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3 Prescott, AZ 86305
4 (928) 778-2600
5 Attorney for Chino Meadows II Water Company

6 BEFORE THE ARIZONA CORPORATION COMMISSION

7 **COMMISSIONERS**

8 KRISTIN K. MAYES, CHAIRMAN
9 GARY PIERCE
10 PAUL NEWMAN
11 SANDRA D. KENNEDY
12 BOB STUMP

13 APPLICATION OF CHINO MEADOWS II	Docket No. New Application
14 WATER COMPANY, INC FOR	
15 ADJUSTMENTS TO ITS RATES AND	APPLICATION
16 CHARGES FOR UTILITY SERVICE	

17 Pursuant to Arizona Revised Statute § 40-301 and Arizona Administrative Code R14-3-106(F), Chino
18 Meadows II Water Company, Inc (Chino Meadows) is applying for adjustments to its rates and charges
19 for utility service provided by the company’s water system in Arizona, and in support thereof, states as
20 follows;

21 1. Applicant for Rate:
22 Chino Meadows II Water Company, Inc.
23 2465 Shane Drive
24 Prescott, AZ 86305
25 (928) 717-2616 Phone
26 (928) 717-2621 Fax

27 2. Authorized Representatives:	
28 Paul D. Levie, President/Owner/Attorney	Matthew Lauterbach, Water Administrator
29 2465 Shane Drive	2465 Shane Drive
30 Prescott, AZ 86305	Prescott, AZ 86305
31 (928) 717-2600 Phone	(928) 717-2616 Phone
32 (928) 717-2621 Fax	(928) 717-2621 Fax

- 1 3. Chino Meadows II Water Company, Inc is an Arizona corporation engaged in providing water for
2 public purposes in Yavapai County, Arizona, pursuant to certificates of public convenience and
3 necessity granted by the Arizona Corporation Commission (the "Commission"). At the present
4 time, Chino Meadows serves approximately 889 active customers.
- 5 4. Chino Meadows central business office is located at 2465 West Shane Dr, Prescott, AZ 86305.
6 Its mailing address is Post Office Box 350, Chino Valley, AZ 86323-0350, and its telephone
7 number is (928) 717-2616. The company's President and attorney is Paul D. Levie. The
8 company's manager and in person in charge of day to day operations is Matthew Lauterbach.
- 9 5. In this application the Chino Meadows seeks adjustments to its rates and charges for utility
10 service. The company has not had a rate revision since Decision No. 59078 which became
11 effective on June 1st, 1995.
- 12 6. In the last 15 years power generation, fuel, labor, parts, materials and other costs have
13 increased dramatically. Revenues from the company's utility operations are presently
14 inadequate to allow Chino Meadows to recover its operating expenses and provide a just and
15 reasonable rate of return on the fair value of its utility plant and property used to provide
16 service to customers.
- 17 7. With an effective but aging water system it is mandatory to incur capital improvements within
18 the system that are not possible based on the company's current rate structure. Additionally, in
19 the interest of water conservation, the proposed rates in this application are tiered to increase
20 proportionately based on the higher usages and intended to encourage conservation and a
21 more reasonable level of water use.
- 22 8. Filed herewith are the schedules required pursuant to A.A.C. R14-2-103 for rate applications by
23 Class C water utilities. The test year utilized by the Chino Meadows in connection with the
24 preparation of such schedules is the 12-month period that ended December 31, 2009.

***Chino Meadows II Water Company Test Year Ended December 31, 2009
Rate Case Application***

TABLE OF CONTENTS

[A-1 Computation of Increase in Gross Revenue Requirements](#)

[A-2 Summary Results of Operations](#)

[A-4 Construction Expenditures and Gross Utility Plant in Service](#)

[B-1 Summary of Original Cost and RCND Base Elements](#)

[B-2 Original Cost Rate Base Pro Forma Adjustments](#)

[B-3 RCND Rate Base Pro Forma Adjustments](#)

[B-4 RCND by Major Plant Accounts](#)

[B-5 Computation of Working Capital](#)

[C-1 Adjusted Test Year Income Statement](#)

[C-2 Income Statement Pro Forma Adjustments](#)

[C-3 Computation of Gross Revenue Conversion Factor](#)

[D-1 Summary Cost of Capital](#)

[E-1 Comparative Balance Sheets](#)

[E-2 Comparative Income Statements](#)

[E-7 Operating Statistics](#)

[E-8 Taxes Charged to Operations](#)

[E-9 Notes to Financial Statements](#)

[F-1 Projected Income Statements - Present and Proposed Rates](#)

[F-3 Projected Construction Requirements](#)

[F-4 Assumptions Used in Developing Projections](#)

[H-1 Summary of Revenues by Customer Classification - Present & Proposed Rates](#)

[H-3 Changes in Representative Rate Schedules](#)

[H-4 Typical Bill Analysis](#)

[H-5 Bill Count](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

A-1 Computation of Increase in Gross Revenue Requirements

	<u>Original Cost</u>	
Original Cost RCND	761,697.67	
1. Adjusted Rate Base	225,396.28	(a)
2. Adjusted Operating Income	(6,594.35)	(b)
3. Current Rate of Return	-0.87%	
4. Required Operating Income	82,317.68	(b)
5. Required Rate of Return	10.81%	
6. Operating Income Deficiency (4-2)	88,912.03	
7. Gross Revenue Conversion Factor	1.3699	(c)
8. Increase in Gross Revenue Requirements (6x7)	121,797.31	

