of Environmental Quality.

EXHIBIT C  
STANDARD TERMS AND CONDITIONS

Section 1. Definitions. The following terms as used in this Binding Commitment shall, unless the context clearly requires otherwise, have the following meanings:

*"Authority"* means the Water Infrastructure Finance Authority of Arizona, a body corporate and politic of the State of Arizona duly created and validly existing under and by virtue of Title 49, Chapter 8, Article 11 (Section 49-1201 et seq.) of the Arizona Revised Statutes, as the same may from time to time be amended and supplemented.

*"Department"* means the Department of Environmental Quality of the State of Arizona.

*"Eligible Project Costs"* means such portion of the costs as is paid by the Authority for the benefit of the Local Borrower eligible to be funded from draws under the contractual arrangement established with the Authority by the United States Environmental Protection Agency. Such costs shall be reasonable, necessary and allocable to the Project and permitted by Generally Accepted Auditing Standards to be costs of the Project.

*"Loan"* means the amount of money equal to the Eligible Project Costs which is loaned to the Local Borrower pursuant to the Loan Agreement.

*"Loan Agreement"* means the Loan Agreement to be entered into between the Authority and the Local Borrower with respect to the Loan, including the Exhibits and Standard Terms and Conditions attached to the Loan Agreement, as it may be supplemented, modified or amended from time to time.

*"Local Borrower"* means the drinking water system that is a party to a Loan Agreement with the Authority.

*"Project"* means the Drinking Water Infrastructure Facility of the Local Borrower described in Exhibit A which is financed or refinanced from the proceeds of the Loan.

*"Project Facilities"* means the portion of the Drinking Water Infrastructure that is funded under this Project by the Local Borrower.

Section 2. After the first anniversary of the date of this Binding Commitment, the Authority may cause this Binding Commitment to terminate by giving written notice of termination to the Local Borrower.

Section 3. This Binding Commitment may be terminated at the option of the Authority, without giving any prior notice, in the event the Local Borrower fails to undertake or perform in a timely

manner any of its agreements set forth herein or in any agreement entered into in connection with the closing of the Authority's bonds which are to finance the Loan.

**Section 4. Terms.** The maximum term of the Loan to be made pursuant to this commitment may not exceed 20 years without prior approval by the Authority. Principal on the Loan shall be payable in amounts and on dates acceptable to the Authority commencing no later than one year succeeding substantial completion of construction of the Project. As applicable, interest on the Loan shall be payable on dates acceptable to the Authority, commencing no later than the first interest payment date on the Authority's bonds which finance the Loan. To the extent practicable, payments of the principal and interest on the Loan shall be scheduled to provide for level debt service payments.

Disbursements of the Loan are subject to satisfaction of the Terms and Conditions, some of which require continuing compliance by the Local Borrower. Failure to so comply may affect subsequent disbursements of the Loan. Disbursements of the Loan will be based solely on actual, eligible costs incurred with respect to the portion of the Project for which the Loan has been sought by the Local Borrower and approved by the Authority as specified in Exhibit B.

**Section 5.** The Local Borrower may only use Loan proceeds to pay eligible costs related to the Project, and legal and financing costs related thereto as follows: (a) planning services, (b) design services, and (c) construction costs.

**Section 6.** Each of the following is a condition precedent to the closing of the Loan:

- (a) The Local Borrower shall provide such financial and other information as the Authority or its agents and advisers may from time to time request, including a project budget, operating budget, projected cash flows and actual or pro forma financial statements, all prepared in accordance with Generally Accepted Accounting Principles, and in such form as the Authority may from time to time prescribe.
- (b) The Authority, in its discretion, shall find and determine that the Local Borrower is financially able to repay the Loan in accordance with the terms of the Loan Agreement.
- (c) With respect to procurement of professional services related to the Project to be paid from Loan proceeds, the Local Borrower shall have complied with federal and state statutes and rules governing procurement activity related to federal and or state funding including efforts to utilize minority, women, and small rural owned businesses.
- (d) The Local Borrower shall have validly executed and delivered a Loan Agreement in a form acceptable to the Authority.
  - 1) If the Loan is secured by pledging revenues from the system that includes the Project Facilities, the Loan shall be payable from the net revenues (defined as gross revenues after deduction only for the payment of reasonable expenses of operation and

maintenance) of the Project Facilities and such pledge shall not be subordinate to any other use of such net revenues. All system indebtedness payable to members of the Local Borrower's Board of Directors or Shareholders shall be subordinated to the loan from the Authority.

- 2) If the Loan is secured by pledging any other source of repayment, pledge shall not be subordinate to any other use of such repayment source.
- (e) No representation or warranty contained in this Binding Commitment or in any paper executed and delivered in connection with the transactions contemplated by this Binding Commitment shall be false or inaccurate in any material respect.
- (f) The Local Borrower shall undertake and faithfully perform each of its obligations, agreements and covenants contained in this Binding Commitment.
- (g) There shall be no litigation or proceeding pending or, to the knowledge of the Local Borrower, upon investigation, threatened, before any court or by any governmental agency which would materially adversely affect the Local Borrower or its Project Facilities or the Local Borrower's ability to repay the Loan.
- (h) Neither the execution of, or the consummation of the transactions contemplated by, this Binding Commitment nor the compliance with the terms and conditions of any other agreement or document referred to herein, shall conflict with, result in a breach of, or constitute a default under, any agreement to which the Local Borrower is party, or by which the Local Borrower or its property, including the Project Facilities, is bound, or any bylaw, regulation, order, writ, injunction or decree of any court or governmental agency or instrumentality having jurisdiction.
- (i) There shall be available to the Authority uncommitted loanable funds in an amount sufficient to satisfy the Authority's obligations under the Loan Agreement.
- (j) The Local Borrower shall have undertaken all actions necessary to comply with and satisfied the terms and conditions for a Loan as set forth in federal and state statutes, rules and regulations.
- (k) Prior to requesting disbursement of Loan proceeds in excess of 90 percent of the portion of the Loan that may be disbursed for payment of construction related costs of the Project, as set forth in Section 1 herein, submit to the Department and receive from the Department approval for an operation and maintenance manual.

