

FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

Central Arizona Water Conservation District

Years Ended December 31, 2005 and 2004

Central Arizona Water Conservation District

Financial Statements and Other Financial Information

Years ended December 31, 2005 and 2004

Contents

Management's Discussion and Analysis	1
Report of Independent Auditors.....	11
Audited Basic Financial Statements	
Balance Sheets	12
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15
Notes to Financial Statements.....	16
Other Financial Information	
Statement of Net Assets – By Fund and Account.....	51
Statement of Revenues, Expenses and Changes in Net Assets – By Fund and Account	53
Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Bonds, Series A 1990, and Contract Revenue Refunding Bonds, Series A 1993 Schedule of Activity – Bond Account	54
Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Bonds, Series B 1991, and Contract Revenue Refunding Bonds, Series B 1994, and Contract Revenue Refunding Subordinate Bonds, Series B Schedule of Activity – Bond Account	55
Other Statistical and District Information (Unaudited)	
Net Assets by Component.....	57
Change in Net Assets	58
Set Delivery Rates for Various Classes of Water Service	59
Central Arizona Groundwater Replenishment District Assessment Rates	61
Acre/Feet per Water Customer Type	62
Principal Revenue Payers (Dollars) – Annual Top Ten.....	63
Acre/Feet Water Developed by Customer Type – Top Ten Customers	64
Schedule of Customer Activity – Water Delivery Charges and Subcontractor Capital Charges	67
Schedule of Ad Valorem Property Tax – Full Cash Value and Assessed Value.....	71
Schedule of Ad Valorem Property Tax – Tax Levy and Collections	72
Revenue Bonds and Pledged Revenue.....	73
Management.....	74
Full-Time Equivalent Employees by Function/Program	75
Capital Asset Statistics.....	76

MANAGEMENT’S DISCUSSION AND ANALYSIS
For Years Ended December 31, 2005 and 2004

The following is management’s discussion and analysis of the 2005 financial performance for the Central Arizona Water Conservation District (District or CAWCD). It provides an overview of the District’s financial activities and changes in financial position for the current year, resulting changes and currently known facts and should be read in conjunction with the District’s financial statements, including accompanying notes, to enhance the understanding of the District’s financial performance.

FINANCIAL HIGHLIGHTS

- Assets exceeded liabilities (net assets) at the end of 2005 by \$224.6 million; 2004 by \$176.7 million; and 2003 by \$155.0 million.
- Total net assets increased by \$47.9 million in 2005, \$21.7 million in 2004, and \$3.9 million in 2003.
- Total revenues increased \$18.6 million in 2005 from 2004 and \$31.4 million in 2004 from 2003.
- Total expenses decreased \$7.6 million in 2005 from 2004 and increased \$13.6 million in 2004 from 2003.

DISCUSSION OF BASIC FINANCIAL STATEMENTS

Annual financial reporting includes three basic financial statements and accompanying notes for an enterprise fund. The District reports on a calendar year basis and all financial statements are presented on a comparative basis for 2005 and 2004. The three basic financial statements include:

STATEMENTS	DESCRIPTION
BALANCE SHEETS	Summarize the District’s current and long-term obligations (liabilities) and the assets available to meet those obligations. The difference between total assets and total liabilities represents the District’s net assets.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	Summarize the District’s operating and non-operating expenses for the year and the revenues that were available to cover those expenses, as well as changes in net assets.
STATEMENTS OF CASH FLOWS	Summarize the District’s uses of cash during the year and the sources of cash available to finance those uses. The statements of cash flows, as cash-based statements, include reconciliations to the statements of revenues, expenses, and changes in net assets, which are prepared on an accrual basis.

Consolidating balance sheets and statements of revenues, expenses and changes in net assets, which provide more detailed information on the District’s designated financial activities, are included after the notes to the financial statements.

The District’s activities are accounted for using the accrual method and incorporating the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Under enterprise fund accounting, the District is a single accounting entity for financial reporting purposes. However, within this single accounting entity the District has identified a number of financial activities that it wishes to track separately, referred to as “funds and accounts.” The District is not required to and does not publish separate financial statements for any of the individual funds and accounts except for the consolidating statements referenced on the previous page. The CAWCD Insurance Company, Inc. a blended component unit, is required, under the laws of the State of Hawaii, to conduct its own external audit and publish its own audited financial statements.

	DESCRIPTION
GENERAL FUND	Represents CAWCD’s core business, the delivery of Colorado River water to central Arizona through the Central Arizona Project and repayment of reimbursable construction costs and is, by an order of magnitude, the largest fund within the District. For management reporting, the General Fund is separated into two segments: Water Deliveries and Other.
AK-CHIN ACCOUNT	Represents the activities related to a trust fund established by Section 7 of Public Law 98-530 and ARS § 45-3715.01 to acquire or conserve water to supplement Colorado River supplies.
STATE DEMONSTRATION PROJECTS ACCOUNT	Represents the activities related to the construction of State Demonstration underground storage projects as authorized by ARS § 48-3713.
CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ACCOUNT	Represents the activities of the Central Arizona Groundwater Replenishment District as authorized by ARS § 48-3771, et seq.
REVENUE BOND ACCOUNTS	Represents the activities related to the District’s six revenue bond series to finance CAWCD’s share of the construction of New Waddell Dam.
CAPTIVE INSURANCE COMPANY	Represents the activities related to the CAWCD Captive Insurance Company to provide a self-insurance mechanism for property and casualty insurance to fund claims.