Customer Classification	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percentage Increase</u>
Residential 5/8 x 3/4" Meter	344,259.80	427,689.43	83,429.63	24.23%
Other Revenues	7,372.89	8,583.87	1,210.98	16.42%
	<u>351,632.69</u>	<u>436,273.30</u>	<u>84,640.61</u>	<u>24.07%</u>

Supporting Schedules

[\(a\) B-1](#)

[\(c\) C-3](#)

[\(b\) C-1](#)

[\(d\) H-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

A-2 Summary Results of Operations

	Prior Years Ended		Test Year Ended 12/31/2009			Projected Year Ended 12/31/2010	
	12/31/2007	12/31/2008	Actual	Adjusted	Proposed Rates	Present Rates	Proposed Rates
	(a)	(a)	(a)	(b)	(b)	(c)	(c)
1. Gross Revenues	365,349.79	356,722.69	351,632.69	351,632.69	436,273.30	346,886.24	430,384.35
2. Revenue Deductions & Operating Expenses	343,998.10	375,689.46	338,565.28	353,955.62	353,955.62	378,029.20	378,029.20
3. Operating Income	21,351.69	(18,966.77)	13,067.41	(2,322.93)	82,317.68	(31,142.96)	52,355.15
4. Other Income & Deductions	(4,282.51)	1,581.36	(16.24)	(16.24)	(16.24)	(16.24)	(16.24)
5. Interest Expense	(1,314.59)	(513.24)	(4,255.18)	(4,255.18)	(4,255.18)	(4,255.18)	(4,255.18)
6. Net Income (Loss)	15,754.59	(17,898.65)	8,795.99	(6,594.35)	78,046.26	(35,414.38)	48,083.73
7. Earned per Average Common Share	1.83	(2.08)	1.02				
8. Dividends per Common Share	0.00	0.00	0.00				
9. Dividend Payout Ratio	0.00	0.00	0.00				
10. Return on Average Invested Capital	17.73%	-20.14%	9.90%	-7.42%	87.83%	-39.85%	54.11%
11. Return on Year End Capital	17.73%	-20.14%	9.90%	9.90%	87.83%	-39.85%	54.11%
12. Return on Average Common Equity	8.20%	-9.37%	4.72%				
13. Return on Year End Common Equity	7.88%	-9.83%	4.61%				
14. Times Bond Interest Earned-Before Income Taxes	16.24	(36.95)	3.07	(0.55)	19.35	(7.32)	12.30
15. Times Total Interest & Preferred Dividends - After Taxes	11.98	(34.87)	2.07	(1.55)	18.34	(8.32)	11.30

Supporting Schedules

[\(a\) E-2](#)

[\(c\) F-1](#)

[\(b\) C-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

A-4 Construction Expenditures and Gross Utility Plant in Service

<u>Year</u>	<u>Construction Expenditures (a)</u>	<u>Net Plant Placed in Service (b)</u>	<u>Gross Utility Plant in Service</u>
1. 2007	1,111.25	298,561.10	755,597.70
2. 2008	2,823.65	274,254.16	757,949.90
3. Test Year - 2009	3,422.72	252,870.03	761,697.67
4. Projected - 2010	253,921.84	485,407.74	1,015,619.51

Supporting Schedules

[\(a\) F-3](#)

[\(a\) E-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

B-1 Summary of Original Cost and RCND Base Elements

	Original Cost
	Rate Base
1. Gross Utility Plant in Service	761,697.67
2. Less: Accumulated Depreciation	(508,827.64)
3. Net Utility Plant in Service	252,870.03
4. Customers' Advances in Construction	(61,212.41)
5. Contributions in Aid of Construction	(10,177.91)
6. Allowance for Working Capital	<u>43,916.57</u>
7. Total Rate Base	225,396.28

Supporting Schedules

[\(a\) B-2](#)

[\(c\) B-5](#)

[\(b\) E-1](#)

Recap Schedules

[\(d\) A-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

B-2 Original Cost Rate Base Pro Forma Adjustments

	Actual at End of Test Year (a)	Pro Forma Adjustments			Adjusted at End of Test Year (b)
		A	B	C	
101 Utility Plant					
101-301 Organization	6,843.02				6,843.02
101-303 Land & Land Rights	15,204.06				15,204.06
101-304 Structures & Improvements	44,339.01				44,339.01
101-305 Collecting & Impounding Reservoirs	4,349.74				4,349.74
101-307 Wells & Springs	27,448.37				27,448.37
101-309 Supply Mains	1,009.20				1,009.20
101-311 Pumping Equipment	46,267.62				46,267.62
101-320 Water Treatment Equipment	6,406.03				6,406.03
101-330 Distribution Reservoirs & Standpipes	51,683.88				51,683.88
101-331 Transmission & Distribution Mains	268,036.77				268,036.77
101-333 Services	30,067.16				30,067.16
101-334 Meters & Meter Installation	84,857.12				84,857.12
101-335 Hydrants	12,041.55				12,041.55
101-339 Other Plant & Misc Equipment	16,727.91				16,727.91
101-340 Office Furniture & Equipment	9,346.02				9,346.02
101-341 Transportation Equipment	88,632.94				88,632.94
101-343 Tools, Shop & Garage Equipment	949.18				949.18
101-345 Power Operated Equipment	25,404.59				25,404.59
101-346 Communication Equipment	22,083.50				22,083.50
Total Cost	761,697.67	0.00	0.00	0.00	761,697.67
108 Accumulated Depreciation & Amortization	(508,827.64)				(508,827.64)
Net Utility Plant	252,870.03	0.00	0.00	0.00	252,870.03

Supporting Schedules

(a) E-1

Recap Schedules

(e) B-1

Chino Meadows II Water Company Test Year Ended December 31, 2009

B-3 RCND Rate Base Pro Forma Adjustments

Reconstruction Cost New less Depreciation

	Actual at End of Test Year	Pro Forma Adjustments Test Year	Adjusted at End of Test Year
1. Gross Utility Plant in Service	761,697.67		761,697.67
2. Less: Accumulated Depreciation	<u>(508,827.64)</u>		<u>(508,827.64)</u>
3. Net Utility Plant in Service	252,870.03		252,870.03

All pro forma adjustments should be adequately explained on this schedule or on attachments hereto.

