

ORIGINAL

NEW APPLICATION



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 AZ CORP COMMISSION
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2016 OCT 20 5:16:25 Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

8 IN THE MATTER OF THE APPLICATION
 OF PIMA UTILITY COMPANY, AN
 9 ARIZONA CORPORATION, FOR
 AUTHORITY TO (1) ISSUE EVIDENCE OF
 10 INDEBTEDNESS IN AN AMOUNT NOT TO
 EXCEED \$8,370,000; AND (2) ENCUMBER
 11 REAL PROPERTY AND PLANT AS
 SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO: W-02199A-16-_____

W-02199A-16-0381

APPLICATION (FINANCING)

13 Pursuant to A.R.S. §§ 40-301 and 40-302, Pima Utility Company, an Arizona public
 14 service corporation ("Pima" or "Company"), hereby applies for authority from the Arizona
 15 Corporation Commission ("Commission") to issue evidence of indebtedness in a total
 16 amount not to exceed \$8,370,000 on the terms and conditions set forth herein.
 17 Pima addresses both utility systems in this Application, which is being filed under both
 18 Company numbers, W-02199A (water) and SW-02199A (wastewater). Pima will file a
 19 motion to consolidate these matters into one docket.

In support of this Application, Pima states as follows:

A. General Background.

- 22 1. Pima is a public service corporation providing service to approximately 10,197
 23 water and 10,083 wastewater service connections in portions of Maricopa County, Arizona.
- 24 2. The Company's present rates and charges for utility service were approved by
 25 the Commission in Decision No. 73573 (November 21, 2012) using a test year ending
 26 December 31, 2010.

1 3. Pima's business office is located at 9532 E. Riggs Road, Sun Lakes, Arizona
2 85248 and its telephone number is (480) 895-4200. The Company's primary management
3 contact is Steve Soriano. Mr. Soriano is employed by the Company as its Vice President
4 and General Manager.

5 4. Mr. Soriano is the person responsible for overseeing and directing the conduct
6 of this Application. His mailing address is 9532 E. Riggs Road, Sun Lakes, Arizona 85248,
7 his telephone number is (480) 895-4200, and his email address is
8 steve.soriano@robson.com. **All discovery, data requests and other requests for**
9 **information concerning this Application should be directed to Mr. Soriano, with a**
10 **copy by e-mail to undersigned counsel at jay@shapslawaz.com and**
11 **whitney@shapslawaz.com.**

12 5. Financial statements for the twelve-month period ending December 31, 2015,
13 are attached as **Exhibit 1**.

14 6. Statements projecting Pima's estimated financial performance for the next five
15 years are attached as **Exhibit 2**.

16 **B. Purposes of Financing Approval.**

17 7. Pima seeks debt financing approval for three purposes:

18 A. To retire an existing loan from Wells Fargo, which debt was approved
19 in Decision No. 73708 (April 5, 2012), and which has a current balance
20 as of August 31, 2016 of approximately \$6.138 million. This loan
21 payment is due in full on or before July 25, 2017.

22 B. To reduce equity in the capital structure using debt capital in order to
23 achieve and maintain a capital structure consisting of approximately
24 65 percent equity and 35 percent debt.

25 C. To fund infrastructure improvements: well replacement, essential
26 transmission line replacement, water tank rehabilitation, and sewer

1 plant renovations. Attached as **Exhibit 3** is a listing of future capital
2 improvement projects and their estimated costs. The total estimated
3 cost of the plant improvements is \$7.5 million. The improvements are
4 presently or will in the next few years be necessary to maintain service
5 and reliability of the system.

6 8. At the end of 2015, the balance of the loan was approximately \$6,510,000 and
7 Pima's capital structure was 73.29 percent equity and 26.71 percent debt.¹ If this application
8 is approved, the balance of the original loan will be paid in full and the new balance will be
9 \$8,370,000. At that point, the Company's capital structure will consist of 65.17 percent
10 equity and 34.83 percent debt. Remaining loan funds will be used to fund one or more of
11 the capital projects contemplated over the next five years. In addition, the Company will
12 enter into loan agreements as necessary to maintain a capital structure consisting of
13 approximately 65 percent equity and 35 percent debt, however, at no time will the total debt
14 amount exceed \$8,370,000.

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

16 9. The current lender is Wells Fargo. Wells Fargo's term sheet is attached hereto
17 as **Exhibit 4**. Wells Fargo has represented that it will provide the subject financing at an
18 interest rate not to exceed Libor plus 2 percent. The Company used 3.42 percent in
19 preparing this application. As a result, Pima is undertaking to negotiate a loan agreement
20 with Wells Fargo. Such agreement will be subject to the Commission approval sought in
21 this docket. Additionally, there may be a cost to lock the interest rate for the term of the
22 loan.

23 10. Pima's repayment obligation to Wells Fargo will be secured by the grant of a
24 security interest in Pima's real property and its water and wastewater plants and systems.

25 ¹ As of August 31, 2016, the loan balance is \$6,138,000 and will be lower by the time
26 authorization is approved.

1 **D. Effects of Financial Transactions.**

2 11. Pima's pro forma balance sheet for the period ending December 31, 2015 is
3 attached as **Exhibit 5**. The pro forma balance sheet reflects the impact of the financing
4 transaction that is the subject of this Application. As noted above, the Company's pro forma
5 capital structure will be 34.83 percent debt and 65.17 percent common equity.

