To The Members. . . .
of Community Water Company of Green Valley,
(an Arizona Nonprofit Corporation):

Your Co-op, Community Water Company of Green Valley committed to several ambitious goals in 2005. We are pleased to report that the resulting improvements will provide long-term benefits for our members, our customers and our community.

As discussed with you last year, after 28 years of enjoying a reliable supply of drinking water, we announced plans to suspend our use of two sulfate-contaminated wells. Our two wells closest to the Phelps Dodge mining facility had become contaminated with elevated levels of sulfates and total dissolved solids. During this past year, your Co-op and Phelps Dodge have worked together as "good neighbors" and are committed to resolving this local water supply issue. For now we have suspended our use of the sulfate-contaminated wells and have temporary use of Phelps Dodge's Esperanza wells.

Through a joint effort between your Co-op and Phelps Dodge, construction projects for two permanent replacement wells and associated transmission pipelines are underway. Construction management of these projects is being provided by your Co-op, while financial and technical assistance is being provided by Phelps Dodge. Phelps Dodge has paid over seven million dollars towards those construction efforts to date. We hope that both of these replacement wells can be in operation during the coming year. This will enable us to permanently curtail use of the sulfate-contaminated wells. Work continues on a longer-term settlement for Phelps Dodge to provide future replacement water supplies as necessary. We are working to secure a commitment from Phelps Dodge to pay all expenses associated with these efforts.

Our staff made presentations throughout 2005 to keep our community informed on this major water supply issue along with other local water issues. We have also sponsored educational classes and water operator training seminars.

Water Quality . . . The water delivered to our customers in 2005 met or surpassed all health and safety measures required by the United States Environmental Protection Agency (US EPA), the Arizona Department of Environmental Quality, and Pima County.

The US EPA adopted a new arsenic rule for drinking water that became effective January 23, 2006. Under this rule, all of the Co-op's delivered water must meet a new arsenic standard of 10 parts per billion (ppb) no later than December 2007. The previous arsenic standard was 50 ppb. The water from your Co-op's operating wells, and the Esperanza wells on loan from Phelps Dodge, has arsenic levels ranging from 14 ppb to 15 ppb. Your Co-op staff installed arsenic treatment plants at our two operational wells during 2005. These two wells are in compliance with the new standard. The Phelps Dodge Esperanza wells are not expected to be used once the two new replacement wells become operational. Both new replacement wells will have arsenic treatment facilities to bring them into compliance.

This US EPA obligation has imposed a substantial financial burden on our customers. Your Co-op substantially reduced this burden by ordering all of its arsenic treatment plants in early 2005, even though full compliance with the new standards is not mandated until the end of 2007. This early action significantly reduced the cost of material and labor and eliminated potential delays because your Co-op was "first in line" to obtain these facilities from the manufacturer. In addition, our early action ensures that you continue to receive water that meets or exceeds all applicable standards.

Rate Increases and Debts . . . Your Co-op has announced that it will seek a 28% rate increase to pay for increasing operating and debt service costs. The application for the rate increase was accepted for consideration by the Arizona Corporation Commission (ACC) in February 2006. There will be public meetings prior to resolution of our rate application by the ACC. If approved, the new rates are expected to go into effect in early 2007, twenty years after our last rate increase in 1987. Upon approval, the average residential bill will increase from $14.99 to $18.26. Your Co-op is committed to keeping its customers, members and other stakeholders informed throughout the rate application process.

$1.5 million was used to fund construction of the US EPA mandated arsenic treatment facilities. Your Co-op did not include the projected arsenic treatment operating costs into the current ACC rate case application. An additional rate increase may be necessary when the actual arsenic treatment operating costs are known.

Growth . . . Your Co-op added 737 new users to our system during 2005. The number of users at year end 2005 was 11,253, compared to 7,736 users in 1995; an increase of 45%. Your Co-op sold 2,489 acre feet of water during 2005, compared with 1,938 acre feet sold in 1995; an increase of 28%. Much of the growth has been in the Santo Tomas, Las Campanas and Los Arroyos subdivisions. Long-range forecasts indicate that this growth will continue for several more years. With limited groundwater supplies and drought conditions that could continue for years, your Co-op has been actively investigating alternative sources of water.

Central Arizona Project (CAP). . . The CAP project is a 336-mile water conveyance system that runs from Lake Havasu to Pima Mine Road. The canal can deliver an average of 1.5 million acre-feet of Colorado River water annually to the State of Arizona. An acre foot of water is 326,700 gallons, the volume of water necessary to cover one acre of surface area to a depth of one foot.

