

NEW APPLICATION

ORIGINAL



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RECEIVED
BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

2014 DEC -4 A 11: 06

Arizona Corporation Commission

DOCKETED

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GARY PIERCE
BRENDA BURNS
ROBERT BURNS
SUSAN BITTER SMITH

AZ CORP COMMISSION
DOCKET CONTROL

DEC 04 2014

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF RIO VERDE UTILITIES, INC., TO EXTEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE TO SERVE RIO VERDE HIGHLANDS AND PORTIONS OF RIO VERDE UNITS TEN AND ELEVEN.

DOCKET NO. WS-02156A-14-0401

APPLICATION

Under Ariz. Rev. Stat. § 40-281 and A.A.C. R14-2-402, Rio Verde Utilities, Inc., ("Rio Verde"), submits this application to the Arizona Corporation Commission for an extension of its water Certificate of Convenience and Necessity ("CC&N") in Maricopa County, so as to include in its certificated area that portion of Rio Verde Units Ten and Eleven that are within Section 7, Township 4 North, Range 7 East.

Rio Verde Units Ten and Eleven are partially within Rio Verde's CC&N, with the remainder of the subdivisions being contiguous to the CC&N. These subdivisions were developed in the late '80s and early '90s. Earlier this year, Rio Verde discovered that the portion of the Rio Verde Unit Ten and Eleven were never included in Rio Verde's CC&N.

The portion of Rio Verde Unit Ten and Unit Eleven within Section 7 consists of all or a portion of 52 residential lots, several landscaping tracts, private streets and portions of the Rio Verde Country Club golf course. All of these properties are currently Rio Verde water customers, served pursuant to Rio Verde's filed tariffs. No additional construction or investment is needed to specifically serve these customers.

Because this application is being made merely to correct Rio Verde's CC&N boundaries to include currently served customers, Rio Verde believes that not all information specified in the Commission's CC&N Rules (R14-2-402, et. seq.) and the Form Application (January 22,

2010) are needed to process this application. Rio Verde has included all the information that it believes is necessary to process this application in the attached Exhibit. To the extent necessary, Rio Verde asks the Commission to waive any unnecessary rules.

REQUEST FOR APPROVAL

As set forth in this application, Rio Verde requests authority to extend its existing water certificate of convenience and necessity to include the area described on Attachment L of the attached Exhibit.

Respectfully submitted on December 4, 2014, by:

/s/Craig A. Marks
Craig A. Marks
Craig A. Marks, PLC
10645 N. Tatum Blvd.
Suite 200-676
Phoenix, AZ 85028
(480) 367-1956
Craig.Marks@azbar.org
Attorney for Far West Water & Sewer Company

Original and 13 copies filed
on December 4, 2014, with:

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

EXHIBIT

Supplemental Information Supporting Application for an Extension of Certificate of Convenience and Necessity

ARIZONA DEPARTMENT OF WATER RESOURCES

15 South 15th Avenue, Phoenix, Arizona 85007
Telephone (602) 542-1553
Fax (602) 256-0508

October 27, 1992

EXHIBIT C

VE
- 7 2002



RIFE SYMINGTON
Governor

ELIZABETH ANN RIEKE
Director

Mr. David S. Ritchie
Rio Verde Utilities
25609 Danny Lane
Rio Verde, AZ 85263

Re: Water Availability for Rio Verde Utilities

Dear Mr. Ritchie:

Rio Verde Water Company is a private utility which was designated by the Department of Water Resources (DWR) in November of 1981 as a service area where an assured water supply exists under A.R.S. §45-576.D. With respect to a private water company the service area means the area actually being served water plus additions to such area which contain an operating distribution system owned by the private water company for delivery of non-irrigation water. (A.R.S. §45-402.26.b).

The Department has reviewed the development plan submitted by Rio Verde Utilities of August 26, 1992 which includes 4800 dwelling units/lots and seven golf courses. As of 1991 Rio Verde Water Company serviced 794 dwelling units and two golf courses which amount to a total of demand of 1184.53 ac-ft/yr, as reported to the Phoenix Active Management Area (PHX-AMA).

Rio Verde's estimated build-out demand of 5336 ac-ft/yr may increase to 5861 ac-ft/yr when applying the Second Management Plan (SMP) water calculation criteria for turf facilities located in the PHX-AMA. Groundwater may amount to 4200 ac-ft/yr of the total demand of 5861 ac-ft/yr.

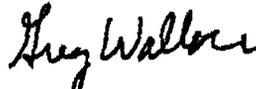
Presently, the assured water supply criteria allow mining of groundwater to a depth of 1200 feet below land surface or depth of the aquifer, whichever is less, as long as the rate of groundwater decline does not exceed 10 feet per year. Such criteria will have to be changed as the Phoenix AMA is supposed to achieve safe yield on or before 2025. The Department agrees that 4200 ac-ft/yr of groundwater will be available to the Rio Verde development under present criteria, as long as, by blending groundwater with Verde River water, Rio Verde Utilities will comply with Pri-MCL for Fluoride of 4.0 mg/l, as defined by the ADEQ's drinking water standards. 812 ac-ft/yr of CAP water will become available to the Rio Verde Water Company after the contract with the CAWCD is signed and validated. Effluent will gradually become available as the population increases and the treatment plant expands to the required capacity, eventually reaching a capacity of 1060 ac-ft/yr at build-out.

Mr. David S. Ritchie
October 27, 1992
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When, in accordance with criteria in place at the time of application, the above listed sources of water supply are physically and legally available and the projected use of water is consistent with the management plan and goals of the Phoenix AMA, subdividers may apply for Certificates of Assured Water Supply for subdivisions seeking approval of final plats or Rio Verde Water Company may apply for an extension of the designated service area in an area where an operating distribution system exists.

If you have any questions, please contact myself or Steven Szyprowski at (602) 542-1586.

