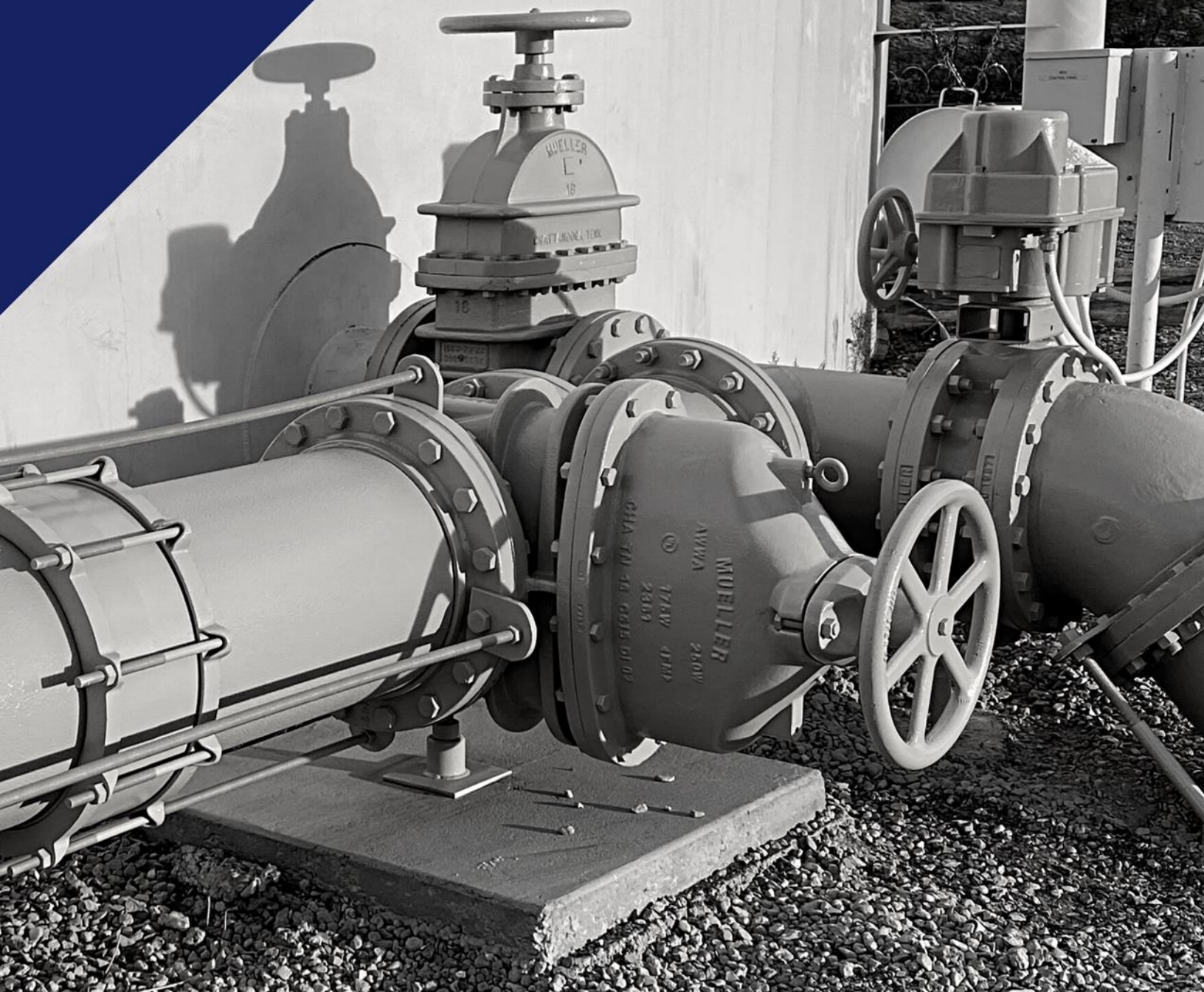




ANNUAL REPORT 2020



SAFE • LOCAL • SUSTAINABLE



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

April 2, 2021

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

Community Water updated its branding in 2015 to contain our basic ideals SAFE • LOCAL • SUSTAINABLE to convey our utility service's value to our community. Our mission is to deliver drinking water to our customers reliably and to maintain a sustainable water supply.