Your Co-op has an allocation of 1,337 acre-feet of CAP water and was approved for an additional allocation of 1,521 acre-feet in 2005, for a total allocation of 2,858 acre-feet. CAP water represents a potentially important alternative source of water for the Co-op and its members. Although the additional allocation of CAP has not yet been finalized, we are confident that it will be in place by December 2007. With payment of the accumulated capital and interest charges of approximately $960,000, your Co-op has access to almost 3,000 acre-feet of renewable water to supply water demand.

The long-term sustainability of suitable water sources is a major responsibility of your Co-op. Therefore, we are also investigating opportunities to utilize our CAP allocation to achieve “safe-yield.” Safe-yield is replacing any ground water withdrawn from our aquifer on a gallon-for-gallon basis. The 1980 Arizona Ground Water Management Act mandates that the Arizona active management areas achieve safe-yield by 2025. When your Co-op has determined how to achieve safe-yield, we will apply to receive a Designation of Assured Water Supply so that our community is provided some level of protection in competing with other demands for water from the aquifer beneath our service area.

People Who Serve You . . . We take pride in recognizing our staff's dedication, knowledge and experience. They are highly skilled with an average of 15 years of water utility experience and are proactive, innovative and creative. Their skills continue to increase our system reliability, ensure our safety and save us money.

Your Directors are an exceptional group with great experience, talent and a sincere interest in the utility and community. They serve without compensation and volunteer countless hours in research and evaluation of issues challenging the water industry and our community. Our success is founded in their good work and leadership.

We take pride in announcing Dr. Robert W. Liddell's appointment as Director Emeritus by the Board of Directors. This is in recognition of Dr. Liddell's 19 years of outstanding service and contribution as Director and Officer. His experience as a chemist and knowledge of water quality has proven valuable to us. We will continue to look to Dr. Liddell for his insight and advice.

Our annual meeting of members is scheduled for Thursday, April 20, 2006, at 9:00 a.m. at the GVR West Center; registration begins at 8:30 a.m. We encourage you to attend and look forward to seeing you there.

Sincerely,
Community Water Company of Green Valley

John R. McCandless	**Arturo R. Gabaldón**
Chairman of the Board	**General Manager**

April 5, 2006

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, 2005 and 2004, 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 audit 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, 2005 and 2004, 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, P.C.

Certified Public Accountants

January 31, 2006

Balance Sheets

Assets

	2005	2004
Utility plant:		
Plant in service, at cost	**$21,413,586**	$19,274,328
Construction work-in-progress	**6,305,173**	96,754
	27,718,759	19,371,082
Less accumulated depreciation	**6,534,380**	6,111,969
Total utility plant	**21,184,379**	13,259,113
Current assets:		
Cash and cash equivalents	**1,999,162**	1,796,640
Securities available-for-sale, at market	**101,092**	5,828
Accounts receivable, less allowance for doubtful accounts of $3,200 in 2005 and 2004	**279,220**	196,923
Materials and supplies	**40,511**	36,829
Prepayments and special deposit	**17,210**	20,458
Total current assets	**2,437,195**	2,056,678
Deferred charges:		
Central Arizona Project capital charges	**467,254**	422,492
Other	**89,824**	67,411
Total deferred charges	**557,078**	489,903
	$24,178,652	$15,805,694

As of December 31, 2005 and 2004

Membership Interest and Liabilities

	2005	2004
Membership interest:		
Memberships and contributions	**$ 48,010**	$ 48,010
Accumulated surplus	**7,556,633**	7,511,369
Accumulated other comprehensive income	**136**	171
Total membership interest	**7,604,779**	7,559,550
Long-term debt	**-**	400,000
Current liabilities:		
Accounts payable	**3,572,602**	159,571
Line of credit	**1,564,371**	-
Current maturities of long-term debt	**-**	33,333
Accrued taxes	**75,564**	73,107
Other liabilities	**147,814**	114,174
Total current liabilities	**5,360,351**	380,185
Deferred credits:		
Refundable advances for construction	**7,449,041**	6,027,439
Other	**64,041**	48,717
Total deferred credits	**7,513,082**	6,076,156
Contributions in-aid-of construction, net	**3,700,440**	1,389,803
	$24,178,652	$15,805,694

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

Statements of Revenues and Expenses
For the years ended December 31, 2005 and 2004