Sincerely,



Greg Wallace
Chief Hydrologist

GW/JS:jw

cc: James W. Johnson, Fennemore Craig
Mark Frank, Director, Phoenix AMA



Maricopa County
Environmental Services Department

PUBLIC WATER SYSTEM COMPLIANCE STATUS REPORT

System Name: Rio Verde Utilities

PWS ID#: 07-121

Type of System: Community Number of POE's: 1 Surface Water: No

Number of Service Connections: 1,680 Population Served: 3,024

Assigned Monitoring Dates - Initial: 01/01/1993

Does the water system have a Certified Operator? Yes

Does the system have major treatment plant deficiencies? No

Please describe: _____

Date of last inspection: 05/30/2013

Does the system have major O & M deficiencies? No

Please describe: _____

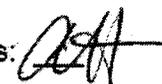
Does the system have water quality monitoring/reporting deficiencies? No

Please describe: _____

General Public Water System Compliance Status? Compliance

Date of compliance review: 12/03/2014 By: Amanda Hart

Phone: (602) 506-5173

Initials: 

Requested By: Ray Jones, ARICOR Water Solutions LC

Contact: ray.jones@aricor.com

Supervisor Initials: _____ Date: _____

Drinking Water Program

Korissa Entringer, R.S., Manager

1001 N. Central Ave., Suite 250, Phoenix, Arizona 85004-1940 Phone: (602) 506-6935 Fax: (602) 372-0866

WATER USE DATA SHEET

NAME OF COMPANY	Rio Verde Utilities, Inc.
ADEQ Public Water System No.	07121

MONTH/YEAR (Last 13 Months)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED	GALLONS PURCHASED
October 2014	1712	77,500	86,245	
September 2014	1712	84,139	88,583	
August 2014	1712	84,766	90,794	
July 2014	1712	121,681	130,523	
June 2014	1712	125,748	128,675	
May 2014	1712	105,955	108,069	
April 2014	1712	88,247	93,290	
March 2014	1711	48,165	50,241	
February 2014	1709	40,101	44,447	
January 2014	1708	34,637	41,982	
December 2013	1706	31,318	33,301	
November 2013	1705	44,602	47,471	
October 2013	1705	109,200	114,973	
STORAGE TANK CAPACITY (Gallons)	NUMBER OF EACH	ARIZONA DEPT. OF WATER RESOURCES WELL I.D. NUMBER	WELL PRODUCTION (Gallons per Minute)	
300,000	1	55-606073	310	
740,000	1	55-606071	750	
		55-561190	1000	
		55-506808	110	
		55-510881	950	
		55-511320	380	
		55-519287	500	
		55-561226	2000	
		55-578746	510	
Other Water Sources in Gallons per Minute			GPM	
Fire Hydrants on System			<input checked="" type="radio"/> Yes <input type="radio"/> No	
Total Water Pumped Last 13 Months (Gallons in Thousands)			1,058,594	

STATE OF ARIZONA



Office of the
CORPORATION COMMISSION

CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Jodi A. Jerich, Executive Director of the Arizona Corporation Commission, do hereby certify that

*****RIO VERDE UTILITIES, INC.*****

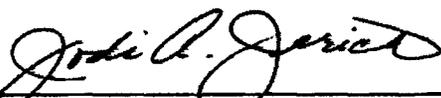
a domestic corporation organized under the laws of the State of Arizona, did incorporate on February 25, 1971.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation is not administratively dissolved for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed Articles of Dissolution as of the date of this certificate.

This certificate relates only to the legal existence of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 18th Day of November, 2014, A. D.





Jodi A. Jerich, Executive Director

By: _____ 1150859

**Legal Description
Rio Verde Utilities, Inc.
Water CC&N Extension**

That portion of Section 7, Township 4 North, Range 7 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona more particularly described as follows:

General Land Office Lots 2 and 3, except any portion lying south of the north right-of-way line of McDowell Mountain Road, being more particularly described as follows:

Commencing at the Northwest Corner of said Section 7;

THENCE South $89^{\circ}55'51''$ East along the North line of said Section 7 a distance of 1,313.85 feet to the Northwest Corner of said Lot 3 and the TRUE POINT OF BEGINNING;

THENCE continuing South $89^{\circ}55'51''$ East along the North line of said Section 7 a distance of 1,320.19 feet to the Northeast Corner of said Lot 3 which is also the Northwest Corner of said Lot 2;

THENCE continuing South $89^{\circ}55'51''$ East along the North line of said Section 7 a distance of 1,320.00 feet to the Northeast Corner of said Lot 2;

THENCE South $00^{\circ}00'21''$ East along the East line of said Lot 2 a distance of 503.72 feet to a point on the northerly right-of-way line of McDowell Mountain Road;

THENCE South $80^{\circ}15'23''$ West along the northerly right-of-way line of McDowell Mountain Road a distance of 459.36 feet;

THENCE South $80^{\circ}27'24''$ West along the northerly right-of-way line of McDowell Mountain Road a distance of 1,390.58 feet;

THENCE South $80^{\circ}28'45''$ West along the northerly right-of-way line of McDowell Mountain Road a distance of 827.22 feet to a point on the West line of said Lot 3;

THENCE North $00^{\circ}01'13''$ East along the West line of said Lot 3 a distance of 951.76 feet to the Northwest Corner of said Lot 3, the Point of Beginning.

