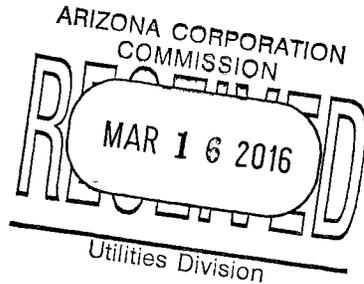


ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

W-01651B

Vail Water Company
1010 N. Finance Center Dr., Ste. 200
Tucson, AZ 85710



Please click here if pre-printed Company name on this form is not your current Company name or dba name is not included.

Please list current Company name including dba here:

ANNUAL REPORT
Water

FOR YEAR ENDING

12	31	2015
----	----	------

FOR COMMISSION USE

ANN 04	15
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3-25-16

COMPANY INFORMATION

Company Name (Business Name) <u>VAIL WATER COMPANY, INC.</u>		
Mailing Address <u>1010 N. FINANCE CENTER DR., #200</u> (Street)		
<u>TUCSON</u> (City)	<u>AZ</u> (State)	<u>85710</u> (Zip)
<u>520-571-1958</u>	<u>520-571-1961</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)
Email Address _____		
Local Office Mailing Address <u>1010 N. FINANCE CENTER DRIVE, #200</u> (Street)		
<u>TUCSON</u> (City)	<u>AZ</u> (State)	<u>85710</u> (Zip)
<u>520-571-1958</u>		
Local Office Telephone No. (Include Area Code)	(1-800 or other long distance Customer Service Phone No.)	
Email Address <u>KVOLPE@ESTESCO.NET</u>	Website Address _____	

MANAGEMENT INFORMATION

<input type="checkbox"/> Regulatory Contact: <u>CHRISTOPHER VOLPE</u>			
<input type="checkbox"/> Management Contact: <u>CHRISTOPHER VOLPE</u>		<u>Vice President/Treasurer</u>	
	(Name)	(Title)	
<u>1010 N. FINANCE CENTER DRIVE</u> (Street)	<u>TUCSON</u> (City)	<u>AZ</u> (State)	<u>85710</u> (Zip)
<u>520-571-1958</u>	<u>520-571-1961</u>		
Telephone No (Include Area Code)	Fax No. (Include Area Code)	Cell No (Include Area Code)	
Email Address <u>KVOLPE@ESTESCO.NET</u>			
On Site Manager: <u>MANNY OROS</u> (Name)			
<u>14155 E. VIA RANCHO DEL LAGO</u> (Street)	<u>VAIL</u> (City)	<u>AZ</u> (State)	<u>85641</u> (Zip)
<u>520-647-3679</u>	<u>520-647-3825</u>	<u>520-730-4730</u>	
Telephone No (Include Area Code)	Fax No. (Include Area Code)	Cell No (Include Area Code)	
Email Address <u>OPERATOR@VAILWATER.COM</u>			

Statutory Agent: DAVID MCEVOY

4560 E CAMP LOWELL
(Street)

(Name)
TUCSON
(City)

AZ
(State)

85712
(Zip)

520-326-0133

Telephone No (Include Area Code)

520-326-5938

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Attorney: MICHAEL T. HALLAM LEWIS & ROCA
(Name)

40 N. CENTRAL AVE.
(Street)

PHOENIX
(City)

AZ
(State)

85004
(Zip)

602-262-5340

Telephone No (Include Area Code)

602-734-3886

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Email Address MHALLAM@LRLAW.COM

OWNERSHIP INFORMATION

Check the following box that applies to your company:

- | | |
|---|---|
| <input type="checkbox"/> Sole Proprietor (S) | <input type="checkbox"/> C Corporation (C) (Other than Association/Co-op) |
| <input type="checkbox"/> Partnership (P) | <input checked="" type="checkbox"/> Subchapter S Corporation (Z) |
| <input type="checkbox"/> Bankruptcy (B) | <input type="checkbox"/> Association/Co op (A) |
| <input type="checkbox"/> Receivership (R) | <input type="checkbox"/> Limited Liability Company |
| <input type="checkbox"/> Other (Describe) _____ | |

