2018
Annual Report

Community Water Company of Green Valley
(Consolidated)

For Additional information on …

- Company Rules and Regulations
- Water Conservation
- Water Quality
- Backflow Information
- EZPay
- RoundUp

Please contact us at:

Community Water Company of Green Valley
1501 South La Cañada Drive, Green Valley, AZ 85622
(520) 625-8409
Communitywater.com

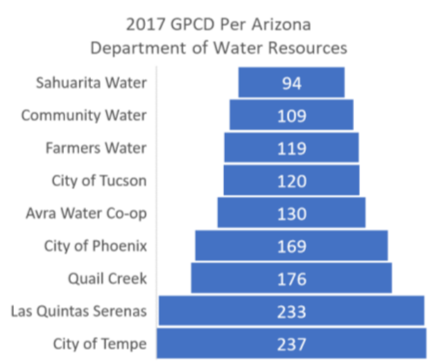
To the Members of
Community Water Company
of Green Valley,

This summer will mark the 42nd year this utility has provided reliable water delivery service to its members. Since 1977, the population we serve has increased from less than 3,500 to over 24,000. We deliver an annual average of 2.2 million gallons of water daily, all drawn from our aquifer. Over the years we have been successful in meeting the challenges of our short and long-term needs through careful planning and investment in the utility infrastructure. We take a long-view when we evaluate our options for system stewardship, water resource management, and our utility practices.

The average bill for our residential customer is about $22 a month. Community Water had 12,741 active residential units connected to the water delivery system at year-end 2018, compared with 12,677 at year-end 2017. Commercial customers had a slight increase to 394, from 385 a year ago. The amount of water pumped from the aquifer in 2018 was 2,383 acre- feet, a decrease of .8% from the prior year's 2,403 acre-feet. Total 2018 rainfall of 20.8 inches was above the average of the past decade of about 12.9 inches per year.

A measure for comparing water use between communities is called "Gallons Per Capita Day" or GPCD for short. The GPCD calculation results in higher values for areas with significant industrial and commercial uses.

We encourage the State of Arizona to continue working on addressing the issues of long-term water supply availability. Drought contingency planning has been an important effort to prioritize the use of the Colorado River water. The Arizona Department of Water Resources has reported that the Green Valley-



Sahuarita area continues to experience a decrease in our water tables. We are fortunate to have a substantial aquifer beneath us that can minimize the impact of possible long-term droughts.

Our local water supply is not sustainable if the source aquifer continues to decline. Even though it can be decades before we feel the effect, it is critical to minimize our impact on the present water supply. Community Water is committed to developing access to an alternate water supply as part of the 1980 Ground Water Act that sets safe yield goals for the Tucson Active Water Management Area. We joined with Rosemont Copper Company in 2007 to develop Project Renews. Project Renews will bring renewable water supplies to the Green Valley-Sahuarita area. It has the approval of the Bureau of Reclamation and development is at no cost to our members.

In 2018, we secured a 99-year lease on State Land in Sahuarita for the purposes of recharging our Central Arizona Project water and have begun preparing for the installation of mains along Pima Mine Road. We have already connected Project Renews to the Central Arizona Project pipeline and extended the pipeline eastward under 1-19 at Pima Mine Road. Acquisition of the Project Renews pipeline rights-of-way has been completed, and we have installed segments of pipe under the Pima Mine Road Bridge and under the Nogales Highway intersection with Sahuarita Road.

The Company has been working on developing financial reserves necessary for replacement of aging infrastructure and to improve the redundancy of our water delivery system. In 2018, there were some challenging main breaks that kept our crews working long hours over several days complicated by access to and the depth of the mains. Please congratulate our employees for their exemplary service; their excellent stewardship has resulted in a reliable and robust water delivery system supported by superb customer service.

Periodic rate increases are required to generate the necessary revenue, and regular borrowing helps support financial sustainability and are an essential step in providing sufficient cash flow to cover expenses, maintain funds for scheduled equipment maintenance, repair unexpected equipment breakage, and develop reserves to support borrowing to make appropriate system replacements and upgrades.