**Section 7.** In connection with its Project Facilities, the Local Borrower hereby covenants and agrees with the Authority that the Local Borrower will:

- (a) Proceed with a project alternative which is acceptable to the Local Borrower, the Authority, and the Arizona Corporation Commission.
- (b) Provide information as requested by the Authority to determine the need for, or to complete any necessary, environmental review or analysis.
- (c) With respect to procurement procedures and affirmative action requirements related to the planning, design and construction of the Project to be paid from Loan proceeds, the Local Borrower shall have complied with federal and state statutes and rules governing procurement activity related to federal and or state funding.
- (d) With respect to contracts awarded by the Local Borrower, report minority, women, and small rural business enterprise utilization in the planning, design and construction of the Project, to the extent that such are to be paid from Loan proceeds, by executing and delivering to the Authority the appropriate requisition forms whenever any disbursements are made from loan proceeds.
- (e) As required, receive approval to construct from the Department.
- (f) Comply with all applicable federal, State and local statutes, rules and regulations relating to the acquisition and construction of the Project Facilities.
- (g) In the event construction is to be paid from Loan proceeds, receive the written approval of the Department of the plans and specifications for the Project, prior to advertising for construction bids for the Project.
- (h) Obtain the property rights necessary to construct the Treatment Works and, in procuring such rights, comply with federal and State law. Obtain and maintain the property rights necessary to operate and maintain the Project Facilities, and if procuring such rights by the exercise of eminent domain, comply with state law.
- (i) In the event construction is to be paid from Loan proceeds, follow guidance issued by the Authority in procuring contracts for construction of the Project, including, but not limited to (1) submission to the Authority of Project change orders, (2) obtaining approval from the Authority of any Project change order which significantly changes the scope or design of the Project or, when taking into account other change orders and contracts, are reasonably expected to result in expenditures in an amount greater than the Loan, (3) receiving approval from the Authority prior to the award of any construction contract for the Project and (4) receiving authorization from the Authority prior to initiating procurement of construction of the Project.
- (j) In the event construction is to be paid from Loan proceeds, cause the Project to be constructed in accordance with the plans and specifications, using approved contract papers.

- (k) Permit the Authority and its agents to inspect from time to time (1) the Project, (2) the Project Facilities and (3) the books and other financial records of the Project Facilities and of the Local Borrower with respect to the source of repayment of the Loan. Construction contracts shall provide that the Authority or its agents will have access to the Project and the work related thereto and that the Local Borrower's contractor will provide proper facilities for such access and inspection. All files and records pertaining to the Project shall be retained by the Local Borrower for at least six years after substantial completion of Project construction.
- (l) Upon substantial completion of Project construction and when requested by the Authority, provide certified invoices and reports to the Authority to permit the Authority to determine that the Loan proceeds have been used in compliance with the Loan Agreement.
- (m) In the event construction is to be paid from Loan proceeds, within one year of substantial completion of Project construction, certify to the Department that the Project meets performance standards, or if not met, promptly and diligently (1) submit to the Department a corrective action plan and (2) undertake any corrective action necessary to bring the Project into compliance with such standards.
- (n) In the event construction is to be paid from Loan proceeds, within one year of substantial completion of Project construction, provide as-built plans for the Project to the Department and obtain approval of construction from the Department.
- (o) Prior to initiation of operations, receive appropriate permits and approvals, including approval of construction, from the Department.

**Section 8.** In connection with its Project Facilities, the Local Borrower hereby covenants and agrees with the Authority that the Local Borrower will:

- (a) Comply with all applicable federal, State and local statutes, rules and regulations relating to the operation and maintenance of the Project.
- (b) During the term of the Loan Agreement (1) operate and maintain the Project and the Project Facilities, or cause them to be operated and maintained, (2) at all times maintain the Project Facilities in good condition and operate them in an efficient manner and (3) not sell, transfer, lease or otherwise encumber the Project Facilities or any portion thereof or any interest therein without the prior written consent of the Authority.
- (c) Acquire and maintain insurance coverage acceptable to the Authority to protect the Project Facilities and its operations. Insurance or performance bond proceeds shall be used to replace or repair the Project Facilities unless the Authority consents to a different use of such proceeds and awards.

- (d) Establish and maintain the books and other financial records of the Project (including the establishment of a separate account or subaccount for the Project) and the Project Facilities in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners.
- (e) Provide to the Authority such periodic financial reports as it may request from time to time, including (1) annual operating and capital budgets and (2) such other information requested or required of the Local Borrower by the Authority.
- (f) Establish and maintain rates and charges for the pledged source of repayment at a level adequate to produce and maintain sufficient revenue (including user and other charges, fees, income or revenues available to the Local Borrower) to provide for the proper operation and maintenance of the Project Facilities, to comply with and satisfy all covenants contained herein and in the Loan Agreement and to pay all obligations of the Project Facilities and of the Local Borrower with respect thereto.
- (g) Not borrow any money, enter into any agreement or incur any other liabilities in connection with the Project Facilities without the prior written consent of the Authority if such undertaking would involve, commit or use the revenues to be used to pay the principal of, or interest on, the Loan. Authority consent may be conditioned upon compliance with certain conditions concerning, among other things sufficiency of tax and drinking water revenues, priority of payment, absence of defaults and compliance with permits.
- (h) Undertake all actions necessary to investigate all potential material claims which the Local Borrower may have against other persons with respect to the Project Facilities and the Project and take whatever action is necessary or appropriate to (1) recover on any actionable material claims related to the Project or the planning, design or construction thereof, (2) meet applicable Project performance standards and (3) otherwise operate the Project Facilities in accordance with applicable federal, state and local law.

Section 9. Unless released from its obligations by the Authority in writing, the Local Borrower agrees to undertake and complete the Project and to seek disbursements of, and accept, the Loan in accordance with the terms and conditions of this Binding Commitment and of the Loan Agreement. Upon and after execution and delivery of the Loan Agreement by the Authority and the Local Borrower, in the event of any conflict between this Binding Commitment and the Loan Agreement, the terms of the Loan Agreement shall control.

Section 10. Any reference to a part, provision, section or other reference description of a federal or state statute, rule or regulation contained herein shall include any amendments, replacements or supplements to such statutes, rules or regulation as may be made effective from time to time.

Section 11. Neither this Binding Commitment, nor the Loan or the proceeds thereof, may be assigned by the Local Borrower without the prior written consent of the Authority and any attempted

assignment without consent shall be void. Neither the failure of the Authority nor the delay of the Authority to exercise any right, power or privilege under this Binding Commitment shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other further exercise of any other right, power or privilege. No change or modification of this Binding Commitment shall be valid unless the same is in writing and signed by the parties hereto. This Binding Commitment contains the entire agreement between the parties hereto and there are no promises, agreements, conditions, undertakings, warranties and representations, either written or oral, expressed or implied between the parties hereto other than as herein set forth. It is expressly understood and agreed that this Binding Commitment represents an integration of any and all prior and contemporaneous promises, agreements, conditions, undertakings, warranties and representations between the parties hereto.

Section 12. Amendments, Supplements and Modifications. This Binding Commitment may not be amended, supplemented or modified without the prior written consent of the Authority and the Local Borrower.

Section 13. Execution in Counterparts. This Binding Commitment may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 14. Arbitration. The parties hereto agree to use arbitration to the extent required by Section 12-1518 of the Arizona Revised Statutes, as amended.

Section 15. Notice Regarding A.R.S. 38-511. To the extent applicable by provision of law, the parties acknowledge that this Binding Commitment is subject to cancellation pursuant to A.R.S. 38-511, the provisions of which are hereby incorporated herein.

