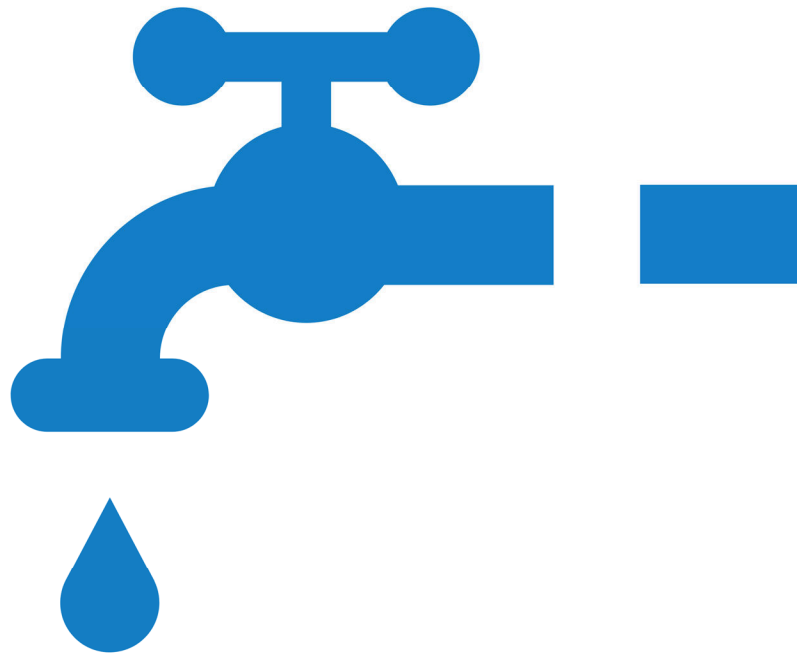




# ANNUAL REPORT 2021



For additional information on ...

- ❖ Company Rules and Regulations
- ❖ Water Conservation
- ❖ Water Quality
- ❖ Backflow
- ❖ EZPay – An efficient way to make your payments electronically.
- ❖ RoundUp – A volunteer program that provides financial assistance to customers in need.

Please contact us at:

**Community Water Company of Green Valley**  
(520) 625-8409  
Communitywater.com

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*COMMUNITY WATER COMPANY PROVIDING  
RELIABLE WATER DELIVERY SERVICE SINCE 1977*

**March 25, 2022**

**To the Members of Community Water Company of Green Valley  
(An Arizona nonprofit corporation with members)**

**45 Years of Service . . .** In 1975, for the benefit of our community, a group of Green Valley residents began volunteering their time to acquire the local water utility. On June 10, 1977, control of the utility passed to the Board of the Community Water Company of Green Valley, and management began operating the water delivery system. The system had 2,700 units, 62 miles of mainline pipe, and a storage capacity of 1 million gallons. We began operation with about ten employees and a debt of about \$2.6 million.

We are delighted to note that at year-end 2021, we served 12,845 active residential units, 398 commercial units, and a handful of other customers. In total, we have 13,360 active units, 154 miles of mainline pipe, and 6 million gallons of water storage capacity. When fully staffed, we have 21 employees. Our debt is currently about \$2.5 million, and our residential water bills average around \$22.50 per month. Total 2021 revenues for utility operations were \$4,674,000, and excess revenues over expenses were \$496,000.

The Arizona Corporation Commission approved our current delivery rates in 2016. It is vital to maintain financial sustainability, and we will need to continue generating sufficient revenues to meet expenses fully. In addition to capital improvements, we continue to experience increased operating and maintenance costs.

**Water Quality . . .** The water delivered to our members and customers met or surpassed all health and safety measures required by the United States Environmental Protection Agency, the Arizona Department of Environmental Quality, and the Pima County Department of Environmental Quality. Our latest annual Water Quality Report, covering data samples from 2021, will be published in July and confirms that our delivered water meets all applicable water quality standards. Our 2020 annual Water Quality Report is available on our website [www.communitywater.com](http://www.communitywater.com).

Our latest Water Quality Report noted that we are not currently impacted by sulfate contamination from the local mines and includes additional information on sulfate. A Community Advisory Group (CAG) was established as a part of the sulfate mitigation order; the Arizona Department of Environmental Quality also agreed to monitor the local sulfate mitigation efforts. Representatives of Community Water attend the CAG meetings.

**Water Supplies . . .** Total rainfall in 2021 was higher than the prior year – 10.05 inches in 2020 and 13.59 inches in 2021. Community Water pumped 2,385.3 acre-feet of water from our aquifer - a decrease of about 2% from the prior year.

Community Water is committed to maintaining a sustainable water supply. Local water supplies are not sustainable as long as they continue to decline. Even though it can be decades before we feel the impact, it is crucial to invest in solutions for future generations. Project Renewals was started in 2007 to bring renewable water supplies to the Green Valley Sahuarita area at no cost to the members of Community Water. Project Renewals is connected to the Central Arizona Project pipeline at the CAP Terminus. Construction to date includes a pipeline along Pima Mine Road to Nogales Highway and a segment under the Nogales Highway/Sahuarita Road intersection. It also has a 99-year lease on a recharge site.

**People who serve you . . .** In January 2022, a customer satisfaction survey showed our customers had an overall 97% satisfaction rate. Water service and customer service continue to have high satisfaction rates. We were pleased to note that 98% of respondents felt sustainable water supplies and conservation programs are essential. We received high scores for serving the public well, keeping the public informed, and giving good value for the money. We invite you to examine the full survey results on our website.

We appreciate the exceptional service by our employees who keep us financially sound, in compliance with regulatory requirements, reliably operate the water system, and provide excellent customer service throughout the year.

Over the last year and a half, we have had three retirements of fully qualified and excellent staff who cumulatively had over 115 years of water utility experience. We are proud to have promoted two of our employees, Saul Leal and Trey Harris, to leadership positions. Both have successfully achieved the highest certification in the state for water treatment and distribution. We continue to recruit and hire replacement employees for other field staff positions.

The COVID pandemic has presented unique challenges, and we have adopted several protocols for the safety of our customers and employees. Our customer service staff will continue to operate remotely.