Community Water continues delivery of water that meets or surpasses all applicable health and safety measures. We conduct all required tests to check water quality and report our test results each June.
Our Water Quality Report is available on our website at http://www.communitywater.com/wqr.pdf. Please visit our office for a paper copy.

A strong thank you to our volunteer directors and board consultants who represent our members' interests. Their knowledge of the community and local water issues is valuable, and we continue to be delighted with the expertise of the directors serving our company.
Customer satisfaction with Community Water remains high based on our 2018 survey.

Community Water is proud of its annual support of providing water over the past decade to the MedianGreen Project. This water contribution supports the mission of the MedianGreen Project to replant and beautify the public road medians in Green Valley; reflecting the pride we take in our community.

Our annual meeting of members is on Thursday, April 25, 2019, at 9:30 A.M., in the GVR East Center, at 7 South Abrego Drive, Green Valley, AZ.
Registration begins at 9:00 A.M. We look forward to seeing you at our annual meeting.

Sincerely,

Virgil W. Davis
Chair of the Board

Arturo R. Gabaldón
President

April 11, 2019

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)
Http://www.communitywater.com

Report of Independent Auditors

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

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, 2018 and 2017, and the related consolidated statements of revenues and expenses, net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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, 2018 and 2017, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated basic 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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, the list of Directors & Officers, and the list of Volunteer Board Consultants & Other Management are presented for purposes of additional analysis and are not a required part of the consolidated basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Ullmann & Company

ULLMANN & COMPANY

Certified Public Accountants
Phoenix, Arizona
April 11, 2019

Assets

	2018	2017
Current assets		
Cash and cash equivalents	$ **509**	$ 663
Accounts receivables, less allowance for doubtful accounts of $1,000	**344**	390
Materials and supplies	**43**	42
Prepayment	**308**	33
Total current assets	**1,204**	1,128
Noncurrent assets		
Cash and cash equivalents, designated	**708**	649
Securities available-for-sale, at market reserved for reservoir maintenance	**307**	269
Securities available-for-sale, at market designated other	**2,698**	2,275
Investment in LLC	**180**	187
Total noncurrent assets	**3,893**	3,380
Deferred charges		
Right-of-way use permits (ROW)	**103**	106
Other	**140**	201
Total deferred charges	**243**	307
Utility plant		
Plant in service, at cost	**46,460**	45,783
Construction work in progress	**100**	15
	46,560	45,798
Less accumulated depreciation	**22,189**	21,051
Total utility plant	**24,371**	24,747
Total assets	$ **29,711**	$ 29,562

The accompanying notes are an integral

Balance Sheets
31, 2018 and 2017
Thousands)

Liabilities and Net Assets

	2018	2017
Current liabilities		
Accounts payable (A/P)	$ 163	$ 94
Current maturities of long-term debt	109	104
Accrued taxes	116	116
Other liabilities	276	289
Total current liabilities	664	603
Long-term debt, net	2,736	2,837
Deferred credits		
Refundable advances for construction	5,950	6,948
Deferred taxes	2	2
Mark-to-market value of interest rate swap	92	168
Reservoir Maintenance Reserves	307	269
Total deferred credits	6,351	7,387
Contributions in-aid-of construction (CIAC), net	10,656	10,306
Total liabilities	20,407	21,133
Net assets		
Appropriated accumulated surplus	3,406	2,924
Other accumulated surplus and membership	5,996	5,678
Accumulated other comprehensive income	(98)	(173)
Net assets	9,304	8,429
Total liabilities and net assets	$ 29,711	$ 29,562

part of the consolidated financial statements.