Please refer to the notes to the financial statements for additional information on these funds and accounts.

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District’s financial activities for the years ended December 31, 2005, 2004, and 2003.

TOTAL ASSETS

Capital Assets: The largest component of the District's capital assets is the permanent service right (PSR), net of accumulated amortization. The PSR (net) has decreased from \$1.49 billion in 2003 to \$1.46 billion in 2004 and further declined to \$1.43 billion in 2005. The PSR represents the District's right to operate the Central Arizona Project (CAP) system and collect revenues from operations, for which the District has incurred a repayment obligation to the United States. While capital assets grow annually as a result of ongoing capital projects, such additions are presently more than offset by amortization of the PSR, which is approximately \$30 million per year. As a result, net capital assets tend to decrease each year.

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Capital Assets:						
Permanent service right, net	\$ 1,430.5	\$ 1,460.9	\$ (30.4)	\$ 1,460.9	\$ 1,491.3	\$ (30.4)
Property and equipment, net	68.4	60.3	8.1	60.3	48.2	12.1
Other Assets:						
Cash and investments	260.5	260.3	0.2	260.3	267.5	(7.2)
Funds held by /advanced to federal government	51.6	36.5	15.1	36.5	27.8	8.7
Other	42.8	46.7	(3.9)	46.7	34.3	12.4
Total assets	\$ 1,853.8	\$ 1,864.7	\$ (10.9)	\$ 1,864.7	\$ 1,869.1	\$ (4.4)

Other Assets: Other asset categories include cash, receivables and other current assets, restricted and unrestricted reserves and investments, and funds held by or advanced to the federal government. In 2005, funds held by or advanced to the federal government increased \$15.1 million resulting from the sale of sulfur dioxide (SO₂) credits and the sale of land retained by the federal government and deposited in the Basin Development Fund (BDF). This was offset by a 2003 overpayment credit associated with the District's federal debt payment applied in 2004. The remainder of other assets decreased \$3.9 million due to a reduction in receivables for over-threshold pumping power purchased in excess of CAWCD's needs, offset by an increase in amounts owed to CAWCD by water customers based on the annual water delivery reconciliation and additional water storage in Lake Pleasant increasing the water inventory asset.

In 2004, cash and investments decreased \$7.2 million primarily as a result higher pumping power costs and capital expenditures. Funds held by or advanced to the federal government increased \$8.7 million resulting from a 2003 overpayment credit associated with the District's federal debt payment, the sale of SO₂ credits retained by the federal government, and higher CAP construction deficiency spending related to siphon investigation and repair. For the remainder of other assets, the increase of \$12.4 million was mainly related to an increase in receivables for over-threshold pumping power that was purchased in excess of CAWCD's needs and, as a result, CAWCD sold this excess power to other entities.

TOTAL LIABILITIES

Long-Term Liabilities: The two largest components of the District's long-term liabilities are the federal repayment obligation and the contract revenue bonds. Generally, long-term liabilities will decrease each year as the repayment obligation and revenue bonds are paid off. From 2003 to 2005, the long-term federal repayment obligation decreased from \$1.49 million to \$1.42 billion in 2005. This decline of \$21.4 million each year is due to the scheduled payments. In addition, contract revenue bonds decreased from \$116.1 million in 2003 to \$75.8 million in 2005 as the result of paying off the bond debt.

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Long-Term Liabilities:						
Repayment obligation	\$ 1,418.1	\$ 1,439.5	\$ (21.4)	\$ 1,439.5	\$ 1,460.9	\$ (21.4)
Contract revenue bonds	75.8	96.5	(20.7)	96.5	116.1	(19.6)
Other	6.9	6.8	0.1	6.8	6.6	0.2
Other liabilities	128.4	145.2	(16.8)	145.2	130.5	14.7
Total liabilities	\$ 1,629.2	\$ 1,688.0	\$ (58.8)	\$ 1,688.0	\$ 1,714.1	\$ (26.1)

Other Liabilities: Other liabilities include payables, accrued interest, and current principal obligations. Overall, other liabilities decreased \$16.8 million in 2005 from 2004 due to a reduction in the amount payable for the purchase of pumping power and deferred revenue for the prepayment of water operations and maintenance (O&M) and capital charges. This was offset by an increase in the amount owed to the Arizona Water Protection Fund. The increase of \$14.7 million in 2004 from 2003 was mostly related to the purchase of pumping power and the annual water customer reconciliation. The amounts payable to water customers represents the amount CAWCD owed these customers based on the annual water delivery reconciliation.

