

2009 Annual Report



Community
Water
Company
of Green Valley

Our Mission . . .

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

Our Guiding Values

- To be good stewards of our members'
trust and economic values;
- To provide responsible, professional
service to our customers;
- To promote a safe work environment and
to encourage the continued development
of a highly skilled staff;
- To advocate for responsible local and regional
development and management of
water resources;
- To seek prudent acquisition opportunities
for the benefit of our members and
community; and
- To be civic minded.

Please visit our web site at
www.communitywater.com



To the Members of . . .
Community Water Company of Green Valley,
(An Arizona not-for-profit Corporation):

33 Years of Service . . . 2009 was another good year for the operation of your Co-op. Your Co-op's operating and maintenance staff was complimented by the Program Manager, Water/Waste Department, Pima County Department of Environmental Quality for maintaining our system at such high standards in a letter dated December 9, 2009. He wrote *"It was a pleasure to inspect a system where no deficiencies were found, especially a large system like yours. In the 15 years I have been inspecting public water system this inspection is only about the 8th time out of more than 400 inspections that I have found no violations, deficiencies or made any recommendations to the water system."* Additionally, the increased complexity of our water delivery system has resulted in a water utility classification upgrade to Class 4, the highest classification level in the State. Special thanks to all of our staff for their dedication and commitment in making Community Water Company of Green Valley one of the best water utilities.

Water Delivery . . . In 2009 your Co-op pumped 2,782 acre-feet of water from our aquifer, an increase of 4% from the prior year. Rainfall decreased from 12.6 inches in 2008 to 8.4 inches in 2009. We encourage our members and regional stakeholders to be active participants in water conservation efforts; our local water environment needs your help and commitment. Protecting our limited water resource begins with understanding good water conservation practices.

At year end 2009 your Co-op had 12,676 units connected to the water delivery system. After a regulatory adjustment for some master meter housing units, actual new residential units increased by 109 (or 1%) from the prior year and commercial customers have increased by 13 (or 3%). The water delivery system includes 148 miles of mainline pipe and 5.6 million gallons of storage capacity. Co-op members can be proud of the reliability of our water delivery system and of the fire safety provided to our community.

We are evaluating options for the replacement of Well 6. Well 6 has been operating since 1977 and water delivery continues to decline. The cost of a replacement well is projected at \$1.5 million.

Water Quality . . . The water delivered to our members and customers met or surpassed all health and safety measures required by the United States Environmental Protection Agency (USEPA), the Arizona Department of Environmental Quality (ADEQ) and Pima County. In 2009, two reporting violations were noted and subsequently corrected.

Finances . . . We continue to evaluate and apply cost savings practices to improve our efficiency and continue to economically deliver water. However, increases in regulatory treatment requirements, water quality testing requirements, and other rising costs have required two rate increases since 2007. Even with these rate increases approved by the Arizona Corporation Commission we could still have negative excess revenue minus expenses. Total 2009 revenue was \$3,162,415 and net excess revenue minus expenses was a negative \$347,953. For the year 2008, our excess revenue over expenses was a negative \$266,763.

The new water rates approved by the Arizona Corporation Commission were effective for water deliveries starting on March 1, 2010. This will increase the average residential water customer's bill \$6.80 per month. The average residential bill in 2009 was \$18.20. Based on past experience, higher water rates will result in lower water sales; this change in water use could result in your Co-op not generating sufficient revenue to cover all expenses.

Your Co-op is faced with rising costs and increased interest expenses. For example, State and local government entities have informed us that they are implementing higher fees for existing permits, proposing new fees for existing services, and implementing new regulatory requirements. Since we first applied for a rate increase our electricity and employee expenses have risen. These additional expenses are substantial, and coupled with decreasing water sales, could require us to seek further rate increases. Despite receiving Arizona Corporation Commission approval for the rate increase that went into effect on March 1, 2010, we are projecting a small operating deficit for 2010.

The Central Arizona Project (CAP) . . . Your Co-op continues to work to develop strategies in support of a sustainable water supply. Alternative water supplies are necessary for us to address the challenges of depletion, contamination, and subsidence. I encourage you to join us at the annual meeting to learn more about our water issues and our local water environment. A major element in our efforts includes the development of a pipeline and recharge facility to bring Central Arizona Project water to our area. In 2007 your Co-op announced our efforts to bring renewable water supplies to this area; at no cost to our members. The project to bring the CAP water to our area is currently undergoing environmental review. We are committed to keeping you informed on this important water supply issue.