Consolidated Statements of Revenues and Expenses
For the years ended December 31, 2018 and 2017
(In Thousands)

	2018	2017
Operating revenues	$ 4,619	$ 4,627
Operating expenses		
Operations	2,080	1,975
Maintenance	442	423
Depreciation and amortization	593	721
Taxes - other	537	540
Total operating expenses	3,652	3,659
Excess of operating revenues over operating expenses	967	968
Other revenues (expenses)		
CAP capital charges	(123)	(114)
Interest income	50	22
Interest expense	(177)	(182)
Passthrough expense investment in LLC	(7)	(10)
Other revenues, net	92	26
Total other revenues (expenses)	(165)	(258)
Income before income tax	802	710
Income tax		
Current tax expense	(1)	(1)
Deferred expense tax	(1)	(1)
Total income tax	(2)	(2)
Excess of revenues over expenses	800	708
Other comprehensive income, net of tax:		
Unrealized (loss) gain on securities	(1)	2
Unrealized gain on mark-to-market value of interest swap	76	40
Total other comprehensive income	75	42
Total comprehensive income	$ 875	$ 750

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

Consolidated Statements of Net Assets
For the years ended December 31, 2018 and 2017
(In Thousands)

	Appropriated accumulated surplus	Other accumulated Surplus and membership	Accumulated other comprehensive income	Total net assets
12/31/2016 net assets, as restated	$ 0	$7,894	$(215)	$7,679
12/31/2017 comprehensive income	2,924	(2,216)	42	750
12/31/2017 net assets,	2,924	5,678	(173)	8,429
12/31/2018 comprehensive income	**482**	**318**	**75**	**875**
12/31/2018 net assets	**$3,406**	**$5,996**	**$ (98)**	**$9,304**

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

Consolidated Statements of Cash Flow
For the years ended December 31, 2018 and 2017
(In Thousands)

	2018	2017
Excess of revenues over expenses	$ **800**	$ 708
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and amortization	**593**	721
Depreciation and amortization included in operations and maintenance expense	**240**	210
Changes included in:		
Investment in LLC	**7**	10
Interest receivable	**(7)**	(3)
Accounts receivable	**46**	(3)
Materials and supplies	**(1)**	(5)
Deferred tax	**1**	1
Prepayments	**(273)**	2
Other deferred charges	**(70)**	(48)
Accounts payable	**1**	(251)
Accrued taxes	**0**	3
Other current liabilities	**(88)**	(7)
Total adjustments	**449**	630
Net cash provided by operating activities	**1,249**	1,338
Cash flow from investing activities		
Capital expenditures	**(923)**	(1,230)
Proceeds from maturities of securities available-for-sale	**2,018**	2,357
Purchase of securities available-for-sale	**(2,474)**	(2,964)
Proceeds from sale of capital	**4**	14
Investment in ROW use permits	**(5)**	0
Net cash used in investing activities	**(1,380)**	(1,823)
Cash flow from financing activities		
Repayment of long-term debt	**(104)**	(98)
Proceeds from refundable advances and CIAC	**243**	593
Repayment of refundable advances	**(169)**	(160)
Proceeds from other members	**66**	0
Net cash provided by financing activities	**36**	335
Net decrease in cash and cash equivalents	**(95)**	(150)
Cash and cash equivalents at beginning of year	**1,312**	1,462
Cash and cash equivalents at end of year	$ **1,217**	$ 1,312
Non cash investing activities		
A/P purchases of utility plant	$ **82**	$ 14

Cash and Cash Equivalents on Balance Sheet

	2018	2017
Cash and cash equivalents	$ **509**	$ 663
Cash and cash equivalents, designated	**708**	649
Total cash and cash equivalents	$ **1,217**	$ 1,312

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS:

Community Water Company of Green Valley ("CWC") was incorporated in 1975 as an Arizona nonprofit corporation with members. It purchased an existing water utility business and began operation of 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 the purpose of business investments. In 2012, CWC created a variable interest entity named Community Water Company of Green Valley ROW Trust ("Trust") in which CWC is the trustor and the beneficiary, and SICAN is the trustee. The entity holds and manages right of way use permits ("ROW") and leases required for Project Renews.