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# VAIL WATER COMPANY

## Financing Application Lender's Percentages

Number	Lender	Percent
1	Christopher H. & Sharon K. Sheafe	5.56%
2	The Estes Living Trust	11.11%
3	Sheldon J. Mandell Rev Trust UAD 2/13/87	5.56%
4	Howard J. Mandell	4.44%
5	Allen E. Mandell	2.22%
6	Arthur N. Mandell	2.22%
7	Michael R. Mandell	2.22%
8	Paul M. Mandell Rev Trust UAD 9/29/93	2.22%
9	Richard Mandell	1.11%
10	Robert Mandell	1.11%
11	Marci Barth	1.11%
12	Robert C. Neill	5.56%
13	Christopher H. & Sharon K. Sheafe	6.94%
14	The Estes Living Trust	13.89%
15	Sheldon J. Mandell Rev Trust UAD 2/13/87	6.94%
16	Howard J. Mandell	5.56%
17	Allen E. Mandell	2.78%
18	Arthur N. Mandell	2.78%
19	Michael R. Mandell	2.78%
20	Paul M. Mandell Rev Trust UAD 9/29/93	2.78%
21	Richard Mandell	1.39%
22	Robert Mandell	1.39%
23	Marci Barth	1.39%
24	Robert C. Neill	6.94%
		<hr/> 100.00%

Percent

PROMISSORY NOTE

SAMPLE

\$11,250.00

Tucson, Arizona  
June \_\_, 1999

FOR VALUE RECEIVED, the undersigned promises to pay to the order of Christopher H. and Sharon K. Sheafe, at 6932 N. Pusch Peak Place, Tucson, AZ 85718, or to such other persons or places as may be designated from time to time by notice to the undersigned, the sum of Eleven Thousand Two Hundred Fifty and 00/100 Dollars (\$11,250.00), together with interest on the unpaid principal balance of said indebtedness at the rate of ten and one-quarter percent (10.25%) per annum (computed on a 365 day year) from the date hereof, payable in lawful money of the United States of America, as follows:

Commencing on September 1, 1998 and on the first day of each month thereafter for 60 months, a quarterly principal and interest payment of Two Hundred Forty and 42/100 Dollars (\$240.42) shall be due until fully paid in accordance with the attached payment schedule.

The undersigned shall have the right from time to time to prepay the whole or any part of the principal sum hereof together with accrued interest to the date of prepayment.

The whole of the principal sum and interest shall become immediately due and payable at the option of the holder, without notice to the undersigned, upon default in the payment of any principal hereof or interest hereon. The undersigned shall pay all costs and reasonable attorneys' fees incurred by the holder hereof in collecting or enforcing payment hereof. The whole of the principal sum and accrued interest, together with costs and attorneys' fees shall bear interest at the rate of Twelve percent (12%) per annum, from and after maturity, whether or not resulting from acceleration. The payment and acceptance of any sums at any time, or the failure to exercise any rights herein given the holder, shall not constitute a waiver of holder's rights in the event of any subsequent default.

Should any installment of principal or interest become ten (10) days late, a late charge of 5% of such installment shall be paid to the holder by the maker.

As to this note and any deed of trust or any other instruments securing the indebtedness, the undersigned, any endorsers and any guarantors severally waive all applicable exemption rights, whether under the state constitution, homestead laws or otherwise, and also severally waive valuation and appraisal, presentment, protest and demand, notice of protest, demand and dishonor and nonpayment of this note, and expressly agree that the maturity of this note, or any payment hereunder, may be extended from time to time without in any way affecting the liability of the undersigned or said endorsers and guarantors.

This note is to be construed according to the laws of the State of Arizona.

No provision of this note or any instrument securing this note shall be deemed to require the payment or permit the collection of interest in excess of the maximum permitted by law over the term of this note. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided for herein, for whatever reason, the interest required to be paid hereunder shall be automatically reduced to the maximum legally enforceable and any excess paid over such maximum enforceable amount shall be automatically credited against any other indebtedness of the undersigned to the holder hereof, and thereafter, any remaining amount refunded to the undersigned in cash.

VAIL WATER COMPANY  
an Arizona corporation

By \_\_\_\_\_  
Sheldon J. Mandell, President

VAIL WATER COMPANY

RESOLUTION OF THE BOARD OF DIRECTORS

SEPTEMBER \_\_\_\_, 1999

The President reported on the need for certain facilities needed to provide water service within the service area of the Corporation, the long-term financing of those facilities and the Corporation's existing short term debt and the need for an Arizona Corporation Commission Order authorizing that financing. Discussion of those matters ensued.

Thereafter, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Board hereby authorizes the officers of the Corporation to file an Application with the Water Infrastructure Authority of Arizona (WIFA) for a loan at terms favorable to the Corporation for the purpose of funding construction of certain transmission line and appurtenant facilities necessary to intertie the Company's production, transmission and distribution facilities, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Company to seek interim term financing from its existing shareholders/lenders in an amount not to exceed \$300,000 for the purpose of funding operating losses incurred during 1998 and operating expenses anticipated to be incurred during 1999 and 2000, prior to the Company receiving authority from the Arizona Corporation Commission to increase its rates to recover those ongoing expenses, and

FURTHER RESOLVED, that the Board hereby authorized the officers of the Corporation to file an Application with the Arizona Corporation Commission for authority to increase its rates and charges such that the Company's operating expenses, debt service, and reasonable rate of return on its rate base can be duly recovered, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Corporation to file an application with the Arizona Corporation Commission for authority to issue promissory note(s) and evidence of indebtedness upon the terms and conditions hereinbelow mentioned and the filing of any and all amendments and supplements to said application, and

FURTHER RESOLVED, that upon receiving the requisite authority from the Arizona Corporation Commission, and subject to other legal requirements, the Corporation shall issue Promissory Note(s) and such evidence of long-term indebtedness for up to \$1,119,000 under terms and conditions advantageous to the Corporation for the purpose of funding certain plant additions, refinancing of certain existing obligations of the Corporation, and

FURTHER RESOLVED, that the proper officers of the Corporation be, and each of them hereby is, authorized to deliver promissory notes and other evidence of indebtedness upon receipt by the Corporation of the full purchase price or loan proceeds therefore, all in the manner and in the terms and conditions provided in the above-mentioned resolutions, and

FURTHER RESOLVED, that the proper officers of the Corporation be and each of them hereby is, authorized, in the name and on behalf of the Corporation, to conduct any and all negotiations, to make any and all arrangements, do and perform any and all acts and things and to execute and deliver any and all officer's certificates and other documents and instruments as they deem necessary or appropriate in order to consummate the issuance and otherwise to effectuate the purposes of each and all of the foregoing resolutions.

**VAIL WATER COMPANY**  
Vail, Arizona

**AUDITED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**For the Years Ended December 31, 1998 and 1997**

**EXHIBIT E**

**VAIL WATER COMPANY**  
**INDEX TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 1998 and 1997

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Peachin & Peto CPAs, LTD.

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Shareholders  
Vail Water Company

We have audited the accompanying statements of assets, capitalization and liabilities-income tax basis of Vail Water Company (an Arizona corporation) as of December 31, 1998 and 1997, and the related statements of revenue, expenses and accumulated deficit-income tax basis for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, capitalization and liabilities of Vail Water Company as of December 31, 1998 and 1997, and its revenue, expenses and accumulated deficit for the years then ended, on the basis of accounting described in Note 2.

As shown in the financial statements, the Company incurred operating losses of \$141,410 and \$132,422 for the years ended December 31, 1998 and 1997, respectively. At December 31, 1998 and 1997, the accumulated deficit totaled \$1,194,272 and \$1,052,862, respectively. These factors and others are discussed in Note 17.

