2019 ANNUAL REPORT

COMMUNITY WATER COMPANY OF GREEN VALLEY

communitywater.com

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
(520) 625-8409
Communitywater.com

COMMUNITY WATER COMPANY PROVIDING
RELIABLE WATER DELIVERY SERVICE SINCE 1977

April 6, 2020

To the Members of Community Water Company of Green Valley regarding how our water utility is addressing the impact of COVID-19

Community Water Company is committed to remaining open and delivering drinking water to your home and business during the uncertainties arising from the coronavirus pandemic. Water is critical to the existence of our community. The health of our customers and employees is of utmost importance, and we are making many changes to the way we conduct our business to ensure the delivery of water while protecting our staff.

We have closed the front office to walk-in service. Following closing our office to walk-in service, we are moving staff work stations to their homes and conducting meetings remotely. We have divided the field staff into teams, segregated the work areas, and implemented disinfection procedures. Our objective is to maintain sufficient staff to continue water delivery to your home. We will defer maintenance if staff members become ill and require other staff members to self-quarantine under the existing CDC guidelines. We continue to evaluate the robustness of our teaming arrangements and make improvements as needed. Employees who experience symptoms of COVID-19 are required to separate themselves from the work environment and seek professional advice, including testing as applicable.

In an emergency, please call 520-625-8409 24/7 if you need to reach Community Water Company. Our web site is http://www.communitywater.com, or email us at billing@communitywater.com, or call us during our customer service hours of 7:30 AM to noon, and 1 PM to 4:30 PM, at the same phone number.

As a nonprofit corporation with members, our revenues from customers are our only source of funds to support our staff, operations, maintenance, and capital investments. To address the growing economic challenges in our community, Community Water Company encourages our members to call us to sign up and participate in contributing to the Round-Up program. This voluntary program will round-up your bill to the next dollar. Funds are administered by local nonprofits to help customers within our service area who are unable to pay their water bills.

Due to the precautions related to the COVID-19, the annual meeting of members, typically held in April, has been postponed until further notice. Enclosed is the letter to the Members drafted before the COVID-19 events of March 2020. Thank you for your support.

Sincerely,

Virgil W Davis

Virgil W. Davis
Chair of the Board

Arturo R. Gabaldón
General Manager and President of the Board

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)

We are providing this letter to keep you informed about CWC.

We authored this letter before the issues related to the COVID-19 became apparent in March 2020.

COMMUNITY WATER COMPANY PROVIDING RELIABLE WATER DELIVERY SERVICE SINCE 1977

To the Members of Community Water Company of Green Valley

We are delighted to have provided reliable water delivery service to our members for 43 years. We are now serving 12,800 homes and 400 businesses in the Green Valley-Sahuarita area, to whom we deliver an average of 2.2 million gallons of water daily. We accomplish this with an average residential water delivery bill of $22 per month.

A major part of our success is attributable to the guidance of our volunteer board, who we thank for taking the long view when evaluating our options for system stewardship, water resource management, and utility practices. And we are proud that our latest January 2020 survey continues to reflect high customer satisfaction.

Community Water has a great staff. They work diligently to repair service and water main breaks while ensuring that affected customers are without water for less than 12 hours. Some of those repair events keep our crews working long hours over several days. The staff also works on enhancements to the reliability of our water delivery system, expanding system security, implementing complex computer upgrades, and addressing potential cyber threats.

Community Water's source of supply is from four wells located in various parts of our service area. These wells provide water to four reservoirs: three reservoirs located at higher elevations, and one located centrally within our service area. Water is gravity fed from the higher elevation reservoirs through a complex water delivery system to your homes and businesses.

This year it became necessary to restore one of our wells, Well-06, to full design capacity. Production capacity has decreased since it was initially placed in service in 1977 and retrofitted for arsenic treatment in 2006. The task of restoring Well-06 took several months to complete; the work included relining the well, replacement of the pump, and upgrades to the arsenic treatment facilities and controls.

We experienced two major well failures during the summer months when we were at our peak water demand. We pulled and replaced the two existing pumps and the column pipes. Throughout this period, we maintained emergency pumping equipment on standby.

Community Water was able to address the unplanned equipment failures and maintain our water deliveries uninterrupted because we have an excellent reservoir system, maintain a highly skilled staff, have access to critical parts and components, and maintain financial reserves to timely fund required maintenance and repairs. Well maintenance costs exceeded $500,000 in 2019, and we anticipate another $500,000 in 2020.

Periodic rate increases are required to maintain the necessary revenue in support of financial sustainability and are essential to maintain 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 is committed to developing access to an alternate water supply as part of the 1980 Groundwater Management Act that sets safe-yield goals for the Tucson Active 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.