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 it 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).

All significant intercompany accounts and transactions have been eliminated in consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES:

Maintenance of Accounting Records - CWC, SICAN, and Trust maintain their accounting records on the accrual basis of accounting in which revenue is recognized when earned, and expenses are recognized when the obligation has been incurred. CWC maintains its records in accordance with the Uniform System of Accounts prescribed for Class A water utilities by the National Association of Regulatory Utility Commissioners, which are US GAAP for the water utility industry.

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.

Securities Available-for-Sale - CWC Consolidated accounts for its investment securities in accordance with FASB ASC 320-10-45 which provides that CWC Consolidated classify investments in securities as either 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 being 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. Credit is extended 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 collectability of accounts receivable at the balance sheet date. For 2018 and 2017, there was an allowance of $1,000. Balances are written off when considered uncollectible. SICAN and Trust did not have allowances for uncollectible accounts for 2018 and 2017.

Materials and Supply Inventory - Inventory is stated at the lower of cost or market. Cost is determined on a weighted average basis.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Utility Plant - Utility plant is stated at original cost and consists of contract costs, labor, material and allowances for indirect costs. The cost of maintenance, repairs, and minor renewals is charged 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 estimated useful lives of the assets. The depreciation rates and plant in service balances by major classes of depreciable assets are as follows:

	Depreciation Rate (in Percent)	**Balance At December 31, 2018 (In Thousands)**	Balance At December 31, 2017 (In Thousands)
Utility Plant	**2.00 to 12.50**	**$44,858**	$44,201
Computer Equipment	**20.00**	**698**	715
Backhoe	**5.00**	**149**	149
Vehicles	**20.00**	**584**	547
Land	**N/A**	**171**	171
Total		**$46,460**	$45,783

Deferred Charges – Intangible assets (ROWs) are reviewed 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 certain expansions to 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 the expiration of an agreed-upon repayment term. Contributions for construction are not repaid. Further, if the repayment term of an advance expires before an 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 rate in effect for 2018 and 2017 was 3.92%.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Refundable advances for construction are non-interest bearing. As of December 31, 2018 and 2017, CWC's refundable advances for construction specify repayment rates up to 20% of applicable annual water revenues and most of these contracts contain remaining repayment terms up to 15 years.

Accumulated Surplus – Accumulated Surplus consists of member revenues from sales of water service and nonmember revenues minus current and prior periods' expenses. Appropriated accumulated surplus is allocated to members on the basis of business with CWC.

Revenue Recognition - CWC's operating revenues are generated through sales of water to residential and commercial customers in the Green Valley Sahuarita area. Revenue consists of monthly cycle customer billings for water delivery service at rates authorized by the Arizona Corporation Commission. Revenue from metered accounts includes unbilled amounts based on the estimated usage from the latest meter reading to the end of the accounting period.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

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. As of December 31, 2018 and 2017, CWC Consolidated had no significant concentrations of risk.

Reclassification – Certain reclassifications for designation of cash and cash equivalents and securities available-for-sale have been made to the 2017 information to conform to the 2018 presentation.

3. LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure, that is, without external restrictions limiting their use, within one year of December 31, 2018 and 2017, respectively are:

		12/31/2018		12/31/2017
Financial assets				
Cash and cash equivalents	$	**509**	$	663
Cash and cash equivalents, designated		**708**		649
Securities available-for-sale, at market, reserved for maintenenance		**307**		269
Securities available-for-sale, at market, designated other		**2,698**		2,275
Accounts receivables		**344**		390
Total financial assets		**4,566**		4,246
Less reserved or designated funds				
Reserved for maintenance (see Note 4)		**(307)**		(269)
Designated for other purposes (see Note 4)		**(3,406)**		(2,924)
Amount available for general expenditures within one year	$	**853**	$	1,053