Peachin & Peto CPAs, Ltd.  
February 10, 1999

*Peachin + Peto CPAs Ltd.*

VAIL WATER COMPANY  
 STATEMENTS OF ASSETS, CAPITALIZATION AND LIABILITITES -  
 INCOME TAX BASIS  
 December 31, 1998 and 1997

	1998	1997
<b>ASSETS</b>		
Utility plant		
Land	\$ 3,500	\$ 3,500
Plant and equipment (Note 3)	2,175,850	1,486,052
Construction work in progress (Note 4)	78,891	222,548
	<hr/>	<hr/>
Total utility plant	2,258,241	1,712,100
Less accumulated depreciation	( 786,718)	( 736,794)
	<hr/>	<hr/>
Net utility plant	1,471,523	975,306
	<hr/>	<hr/>
Software, net of accumulated amortization of \$2,377 and \$1,393	573	1,557
Rate case expense, net of accumulated amortization of \$2,605	28,658	
Stock acquisition fee	3,500	3,500
Current assets		
Cash	62,951	28,270
Customer accounts receivable	29,903	22,253
Prepaid expenses (Note 5)	23,381	25,957
	<hr/>	<hr/>
Total current assets	116,235	76,480
	<hr/>	<hr/>
Noncurrent assets		
Money market funds (Note 6)	147,644	
	<hr/>	<hr/>
Total assets	\$ 1,768,133	\$ 1,056,843
	<hr/> <hr/>	<hr/> <hr/>

See the notes to the financial statements.

VAIL WATER COMPANY  
 STATEMENTS OF ASSETS, CAPITALIZATION AND LIABILITIES -  
 INCOME TAX BASIS (Continued)  
 December 31, 1998 and 1997

	1998	1997
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization</b>		
Common stock (\$10 par value; 1,000,000 shares authorized; 63,810 shares issued and outstanding)	\$ 638,099	\$ 638,099
Capital in excess of stated value (Note 13)	516,085	426,085
Accumulated deficit	( 1,194,272)	( 1,052,862)
<b>Total capitalization</b>	<b>( 40,088)</b>	<b>11,322</b>
<b>Current liabilities</b>		
Accounts payable and accrued expenses (Note 15)	67,730	71,954
Interest payable to shareholders (Note 13)	9,104	6,966
Notes payable to shareholders (Note 13)	150,000	90,000
Customer deposits (Note 7)	14,612	10,080
<b>Total current liabilities</b>	<b>241,446</b>	<b>179,000</b>
Customer deposits, long-term (Note 7)	34,105	23,655
<b>Advances for construction</b>		
Line extension agreements (Note 8)	1,355,737	842,866
Hook-up fee tariffs (Note 9)	5,040	
Sub-station advance (Note 10)	30,000	
Annexation agreements (Note 11)	141,893	
<b>Total advances for construction</b>	<b>1,532,670</b>	<b>842,866</b>
<b>Total liabilities</b>	<b>1,808,221</b>	<b>1,045,521</b>
<b>Total liabilities and capitalization</b>	<b>\$ 1,768,133</b>	<b>\$ 1,056,843</b>

See the notes to the financial statements.

VAIL WATER COMPANY  
 STATEMENTS OF REVENUE, EXPENSES AND ACCUMULATED DEFICIT -  
 INCOME TAX BASIS  
 For the Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Operating revenue	\$ 260,718	\$ 209,385
Operating expenses		
Administrative and general (Note 12)	122,085	100,547
Professional services (Note 15)	119,506	99,077
Depreciation and amortization expenses	53,512	38,220
Purchased water	37,728	35,106
Purchased power	39,634	31,997
Property and other taxes	14,841	13,997
Repairs and maintenance	6,974	7,230
Other	5,934	8,293
Total operating expenses	<u>400,214</u>	<u>334,467</u>
Net operating loss before interest income and (expense)	( 139,496)	( 125,082)
Interest income	711	
Interest expense	( 2,625)	( 7,340)
Net loss	( 141,410)	( 132,422)
Accumulated deficit, beginning of year	( 1,052,862)	( 920,440)
Accumulated deficit, end of year	<u><u>\$ ( 1,194,272)</u></u>	<u><u>\$ ( 1,052,862)</u></u>

See the notes to the financial statements.

**VAIL WATER COMPANY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1998 and 1997**

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**Note 1 - Organization and Nature of Operations**

Vail Water Company, formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. The Company is operating under a rate order effective September 1, 1998.

The Company provides groundwater to approximately 637 customers in Vail, Arizona. As a consequence of utilizing groundwater, the Company is subject to various water conservation requirements authorized pursuant to Title 45, Chapter 2, Article 9 of the Arizona Revised Statutes and as set forth in the second Management Area. In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project water.

No single customer accounted for more than 5% of the Company's sales. The Company owns two wells, both provide water to customers.

**Note 2 - Significant Accounting Policies**

**a) Basis of Accounting**

The financial statements have been prepared on the basis of accounting that the Company uses to file its income tax return. The basis differs from generally accepted accounting principles (GAAP) in the following ways:

- The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996 are not taxable when received and have a zero tax basis to the company:
  - 1) if not included in the utility's rate base for rate making purposes,
  - 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
  - 3) if certain conditions concerning the keeping of records are met.

**VAIL WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 1998 and 1997**

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**Note 2 - Significant Accounting Policies (Continued)**

**a) Basis of Accounting (Continued)**

For GAAP, a regulated entity should capitalize costs if it is probable that future revenue will be provided to recover the costs and record a liability for revenue that provides recovery of expected future costs. Under GAAP, revenue recorded as a liability should be recognized in income as related costs are incurred.

- The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.
- The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

**b) Plant and Equipment**

Plant and equipment are stated at cost and depreciated using the straight-line and accelerated methods as allowed by the Internal Revenue Code over the various lives of the applicable assets (Note 3).

**c) Income Taxes**

The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the net earnings or losses of the corporation will be reported on the income tax returns of the individual stockholders.

Generally, a corporation computes built in gains or losses on the conversion of a C corporation to an S corporation based on the differences between the fair market value and tax basis of the assets held by the corporation. At the time the Company converted to S Corporation status, it had no built-in gains or losses. However, the C corporation had net operating losses amounting to \$891,078 at the time of conversion to S corporation status.

**d) Advances and Contributions in Aid of Construction**

Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities, generally as new customers begin to receive service. Most of the amounts are

**VAIL WATER COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 1998 and 1997

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**Note 2 - Significant Accounting Policies (Continued)**

**d) Advances and Contributions in Aid of Construction (Continued)**

refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under a) above.

**e) Concentration of Credit Risk**

In the normal course of business, the Company extends unsecured credit to customers.

**f) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

**g) Reclassifications**

Certain comparative amounts for 1997 have been reclassified from prior presentation for comparative purposes. Such reclassifications have no effect on the statements of assets, capitalization and liabilities or the statements of revenue, expenses and accumulated deficit.