TOTAL NET ASSETS

Net assets, the difference between assets and liabilities, increased 27% or \$47.9 million from 2004. In comparison, net assets for 2004 increased 14% or \$21.7 million from 2003.

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Assets						
Capital Assets	\$ 1,498.9	\$ 1,521.2	\$ (22.3)	\$ 1,521.2	\$ 1,539.5	\$ (18.3)
Other Assets	354.9	343.5	11.4	343.5	329.6	13.9
Total assets	\$ 1,853.8	\$ 1,864.7	\$ (10.9)	\$ 1,864.7	\$ 1,869.1	\$ (4.4)
Liabilities						
Long-term liabilities	\$ 1,500.8	\$ 1,542.8	\$ (42.0)	\$ 1,542.8	\$ 1,585.6	\$ (42.8)
Other liabilities	128.4	145.2	(16.8)	145.2	128.5	16.7
Total liabilities	1,629.2	1,688.0	(58.8)	1,688.0	1,714.1	(26.1)
Net Assets						
Invested in capital assets, net of related debt	(39.0)	(57.9)	18.9	(57.9)	(79.7)	21.8
Restricted	57.3	56.6	0.7	56.6	54.6	2.0
Unrestricted	206.3	178.0	28.3	178.0	180.1	(2.1)
Total net assets	224.6	176.7	47.9	176.7	155.0	21.7
Total liabilities & net assets	\$ 1,853.8	\$ 1,864.7	\$ (10.9)	\$ 1,864.7	\$ 1,869.1	\$ (4.4)

Invested in capital assets, net of related debt, increased \$18.9 million in 2005 from 2004 and \$21.8 million in 2004 from 2003. This increase reflects that the District is paying off the debt faster than the associated amortization and depreciation on these assets. Over time, investments in capital assets (net) will become positive. The decrease in the debt associated with the contract revenue bonds accounts for \$19.8 million in 2005 and \$18.7 million in 2004. The contract revenue bonds will be paid off in 2011. Also, capital assets (net) increased about \$8.1 million in 2005 and \$12.1 million in 2004. Offsetting these increases is a decrease in the net investment in the PSR. Currently, amounts associated with the amortization of the PSR (asset) exceed the District's annual principal payment to the federal government for the repayment obligation (liability). The annual repayment obligation is based on paying a percentage (which increases over time) of the remaining outstanding balance, plus interest, over a 50-year period, while amortization remains relatively flat over time. Consequently, the asset is presently being amortized more quickly than the debt is being paid. As the payment percentage increases, the annual principal payment will exceed amortization.

Restricted net assets increased \$0.7 million in 2005 and \$2.0 million in 2004 primarily related to payables for accrued interest, arbitrage rebate liability for the District's revenue bonds, the Master Repayment Contract reserves. In addition, the slight increase in 2005 reflects an increase in Central Arizona Groundwater Replenishment District (CAGR) reserves, offset by the depletion of the State Demonstration Project funds used to construct underground storage facilities.

Unrestricted net assets increased \$28.3 million in 2005 primarily due to the significant increase in funds held by the federal government associated with proceeds from the sale of land and SO₂ credits retained in the BDF. In addition, an increase in CAGR cash equivalents contributed to the higher level of unrestricted reserves. This was offset by the depletion of unrestricted State Demonstration Project funds used to construct underground storage facilities. The decrease of \$2.1 million in 2004 was

primarily associated with pumping power costs, which increased in 2004 due to higher over-threshold energy rates offset by a lower federal debt payment.

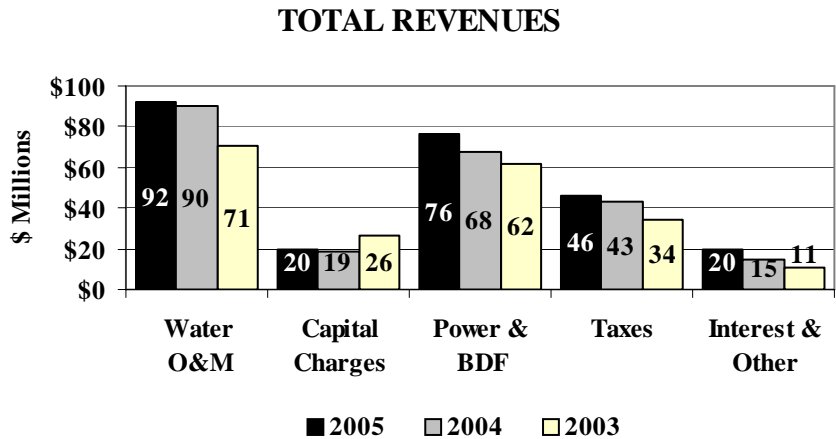
The change in restricted and unrestricted net assets will fluctuate depending on operational needs and any actions that may result from the District’s reserve study.