Under management by Project Renews and as part of a joint effort with FICO, we installed two pipelines for about two miles along Pima Mine Road. Doing this joint project minimized construction delays to the people of Sahuarita. Project Renews already connected to the Central Arizona Project pipeline and extended eastward under I-19 at Pima Mine Road. We now have CAP water near Nogales Highway and Pima Mine Road.

Prior Project Renews construction also included completion of the acquisition of pipeline rights-of-way, installed segments of the pipeline under the Pima Mine Road Bridge, and the Nogales Highway intersection with Sahuarita Road, and secured a 99-year lease on State Land in Sahuarita for recharging water into the aquifer providing our drinking water.

Community Water continues the delivery of water that meets or surpasses all applicable health and safety standards. 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.

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.

Sincerely,

Virgil W Davis

Virgil W. Davis
Chair of the Board

Arturo R. Gabaldón
General Manager and President of the Board

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):

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, 2019 and 2018, 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, 2019 and 2018, 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 Officers & Directors, and the list of Board Consultants 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
June 12, 2020

Consolidated Balance Sheets
December 31, 2019 and 2018
In Thousands

Assets

	2019	2018
Current assets		
Cash and cash equivalents	$ **634**	$ 509
Accounts receivable, less allowance for doubtful accounts of $1,000	**345**	344
Materials and supplies	**45**	43
Prepayment	**316**	308
Total current assets	**1,340**	1,204
Noncurrent assets		
Cash and cash equivalents, designated	**935**	708
Securities available-for-sale, at market reserved for reservoir maintenance	**399**	307
Securities available-for-sale, at market designated other	**2,356**	2,698
Investment in LLC	**174**	180
Deferred tax asset	**1**	0
Total noncurrent assets	**3,865**	3,893
Deferred charges		
Right-of-way use permits (ROW)	**98**	103
Other	**79**	140
Total deferred charges	**177**	243
Utility plant		
Plant in service, at cost	**47,412**	46,460
Construction work in progress	**49**	100
	47,461	46,560
Less accumulated depreciation	**23,129**	22,189
Total utility plant	**24,332**	24,371
Total assets	$ **29,714**	$ 29,711

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

Consolidated Balance Sheets
December 31, 2019 and 2018
In Thousands

Liabilities and Net Assets

	2019	2018
Current liabilities		
Accounts payable (A/P)	**$ 188**	$ 163
Current maturities of long-term debt	**117**	109
Accrued taxes	**116**	116
Other liabilities	**246**	276
Total current liabilities	**667**	664
Long-term debt, net	**2,627**	2,736
Deferred credits		
Refundable advances for construction	**5,533**	5,950
Deferred taxes	**0**	2
Mark-to-market value of interest rate swap	**245**	92
Reservoir Maintenance Reserves	**399**	307
Total deferred credits	**6,177**	6,351
Contributions in-aid-of construction (CIAC), net	**10,618**	10,656
Total liabilities	**20,089**	20,407
Net assets		
Appropriated accumulated surplus	**3,291**	3,406
Other accumulated surplus and membership	**6,579**	5,996
Accumulated other comprehensive income	**(245)**	(98)
Net assets	**9,625**	9,304
Total liabilities and net assets	**$ 29,714**	$ 29,711

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

Consolidated Statements of Revenues and Expenses
For the years ended December 31, 2019 and 2018
In Thousands

	2019	2018
Operating revenues	**$ 4,571**	$ 4,619
Operating expenses		
Operations	**2,049**	2,080
Maintenance	**465**	442
Depreciation and amortization	**904**	593
Taxes - other	**540**	537
Total operating expenses	**3,958**	3,652
Excess of operating revenues over operating expenses	**613**	967
Other revenues (expenses)		
CAP capital charges	**(139)**	(123)
Interest income	**73**	50
Interest expense	**(171)**	(177)
Passthrough expense investment in LLC	**(6)**	(7)
Other revenues, net	**96**	92
Total other revenues (expenses)	**(147)**	(165)
Income before income tax	**466**	802
Income tax benefit (expense)		
Current tax expense	**(1)**	(1)
Deferred tax benefit (expense)	**3**	(1)
Total income tax benefit (expense)	**2**	(2)
Excess of revenues over expenses	**468**	800
Other comprehensive (loss) income, net of tax:		
Unrealized gain (loss) on securities	**6**	(1)
Unrealized (loss) gain on mark-to-market value of interest swap	**(153)**	76
Total other comprehensive income (loss)	**(147)**	75
Total comprehensive income	**$ 321**	$ 875