6 12. Pima will have a Debt Service Coverage Ratio ("DSCR") of 3.93 and a Times
7 Interest Earned Ratio ("TIER") of 3.51 if the maximum requested indebtedness is incurred.
8 The ratios will be higher as long as the amount of debt incurred remains less than the
9 maximum value authorized. The DSCR and TIER calculations, as shown on **Exhibit 5**,
10 were calculated using an interest rate of 3.42 percent.

11 13. The loan proceeds will be issued for lawful purposes, as discussed herein, and
12 the execution of the loan agreement with Wells Fargo, and the undertaking of the
13 obligations set forth therein are within Pima's corporate powers. A Corporate Resolution
14 authorizing the contemplated transaction is attached as **Exhibit 6**.

15 14. Pima will file true and correct copies of all debt instruments issued with
16 Docket Control within thirty (30) days from the date of issuance.

17 15. The approvals sought herein are compatible with the public interest and with
18 the proper performance of Pima's duties as a public service corporation.

19 16. The financing contemplated herein will not impair the Company's ability to
20 perform its duties as a public service corporation providing water and wastewater utility
21 service.

22 17. As required by statute, and consistent with the Commission's instructions for
23 applicants seeking finance approval, Pima is in the process of providing notice of the
24 Application by publishing notice, in the form provided by the Commission, in a newspaper
25 of general circulation in the area in which the Company provides service. Proof of
26 publication and a true copy of the notice will be filed with the Commission.

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Based on the foregoing, Pima respectfully requests the following:

A. That the Commission consider this Application as soon as practicable;

B. That the Commission enter an order approving this Application and authorizing Pima to incur indebtedness in an amount not to exceed \$8,370,000 for the purposes described above, and to encumber its real property and utility plant and system to secure such indebtedness for the purposes described above; and

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

RESPECTFULLY SUBMITTED this 20th day of October, 2016.

SHAPIRO LAW FIRM, P.C.

By: _____

Jay L. Shapiro
1819 E. Morten Avenue, Suite 280
Phoenix, AZ 85020
jay@shapslawaz.com

Attorneys for Pima Utility Company

ORIGINAL and fifteen (15) copies of the foregoing were delivered this 20th day of October, 2016, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

By: Whitney Birk

EXHIBIT 1

PIMA UTILITY COMPANY
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

BARRY & MOORE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pima Utility Company
Sun Lakes, Arizona

We have audited the accompanying financial statements of *Pima Utility Company*, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, capitalization, 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 representation 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.

Auditor's 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 audits 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 auditor's judgment, including the assessment of 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 *Pima Utility Company* as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Barry & Moore, P.C.
Phoenix, Arizona
March 31, 2016

Barry & Moore, P.C.

PIMA UTILITY COMPANY
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	<i>In thousands</i>	
	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
PLANT IN SERVICE AND UNDER CONSTRUCTION, net	\$ 19,327	\$ 19,700
CURRENT ASSETS:		
Cash	338	294
Customer accounts receivable	543	497
Receivable from affiliate	2,838	2,760
Other assets	4	0
Total current assets	<u>3,723</u>	<u>3,551</u>
RESTRICTED FUNDS	1,003	1,002
DEFERRED CHARGES	<u>401</u>	<u>581</u>
	<u>\$ 24,454</u>	<u>\$ 24,834</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 425	\$ 117
Accrued liabilities	359	353
Current portion of note payable	<u>558</u>	<u>558</u>
Total current liabilities	1,342	1,028
NOTE PAYABLE, net of current portion	5,952	6,510
CONTRIBUTIONS IN AID OF CONSTRUCTION, net	<u>827</u>	<u>928</u>
Total liabilities	<u>8,121</u>	<u>8,466</u>
CAPITALIZATION:		
Common stock, \$1 par value; 10,000,000 shares authorized; 180,041 shares issued and outstanding	180	180
Additional paid-in capital	10,801	10,801
Retained earnings	<u>5,352</u>	<u>5,387</u>
Total capitalization	<u>16,333</u>	<u>16,368</u>
	<u>\$ 24,454</u>	<u>\$ 24,834</u>

See accompanying notes and independent auditors' report.

PIMA UTILITY COMPANY

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

In thousands

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Flat rate	\$ 3,283	\$ 3,284
Metered	2,543	2,582
Other	<u>50</u>	<u>49</u>
Total operating revenues	<u>5,876</u>	<u>5,915</u>
OPERATING EXPENSES:		
Salaries and employee benefits	1,133	1,138
Purchased power	388	387
Chemicals	124	138
Repairs and maintenance	251	342
Office supplies and expense	289	258
Contractual services	266	270
Transportation	57	74
Insurance	95	46
Property taxes	306	308
Depreciation	1,739	1,551
Amortization	99	99
Other miscellaneous expense	<u>118</u>	<u>115</u>
Total operating expenses	<u>4,865</u>	<u>4,726</u>
Operating income	1,011	1,189
OTHER EXPENSE:		
Interest expense, net	(132)	(161)
Other expense	<u>(4)</u>	<u>(1)</u>
Total other expenses	<u>(136)</u>	<u>(162)</u>
NET INCOME	<u>\$ 875</u>	<u>\$ 1,027</u>

See accompanying notes and independent auditors' report.