**Rio Verde Utilities, Inc.
Audited Financial Statements
December 31, 2013 and 2012**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Rio Verde Utilities, Inc.
Rio Verde, Arizona

We have audited the accompanying financial statements of Rio Verde Utilities, Inc. (a corporation), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Verde Utilities, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ullmann & Company

ULLMANN & COMPANY, P.C.
Certified Public Accountants
Phoenix, Arizona

March 6, 2014

RIO VERDE UTILITIES, INC.
BALANCE SHEETS
December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
PROPERTY, PLANT AND EQUIPMENT	\$ 17,822,593	\$ 17,817,817
Accumulated Depreciation	(7,144,681)	(6,650,885)
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$ 10,677,912</u>	<u>\$ 11,166,932</u>
 CURRENT ASSETS		
Cash and Cash Equivalents	\$ 52,034	\$ 64,724
Accounts Receivable (\$0 Allowance for Doubtful Accounts)	127,338	116,922
Unbilled Revenue	38,365	43,236
Dividend Receivable	16,308	17,025
Income Taxes Receivable	-	60,000
Materials and Supplies Inventory	1,185	2,770
Prepaid Income Taxes	60,839	31,021
Prepaid Expenses	17,853	17,499
Deferred Tax Asset - Current	4,767	5,652
TOTAL CURRENT ASSETS	<u>\$ 318,689</u>	<u>\$ 358,849</u>
 OTHER ASSETS		
Plant Held For Future Use	\$ 1,583,867	\$ 1,583,867
Deferred Finance Fees	9,881	11,133
Restricted Cash	381,531	381,337
Investment	235,861	232,134
Deferred Tax Asset - Noncurrent	7,860	13,244
TOTAL OTHER ASSETS	<u>\$ 2,219,000</u>	<u>\$ 2,221,715</u>
 TOTAL ASSETS	<u><u>\$ 13,215,601</u></u>	<u><u>\$ 13,747,496</u></u>

The accompanying notes are an integral part of these financial statements.

RIO VERDE UTILITIES, INC.
BALANCE SHEETS
December 31, 2013 and 2012

STOCKHOLDERS' EQUITY AND LIABILITIES

	<u>2013</u>	<u>2012</u>
STOCKHOLDERS' EQUITY		
Common Stock (\$1 par value, 10,000,000 shares Authorized: 2,840,721 Shares Issued and Outstanding)	\$ 2,840,721	\$ 2,840,721
Retained Earnings	4,833,925	4,916,049
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 7,674,646</u>	<u>\$ 7,756,770</u>
 LONG-TERM DEBT (NET OF CURRENT MATURITIES)	 <u>\$ 1,670,807</u>	 <u>\$ 2,039,010</u>
 CURRENT LIABILITIES		
Current Maturity of Long-Term Debt	\$ 368,505	\$ 336,300
Accounts Payable	53,711	89,872
Current Portion of Meter Deposits	14,000	15,000
Advances From Related Parties	108,928	24,728
Accrued Interest Payable	8,082	9,709
Other Accrued Liabilities and Expenses	54,121	44,759
Deferred Tax Liability - Current	106	1,974
TOTAL CURRENT LIABILITIES	<u>\$ 607,453</u>	<u>\$ 522,342</u>
 DEFERRED LIABILITIES		
Meter Deposits (Net of Current Portion)	\$ 21,801	\$ 33,180
Deferred Income Taxes and Investment Tax Credits	1,248,675	1,292,760
TOTAL DEFERRED LIABILITIES	<u>\$ 1,270,476</u>	<u>\$ 1,325,940</u>
 CONTRIBUTIONS IN AID OF CONSTRUCTION	 <u>\$ 1,992,219</u>	 <u>\$ 2,103,434</u>
 TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	 <u>\$ 13,215,601</u>	 <u>\$ 13,747,496</u>

The accompanying notes are an integral part of these financial statements.

RIO VERDE UTILITIES, INC.
STATEMENTS OF INCOME
For the Years Ended December 31, 2013 and 2012

OPERATING REVENUES	<u>2013</u>	<u>2012</u>
Water Revenue	\$ 1,364,986	\$ 1,394,120
Sewer Revenue	961,458	960,410
TOTAL OPERATING REVENUES	<u>\$ 2,326,444</u>	<u>\$ 2,354,530</u>
OPERATING EXPENSES		
Salaries	\$ 221,247	\$ 222,506
Employee Benefits	32,104	29,960
Payroll Taxes	31,889	31,538
Purchased Water	78,674	52,614
Purchased Power	342,829	336,315
Repairs and Maintenance	205,114	193,206
Water Testing and Treatment	81,723	85,686
Professional Fees	16,858	18,712
Transportation	28,219	26,467
General Office and Administrative	10,366	11,549
Bad Debt	1,336	1,383
Telephone	5,971	6,142
Management Fee	201,709	195,808
General Insurance	32,340	21,092
Depreciation	390,020	389,590
Other Utility Expense	64,741	36,002
Property Taxes	97,349	80,981
TOTAL OPERATING EXPENSES	<u>\$ 1,842,489</u>	<u>\$ 1,739,551</u>
INCOME FROM OPERATIONS	<u>\$ 483,955</u>	<u>\$ 614,979</u>
OTHER INCOME (EXPENSES)		
Interest Income	\$ 223	\$ 199
Patronage Dividend	20,142	22,700
Loss on Sale of Equipment	(14,828)	-
Amortization Finance Fees	(1,252)	(1,252)
Interest Expense	(104,499)	(123,491)
TOTAL OTHER INCOME (EXPENSES)	<u>\$ (100,214)</u>	<u>\$ (101,844)</u>
INCOME BEFORE TAXES	<u>\$ 383,741</u>	<u>\$ 513,135</u>
Current Tax Expense	\$ 55,549	\$ 27,501
Deferred Tax Expense (Benefit)	(39,684)	138,172
NET INCOME	<u>\$ 367,876</u>	<u>\$ 347,462</u>

The accompanying notes are an integral part of these financial statements.

RIO VERDE UTILITIES, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2013 and 2012

	COMMON STOCK		Retained Earnings
	Number of Shares	Amount	
Balance at December 31, 2011	2,840,721	\$ 2,840,721	\$ 4,968,587
Dividends Paid			(400,000)
Net Income			347,462
Balance at December 31, 2012	2,840,721	\$ 2,840,721	\$ 4,916,049
Dividends Paid			(450,000)
Net Income			367,876
Balance at December 31, 2013	2,840,721	\$ 2,840,721	\$ 4,833,925

The accompanying notes are an integral part of these financial statements.