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

- | | | |
|-------------------------------------|--|-----------------------------------|
| <input type="checkbox"/> APACHE | <input type="checkbox"/> COCHISE | <input type="checkbox"/> COCONINO |
| <input type="checkbox"/> GILA | <input type="checkbox"/> GRAHAM | <input type="checkbox"/> GREENLEE |
| <input type="checkbox"/> LA PAZ | <input type="checkbox"/> MARICOPA | <input type="checkbox"/> MOHAVE |
| <input type="checkbox"/> NAVAJO | <input checked="" type="checkbox"/> PIMA | <input type="checkbox"/> PINAL |
| <input type="checkbox"/> SANTA CRUZ | <input type="checkbox"/> YAVAPAI | <input type="checkbox"/> YUMA |
| <input type="checkbox"/> STATEWIDE | | |

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			-
302	Franchises			-
303	Land and Land Rights	17,750		17,750
304	Structures and Improvements	398,007	154,874	243,133
305	Collecting & Impounding Reservoirs			
306	Lake, River, Canal Intakes			
307	Wells and Springs	1,025,010	463,943	561,067
308	Infiltration Galleries			
309	Raw Water Supply Mains			
310	Power Generation Equipment			
311	Pumping Equipment	2,010,564	734,299	1,276,265
320	Water Treatment Equipment			-
320.1	Water Treatment Plants			
320.2	Solution Chemical Feeders			
320.3	Point-of-Use Treatment Devices			
320.4	Arsenic Media			
330	Distribution Reservoirs and Standpipes	1,590,904	410,571	1,180,333
330.1	Storage Tanks			
330.2	Pressure Tanks			
331	Transmissions and Distribution Mains	16,112,913	3,781,717	12,331,196
333	Services	16,827	13,778	3,049
334	Meters and Meter Installations	1,054,360	324,474	729,886
335	Hydrants	561,689	158,907	402,782
336	Backflow Prevention Devices	7,901	7,639	262
339	Other Plant and Misc. Equipment	31,854	22,034	9,820
340	Office Furniture and Equipment	31,997	16,150	15,847
340.1	Computers & Software			
341	Transportation Equipment	78,188	46,634	31,554
342	Stores Equipment			
343	Tools, Shop and Garage Equipment			-
344	Laboratory Equipment			-
345	Power Operated Equipment			-
346	Communication Equipment			-
347	Miscellaneous Equipment			-
348	Other Tangible Plant			-
	TOTALS	22,937,964	6,135,020	16,802,944

*This amount goes on the Balance Sheet Acct. No. 108 

WATER UTILITY CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1 x 2)
301	Organization			
302	Franchises			
303	Land and Land Rights	17,750		
304	Structures and Improvements	398,007	2.80%	11,053
305	Collecting & Impounding Reservoirs			
306	Lake, River, Canal Intakes			
307	Wells and Springs	1,025,010	3.20%	31,892
308	Infiltration Galleries			
309	Raw Water Supply Mains			
310	Power Generation Equipment			
311	Pumping Equipment	2,010,564	3.60%	71,397
320	Water Treatment Equipment			
320.1	Water Treatment Plants			
320.2	Solution Chemical Feeders			
320.3	Point-of-Use Treatment Devices			
320.4	Arsenic Media			
330	Distribution Reservoirs and Standpipes	1,590,904	2.00%	30,839
330.1	Storage Tanks			
330.2	Pressure Tanks			
331	Transmissions and Distribution Mains	16,112,913	2.00%	319,144
333	Services	16,827	3.30%	555
334	Meters and Meter Installations	1,054,360	3.60%	37,349
335	Hydrants	561,689	3.60%	19,775
336	Backflow Prevention Devices	7,901	3.60%	281
339	Other Plant and Misc. Equipment	31,854	3.60%	1,147
340	Office Furniture and Equipment	31,997	6.80%	2,010
340.1	Computers & Software			
341	Transportation Equipment	78,188	13.30%	10,399
342	Stores Equipment			
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	SUBTOTAL	22,937,964		535,841
	LESS CIAC Amortization			
	TOTALS*	22,937,964		535,841

*This amount goes on the Comparative Statement of Income and Expense Acct. No. 403