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 the recoating of reservoirs and forebays as a liability on the balance sheet. As of December 31, 2018 and 2017, these reserves totaled $306,700 and $269,300, 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, 2018 (In Thousands)		
	Cost	**Unrealized (Losses)**	**Fair Value**
Certificates of Deposit with maturities within one year	**$ 2,698**	**$ 0**	**$ 2,698**
Certificates of Deposit with maturities of 1-5 years	**237**	**0**	**237**
Mortgage Backed Securities U.S	**76**	**(6)**	**70**
Total	**$ 3,011**	**$ (6)**	**$ 3,005**

	At December 31, 2017 (In Thousands)		
	Cost	Unrealized (Losses)	Fair Value
Certificates of Deposit with maturities within one year	$ 2,469	$ 0	$ 2,469
Mortgage Backed Securities U.S.	79	(4)	75
Total	$ 2,548	$ (4)	$ 2,544

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.

6. PREPAYMENT:

The Trust has two prepaid leases from the Arizona State Land Department (ASLD); a 10-year right-of-way effective July 30, 2015 and a 99-year ground lease for the purposes of recharge. The 99-year ground lease has a total cost of $302,554, of which $275,318 had been paid as of December 31, 2018; the balance due will be paid over the life of the lease. The two leases are included as Prepayment on the Balance Sheet.

	Balance at December 31, 2018 (In Thousands)
ASLD land lease	$ 275
ASLD land lease	8
Total	$ 283

7. INVESTMENT IN LLC:

SICAN has an investment in JPAR, LLC ("LLC"), a development company that is recognized at book value. This investment was funded by nonmember nonutility income. 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:

SICAN's Cumulative Interest in LLC	Balance at December 31, 2018 (In Thousands)	Balance at December 31, 2017 (In Thousands)
SICAN Capital Contribution in LLC	**$ 340**	$ 340
Cumulative Share of Net Loss	**(160)**	(153)
Book Value	**$ 180**	$ 187

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

LLC Financial Summary	Balance at December 31, 2018 (In Thousands)	Balance at December 31, 2017 (In Thousands)
Total Assets	**$ 9,322**	$ 5,821
Total Liabilities	**7**	295
Total Equity	**$ 9,315**	$ 5,526
Revenues	**$ 1**	$ 0
Expenses	**193**	188
Net Loss	**$ (192)**	$ (188)

7. INVESTMENT IN LLC (continued):

SICAN's share of net loss for the year is calculated using the weighted average capital accounts during the year. During the year ended December 31, 2018 and 2017, SICAN's allocated loss was 3.72% and 5%, respectively, which represented a net loss of around $7,000 and $10,000 respectively. SICAN owns less than 20% of the profit and loss percentages of LLC at December 31, 2018. 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.

8. DEFERRED CHARGES:

Trust's ROWs consist of the following:

	Balance at December 31, 2018 (In Thousands)	Balance at December 31, 2017 (In Thousands)
ROW	**$ 133**	$ 129
Less: accumulated amortization	**(30)**	(25)
Net ROW in service	**$ 103**	$ 104
Land application in Progress	**0**	2
Total ROW, net	**$ 103**	$ 106

ROWs were funded from nonmember nonutility income. Total amortization expense amounted to $5,790 and $5,703 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, Trust had $133,235 and $128,530 in ROW permits respectively. Intangible assets acquired during the year ended December 31, 2018 were valued at $4,704 and will be amortized over a period of 50 years. The schedule on the right 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)
2019	**$ 6**
2020	**6**
2021	**6**
2022	**6**
2023	**5**
Total	**$ 29**

9. LONG-TERM DEBT (LTD):

On November 5, 2014, the Arizona Corporation Commission approved a $3,320,000, 15-year debt instrument with Compass Bank and Compass Mortgage Corporation (CB).

The note to CB 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, 2018, based on the terms of the signed commitment are as follows:

	At Year End December 31, 2018 (In Thousands)	
2019	**$**	**109**
2020		**117**
2021		**124**
2022		**131**
2023		**138**
2024-2028		**825**
2029		**1,429**
		2,873
Unamortized debt issuance cost		**(28)**
LTD, less unamortized debt issuance cost		**2,845**
Current portion of LTD		**(109)**
Total LTD, less current portion	**$**	**2,736**

CB has first Deed of Trust 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 6.32 and 6.36 at December 31, 2018 and 2017, respectively.