TOTAL REVENUES

The District’s principal sources of revenues are water delivery O&M charges, water service capital charges, power and BDF revenues, property taxes, interest earnings and other revenue. Total revenues for 2005 increased \$18.6 million from 2004 to \$253.7 million. Due to heavy rainfall in early 2005, water deliveries were 320,437 acre-feet lower. However, water O&M charges increased \$2.3 million primarily due to greater

deliveries for interstate water banking, which is the District’s highest-priced water. Deliveries for interstate water banking also generated about \$3.8 million in capital charges in 2005, which were more than offset the decrease in the 2005 capital charge rate. Power and BDF revenues increased \$7.5 million in 2005 mostly due to the sale of land, offset by a 2003 overpayment credit associated with the District’s federal debt payment applied in 2004. Property taxes increased \$3.4 million in 2005 reflecting higher assessed valuations. The 2005 increase of \$2.3 million for interest income reflects higher interest rates and the implementation of a more effective cash management plan with the Arizona State Treasurer. Other revenue increased \$2.2 million due to recovery of bad debts and an increase for CAGR D upfront fees and charges from passage of legislation in 2005.

Total revenues for 2004 increased \$31.4 million from 2003 to \$235.1 million. Although water deliveries slightly increased from 2003, water O&M charges increased \$18.7 million due to the category of water delivered and the rate charged for each category. To continue implementing the modified reserve policy, the District lowered the capital charge rate in 2004. This combined with lower municipal and industrial (M&I) nonsubcontract deliveries resulted in a \$6.4 million decline in capital charge revenues. Power and BDF revenues increased \$6.3 million between 2004 and 2003 due to a 2003 overpayment credit associated with the District’s federal debt payment and the sale of SO₂ credits. Beginning in 2004, CAGR D infrastructure revenues were no longer deferred and were instead recognized in the year earned. Also, property tax revenues were higher in 2004 due to increased property values and the District’s decision to retain the Water Storage Tax (WST) in 2003. Tax revenues for 2004 include a full year’s WST revenue compared to only a partial year in 2003.



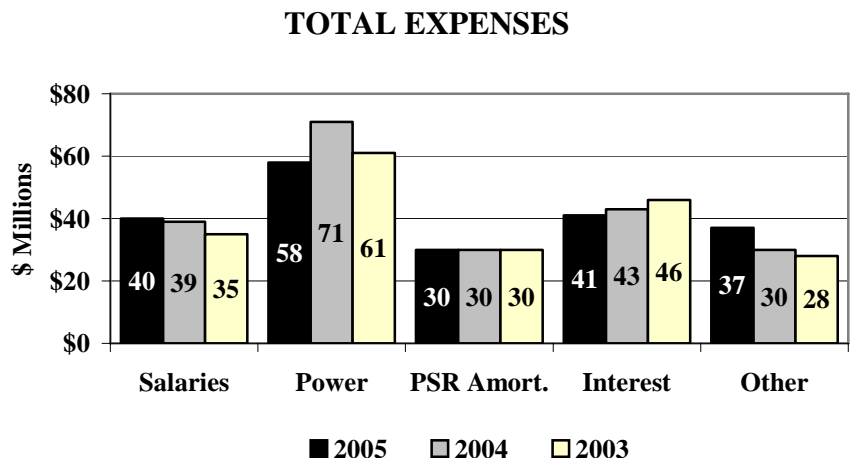
<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Operating revenues						
Water O&M charges	\$ 92.1	\$ 89.8	\$ 2.3	\$ 89.8	\$ 71.1	\$ 18.7
Water service capital charges	20.3	19.4	0.9	19.4	25.8	(6.4)
Power & other BDF revenues	75.7	68.2	7.5	68.2	61.9	6.3
Reimbursements & other	9.9	7.7	2.2	7.7	4.1	3.6
Total operating revenues	\$ 198.0	\$ 185.1	\$ 12.9	\$ 185.1	\$ 162.9	\$ 22.2
Nonoperating revenues						
Property taxes	\$ 46.3	\$ 42.9	\$ 3.4	\$ 42.9	\$ 33.6	\$ 9.3
Interest income & other	9.4	7.1	2.3	7.1	7.2	(0.1)
Total nonoperating revenues	\$ 55.7	\$ 50.0	\$ 5.7	\$ 50.0	\$ 40.8	\$ 9.2
Total revenues	\$ 253.7	\$ 235.1	\$ 18.6	\$ 235.1	\$ 203.7	\$ 31.4

Total Expenses

Total expenses for 2005 were \$7.6 million lower than 2004. Pumping power expenses experienced the most significant variance. With heavy winter rainfall in early 2005, the need for pumping power was less than in 2004 resulting in a reduction of \$13.3 million for pumping power expenses. In 2004, the District terminated the CAWCD Retirement Plan. However, the Arizona State Retirement System (ASRS) increased the contribution rate in July 2005. This combined with merit and other benefit increases resulted in a \$1.6 million increase in salaries and related costs in 2005.