In conclusion, the work begun 47 years ago by a group of volunteers continues to be a resounding success. We continue to owe a debt of thanks to our volunteer directors, who represent our members' interests. Their knowledge of the community and local water issues is valuable, and we continue to be delighted with the directors' expertise in serving Community Water. Please complete an interest form if you would like to participate in supporting our board; call Heather Graves at (520) 625-8409 for more information.

Our annual meeting of members will be held on Wednesday, April 27, 2022, at 9:30 AM at the Green Valley Recreation East Center Auditorium, located at Esperanza Blvd and Abrego Drive. Registration begins at 9:00 AM. COVID protocols will be observed; we look forward to seeing you there.

Sincerely,

**Community Water Company of Green Valley**

The image shows two handwritten signatures in black ink. The signature on the left is for Thomas E. Cooke, and the signature on the right is for Arturo R. Gabaldón. Both signatures are written in a cursive, flowing style.

Thomas E. Cooke  
Chair of the Board

Arturo R. Gabaldón  
President

**Community Water Company of Green Valley**

*(An Arizona nonprofit corporation with members operating a water utility regulated as a public service corporation by the Arizona Corporation Commission)*



# ULLMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

## Report of Independent Auditors

### **To the Board of Directors and Members of Community Water Company of Green Valley (An Arizona nonprofit corporation with members):**

#### **Opinion**

We have audited the accompanying consolidated financial statements of Community Water Company of Green Valley, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of revenues and expenses, net assets, and cash flow for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Water Company of Green Valley as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Community Water Company of Green Valley and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Water Company of Green Valley's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Community Water Company of Green Valley's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Water Company of Green Valley's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Supplemental Consolidating Abbreviated Financial Statements are presented for purposes of additional analysis and are not a required part of the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The Letter to the Members, 2021 Financial Highlights and Officers & Directors and Board Consultants listings are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



ULLMANN & COMPANY

Certified Public Accountants

Phoenix, Arizona

April 12, 2022

**Consolidated Balance Sheets**  
December 31, 2021 and 2020  
In Thousands

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 716	\$ 648
Securities available-for-sale, at market	40	273
Accounts receivable, less allowance for doubtful accounts of \$2,000 in 2021 and 2020	388	371
Material and supplies	44	47
Prepayment	307	335
<b>Total current assets</b>	<b>1,495</b>	<b>1,674</b>
<b>Noncurrent assets</b>		
Cash and cash equivalents, designated	848	195
Securities available-for-sale, at market reserved for reservoir maintenance	355	224
Securities available-for-sale, at market designated other	2,726	2,851
Investment in LLC	165	169
Deferred tax asset	8	3
<b>Total noncurrent assets</b>	<b>4,102</b>	<b>3,442</b>
<b>Deferred charges</b>		
Right-of-way use permits (ROW)	87	92
Other	60	53
<b>Total deferred charges</b>	<b>147</b>	<b>145</b>
<b>Utility plant</b>		
Plant in service, at cost	48,569	48,149
Construction work in progress	117	-
	<b>48,686</b>	<b>48,149</b>
Less accumulated depreciation	(25,716)	(24,397)
<b>Total utility plant</b>	<b>22,970</b>	<b>23,752</b>
<b>Total assets</b>	<b>\$ 28,714</b>	<b>\$ 29,013</b>

*The accompanying notes are an integral part of the consolidated financial statements*



Consolidated Balance Sheets  
December 31, 2021 and 2020  
In Thousands

	2021	2020
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable (A/P)	\$ 240	\$ 426
Current maturities on long-term debt	131	124
Accrued taxes	117	118
Other accrued liabilities	223	256
<b>Total current liabilities</b>	<b>711</b>	<b>924</b>
<b>Long-term debt, net</b>	<b>2,389</b>	<b>2,511</b>
<b>Deferred credits</b>		
Refundable advances for construction	2,306	4,362
Reservoir maintenance reserves	355	224
Mark-to-market value of interest rate swap	251	422
<b>Total deferred credits</b>	<b>2,912</b>	<b>5,008</b>
<b>Contributions in-aid-of construction (CIAC), net</b>	<b>12,417</b>	<b>10,906</b>
<b>Total liabilities</b>	<b>18,429</b>	<b>19,349</b>
<b>Net assets</b>		
Accumulated other comprehensive income	(271)	(413)
Appropriated accumulated surplus	3,574	3,046
Other accumulated surplus and membership	6,982	7,031
<b>Total net assets</b>	<b>10,285</b>	<b>9,664</b>
<b>Total liabilities and net assets</b>	<b>\$ 28,714</b>	<b>\$ 29,013</b>

*The accompanying notes are an integral part of the consolidated financial statements*

**Consolidated Statements of Revenues and Expenses**  
For the years ended December 31, 2021 and 2020  
In Thousands

	<b>2021</b>	<b>2020</b>
<b>Operating revenues</b>	<b>\$ 4,684</b>	<b>\$ 4,708</b>
<b>Operating expenses</b>		
Operations	2,339	2,310
Maintenance	486	567
Depreciation and amortization	600	827
Taxes - other	570	558
<b>Total operating expenses</b>	<b>3,995</b>	<b>4,262</b>
<b>Excess of operating revenues over operating expenses</b>	<b>689</b>	<b>446</b>
<b>Other revenues (expenses)</b>		
CAP capital charges	(147)	(119)
Interest income	20	46
Interest expense	(158)	(163)
Passthrough expense investment in LLC	(5)	(4)
Other revenues, net	77	56
<b>Total other revenues (expenses)</b>	<b>(213)</b>	<b>(184)</b>
<b>Income before income tax</b>	<b>476</b>	<b>262</b>
<b>Income tax benefit (expense)</b>		
Current tax expense	(2)	(1)
Deferred tax benefit	5	2
<b>Total income tax benefit (expense)</b>	<b>3</b>	<b>1</b>
<b>Excess of revenues over expenses</b>	<b>479</b>	<b>263</b>
<b>Other comprehensive income (loss), net of tax:</b>		
Unrealized (loss) gain on securities	(28)	9
Unrealized gain (loss) on mark-to-market value of interest rate swap	170	(177)
<b>Total other comprehensive income (loss)</b>	<b>142</b>	<b>(168)</b>
<b>Total comprehensive income</b>	<b>\$ 621</b>	<b>\$ 95</b>