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

Consolidated Statements of Net Assets

For the years ended December 31, 2019 and 2018

In Thousands

	Appropriated accumulated surplus	Other accumulated surplus and membership	Accumulated other comprehensive income	Total net assets
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
12/31/2019 comprehensive income	**(115)**	**583**	**(147)**	**321**
12/31/2019 net assets	**$ 3,291**	**$ 6,579**	**$ (245)**	**$ 9,625**

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

Consolidated Statements of Cash Flow
For the years ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Excess of revenues over expenses	**$ 468**	$ 800
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and amortization	**903**	592
Depreciation and amortization included in operations and maintenance expense	**205**	241
Changes included in:		
Investment in LLC	**6**	7
Interest receivable	**(3)**	(7)
Accounts receivable	**(1)**	46
Materials and supplies	**(2)**	(1)
Deferred tax	**(1)**	1
Prepayments	**(8)**	(273)
Other deferred charges	**60**	(70)
Accounts payable	**28**	1
Other current liabilities	**(27)**	(88)
Total adjustments	**1,160**	449
Net cash provided by operating activities	**1,628**	1,249
Cash flow from investing activities		
Capital expenditures	**(1,639)**	(923)
Proceeds from maturities of securities available-for-sale	**2,623**	2,018
Purchase of securities available-for-sale	**(2,365)**	(2,474)
Proceeds from sale of capital	**9**	4
Investment in ROW use permits	**(132)**	(5)
Net cash used in investing activities	**(1,504)**	(1,380)
Cash flow from financing activities		
Repayment of long-term debt	**(109)**	(104)
Proceeds from refundable advances and CIAC	**424**	243
Repayment of refundable advances	**(156)**	(169)
Proceeds from other members	**69**	66
Net cash provided by financing activities	**228**	36
Net increase (decrease) in cash and cash equivalents	**352**	(95)
Cash and cash equivalents at beginning of year	**1,217**	1,312
Cash and cash equivalents at end of year	**$ 1,569**	$ 1,217
Non cash investing activities		
A/P purchases of utility plant	**$ 79**	$ 82

Cash and Cash Equivalents on Balance Sheet

	2019	2018
Cash and cash equivalents	**$ 634**	$ 509
Cash and cash equivalents, designated	**935**	708
Total cash and cash equivalents	**$ 1,569**	$ 1,217

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 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 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 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 in which 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, which are 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, 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. 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 2019 and 2018, there was an allowance of $1,000. CWC writes off balances when considered uncollectible. SICAN and Trust did not have allowances for uncollectible accounts for 2019 and 2018.

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

Utility Plant – CWC presents utility plant at original cost, which consists 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 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, 2019 (In Thousands)**	Balance At December 31, 2018 (In Thousands)
Utility Plant	**2.00 to 12.50**	**$ 45,807**	$ 44,858
Computer Equipment	**20.00**	**697**	698
Backhoe	**5.00**	**149**	149
Vehicles	**20.00**	**588**	584
Land	**N/A**	**171**	171
Total		**$ 47,412**	$ 46,460

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 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 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 2019 and 2018 was 3.92%.

Refundable advances for construction are non-interest bearing. As of December 31, 2019 and 2018, 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. CWC allocates appropriated accumulated surplus to members based on business with CWC.

Revenue Recognition - CWC's operating revenues are mostly 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 every month according to the bill cycles of the customers and payments are due within 30 days. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at the end of the accounting period is estimated and accrued. These estimates are based on estimated daily usage from the meter reading closest to the end of the accounting period. Sales taxes (which are 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 customer late payments, are recognized when the controls over these services have been transferred to the customer. Fees for information related to wastewater usage is recognized at the time the information is prepared. Funds received for the anticipation of maintenance expenses directly related to Project Renews are recognized as nonoperating revenues upon receipt. Other income to rehabilitate damaged assets are recognized when the cost of the repair 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 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. As of December 31, 2019 and 2018, CWC Consolidated had no significant concentrations of risk.

3. LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure, that is, without external restrictions, limiting their use, within one year of December 31, 2019, and 2018, respectively are:

	12/31/2019	12/31/2018
Financial assets		
Cash and cash equivalents	**$ 634**	$ 509
Cash and cash equivalents, designated	**935**	708
Securities available-for-sale, at market, reserved for maintenance	**399**	307
Securities available-for-sale, at market, designated other	**2,356**	2,698
Accounts receivable	**345**	344
Total financial assets	**4,669**	4,566
Less reserved or designated funds		
Reserved for maintenance (see Note 4)	**(399)**	(307)
Designated for other purposes (see Note 4)	**(3,291)**	(3,406)
Amount available for general expenditures within one year	**$ 979**	$ 853