Supporting Schedules
[\(a\) B-4](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

B-4 RCND by Major Plant Accounts

Plant Condition	<u>RCN</u>	<u>Percentage</u>	<u>RCND</u>
Wells	78,820.00	35.04%	51,200.00
Well Pump Installations	20,009.00	11.54%	17,700.00
Booster Pump Installations	65,000.00	14.92%	55,300.00
Distribution Reservoirs & Pressure Tanks	280,200.00	24.98%	210,200.00
Distribution Mains	3,858,607.00	20.00%	3,086,900.00
Services	19,942.00	24.78%	15,000.00
Meters	613,600.00	20.00%	490,900.00
Hydrants	13,202.00	9.86%	11,900.00
Improvements at Well, Reservoir & Booster Pump Sites	<u>135,894.00</u>	<u>35.02%</u>	<u>88,300.00</u>
Subtotal	5,085,274.00	20.80%	4,027,400.00
Owner's Overhead Project Costs	<u>858,700.00</u>		<u>684,400.00</u>
Total Utility Physical Plant and Property*	5,943,974.00	9.86%	4,711,800.00

*Does not include Land; Numbers shown are from a 2008 RCND Study

[Recap Schedules](#)
[\(a\) B-3](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009
B-5 Computation of Working Capital

	<u>Amount</u>
1. Cash Working Capital	
1/24 Pumping Power Expense	855.27
1/8 Operations and Maintenance Expense	<u>36,908.49</u>
Total Cash Working Capital	37,763.76
2. Materials & Supplies Inventories	3,023.81 (a)
3. Prepayments	<u>3,129.00 (a)</u>
4. Total Working Capital Allowance	<u>43,916.57</u>

Supporting Schedules
[\(a\) E-1](#)

Recap Schedules
[\(b\) B-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

C-1 Adjusted Test Year Income Statement

	Actual for Test Year Ended (a)	Pro Forma Adjustments (b)	Test Year Results After Pro Forma Adjustments	Proposed Rate Increase	Adjusted with Rate Increase
Revenues:					
461 Metered Water Sales	344,259.80		344,259.80	83,429.63	427,689.43
474 Other Water Revenue	7,372.89		7,372.89	1,210.98	8,583.87
Total Revenue	351,632.69		351,632.69	84,640.61	436,273.30
Operating Expenses:					
601 Salaries & Wages-Employees	115,911.53	10,400.00	126,311.53		126,311.53
603 Salaries & Wages-Officers, Directors, Stockholders	35,498.00		35,498.00		35,498.00
610 Purchased Water	100.01		100.01		100.01
615 Purchased Power	22,657.46		22,657.46		22,657.46
618 Chemicals	883.72		883.72		883.72
620 Materials & Supplies & Repairs and Maintenance	16,147.64		16,147.64		16,147.64
621 Office Supplies & Expenses	17,050.48		17,050.48		17,050.48
631 Contractual Services - Engineering	0.00		0.00		0.00
632 Contractual Services - Accounting	600.00		600.00		600.00
633 Contractual Services - Legal	3,994.71		3,994.71		3,994.71
635 Contractual Services - Testing	4,765.96	2,296.00	7,061.96		7,061.96
636 Contractual Services - Other	9,262.63		9,262.63		9,262.63
641 Rents	6,000.00		6,000.00		6,000.00
642 Rental of Equipment	246.05		246.05		246.05
650 Transportation	15,726.40		15,726.40		15,726.40
657 Insurance - General Liability	11,848.00		11,848.00		11,848.00
658 Insurance - Worker's Compensation	2,554.87		2,554.87		2,554.87
659 Insurance - Other	164.99		164.99		164.99
666 System Support	2,856.00	1,482.74	4,338.74		4,338.74
667 Regulatory Commission Expense	442.22		442.22		442.22
670 Bad Debt Expense	1,356.04		1,356.04		1,356.04
675 Misc Expenses	4,089.35		4,089.35		4,089.35
676 Licensing & Permits	2,910.19		2,910.19		2,910.19
680 Tax - Other	6,446.29		6,446.29		6,446.29
408.11 Property Tax	22,328.62		22,328.62		22,328.62
408.12 Payroll Taxes	9,592.12	1,211.60	10,803.72		10,803.72
403 Depreciation	25,132.00		25,132.00		25,132.00
Total Expense	338,565.28	15,390.34	353,955.62		353,955.62
Operating Income (Loss) Before Income Taxes	13,067.41		(2,322.93)		82,317.68
Other Income and Deductions:					
409 Income Taxes	(45.00)		(45.00)		(45.00)
419 Interest Income	25.42		25.42		25.42
421 Nonutility Income	3.34		3.34		3.34
427 Interest Expense	(4,255.18)		(4,255.18)		(4,255.18)
Net Income (Loss)	8,795.99		(6,594.35)		78,046.26

Supporting Schedules

[\(a\) E-2](#)

[\(b\) C-2](#)