SAFE – 2020 had presented some historical challenges due to the COVID-19 pandemic. In mid-March 2020, mindful of the necessity to keep our system functional, we took decisive action that included implementing safety protocols to keep our customers and employees safe, closing the administrative building to face-to-face contact, and expanding communication services. We remain diligent and steadfast in our efforts to maintain our high level of service and express our thanks to our members for their continued support.

Community Water continues delivery of water that meets or surpasses all applicable health and safety measures. We conduct all of the required tests to check delivered water quality and report our test results in June of each year. Our Water Quality Report is available on our website at <http://www.communitywater.com/wqr.pdf>.

LOCAL – On June 10, 1977, upon acquisition of the water utility serving the Green Valley area, Community Water began operations as an Arizona Nonprofit Corporation with members with the goal of maintaining local control of our water services. Since then, we have continued to grow and provide reliable water delivery service for 44 years.

SUSTAINABLE – Community Water strives for financial sustainability and the sustainability of our local water supplies. We continue to focus on water delivery while reducing operating and maintenance costs where appropriate. Current water delivery rates were approved by the Arizona Corporation Commission in 2016. Our costs continue to increase, and we are evaluating a filing for an increase in water delivery rates with the Arizona Corporation Commission in 2022. Sufficient revenues are necessary to fully cover our expenses, maintain funds for doing scheduled equipment maintenance, repair unexpected equipment breakage, and develop sufficient reserves to support appropriate borrowing of funds to replace worn-out plant. Rate increases are necessary to generate the required revenues that ensure our financial sustainability.

Community Water is committed to maintaining a sustainable water supply. Local water supplies are not sustainable as long as they continue to decline. Even though it can be decades before we feel the impact, it is important to invest in solutions for future generations to build upon. Project Renewals was started in 2007 to bring renewable water supplies to the Green Valley Sahuarita area. In 2020, the Project continued to make progress in construction plans that will be implemented in 2021.

Project Renewals construction has included completing the acquisition of pipeline rights-of-way, installing segments of the pipeline from the CAP Terminus along Pima Mine Road towards Nogales Highway and under the Nogales Highway intersection with Sahuarita Road. We secured a 99-year lease on State Land in Sahuarita for a site to recharge CAP water. In 2019, under management by Project Renewals and as part of a joint effort with FICO, the Project installed two pipelines for about two miles along Pima Mine Road. Project Renewals connected to the Central Arizona Project pipeline at the CAP Terminus and extended eastward under I-19 at Pima Mine Road. We are delighted that at this time, to have CAP water near Nogales Highway at Pima Mine Road.

Sustainability also requires the protection of our local water supplies from contamination. As noted in our recent Water Quality Report, sulfate contamination from the local mine is not affecting our wells. A Community Advisory Group ("CAG") is part of the Arizona Department of Environmental Quality ("ADEQ")

sulfate mitigation order to report on the local sulfate mitigation efforts. We continue to participate in the CAG meetings and provide feedback to ADEQ.

At year-end 2020, Community Water had 12,799 active residential units connected to the water delivery system compared with 12,776 at year-end 2019. Commercial customers increased to 393, from 390 a year ago. We pumped 2,445.7 acre-feet of water from our aquifer – an increase of 7% from the prior year. Total rainfall in 2020 was significantly lower with 10.70 inches, compared to 2019's 19.54 inches. We attribute the increase in water use to the dry weather and our customers staying longer in the area. We encourage you to fix any leaks quickly and look for ways to save water.

Customer satisfaction with Community Water remains high based on our January 2021 survey. Please congratulate our employees for their exemplary service. They are the heart of Community Water, and their excellent stewardship has resulted in superb customer service while providing a reliable and robust water delivery system.