**Note 3 - Plant and Equipment**

Plant and equipment at December 31, 1998 and 1997 consist of:

	<u>1998</u>	<u>1997</u>
	\$	\$
Transmission and distribution mains	1,405,830	913,454
Wells and springs	145,736	133,197
Pumping equipment	289,392	129,675
Distribution reservoirs and standpipes	118,072	118,072
Structures and improvements	61,770	61,770
Meters	105,685	81,410
Other equipment and furniture	49,365	48,474
	<u>\$ 2,175,850</u>	<u>\$ 1,486,052</u>

VAIL WATER COMPANY  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1998 and 1997

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**Note 3 - Plant and Equipment (Continued)**

Depreciation expense charged to operations was \$49,924 and \$37,237 in 1998 and 1997, respectively.

The useful lives of plant and equipment for purposes of computing depreciation are:

Utility plant	20 - 25 years
Furniture and fixtures	7 years
Equipment	5 - 7 years

**Note 4 - Construction Work in Progress**

Construction work in progress consists of water meters, transmission and distribution reservoirs. The balance of construction work in progress at December 31, 1998 and 1997 was \$78,891 and \$222,548, respectively. Construction work in progress is funded by advances for construction.

**Note 5 - Prepaid Expenses**

Prepaid expenses at December 31, 1998 and 1997 consist of:

	<u>1998</u>	<u>1997</u>
Water rights paid to the Central Arizona Project	\$ 18,864	\$ 18,864
Liability insurance	4,517	6,093
Other	-	1,000
	<u>\$ 23,381</u>	<u>\$ 25,957</u>

**Note 6 - Cash Held as Noncurrent Asset**

The Company plans to improve utility plant facilities (Notes 9 and 11). Cash in the amount of \$ 147,644, which has been set aside for that purpose, has been invested in money market funds.

VAIL WATER COMPANY  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1998 and 1997

**Note 7 - Customer Deposits**

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the company's 1998 rate order and are refundable at a rate of 10% per year.

Guarantee deposits are refunded after one year of satisfactory water payments. The guarantee deposits bear minimal interest, which is periodically paid to the customers. Customer deposits at December 31, 1998 and 1997 were:

	<u>1998</u>	<u>1997</u>
Meter	\$ 22,000	\$ 12,285
Service line	15,895	13,950
Guarantee	<u>10,822</u>	<u>7,500</u>
	\$ <u>48,717</u>	\$ <u>33,735</u>

The scheduled deposit refunds as of December 31, 1998 for each of the next five years and in the aggregate are as follows:

<u>At December 31, 1998</u>	<u>Annual Refund</u>
1999	\$ 14,612
2000	3,790
2001	3,790
2002	3,790
2003	3,790
Subsequent years	<u>18,945</u>
	\$ <u>48,717</u>

**Note 8 - Line Extension Agreements**

Customers have advanced funds to the Company to construct line extensions to the customers' property. The Company agrees to refund the advances to the customers, up to the amount advanced, over 15 to 20 years based upon 15% to 20% of gross annual revenue from water sales to the customers. At the expiration of this period any unrefunded balance remains with the Company. No agreements expired during the years ended December 31, 1998 and 1997.

**VAIL WATER COMPANY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1998 and 1997**

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**Note 8 - Line Extension Agreements (Continued)**

The Company entered into a line extension agreement on January 9, 1998 totaling \$49,030 with Vail Valley Joint Venture, a partnership controlled by certain shareholders.

**Note 9 - Hook-Up Fee Tariffs**

On January 14, 1998 The Arizona Corporation Commission approved an off-site facilities hook-up fee tariff applicable to the certified area south of the railroad tracks. Customers have advanced funds to the company for hook-up fees at December 31, 1998 in the amount of \$5,040. The fee is a non-refundable charge assessed to new connections requiring a main extension. The hook-up fee will be included in the company's rate base for rate making purposes.

**Note 10 - Substation Advance**

On May 22, 1998, The Arizona Corporation approved a Settlement and Water Service Agreement to resolve the dispute between Vail Water Company and M & S Properties, LLC. The agreement stipulates that M & S Properties, LLC contribute \$30,000 toward the cost of the design and construction of a new transmission main and booster station. M & S Properties, LLC owners received the right to request, at no additional cost, the construction of "tap-ins" along the new transmission main to provide water service to their respective properties. The \$30,000 advance will be included in the company's rate base for rate making purposes.

**Note 11 - Annexation Participation Agreement**

On December 31, 1998 Vail Water Company entered into an agreement with the Vail Water Annexation Group. The Vail Water Annexation Group is a group of property owners seeking the Annexation discussed in Note 16. As a condition precedent for Vail Water Company to apply to the Arizona Corporation Commission (ACC) for the annexation, the Vail Water Annexation Group shall pay a total of \$175,000 to the company for certain facilities improvements. If the annexation is not approved by the ACC, these payments will be refunded to the owners contributing. If the ACC approves the annexation, the payments will become non-refundable advances in aid of construction. As a further condition precedent for Vail Water Company to apply to the ACC for the annexation, the Vail Water Annexation Group will pay the company \$25,000 for estimated legal and consulting costs associated with the annexation application. All application cost contributions will be non-refundable.

At December 31, 1998, annexation participation advances amounted to \$141,893.

VAIL WATER COMPANY  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1998 and 1997

Note 12 - Lease

The Company leases office facilities from Vail Valley Joint Venture, a partnership controlled by certain of the company's shareholders. The lease commenced August 1, 1998 and expires August 1, 1999. Rent expense in 1998 and 1997 was \$6,000 and \$2,500, respectively. Annual rental commitments under the lease agreement follows:

<u>Period</u>	<u>Annual Rental</u>
1999	\$ 3,500

Note 13 - Notes Payable to Shareholders

Notes payable to shareholders at December 31, 1998 and 1997 were as follows:

	<u>1998</u>	<u>1997</u>
Unsecured notes: payable upon demand; if no demand, on April 28, 1999. Interest accrues at an annual rate of 10.25%.	\$ 100,000	\$ -
Unsecured notes: payable upon demand; if no demand, on August 24, 1999. Interest accrues at an annual rate of 10.25%.	50,000	-
Unsecured notes: payable upon demand; if no demand, on January 20, 1998. Interest accrues at an annual rate of 10.25%	-	40,000
Unsecured notes: payable upon demand; if no demand, on May 8, 1998. Interest accrues at an annual rate of 10.25%.	-	50,000
<b>Total notes payable to shareholders</b>	<b>\$ 150,000</b>	<b>\$ 90,000</b>

On August 28, 1998, the Arizona Corporation Commission denied the Company's request to convert \$90,000 in short-term notes into long-term notes. Accordingly, at December 31, 1998, \$90,000 was reclassified from notes payable to shareholders to capital in excess of stated value and \$6,966 shareholder note interest accrued at December 31, 1997 was reversed.

**VAIL WATER COMPANY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1998 and 1997**

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**Note 13 - Notes Payable to Shareholders (Continued)**

Shareholder note interest expense for the years ended December 31, 1998 and 1997 was \$2,139 and \$6,966, respectively. Accrued interest at December 31, 1998 and 1997 was \$9,104 and \$6,966, respectively.