*The accompanying notes are an integral part of the consolidated financial statements*

**Consolidated Statements of Net Assets**  
**For the years ended December 31, 2021 and 2020**  
 In Thousands

	<b>Appropriated accumulated surplus</b>	<b>Other accumulated surplus and membership</b>	<b>Accumulated other comprehensive income</b>	<b>Total net assets</b>
12/31/2019				
Net assets	\$ 3,236	\$ 6,578	\$ (245)	\$ 9,569
12/31/2020				
Comprehensive income	(190)	453	(168)	95
12/31/2020				
Net assets	3,046	7,031	(413)	9,664
<b>12/31/2021</b>				
<b>Comprehensive income</b>	<b>528</b>	<b>(49)</b>	<b>142</b>	<b>621</b>
<b>12/31/2021</b>				
<b>Net assets</b>	<b>\$ 3,574</b>	<b>\$ 6,982</b>	<b>\$ (271)</b>	<b>\$ 10,285</b>

*The accompanying notes are an integral part of the consolidated financial statements*

**Consolidated Statements of Cash Flow**  
**For the years ended December 31, 2021 and 2020**  
(In Thousands)

	<b>2021</b>	<b>2020</b>
<b>Net cash provided by operating activities</b>		
<b>Excess of revenues over expenses</b>	<b>\$ 479</b>	<b>\$ 263</b>
<b>Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:</b>		
Depreciation and amortization	606	833
Depreciation and amortization included in operations and maintenance	222	220
Other noncash income and expenses	-	(3)
Change included in:		
Accounts receivable	(17)	(25)
Materials and supplies	3	(2)
Deferred tax	(5)	(2)
Prepayments	28	(19)
Interest receivable	5	11
Accounts payable (net of Capital A/P)	(88)	222
Investment in LLC	5	4
Deferred charges, net	(80)	(8)
Other liabilities	(22)	(279)
<b>Total adjustments</b>	<b>657</b>	<b>952</b>
<b>Net cash provided by operating activities</b>	<b>1,136</b>	<b>1,215</b>
<b>Cash flow (used in) provided by investing activities</b>		
Capital expenditures	(833)	(1,153)
Proceeds from sale of capital assets	-	38
Purchase of securities available-for-sale	(1,007)	(3,037)
Proceeds from maturities of securities available-for-sale	1,201	2,445
Investment in ROW use permits	(1)	(59)
<b>Net cash (used in) provided by investing activities</b>	<b>\$ (640)</b>	<b>\$ (1,766)</b>

(Continued on the next page)

*The accompanying notes are an integral part of the consolidated financial statements*

**Consolidated Statements of Cash Flow**  
**For the years ended December 31, 2021 and 2020**  
(In Thousands)

(Continued)

	<b>2021</b>	<b>2020</b>
<b>Cash flow (used in) provided by financing activities</b>		
Repayment of long-term debt	\$ (124)	\$ (117)
Proceeds from refundable advances and CIAC	346	(3)
Repayment of refundable advances	(71)	(114)
Proceeds from other members	74	59
<b>Cash flow (used in) provided by financing activities</b>	<b>225</b>	<b>(175)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 721</b>	<b>\$ (726)</b>
Cash and cash equivalents at beginning of year	843	1,569
Cash and cash equivalents at end of year	<u>\$ 1,564</u>	<u>\$ 843</u>
<b>Noncash investing activities</b>		
A/P purchases of utility plant	<u>\$ 134</u>	<u>\$ 36</u>

**Cash and cash equivalents on balance sheet**

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 716	\$ 648
Cash and cash equivalents, designated	848	195
	<u>\$ 1,564</u>	<u>\$ 843</u>

*The accompanying notes are an integral part of the consolidated financial statements*



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. NATURE OF OPERATIONS:

A group of Green Valley residents incorporated Community Water Company of Green Valley (CWC) as an Arizona nonprofit corporation with members in 1975. The residents purchased an existing water utility business and began operating the water utility in 1977. The water utility is a regulated public service corporation that delivers water to residential and commercial customers in a southern Arizona active adult community.

These consolidated financial statements include the accounts of all entities in which CWC has a controlling financial interest. In 2011, CWC established a wholly-owned subsidiary corporation named SICAN, Inc. (SICAN) for business investments. In 2012, CWC created a variable interest entity named Community Water Company of Green Valley ROW Trust (Trust); CWC is the trustor and the beneficiary, and SICAN is the trustee. The entity invests in activities for the benefit of CWC, and it currently holds and manages right-of-way use permits (ROW) and leases required for Project Renewals.

Accounting principles generally accepted in the United States of America (US GAAP) view the economic substance of the trust arrangement as giving CWC a controlling financial interest in Trust. Therefore US GAAP requires that CWC consolidate Trust's financial results into the consolidated financial statements.

The accompanying consolidated financial statements present the results of consolidating CWC, SICAN, and Trust (collectively referred to as CWC Consolidated).

CWC Consolidated eliminated all significant intercompany accounts and transactions in the consolidation process.

### 2. SIGNIFICANT ACCOUNTING POLICIES:

**Maintenance of Accounting Records** - CWC, SICAN, and Trust present their audited financial statements on the accrual basis of accounting; they recognize revenue when earned and expenses when the obligation has been incurred. CWC maintains its records following the Uniform System of Accounts prescribed for Class A water utilities by the National Association of Regulatory Utility Commissioners, the US GAAP for the water utility industry. Trust and SICAN maintain their internal accounting records on a cash basis.