WATER UTILITY BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 589,162	\$ 886,675
134	Working Funds		
135	Temporary Cash Investments	2,277,111	2,032,445
141	Customer Accounts Receivable	159,707	277,855
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	1,276,045	1,591,750
174	Miscellaneous Current and Accrued Assets	62,420	62,420
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 4,364,445	\$ 4,851,145
	FIXED ASSETS		
101	Utility Plant in Service	\$ 22,568,033	\$ 22,937,964
103	Property Held for Future Use		
105	Construction Work in Progress	26,455	82,340
108	Accumulated Depreciation - Utility Plant	(5,604,720)	(6,135,020)
121	Non-Utility Property	155,736	157,420
122	Accumulated Depreciation - Non Utility	(53,761)	(85,735)
	TOTAL FIXED ASSETS	\$ 17,091,743	\$ 16,956,969
	TOTAL ASSETS	\$ 21,456,188	\$ 21,808,114

NOTE: The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

WATER UTILITY BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITIES		
231	Accounts Payable	\$ 101,063	\$ 164,878
232	Notes Payable (Current Portion)		
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	415,576	351,312
236	Accrued Taxes		
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities		
	TOTAL CURRENT LIABILITIES	\$ 516,639	\$ 516,190
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds		
	DEFERRED CREDITS		
251	Unamortized Premium on Debt	\$ -	\$ -
252	Advances in Aid of Construction	15,382,126	15,718,088
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction		
272	Less: Amortization of Contributions	(1,030,587)	(1,218,611)
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	\$ 14,351,539	\$ 14,499,477
	TOTAL LIABILITIES	\$ 14,868,178	\$ 15,015,667
	CAPITAL ACCOUNTS		
201	Common Stock Issued	\$ 638,099	\$ 638,099
211	Paid in Capital in Excess of Par Value	2,445,314	2,445,314
215	Retained Earnings	3,504,597	3,709,034
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ 6,588,010	\$ 6,792,447
	TOTAL LIABILITIES AND CAPITAL	\$ 21,456,188	\$ 21,808,114

WATER UTILITY COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 2,245,177	\$ 2,235,030
460	Unmetered Water Revenue		
474	Other Water Revenues	151,519	615,210
	TOTAL REVENUES	\$ 2,396,696	\$ 2,850,240
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 275,857	\$ 282,035
610	Purchased Water		480,376
615	Purchased Power	235,550	128,863
618	Chemicals	1,073	2,417
620	Repairs and Maintenance	36,487	34,542
621	Office Supplies and Expense	91,573	79,591
630	Outside Services	192,888	212,849
635	Water Testing	18,635	27,909
641	Rents	11,843	13,338
650	Transportation Expenses	25,044	17,913
657	Insurance - General Liability	42,591	42,977
659	Insurance - Health and Life	19,222	15,296
666	Regulatory Commission Expense - Rate Case	14,767	15,308
675	Miscellaneous Expense	300,005	67,123
403	Depreciation Expense	513,174	535,841
408	Taxes Other Than Income		
408.11	Property Taxes	136,363	137,213
409	Income Tax		
	TOTAL OPERATING EXPENSES	\$ 1,915,072	\$ 2,093,591
	OPERATING INCOME/(LOSS)	\$ 481,624	\$ 756,649
	OTHER INCOME/(EXPENSE)		
419	Interest and Dividend Income	\$ 13,042	\$ 16,008
421	Non-Utility Income	95,828	218,929
426	Miscellaneous Non-Utility Expenses		
427	Interest Expense	(1,554)	(9,649)
	TOTAL OTHER INCOME/(EXPENSE)	\$ 107,316	\$ 225,288
	NET INCOME/(LOSS)	\$ 588,940	\$ 981,937

SUPPLEMENTAL FINANCIAL DATA

Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued				
Source of Loan				
ACC Decision No.				
Reason for Loan				
Dollar Amount Issued	\$ -	\$ -	\$ -	\$ -
Amount Outstanding	\$ -	\$ -	\$ -	\$ -
Date of Maturity				
Interest Rate	%	%	%	%
Current Year Interest	\$ -	\$ -	\$ -	\$ -
Current Year Principal	\$ -	\$ -	\$ -	\$ -

Meter Deposit Balance at Test Year End \$ 351,312

Meter Deposits Refunded During the Test Year \$ 130,000

COMPANY NAME	Vail Water Company	2015
Name of System:	ADEQ Public Water System Number:	10-041