RIO VERDE UTILITIES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From Customers	\$ 2,306,960	\$ 2,323,256
Cash Paid for Operations	(1,393,837)	(1,424,419)
Interest and Dividends Received	21,082	22,395
Interest Paid	(106,126)	(125,016)
Income Taxes Paid	(25,367)	(118,521)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>802,712</u>	<u>677,695</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(31,000)	(24,760)
Proceeds from Sale of Equipment	3,957	-
Investment in CoBank	(3,727)	(5,675)
NET CASH USED IN INVESTING ACTIVITIES	<u>(30,770)</u>	<u>(30,435)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long Term Debt	(335,998)	(310,188)
Proceeds From Customer Meter Deposits	1,560	2,795
Dividends Paid	(450,000)	(400,000)
NET CASH USED IN FINANCING ACTIVITIES	<u>(784,438)</u>	<u>(707,393)</u>
NET DECREASE IN CASH	(12,496)	(60,133)
CASH AND CASH EQUIVALENTS - BEG OF YEAR	446,061	506,194
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 433,565</u>	<u>\$ 446,061</u>
RECONCILIATION OF CASH AMOUNTS:		
Cash and Cash Equivalents	\$ 52,034	\$ 64,724
Restricted Cash	381,531	381,337
TOTAL CASH	<u>\$ 433,565</u>	<u>\$ 446,061</u>

The accompanying notes are an integral part of these financial statements.

RIO VERDE UTILITIES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
NET INCOME	\$ 367,876	\$ 347,462
ADJUSTMENTS		
Depreciation and Amortization	\$ 391,272	\$ 390,842
Deferred Income Tax Expense	(39,684)	138,172
Meter Deposits Refunded	(13,939)	(14,699)
Loss on Sale of Equipment	14,828	-
(Increase) Decrease in:		
Accounts Receivable and Unbilled Revenue	(5,545)	(16,575)
Dividend Receivable	717	(504)
Income Taxes Receivable	60,000	(60,000)
Materials and Supplies Inventory	1,585	(2,084)
Prepaid Income Taxes	(29,818)	(31,021)
Prepaid Expenses	(354)	(4,430)
Increase (Decrease):		
Accounts Payable	(36,161)	51,645
Advances From Related Parties	84,200	(34,329)
Accrued Interest Payable	(1,627)	(1,525)
Accrued Income Taxes	-	(87,879)
Other Accrued Liabilities and Expenses	9,362	2,620
TOTAL ADJUSTMENTS	\$ 434,836	\$ 330,233
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 802,712	\$ 677,695

The accompanying notes are an integral part of these financial statements.

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is a regulated utility providing water and sewer services in a certificated area located in Rio Verde, Arizona.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The accounting records of the Company are maintained in accordance with the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners.

Utility Plant

Property, plant and equipment comprising the utility plant are recorded at cost. Periodically, the Arizona Corporation Commission reviews the basis of the plant and equipment and may establish a new cost basis for rate-making purposes. The Company has adjusted the cost basis of its assets to comply with the Arizona Corporation Commission orders. In accordance with standard accounting practices prescribed for water utilities, renewals and betterments are charged to plant accounts. Repairs and maintenance are charged to operations as incurred.

Depreciation of utility plant is computed using the straight-line method over the useful life of the assets as prescribed by the Arizona Corporation Commission.

Interest costs connected with the construction of major equipment or facilities are capitalized during the period of construction activity. No interest was capitalized in 2013 and 2012.

Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Restricted Cash

As part of the Company's borrowing agreement with CoBank, the Company maintains a debt service reserve account with the bank. At December 31, 2013 and 2012, the Company had restricted cash balances of \$381,531 and \$381,337, respectively.

Utility Customer Accounts Receivable

Regulated utility customer accounts receivable represent amounts billed customers on a cycle basis. Credit is extended based on the guidelines of the applicable regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due, and the allowance for doubtful accounts is computed based on an analysis of collectability of accounts receivable at the balance sheet date. For 2013 and 2012, no allowance is deemed necessary.

Customer Meter Deposits

The Company is refunding meter deposits to customers in equal installments, without interest, over a ten-year period.

Revenue Recognition

Revenues are recorded as services are rendered and include an estimate for amounts unbilled at the end of the year for water used subsequent to the last billing cycle. Sales taxes collected are not included in revenue.

Contributions in Aid of Construction

Contributions in aid of construction (CIAC) are nonrefundable contributions by developers and customers for plant expansion. In addition, this amount includes the remaining balance, if any, of advances in aid of construction at the end of the repayment period. The contributions in aid of construction are being amortized at a rate equal to the rate allowed for depreciation, as a reduction of depreciation.

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

Accounting For Uncertainty in Income Taxes

The Company has adopted the provisions of FASB ASC 740, Income Taxes (FASB ASC 740), related to accounting for uncertainty in income taxes on any unrelated business income. The Company files an income tax return in the U.S. federal jurisdiction and also in Arizona. Tax returns for all open years are subject to future examinations by tax authorities. The implementation of FASB ASC 740 had no effect on the Company's financial statements. Penalties of \$0 and \$0 were recognized for the years ended December 31, 2013 and 2012, respectively.

Materials and Supplies Inventory

Materials and supplies inventory is stated at lower of cost or market. For purposes of computing costs, the first-in-first-out method is used. Market value is computed using replacement cost.

Reclassifications

Certain reclassifications have been made to the 2012 financial information to conform to the 2013 presentation.

NOTE 2 FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, trade accounts receivable, long-term debt, and accounts payable. The Company bills its customers for water usage based on the meter readings. Due to the large number of small accounts, concentration of credit risk with respect to trade accounts receivable is limited. The Company, in the normal course of business, maintains bank balances in excess of FDIC insurance limits.

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 3 INVESTMENT

The Company has an investment in CoBank, a cooperative bank whose patrons are equity owners. The investment is valued at cost, plus equity dividends received each year, which approximates fair value, of \$235,861 and \$232,134 as of December 31, 2013 and 2012, respectively. The Company earned cash and equity dividends of \$20,000 and \$22,700 from this investment during the years ended December 31, 2013 and 2012, respectively.