Your Co-op is also working with other water stakeholders in the area to bring alternative water supplies to our community. Your Co-op serves on the Board of the Upper Santa Cruz/Providers and Users Group (USC/PUG) that includes all the major water providers and users in our area and USC/PUG was incorporated in early 2010. By working together we stand the best chance for developing a sustainable water supply.

People who serve you . . . Your volunteer Board members have performed an exceptional effort in representing your Co-op's interests. Their knowledge of the community and our local water issues has been critical in guiding the utility through difficult financial times and regulatory mazes. Recognition also goes to Mr. Virgil Davis for his exceptional efforts for a sustainable water supply. He has donated countless hours of research and review in the investigation of the delivery of the CAP to our area. His negotiating skills and professional representation of your Co-op have been exemplary before State and Federal agencies.

Our annual meeting of members is scheduled for Thursday, April 29, 2010, at 9:00 a.m. at the American Legion Hall, Duval Mine Road; registration begins at 8:30 a.m. We encourage you to attend and we look forward to seeing you there.

**Sincerely,
Community Water Company of Green Valley**

Kenneth M. Taylor, Jr.



Chair of the Board

Arturo R. Gabaldón



President

March 31, 2010

Assets		
	<u>2009</u>	<u>2008</u>
Utility plant		
Plant in service, at cost	\$ 40,175	\$ 39,566
Construction work in progress	<u>23</u>	<u>315</u>
	40,198	39,881
Less accumulated depreciation	<u>10,790</u>	<u>9,279</u>
Total utility plant	<u>29,408</u>	<u>30,602</u>
Plant held for future use, net	<u>0</u>	<u>543</u>
Current assets		
Cash and cash equivalents	776	716
Securities available-for-sale, at market	413	248
Accounts receivable, less allowance for doubtful accounts of \$7,000 in 2009 and 2008	252	371
Materials and supplies	49	54
Prepayment and special deposit	<u>31</u>	<u>32</u>
Total current assets	<u>1,521</u>	<u>1,421</u>
Deferred charges		
CAP capital charges	1,661	1,614
Other	<u>466</u>	<u>104</u>
Total deferred charges	<u>2,127</u>	<u>1,718</u>
	<u>\$ 33,056</u>	<u>\$ 34,284</u>

SHEETS

December 31, 2009 and 2008
Thousands)

Membership Interest and Liabilities

	<u>2009</u>	<u>2008</u>
Membership interest		
Memberships and contributions	\$ 48	\$ 48
Accumulated surplus	6,815	7,163
Accumulated other comprehensive income	(1)	1
Total membership interest	<u>6,862</u>	<u>7,212</u>
Long-term financing		
Long-term debt	2,657	0
Long-term installments on contract	212	414
Total long term financing	<u>2,869</u>	<u>414</u>
Current liabilities		
Accounts payable	139	155
Line of credit	0	2,500
Current maturities of long-term debt	141	0
Current installment on contract	201	192
Accrued taxes	83	82
Other liabilities	198	233
Total current liabilities	<u>762</u>	<u>3,162</u>
Deferred credits		
Refundable advances for construction	9,077	9,524
Other	473	115
Total deferred credits	<u>9,550</u>	<u>9,639</u>
Contributions in-aid-of construction (CIAC), net	<u>13,013</u>	<u>13,857</u>
	<u>\$ 33,056</u>	<u>\$ 34,284</u>

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

Statements of Revenues and Expenses
For the years ended December 31, 2009 and 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 3,162	\$ 3,140
Operating expenses		
Operations	1,873	1,783
Maintenance	273	269
Depreciation and amortization	891	865
Taxes - other	364	371
Total operating expenses	3,401	3,288
Excess of operating revenues over operating expenses	(239)	(148)
Other (expenses) revenues		
Interest expense	(130)	(167)
Interest income	10	26
Other income, net	11	22
Total other (expenses) revenues	(109)	(119)
Excess of revenues over expenses	\$ (348)	\$ (267)