WATER UTILITY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-625703	100	600	614	12	8	1974
55-087817	200	700	759	14	8	1981
55-087816	300	1200	845	14	10	1981
55-087814	300	975	924	14	8	1981

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
10	3	459	
20	6		
25	4		
30	7		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
600,000	1	5,000	13
550,000	1		
500,000	2		
290,000	1		
100,000	1		

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2015
Name of System:	ADEQ Public Water System Number:	10-041

WATER UTILITY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	Galvanized	8,456
3		
4	PVC C-900	47,624
5		
6	PVC/Asbestos/Cement	161,227
8	PVC/Asbestos/Cement	169,749
10	PVC/Asbestos/Cement	16,609
12	PVC/Asbestos/Cement	114,237
16	Ductile Iron	1,923

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	4,057
3/4	139
1	25
1 1/2	23
2	40
Comp. 3	1
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	
(TOTAL)	4,285

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

ACCUTAB TABLET PPG CHLORINATION SYSTEM WITH A .02 RESIDUAL OF CALCIUM HYPOCHLORIDE

STRUCTURES:

ADMINISTRATIVE OFFICE 57x35 1,995 SQ FT STEEL BUILDING

OTHER:

N/A

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2015
Name of System	ADEQ Public Water System Number:	10-041

WATER USE DATA SHEET BY MONTH FOR CALENDER YEAR 2015

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	4,290	22,444	24,318	0
FEBRUARY	4,295	25,946	28,908	0
MARCH	4,325	25,756	31,646	0
APRIL	4,339	35,436	39,331	0
MAY	4,349	32,736	7,066	29,788
JUNE	4,374	37,226	89	31,994
JULY	4,397	34,388	29	35,304
AUGUST	4,389	33,007	59	40,433
SEPTEMBER	4,376	28,602		31,661
OCTOBER	4,395	27,063		31,419
NOVEMBER	4,393	25,480	39	27,526
DECEMBER	4,406	22,916		28,473
TOTALS --->		351,000	131,485	256,598

What is the level of arsenic for each well in your system.

(If more than one well, please list each separately)

Well 1	<u> n/a </u>	mg/1
Well 2	<u> n/a </u>	mg/1
Well 3	<u> 0.0018 </u>	mg/1
Well 5	<u> 0.0017 </u>	mg/1
Well 6	<u> 0.0017 </u>	mg/1
Well 8	<u> 0.0035 </u>	mg/1

If system has fire hydrants, what is the fire flow requirement? 1,000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?

() Yes () No

Is the Water Utility located in an ADWR Active Management Area (AMA)?

() Yes () No

Is the Water Utility located in an ADWR Active Management Area (AMA)?

() Yes () No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

() Yes () No

If yes, provide the GPCPD amount: 95 GPCD

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2015
Name of System	ADEQ Public Water System Number:	10041

UTILITY SHUTOFFS/DISCONNECTS

MONTH	Termination without Notice R14-2-410.B	Termination with Notice R14-2-410.C	OTHER
JANUARY		24	
FEBRUARY		42	
MARCH		62	
APRIL		60	
MAY		46	
JUNE		48	
JULY			
AUGUST		57	
SEPTEMBER		71	
OCTOBER		65	
NOVEMBER		69	
DECEMBER		39	
TOTALS --->	0	583	0

OTHER (description):

Company Name VAIL WATER COMPANY, INC. **YEAR ENDING 12/31/2015**

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2015 was: \$ 136,288

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain below:

VERIFICATION
AND
SWORN STATEMENT
Taxes

RECEIVED

MAR 16 2016
AZ CORP COMM
Director - Utilities

VERIFICATION

STATE OF AZ

COUNTY OF (COUNTY NAME)

PIMA

I, THE UNDERSIGNED

NAME (OWNER OR OFFICIAL) TITLE

CHRISTOPHER VOLPE, VP

OF THE

COMPANY NAME

VAIL WATER COMPANY

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH

12

DAY

31

YEAR

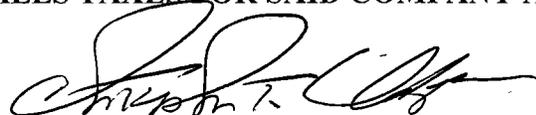
2015

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.