Identity theft remains an essential concern to us all. Community Water has worked to improve our computer security systems and maintain the latest protection software. However, the best cure is an ounce of prevention, so when in doubt, call us at 520-625-8409 to confirm any utility transaction. Also, we encourage you to join our EZPay program; applications are available on our web page <http://www.communitywater.com>.

Community Water is proud of its annual support of the Green Valley Council Median Green Project. We provide water that the Green Valley Fire District has delivered to Median Green medians over the past decade. Their mission is to replant and beautify the public medians in Green Valley, reflecting the pride we take in our community.

During the COVID-19 pandemic, several of our customers have hit hard times; we are delighted to report that the Round-Up program continues to be a tremendous success and lifesaver. It is a program that rounds up water bills to the next whole dollar; these pennies can make a difference to those in need. This Community Water program is voluntary for our customers, and the Salvation Army administers our program. It provides support for our water utility customers. Please provide your support by signing up for Round-Up; applications are available on our website.

A strong thank you to our volunteer directors who represent our members' interests. Their knowledge of the community and local water issues is valuable, and we continue to be delighted with the directors' expertise serving your company.

We also recognize the contributions of two individuals who are stepping down as board members. Each has contributed significantly to our success. We appreciate that both will continue to serve as board consultants. Mr. Davis, who has served on the board since February 2003 and chair since April 2010, has chosen not to stand for election and is recognized as Chair Emeritus. Ms. Severidt served as board consultant from 2008 to 2013; in April 2013, she was elected to the board and is recognized as Treasurer Emeritus.

SAVE THE DATE - our annual meeting of members will be held virtually over the internet on Wednesday, April 28, 2021, at 9:30 A.M., with login instructions to follow. We look forward to seeing you at our annual meeting.

Sincerely,



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, 2020 and 2019, 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, 2020 and 2019, 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

Certified Public Accountants

Phoenix, Arizona

April 29, 2020

Consolidated Balance Sheets
December 31, 2020 and 2019
In Thousands

	2020	Restated 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 648	\$ 689
Securities available-for-sale, at market	273	-
Accounts receivable, less allowance for doubtful accounts of \$2,000 and \$1,000 respectively	371	345
Material and supplies	47	45
Prepayment	335	316
Total current assets	1,674	1,395
Noncurrent assets		
Cash and cash equivalents, designated	195	880
Securities available-for-sale, at market reserved for reservoir maintenance	224	399
Securities available-for-sale, at market designated other	2,851	2,356
Investment in LLC	169	174
Deferred tax asset	3	1
Total noncurrent assets	3,442	3,810
Deferred charges		
Right-of-way use permits (ROW)	92	98
Other	53	79
Total deferred charges	145	177
Utility plant		
Plant in service, at cost	48,149	47,412
Construction work in progress	-	49
	48,149	47,461
Less accumulated depreciation	(24,397)	(23,129)
Total utility plant	23,752	24,332
Total assets	\$ 29,013	\$ 29,714

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

Consolidated Balance Sheets
December 31, 2020 and 2019
In Thousands

	2020	Restated 2019
Liabilities and net assets		
Current liabilities		
Accounts payable (A/P)	\$ 426	\$ 247
Current maturities on long-term debt	124	117
Accrued taxes	118	113
Other accrued liabilities	256	246
Total current liabilities	924	723
Long-term debt, net	2,511	2,627
Deferred credits		
Refundable advances for construction	4,362	5,533
Reservoir maintenance reserves	224	399
Mark-to-market value of interest rate swap	422	245
Total deferred credits	5,008	6,177
Contributions in-aid-of construction (CIAC), net	10,906	10,618
Total liabilities	19,349	20,145
Net assets		
Accumulated other comprehensive income	(413)	(245)
Appropriated accumulated surplus	3,046	3,236
Other accumulated surplus and membership	7,031	6,578
Total net assets	9,664	9,569
Total liabilities and net assets	\$ 29,013	\$ 29,714

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

Consolidated Statements of Revenues and Expenses
For the years ended December 31, 2020 and 2019
In Thousands