Recap Schedules

[\(c\) A-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

C-2 Income Statement Pro Forma Adjustments

	<u>(a)</u>	
Revenues:		
461 Metered Water Sales	83,429.63	
474 Other Water Revenue	<u>1,210.98</u>	
Total Revenue	84,640.61	All Additional Revenue Based on Proposed Rates
Operating Expenses:		
601 Salaries & Wages-Employees	10,400.00	Additional Salaries - Bringing Manager, Admin and Field Tech Wages to Appropriate Levels
603 Salaries & Wages-Officers, Directors, Stockholders		
610 Purchased Water		
615 Purchased Power		
618 Chemicals		
620 Materials & Supplies & Repairs and Maintenance		
621 Office Supplies & Expenses		
631 Contractual Services - Engineering		
632 Contractual Services - Accounting		
633 Contractual Services - Legal		
635 Contractual Services - Testing	2,296.00	Leak Detection Services to Reduce Water Loss Ratio
636 Contractual Services - Other		
641 Rents		
642 Rental of Equipment		
650 Transportation		
657 Insurance - General Liability		
658 Insurance - Worker's Compensation		
659 Insurance - Other		
666 System Support	1,482.74	Additional Software & Hardware Requirements for Company Computer System
667 Regulatory Commission Expense		
670 Bad Debt Expense		
675 Misc Expenses		
676 Licensing & Permits		
680 Tax - Other		
408.11 Property Tax		
408.12 Payroll Taxes	1,211.60	Additional Payroll Taxes for Wages Mentioned Above
403 Depreciation		
Other Income and Deductions:		
409 Income Taxes		
419 Interest Income		
421 Nonutility Income		
427 Interest Expense		

Recap Schedules

(a) C-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
C-3 Computation of Gross Revenue Conversion Factor

Federal Income Taxes	15.00%
State Income Taxes	7.00%
Other Taxes & Expenses	5.00% (3% CV Tax + 2% CV Franchise Tax)
Total Tax Percentage	<u>27.00%</u>
Operating Income % = 100% -Tax Percentage	73.00%
Gross Revenue Conversion Factor	1.3699

[Recap Schedules](#)
[\(a\) C-1](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

D-1 Summary Cost of Capital

	End of Test Year				End of Projected Year			
	Amount	%	Cost Rate	Composite Cost	Amount	%	Cost Rate	Composite Cost
Invested Capital								
Long Term Debt	-	0.00%	0.00%		-	0.00%	0.00%	
Preferred Stock	-	0.00%	0.00%		-	0.00%	0.00%	
Common Equity (w/ Treasury Stock)	45,760.73	17.45%	0.00%		45,760.73	15.05%	0.00%	
Short Term Equity	145,031.32	55.32%	0.00%	0.00%	193,115.05	63.49%	0.00%	0.00%
Total Equity	190,792.05	72.77%			238,875.78	78.54%		
Deferrals (AIAC and CIAC)	71,390.32	27.23%	0.00%	0.00%	65,269.08	21.46%	0.00%	0.00%
Total	262,182.37	100.00%			304,144.85	100.00%		

Chino Meadows II Water Company Test Year Ended December 31, 2009

E-1 Comparative Balance Sheets

		Test Year 2009		Prior Year 2008		Prior Year 2007	
Assets							
101	Utility Plant						
	101-301 Organization	6,843.02		6,843.02		6,843.02	
	101-303 Land & Land Rights	15,204.06		15,204.06		15,204.06	
	101-304 Structures & Improvements	44,339.01		44,339.01		44,339.01	
	101-305 Collecting & Impounding Reservoirs	4,349.74		4,349.74		4,349.74	
	101-307 Wells & Springs	27,448.37		27,448.37		27,448.37	
	101-309 Supply Mains	1,009.20		1,009.20		1,009.20	
	101-311 Pumping Equipment	46,267.62		46,267.62		46,267.62	
	101-320 Water Treatment Equipment	6,406.03		6,406.03		5,105.83	
	101-330 Distribution Reservoirs & Standpipes	51,683.88		51,683.88		51,683.88	
	101-331 Transmission & Distribution Mains	268,036.77		266,539.46		266,539.46	
	101-333 Services	30,067.16		30,067.16		30,067.16	
	101-334 Meters & Meter Installation	84,857.12		82,854.96		81,402.96	
	101-335 Hydrants	12,041.55		12,041.55		12,041.55	
	101-339 Other Plant & Misc Equipment	16,727.91		16,479.61		16,479.61	
	101-340 Office Furniture & Equipment	9,346.02		9,346.02		9,346.02	
	101-341 Transportation Equipment	88,632.94		88,632.94		89,032.94	
	101-343 Tools, Shop & Garage Equipment	949.18		949.18		949.18	
	101-345 Power Operated Equipment	25,404.59		25,404.59		25,404.59	
	101-346 Communication Equipment	22,083.50	761,697.67	22,083.50	757,949.90	22,083.50	755,597.70
	Total Utility Plant						
108	Accumulated Depreciation & Amortization		(508,827.64)		(483,695.74)		(457,036.60)
	Net Utility Plant		252,870.03		274,254.16		298,561.10
Current assets							
131	Cash		316.92		63,922.71		126,642.11
141	Accounts Receivable		7,272.67		50,062.47		25,273.54
146	Notes from Associated Companies		31,504.47		500.00		-
151	Plant Materials & Supplies		3,023.81		3,023.81		2,706.59
162	Prepaid Taxes		3,129.00		3,174.00		1,474.00
	Total Current Assets		45,246.87		120,682.99		156,096.24
Total Assets			298,116.90		394,937.15		454,657.34

Chino Meadows II Water Company Test Year Ended December 31, 2009

E-1 Comparative Balance Sheets (continued)