NOTE 4 UTILITY PLANT

Major classifications of utility plant in service are summarized below:

	<u>2013</u>	<u>2012</u>
<u>Water Utility Plant</u>		
Land	\$ 186,074	\$ 176,512
Construction Work in Progress	-	-
Utility Plant	9,854,255	9,848,364
Transportation Equipment	<u>56,691</u>	<u>69,953</u>
Total Water Utility Plant	\$10,097,020	\$ 10,094,829
Less: Accumulated Depreciation	<u>(4,228,250)</u>	<u>(3,928,560)</u>
Net Water Utility Plant	<u>\$ 5,868,770</u>	<u>\$ 6,166,269</u>
 <u>Sewer Utility Plant</u>		
Land	\$ 50,513	\$ 50,513
Construction Work in Progress	87,887	87,887
Utility Plant	7,547,938	7,532,392
Transportation Equipment	<u>39,235</u>	<u>52,196</u>
Total Sewer Utility Plant	\$ 7,725,573	\$ 7,722,988
Less: Accumulated Depreciation	<u>(2,916,431)</u>	<u>(2,722,325)</u>
Net Sewer Utility Plant	<u>\$ 4,809,142</u>	<u>\$ 5,000,663</u>
Total Utility Plant	<u>\$17,822,593</u>	<u>\$ 17,817,817</u>

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 4 UTILITY PLANT – Continued

Depreciation and amortization are charged to earnings as follows:

	<u>2013</u>	<u>2012</u>
Depreciation - Water Utility	\$ 303,754	\$ 303,357
Depreciation - Sewer Utility	197,481	197,448
Amortization of CIAC - Water Utility	(47,192)	(47,192)
Amortization of CIAC - Sewer Utility	<u>(64,023)</u>	<u>(64,023)</u>
Net Depreciation	\$ 390,020	\$ 389,590
Amortization of Deferred Finance Fees	<u>\$ 1,252</u>	<u>\$ 1,252</u>
Total Depreciation and Amortization	<u>\$ 391,272</u>	<u>\$ 390,842</u>

NOTE 5 DEFERRED CHARGES

Deferred charges at December 31 consist of:

	<u>2013</u>	<u>2012</u>
Finance Fees	\$ 48,523	\$ 48,523
Less: Accumulated Amortization	<u>(38,642)</u>	<u>(37,390)</u>
	<u>\$ 9,881</u>	<u>\$ 11,133</u>

The deferred finance fees are being amortized over a period of 15 to 20 years. Amortization expense was \$1,252 and \$1,252 for 2013 and 2012, respectively. Amortization expense is expected to be \$1,252 each year for 2014 through 2021.

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
Note payable to CoBank due in monthly principal and interest installments of \$16,660, final payment due June 20, 2016, interest is at a fixed rate of 9.8% on one-half of the outstanding balance and at a variable rate on the other half. The variable rate at December 31, 2013 was 3.25%. The note is secured by assignment of the capital stock and assets of the Company. The Company is required to maintain a debt service reserve account with the lender.	\$ 467,604	\$ 628,626

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 LONG-TERM DEBT – Continued

Note payable to CoBank due in monthly principal and interest installments of \$15,981, final payment due December 20, 2021, interest is variable and may be adjusted as interest rates fluctuate. The rate at December 31, 2013 was 3.25%. The note is secured by assignment of the capital stock and assets of the Company. The Company is required to maintain a debt service reserve account with the lender.

1,389,979 1,516,827

Note payable to Second Arizona Rio Verde Company, 1974 (the stockholder of the Company), with an interest rate of 9.8%, due in monthly principal and interest installments of \$5,711, final payment due December 31, 2016, subordinated to the CoBank debt.

181,729 229,857

Total	\$ 2,039,312	\$ 2,375,310
Less Current Portion	<u>(368,505)</u>	<u>(336,300)</u>
Long-Term Portion	<u>\$ 1,670,807</u>	<u>\$ 2,039,010</u>

Current maturities of long-term debt:

<u>As of December 31, 2013</u>	
2014	\$ 368,505
2015	386,239
2016	314,073
2017	149,153
2018	154,074
Thereafter	<u>667,268</u>
Total	<u>\$ 2,039,312</u>

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 7 INCOME TAXES

The provision for income taxes consists of:

	<u>2013</u>	<u>2012</u>
<u>Current:</u>		
Federal	\$ 53,510	\$ 18,951
State	<u>2,039</u>	<u>8,550</u>
Total Current Tax Expense	<u>\$ 55,549</u>	<u>\$ 27,501</u>
<u>Deferred:</u>		
Federal	\$ (59,505)	\$ 128,660
State	24,558	14,401
Investment Tax Credit Amortization	<u>(4,737)</u>	<u>(4,889)</u>
Total Deferred Tax Expense (Benefit)	<u>\$ (39,684)</u>	<u>\$ 138,172</u>
Income Tax Expense	<u>\$ 15,865</u>	<u>\$ 165,673</u>

The components of the net deferred tax asset (liability) at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<u>Deferred Tax Asset:</u>		
Current	\$ 4,767	\$ 5,652
Noncurrent	<u>7,860</u>	<u>13,244</u>
Total Deferred Tax Asset	<u>\$ 12,627</u>	<u>\$ 18,896</u>
<u>Deferred Tax Liability:</u>		
Current	\$ (106)	\$ (1,974)
Noncurrent	<u>(1,248,675)</u>	<u>(1,292,760)</u>
Total Deferred Tax Liability	<u>\$ (1,248,781)</u>	<u>\$ (1,294,734)</u>
Net Deferred Tax Asset (Liability)	<u>\$ (1,236,154)</u>	<u>\$ (1,275,838)</u>

Deferred Income Taxes and Investment Tax Credits:

Deferred Income Taxes	\$ (1,235,863)	\$ (1,270,811)
Investment Tax Credits	<u>(291)</u>	<u>(5,027)</u>
	<u>\$ (1,236,154)</u>	<u>\$ (1,275,838)</u>

Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets which have different depreciable lives and methods for income tax purposes.