SIGNATURE OF OWNER OR OFFICIAL

520-571-1958 x7105

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

LISA S. HOSKIN

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

COUNTY NAME

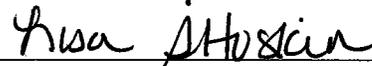
Pima

THIS 26th DAY OF

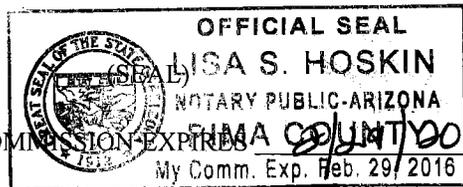
MONTH

February

2016



SIGNATURE OF NOTARY PUBLIC



MY COMMISSION EXPIRES PIMA COUNTY 2/29/2016

RECEIVED

VERIFICATION AND SWORN STATEMENT Intrastate Revenues Only

MAR 16 2016 AZ CORP COMM Director - Utilities

VERIFICATION STATE OF AZ

COUNTY OF (COUNTY NAME) PIMA NAME (OWNER OR OFFICIAL) TITLE CHRISTOPHER VOLPE, VP COMPANY NAME VAIL WATER COMPANY

I, THE UNDERSIGNED OF THE

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING MONTH 12 DAY 31 YEAR 2015

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDER YEAR 2015 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 2,906,327 (THE AMOUNT IN BOX ABOVE INCLUDES \$ 169,256 IN SALES TAX BILLED, OR COLLECTED)

** REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)

Signature of Christopher Volpe, VP. Telephone number 520-571-1958.

SUBSCRIBED AND SWORN TO BEFORE ME

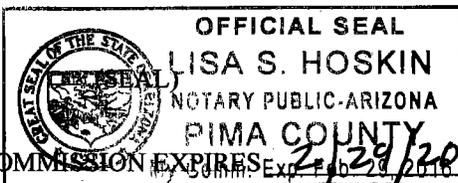
Lisa S. Hoskin

A NORTARY PUBLIC IN AND FOR THE COUNTY OF

County Name Pima

THIS 26th DAY OF

MONTH February 2016



Signature of Lisa S. Hoskin, Notary Public

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
Intrastate Revenues Only**

RECEIVED

MAR 16 2016
AZ. UTIL. COMM.
Director - Utilities

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)

PIMA

NAME (OWNER OR OFFICIAL)

CHRISTOPHER VOLPE

TITLE

VP

COMPANY NAME

VAIL WATER COMPANY

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH

12

DAY

31

YEAR

2015

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDER YEAR 2015 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

THE AMOUNT IN BOX ABOVE AT LEFT

\$ 2,496,818

INCLUDES \$ 145,463
IN SALES TAX BILLED, OR COLLECTED)

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.**



SIGNATURE OF OWNER OR OFFICIAL

520-571-1958

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS 26th DAY OF

LISA S. HOSKIN

NOTARY PUBLIC NAME

Pima

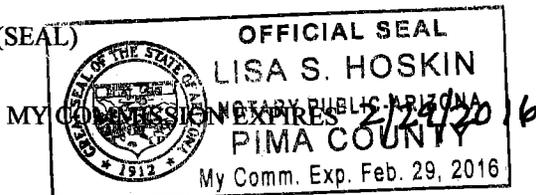
COUNTY NAME

MONTH

February

2016

(SEAL)





SIGNATURE OF NOTARY PUBLIC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vail Water Company
Tucson, Arizona

We have audited the accompanying financial statements of Vail Water Company (an S-Corporation), which comprise the statement of assets, capitalization and liabilities - income tax basis, as of December 31, 2015 and 2014, and the related statements of revenue, expenses and accumulated earnings - income tax basis for the year 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 the basis of accounting Vail Water Company uses for income tax purposes; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 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 assets, capitalization, and liabilities of Vail Water Company at December 31, 2015 and 2014 and its revenue, expenses and accumulated earnings for the years then ended in accordance with the basis of accounting Vail Water Company uses for income tax purposes described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