PIMA UTILITY COMPANY

STATEMENTS OF CAPITALIZATION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

In thousands

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL CAPITALIZATION</u>
BALANCES, December 31, 2013	\$ 180	\$ 10,801	\$ 4,812	\$ 15,793
NET INCOME	0	0	1,027	1,027
DIVIDENDS	<u>0</u>	<u>0</u>	<u>(452)</u>	<u>(452)</u>
BALANCES, December 31, 2014	180	10,801	5,387	16,368
NET INCOME	0	0	875	875
DIVIDENDS	<u>0</u>	<u>0</u>	<u>(910)</u>	<u>(910)</u>
BALANCES, December 31, 2015	<u>\$ 180</u>	<u>\$ 10,801</u>	<u>\$ 5,352</u>	<u>\$ 16,333</u>

See accompanying notes and independent auditors' report.

PIMA UTILITY COMPANY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

In thousands

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 875	\$ 1,027
Adjustments to reconcile net income to net cash flows from operating activities-		
Depreciation	1,739	1,551
Amortization	99	99
(Increase) decrease in-		
Customer accounts receivable	(46)	19
Other assets	(4)	15
Deferred charges	81	80
Increase (decrease) in-		
Accounts payable	308	(304)
Accrued liabilities	6	37
Total adjustments	2,183	1,497
Net cash flows from operating activities	3,058	2,524
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted funds	(1)	0
Net advances on receivable from affiliate	(78)	(554)
Plant additions	(1,467)	(1,226)
Net cash flows from investing activities	(1,546)	(1,780)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of note payable	(558)	(558)
Repayments in aid of construction	0	(14)
Dividends	(910)	(452)
Net cash flows from financing activities	(1,468)	(1,024)
INCREASE (DECREASE) IN CASH	44	(280)
CASH, beginning of year	294	574
CASH, end of year	\$ 338	\$ 294

See accompanying notes and independent auditors' report.

PIMA UTILITY COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Activity-

Pima Utility Company (Company), an Arizona corporation organized in 1972, provides water and wastewater services to substantially all of the homes in the Sun Lakes retirement community in Arizona.

The rates for water and wastewater services are authorized by the Arizona Corporation Commission (Commission).

Recognition of Revenues and Expenses-

Revenues and expenses are recognized on the accrual method. Under this method, revenues are recognized when earned rather than when collected, and expenses are recognized when incurred rather than when paid.

Estimates-

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

Plant in Service-

Plant in service is stated at original cost. Assets are depreciated on the straight-line method at the following composite rates-

Collection systems, manholes, cleanouts, service laterals	
transmission and distribution mains and hydrants	2.00%
Distribution reservoirs and standpipes - storage tanks	2.22%
Reuse transmission and distribution lines	2.50%
Structures, improvements, wells, springs and services	3.33%
Distribution reservoirs, standpipes - pressure tanks and treatment and disposal systems	5.00%
Meters	8.33%
Lift stations, recharge wells and pumping equipment	12.50%
Water treatment equipment	20.00%
Equipment	5.00% to 20.00%

Maintenance and repairs to plant in service are generally expensed as incurred. Expenditures determined to extend the useful life, including significant upgrades and replacement projects, represent additions and improvements and are capitalized.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long-Lived Assets-

Management periodically evaluates the carrying value of the long-lived assets in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the FASB ASC, long-lived assets and certain identifiable intangible assets to be held and used in operations are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. Management does not believe impairment exists at December 31, 2015.

Customer Accounts Receivable-

The Company grants credit on open account to its customers. As of December 31, 2015 and 2014, respectively, there were approximately \$22,000 and \$17,000 of receivables over 90 days past due. The Company wrote off \$16,000 and \$12,000 of receivables as uncollectible in 2015 and 2014, respectively.

Receivable from Affiliate-

Receivable from affiliate is due on demand with interest accrued monthly.

Deferred Charges-

Deferred charges represent costs amortizable pursuant to rulings by the Commission over the following periods-

Rate hearing costs	5 years
Deferred operating costs	5 years
Allowance for funds used during construction	22 years
Note issue costs	5 years

Income Taxes-

As required by the *Income Taxes* topic of the FASB ASC, management evaluates all tax positions as required by the *Contingencies* topic of the FASB ASC, which requires a more likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in the Company's tax returns. Management believes the tax positions taken in the Company's tax returns would be sustained upon examination. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2011.

The Company and its stockholders have elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders are personally taxed on the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

Supplemental Cash Flow Information-

Interest paid totaled \$205,000 and \$227,000 in 2015 and 2014, respectively.