	2005	2004
Operating revenues	**$2,473,739**	$2,277,270
Operating expenses:		
Operations	**1,462,556**	1,265,176
Maintenance	**207,915**	172,072
Depreciation and amortization	**440,200**	408,253
Taxes - other	**296,329**	282,465
Total operating expenses	**2,407,000**	2,127,966
Excess of operating revenues over operating expenses	**66,739**	149,304
Other revenues (expenses):		
Interest expense	**(63,573)**	(22,662)
Interest income	**35,207**	20,723
Other income, net	**6,891**	28,454
Total other (expenses) revenues	**(21,475)**	26,515
Excess of revenues over expenses	**$ 45,264**	$ 175,819

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

Statements of Membership Interest
For the years ended December 31, 2005 and 2004

	Comprehensive Income	Accumulated Surplus	Accumulated Other Comprehensive Income	Memberships and Contributions	Total Membership Interest
December 31, 2004 Membership Interest		$7,335,550	$12,360	$48,010	$7,395,920
Excess of revenues over expenses	$175,819	175,819			175,819
Net adjustments to unrealized holding losses on securities available-for-sale	(12,189)		(12,189)		(12,189)
December 31, 2004 Comprehensive Income	$163,630				
December 31,2004 Membership Interest		7,511,369	171	48,010	7,559,550
Excess of revenues over expenses	**$45,264**	**45,264**			**45,264**
Net adjustments to unrealized holding losses on securities available-for-sale	**(35)**		**(35)**		**(35)**
December 31, 2005 Comprehensive Income	**45,229**				
December 31, 2005 Membership Interest		**$7,556,633**	**$136**	**$48,010**	**$7,604,779**

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

Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	2005	2004
Cash flows from operating activities:		
Cash received from customers	**$2,399,332**	$2,296,010
Cash paid for operating and maintenance expenses	**(1,598,212)**	(1,409,910)
Taxes paid	**(293,623)**	(280,064)
Interest paid	**(61,905)**	(22,662)
Interest received	**35,207**	20,723
Net cash provided by operating activities	**480,799**	604,097
Cash flows used in investing activities:		
Capital expenditures	**(5,064,502)**	(1,441,572)
(Purchases) proceeds from maturities of securities available-for-sale	**(95,229)**	96,268
Central Arizona Project capital charges	**(44,762)**	(40,110)
Net cash used in investing activities	**(5,204,493)**	(1,385,414)
Cash flows from financing activities:		
Proceeds from line of credit	**1,564,371**	-
Repayment of long-term debt	**(433,333)**	(33,333)
Proceeds from refundable advances and contributions in-aid-of construction	**3,891,414**	824,989
Repayments of refundable advances for construction	**(96,236)**	(78,509)
Net cash provided by financing activities	**4,926,216**	713,147
Net increase (decrease) in cash and cash equivalents	**202,522**	(68,170)
Cash and cash equivalents at beginning of year	**1,796,640**	1,864,810
Cash and cash equivalents at end of year	**$1,999,162**	$1,796,640
Non Cash Investing Activities:		
Accounts payable purchases of utility plant	**$3,486,149**	$93,147

For the years ended December 31, 2005 and 2004

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

	2005	2004
Excess of revenues over expenses	**$ 45,264**	$175,819
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	**440,200**	408,253
Depreciation and amortization included in operations and maintenance expense	**30,277**	57,280
Increase in accounts receivable	**(82,297)**	(9,714)
(Increase) decrease in materials and supplies	**(3,682)**	2,519
Increase in prepayments and deposit	**3,248**	2,972
Increase in other deferred charges	**(23,921)**	(9,998)
Increase in accounts payable	**20,029**	25,608
Increase in accrued taxes	**2,706**	2,401
Increase (decrease) in other current liabilities	**18,327**	(33,804)
Net increase (decrease) in other deferred credits less amount attributable to amortization	**30,648**	(17,239)
Total adjustments	**435,535**	428,278
Net cash provided by operating activities	**$480,799**	$604,097

The accompanying notes are an integral part of the 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	Balance 12/31/05	Balance 12/31/04
Utility Plant..................	2.49%	$20,610,584	$18,514,137
Computer Equipment...	12.50%	238,701	236,984
Backhoe........................	6.25%	107,179	107,179
Vehicles........................	16.67%	343,468	302,374
Land...............................	N/A	113,654	113,654
Total..............		$21,413,586	$19,274,328

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 U.S. Government investments and mortgage backed securities. Such 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 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 utility plant rate.