Other cost increases impacting 2005 were higher depreciation expenses, increased expenses for construction of State Demonstration underground water storage projects, additional costs for several extraordinary maintenance projects, and participation by the District in a water defense fund. Offsetting these increases is lower interest expense on the federal repayment and revenue bond debt.

Total expenses for 2004 were \$13.6 million higher than 2003. The increase is primarily a result of greater pumping power costs resulting from higher Navajo and over-threshold rates. In 2004, the District terminated the CAWCD Retirement Plan. This event combined with increases in the contribution rate to the Arizona State Retirement System that began in July 2003 and health insurance expenses resulted in higher salaries and related costs. Other cost increases in 2004 are related to higher property and casualty



insurance costs, water purchases by CAGR, higher depreciation expenses, and a 2004 board election. Offsetting these increases is lower interest expense.

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Operating expenses						
Salaries & related costs	\$ 40.1	\$ 38.5	\$ 1.6	\$ 38.5	\$ 34.5	\$ 4.0
Pumping power	58.1	71.4	(13.3)	71.4	61.1	10.3
Amortization of PSR	30.4	30.4	-	30.4	30.4	-
Other	36.2	30.3	5.9	30.3	24.8	5.5
Total operating expenses	\$ 164.8	\$ 170.6	\$ (5.8)	\$ 170.6	\$ 150.8	\$ 19.8
Nonoperating expenses	41.0	42.8	(1.8)	42.8	46.0	(3.2)
	205.8	213.4	(7.6)	213.4	196.8	16.6
Cumulative effect of change in accounting principle	-	-	-	-	3.0	(3.0)
Total expenses	\$ 205.8	\$ 213.4	\$ (7.6)	\$ 213.4	\$ 199.8	\$ 13.6

Rates are set in a manner that will recover an appropriate share of the District's expected operating expenses from customers while maintaining adequate reserve levels. Since rates are set in advance, actual expenses may differ from the estimates used to calculate rates, and reserves may consequently fluctuate.

CHANGE IN NET ASSETS AND ENDING NET ASSETS

The change in net assets for 2005 was \$47.9 million. This was a \$26.2 million increase from 2004. In 2005, both operating and non-operating revenues increased while expenses decreased. However, in 2004, the change in net assets was \$21.7 million. This was a \$17.8 million increase from 2003. Both revenues and expenses increased in 2004, but the increases in operating and non-operating revenues were greater than the increase in operating expenses. In 2003, the District began recording an expense associated with decommissioning the Navajo Generating Station (NGS). As a result, the cumulative effect of this change in accounting principle resulted in an expense of \$3.0 million incurred prior to 2003, but recorded in 2003, for decommissioning of the NGS.

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Total operating revenues	\$ 198.0	\$ 185.1	\$ 12.9	\$ 185.1	\$ 162.9	\$ 22.2
Total operating expenses	(164.8)	(170.6)	5.8	(170.6)	(150.8)	(19.8)
Operating income	33.2	14.5	18.7	14.5	12.1	2.4
Nonoperating revenues (expenses)	14.7	7.2	7.5	7.2	(5.2)	12.4
Change in net assets	\$ 47.9	\$ 21.7	\$ 26.2	\$ 21.7	\$ 6.9	\$ 14.8
Cumulative effect of change in accounting principle	-	-	-	-	(3.0)	3.0
Beginning net assets	176.7	155.0	21.7	155.0	151.1	3.9
Ending net assets	\$ 224.6	\$ 176.7	\$ 47.9	\$ 176.7	\$ 155.0	\$ 21.7

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets: The District's net investment in capital assets decreased from \$1.54 billion in 2003 to \$1.50 billion in 2005. This net decrease (including addition and deductions) of \$22.3 million in 2005 and \$18.3 million in 2004 is shown below:

SCHEDULE OF CAPITAL ASSETS (Net of Depreciation and Amortization)

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Permanet service right	\$ 1,430.5	\$ 1,460.9	\$ (30.4)	\$ 1,460.9	\$ 1,491.3	\$ (30.4)
Other capital assets						
Land	0.8	0.8	-	0.8	0.8	-
Construction in progress	29.9	35.8	(5.9)	35.8	22.7	13.1
Capital equipment	22.9	18.3	4.6	18.3	21.7	(3.4)
Structures and improvements	14.8	5.4	9.4	5.4	3.0	2.4
Total other capital assets	68.4	60.3	8.1	60.3	48.2	12.1
Total capital assets	\$ 1,498.9	\$ 1,521.2	\$ (22.3)	\$ 1,521.2	\$ 1,539.5	\$ (18.3)

More information about the District's capital assets is provided in Note 2 of the financial statements.

Long-Term Debt: The District's long-term debt decreased \$42.1 million in 2005 from 2004 and \$41.0 million in 2004 from 2003 as follows.