	2020	Restated 2019
Operating revenues	\$ 4,708	\$ 4,554
Operating expenses		
Operations	2,310	2,051
Maintenance	567	465
Depreciation and amortization	827	904
Taxes - other	558	538
Total operating expenses	4,262	3,958
Excess of operating revenues over operating expenses	446	596
Other revenues (expenses)		
CAP capital charges	(119)	(139)
Interest income	46	73
Interest expense	(163)	(171)
Passthrough expense investment in LLC	(4)	(6)
Other revenues, net	56	73
Total other revenues (expenses)	(184)	(170)
Income before income tax	262	426
Income tax benefit (expense)		
Current tax expense	(1)	(1)
Deferred tax benefit	2	3
Total income tax benefit (expense)	1	2
Excess of revenues over expenses	263	428
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	9	6
Unrealized loss on mark-to-market value of interest swap	(177)	(153)
Total other comprehensive income (loss)	(168)	(147)
Total comprehensive income	\$ 95	\$ 281

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

Consolidated Statements of Net Assets
For the years ended December 31, 2020 and 2019
 In Thousands

	Appropriated accumulated surplus	Other accumulated surplus and membership	Accumulated other comprehensive income	Total net assets
12/31/2018 Net assets as previously reported	\$ 3,406	\$ 5,996	\$ (98)	\$ 9,304
Prior period adjustment	(16)	-	-	(16)
12/31/2018 Net assets, as restated	3,390	5,996	(98)	9,288
12/31/2019 Comprehensive income, as restated	(154)	582	(147)	281
12/31/2019 Net assets, as restated	3,236	6,578	(245)	9,569
12/31/2020 Comprehensive income	(190)	453	(168)	95
12/31/2020 Net assets	\$ 3,046	\$ 7,031	\$ (413)	\$ 9,664

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

Consolidated Statements of Cash Flow
For the years ended December 31, 2020 and 2019
(In Thousands)

	2020	Restated 2019
Net cash provided by operating activities		
Excess revenues over expenses	\$ 263	\$ 428
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	833	903
Depreciation and amortization included in operations and maintenance	220	205
Other noncash income and expenses	(3)	-
Change included in:		
Accounts receivable	(25)	(1)
Materials and supplies	(2)	(2)
Deferred tax	(2)	(1)
Prepayments	(19)	(8)
Interest receivable	11	(3)
Accounts payable	222	72
Investment in LLC	4	6
Deferred charges, net	(8)	59
Other liabilities	(279)	(29)
Total adjustments	952	1,201
Net cash provided by operating activities	1,215	1,629
Cash flow used in investing activities		
Capital expenditures	(1,153)	(1,639)
Proceeds from sale of capital assets	38	9
Purchase of securities available-for-sale	(3,037)	(2,365)
Proceeds from maturities of securities available-for-sale	2,445	2,623
Investment in ROW use permits	(59)	(131)
Net cash used in investing activities	\$ (1,766)	\$ (1,503)

(Continued on the next page)

Consolidated Statements of Cash Flow
For the years ended December 31, 2020 and 2019
(In Thousands)

(Continued)

	2020	Restated 2019
Cash flow from financing activities		
Repayment of long-term debt	\$ (117)	\$ (109)
Proceeds from refundable advances and CIAC	(3)	424
Repayment of refundable advances	(114)	(156)
Proceeds from other members	59	67
Cash flow (used for) provided by financing activities	(175)	226
Net increase (decrease) in cash and cash equivalents	\$ (726)	\$ 352
Cash and cash equivalents at beginning of year	1,569	1,217
Cash and cash equivalents at end of year	<u>\$ 843</u>	<u>\$ 1,569</u>
Noncash investing activities		
A/P purchases of utility plant	<u>\$ 36</u>	<u>\$ 79</u>

Cash and cash equivalents on balance sheet

	2020	2019
Cash and cash equivalents	\$ 648	\$ 689
Cash and cash equivalents, designated	195	880
	<u>\$ 843</u>	<u>\$ 1,569</u>

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS:

A group of Green Valley residents incorporated Community Water Company of Green Valley (CWC) as an Arizona nonprofit corporation with members in 1975. The residents purchased an existing water utility business and began 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 Renewals.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES:

Maintenance of Accounting Records - CWC, SICAN, and Trust present their audited financial statements on the accrual basis of accounting 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 2020 and 2019, there was an allowance of \$2,000 and \$1,000 respectively. CWC writes off balances when considered uncollectible. SICAN and Trust did not have allowances for uncollectible accounts for 2020 and 2019.