(2) PLANT IN SERVICE AND UNDER CONSTRUCTION, net:

Plant in service and under construction, net consists of the following-

	<i>In thousands</i>	
	<u>2015</u>	<u>2014</u>
Construction work-in progress	\$ 43	\$ 2,539
Land	189	189
Water:		
Wells and springs	715	682
Electric pumping equipment	2,589	2,238
Distribution reservoirs and standpipes-storage tanks	1,180	1,201
Distribution reservoirs and standpipes-pressure tanks	74	74
Transmission and distribution mains	2,945	2,945
Services	5,407	5,175
Water treatment equipment	72	62
Hydrants	899	895
Structures and improvements	325	325
Office furniture and equipment	3	3
Transportation equipment	170	116
Power operated equipment	128	128
Communication equipment	252	251
Miscellaneous equipment	15	32
Tools and work equipment	131	126
Computers and software	12	14
Meters	915	876
Wastewater:		
Structures and improvements	409	324
Power generation equipment	100	0
Treatment and disposal systems	10,418	10,419
Collection system-gravity	3,775	3,855
Collection system-force	1,750	98
Manholes and cleanouts	1,938	1,928
Service laterals	661	644
Lift stations and pumping equipment	1,935	1,520
Recharge wells and pumping equipment	1,570	1,559
Reuse transmission and distribution lines	158	140
Receiving wells	704	225
Other plant and miscellaneous equipment	986	975
Office furniture and equipment	9	9
Computers and software	16	16
Transportation equipment	42	42
Tools and work equipment	115	114
Laboratory equipment	7	6
Communication equipment	181	175
Miscellaneous equipment	1	0
Other pumping equipment	106	106
	<u>40,945</u>	<u>40,026</u>
Less accumulated depreciation	21,618	20,326
	<u>\$ 19,327</u>	<u>\$ 19,700</u>

(3) RESTRICTED FUNDS:

The loan agreement with a bank (*Note 6*) requires a compensating balance of \$1,000,000. The restricted funds are invested in money markets and are recorded at cost in a trustee account.

(4) DEFERRED CHARGES:

Deferred charges consist of the following-

	<i>In thousands</i>	
	2015	2014
Rate hearing costs	\$ 146	\$ 227
Allowance for funds used during construction, net	134	166
Deferred operating costs	115	178
Note issue costs, net	6	10
	<u>\$ 401</u>	<u>\$ 581</u>

Pursuant to an order from the Commission, from 1996 to 1999, the Company was authorized to defer 30% of the incremental operating costs of the new wastewater treatment facilities. In accordance with the Commission's Decision 73573, pertaining to the most recent rate case filing, the Company was allowed \$315,000 of the \$1,049,000 deferred operating costs to be included in its rate base calculation to be amortized over 5 years.

The Company was also allowed \$200,000 in rate case expense recovery per division (water and wastewater). This is recovered through a monthly surcharge of \$0.33 per customer, with the surcharge remaining in place until the earlier of: 1) a period of 60 months or 2) until the Company has collected the \$200,000 per division.

(5) ACCRUED LIABILITIES:

Accrued liabilities consist of the following-

	<i>In thousands</i>	
	2015	2014
Taxes	\$ 196	\$ 194
Other	146	141
Interest	17	18
	<u>\$ 359</u>	<u>\$ 353</u>

(6) NOTE PAYABLE:

The Company entered into a loan agreement with a bank in July 2012, which provides for interest at LIBOR plus 200 basis points and is due in July 2017. Principal of \$46,500 plus accrued interest are payable monthly. The note payable is collateralized by the plant in service (Note 2).

Concurrently with the execution of the loan agreement, the Company entered into a swap agreement with the Bank that fixed the interest rate at 3.035%.

Annual principal payments are as follows-

<u>Year Ending</u> <u>December 31,</u>	<i>In thousands</i>
2016	\$ 558
2017	5,952
	<hr/>
	\$ 6,510

(7) ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION:

The advances in aid of construction contracts provide that a percentage of gross revenues from each applicable unit over a specified period will be paid to reimburse an unrelated developer for the cost of the water and wastewater systems.

Any unrefunded portion upon the contract expiration is transferred to contributions in aid of construction and is amortized over the remaining estimated useful life of the related water and wastewater systems.

(8) FLAT RATE OPERATING REVENUES:

Flat rate operating revenues consist of the following-

	<i>In thousands</i>	
	<u>2015</u>	<u>2014</u>
Residential - sewer	\$ 3,119	\$ 3,118
Commercial - sewer	164	166
	<hr/>	<hr/>
	\$ 3,283	\$ 3,284

(9) METERED OPERATING REVENUES:

Metered operating revenues consist of the following-

	<i>In thousands</i>	
	<u>2015</u>	<u>2014</u>
Residential - water	\$ 1,623	\$ 1,656
Commercial - water	375	383
Irrigation - water	440	430
Effluent - sewer	105	113
	<u>\$ 2,543</u>	<u>\$ 2,582</u>

(10) INTEREST EXPENSE, net:

Interest expense, net consists of the following-

	<i>In thousands</i>	
	<u>2015</u>	<u>2014</u>
Interest income	\$ 72	\$ 64
Interest expense	(204)	(225)
	<u>\$ (132)</u>	<u>\$ (161)</u>

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS:

In accordance with the *Fair Value Measurements and Disclosures* topic of the FASB ASC, the carrying amount reported in the balance sheet for current assets, restricted funds and current liabilities approximate fair values due to the short maturity of these instruments.

At December 31, 2015, the fair value of the note payable was equal to the carrying amount.

(12) TRANSACTIONS WITH RELATED PARTIES:

On an ongoing basis, Pima Utility Company engages in certain business activities with affiliates which arise through the normal course of business.

The Company paid \$193,000 and \$175,000 in 2015 and 2014, respectively, to an affiliate for administrative and accounting services.