Capitalization and Liabilities			
Capitalization			
	Equity		
201	Common Stock Issued	8,597.00	8,597.00
211	Paid-In Capital > of Par Value	80,266.00	80,266.00
215	Retained Earnings	145,031.32	136,235.33
216	Reaquired Capital Stock/Treasury Stock	(43,102.27)	(43,102.27)
	Total Equity	190,792.05	181,996.06
224	Long-Term Debt		
	224-010 Bank One 2000 Lincoln	-	-
	224-040 Chrysler Financial	-	6,003.87
	224-060 Ingersoll Rand	-	68.73
	Total Long-Term Debt	-	6,072.60
	Total Capitalization	190,792.05	188,068.66
			13,121.11
			68.73
			13,189.84
			213,084.55
Current Liabilities			
231	Account Payable	9,230.90	2,582.21
234	Notes Payable to Associated Companies	6,000.00	39,124.04
235	Customer Deposits	11,329.70	53,966.49
236	Accrued Taxes	4,801.79	4,684.53
241	Misc Current & Accrued Liabilities	-	7,707.00
	241-100 Payroll Liabilities	3,796.08	4,888.50
	241-238 Accrued Workers Compensation	775.96	717.00
		4,572.04	13,312.50
	Total Current Liabilities	35,934.43	113,669.77
			4,189.03
			129,015.22
Other Credits			
252	Advances in Aid of Construction	42,208.50	64,351.90
	252-010 Main Line Extension	440.00	440.00
	252-020 Main Line-Barros 1755	1,143.67	1,143.67
	252-030 Main Line-Hoffman 1647	2,625.79	2,625.79
	252-040 Line Ext-Garote 1742	926.09	926.09
	252-050 Line Ext-Schuerman 1694	2,452.61	2,452.61
	252-060 Line Ext-Garrison 1633	4,026.48	4,026.48
	252-070 Line Ext-Cross	2,137.58	2,137.58
	252-080 Line Ext-Ouelett	1,181.55	1,181.55
	252-090 Line Ext-Landmark	2,799.00	2,799.00
	252-100 Line Ext-Oursland	1,271.14	1,271.14
	Total Advances in Aid of Construction	61,212.41	83,355.81
271	Contribution in Aid of Construction	12,808.78	12,473.78
272	Less Amortization of Contribution	(2,630.87)	(2,630.87)
	Total Contribution in Aid of Construction	10,177.91	9,842.91
	Total Other Credits	71,390.32	93,198.72
	Total Liabilities	107,324.75	206,868.49
			9,842.91
			112,557.57
			241,572.79
Total Liabilities & Equity		298,116.80	394,937.15
			454,657.34

Chino Meadows II Water Company Test Year Ended December 31, 2009

E-2 Comparative Income Statements

	Test Year Ended 2009	Prior Year Ended 2008	Prior Year Ended 2007
Revenues:			
461 Metered Water Sales	344,259.80	346,995.61	356,650.13
474 Other Water Revenue	7,372.89	9,727.08	8,699.66
Total Revenue	351,632.69	356,722.69	365,349.79
Operating Expenses:			
601 Salaries & Wages-Employees	115,911.53	123,223.16	99,735.10
603 Salaries & Wages-Officers, Directors, Stockholders	35,498.00	1,000.00	30,000.00
610 Purchased Water	100.01	14.92	0.00
615 Purchased Power	22,657.46	22,948.07	21,985.98
618 Chemicals	883.72	1,289.21	3,566.93
620 Materials & Supplies & Repairs and Maintenance	16,147.64	47,251.63	33,421.30
621 Office Supplies & Expenses	17,050.48	23,165.58	22,523.70
631 Contractual Services - Engineering	0.00	0.00	0.00
632 Contractual Services - Accounting	600.00	1,595.00	
633 Contractual Services - Legal	3,994.71	12,485.18	114.00
635 Contractual Services - Testing	4,765.96	5,849.89	2,631.50
636 Contractual Services - Other	9,262.63	29,890.03	7,261.65
641 Rents	6,000.00	5,562.50	7,687.50
642 Rental of Equipment	246.05	1,174.95	6,093.15
650 Transportation	15,726.40	22,520.45	27,834.04
657 Insurance - General Liability	11,848.00	7,760.00	12,864.00
658 Insurance - Worker's Compensation	2,554.87	3,152.26	2,096.00
659 Insurance - Other	164.99	331.38	1,708.04
666 System Support	2,856.00	2,856.00	2,822.00
667 Regulatory Commission Expense	442.22	467.90	542.12
670 Bad Debt Expense	1,356.04	1,091.86	0.00
675 Misc Expenses	4,089.35	1,037.59	2,434.25
676 Licensing & Permits	2,910.19	1,406.59	1,827.02
408.10 Tax - Other	6,446.29	7,091.21	7,295.64
408.11 Property Tax	22,328.62	14,980.13	15,561.61
408.12 Payroll Taxes	9,592.12	10,884.83	7,323.79
403 Depreciation	25,132.00	26,659.14	26,668.78
Total Expense	338,565.28	375,689.46	343,998.10
Operating Income (Loss) Before Income Taxes	13,067.41	(18,966.77)	21,351.69
Other Income and Deductions:			
409 Income Taxes	(45.00)	163.24	(4,289.00)
419 Interest Income	25.42	1,361.72	0.00
421 Nonutility Income	3.34	56.40	6.49
427 Interest Expense	(4,255.18)	(513.24)	(1,314.59)
Net Income (Loss)	8,795.99	(17,898.65)	15,754.59