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

Statements of Membership Interest
For the years ended December 31, 2009 and 2008
(In Thousands)

	Comprehensive Income	Accumulated Surplus	Accumulated Other Comprehensive Income	Memberships and Contributions	Total Membership Interest
December 31, 2007 Membership Interest		\$ 7,430	\$ 1	\$ 48	\$ 7,479
Excess of revenues over expenses	(\$267)	(267)			(267)
December 31, 2008 Comprehensive Income	(267)				
December 31, 2008 Membership Interest		7,163	1	48	7,212
Excess of revenues over expenses	(348)	(348)	(2)		(350)
December 31, 2009 Comprehensive Income	(348)				
December 31, 2009 Membership Interest		<u>\$6,815</u>	<u>\$ (1)</u>	<u>\$48</u>	<u>\$6,862</u>

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

STATEMENT
For the years ended **12/31**
(In T

Increase (Decrease) in Cash and Cash Equivalents

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Cash received from customers	\$ 3,270	\$ 3,049
Cash paid for operating and maintenance expenses	(2,010)	(1,973)
Taxes paid	(363)	(373)
Interest paid	(123)	(154)
Interest received	10	25
Net cash provided by operating activities	<u>784</u>	<u>574</u>
Cash flows used in investing activities		
Capital expenditures	(581)	(695)
Proceeds from Sale of Capital Assets	0	13
Proceeds (purchase) from maturities of securities available-for-sale	(167)	96
Central Arizona Project (CAP) capital charges	(47)	(57)
Net cash used in investing activities	<u>(795)</u>	<u>(643)</u>
Cash flows from financing activities		
Proceeds from long-term debt	3,120	0
Repayment of long-term debt	(3,013)	(185)
Proceeds from refundable advances and contributions in-aid-of-construction	176	444
Repayment of refundable advances for construction	(212)	(247)
Net cash provided by financing activities	<u>71</u>	<u>12</u>
Net increase (decrease) in cash and cash equivalents	60	(57)
Cash and cash equivalents at beginning of year	<u>716</u>	<u>773</u>
Cash and cash equivalents at end of year	<u>\$ 776</u>	<u>\$ 716</u>
Non Cash Investing Activities		
Accounts payable purchases of utility plant	<u>\$ 10</u>	<u>\$ 79</u>

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 1122

OF CASH FLOW
December 31, 2009 and 2008
(thousands)

**Reconciliation of Excess of Revenues Over Expenses
 to Net Cash Provided by Operating Activities**

	<u>2009</u>	<u>2008</u>
Excess of revenues over expenses	\$ (348)	\$ (267)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	891	865
Depreciation and amortization included in operations and maintenance expense	185	125
(Increase) decrease in accounts receivable	119	(91)
(Increase) decrease in materials and supplies	5	(3)
(Increase) decrease in prepayments and deposits	1	5
(Increase) decrease in other deferred charges	(125)	(45)
Increase (decrease) in accounts payable	53	(9)
Increase (decrease) in accrued taxes	1	(3)
Increase (decrease) in other current liabilities	2	(3)
Total Adjustments	<u>1,132</u>	<u>841</u>
Net cash provided by operating activities	<u>\$ 784</u>	<u>\$ 574</u>

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

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members of Community Water Company of Green Valley

We have audited the accompanying balance sheets of Community Water Company of Green Valley as of December 31, 2009 and 2008, and the related statements of revenues and expenses, membership interest, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Water Company of Green Valley as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ullmann & Company

ULLMANN & COMPANY
Certified Public Accountants
March 17, 2010

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS:

Community Water Company of Green Valley (the "Company"), an Arizona nonprofit corporation, member owned co-op, incorporated in 1975 by the water users of Green Valley and began operations in 1977. The Company provides utility service through the sale of water to residential and commercial customers in a southern Arizona active adult community.

2. SIGNIFICANT ACCOUNTING POLICIES:

Maintenance of Accounting Records - The Company maintains its accounting records substantially in accordance with the Uniform System of Accounts prescribed for Class A water utilities by the National Association of Regulatory Utility Commissioners.

Utility Plant - Utility plant is stated at original cost and consists of contract costs, labor, material and allowances for indirect costs. The cost of maintenance, repairs and minor renewals is charged to expense in the year incurred.