**Cash and Cash Equivalents** - CWC Consolidated considers cash in banks and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents for purposes of reporting cash flows.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued):

**Securities Available-for-Sale** - CWC Consolidated accounts for its investment securities following FASB ASC 320-10-45. CWC Consolidated classifies investments in securities as trading securities, securities to be held to maturity, or securities available-for-sale. CWC Consolidated has classified all investments as securities available-for-sale. Securities available-for-sale consists of mortgage-backed securities and certificates of deposits. These securities are recorded at fair value, with any unrealized gains and losses reflected as a separate component of Net Assets. Gains (losses) on the sale of securities available-for-sale are determined using the specific identification method.

**Accounts Receivable** – CWC Consolidated accounts receivable consists primarily of balances due from regulated utility customers, which were billed on a monthly cycle basis. CWC extends credit based on the guidelines of the applicable regulators, and generally, collateral is not required.

**Allowance for Doubtful Accounts** - Allowances for uncollectible accounts are maintained for estimated probable losses resulting from CWC'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 the collectability of accounts receivable at the balance sheet date. For 2021 and 2020, there was an allowance of \$2,000. CWC writes off balances when considered uncollectible. SICAN and Trust did not have allowances for uncollectible accounts for 2021 and 2020.

**Materials and Supply Inventory** – CWC presents inventory at the lower of cost or net realizable value. Cost is determined on a weighted average basis.

**Utility Plant** – CWC presents the utility plant at its original cost, consisting of contract costs, labor, material, and allowances for indirect costs. CWC charges the cost of maintenance, repairs, and minor renewals to expense in the year incurred. Depreciation and amortization expense is provided for on the straight-line basis utilizing the following annual rates based on the assets' estimated useful lives. The depreciation rates and plant in service balances by major classes of depreciable assets are as follows:

	<b>Depreciation Rate (in Percent)</b>	<b>Balance At December 31, 2021 (In Thousands)</b>	<b>Balance At December 31, 2020 (In Thousands)</b>
<b>Utility Plant</b>	<b>2.00 to 12.50</b>	<b>\$ 46,650</b>	<b>\$ 46,338</b>
<b>Computer Equipment</b>	<b>20.00</b>	<b>844</b>	<b>811</b>
<b>Backhoe</b>	<b>5.00</b>	<b>288</b>	<b>288</b>
<b>Vehicles</b>	<b>20.00</b>	<b>616</b>	<b>541</b>
<b>Land</b>	<b>N/A</b>	<b>171</b>	<b>171</b>
<b>Total</b>		<b>\$ 48,569</b>	<b>\$ 48,149</b>

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued):

**Deferred Charges** – CWC reviews intangible assets (ROWs) for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value.

Trust holds ROWs that are initially measured based on their fair values and are being amortized on a straight-line basis over the life of the ROWs, and they are stated at cost net of accumulated amortization.

**Refundable Advances and Contributions in-aid-of Construction (CIAC)** - The cost of constructing specific expansions to the utility plant has been advanced or contributed to CWC by the owners of the property served by the expansions. CWC repays advances by refunding the owners' specified percentages of the annual water revenue, which CWC derives from the expansions. These repayments continue until the advances are fully repaid or until an agreed-upon repayment term is expired. Contributions for construction are not reimbursed. Further, if the repayment term of an advance expires before the advance is fully repaid, the unpaid balance is reclassified as CIAC. Amounts classified as CIAC are amortized on a straight-line basis utilizing the plant composite rate set by the Arizona Corporation Commission. The percentage in effect for 2021 and 2020 was 3.92%.

Refundable advances for construction are non-interest bearing. As of December 31, 2021 and 2020, CWC's refundable advances for construction specify repayment rates ranging from 10% to 20% of applicable annual water revenues. The remaining repayment terms range from 10 to 15 years. CWC is nearly built out; as it moves to the future, CWC will not benefit from the low-cost money provided by these developer funds.

**Accumulated Surplus** – Accumulated Surplus consists of member revenues from sales of water service and nonmember revenues minus current and prior periods' expenses. CWC allocates appropriated accumulated surplus to members based on business with CWC.

**Revenue Recognition** - CWC's operating revenues are mainly generated through water delivery charges to residential and commercial customers in the Green Valley Sahuarita area at rates authorized by the Arizona Corporation Commission. All revenues are recognized at a point in time. Water delivery charges are recognized when the water is delivered to the customer. CWC bills monthly according to the bill cycles of the customers; payments are due within 30 days. As a result of the bill cycle cut-off, monthly service revenue earned but not yet billed at the end of the accounting period is estimated and accrued. Estimates are based on estimated daily usage from the meter reading closest to the end of the accounting period. Sales taxes (included in revenue- see **Note 15**) and convenience fees are recognized at the time of billing. Other customer-related fees, such as Service Establishment Charges and income from customers' late payments, are recognized when the controls over these services have been transferred to the customer. Fees for information related to wastewater usage are recognized when the data is prepared. Funds received for the anticipation of maintenance expenses directly related to Project Renewals are recognized as nonoperating revenues upon receipt. Other income to rehabilitate damaged assets is recognized when the repair cost is incurred.



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued):

**Comprehensive Income** - Other comprehensive income consists of available-for-sale securities' net unrealized holding gains and losses and the recognition of the value of the interest rate swap.

**Income Taxes** - CWC is an Internal Revenue Code (IRC) Section 501(a) organization, exempt from taxes by application of IRC Section 501(c)(12) for CWC's operations.

SICAN and Trust are not exempt from income taxes. Income taxes are recognized for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

**Use of Estimates** - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. Estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They also impact the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk** - Financial instruments that potentially subject CWC Consolidated to concentrations of credit risk consist principally of temporary cash investments and cash equivalents. CWC Consolidated places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution since they are insured by the Federal Deposit Insurance Corporation or Securities Investor Protection Corporation.

Concentrations of credit risk concerning cash equivalents are limited due to the diversification of the investments. At times, the Company may hold bank balances in excess of FDIC insurance limits, as was the case at December 31, 2021.