The Company also advances excess funds to an affiliate. The advances are payable on demand and provide for monthly interest at a rate determined by management, which approximates the prime rate. The Company earned \$71,000 and \$64,000 of interest on the advances during 2015 and 2014, respectively. At December 31, 2015 and 2014, the outstanding receivable from affiliate was \$2,838,000 and \$2,760,000, respectively.

(13) RETIREMENT PLAN AND TRUST:

The Company and affiliated entities have a trust profit sharing plan under Section 401 and 401(K) of the Internal Revenue Code. The Plan and Trust provides for retirement, disability and accidental benefits for eligible employees. The Company matches employee contributions at a rate of 25%. The Plan and Trust also provides for additional contributions by the employer, at management's discretion. As of December 31, 2015, the Company had no liability to the Plan and Trust for matching or additional contributions. The Company contributed approximately \$13,000 and \$12,000 in 2015 and 2014, respectively, to the Plan.

(14) CONCENTRATIONS OF CREDIT RISK:

The *Risk and Uncertainties* topic of the FASB ASC requires certain disclosures relating to concentrations and the general risk associated with those concentrations.

Substantially all customers reside within the Sun Lakes retirement community in Arizona.

(15) SUBSEQUENT EVENTS:

Management has evaluated all subsequent events through the date the financial statements were available to be issued on March 31, 2016. No subsequent events occurred during this period which require adjustment to or disclosure in the financial statements.

EXHIBIT 2

Pima Utility Company
2015 Actual and 2016-2020 Projected Statements of Cash Flows with Rate Increase

Line No.	Actual 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
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	Growth Factor	Actual 2015	Projected[1] 2016	Projected[1] 2017	Projected[1] 2018	Projected[1] 2019	Projected[1] 2020
OPERATING REVENUES							
Water Revenue	0.0%	\$ 2,438,308	\$ 2,438,308	\$ 2,438,308	\$ 2,630,002	\$ 2,830,002	\$ 2,830,002
Sewer Revenues	0.0%	3,388,448	3,388,448	3,388,448	4,050,331	4,050,331	4,050,331
Other Water Revenues	0.0%	21,607	21,607	21,607	21,607	21,607	21,607
Other Sewer Revenues	0.0%	20,050	20,050	20,050	20,050	20,050	20,050
TOTAL REVENUES		\$ 5,868,413	\$ 5,868,413	\$ 5,868,413	\$ 6,921,991	\$ 6,921,991	\$ 6,921,991
OPERATING EXPENSES							
Salaries and Wages	2.0%	\$ 836,065	\$ 956,826	\$ 975,953	\$ 885,482	\$ 1,015,392	\$ 1,035,700
Employee Pensions and Benefits	2.0%	7,431	7,560	7,731	7,886	8,044	8,204
Sludge Removal	2.0%	139,485	142,285	145,131	148,033	150,984	154,014
Purchased Water							
Chemicals	2.0%	388,259	386,024	403,945	412,024	420,264	428,889
Materials and Supplies	2.0%	124,258	126,743	129,278	131,864	134,501	137,181
Office Supplies and Expense	2.0%	250,926	255,945	261,063	266,286	271,610	277,043
Contractual Services - Engineering	2.0%	149,534	152,525	155,575	158,687	161,860	165,098
Contractual Services - Accounting	2.0%	3,831	3,908	3,986	4,065	4,147	4,230
Contractual Services - Legal	2.0%	8,296	8,462	8,631	8,804	8,980	9,159
Contractual Services - Other	2.0%	8,818	8,994	9,174	9,358	9,545	9,736
Contractual Services - Water Testing	2.0%	195,317	199,223	203,208	207,272	211,417	215,646
Rents - Equipment	2.0%	49,456	50,445	51,454	52,483	53,533	54,603
Transportation Expenses	2.0%	10,019	10,424	10,845	11,278	11,731	12,202
Insurance - Vehicle	2.0%	56,705	57,839	58,986	60,148	61,329	62,527
Insurance - General Liability	2.0%	17,609	17,961	18,320	18,687	19,061	19,442
Insurance - Worker's Comp	2.0%	75,611	77,123	78,666	80,239	81,844	83,481
Reg. Comm. Exp.	2.0%	1,528	1,559	1,590	1,622	1,654	1,687
Reg. Comm. Exp. - Rate Case							
Bad Debt Expense		15,479	30,177	30,781	31,366	32,024	32,665
Miscellaneous Expense	2.0%	54,778	55,874	56,991	58,131	59,293	60,479
Depreciation Expense		1,738,816	1,688,420	1,745,797	1,680,852	2,015,309	2,085,560
CIAC Amortization Expense			(103,555)	(92,583)	(82,352)	(72,131)	(62,900)
Amortization of Deferred Costs		97,191	97,191	97,191	97,191	97,191	97,191
Taxes Other Than Income		227,587	103,910	105,368	106,856	108,345	109,820
Property Taxes (computed using ADOR formula)		305,923	292,135	282,183	271,543	260,890	250,237
Income Tax							
TOTAL OPERATING EXP.		\$ 4,864,932	\$ 4,847,813	\$ 4,758,862	\$ 4,757,214	\$ 5,150,613	\$ 5,303,482
OPERATING INC.(LOSS)		\$ 1,003,481	\$ 1,020,600	\$ 1,109,550	\$ 2,164,777	\$ 1,771,377	\$ 1,618,509
OTHER INC./EXPENSE							
Interest and Dividend Income		\$ 79,923	\$ 79,923	\$ 79,923	\$ 79,923	\$ 79,923	\$ 79,923
Non-Utility Income		1,431	1,431	1,431	1,431	1,431	1,431
Interest Expense		(204,106)	(187,441)	(169,693)	(286,254)	(271,331)	(255,896)
Miscellaneous Non-Utility Income		(5,822)	(5,822)	(5,822)	(5,822)	(5,822)	(5,822)
TOTAL OTHER INC.(EXP.)		\$ (128,576)	\$ (111,909)	\$ (94,161)	\$ (210,722)	\$ (195,799)	\$ (180,366)
NET INCOME/(LOSS)		\$ 874,905	\$ 908,690	\$ 1,015,389	\$ 1,954,055	\$ 1,575,578	\$ 1,438,143
Return on Average Book Equity (before tax)		5.35%	5.08%	7.49%	14.28%	11.25%	10.02%
Return on Average Book Equity (after tax)		4.23%	4.80%	5.92%	11.28%	8.89%	7.92%
DEBT COVERAGE RATIOS							
Interest		\$ 204,108	\$ 187,441	\$ 169,693	\$ 286,254	\$ 271,331	\$ 255,898
Principal		558,000	558,000	558,000	436,343	451,266	486,700
Annual Debt Service (Interest + Principal)[2]		\$ 762,108	\$ 745,441	\$ 727,693	\$ 722,597	\$ 722,597	\$ 722,597
Debt Service Coverage Ratio (DSCR) (EBITDA / Principal and Interest Payment)		3.73	3.91	3.93	5.34	5.24	5.14
Times Interest Earned Ratio (TIER) (EBIT / Interest Payment)		4.92	5.44	6.54	7.56	6.53	6.32