**Note 14 - Stock Transfer Restrictions**

The shareholders have entered into a Shareholders' Agreement (Agreement) which establishes certain transfer restrictions on the stock of the Company as follows:

- Shareholders may not assign, sell, pledge, encumber, give or otherwise transfer or alienate any shares to another entity if such transfer would disqualify the Company's S corporation election.
- Shareholders may transfer their shares to or for the benefit of an immediate family member subject to certain restrictions of the Agreement.
- Shareholders may transfer all or any number of shares to one or more members of the shareholder group.
- The Agreement provides certain stock transfer restrictions in the event that a shareholder shall die, become permanently disabled or become subject to another event defined as an Involuntary Lifetime Transfer in the Agreement.

During the year ended December 31, 1998, 319,046 shares of stock were transferred among three members of the shareholder group.

**Note 15 - Management Agreement**

The Company has entered into an agreement for management services with TEM CORP, a corporation controlled by a shareholder of the company. The management agreement expires June 30, 1999 and requires the Company to pay \$7 per customer per month to TEM CORP, (\$5 prior to April 1, 1997) in exchange for certain accounting and administrative functions. Management services paid under the contract for the years ended December 31, 1998 and 1997 were \$ 49,798 and \$41,582, respectively. Management services are included in professional services. At December 31, 1998 and 1997, \$8,911 and \$3,689, respectively, are included in accounts payable and accrued expenses.

**VAIL WATER COMPANY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1998 and 1997**

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**Note 16 - Extension of Certificate of Convenience and Necessity**

On January 6, 1999 Vail Water Company submitted an application for an Extension of Certificate of Convenience and Necessity (territory) to the Arizona Corporation Commission. The purpose of the application is to extend the existing territory to include additional property owners who wish to become part of Vail Water Company. The total estimated cost to construct utility facilities to serve customers in the requested area is \$760,000. The utility facilities will be financed by a combination of hook-up fees and line extension agreements. Construction of the utility facilities is estimated to begin July 1, 1999 and to be completed July 1, 2009.

**Note 17 - Going Concern**

At December 31, 1998 and 1997, the Company incurred net losses of \$141,410 and \$132,422, respectively. At December 31, 1998, the Company's current liabilities exceed its current assets by \$125,211, and total liabilities exceed total assets by \$40,088. At December 31, 1997, the Company's current liabilities exceed its current assets by \$102,520, and total assets exceed total liabilities by \$11,322.

The ability of the Company to continue as a going concern is dependent upon obtaining additional capital or debt financing from the shareholders. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**Vail Water Company**  
 Test Year Ended December 31, 1996  
 Summary of Cost of Capital With and Without Proposed Debt and  
 Interest Coverage and Debt Service

EXHIBIT  
 SCHEDULE D-1  
 PAGE 2  
 WITNESS: Kozoman

Line  
 No.

End of Test Year, Based on Invested Equity With Proposed Debt

	Amount	Percent of Total
Long-Term Debt	\$293,000	12.93%
Long-Term Debt	\$819,000	36.14%
Total Debt	<u>\$1,112,000</u>	<u>49.07%</u>
Common Equity	\$1,154,184	50.93%
	<u>\$2,266,184</u>	<u>100.00%</u>

End of Test Year, Based on Invested Equity Without Proposed Debt  
 from Stockholders and/or WIFA

	Amount	Percent of Total		Amount	Percent of Total
Long-Term Debt	\$0	0.00%	Long-Term Debt	\$0	0.00%
Long-Term Debt	\$819,000	36.14%	Long-Term Debt	\$0	0.00%
Total Debt	<u>\$819,000</u>	<u>36.14%</u>	Total Debt	<u>\$0</u>	<u>0.00%</u>
Common Equity	\$1,447,414	63.86%	Common Equity	\$1,447,414	100.00%
	<u>\$2,266,414</u>	<u>100.00%</u>		<u>\$1,447,414</u>	<u>100.00%</u>

**Debt Service and Interest Coverage at Present and Proposed Rates:**

**Interest Coverage:**

	Interest Expense	Actual Results	Adjusted Results	Proposed Rates
Operating Income		(\$142,644)	(\$177,279)	\$121,555
No Debt:	0			
WIFA Debt	46,995	(3.04)	(3.77)	2.59
Stockholder Debt	29,816	(4.78)	(5.95)	4.98
WIFA & Stockholder Debt	76,811	(1.86)	(2.31)	1.58
(Operating Income divided by Interest Expense)				

**Debt Service:**

	Amount	Actual Results	Adjusted Results	Proposed Rates
Operating Income		(\$142,644)	(\$177,279)	\$121,555
Depreciation		54,057	70,878	70,878
Amortization of Prepaid Water Rights				3,694
Available for Debt Service		<u>(\$88,588)</u>	<u>(\$106,400)</u>	<u>\$196,127</u>
Principal and Interest Payments				
No Debt:		0	0	0
WIFA Debt				69,338
Stockholder Debt				34,542
WIFA Fund Reserve				13,870
Meter Deposit Refunds		3,790	3,790	3,790
Payments of Advance in Aid		16,883	16,883	36,655
Total Debt Service		<u>20,673</u>	<u>20,673</u>	<u>158,194</u>
Debt Service		<u>(4.29)</u>	<u>(5.15)</u>	<u>1.24</u>

**EXHIBIT F**

## CERTIFICATE OF SECRETARY

I, the undersigned, being the Assistant Secretary of Vail Water Company do hereby certify the foregoing to be duly adopted resolutions of the Corporation's Board of Directors as adopted at a Special Meeting of the Directors held on September \_\_, 1999.

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Paul M. Mandell, Secretary



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The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 1999, by Doug Noll.

\_\_\_\_\_  
Notary Public

My Commission Expires:  
\_\_\_\_\_

Original and ten copies of the foregoing filed this \_\_\_\_ day of \_\_\_\_\_, 1999:

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

**PUBLIC NOTICE  
OF  
AN APPLICATION FOR AN ORDER AUTHORIZING  
THE ISSUANCE OF PROMISSORY NOTE (S) AND  
OTHER EVIDENCE OF INDEBTEDNESS  
BY  
VAIL WATER COMPANY**

Vail Water Company (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue up to \$1,119,000 in promissory notes and other evidence of indebtedness. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 5780 N. Swan Road, Suite S-100, Tucson, Arizona 85360.

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

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

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

If you have any questions or concerns about this application or have any objections to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007, or 400 W. Congress, Tucson, Arizona, 85701 or call 1-800-222-7000.

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**DIRECT TESTIMONY OF**

**RONALD L. KOZOMAN**

**FILED ON BEHALF OF**

**VAIL WATER COMPANY**

**FINANCING APPLICATION**

**DOCKET NO. W-01651A-99-\_\_**

**FILED JUNE 18, 1999**

VAIL WATER COMPANY  
FINANCING APPLICATION  
DOCKET NO. W-01651A-99-  
DIRECT TESTIMONY  
OF RONALD L. KOZOMAN  
FILED JUNE 18, 1999

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4  
5 Q. Please state your name and business address.