Supporting Schedules
(a) E-2

Recap Schedules
(b) A-2

Chino Meadows II Water Company Test Year Ended December 31, 2009

E-7 Operating Statistics

	Test Year 2009	Prior Year 2008	Prior Year 2007
Gallons of Water Sold Residential 5/8 x 3/4" Meter	55,920,811.00	56,638,051.00	61,605,220.00
Average Number of Customers Residential 5/8 x 3/4" Meter	865	875	876
Average Annual Gallons per Residential Customer	64,648	64,729	70,326
Average Annual Revenue per Residential Customer	\$397.99	\$396.57	\$407.13
Pumping Cost per 1,000 Gallons - Total	\$0.37	\$0.36	\$0.32

Chino Meadows II Water Company Test Year Ended December 31, 2009

E-8 Taxes Charged to Operations

	<u>Test Year 2009</u>	<u>Prior Year 2008</u>	<u>Prior Year 2007</u>
Federal Taxes:			
Federal Income Tax	9,332.88	11,276.27	9,992.00
Social Security Tax (Company)	7,175.89	7,437.58	5,688.36
Medicare Tax (Company)	1,678.22	1,739.43	1,330.35
Federal Unemployment Tax	267.90	407.67	237.12
Total Federal Taxes	<u>18,454.89</u>	<u>20,860.95</u>	<u>17,247.83</u>
State Taxes:			
State Income Tax	2,403.47	3,187.62	2,456.28
Property Tax	22,328.62	14,980.13	15,561.61
State Sales & Water Use Tax	37,192.80	39,715.30	42,374.85
State Unemployment Tax	762.80	945.40	708.87
AZ-Job Training Tax	37.45	30.52	-
Total State Taxes	<u>62,725.14</u>	<u>58,858.97</u>	<u>61,101.61</u>
Local Taxes:			
Chino Valley Franchise Tax	<u>6,446.29</u>	<u>7,060.69</u>	<u>7,295.64</u>
Total Taxes	87,626.32	86,780.61	85,645.08

Nature of Business

The Company is a regulated utility providing water in a certificated area located in Yavapai County, 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, equipment, and capital leases 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 property, plant and equipment, and amortization of capitalized leased assets are 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 2008 and 2009.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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 collectibility of accounts receivable at the balance sheet date. For 2008 and 2009, the allowance was \$2,139 and \$2,250, respectively.

Customer Advances for Construction

Customer advances for construction are provided to the Company for certain plant expansion and are subject to refund in accordance with agreements approved by the Arizona Corporation Commission. Such agreements provide for the refund of advances, generally based on an amount equal to 10 percent of annual water revenue generated from the expansion. The repayments are generally for a maximum agreed-upon period which is typically 10 years or until repaid in full. Some of the agreements allow, at the Company's option, to repay beyond the agreed-upon periods. Any unpaid balance remaining at the end of the agreed-upon period for repayment becomes a contribution in aid of construction.

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.

Contributions in Aid of Construction

Contributions in aid of construction are nonrefundable contributions by developers and customers for plant facility 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.

Chino Meadows II Water Company Test Year Ended December 31, 2009

F-1 Projected Income Statements - Present and Proposed Rates

	Actual for Test Year Ended (a)	2010 Projected Adj.	Projected 2010 Present Rates	Projected 2010 Proposed Rates
Revenues:				
461 Metered Water Sales	344,259.80	(4,646.93) (1)	339,612.87	421,916.35
474 Other Water Revenue	<u>7,372.89</u>	(99.52) (1)	<u>7,273.37</u>	<u>8,468.00</u>
Total Revenue	351,632.69		346,886.24	430,384.35
Expenses:				
601 Salaries & Wages-Employees	115,911.53	2,318.23 (2)	118,229.76	118,229.76
603 Salaries & Wages-Officers, Directors, Stockholders	35,498.00	709.96 (2)	36,207.96	36,207.96
610 Purchased Water	100.01		100.01	100.01
615 Purchased Power	22,657.46	2,084.52 (3)	24,741.98	24,741.98
618 Chemicals	883.72	(11.93) (1)	871.79	871.79
620 Materials & Supplies & Repairs and Maintenance	16,147.64		16,147.64	16,147.64
621 Office Supplies & Expenses	17,050.48		17,050.48	17,050.48
631 Contractual Services - Engineering	0.00		0.00	0.00
632 Contractual Services - Accounting	600.00		600.00	600.00
633 Contractual Services - Legal	3,994.71	25,000.00 (4)	28,994.71	28,994.71
635 Contractual Services - Testing	4,765.96	(64.33) (1)	4,701.63	4,701.63
636 Contractual Services - Other	9,262.63		9,262.63	9,262.63
641 Rents	6,000.00		6,000.00	6,000.00
642 Rental of Equipment	246.05		246.05	246.05
650 Transportation	15,726.40		15,726.40	15,726.40
657 Insurance - General Liability	11,848.00		11,848.00	11,848.00
658 Insurance - Worker's Compensation	2,554.87		2,554.87	2,554.87
659 Insurance - Other	164.99		164.99	164.99
666 System Support	2,856.00	3,427.47 (5)	6,283.47	6,283.47
667 Regulatory Commission Expense	442.22	1,500.00 (6)	1,942.22	1,942.22
670 Bad Debt Expense	1,356.04	4,500.00 (7)	5,856.04	5,856.04
675 Misc Expenses	4,089.35		4,089.35	4,089.35
676 Licensing & Permits	2,910.19		2,910.19	2,910.19
408.10 Tax - Other	6,446.29		6,446.29	6,446.29
408.11 Property Tax	22,328.62		22,328.62	22,328.62
408.12 Payroll Taxes	9,592.12		9,592.12	9,592.12
403 Depreciation	<u>25,132.00</u>		<u>25,132.00</u>	<u>25,132.00</u>
Total Expense	<u>338,565.28</u>		<u>378,029.20</u>	<u>378,029.20</u>
Operating Income (Loss) Before Income Taxes	13,067.41		(31,142.96)	52,355.15
Other Income and Deductions:				
409 Income Taxes	(45.00)		(45.00)	(45.00)
419 Interest Income	25.42		25.42	25.42
421 Nonutility Income	3.34		3.34	3.34
427 Interest Expense	<u>(4,255.18)</u>		<u>(4,255.18)</u>	<u>(4,255.18)</u>
Net Income (Loss)	<u>8,795.99</u>		<u>(35,414.38)</u>	<u>48,083.73</u>