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 7 INCOME TAXES - Continued

As required by the regulatory agency, deferred investment tax credits are recognized for financial statement purposes in the year in which they are utilized for federal income taxes and amortized over the estimated remaining life of the assets from which the investment tax credit originated. The tax credit is being amortized on a straight-line basis over 20 years through 2014.

NOTE 8 SUPPLEMENTAL CASH FLOW INFORMATION

The Company engaged in the following noncash transactions:

	<u>2013</u>	<u>2012</u>
Meter deposit refunds applied to amounts due from customers	\$ <u>13,939</u>	\$ <u>14,699</u>

NOTE 9 RELATED PARTY TRANSACTIONS

A related company (a brother-sister corporation) provided management, office, and administrative services in the amount of \$200,740 and \$193,896 in the years ended December 31, 2013 and 2012, respectively. The Company also owed the related party \$99,366 and \$24,728 at December 31, 2013 and 2012, respectively. The Company also owed another related party, a different brother-sister corporation, \$9,562 at December 31, 2013.

The Company has a long-term note payable to the stockholder (see Note 6). Interest paid to the stockholder was \$20,009 and \$24,521 in 2013 and 2012, respectively.

NOTE 10 RETIREMENT PLAN

The Company maintains a 401(k) plan covering substantially all full-time employees. The amount of the employer's yearly contribution is at the discretion of the Company. The Company contributed \$0 in 2013 and 2012.

Rio Verde Utilities, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 11 REGULATORY RATE DECISION

The Arizona Corporation Commission granted the Company a rate increase effective May 2001. The regulatory agency also determined that the Company had excess capacity and required the Company to remove the excess capacity from the rate base. All previously recorded depreciation and deferred income taxes relating to the excess plant capacity has also been reversed.

NOTE 12 SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through March 6, 2014, the date on which the financial statements were available to be issued. There were no subsequent events that required adjustment to the financial statements or additional disclosures.

[Rio Verde Letterhead]

December __, 2014

Mr. Kenneth W. Buchanan
Town Manager
Town of Fountain Hills
16705 E. Avenue of the Fountains
Fountain Hills, AZ 85268

Notice Required Pursuant to R14-2-402.B.4
Request for Certificate of Convenience and Necessity Extension
Filed by Rio Verde Utilities, Inc.

Pursuant to A.A.C. R14-2-402.B.4, Rio Verde Utilities, Inc. ("Rio Verde") is providing this notice that Rio Verde has made application to the Arizona Corporation Commission ("ACC") to extend its Certificate of Convenience and Necessity to provide water service to properties contiguous to its existing Certificate of Convenience and Necessity. None of the requested extension area is within the Town of Fountain Hills, but is within five miles of the Town's corporate limits. The specific notice requirements are as follows:

Applicant Name, Mailing Address and Telephone Number

Rio Verde Utilities, Inc.
25609 N. Danny Lane, Suite 1
Rio Verde, AZ 85263
480-471-7247

Date Application was Filed

[TBD]

Type of Service to be Provided

Water Service

A Description of Requested Service Area

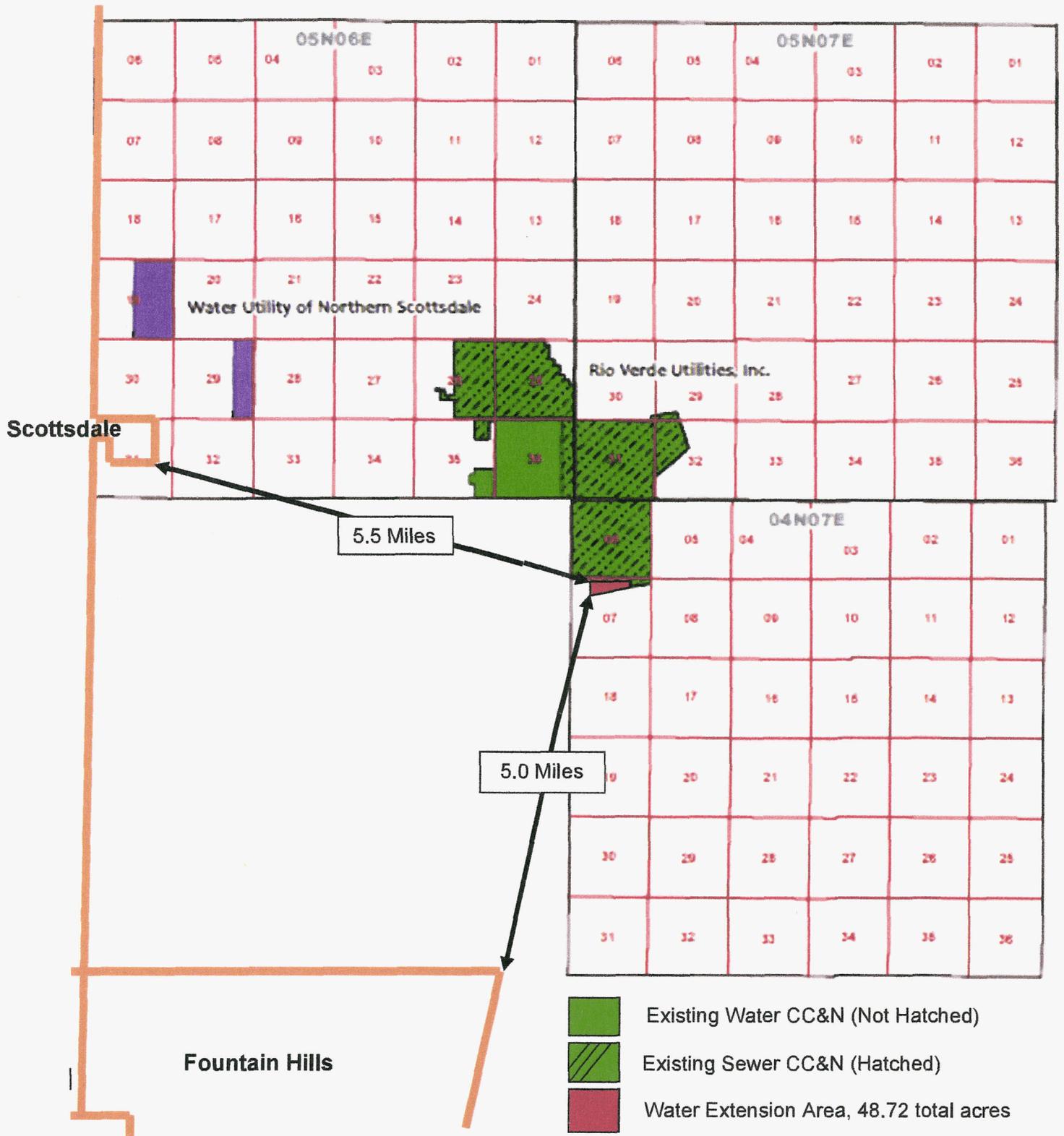
See Attachment L and Map – U1 from the Application to the ACC, attached.