SCHEDULE OF LONG-TERM DEBT

<i>(Dollars in millions)</i>	2005	2004	Change	2004	2003	Change
Repayment obligation	\$ 1,418.1	\$ 1,439.5	\$ (21.4)	\$ 1,439.5	\$ 1,460.9	\$ (21.4)
Revenue bonds	75.8	96.5	(20.7)	96.5	116.1	(19.6)
Total long-term debt	\$ 1,493.9	\$ 1,536.0	\$ (42.1)	\$ 1,536.0	\$ 1,577.0	\$ (41.0)

More information about the District's repayment obligation is provided in Note 3 of the financial statements. Note 10 of the financial statements contains additional information on the District's revenue bonds.

ANALYSIS OF OVERALL FINANCIAL POSITION AND CHANGES IN FINANCIAL POSITION -- CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT ON FINANCIAL POSITION

The overall financial position of the District continues to be strong. As of December 31, 2005, the District's General Fund discretionary cash reserves were \$162 million, which is a decline of \$16 million from the prior year. The decline in reserves over the last few years from a level of over \$200 million is consistent with the District's planned reduction in reserves, according to the reserve strategy adopted in 2003. The change in General Fund discretionary reserves will fluctuate depending on operational needs and implementation of the District's modified reserve strategy, which is designed to maintain reserves to between \$160 to \$165 million. The District's reserve strategy will be reviewed in 2006.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The information contained in the Management's Discussion and Analysis is intended to give our customers, taxpayers, and bond holders a general overview of the District's finances, issues that impact the District's financial position, and accountability for the money it receives. If you have questions about the report or need additional financial information, contact Theodore C. Cooke, Assistant General Manager of Finance at:

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 Phoenix, Arizona 85080-3020
 623-869-2167
tcooke@cap-az.com

Report of Independent Auditors

The Board of Directors
Central Arizona Water Conservation District

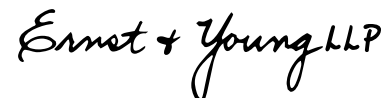
We have audited the accompanying basic financial statements of the Central Arizona Water Conservation District (the District) as of December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the District's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Central Arizona Water Conservation District at December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 1 through 10 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Central Arizona Water Conservation District as of and for the years ended December 31, 2005 and 2004, taken as a whole. The other financial information on pages 51 to 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other financial information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section on pages 57 to 64 has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.



March 10, 2006

Central Arizona Water Conservation District

Balance Sheets

(In thousands)

	December 31	
	2005	2004
Assets		
Current assets:		
Cash	\$ 353	\$ 1,124
Cash equivalents	84,515	111,838
Total cash and cash equivalents	84,868	112,962
Receivables:		
Accrued interest receivable	1,726	827
Due from water customers, less allowance for doubtful accounts of \$1,110 and \$2,202 at December 31, 2005 and 2004, respectively	11,414	8,930
Other	2,864	13,343
Materials and supplies inventory	4,369	4,451
Water inventory	20,843	17,935
Other	1,390	805
Total current assets	127,474	159,253
Noncurrent assets:		
Funds held by federal government	51,096	33,420
Investments	83,540	55,048
Restricted assets	92,056	92,301
Advances to federal government	496	3,056
Capital assets, less accumulated depreciation of \$38,209 and \$32,811 at December 31, 2005 and 2004, respectively	68,414	60,292
Permanent service right, less accumulated amortization of \$360,915 and \$330,512 at December 31, 2005 and 2004, respectively	1,430,538	1,460,941
Bond issuance costs, net of accumulated amortization of \$2,538 and \$2,409 at December 31, 2005 and 2004, respectively	228	366
Total noncurrent assets	1,726,368	1,705,424
Total assets	\$1,853,842	\$1,864,677

	December 31	
	2005	2004
Liabilities		
Current liabilities:		
Accounts payable	\$ 28,171	\$ 41,379
Accrued payroll, payroll taxes and other accrued expenses	5,625	4,959
Water operations and capital charges deferred revenue	15,987	20,183
Current liabilities payable from restricted assets, advances to federal government, and other noncurrent assets:		
Accrued interest payable	34,336	35,171
Repayment obligation, due within one year	21,404	21,404
Contract revenue bonds, due within one year	22,850	22,085
Total current liabilities	<u>128,373</u>	145,181
Noncurrent liabilities:		
Repayment obligation, due after one year	1,418,073	1,439,477
Contract revenue bonds, due after one year, net of unamortized discounts of \$3,655 and \$5,798 at December 31, 2005 and 2004, respectively	75,812	96,519
Other noncurrent liabilities	6,952	6,799
Total noncurrent liabilities	<u>1,500,837</u>	1,542,795
Total liabilities	<u>1,629,210</u>	1,687,976
Net assets (deficits)		
Invested in capital assets, less related debt	(38,959)	(57,886)
Restricted bond trust accounts	38,008	37,297
Restricted State Demonstration project	-	3,427
Restricted Master Repayment Agreement	10,757	9,954
Restricted Ak-Chin account	5,922	5,764
Restricted CAGR account	2,627	181
Unrestricted	206,277	177,964
Total net assets	<u>224,632</u>	176,701
Total liabilities and net assets	<u>\$1,853,842</u>	<u>\$1,864,677</u>

See accompanying notes.