Chino Meadows II Water Company Test Year Ended December 31, 2009
F-3 Projected Construction Requirements

<u>Property Classification</u>	<u>Test Year Ended 2009</u>	<u>Projected Year 2010</u>
Production Plant	0.00	216,921.84 (8)
Transmission Plant	<u>3,747.77</u>	<u>37,000.00</u> (9)
Total Plant	3,747.77	253,921.84

Recap Schedules
[\(a\) A-4](#)

Chino Meadows II Water Company Test Year Ended December 31, 2009

F-4 Assumptions Used in Developing Projections

- (1) Projected loss of approximately 12 customers due to economic recession and foreclosure
- (2) Projected increase to employee/management salaries of 2%
- (3) Additional costs associated to potential increase in electrical rates 10.55% minus reduction in water demand shown above (1)
- (4) Costs incurred due to improvements and repairs of pumps, generator backup connections and water mains
- (5) Required upgrade to company operating software and hardware
- (6) Fees related to preparation and continuing consulting regarding rate case
- (7) Projected substantial increase in bad debt due to economic impact
- (8) Electrical Updates to Cactus Wren & Donna for Backup Generator = (2) @ \$933.26 & 100k-Gal Storage Tank @ Tri-Tanks and @ Cactus Wren = (2) @ \$93461.28 & Refurbish and Paint (4) Storage Tanks and (3) Buildings
- (9) Line Extension/CV Interconnect @ Rd 2 N = \$15000.00 & Line Replacement Judy to Porcupine = \$22000.00

Chino Meadows II Water Company Test Year Ended December 31, 2009

H-1 Summary of Revenues by Customer Classification - Present & Proposed Rates

Customer Classification	Revenues in Test Year			
	Present Rates	Proposed Rates	Dollar Increase	Percentage Increase
Residential 5/8 x 3/4" Meter	344,259.80	427,689.43	83,429.63	24.23%
Other Revenues	7,372.89	8,583.87	1,210.98	16.42%
	351,632.69	436,273.30	84,640.61	24.07%

Chino Meadows II Water Company Test Year Ended December 31, 2009

H-3 Changes in Representative Rate Schedules

<u>Monthly Usage Charge</u>	<u>Present Rates</u>	<u>Company Proposed</u>
5/8" x 3/4" Meter	\$18.75	\$23.26
3/4" Meter	\$28.13	\$34.90
1" Meter	\$46.88	\$58.16
1 1/2" Meter	\$93.75	\$116.32
2" Meter	\$150.00	\$186.11
3" Meter	\$337.50	\$418.74
4" Meter	\$565.50	\$701.62
6" Meter	\$1,125.00	\$1,395.79
Gallons included in Minimum	1000	1000
Excess of Minimum - per 1,000 Gallons		
<u>5/8" x 3/4" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>3/4" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>1" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>1 1/2" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-3 Changes in Representative Rate Schedules (continued)

<u>2" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>3" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>4" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>6" Meter</u>		
all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
<u>Standpipe/Bulk Rate</u>	N/A	N/A

Chino Meadows II Water Company Test Year Ended December 31, 2009

H-3 Changes in Representative Rate Schedules (continued)

Service Line and Meter Installation Charges

Meter Size	Company Current Total Charges	Company Proposed Service Line Charges	Company Proposed Meter Charges	Company Proposed Total Charges
5/8 x 3/4-inch	\$335.00	\$406.00	\$95.00	\$500.00
3/4-inch	\$360.00	\$413.00	\$162.00	\$575.00
1-inch	\$420.00	\$441.00	\$209.00	\$650.00
1 1/2-inch	\$540.00	\$395.00	\$321.00	\$716.00
2-inch (turbo)	\$660.00	\$727.00	\$845.00	\$1,572.00
2-inch (compound)	N/A	N/A	N/A	N/A
3-inch (turbo)	N/A	\$952.00	\$1,448.00	\$2,400.00
3-inch (compound)	N/A	N/A	N/A	N/A
4-inch (turbo)	N/A	\$1,310.00	\$2,206.00	\$3,516.00
4-inch (compound)	N/A	N/A	N/A	N/A
5-inch	N/A	N/A	N/A	N/A
6-inch (turbo)	N/A	\$2,160.00	\$4,756.00	\$6,916.00
6-inch (compound)	N/A	N/A	N/A	N/A

Service Charges

	Current Charges	Company Proposed
Establishment	\$15.00	\$25.00
Establishment (after hours)	\$25.00	\$35.00
Reconnection (delinquent)	\$25.00	\$35.00
Reconnection (delinquent - after hours)	\$25.00	\$45.00
Meter Test (if correct)	\$35.00	\$35.00
Deposit	per rule	*
Deposit Interest	per rule	*
Re-Establishment (Within 12 Months)	Months off sys*	**
NSF Check	\$15.00	\$20.00
Deferred Payment	1.00%	1.00%
Meter Re-Read (if correct)	\$10.00	\$15.00
Late Fee	N/A	***

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.50 Percent of the unpaid balance per month.