6 A. My name is Ronald L. Kozoman. My business address is 1605 West Mulberry Drive,  
7 Phoenix, Arizona 85015.

8 Q. By whom are you employed and in what capacity?

9 A. I am self employed and provide consulting services to utility companies.

10 Q. Have you prepared a resume of your professional, educational and work experience?

11 A. Yes I have. It is attached as Appendix A to this Testimony.

12 Q. Will you please briefly describe your prior regulatory experience?

13 A. Yes. I was employed by the Illinois Commerce Commission ("ICC") from 1977 to 1981  
14 in various accounting and management positions. While with the ICC, I testified as the  
15 ICC Staff's expert witness on cost of capital, rate base and operating income in rate cases  
16 involving Commonwealth Edison Company, Illinois Bell Telephone, and other major  
17 Illinois utility companies.

18 I was first retained by the Arizona Corporation Commission ("Commission" or  
19 "ACC") in 1981 as a consultant to prepare Commission Staff's cost of capital testimony for  
20 the Southwest Gas Corporation and Southern Union Gas Company rate cases. I later  
21 became Chief Rate Analyst for the Commission. As Chief Rate Analyst, I was responsible  
22 for supervising all the Commission's rate analysts and utility auditors. While with the  
23 Commission, I testified on cost of capital concerning Sun City West Utilities, Continental  
24

1 Telephone Company of California, and Mountain Bell Telephone (now U.S. West  
2 Communications), among others.

3 I have testified as an independent consultant, on behalf of utility companies, utility  
4 consumers, and regulatory agencies. I am also an instructor in the areas of public utility  
5 accounting and general regulatory practices for the National Association of Regulatory  
6 Utility Commissioners in its Annual Regulatory Studies Program, held at Michigan State  
7 University in East Lansing, Michigan, Currently I am teaching revenue requirements, cost  
8 of service study and rate design, and accounting for non-accountants.

9 Q. Have you been retained by Vail Water Company to assist in obtaining the Commission  
10 approval in this matter?

11 A. Yes I have.

12 Q. What is the purpose of your testimony in this proceeding?

13 A. I will testify regarding the Company's need for additional capital funds and the  
14 purposes for which those funds have been or will be used.

15 Q. Will you please explain the first category of long term debt the Company is requesting  
16 the Commission approve in this proceeding?

17 A. Yes, the Company needs to refinance on a long term basis approximately \$150,000.00 in  
18 historic operating expenses which it was required to borrow from shareholders during the  
19 test year. Those funds were necessary to pay the day-to-day operating costs of the  
20 Company. The Company simply did not have sufficient revenues to support those  
21 minimum expenses.

22 Q. Please explain the balance of this category.  
23  
24

1 A. Yes. The remaining \$143,000.00 is the Company's estimate of operating expenses it  
2 will incur for which it does not have sufficient revenues, which expenses will be incurred  
3 prior the Company receiving the rate relief which it has requested in a companion rate  
4 application.

5 Q. What are the proposed terms and conditions these loans totaling \$293,000.00?

6 A. The shareholders have agreed to lend the money to the Company at 10.25% interest  
7 rate for a term of 20 years. This would result in monthly debt service obligation of  
8 \$2,878.47.

9 Q. Will the entirety of these funds be required to operate the Company?

10 A. That depends upon the Commission's actions. The Company anticipates filing an  
11 interim rate application within 30 days of filing the permanent application. We are hopeful  
12 that the Commission will grant those interim rates in the not too distant future. If that  
13 occurs, the Company may not need to "draw down" the entirety of the anticipated  
14 \$143,000.00 annual short fall.

15 Q. Have you prepared an exhibit to support that scenario?

16 A. Yes. Attached to my Testimony as Attachment A is a cash flow schedule projecting the  
17 next twelve month period at the Company's existing rates and expense levels. It is evident  
18 from that schedule that the Company will need to borrow operating expenses starting in  
19 November and continuing until the requested rate relief is granted. It is equally apparent  
20 from that schedule that if the interim rates become effective in approximately 90 days, the  
21 cash flow would alter significantly and lesser draw downs would be required.

22 Q. Mr. Kozoman, the Company is proposing long term debt financing to pay operating costs.  
23 Is this a normal procedure?

24

1 A. Normal, perhaps not, but it certainly is not unprecedented. The statutes contemplate  
2 this possibility when they require that the Commission specifically approve long term debt  
3 that will finance operating expenses. That statute recognizes that at certain times a utility  
4 company may operate with a negative cash flow, but also recognizes that the essential  
5 nature of utilities require that those incurred operating expenses be paid. Therefore, the  
6 only other source of cash in addition to revenues is capital investments.

7 Q. You indicated this is not unprecedented.

8 A. That is true. This Commission regularly approved long term capital for Arizona  
9 Public Service during the period it was constructing the Palo Verde Nuclear Units. This  
10 was obviously a unique time in which the cash requirements on the Company exceeding its  
11 operating revenues. That is precisely what Vail Water Company is incurring at this time.

12 Q. Would you please explain the remaining loan that the Company is requesting in this  
13 proceeding?

14 A. Yes. Vail has received an allocation from the Water Infrastructure Finance Authority  
15 of Arizona (WIFA) for an \$819,000.00 long term loan. The WIFA Board of Directors  
16 provided a Binding Commitment on June 10, 1999, a copy of which is attached to the  
17 Application as Exhibit B.

18 Q. What will be the purpose of those loan proceeds?

19 A. As you are aware, WIFA has strict requirements for the type and amount of facilities  
20 for which they will make loans. The Company, and obviously WIFA, believe that it is  
21 essential to the continuing operation of the Company that certain facilities be added to the  
22 system. They include the following: (1) building a chlorination facility at Well #6 and  
23 connecting that well to the distribution system with approximately 6,000 feet of 12-inch

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1 diameter main (includes crossing of Pantano Wash), (2) making upgrades at two booster  
2 stations and completely rebuilding one booster station, and (3) constructing 6,700 feet of  
3 12-inch diameter distribution line to replace an inadequately sized 6-inch diameter line.

4 Q. What are the terms and conditions under which WIFA will lend these funds?

5 A. WIFA's estimate of the effective interest rate would be 5.81% (75% of current Prime  
6 Rate of 7.75%). They loan money for a twenty year term, resulting in a monthly debt  
7 service obligation of \$5,778.15.

8 Q. Are there other requirements of the WIFA loan?

9 A. Yes. The Company must establish a reserve as a credit enhancement for the loan. That  
10 reserve is accumulated on a monthly basis until it reaches \$69,350.00.

11 Q. Is there a cost for that reserve to the Company?

12 A. Yes. We are obviously paying interest on the entirety of that loan, but because of the  
13 reserve requirement we do not have the use of those funds. Therefore, it is equivalent to a  
14 compensating balance under a more traditional bank loan. For that reason we will request  
15 that the Commission include that reserve requirement as part of the working capital  
16 and/or as a rate base item of the Company in the rate proceeding.

17 Q. Will the Company capitalize the long term debt associated with the historic and estimated  
18 operating expenses of the Company?