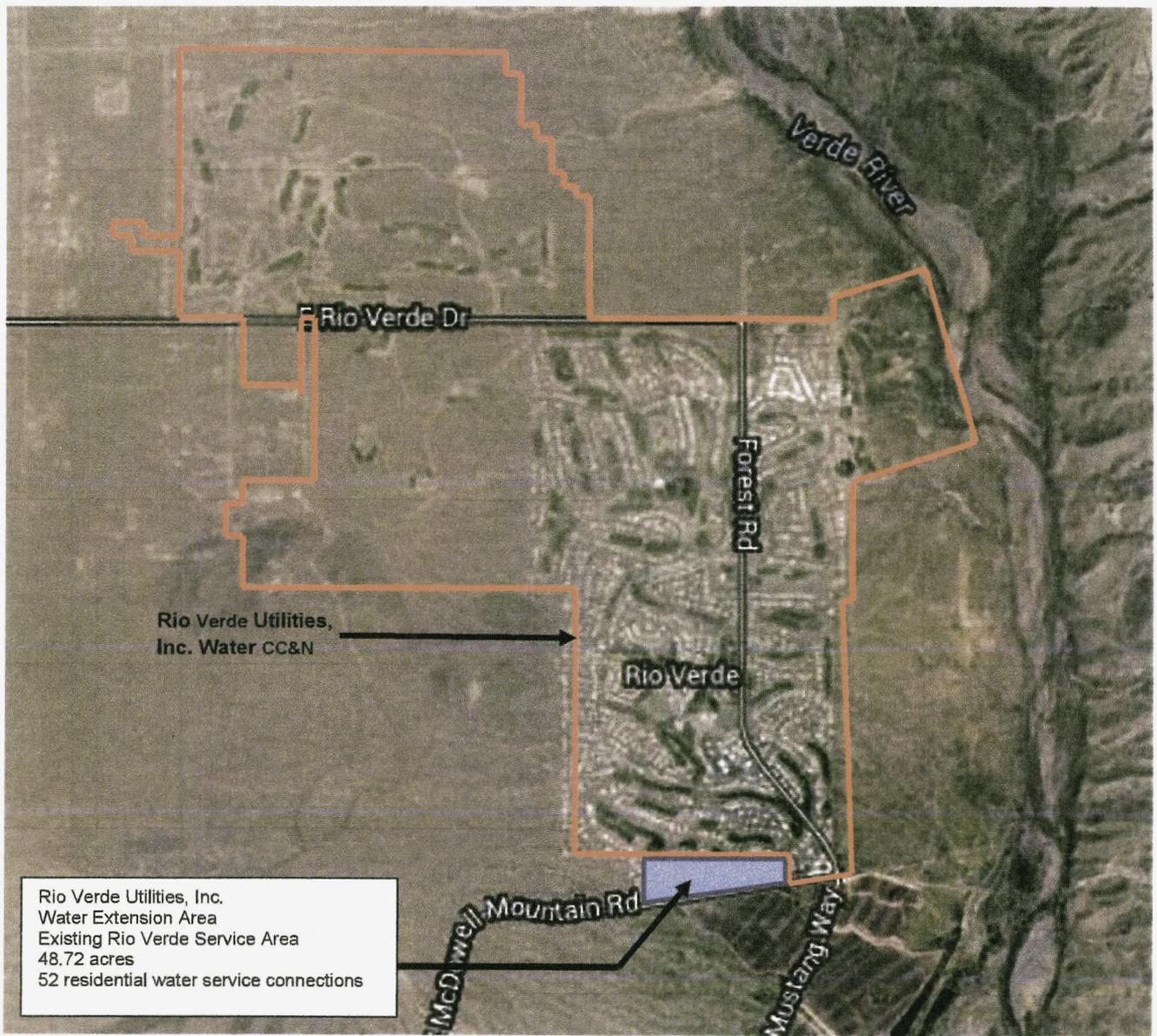
Commission Docket Number

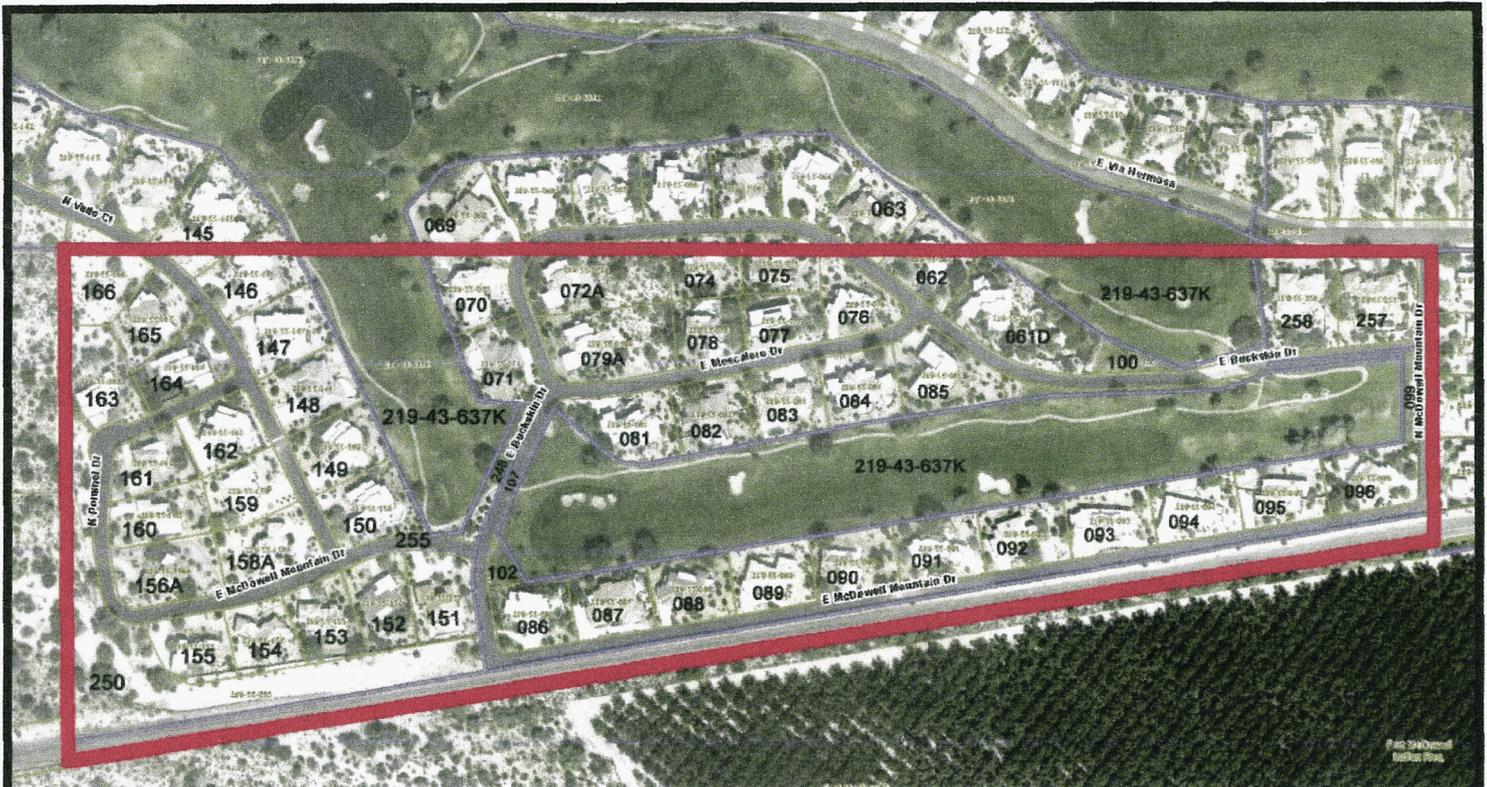
[TBD]

Instructions on How to Obtain a Copy of Application

The application is available for inspection during regular business hours at the offices of the Commission in Phoenix at 1200 West Washington Street, and at Rio Verde Utilities, Inc., 25609 N. Danny Lane, Suite 1, Rio Verde, AZ 85263. In addition, upon request, Rio Verde will provide a printed copy or electronic copy to the Town of Fountain Hills.







Parcel Ownership:

NOTE: Unless otherwise indicated parcel number begin with 219-55-

061D	Frederick/Corrine Drill	062	John/Mary Leavitt	063	David/Katherine Fridovich
069	Robert Benzinger	070	John/Helen Swift	071	Kenny/Lois Mallory
072A	Robert/Edith Malone	074	Lawrence/Joanne Ingram	075	Randall/Nancy Erickson
076	Donald/Eleanor Greenlee	077	Paul Hofto	078	Rosemarie Brandorff
079A	Cartwright Family Trust	081	Joel/Kendra Davidson	082	Gordon/Nedra Allison Trust
083	Eberhard/Carol Scheuing Tst.	084	George/Margaret Slater	085	Larry/Elizabeth Doyle Trust
086	James/Susan Everitt Trust	087	Harriet Ruder Trust	088	DLD Enterprises LLC