### 3. LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure that is, without external restrictions limiting their use, within one year of December 31, 2021, and 2020, respectively, are:

	<u>12/31/2021</u>	<u>12/31/2020</u>
<b>Financial assets</b>		
Cash and cash equivalents	\$ 716	\$ 648
Securities available-for-sale	40	273
Cash and cash equivalents, designated	848	195
Securities available-for-sale, at market reserved for reservoir maintenance	355	224
Securities available-for-sale, at market designated other	2,726	2,851
Accounts receivable	388	371
<b>Total financial assets</b>	<b><u>5,073</u></b>	<b><u>4,562</u></b>
<b>Less reserved or designated funds</b>		
Reserved for maintenance (see <a href="#">Note 4</a> )	(355)	(224)
Designated for other purposes (see <a href="#">Note 4</a> )	(3,574)	(3,046)
<b>Amounts available for general expenditures within one year</b>	<b><u>\$ 1,144</u></b>	<b><u>\$ 1,292</u></b>

The above table reflects board-designated funds as unavailable because CWC intends to reserve those resources for the long-term support of CWC. CWC could appropriate these resources for general use if needed.

### 4. RESERVED AND DESIGNATED FUNDS:

CWC has accrued reservoir maintenance expenses for recoating reservoirs and forebays as a liability on the balance sheet. As of December 31, 2021 and 2020, these reserves totaled \$355,100 and \$223,700, respectively.

CWC has also designated an appropriated accumulated surplus and the related cash and investment funds for state land leases and plant replacements. These are reported on the balance sheet as cash and cash equivalents, designated and securities available-for-sale, at market-designated other.

## 5. SECURITIES AVAILABLE-FOR-SALE, AT MARKET:

The carrying amounts of investment securities available-for-sale are as follows:

	At December 31, 2021 (In Thousands)		
	Cost	Unrealized Losses	Fair Value
Certificates of deposit with maturities within one year	\$ 440	\$ 0	\$ 440
Certificates of deposit with maturities of 1-5 years	2,662	(18)	2,644
Mortgage-backed securities, U.S.	38	(1)	37
<b>Total</b>	<b>\$ 3,140</b>	<b>\$ (19)</b>	<b>\$ 3,121</b>

	At December 31, 2020 (In Thousands)		
	Cost	Unrealized Gains	Fair Value
Certificates of deposit with maturities within one year	\$ 1,198	\$ 4	\$ 1,202
Certificates of deposit with maturities of 1-5 years	2,091	5	2,096
Mortgage-backed securities, U.S.	50	0	50
<b>Total</b>	<b>\$ 3,339</b>	<b>\$ 9</b>	<b>\$ 3,348</b>

Expected maturities will differ from contractual maturities since issuers may have the right to call or prepay obligations with or without call or prepayment penalties. These investments are presented in current and noncurrent Securities available-for-sale on the balance sheets.

## 6. INVESTMENT IN LLC:

SICAN has an investment in JPAR, LLC (LLC), a development company that is recognized at book value. This investment is funded by the other LLC member, not CWC. The following data reflects the book value related to SICAN's investment in LLC. SICAN's cumulative interest in LLC's book value is as follows:

<b>SICAN's Cumulative Interest in LLC</b>	<b>Balance at December 31, 2021 (In Thousands)</b>	<b>Balance at December 31, 2020 (In Thousands)</b>
<b>SICAN Capital Contribution in LLC</b>	<b>\$ 340</b>	<b>\$ 340</b>
<b>Cumulative Share of Net Loss</b>	<b>(175)</b>	<b>(170)</b>
<b>Book Value</b>	<b>\$ 165</b>	<b>\$ 170</b>

Net losses are due to a timing difference because LLC is in the construction and planning phases of operations, and losses are expected until construction is complete. LLC's financial results can be summarized as follows:

<b>LLC Financial Summary</b>	<b>Balance at December 31, 2021 (In Thousands)</b>	<b>Balance at December 31, 2020 (In Thousands)</b>
<b>Total Assets</b>	<b>\$ 10,514</b>	<b>\$ 9,593</b>
<b>Total Liabilities</b>	<b>28</b>	<b>0</b>
<b>Total Equity</b>	<b>\$ 10,486</b>	<b>\$ 9,611</b>
<b>Revenues</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Expenses</b>	<b>166</b>	<b>137</b>
<b>Net Loss</b>	<b>\$ (166)</b>	<b>\$ (137)</b>

SICAN's share of net loss for the year is calculated using the weighted average capital accounts during the year. During the years ended December 31, 2021 and 2020, SICAN's allocated loss was about 2.86% and 3.03%, respectively. This represents a net loss of around \$5,000 and \$4,000, respectively. SICAN owns less than 20% of LLC's profit and loss percentages at December 31, 2021. CWC applied the equity method in the consolidated accounts for the investment because SICAN is the managing member of the LLC and has significant influence over the LLC's operations.

## 7. DEFERRED CHARGES:

Trust's ROWs consist of the following:

	Balance at December 31, 2021 (In Thousands)	Balance at December 31, 2020 (In Thousands)
<b>ROW</b>	\$ 133	\$ 133
<b>Less: accumulated amortization</b>	(47)	(41)
<b>Net ROW in service</b>	\$ 86	\$ 92
<b>Land application in Progress</b>	1	-
<b>Total ROW, net</b>	\$ 87	\$ 92

ROWs were funded from nonmember nonutility income. Total amortization expense amounted to \$5,797 for each of the years ending December 31, 2021 and 2020. At December 31, 2021 and 2020, Trust had \$133,235 in ROW permits. No intangible assets were acquired during the years ended December 31, 2021 and December 31, 2020. The schedule below relates to the estimated future amortization expense for ROWs. Other deferred charges include stored water credits with the Arizona Department of Water Resources, rate case and water system plan expenses, and leases.

	At Year-End December 31 (In Thousands)
<b>2022</b>	\$ 6
<b>2023</b>	6
<b>2024</b>	6
<b>2025</b>	6
<b>2026</b>	5
<b>Total</b>	\$ 29

## 8. LONG-TERM DEBT (LTD):

On November 5, 2014, the Arizona Corporation Commission approved a \$3,320,000, 15-year debt instrument with PNC, formerly 'Compass Bank.'