LaVoie & Company, P.C.
Tucson, Arizona
February 24, 2016

Vail Water Company

STATEMENTS OF ASSETS, CAPITALIZATION AND
LIABILITIES - INCOME TAX BASIS

	December 31,	
	2015	2014
ASSETS		
Utility Plant:		
Land	\$ 17,750	\$ 17,750
Plant and equipment - Note 3	22,920,214	22,550,283
Construction work-in-progress - Note 4	82,340	26,455
Total Utility Plant	23,020,304	22,594,488
Less accumulated depreciation	(9,469,118)	(8,590,351)
Net Utility Plant	13,551,186	14,004,137
Other Assets:		
Water storage and recharge credits - Note 9	1,591,750	1,276,045
Other	71,685	101,975
	1,663,435	1,378,020
Current Assets:		
Cash	886,675	589,162
Certificates of deposit	1,326,821	1,518,446
Customer accounts receivable	277,855	159,707
Receivable from annexation group	62,420	62,420
Total Current Assets	2,553,771	2,329,735
Noncurrent Assets:		
Money market funds - Note 5	450,994	505,928
Certificates of deposit - Note 5	254,630	252,737
	705,624	758,665
Total Assets	\$ 18,474,016	\$ 18,470,557

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

	December 31,	
	<u>2015</u>	<u>2014</u>
CAPITALIZATION & LIABILITIES		
Capitalization:		
Common stock (\$10 par value; 1,000,000 shares authorized; 63,810 shares issued and outstanding)	\$ 638,099	\$ 638,099
Capital-in-excess of stated value	2,445,314	2,445,314
Accumulated earnings	<u>374,936</u>	<u>518,966</u>
Total Capitalization	3,458,349	3,602,379
Current Liabilities:		
Accounts payable and accrued expenses	164,878	101,063
Customer deposits, current portion - Note 6	<u>125,000</u>	<u>130,000</u>
Total Current Liabilities	289,878	231,063
Customer Deposits, long-term - Note 6	226,312	285,576
Advances For Construction:		
Line extension agreements - Note 7	7,165,426	7,358,840
Expired line extension agreements - Note 7	6,176,131	5,723,175
Hook-up fee tariffs - Note 8	1,779,140	1,702,720
Sub-station advance	30,000	30,000
Annexation participation agreement	567,391	567,391
Accumulated amortization of advances for construction	<u>(1,218,611)</u>	<u>(1,030,587)</u>
Total Advances For Construction	<u>14,499,477</u>	<u>14,351,539</u>
Total Liabilities	<u>15,015,667</u>	<u>14,868,178</u>
Total Capitalization and Liabilities	<u>\$ 18,474,016</u>	<u>\$ 18,470,557</u>

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

Vail Water Company

STATEMENTS OF REVENUE, EXPENSES
AND ACCUMULATED EARNINGS
- INCOME TAX BASIS

	<u>For The Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Operating Revenue:		
Water sales	\$ 2,793,809	\$ 2,306,869
Fees and other income	<u>79,198</u>	<u>91,256</u>
Total Operating Revenue	2,873,007	2,398,125
Operating Expenses:		
Administrative and general	477,536	491,611
Purchased water and long-term water storage	486,277	228,908
Professional services	240,758	211,523
Depreciation and amortization - Note 3	731,789	813,238
Purchased power	128,863	235,550
Property and other taxes	137,213	136,363
Repairs and maintenance	17,038	22,311
Other	<u>26,422</u>	<u>21,250</u>
Total Operating Expenses	<u>2,245,896</u>	<u>2,160,754</u>
Net Income From Operations	627,111	237,371
Other Income (Expense):		
Interest Income	16,008	13,042
Interest Expense	<u>(9,649)</u>	<u>(1,554)</u>
Net Income	633,470	248,859
Distributions to shareholders	(777,500)	(750,000)
Accumulated earnings, beginning of year	<u>518,966</u>	<u>1,020,107</u>
Accumulated earnings, end of year	<u>\$ 374,936</u>	<u>\$ 518,966</u>

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

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 1 - ORGANIZATION HISTORY AND NATURE OF OPERATIONS

Vail Water Company (the "Company"), formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. Effective August 1, 2013, the Company is operating under the 2013 Rate Order.

The Company provides water service to 4,406 customers in Vail, Arizona. As a consequence of utilizing some groundwater, the Company is subject to various water conservation requirements authorized pursuant to the Arizona Revised Statutes 45-566.