Central Arizona Water Conservation District

Statements of Revenues, Expenses and Changes in Net Assets

(In thousands)

	Years ended December 31	
	2005	2004
Operating revenues		
Water operations and maintenance charges	\$ 92,126	\$ 89,840
Water service capital charges	20,283	19,416
Power and Basin Development Fund revenues	75,729	68,173
Reimbursements and other operating revenues	9,848	7,649
Total operating revenues	<u>197,986</u>	<u>185,078</u>
Operating expenses		
Salaries and related costs	40,143	38,541
Pumping power	58,094	71,374
Power transmission	1,492	1,847
Hoover capacity charges	2,515	2,123
Amortization of permanent service right	30,403	30,403
Depreciation	8,086	6,844
Provision for doubtful accounts	540	785
Other operating expenses	23,490	18,657
Total operating expenses	<u>164,763</u>	<u>170,574</u>
Operating income	33,223	14,504
Nonoperating revenues (expenses)		
Property taxes	46,267	42,864
Interest income and other nonoperating revenues	9,416	7,126
Interest expense and other nonoperating expenses	(40,975)	(42,786)
Total nonoperating expenses	<u>14,708</u>	<u>7,204</u>
Change in net assets	47,931	21,708
Net assets at beginning of year	176,701	154,993
Net assets at end of year	<u>\$ 224,632</u>	<u>\$ 176,701</u>

See accompanying notes.

Central Arizona Water Conservation District
 Statements of Cash Flows
 (In thousands)

	Years ended December 31	
	2005	2004
Cash flows from operating activities		
Cash received from customers	\$ 125,494	\$ 109,285
Cash received from power sales	58,053	51,515
Cash paid to employees	(39,458)	(39,416)
Cash paid to suppliers	(102,055)	(76,809)
Net cash provided by operating activities	42,034	44,575
Cash flows from noncapital financing activities		
Cash received from property taxes	46,267	42,864
Net cash provided by noncapital financing activities	46,267	42,864
Cash flows from capital and related financing activities		
Payments on contract revenue bonds, including interest and other expenses	(27,266)	(27,284)
Payments on repayment obligation, including interest	(55,734)	(56,413)
Additions to capital assets	(16,208)	(18,958)
Decrease in repayment credit	-	1,308
Decrease (increase) in advances to federal government	2,560	(674)
Net cash used in capital and related financing activities	(96,648)	(102,021)
Cash flows from investing activities		
Decrease (increase) in restricted assets	245	(333)
(Increase) decrease in investment in state pool	(28,492)	59,418
Interest on investments	8,500	7,397
Net cash (used in) provided by investing activities	(19,747)	66,482
Net (decrease) increase in cash and cash equivalents	(28,094)	51,900
Cash and cash equivalents at beginning of year	112,962	61,062
Cash and cash equivalents at end of year	\$ 84,868	\$ 112,962
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 33,223	\$ 14,504
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of permanent service right	30,403	30,403
Depreciation	8,086	6,844
Provision for doubtful accounts	540	785
Changes in operating assets and liabilities:		
Due from water customers	(3,024)	(1,289)
Due from other receivables	10,479	(12,653)
Materials and supplies inventory	81	(308)
Water inventory	(2,909)	(585)
Other	(584)	(73)
Funds held by federal government, net	(17,676)	(7,979)
Accounts payable	(13,208)	17,935
Deferred revenue	(4,195)	(2,357)
Accrued payroll, payroll taxes and other accrued expenses	666	(855)
Other noncurrent liabilities	152	203
Net cash provided by operating activities	\$ 42,034	\$ 44,575

See accompanying notes.

Central Arizona Water Conservation District

Notes to Financial Statements

Years Ended December 31, 2005 and 2004

1. Organization and Reporting Entity

The Central Arizona Water Conservation District (District) is a multi-county water conservation district organized within the state of Arizona encompassing Maricopa, Pima, and Pinal counties. The District's popularly elected Board of Directors serves as its governing body. Under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the District is a primary government with a single blended component unit, the CAWCD Insurance Company, Inc. The District was authorized in 1971 by the Arizona State Legislature for the primary purpose of creating a single entity to enter into an agreement with the United States Department of the Interior, Bureau of Reclamation (Reclamation), for repayment of the reimbursable cost of the Central Arizona Project (CAP). The District is further empowered to serve as the operating agent of the CAP.

The CAP is a multi-purpose water resource project authorized by the Congress of the United States in 1968 by the Colorado River Basin Project Act and was constructed by Reclamation. The CAP is intended to deliver an average of approximately 1.5 million acre-feet of Arizona's annual share of Colorado River water to central and southern Arizona, which will partially replace existing groundwater uses and supplement surface water supplies. It also provides flood control, power, recreation, and fish and wildlife benefits.