The note to PNC matures on November 14, 2029, when the remaining unpaid balance is due in full. CWC intends to extend the maturity of this note. Future maturities of LTD outstanding at December 31, 2020, based on the terms of the signed commitment, are as follows:

	<b>At Year-End December 31, 2021 (In Thousands)</b>
<b>2022</b>	<b>\$ 131</b>
<b>2023</b>	<b>138</b>
<b>2024</b>	<b>146</b>
<b>2025</b>	<b>156</b>
<b>2026</b>	<b>165</b>
<b>2027-2029</b>	<b>1,787</b>
	<b>2,523</b>
<b>Unamortized debt issuance cost</b>	<b>(3)</b>
<b>LTD, less unamortized debt issuance cost</b>	<b>2,520</b>
<b>Current portion of LTD</b>	<b>(131)</b>
<b>Total LTD, less current portion</b>	<b>\$ 2,389</b>

PNC has senior lien on CWC's utility plant and the utility's revenues.

CWC's current debt agreement contains various covenants and requires CWC to maintain a water utility operation's debt service ratio of at least 1.2 as of the end of any year. The ratio was 5.11 and 5.19 at December 31, 2021, and 2020, respectively.

Long-term debt monthly payments equal to the accrued interest on the note commenced on December 14, 2014. Monthly principal and interest payments of \$22,730 began on April 14, 2015. Interest accrues at a variable rate of LIBOR plus 2.7%.

The outstanding long-term balances of LTD were \$2,523,334 and \$2,646,875 at December 31, 2021 and December 31, 2020, respectively.

## 9. MARK-TO-MARKET VALUE OF INTEREST RATE SWAP:

On November 14, 2014, CWC entered into an interest rate swap agreement with PNC, which CWC designated as a hedge against the variability in future interest payments due on \$3,234,208. CWC pays PNC Bank 2.98%; in return, PNC pays LIBOR rate to CWC. The terms of the swap agreement effectively convert the variable rate interest payments due on the note to a fixed rate of 5.68% through maturity on November 14, 2029.

Interest rate risk associated with the Company's floating rate debt creates exposures for CWC. The Company entered into an interest rate swap to manage interest rate risk and adjust the interest rate profile of the Company's obligation to achieve a target mix of floating and fixed-rate debt. Any unrealized gains and losses as a result of the derivative will be presented as Other Comprehensive Income. In 2021 and 2020, CWC recognized \$170,150 and \$176,613 as unrealized gain and loss, respectively. At December 31, 2021 and 2020, the cumulative loss was \$251,363 and \$421,513, respectively.

## 10. INCOME TAX:

As a 501(c)(12), income tax did not apply to CWC for 2021 or 2020. SICAN and Trust incurred the following income tax for 2021 and 2020:

	Year Ended December 31, 2021		
	SICAN	Trust	Total
<b><u>Current</u></b>			
Federal	\$ 556	\$ 641	\$ 1,197
State	138	109	247
<b>Total Current tax expense</b>	<b>\$ 694</b>	<b>\$ 750</b>	<b>\$ 1,444</b>
<b><u>Deferred</u></b>			
Federal	\$ 7	\$ (4,568)	\$ (4,561)
State	0	(590)	(590)
<b>Total Deferred tax (benefit)</b>	<b>\$ 7</b>	<b>(5,158)</b>	<b>(5,151)</b>
<b>Income tax expense(benefit)</b>	<b>\$ 701</b>	<b>\$ (4,408)</b>	<b>\$ (3,707)</b>
	Year Ended December 31, 2020		
	SICAN	Trust	Total
<b><u>Current</u></b>			
Federal	\$ 705	\$ 0	\$ 705
State	172	0	172
<b>Total Current tax expense</b>	<b>\$ 877</b>	<b>\$ 0</b>	<b>\$ 877</b>
<b><u>Deferred</u></b>			
Federal	\$ (4)	\$ (1,599)	\$ (1,603)
State	0	(414)	(414)
<b>Total Deferred tax (benefit)</b>	<b>\$ (4)</b>	<b>(2,013)</b>	<b>(2,017)</b>
<b>Income tax expense(benefit)</b>	<b>\$ 873</b>	<b>\$ (2,013)</b>	<b>\$ (1,140)</b>

## 10. INCOME TAX (Continued):

Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statements and income tax purposes. The differences relate primarily to accrual to cash differences and the amortization lives of intangible assets.

For SICAN, a valuation allowance of \$45,282 is not recognized as a deferred tax asset at December 31, 2021, since the future benefit from accrual to cash differences from the Investment in LLC are not expected to be realized due to expected changes in profit and loss allocations in future years. The valuation increased by \$1,229 during the year ended December 31, 2021.

The components of the net deferred tax asset (liability) at December 31, 2021 and December 31, 2020 are as follows:

	At December 31, 2021		
	SICAN	Trust	Total
<b><u>Deferred tax asset</u></b>			
Noncurrent	\$ 29	\$ 13,049	\$ 13,078
<b><u>Deferred tax liability</u></b>			
Noncurrent	0	(4,793)	(4,793)
<b>Net deferred tax asset</b>	<b>\$ 29</b>	<b>\$ 8,256</b>	<b>\$ 8,285</b>

	At December 31, 2020		
	SICAN	Trust	Total
<b><u>Deferred tax asset</u></b>			
Noncurrent	\$ 36	\$ 6,567	\$ 6,603
<b><u>Deferred tax liability</u></b>			
Noncurrent	0	(3,469)	(3,469)
<b>Net deferred tax asset</b>	<b>\$ 36</b>	<b>\$ 3,098</b>	<b>\$ 3,134</b>

## 11. CAP CAPITAL CHARGES:

CWC holds a subcontract for 2,858 acre-feet of annual CAP water allocations managed by the Central Arizona Water Conservation District (CAWCD) on behalf of the Bureau of Reclamation. Total CAP Capital Charges are to be billed to subcontract holders between 1993 and 2046. CAWCD has recognized and billed capital charges since its inception at about \$576M at December 31, 2021. CWC's proportionate share of all CAP allocations is .4%, and CWC has paid \$2.5M at December 31, 2021.