089	Dorothy Gay	090	Jeannette McDonald	091	Donald Johnson Trust
092	Richard/Norine Ahmann Tst.	093	Robert/Lois Richmond	094	Roger/Johanna Schaefer
095	Larry/Debra Potter Trust	096	Jordan Family Trust	099	Rio Verde Country Club Inc.
100	Rio Verde Country Club Inc.	102	Rio Verde Country Club Inc.	107	Rio Verde Community Assn.
145	Lawrence/Elizabeth Noble	146	Victor/Janet Rocchio	147	Carol/Elsie Nelson
148	Richard/Maxine Berg Trust	149	Dean/Catherine Eggebraten Tst.	150	Charles Knighton Trust
151	David Wilkie/Vesta Mollins	152	Carol Brewer Trust	153	Nick/Bettie Neckopulos Trust
154	Ouelette Living Trust	155	Allan/Margaret Cumming	156A	Cecil Miskel
158A	Thomas/Verda Dougherty	159	Wilfred/Jacqueline Belanger	160	Marvin/Mary Founds
161	John/Laverne Novasio	162	Robert/Dolores Engelstad Tst.	163	David/Chase Bakke
164	James/Anita Newgard	165	Allen/Caroline Meyer Trust	166	Elizabeth Noble Trust
248	Rio Verde County Club	250	Rio Verde Community Assn.	255	Rio Verde Community Assn.
257	Dale/Pamela Lewis	258	David/Marlene Walters		
219-43-637K	Rio Verde Country Club				

CC&N EXTENSION AREA – OWNERSHIP MAP

**MAP
U3**

ARICOR
Water Solutions

RIO VERDE UTILITIES, INC.

Sheet 2

11-18-14