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, 2020 (In Thousands)	Balance At December 31, 2019 (In Thousands)
Utility Plant	2.00 to 12.50	\$ 46,338	\$ 45,807
Computer Equipment	20.00	811	697
Backhoe	5.00	288	149
Vehicles	20.00	541	588
Land	N/A	171	171
Total		\$ 48,149	\$ 47,412

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 2020 and 2019 was 3.92%.

Refundable advances for construction are non-interest bearing. As of December 31, 2020 and 2019, 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 Renewals 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, 2020 and 2019, 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, 2020, and 2019, respectively are:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Financial assets		
Cash and cash equivalents	\$ 648	\$ 689
Securities available for sale	273	-
Cash and cash equivalents, designated	195	880
Securities available-for-sale, at market reserved for reservoir maintenance	224	399
Securities available-for-sale, at market designated other	2,851	2,356
Accounts receivable	371	345
Total financial assets	<u>4,562</u>	<u>4,669</u>
Less reserved or designated funds		
Reserved for maintenance (see Note 4)	(224)	(399)
Designated for other purposes (see Note 4)	(3,046)	(3,236)
Amounts available for general expenditures within one year	<u>\$ 1,292</u>	<u>\$ 1,034</u>

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, 2020 and 2019, these reserves totaled \$223,700 and \$398,910, 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, 2020 (In Thousands)		
	Cost	Unrealized Gains	Fair Value
Certificates of deposit with maturities within one year	\$ 1,198	\$ 4	\$ 1,202
Certificates of deposit with maturities of 1-5 years	2,091	5	2,096
Mortgage-backed securities, U.S.	50	0	50
Total	\$ 3,339	\$ 9	\$ 3,348

	At December 31, 2019 (In Thousands)		
	Cost	Unrealized Gains (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

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

6. INVESTMENT IN LLC:

SICAN has an investment in JPAR, LLC (LLC), a development company that is recognized at book value. This investment 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, 2020 (In Thousands)	Balance at December 31, 2019 (In Thousands)
SICAN Capital Contribution in LLC	\$ 340	\$ 340
Cumulative Share of Net Loss	(170)	(166)
Book Value	<u>\$ 170</u>	<u>\$ 174</u>

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, 2020 (In Thousands)	Balance at December 31, 2019 (In Thousands)
Total Assets	\$ 9,593	\$ 9,625
Total Liabilities	0	14
Total Equity	\$ 9,611	\$ 9,611
Revenues	\$ 0	\$ 2
Expenses	137	194
Net Loss	<u>\$ (137)</u>	<u>\$ (192)</u>

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, 2020 and 2019, SICAN's allocated loss was about 3.03% and 3.14%, respectively, which represented a net loss of around \$4,000 and \$6,000, respectively. SICAN owns less than 20% of the profit and loss percentages of LLC at December 31, 2020. 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, 2020 (In Thousands)	Balance at December 31, 2019 (In Thousands)
ROW	\$ 133	\$ 133
Less: accumulated amortization	(41)	(36)
Net ROW in service	\$ 92	\$ 97
Land application in Progress	-	1
Total ROW, net	\$ 92	\$ 98

ROWs were funded from nonmember nonutility income. Total amortization expense amounted to \$5,797 for each of the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, Trust had \$133,235 in ROW permits. No intangible assets were acquired during the years ended December 31, 2020 and 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)
2021	\$ 6
2022	6
2023	6
2024	6
2025	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, 2020, based on the terms of the signed commitment are as follows:

	At Year-End December 31, 2020 (In Thousands)
2021	\$ 124
2022	131
2023	138
2024	146
2025	156
2026-2029	1,952
	2,647
Unamortized debt issuance cost	(12)
LTD, less unamortized debt issuance cost	2,635
Current portion of LTD	(124)
Total LTD, less current portion	\$ 2,511

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 5.19 and 5.99 at December 31, 2020, and 2019, as adjusted 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 \$2,646,875 and \$2,763,963 at December 31, 2020 and December 31, 2019, 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 exposure 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 2020 and 2019, CWC recognized \$176,613 and \$153,136 as unrealized losses, respectively. At December 31, 2020 and 2019, the cumulative loss was \$421,513 and \$244,900, respectively.

10. INCOME TAX:

As a 501(c)(12), income tax did not apply to CWC for 2020 or 2019. SICAN and Trust incurred the following income tax for 2020 and 2019:

	Year Ended December 31, 2020		
	SICAN	Trust	Total
<u>Current</u>			
Federal	\$ 705	\$ 0	\$ 705
State	172	0	172
Total Current tax expense	\$ 877	\$ 0	\$ 877
<u>Deferred</u>			
Federal	\$ (4)	\$ (1,599)	\$ (1,603)
State	0	(414)	(414)
Total Deferred tax (benefit)	\$ (4)	(2,013)	(2,017)
Income tax expense(benefit)	\$ 873	\$ (2,013)	\$ (1,140)

	Year Ended December 31, 2019		
	SICAN	Trust	Total
<u>Current</u>			
Federal	\$ 608	\$ 0	\$ 608
State	151	0	151
Total Current tax expense	\$ 759	\$ 0	\$ 759
<u>Deferred</u>			
Federal	\$ 6	\$ (2,426)	\$ (2,420)
State	0	(629)	(629)
Total deferred tax (benefit)	\$ 6	(3,055)	(3,049)
Income tax expense	\$ 765	\$ (3,055)	\$ (2,290)

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 \$44,053 is not recognized as a deferred tax asset at December 31, 2020, 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 \$1,071 during the year ended December 31, 2020.

The components of the net deferred tax asset (liability) at December 31, 2020 and December 31, 2019 are as follows:

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

	At December 31, 2019		
	SICAN	Trust	Total
<u>Deferred tax asset</u>			
Noncurrent	\$ 32	\$ 3,930	\$ 3,962
<u>Deferred tax liability</u>			
Noncurrent	0	(2,845)	(2,845)
Net deferred tax asset (liability)	\$ 32	\$ 1,085	\$ 1,117

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, 2020. CWC's proportionate share of all CAP allocations is .4%, and CWC has paid \$2.4M at December 31, 2020.

12. SUPPLEMENTAL CASH FLOW INFORMATION:

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

	For the Year 2020 (In Thousands)	For the Year 2019 (In Thousands)
CWC Expired Refundable		
Advances for Construction	\$ 1,067	\$ 654
CWC Interest Paid	\$ 156	\$ 163
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 2020 and 2019, 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 \$179,650 and \$168,845 for the years ended December 31, 2020 and 2019, respectively.

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

14. FAIR VALUE MEASUREMENTS:

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

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

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

Level 2: Inputs to the valuation methodology include:

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

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

14. FAIR VALUE MEASUREMENTS (continued):

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

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 did not have any assets measured at fair value in 2020 and 2019.

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

	Balance at December 31, 2020 (In Thousands)	Balance at December 31, 2019 (In Thousands)
Level 1		
Securities available-for-sale		
Certificates of deposit	\$ 3,298	\$ 2,687
Securities available-for-sale		
Mortgage-backed securities	50	68
Total assets	\$ 3,348	\$ 2,755
	Balance at December 31, 2020 (In Thousands)	Balance at December 31, 2019 (In Thousands)
Level 2		
Liabilities – Mark-to-market		
value of interest rate swap	\$ 422	\$ 245

15. SALES TAXES:

Some transactions require CWC to collect sales tax from our customers. These taxes, which totaled \$289,590 and \$280,586 in 2020 and 2019, respectively, are included in operating revenues.