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, 2019 and 2018, these reserves totaled $398,910 and $306,700, 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, 2019 (In Thousands)		
	Cost	**Unrealized (Losses)**	**Fair Value**
Certificates of Deposit with maturities within one year	**$ 2,440**	**$ 3**	**$ 2,443**
Certificates of Deposit with maturities of 1-5 years	**244**	**0**	**244**
Mortgage-Backed Securities, U.S.	**71**	**(3)**	**68**
Total	**$ 2,755**	**$ 0**	**$ 2,755**

	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

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. 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, 2019 (In Thousands)**	Balance at December 31, 2018 (In Thousands)
SICAN Capital Contribution in LLC	**$ 340**	$ 340
Cumulative Share of Net Loss	**(166)**	(160)
Book Value	**$ 174**	$ 180

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:

LLC Financial Summary	**Balance at December 31, 2019 (In Thousands)**	Balance at December 31, 2018 (In Thousands)
Total Assets	**$ 9,625**	$ 9,322
Total Liabilities	**14**	7
Total Equity	**$ 9,611**	$ 9,315
Revenues	**$ 2**	$ 1
Expenses	**194**	193
Net Loss	**$ (192)**	$ (192)

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, 2019 and 2018, SICAN's allocated loss was about 3.14% and 3.72%, respectively, which represented a net loss of around $6,000 and $7,000, respectively. SICAN owns less than 20% of the profit and loss percentages of LLC at December 31, 2019. 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, 2019 (In Thousands)	Balance at December 31, 2018 (In Thousands)
ROW	**$ 133**	$ 133
Less: accumulated amortization	**(36)**	(30)
Net ROW in service	**$ 97**	$ 103
Land application in Progress	**1**	0
Total ROW, net	**$ 98**	$ 103

ROWs were funded from nonmember nonutility income. Total amortization expense amounted to $5,797 for each of the years ended December 31, 2019 and 2018. At December 31, 2019 and 2018, Trust had $133,235 in ROW permits. 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. No intangible assets were acquired during the year ended December 31, 2019. 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)
2020	**$ 6**
2021	**6**
2022	**6**
2023	**6**
2024	**5**
Total	**$ 29**

8. 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, 2019, based on the terms of the signed commitment are as follows:

	At Year-End December 31, 2019 (In Thousands)
2020	**$ 117**
2021	**124**
2022	**131**
2023	**138**
2024	**146**
2025-2029	**2,108**
	2,764
Unamortized debt issuance cost	**(20)**
LTD, less unamortized debt issuance cost	**2,744**
Current portion of LTD	**(117)**
Total LTD, less current portion	**$ 2,627**

CB has the 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 6.13 and 6.32 at December 31, 2019, and 2018, 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 began on April 14, 2015. Interest accrues at a variable rate of LIBOR plus 2.7%.

The outstanding long-term balances of LTD were $2,763,963 and $2,873,246 at December 31, 2019 and December 31, 2018, respectively.

9. 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.

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 2019 and 2018, CWC recognized $153,136 and $75,894 as unrealized loss and unrealized gain, respectively. At December 31, 2019 and 2018, the cumulative loss was $244,900 and $91,764, respectively.

10. INCOME TAX:

As a 501(c)(12), income tax did not apply to CWC for 2019 or 2018. SICAN and Trust incurred the following income tax for 2019 and 2018:

	Year Ended December 31, 2019		
	SICAN	**Trust**	**Total**
Current			
Federal	**$ 608**	**$ 0**	**$ 608**
State	**151**	**0**	**151**
Total Current Tax Expense	**$ 759**	**$ 0**	**$ 759**
Deferred			
Federal	**$ 6**	**$ (2,426)**	**$ (2,420)**
State	**0**	**(629)**	**(629)**
Total Deferred Tax (Benefit)	**$ 6**	**(3,055)**	**(3,049)**
Income Tax Expense(Benefit)	**$ 765**	**$ (3,055)**	**$ (2,290)**

	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

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 $42,982 is not recognized as a deferred tax asset at December 31, 2019, 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 $1,576 during the year ended December 31, 2019.

The components of the net deferred tax asset (liability) at December 31, 2019 and December 31, 2018 are as follows:

	At December 31, 2019		
	SICAN	**Trust**	**Total**
Deferred Tax Asset			
Noncurrent	**$ 32**	**$ 3,930**	**$ 3,962**
Deferred Tax Liability			
Noncurrent	**0**	**(2,845)**	**(2,845)**
Net Deferred Tax Asset (Liability)	**$ 32**	**$ 1,085**	**$ 1,117**

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

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 $565M at December 31, 2019. CWC's proportionate share of all CAP allocations is .4%, and CWC has paid $2.2M at December 31, 2019.