In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project Water (CAP). Effective January 1, 2008, the Company entered into a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America, for the purchase of an additional 1,071 acre feet per annum of Central Arizona Project Water. This brings the total per annum acre feet of Central Arizona Project Water to 1,857.

Under a Decision and Order dated August 2, 2015, the Department of Water Resources of the State of Arizona designated the Company as having an assured water supply through December 31, 2030 of 3,935 acre feet. Certain conditions apply including on going reporting by the Company to the Department of Water Resources.

The Company owns nine registered wells, four of which provided water to customers for part of 2015 and all of 2014.

On May 1, 2015 the Company commenced receiving CAP water directly via a Wheeling Agreement with Tucson Water. The Company expects the wheeled CAP water will satisfy all of the water needs of its customers for the foreseeable future. The Company no longer pumps ground water as part of its normal water service operations.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

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

a) The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996, are not taxable when received and have a zero tax basis to the Company:

- 1) if not included in the utility's rate base for rate making purposes,
- 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
- 3) if certain conditions concerning the keeping of records are met.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

b) The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.

c) The tax basis of accounting uses specific statutory lives for depreciation purposes. GAAP requires assets to be depreciated over the assets' estimated useful lives.

d) The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

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

Income Taxes - The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the separately stated items of income and deductions of the corporation will be reported on the income tax returns of the individual stockholders. For federal purposes, years 2012 through 2015 remain open to audit. For State purposes, years 2011 through 2015 remain open to audit.

Advances and Contributions in Aid of Construction - Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities. Generally, as new customers begin to receive service, most of these amounts are refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Contributions in aid of construction are amortized to income over the lives of the respective plant assets. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under Basis of Accounting, paragraph a), above.

Concentrations of Credit Risk - In the normal course of business, the Company extends unsecured credit to customers.

The Company holds its cash balances in various FDIC financial institutions. Accounts at these institutions are insured up to \$250,000 by the FDIC. At December 31, 2015, the Company's uninsured bank balances totaled \$572,000.

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

Reclassifications - Certain amounts for 2014 have been reclassified to conform to the 2015 presentation.

Vail Water Company
 NOTES TO FINANCIAL STATEMENTS (Continued)
 December 31, 2015 and 2014

Note 3 - PLANT AND EQUIPMENT

Plant and equipment at December 31 consists of:

	<u>2015</u>	<u>2014</u>	Estimated Useful Lives
Structures and improvements	\$ 398,007	\$ 398,007	20-40
Wells and springs	1,025,010	1,025,010	20-40
Pumping equipment	2,018,465	2,018,465	20-40
Distribution reservoirs and standpipes	1,590,904	1,590,904	20-40
Transmission and distribution mains	16,112,913	15,801,541	20-40
Hydrants	561,689	536,929	20-40
Meters	1,054,360	1,020,561	20-40
Other equipment and furniture	<u>158,866</u>	<u>158,866</u>	5-7
	<u>\$22,920,214</u>	<u>\$22,550,283</u>	

Depreciation expense on the Statement of Revenue, Expenses and Accumulated Earnings is net of the amortization of expired contributions in aid of construction discussed in Note 7 as follows:

	<u>2015</u>	<u>2014</u>
Depreciation expense	\$892,890	\$876,699
Deferred rate case amortization	26,923	26,923
Amortization of expired contributions in aid of construction	<u>(188,024)</u>	<u>(90,384)</u>
	<u>\$731,789</u>	<u>\$813,238</u>

Note 4 - CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress typically consists of water mains, transmission and distribution lines and reservoirs.

Note 5 - NONCURRENT ASSETS

The money market funds and certificates of deposit are restricted for the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Hookup tariff (Note 8)	\$578,684	\$580,405
CAP hookup and service charge (Note 9)	<u>126,940</u>	<u>178,160</u>
	<u>\$705,624</u>	<u>\$758,565</u>

Vail Water Company
 NOTES TO FINANCIAL STATEMENTS (Continued)
 December 31, 2015 and 2014

Note 6 - CUSTOMER DEPOSITS

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the 2013 Rate Order (August 1, 2013) and 2000 rate orders and are refundable at a rate of 10% per year.