19 A. They will certainly be capitalized as long term debt of the Company, however, they will  
20 not be included in the Company's rate base and the Company will not request a return on  
21 those funds. The WIFA loan again will be capitalized as plant-in-service and will show as a  
22 long term debt of the Company. Those facilities will, of course, be included in the  
23 Company's rate base.

24

1 Q. Have you prepared a schedule showing the impact of the proposed capitalization on the  
2 Company with and without the proposed debt?

3 A. Yes. The attached Schedule contains the Company's capitalization with and without  
4 the proposed debt. Additionally, I have included the debt service and interest coverage  
5 ratios at present and proposed rates. It is evident from this Schedule that the Company  
6 can not service its debt, pay its meter deposits or advances in need of construction from the  
7 existing cash flow. The Company's negative cash flow is approximately \$88,000.00. Based  
8 upon the adjustments the Company is proposing in its rate application, the negative cash  
9 flow exceeds \$106,000.00. The proposed rates would provide the Company with a positive  
10 cash flow of \$196,000.00 and provide debt service coverage of 1.24 times.

11 Q. In your opinion, is the proposed financing reasonably necessary for the purposes set forth in  
12 the Application?

13 A. Yes.

14 Q. Is the financing compatible with the public interest?

15 A. Yes.

16 Q. Is the financing compatible with the proper performance by the Company as a public service  
17 corporation?

18 A. Yes.

19 Q. Will the approval of the financing impair the ability of the Company to perform its public  
20 service obligations?

21 A. No, in fact, this financing is absolutely necessary for the Company to be able to  
22 perform.

23 Q. Mr. Kozoman, does that conclude your testimony regarding the Financing Application?  
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1 A. Yes it does.

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Vail Water Company  
 Test Year Ended December 31, 1999  
 Statement of Projected Cash Flows  
 Without Interim Rate Increase

Exhibit  
 Schedule D-4-CF  
 Page 1  
 Witness: Kozoman

Line No.	Adjusted Test Year	1999 June	1999 July	1999 August	1999 Sept.	1999 Oct.	1999 Nov.	1999 Dec.	2000 Jan.	2000 Feb.	2000 March	2000 April	2000 May	Totals
1	Operating Revenues:													
2	Metered Water Sales	\$317,012	\$30,592	\$36,000	\$26,945	\$28,540	\$30,718	\$27,080	\$24,390	\$19,860	\$21,090	\$18,858	\$25,625	\$317,012
3	Miscellaneous Revenues	3,341	278	278	278	278	278	278	278	278	278	278	278	3,341
4	Proforma Revenue Amortization	23,344	2,807	2,198	1,461	1,097	436	42	3,372	3,575	2,917	2,896	2,544	23,344
5	5/8 inch meters	\$343,697	\$33,677	\$38,476	\$28,685	\$29,915	\$31,432	\$27,400	\$24,669	\$23,510	\$24,943	\$22,053	\$28,799	\$343,697
6	Total Revenues													
7	Operating Expenses:													
8	Salaries	\$73,465	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$6,122	\$73,465
9	Purchased CAP Water	37,728	0	0	0	0	0	0	0	0	0	0	0	37,728
10	CAP Recharge Expense	47,160	0	0	0	0	0	0	0	0	0	0	0	47,160
11	CAP Recharge Expense	(3,930)	0	0	0	0	0	0	0	0	0	0	0	(3,930)
12	Purchased Pumping Power	43,307	4,469	5,537	3,667	3,928	4,383	3,621	3,072	2,429	2,674	2,201	3,459	43,307
13	Water Testing	1,189	99	99	99	99	99	99	99	99	99	99	99	1,189
14	Water Treatment	874	73	73	73	73	73	73	73	73	73	73	73	874
15	Repairs and Maintenance	6,974	581	581	581	581	581	581	581	581	581	581	581	6,974
16	Office Supplies	19,468	1,622	1,622	1,622	1,622	1,622	1,622	1,622	1,622	1,622	1,622	1,622	19,468
17	Outside Services	123,384	10,282	10,282	10,282	10,282	10,282	10,282	10,282	10,282	10,282	10,282	10,282	123,384
18	Rate Case Expense	25,000	0	0	0	0	0	0	0	0	0	0	0	25,000
19	Rents	6,000	500	500	500	500	500	500	500	500	500	500	500	6,000
20	Transportation Expense	3,600	300	300	300	300	300	300	300	300	300	300	300	3,600
21	General Insurance	14,425	7,212	7,212	7,212	7,212	7,212	7,212	7,212	7,212	7,212	7,212	7,212	14,425
22	Health & Life Insurance	6,062	505	505	505	505	505	505	505	505	505	505	505	6,062
23	Misc. Operating Expenses	14,308	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192	1,192	14,308
24	Property Tax (a)	14,549	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	7,275	14,549
25	Depreciation	70,878	0	0	0	0	0	0	0	0	0	0	0	70,878
26	Amortization of Prepaid Water Rights	3,694	0	0	0	0	0	0	0	0	0	0	0	3,694
27	Total Operating Expenses	\$20,976	\$32,978	\$26,814	\$24,964	\$25,205	\$32,935	\$47,365	\$27,952	\$27,554	\$27,081	\$28,339	\$24,845	\$490,123
28	Operating Income	(177,279)	\$699	\$11,662	\$3,720	\$4,710	(\$1,502)	(\$19,964)	(\$3,283)	(\$36,011)	(\$5,027)	\$460	(\$24,707)	(\$146,426)
29	Interest Expense on \$150,000 from '98	15,375	1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281	15,375
30	Other Income	711	59	59	59	59	59	59	59	59	59	59	59	711
31	Net Income	(253,379)	(\$523)	\$10,440	\$2,498	\$3,498	(\$2,724)	(\$21,186)	(\$4,505)	(\$37,233)	(\$3,833)	(\$6,249)	(\$762)	(\$25,929)
32	Cash Flow	50,000	(\$523)	\$10,440	\$2,498	\$3,498	(\$2,724)	(\$21,186)	(\$4,505)	(\$37,233)	(\$3,833)	(\$6,249)	(\$762)	(\$161,090)
33	Completed Borrowing in '99 (b)		427	427	427	427	427	427	427	427	427	427	427	8,179
34	Additional Interest Expense (c)		2,624	1,674	11,687	13,758	16,819	13,668	1,969	1,909	1,301	1,054	831	1,079
35	Beginning Cash Balance (d)		\$1,674	\$11,687	\$13,758	\$16,819	\$13,668	\$1,969	\$1,909	\$1,301	\$1,054	\$831	\$1,079	(\$169,269)
36	Ending Cash Balance (e)		\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$102,500	\$107,000	\$114,000	\$116,000	\$143,000
37	Cumulative Borrowing		(\$960)	\$10,013	\$2,071	\$3,061	(\$3,151)	(\$21,699)	(\$5,060)	(\$38,108)	(\$4,747)	(\$7,223)	(\$1,752)	(\$169,269)
38	Net Income, after additional interest													
39	(a) Unaudited Property Taxes in test year, (b) \$50,000 already borrowed in 1999, (c) Simple Interest at 10.25% per year, (d) Cash Balance at June 14, 1999, and													
40	(e) WFA Loan excluded from computations.													
41														