Depreciation and amortization expense is provided for on the straight-line basis utilizing the following annual rates based on the estimated useful lives of the asset. The depreciation rates and balances of major classes of depreciable assets are as follows:

	Depreciation Rate <u>(In Percent)</u>	Balance 12/31/09 <u>(In Thousands)</u>	Balance 12/31/08 <u>(In Thousands)</u>
Utility Plant	2.00 to 12.50	\$ 39,119	\$ 38,540
Computer			
Equipment	20.00	274	296
Backhoe	5.00	107	107
Vehicles	20.00	505	453
Land	N/A	170	170
Total		<u>\$ 40,175</u>	<u>\$ 39,566</u>

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

Plant Held For Future Use – In accordance with utility accounting procedures, the Plant Held For Future Use is not subject to depreciation. At December 31, 2008, the net balance was \$543,435 (\$858,178 cost basis less accumulated depreciation (A/D) of \$314,743). In January 2009, a main with a net value of \$145,167 (\$196,488 cost less \$51,321 A/D) was placed back in plant in service and the remaining assets, with a net value of \$398,268 (\$661,690 cost less A/D of \$263,422) were sold off. The applicable unamortized cost related to the sale of the assets was netted against contributions in-aid-of construction.

Cash and Cash Equivalents - The Company 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.

Investment Securities - The Company accounts for its investment securities in accordance with Statement of Financial Accounting Standards No. 115 which provides that the Company classify investments in securities as either trading securities, securities to be held to maturity or securities available-for-sale. The Company has classified all investments as securities available-for-sale. Securities available-for-sale consists of certificates of deposits. These securities are recorded at fair value with any unrealized gains and losses being reflected as a separate component of membership interest. Gains and losses on the sale of securities available-for-sale are determined using the specific identification method.

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

Refundable Advances and Contributions for Construction
The cost of constructing certain expansions to utility plant has been advanced or contributed to the Company by the owners of the property served by the expansions. The Company repays advances by refunding to the owners specified percentages of the

SIGNIFICANT ACCOUNTING POLICIES (continued):

annual water revenue which the Company derives from the expansions. These repayments continue until the advances are fully repaid or until the expiration of an agreed-upon repayment term.

Contributions for construction are not repaid. Further, if the repayment term of an advance expires before an advance is fully repaid, the unpaid balance is reclassified as contributions in-aid-of construction. Amounts classified as contributions in-aid of construction are amortized on a straight-line basis utilizing the annual composite utility plant rate.

Refundable advances for construction are non-interest bearing. As of December 31, 2009 and 2008 the Company's refundable advances for construction specify repayment rates up to 20% of applicable annual water revenues and the majority of these contracts contain remaining repayment terms up to 15 years.

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

Comprehensive Income - Other comprehensive income consists entirely of net unrealized holding gains and losses on securities available-for-sale.

Income Taxes - The Company is an Internal Revenue Code (IRC) Section 501(a) organization, exempt from taxes by application of IRC Section 501(c)(12).

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. The estimates and assumptions affect the

SIGNIFICANT ACCOUNTING POLICIES (continued):

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. They also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INVESTMENT SECURITIES:

The carrying amounts of investment securities as shown in the balance sheets of the Company are as follows:

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.

Securities available-for-sale December 31, 2009 (In Thousands)	Cost	Unrealized Gains (Losses)	Fair Value
Certificates of Deposits with maturities of four to six months	\$ 245	\$ 0	\$ 245
Mortgaged Backed Securities U.S.	169	(1)	168
	<u>\$ 414</u>	<u>\$ (1)</u>	<u>\$ 413</u>

Securities available-for-sale December 31, 2008 (In Thousands)	Cost	Unrealized Gains (Losses)	Fair Value
Certificates of Deposits with maturities of four to six months	\$ 248	\$ 0	\$ 248

4. DEFERRED CHARGES:

Advance payments relating to future water allocation from Central Arizona Project will be amortized to expense when usage occurs. Other deferred charges include stored water credits with the Arizona Department of Water Resources, rate case expenses and advance land lease rental. The water credits will be expensed when used, rate expenses will be amortized over three years and land rental is amortized over the period of the lease.