12. SUPPLEMENTAL CASH FLOW INFORMATION:

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

	For the Year 2019 (In Thousands)	For the Year 2018 (In Thousands)
CWC Expired Refundable Advances for Construction	**$ 654**	$ 1,020
CWC Interest Paid	**$ 163**	$ 169
SICAN Income Taxes Paid	**$ 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 2019 and 2018, 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 $168,845 and $148,634 for the years ended December 31, 2019 and 2018, respectively.

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

14. 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.

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, 2019 and 2018.

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 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 and Trust did not have any assets measured at fair value in 2019 and 2018.

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, 2019 (In Thousands)**	Balance at December 31, 2018 (In Thousands)
Securities Available-for-Sale Certificates of Deposits	**$ 2,687**	$ 2,935
Securities Available-for-Sale Mortgage-Backed Securities	**68**	70
Total Assets	**$ 2,755**	$ 3,005

Level 2	**Balance at December 31, 2019 (In Thousands)**	Balance at December 31, 2018 (In Thousands)
Liabilities – Mark-to-Market Value of Interest Rate Swap	**$ 245**	$ 92

15. SALES TAXES:

Some transactions require CWC to collect sales tax from our customers. These taxes, which totaled $282,923 and $291,599 in 2019 and 2018, respectively, are included in operating revenues.

16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through June 12, 2020, the date on which the financial statements were available to be issued.

Subsequent to year-end, global economic uncertainties have arisen as a result of the spread of the COVID-19 coronavirus. Market changes caused a significant increase in the value of the interest rate swap liability. As of June 9, 2020, management estimates the value to be $460,390. Management does not expect to refinance our debt instrument at this point. Management expects to be able to fullfill its mission to deliver water to its customers and does not expect a direct material economic impact on the Company's operations from the spread of the virus or the related economic uncertainties. Other financial impacts could occur although such potential impact is unknown at this time.

Supplemental Consolidating Abbreviated Financial Statements
As of December 31, 2019 (in Thousands)

Balance Sheet	CWC	SICAN	Trust	Consolidation Adjustment	Consolidated
Assets					
Current assets	$ 754	$ 17	$ 569	$ -	$ 1,340
Noncurrent assets	4,686	174	1	(996)	3,865
Deferred charges	79	-	98	-	177
Utility plant	24,332	-	-	-	24,332
Total assets	$ 29,851	$ 191	$ 668	$ (996)	$ 29,714
Liabilities and net assets					
Current liabilities	$ 667	$ -	$ -	$ -	$ 667
Long-term debt	2,627	-	-	-	2,627
Deferred credits	6,177	-	-	-	6,177
Contributions in-aid-of construction	10,618	-	-	-	10,618
Net assets	9,762	191	668	(996)	9,625
Total liabilities and net assets	$ 29,851	$ 191	$ 668	$ (996)	$ 29,714

Statement of revenues and expenses	CWC	SICAN	Trust	Consolidation Adjustment	Consolidated
Operating revenues	$ 4,562	$ 8	$ 4	$ (3)	$ 4,571
Operating expenses					
Operations	2,024	5	23	(3)	2,049
Maintenance	465	-	-	-	465
Depreciation and amortization	898	-	6	-	904
Taxes - other	540	-	-	-	540
Total operating expenses	3,927	5	29	(3)	3,958
Excess of oper. revenues over expenses	635	3	(25)	-	613
Income tax	-	(1)	3	-	2
Other revenues (expenses)	(141)	(6)	-	-	(147)
Excess of revenues over expenses	$ 494	$ (4)	$ (22)	$ -	$ 468

Statement of cash flow	CWC	SICAN	Trust	Consolidation Adjustment	Consolidated
Cash flow from operating activities					
Excess of revenues over expenses	$ 494	$ (4)	$ (22)	$ -	$ 468
Depreciation and amortization	1,103	-	5	-	1,108
Net changes	(91)	4	8	131	52
Net cash provided by (to) oper. activities	1,506	-	(9)	131	1,628
Cash flow from investing activities					
Capital expenditures	(1,639)	-	-	-	(1,639)
Net other investing activities	135	-	-	-	135
Net cash used in investing activities	(1,504)	-	-	-	(1,504)
Cash flow from financing activities					
Repayment of long-term debt	(109)	-	-	-	(109)
Net other financing activities	337	-	131	(131)	337
Net cash provided by fin. activities	228	-	131	(131)	228
Net change in cash and cash equivalents	$ 230	$ -	$ 122	$ -	$ 352

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