	2016	2017	2018	2019	2020
Projected Water Revenue Increase Authorized	\$ -	\$ -	\$ -	\$ 361,694	\$ -
Projected Sewer Revenue Increase Authorized	\$ -	\$ -	\$ -	\$ 681,883	\$ -
Total Projected Revenue Increase Authorized	\$ -	\$ -	\$ -	\$ 1,053,578	\$ -
Annualized Effect on 2015 Revenues (assumes rate increase in effect on Jan. 1, 2018)	\$ -	\$ -	\$ -	\$ 1,053,578	\$ 1,053,578
[2] New debt of \$6,370,000 will be used to retire existing debt and to fund new plant. Assumes transaction takes place Jan. 2018. Also, assumes interest rate of LIBOR plus 200 basis points, currently 3.42%, and assumes a 15 year amortization.					

[1] Projected Revenues
 Projected Water Revenue Increase Authorized
 Projected Sewer Revenue Increase Authorized
 Total Projected Revenue Increase Authorized
 Annualized Effect on 2015 Revenues (assumes rate increase in effect on Jan. 1, 2018)
 [2] New debt of \$6,370,000 will be used to retire existing debt and to fund new plant. Assumes transaction takes place Jan. 2018. Also, assumes interest rate of LIBOR plus 200 basis points, currently 3.42%, and assumes a 15 year amortization.