The Company incurred municipal and industrial water service capital charges of \$47,157 for its 2,858 acre-feet allocation in 2009. 1,521 of the 2,858 acre-feet allocation is financed through an installment contract with the Central Arizona Water

4. DEFERRED CHARGES (continued)

Conservation District (CAWCD). See **Note 5** for information on related financing.

Expenditures related to the development of a CAP water delivery system to the Company service area were reclassified from construction work in progress to deferred charges.

5. LONG-TERM DEBT / LINE OF CREDIT:

On September 3, 2009, the Arizona Corporation Commission approved a \$2,810,000, 60-months debt instrument with JPMorgan Chase bank. On November 15, 2009 the debt instrument was applied to extinguish the Company's outstanding line of credit.

The note to JPMorgan Chase bank matures on November 15, 2014, when the remaining unpaid balance is due in full. It is the Company's intent to extend the maturity of this note. Future maturities of long-term debt outstanding at December 31, 2009, based on the terms of the signed commitment are as follows (in thousands):

2010	\$	141
2011		141
2012		141
2013		141
2014		2,234
Total:	\$	2,798

The Company's current debt agreement contains various covenants, the most restrictive of which begins in 2010 and requires the Company to maintain a debt service ratio of at least 1.2.

Long-term debt incurs monthly payments of \$11,708 and interest at the CB Floating Rate Advance (i.e., Prime Rate) plus 1%. At December 31, 2008 the outstanding line of credit was \$2,500,000. At December 31, 2009, the long-term debt balance was \$2,798,292.

In 2007, the Company entered into a long-term installment contract with the CAWCD for an additional 1,521 acre-feet CAP

5. LONG-TERM DEBT / LINE OF CREDIT: (continued)

allocation (see Note 4). The Company opted for a five year payment plan. The plan includes annual installments of \$222,995, (principal and financing charges at 5.2%) with final payment due December 1, 2011. Future principal maturities of this contract at December 31, 2009 are as follows (in thousands):

2010	\$	201
2011		212
Total:	\$	413

6. DEFERRED CREDITS

Advances related to the development of a CAP water delivery system to the Company service area were reclassified from contributions in-aid-of construction to deferred credits pending final agreement.

7. RETIREMENT PLAN:

The Company has defined contribution retirement plans which cover substantially all full-time employees. Under the provisions of these plans, 10% to 15% of qualified employees' salaries and wages are contributed by the Company to the Retirement Plans for investment by the plan trustees. The Company recorded expenses for these contributions of \$117,581 and \$113,217 for the years ended December 31, 2009 and 2008, respectively.

Under the terms of the 401(k) plan and 401(k) Roth plan, qualified employees can contribute to the plan. Qualified employees become fully vested for employer's contributions in five years of eligible service, as defined in the plan.

8. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 17, 2010, the date on which the financial statements were available to be issued.

On February 2, 2010, the Arizona Corporation Commission approved a rate increase of 26% which will be effective as of March 1, 2010.



MANAGEMENT

Norris L. West
Operations Manager

Pierre Y. Hanhart
Controller & Assistant Treasurer

VOLUNTEER CONSULTANTS

Jerry Belenker
Retired Attorney
USPS Consumer Protection Service

Marianne Collins
Reading Teacher Specialist

Richard Duchaine
Information Systems
Appleton Papers, Inc.

Charles George
Retired- Public Works

Donna Severidt
Retired Computer Consultant & Manager

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

DIRECTORS & OFFICERS

Kenneth M. Taylor, Chair
Brigadier General
USAF, Retired

Warren H. Engelland, Vice Chair
Retired Vice President
Cargill, Inc.

Virgil W. Davis, Secretary
Retired Director
University Research Foundation, Inc.

Thomas J. Six, Treasurer
Retired Chief Financial Officer
Ameritech Information Systems

Arturo R. Gabaldón, President
Community Water Company of Green Valley

Roberta Konen
Retired Office Manager and
Theatrical Producer

Robert A. Lembcke
Retired Director/VP of Manufacturing
Peck, Inc.

Roger L. Rogge
Retired Manager of Operations
Michigan Technological University

Sandra L. Stone
Retired Secondary School Educator

As of March 31, 2010