16. PRIOR PERIOD ADJUSTMENTS:

During the year ended December 31, 2020, Management reclassified revenues generated from customer water usage information fees from (nonoperating) Other revenues, net to Operating revenues. Adjustments for 2019 are shown in the Reclass column below.

CWC overcharged two master-meter accounts from 2014 to 2020 for retired meters. The 2019 and 2020 Financial Statements were adjusted accordingly. Refunds for \$110,708, including tax and interest were issued in 2021. At December 31, 2018, Total net assets balance has been cumulatively adjusted by \$16,214. Adjustments for 2019 are shown in the Overcharge column below.

The 2019 Financial Statements that were restated as follows:

Description (\$ in Thousands)	2019 previously reported	Reclass	Overcharge	2019 restated amount
Accounts payable	\$ 188	\$ 0	\$ 59	\$ 247
Total net assets	9,625	0	-56	9,569
Operating revenues	4,571	23	(40)	4,554
Taxes - other	540	0	-2	538
Operations	2,049	0	2	2,051
Total operating expenses	3,958	0	0	3,958
Other revenues, net	96	-23	0	73
Excess of revenues over expenses	\$ 468	\$ 0	\$ (40)	\$ 428

17. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through April 29, 2021, 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, 2020 (in Thousands)

Balance Sheet	CWC	SICAN	Trust	Consolidation Adjustment	Consolidated
Assets					
Current assets	\$ 1,036	\$ 20	\$ 618	\$ -	\$ 1,674
Noncurrent assets	4,325	169	3	(1,055)	3,442
Deferred charges	53	-	92	-	145
Utility plant	23,752	-	-	-	23,752
Total assets	\$ 29,166	\$ 189	\$ 713	\$ (1,055)	\$ 29,013
Liabilities and net assets					
Current liabilities	\$ 924	\$ -	\$ -	\$ -	\$ 924
Long-term debt	2,511	-	-	-	2,511
Deferred credits	5,008	-	-	-	5,008
Contributions in-aid-of construction	10,906	-	-	-	10,906
Net assets	9,817	189	713	(1,055)	9,664
Total liabilities and net assets	\$ 29,166	\$ 189	\$ 713	\$ (1,055)	\$ 29,013

Statement of revenues and expenses

Operating revenues	\$ 4,698	\$ 8	\$ 5	\$ (3)	\$ 4,708
Operating expenses					
Operations	2,284	5	24	(3)	2,310
Maintenance	567	-	-	-	567
Depreciation and amortization	827	-	-	-	827
Taxes - other	558	-	-	-	558
Total operating expenses	4,236	5	24	(3)	4,262
Excess of oper. revenues over expenses	462	3	(19)	-	446
Income tax	-	(1)	2	-	1
Other revenues (expenses)	(183)	(4)	3	-	(184)
Excess of revenues over expenses	\$ 279	\$ (2)	\$ (14)	\$ -	\$ 263

Statement of cash flow

Cash flow provided by (to) operating activities					
Excess of revenues over expenses	\$ 279	\$ (2)	\$ (14)	\$ -	\$ 263
Depreciation and amortization	827	-	6	-	833
Net changes	55	5	-	59	119
Net cash provided by (to) oper. activities	1,161	3	(8)	59	1,215
Cash flow used investing activities					
Capital expenditures	(1,153)	-	-	-	(1,153)
Net other investing activities	(343)	-	(270)	-	(613)
Net cash used in investing activities	(1,496)	-	(270)	-	(1,766)
Cash flow provided by (used for) financing activities					
Repayment of long-term debt	(117)	-	-	-	(117)
Net other financing activities	(58)	-	59	(59)	(58)
Net cash provided by (used for) fin. activities	(175)	-	59	(59)	(175)
Net change in cash and cash equivalents	\$ (510)	\$ 3	\$ (219)	\$ -	\$ (726)

For additional information on ...

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

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OUR MISSION

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