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

The outstanding long-term balances of LTD were $2,873,246 and $2,977,247 at December 31, 2018 and December 31, 2017, respectively.

10. MARK-TO-MARKET VALUE OF INTEREST RATE SWAP:

On November 14, 2014, CWC entered into an interest rate swap agreement with Compass Bank which CWC designated as a hedge against the variability in future interest payments due on $3,234,208. CWC pays Compass Bank 2.98%; in return, Compass Bank 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.

The Company is exposed to interest rate risk associated with the Company's floating rate debt. The Company entered into an interest rate swap to manage interest rate risk and adjust the interest rate profile of the Company's debt 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 2018 and 2017, CWC recognized $75,894 and $39,927 as unrealized gains. At December 31, 2018 and 2017, the cumulative loss was $91,764 and $167,657, respectively.

11. INCOME TAX:

As a 501(c)(12), CWC was not subject to income tax in 2018 and 2017. SICAN and Trust incurred the following income tax for 2018 and 2017:

	Year Ended December 31, 2018		
	SICAN	**Trust**	**Total**
Current			
Federal	**$ 737**	**$ 0**	**$ 737**
State	**180**	**0**	**180**
Total Current Tax Expense	**$ 917**	**$ 0**	**$ 917**
Deferred			
Federal	**$ (2)**	**$ 469**	**$ 467**
State	**0**	**122**	**122**
Total Deferred Tax (Benefit)	**$ (2)**	**591**	**589**
Income Tax Expense	**$ 915**	**$ 591**	**$ 1,506**

	Year Ended December 31, 2017		
	SICAN	Trust	Total
Current			
Federal	$ 520	$ 0	$ 520
State	173	0	173
Total Current Tax Expense	$ 693	$ 0	$ 693
Deferred			
Federal	$ (28)	605	577
State	0	200	200
Total Deferred Tax (Benefit)	$ (28)	805	777
Income Tax Expense	$ 665	$ 805	$1,470

12. 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 $41,406 is not recognized as a deferred tax asset at December 31, 2018, 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 $1,859 during the year ended December 31, 2018.

The components of the net deferred tax asset (liability) at December 31, 2018 and December 31, 2017 are as follows:

	At December 31, 2018		
	SICAN	**Trust**	**Total**
Deferred Tax Asset			
Noncurrent	**$ 38**	**$ 1,236**	**$ 1,274**
Total Deferred Tax Asset	**38**	**1,236**	**1,274**
Deferred Tax Liability			
Noncurrent	**0**	**(3,206)**	**(3,206)**
Total Deferred Tax Liability	**0**	**(3,206)**	**(3,206)**
Net Deferred Tax Asset (Liability)	**$ 38**	**$ (1,970)**	**$ (1,932)**

	At December 31, 2017		
	SICAN	Trust	Total
Deferred Tax Asset			
Noncurrent	$ 36	$ 433	$ 469
Total Deferred Tax Asset	36	433	469
Deferred Tax Liability			
Noncurrent	0	(1,812)	(1,812)
Total Deferred Tax Liability	0	(1,812)	(1,812)
Net Deferred Tax Asset (Liability)	$ 36	$ (1,379)	$ (1,343)

13. 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 inception at about $506M at December 31, 2018. CWC’s proportionate share of all CAP allocations is .4% and CWC has paid $2.1M at December 31, 2018.

14. SUPPLEMENTAL CASH FLOW INFORMATION:

CWC, SICAN, and Trust engaged in the following transactions:

	For the Year 2018 (In Thousands)	For the Year 2017 (In Thousands)
CWC Expired Refundable Advances for Constructions	**$1,020**	$156
CWC Interest Paid	**$169**	$174
SICAN Income Taxes Paid	**$1**	$0

15. 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 2018 and 2017, 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 $148,634 and $151,371 for the years ended December 31, 2018 and 2017, respectively.