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

	<u>2015</u>	<u>2014</u>
Meter	\$253,862	\$306,926
Guarantee	<u>97,450</u>	<u>108,650</u>
	351,312	415,576
Less current portion	<u>(125,000)</u>	<u>(130,000)</u>
	<u>\$226,312</u>	<u>\$285,576</u>

The schedule of estimated deposit refunds payable to customers for each of the next five years and in the aggregate, as of December 31, is as follows:

	<u>Annual Refund</u>
2015	\$125,000
2016	31,000
2017	32,000
2018	32,000
2019	31,000
Thereafter	<u>100,312</u>
	<u>\$351,312</u>

Note 7 - LINE EXTENSION AGREEMENTS

Developers and customers, on behalf of the Company, have constructed line extensions and necessary plant to provide service to their property. The Company agrees to refund amounts, up to the cost of such agreements, over 10 to 30 years based upon 10% to 20% of gross annual revenue from water sales to the customers serviced by the lines. At the expiration of this period any unrefunded balance remains with the Company and is classified as contributions in aid of construction. Agreements with remaining balances in the amount of \$453,000 and \$1,506,000 expired during 2015 and 2014, respectively.

Note 8 - HOOK-UP FEE TARIFFS

The Arizona Corporation Commission approved an off-site facilities hook-up fee tariff throughout the Company's service area. These fees are a non-refundable charge assessed to new connections requiring a main extension.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

Note 9 - CENTRAL ARIZONA PROJECT

The Company has a long-term subcontract with CAP to receive 1,857 acre feet of water annually.

The Company has entered into a contract to recharge a portion of its CAP allocation for the purpose of accumulating long-term storage credits. Excess CAP recharged over current usage accumulates as long-term storage credits. The Company had 8,535 and 8,048 acre feet of long-term storage credits as of December 31, 2015 and 2014, respectively.

In 2013, the Company entered into a "Wheeling Agreement" with Tucson Water, to deliver CAP directly to the Company's customers.

The 2013 Rate Order also requires the construction of pipelines and facilities needed for CAP delivery. Construction of these pipelines and facilities were completed at the end of 2014.

Prior to taking direct delivery of CAP water as per the 2013 Rate Order, the Company has filed a request, approval pending, for a CAP surcharge with the ACC based on the cost components of the CAP water and delivery to the Company's service area. The components and mechanics of the recharge and surcharge were approved in the 2013 Rate Order.

Note 10 - RELATED PARTY TRANSACTIONS

During 2015 and 2014, the Company charged Del Lago Golf, LLC, an entity owned by certain stockholders of the Company, \$120,000 and \$109,000, respectively, for water usage, storage credits, and energy use. The amounts in customer accounts receivable from this entity at December 31, 2015 and 2014 was \$48,000 and \$38,000, respectively.

The Company entered into a lease arrangement with Del Lago Golf, LLC, an entity owned by certain shareholders of the Company, to lease 149 and 241 acre feet of long-term storage credits in 2015 and 2014, respectively.

The Company entered into a ten-year ground lease with Del Lago Golf, LLC, an entity owned by certain stockholders of the Company. The lease calls for rate increases of 3% each March 1. Rent expense for 2015 and 2014 was \$7,600 and \$7,300, respectively.

The Company has entered into an agreement for management services with a corporation controlled by a stockholder of the Company. The management agreement required the Company to pay \$2.73 per customer per month in exchange for certain accounting and administrative functions. Management services paid under the contract were \$143,000 and \$138,000 for 2015 and 2014, respectively. Management services are included in professional services. At December 31, 2015 and 2014, \$12,000, are included in accounts payable and accrued expenses. A new agreement was entered into for 2016 at \$2.73 per customer.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

Note 11 - STOCK TRANSFER RESTRICTIONS

The stockholders have entered into a Stockholders' Agreement, which establishes certain transfer restrictions on the stock of the Company as follows:

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

Note 12 - PENSION PLAN

The Company has a salary deferral plan under IRC Section 401(k). Participants must be 21 and have six months of service to enter the Plan. The Company made no contributions to the Plan for 2015 or 2014.

Note 13 - SUBSEQUENT EVENTS

The Company did not have any subsequent events through February 24, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2015.