ASSETS	Actual 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
CURRENT AND ACCRUED ASSETS						
Cash and Equivalents	\$ 337,843	\$ 1,334,485	\$ 1,159,421	\$ 3,233,072	\$ 3,645,834	\$ 3,968,960
Restricted Cash	-	-	-	-	-	-
Accounts Receivable, Net	528,419	528,419	528,419	528,419	528,419	528,419
Other Receivables	14,617	14,617	14,617	14,617	14,617	14,617
Receivables from Associated Companies	2,837,756	137,756	137,756	137,756	137,756	137,756
Materials and Supplies	-	-	-	-	-	-
Prepayments	3,805	3,805	3,805	3,805	3,805	3,805
Other Current Assets	1,075,435	1,075,435	1,075,435	1,075,435	1,075,435	1,075,435
TOTAL CURRENT AND ACCRUED ASSETS	\$ 4,797,874	\$ 3,094,517	\$ 2,819,453	\$ 4,993,103	\$ 5,405,866	\$ 5,728,981
FIXED ASSETS						
Utility Plant in Service	\$ 40,901,371	\$ 41,328,354	\$ 42,638,354	\$ 45,528,354	\$ 47,028,354	\$ 48,528,354
Property Held for Future Use	-	-	-	-	-	-
Construction Work in Progress	43,270	43,270	43,270	43,270	43,270	43,270
Accumulated Depreciation - Utility Plant	(21,617,955)	(23,666,149)	(25,311,946)	(26,992,798)	(29,008,107)	(31,103,667)
Non-Utility Property	-	-	-	-	-	-
Accumulated Depreciation - Non Utility	-	-	-	-	-	-
TOTAL FIXED ASSETS	\$ 19,326,675	\$ 17,805,475	\$ 17,369,678	\$ 18,578,826	\$ 18,063,517	\$ 17,467,957
Unamortized Debt Discount and Expense	\$ 6,060	\$ -	\$ -	\$ -	\$ -	\$ -
Other Deferred Debits	322,890	101,201	68,805	36,410	4,014	-
Other Investments and Special Funds	-	-	-	-	-	-
TOTAL ASSETS	\$ 24,453,500	\$ 21,001,193	\$ 20,357,936	\$ 23,608,339	\$ 23,473,396	\$ 23,196,948
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	\$ 325,167	\$ 325,167	\$ 325,167	\$ 325,167	\$ 325,167	\$ 325,167
Notes Payable (Current Portion)	558,000	558,000	558,000	558,000	558,000	558,000
Notes/Accounts Payable to Associated Companies	100,000	100,000	100,000	100,000	100,000	100,000
Security Deposits	-	-	-	-	-	-
Customer Deposits	5,893	5,893	5,893	5,893	5,893	5,893
Accrued taxes	196,002	196,002	196,002	196,002	196,002	196,002
Accrued Interest	16,447	16,447	16,447	16,447	16,447	16,447
Miscellaneous Current and Accrued Liabilities	140,017	140,017	140,017	140,017	140,017	140,017
TOTAL CURRENT LIABILITIES	\$ 1,341,526					
LONG-TERM DEBT (Over 12 Months)						
Long-Term Notes and Bonds	\$ 5,952,000	\$ 5,394,000	\$ 4,836,000	\$ 7,933,657	\$ 7,482,390	\$ 7,015,691
DEFERRED CREDITS						
Customer Meter Deposits, less current Advances in Aid of Construction *	-	-	-	-	-	-
Imputed Accumulated Deferred Income Tax Contributions in Aid of Construction **	2,206,510	2,206,510	2,206,510	2,206,510	2,206,510	2,206,510
less: Amortization of Contributions	(1,379,364)	(1,497,138)	(1,589,731)	(1,672,083)	(1,767,719)	(1,864,060)
TOTAL DEFERRED CREDITS	\$ 827,146	\$ 709,373	\$ 616,780	\$ 534,428	\$ 438,791	\$ 342,450
TOTAL LIABILITIES	\$ 8,120,672	\$ 7,444,898	\$ 6,794,305	\$ 9,809,610	\$ 9,262,707	\$ 8,699,667
CAPITAL ACCOUNTS						
Common Stock Issued	\$ 180,041	\$ 180,041	\$ 180,041	\$ 180,041	\$ 180,041	\$ 180,041
Paid in Capital in Excess of Par Value	10,801,449	10,801,449	10,801,449	10,801,449	10,801,449	10,801,449
Retained Earnings	5,351,338	2,574,805	2,582,141	2,817,239	3,229,199	3,515,792
TOTAL CAPITAL	\$ 16,332,828	\$ 13,556,294	\$ 13,563,631	\$ 13,798,729	\$ 14,210,689	\$ 14,497,281
TOTAL LIABILITIES AND CAPITAL	\$ 24,453,500	\$ 21,001,193	\$ 20,357,936	\$ 23,608,339	\$ 23,473,396	\$ 23,196,948
% Debt	26.71%	28.46%	26.28%	36.51%	34.49%	32.61%
% Equity	73.29%	71.54%	73.72%	63.49%	65.51%	67.39%

EXHIBIT 3

EXHIBIT 4



Pima Utility Company Conceptual Term Sheet

This Conceptual Term Sheet is not intended to constitute a commitment or offer to lend on the part of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), but only to summarize for discussion purposes our thoughts on a possible structure for the contemplated financing so that we can get your input into structuring and designing a customized financing structure for the company.

Borrower:	Pima Utility Company
Term Loan Amount:	\$8,370,000
Maturity:	5 Years
Amortization:	15 Years
Interest Rate:	5-Year Term: L + 2.00% / P + 0.00%, or
Interest Rate Hedge*:	Borrower can use an Interest Rate Swap to synthetically fix the Libor portion of the interest rate. Based on current market rates, which are subject to change, indicative rates are as follows: 5 year Libor: 1.42% + 2.00% = 3.42% all-in rate
Upfront Fee:	None
Guarantors:	None
Collateral:	Pledge of all allowable Borrower assets including revenue pledge.
Indicative Covenants:	<ol style="list-style-type: none">1) Total Liabilities divided by Tangible Net Worth not greater than 1.0 to 1.0 at each quarter end2) FCCR not less than 1.10 to 1.0 as of each quarter end, determined on a rolling 4 quarter basis3) Minimum Net Profit of not less than \$1 as of each quarter end, determined on a rolling 4-quarter basis
Other Covenants:	Standard and customary for transactions of this nature including, but not limited to: restrictions on loans/advances/investments, pledge of assets, mergers/acquisitions, and additional indebtedness.
Expenses:	Borrower agrees to pay all reasonable out-of-pocket costs and expenses incurred by the Bank in connection with initiating and administering the loan, including, but not limited to, closing, legal, and administrative costs.

Other:

Borrower will continue depository/treasury management relationship with Wells Fargo Bank.

INTEREST RATE

To hedge the variable interest expense of this credit facility, Borrower may acquire an interest rate swap or other swap transaction, provided that the terms, conditions and provider of the swap are acceptable to Wells Fargo and each party to the swap and each of Borrower's credit support providers satisfy all eligibility, suitability and other requirements under the Commodity Exchange Act and CFTC regulations.

PROTECTION:

Any swap with Wells Fargo shall be secured and guaranteed by the same collateral and guarantors, if any, securing and guaranteeing the credit facility.

The above is indicative only and is based on market conditions existing as of approximately 3:00 eastern time on September 19th, 2016. An actual swap rate may be higher or lower depending on market conditions at the time a swap is entered into.