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

16. FAIR VALUE MEASUREMENTS:

FASB 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.

16. FAIR VALUE MEASUREMENTS (continued):

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.

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, 2018 and 2017.

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 swap interest is based on the current and present value of projected 1-month LIBOR rates.

The preceding 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 and Trust did not have any assets measured at fair value in 2018 and 2017.

16. FAIR VALUE MEASUREMENTS (continued):

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

Level 1	**Balance at December 31, 2018 (In Thousands)**	Balance at December 31, 2017 (In Thousands)
Securities Available-for-Sale Certificates of Deposits	**$ 2,935**	$ 2,469
Securities Available-for-Sale Mortgage-Backed Securities	**70**	75
Total Assets	**$ 3,005**	$ 2,544

Level 2	**Balance at December 31, 2018 (In Thousands)**	Balance at December 31, 2017 (In Thousands)
Liabilities – Mark-to-Market Value of Interest Rate Swap	**$ 92**	$ 168

17. SALES TAXES:

Some transactions require CWC to collect sales tax from our customers. These taxes, which totaled $291,599 and $293,169 in 2018 and 2017, respectively, are included in Operating revenues.

18. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through April 11, 2019, the date on which the financial statements were available to be issued.

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

Supplemental Consolidating Abbreviated Financial Statements
As of December 31, 2018 (in Thousands)

Balance Sheet	CWC	SICAN	Trust	Consolidation Adjustment	Consolidated
Assets					
Current assets	$ 732	$ 15	$ 457	$ -	$ 1,204
Noncurrent assets	4,578	180	-	(865)	3,893
Deferred charges	140	-	103	-	243
Utility plant	24,371	-	-	-	24,371
Total assets	$ 29,821	$ 195	$ 560	$ (865)	$ 29,711
Liabilities and net assets					
Current liabilities	$ 664	$ -	$ -	$ -	$ 664
Long-term debt	2,736	-	-	-	2,736
Deferred credits	6,349	-	2	-	6,351
Contributions in-aid-of construction	10,656	-	-	-	10,656
Net assets	9,416	195	558	(865)	9,304
Total liabilities and net assets	$ 29,821	$ 195	$ 560	$ (865)	$ 29,711
Statement of revenues and expenses					
Operating revenues	$ 4,586	$ 8	$ 28	$ (3)	$ 4,619
Operating expenses					
Operations	2,060	4	19	(3)	2,080
Maintenance	442	-	-	-	442
Depreciation and amortization	587	-	6	-	593
Taxes - other	537	-	-	-	537
Total operating expenses	3,626	4	25	(3)	3,652
Excess of oper. revenues over expenses	960	4	3	-	967
Income tax	-	(1)	(1)	-	(2)
Other revenues (expenses)	(158)	(7)	-	-	(165)
Excess of revenues over expenses	$ 802	$ (4)	$ 2	$ -	$ 800
Statement of cash flow					
Cash flow from operating activities					
Excess of revenues over expenses	$ 802	$ (4)	$ 2	$ -	$ 800
Depreciation and amortization	827	-	6	-	833
Net changes	(117)	6	(273)	-	(384)
Net cash provided by (to) oper. activities	1,512	2	(265)	-	1,249
Cash flow from investing activities					
Capital expenditures	(923)	-	-	-	(923)
Net other investing activities	(457)	-	-	-	(457)
Net cash used in investing activities	(1,380)	-	-	-	(1,380)
Cash flow from financing activities					
Net change in long-term debt	(104)	-	-	-	(104)
Net other financing activities	140	-	-	-	140
Net cash provided by fin. activities	36	-	-	-	36
Net change in cash and cash equivalents	$ 168	$ 2	$ (265)	$ -	$ (95)

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As of March 30, 2019

Printed: April 26, 2019