## 12. SUPPLEMENTAL CASH FLOW INFORMATION:

CWC and Trust engaged in the following transactions:

	For the Year 2021 (In Thousands)	For the Year 2020 (In Thousands)
<b>CWC Expired Refundable</b>		
<b>Advances for Construction</b>	\$ 2,299	\$ 1,067
<b>CWC Interest Paid</b>	\$ 149	\$ 156
<b>SICAN Income Taxes Paid</b>	\$ 1	\$ 1

## 13. RETIREMENT PLANS:

CWC has defined contribution retirement plans which cover substantially all employees who worked more than 1000 hours in each year. Under the provisions of these plans, during 2021 and 2020, a contribution equal to 10% to 19% of qualified employees' salaries and wages is contributed by CWC to the retirement plans for investment by the plan trustees.

Qualified employees become fully vested in the employer's contributions after five years of eligible service, as defined in the plans. CWC recorded expenses for these contributions of \$195,504 and \$179,650 for the years ended December 31, 2021 and 2020, respectively.

Qualified employees can contribute to the plan under the terms of the 401(k) Profit Sharing Plan.

## 14. FAIR VALUE MEASUREMENTS:

FRS ASC 820, Fair Value Measurements and Disclosures, (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CWC Consolidated has the ability to access.

**Level 2:** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The level 2 input must be observable for substantially the full-term of the asset or liability if the asset or liability has a specified (contractual) term.

#### 14. FAIR VALUE MEASUREMENTS (continued):

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

**Securities Available-for-Sale – Certificates of Deposits:** The fair values of available-for-sale Certificates of Deposits are based on quoted market prices for those or similar investments.

**Securities Available-for-Sale – Mortgage-Backed Securities:** The fair values of available-for-sale securities are based on quoted market prices for those or similar investments.

**Mark-to-Market Value of Interest Rate Swap:** The fair value of mark-to-market interest rate swap is based on the current and present value of projected 1-month LIBOR rates.

The above methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although CWC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. SICAN did not have any assets measured at fair value in 2021 and 2020.

The following table sets forth by level, within the fair value hierarchy, CWC Consolidated's assets and liabilities at fair value:

	Balance at December 31, 2021 (In Thousands)	Balance at December 31, 2020 (In Thousands)
<b>Level 1</b>		
Securities available-for-sale		
Certificates of deposit	\$ 3,084	\$ 3,298
Securities available-for-sale		
Mortgage-backed securities	37	50
<b>Total assets</b>	<b>\$ 3,121</b>	<b>\$ 3,348</b>
	Balance at December 31, 2021 (In Thousands)	Balance at December 31, 2020 (In Thousands)
<b>Level 2</b>		
Liabilities – Mark-to-market value of interest rate swap	\$ 251	\$ 422

## 15. SALES TAXES:

Some transactions require CWC to collect sales tax from our customers. These taxes, which totaled \$291,660 and \$289,590 in 2021 and 2020, respectively, are included in operating revenues.

## 16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through April 12, 2022, the date on which the financial statements were available to be issued.

On March 1, 2022, CWC obtained an \$800,000 short-term line of credit from PNC for the purpose of securing land for a new warehouse, at a variable rate of the higher of the Prime Rate and the sum of the Overnight Bank Funding Rate plus 50 basis point, plus 200 basis point. There were no additional debt covenants required for the Company to follow. As of the date of this report, the Company has not made an offer on a property nor drawn any funds of the available line of credit. The funds on the short-term line of credit are available until March 3, 2023.

There were no other subsequent events that required adjustment to the financial statements or additional disclosures.