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-4 Typical Bill Analysis

	Monthly Consumption	Present Bill	Proposed Bill	Dollar Increase	% Increase
Residential 5/8" x 3/4"	0	18.75	23.26	4.51	24.07%
	1,000	18.75	23.26	4.51	24.07%
	2,000	21.87	26.78	4.91	22.47%
	3,000	24.99	30.30	5.31	21.26%
	4,000	28.11	33.82	5.71	20.32%
	5,000	31.23	37.34	6.11	19.57%
	6,000	34.35	40.86	6.51	18.96%
	7,000	37.47	44.38	6.91	18.45%
	8,000	40.59	47.90	7.31	18.02%
	9,000	43.71	51.42	7.71	17.65%
	10,000	46.83	54.94	8.11	17.32%
	11,000	49.95	58.69	8.74	17.50%
	12,000	53.07	62.44	9.37	17.66%
	13,000	56.19	66.19	10.00	17.80%
	14,000	59.31	69.94	10.63	17.93%
	15,000	62.43	73.69	11.26	18.04%
	16,000	65.55	77.44	11.89	18.14%
	17,000	68.67	81.19	12.52	18.24%
	18,000	71.79	84.94	13.15	18.32%
	19,000	74.91	88.69	13.78	18.40%
	20,000	78.03	92.44	14.41	18.47%
	25,000	93.63	114.14	20.51	21.91%
	30,000	109.23	135.84	26.61	24.36%
	35,000	124.83	157.54	32.71	26.21%
	40,000	140.43	179.24	38.81	27.64%
	45,000	156.03	200.94	44.91	28.78%
	50,000	171.63	222.64	51.01	29.72%
Average Usage	5,387	32.44	38.71	6.27	19.32%

* Chino Meadows II Water Company does not have any size other than 5/8" x 3/4" meters currently installed in service.

Chino Meadows II Water Company Test Year Ended December 31, 2009

H-5 Bill Count

Residential 5/8" x 3/4"	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009
1 to 1000	67	65	73	60	46	34
1001 to 2000	101	130	104	100	68	66
2001 to 3000	124	163	151	123	106	80
3001 to 4000	144	137	145	129	116	117
4001 to 5000	116	124	111	122	111	87
5001 to 6000	96	77	91	71	83	73
6001 to 7000	65	62	44	74	60	73
7001 to 8000	42	33	53	46	51	57
8001 to 9000	30	23	23	38	48	47
9001 to 10000	24	16	25	27	44	44
10001 to 12000	20	10	16	30	47	59
12001 to 14000	15	7	12	22	32	37
14001 to 16000	5	4	9	5	12	27
16001 to 18000	5	3	2	5	14	19
18001 to 20000	4	1	1	2	8	14
20001 to 25000	2	-	1	2	11	14
25001 to 30000	1	-	-	1	2	8
30001 to 35000	-	-	-	2	1	2
35001 to 40000	1	1	1	2	-	2
40001 to 50000	1	-	-	1	2	1
50001 to 55000	-	-	-	-	-	-
55001 to 60000	-	-	-	-	-	-
60001 to 65000	-	-	-	-	-	-
65001 to 70000	-	-	-	-	-	-
70001 to 75000	-	1	-	-	-	-
75001 to 80000	-	-	1	-	-	-
80001 to 85000	-	-	-	-	-	-
85001 to 90000	-	-	-	1	-	-
90001 to 95000	1	-	-	-	-	-
95001 to 100000	-	-	-	-	-	-
Over 100,000	-	-	-	-	-	-
	864	857	863	863	862	861
Total Consumption	4,111,803	3,505,950	3,828,792	4,378,351	5,272,533	6,067,634

Chino Meadows II Water Company Test Year Ended December 31, 2009

H-5 Bill Count (continued)

Residential 5/8" x 3/4"	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009
1 to 1000	42	42	64	65	78	52
1001 to 2000	79	78	91	97	123	96
2001 to 3000	100	107	115	110	173	122
3001 to 4000	98	98	117	111	135	122
4001 to 5000	105	104	93	103	110	100
5001 to 6000	78	88	82	97	86	98
6001 to 7000	61	66	71	67	55	77
7001 to 8000	54	45	50	66	37	52
8001 to 9000	60	53	43	33	21	44
9001 to 10000	37	43	41	26	11	28
10001 to 12000	60	46	38	52	19	27
12001 to 14000	27	22	29	25	5	15
14001 to 16000	24	21	14	9	5	8
16001 to 18000	12	15	8	4	2	1
18001 to 20000	12	11	9	4	3	4
20001 to 25000	14	16	7	4	-	3
25001 to 30000	4	4	3	2	-	1
30001 to 35000	3	5	2	-	-	-
35001 to 40000	-	1	-	-	-	2
40001 to 50000	1	1	1	-	-	-
50001 to 55000	-	-	-	-	-	-
55001 to 60000	-	-	-	-	-	-
60001 to 65000	-	-	-	-	-	1
65001 to 70000	-	-	-	-	-	-
70001 to 75000	-	-	1	-	-	1
75001 to 80000	-	-	-	-	1	-
80001 to 85000	-	-	-	-	-	-
85001 to 90000	-	-	-	-	-	-
90001 to 95000	-	-	-	1	-	-
95001 to 100000	-	-	-	-	-	-
Over 100,000	-	-	-	-	-	-
Number of Billed Customers	871	866	879	876	864	854
Total Consumption	5,646,752	5,585,332	5,002,356	4,635,510	3,493,420	4,392,378
Average Number of Customers						<u>865</u>
Average Consumption						<u>5,387</u>
Median Consumption						<u>5,227</u>