Refundable advances for construction are non-interest-bearing. As of December 31, 2005 and 2004 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. LINE OF CREDIT:

In January 2005, the Arizona Corporation Commission approved a non-revolving line of credit of up to $4,000,000 for the Company to finance capital expenditures for new water treatment facilities and to refinance the previous note with JP Morgan Chase (formerly known as Bank One). JP Morgan Chase has extended a line of credit with monthly payments of interest only at a the variable Chase prime rate, with an option to establish a fixed rate of interest at 30, 60 or 90-day London InterBank Offered Rate (LIBOR) plus 200 basis points. The line of credit was initially funded on May 16, 2005, and will mature on November 16th 2006, at which time it will be converted to a term loan. At December 31, 2005, the Company had drawn $1,564,371.

4. LONG-TERM DEBT

Long-Term debt of $433,333 at December 31, 2004, consisted of a Note to JP Morgan Chase payable in monthly installments of $2,778 plus interest at .50% per annum in excess of the bank's prime rate. The interest rate was 5.25% at December 31, 2004. The Company refinanced this Note through the JP Morgan Chase line of credit (see **NOTE 3**) on May 16, 2005.

5. CONTRIBUTIONS IN-AID-OF CONSTRUCTION:

Included in contributions in-aid-of construction is $1,831,904 received from Phelps Dodge in 2005. These receipts are partial payments for the replacement of two of the Company's wells and are non-refundable. The Phelps Dodge receipts represent an addition to the capital of the Company and the receipts are being utilized to offset the acquisition, improvement and construction costs of Company facilities used to provide utility services. The Company paid $4,418,419 in construction costs in 2005 related to replacement of the wells which is included in construction work-in-progress at December 31, 2005. The Company estimates that the total cost of construction for the replacement of the two wells may be approximately $12,300,000. The contributions in-aid-of construction related to this construction project will be amortized on the straight-line basis utilizing the annual utility plant rate. The amortization period will begin upon the completion of construction and thus, no amortization was recorded in 2005.

6. 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 $61,821and $89,890 for the years ended December 31, 2005 and 2004, respectively.

Under the terms of the 401(k) plan, qualified employees can contribute up to 10% of their salaries and wages. Qualified employees become fully vested in five years of eligible service, as defined in the plan.

7. 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 and advance land lease rental. The water credits will be expensed when used and land rental is amortized over the period of the lease.

8. COMMITMENTS:

The Company has subcontracted to accept up to 1,337 acre-feet of water annually from the Central Arizona Project (CAP). In addition, the Company has committed to accept an additional 1,521 acre-feet if and when such allocation is awarded. As of December 31, 2005, the additional allocation has been approved by federal legislation. However, the CAP has not yet been allocated to the Company. Management estimates that when the allocation is awarded the Company will be liable for approximately $994,000 if paid in full in December 2007 to the CAP for capital charges. The CAP was declared complete during 1993. The Company incurred municipal & industrial water service capital charges of $34,762 and $40,110 for the years ended December 31, 2005 and 2004, respectively. The Company is currently studying several available options for the use of its allocations and cannot yet estimate the costs it will incur to utilize water from the CAP.

9. INVESTMENT SECURITIES:

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

Securities available-for-sale December 31, 2005	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgaged Backed Securities U.S.	**$ 4,956**	**$164**	**$28**	**$ 5,092**
Other Securities	**96,000**	**0**	**0**	**96,000**
	$100,956	**$164**	**$28**	**$101,092**

Securities available-for-sale December 31, 2004	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgaged Backed Securities U.S.	$5,657	$181	$10	$5,828

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.

DIRECTORS & OFFICERS

J. R. McCandless, Chairman of the Board
Lt. Colonel,
USMC, Retired

Roy H. Erichsen, Vice-Chairman
Retired CEO and President,
H.G.E., Inc. Engineers/Planners

Robert W. Liddell, Secretary
Retired R&D Manager,
Calgon Division, Merck & Company, Inc.

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

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

Robert A. Lembcke
Retired Director and VP of Mfg,
Peck, Inc

Grant E. McMartin
Retired Partner,
White, McMartin & Anderson, Attorneys

Roger L. Rogge
Retired Manager of Operations, Ford Forestry Center,
Michigan Technological University

Kenneth M. Taylor, Jr.
Brigadier General,
USAF, Retired

MANAGEMENT

Arturo R. Gabaldón
General Manager

Norris L. West
Operations Manager

Pierre Y. Hanhart
Controller & Assistant Treasurer

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Retired Staff Engineer
IBM Development Laboratory

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Retired Civil Engineer
City of Wyoming, Michigan

As of April 5, 2006