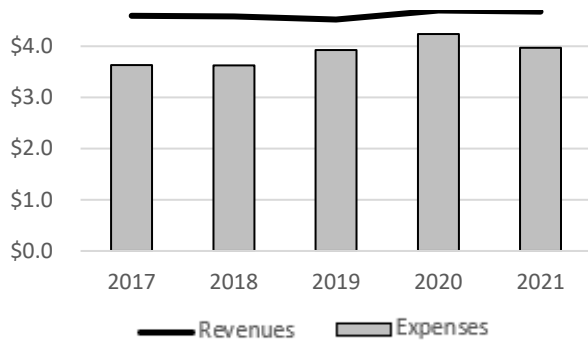


## Supplemental Consolidating Abbreviated Financial Statements As of December 31, 2021 (in Thousands)

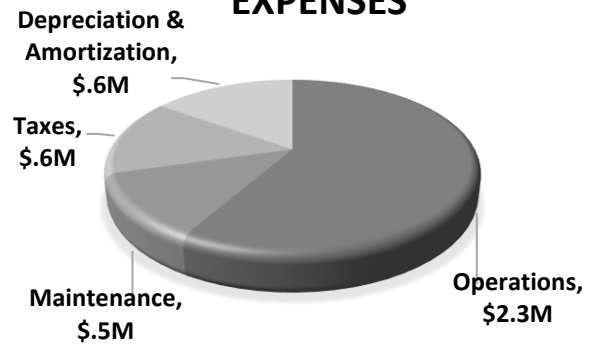
<b>Balance Sheet</b>	<b>CWC</b>	<b>SICAN</b>	<b>Trust</b>	<b>Consolidation Adjustment</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets	\$ 794	\$ 22	\$ 679	\$ -	\$ 1,495
Noncurrent assets	5,058	165	8	(1,129)	4,102
Deferred charges	60	-	87	-	147
Utility plant	22,970	-	-	-	22,970
<b>Total assets</b>	<b>\$ 28,882</b>	<b>\$ 187</b>	<b>\$ 774</b>	<b>\$ (1,129)</b>	<b>\$ 28,714</b>
<b>Liabilities and net assets</b>					
Current liabilities	\$ 710	\$ -	\$ 1	\$ -	\$ 711
Long-term debt	2,389	-	-	-	2,389
Deferred credits	2,912	-	-	-	2,912
Contributions in-aid-of construction	12,417	-	-	-	12,417
Net assets	10,454	187	773	(1,129)	10,285
<b>Total liabilities and net assets</b>	<b>\$ 28,882</b>	<b>\$ 187</b>	<b>\$ 774</b>	<b>\$ (1,129)</b>	<b>\$ 28,714</b>
<b>Statement of revenues and expenses</b>					
<b>Operating revenues</b>	<b>\$ 4,674</b>	<b>\$ 8</b>	<b>\$ 5</b>	<b>\$ (3)</b>	<b>\$ 4,684</b>
<b>Operating expenses</b>					
Operations	2,313	5	24	(3)	2,339
Maintenance	486	-	-	-	486
Depreciation and amortization	600	-	-	-	600
Taxes - other	570	-	-	-	570
<b>Total operating expenses</b>	<b>3,969</b>	<b>5</b>	<b>24</b>	<b>(3)</b>	<b>3,995</b>
<b>Excess of oper. revenues over expenses</b>	<b>705</b>	<b>3</b>	<b>(19)</b>	<b>-</b>	<b>689</b>
Income tax	-	(1)	4	-	3
Other revenues (expenses)	(209)	(5)	1	-	(213)
<b>Excess of revenues over expenses</b>	<b>\$ 496</b>	<b>\$ (3)</b>	<b>\$ (14)</b>	<b>\$ -</b>	<b>\$ 479</b>
<b>Statement of cash flow</b>					
<b>Cash flow (used in) provided by operating activities</b>					
Excess of revenues over expenses	\$ 496	\$ (3)	\$ (14)	\$ -	\$ 479
Depreciation and amortization	600	-	6	-	606
Net changes	44	5	2	-	51
<b>Net cash (used in) provided by oper. activities</b>	<b>1,140</b>	<b>2</b>	<b>(6)</b>	<b>-</b>	<b>1,136</b>
<b>Cash flow (used in) provided by investing activities</b>					
Capital expenditures	(833)	-	-	-	(833)
Net other investing activities	(36)	-	229	-	193
<b>Net cash (used in) provided by investing activities</b>	<b>(869)</b>	<b>-</b>	<b>229</b>	<b>-</b>	<b>(640)</b>
<b>Cash flow (used in) provided by financing activities</b>					
Repayment of long-term debt	(124)	-	-	-	(124)
Net other financing activities	275	-	74	-	349
<b>Net cash (used in) provided by fin. activities</b>	<b>151</b>	<b>-</b>	<b>74</b>	<b>-</b>	<b>225</b>
<b>Net change in cash and cash equivalents</b>	<b>\$ 422</b>	<b>\$ 2</b>	<b>\$ 297</b>	<b>\$ -</b>	<b>\$ 721</b>

**Community Water Company of Green Valley  
2021 Financial Highlights - CWC  
Water Utility Operations (\$Millions)**

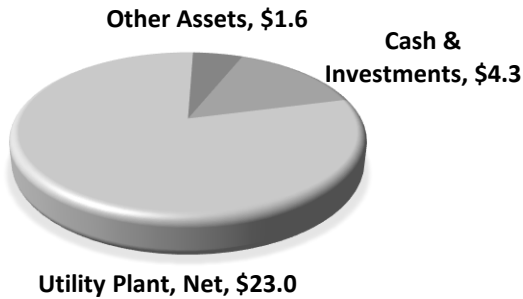
**REVENUES & EXPENSES**



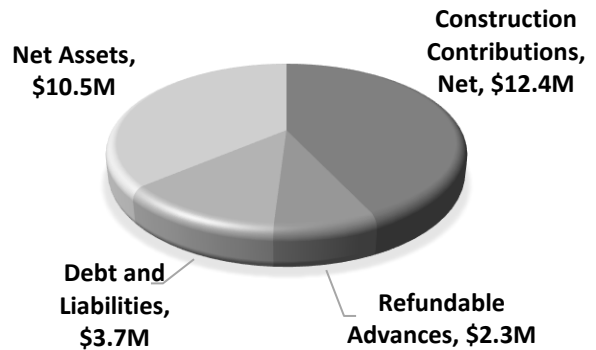
**EXPENSES**



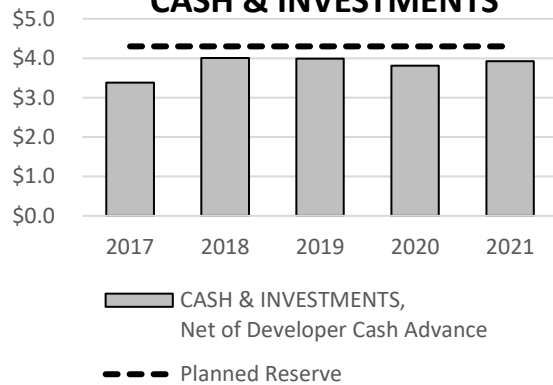
**ASSETS**



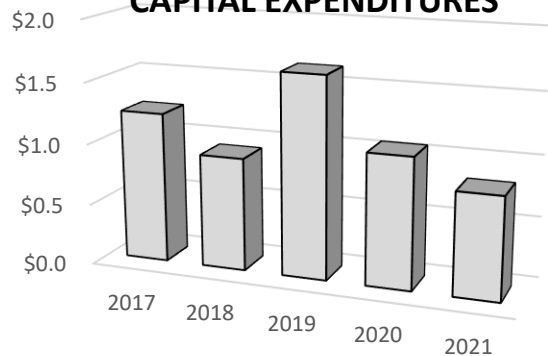
**LIABILITIES & NET ASSETS**



**CASH & INVESTMENTS**



**CAPITAL EXPENDITURES**



**Notes**

- Organized as an Arizona nonprofit corporation with members
- Operates a four-well system, and delivering through 153 miles of mains
- Maintains a storage capacity of 6.6 million gallons of water
- Meets the AWWA standard of a 48-hour emergency water supply
- Delivers an average of 2-million gallons of water daily
- Serves 12,815 active residential and 394 active business customers as of year-end 2021
- Audited financial statements are available at [www.communitywater.com](http://www.communitywater.com) or by calling Heather Graves at (520) 625-8409

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## OUR MISSION

is to reliably deliver drinking water  
to our customers that meets all  
regulated standards, and to  
maintain a current and future  
water supply for our customers.