Nothing herein is a recommendation, solicitation, commitment or offer for any swap, and Borrower acknowledges that Wells Fargo may be unable under CFTC regulations to recommend or offer Borrower a swap unless Wells Fargo determines the swap would be suitable.

If Borrower would like information about swaps or hedging with Wells Fargo, we can refer you to our swap specialists

EXHIBIT 5

ASSETS

CURRENT AND ACCRUED ASSETS

Cash and Equivalents					
Restricted Cash					
Accounts Receivable, Net					
Other Receivables					
Receivables from Associated Companies					
Materials and Supplies					
Prepayments					
Other Current Assets					
TOTAL CURRENT AND ACCRUED ASSETS					

FIXED ASSETS

Utility Plant in Service					
Property Held for Future Use					
Construction Work in Progress					
Accumulated Depreciation - Utility Plant					
Non-Utility Property					
Accumulated Depreciation - Non Utility					
TOTAL FIXED ASSETS					
Unamortized Debt Discount and Expense					
Other Deferred Debits					
Other Investments and Special Funds					
TOTAL ASSETS					

LIABILITIES

CURRENT LIABILITIES

Accounts Payable					
Notes Payable (Current Portion)					
Notes/Accounts Payable to Associated Companies					
Security Deposits					
Customer Deposits					
Accrued taxes					
Accrued Interest					
Miscellaneous Current and Accrued Liabilities					
TOTAL CURRENT LIABILITIES					

LONG-TERM DEBT (Over 12 Months)

Long-Term Notes and Bonds					
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DEFERRED CREDITS

Customer Meter Deposits, less current					
Advances in Aid of Construction *					
Imputed Accumulated Deferred Income Tax					
Contributions in Aid of Construction **					
less: Amortization of Contributions					

TOTAL DEFERRED CREDITS

TOTAL LIABILITIES					
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CAPITAL ACCOUNTS

Common Stock Issued					
Paid in Capital in Excess of Par Value					
Retained Earnings					
TOTAL CAPITAL					
TOTAL LIABILITIES AND CAPITAL					

¾ Debt					
¼ Equity					

[1] Principal					
[2] Interest					
[3] Total Interest and Principal					
[4] Operating Income					
[5] Depreciation and Amortization					
[6] Income Taxes					
[7] DSCR: ([4]+[5]+[6]) / [3]					
[8] TIER: ([4] + [6]) / [2]					

(A) New debt of \$8,370,000 will be used to retire existing debt and to fund new plant. Assumes interest rate of LIBOR plus 200 basis points, currently 3.42%. Also, assumes 15 year amortization.

EXHIBIT 6

**CERTIFIED RESOLUTIONS OF THE BOARD OF DIRECTORS
OF PIMA UTILITY COMPANY**

Steven Soriano, the Vice President and Assistant Secretary of Pima Utility Company ("Pima"), a corporation duly organized under the laws of the State of Arizona, hereby certifies that the following resolutions of the Board of Directors of Pima were adopted by the sole member of the Board of Directors by written consent, dated October 19, 2016, that such resolutions have not been amended, altered or repealed, and that such resolutions remain in full force and effect on the date hereof:

Financing Application to Arizona Corporation Commission

RESOLVED, that Pima is authorized to apply to the Arizona Corporation Commission ("Commission") to obtain approval of the financing contemplated in Pima's Application (Financing) ("Application"), in an amount necessary to: (1) fund improvements to Pima's system; (2) replace existing debt; and (3) rebalance Pima's capital structure;

FURTHER RESOLVED, that Pima may obtain financing in an amount not to exceed \$8,370,000, at an interest rate not to exceed Libor plus 2 percent ("Debt");

FURTHER RESOLVED, that Pima's officers, agents, and attorneys are authorized to prepare and submit all proper filings and disclosures, and seek and obtain any and all necessary permits and approvals in connection with the processing of the Application.

Incurring of the Debt

RESOLVED, that Pima, upon receipt of approval from the Commission, incur the Debt;

FURTHER RESOLVED, that the Debt shall be upon such terms and conditions as comply with the order of the Commission and that are approved by Edward J. Robson, as Chairman (Émeritus), Mark E. Robson, as President and Director, Steven Soriano, as Vice President, or James D. Hubbard, as Treasurer, of Pima and that upon such approval by any of them, any of the proper officers of Pima be, and they hereby are, authorized and directed to execute such promissory notes, security instruments and/or other evidence of the Debt, and related documents, as any of such officers deem reasonable and appropriate.

General

RESOLVED, that (a) Steven Soriano, the Vice President and General Manager of Pima, (b) Peter Gerstman, the General Counsel of Robson Communities, Inc., and (c) Shapiro Law Firm, P.C. by and through Jay Shapiro, each be and hereby is, authorized to represent Pima in all matters before the Commission;

FURTHER RESOLVED, that all acts of Pima's officers and directors for and on behalf of Pima since the last meeting of the Board of Directors be, and thereby are, ratified and affirmed;

FURTHER RESOLVED, that the officers of Pima be, and thereby are, authorized and directed to take such further actions as may be necessary or advisable to carry out the intent of these resolutions.

Dated: October 19, 2016

A handwritten signature in cursive script, appearing to read "Steven Soriano".

Steven Soriano, Vice President and Assistant
Secretary