Under its enabling legislation (A.R.S. §48-3701 *et seq.*), the District has the authority to levy ad valorem taxes against all taxable property within its boundaries. The first ad valorem tax, which may not exceed 10 cents per \$100 of assessed valuation, is for the District's operations and repayment of the construction cost repayment obligation of the CAP (Note 3). The ad valorem tax for operations and repayment was levied at 8 cents per \$100 of assessed valuation for the tax years ending June 30, 2005 and June 30, 2006. The second ad valorem tax, which may not exceed 4 cents per \$100 of assessed valuation, is for water storage to the extent that it is not required for the District's operations or the construction cost repayment obligation of the project. The ad valorem tax for water storage was levied at 4 cents per \$100 of assessed valuation in the tax years ending June 30, 2005, and June 30, 2006. Proceeds were deposited with the District and used by the District to defray the annual operation, maintenance and replacement costs associated with the purchase of CAP water by the Arizona Water Banking Authority (AWBA). The respective counties collect property taxes on behalf of the District.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

1. Organization and Reporting Entity (continued)

In 1993, the State legislature gave the District additional authority to provide replenishment services within the District's three-county service area. This authority is commonly referred to as the Central Arizona Groundwater Replenishment District (CAGRDR). The CAGRDR began enrolling members in 1995, and as of December 31, 2005, there were 832 member lands (individual subdivisions) and 20 member service areas. The CAGRDR is responsible for using renewable water supplies to replenish (or recharge) excess groundwater used by its members. All costs of the CAGRDR are to be paid by its members through assessments based on replenishment services provided. Through 2005, the CAGRDR's total net replenishment obligation was approximately 84,000 acre-feet.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of the District conform to generally accepted accounting principles as applicable to an enterprise fund of a governmental unit. Accordingly, the accrual basis of accounting is utilized, whereby revenues are recorded when they are earned, and expenses are recorded when the liability is incurred. The District's books and records include separate accounts and projects that are described as "accounts": a general fund, Ak-Chin account, State Demonstration Project account, CAGRDR account and debt service account. This "fund" and these "accounts" have been combined in the accompanying financial statements. All material inter-fund transactions have been eliminated. The District has elected, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, and GASB Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, to remain free to make collective use of Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

Use of Estimates

The preparation of financial statements that conform to generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash, Cash Equivalents and Unrestricted Investments

All funds, except the CAWCD Captive Insurance Company, are to be invested in obligations issued or guaranteed by the United States or any of its agencies, collateralized repurchase agreements, obligations of the state and local governments, prime quality commercial paper, and other instruments as set forth in the District's enabling legislation.

Investments are managed by the State Treasurer and maintained in investment pools (the state of Arizona Local Government Investment Pool, the CAWCD Pool 12 and the LGIP Core-Mix Pool 500). The Local Government Investment Pool (LGIP) consists of participating interest earning investment contracts with maturities of less than one year and, therefore, are recorded at cost. The CAWCD Long Term and LGIP Core Mix Pools are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Inventory

Inventory is comprised of maintenance, auto, safety supplies, and replacement parts and is carried at average cost.

Capital Assets

Capital assets are stated at cost. Assets are depreciated on the straight-line method over the estimated useful lives of the assets ranging from five to forty years.

	December 31 2004			December 31 2005
	Balances	Increases	Decreases	Balances
	<i>(in thousands)</i>			
Land	\$ 825	\$ -	\$ -	\$ 825
Capital assets being depreciated:				
Structures and improvements	8,385	10,525	-	18,910
Equipment	46,675	11,172	2,765	55,082
Work-in-progress	37,218	(5,412)	-	31,806
Total capital assets being depreciated	93,103	16,285	2,765	106,623
Less accumulated depreciation for:				
Structures and improvements	2,985	1,095	-	4,080
Equipment	28,333	6,536	2,687	32,182
Work-in-progress	1,493	454	-	1,947
Total accumulated depreciation	32,811	8,085	2,687	38,209
Capital assets, net	\$ 60,292	\$ 8,200	\$ 78	\$ 68,414

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

	December 31 2003		December 31 2004	
	Balances	Increases	Decreases	Balances
	<i>(in thousands)</i>			
Land	\$ 825	\$ –	\$ –	\$ 825
Capital assets being depreciated:				
Structures and improvements	5,308	3,077	–	8,385
Equipment	46,042	1,951	1,318	46,675
Work-in-progress	23,160	14,091	33	37,218
Total capital assets being depreciated	75,335	19,119	1,351	93,103
Less accumulated depreciation for:				
Structures and improvements	2,258	727	–	2,985
Equipment	24,336	5,187	1,190	28,333
Work-in-progress	563	930	–	1,493
Total accumulated depreciation	27,157	6,844	1,190	32,811
Capital assets, net	\$ 48,178	\$ 12,275	\$ 161	\$ 60,292

Permanent Service Right

The District's interest in the CAP represents a permanent service right pursuant to the Master Repayment Agreement and the settlement Stipulation. The permanent service right represents the District's right to use the CAP water delivery system for the purpose of fulfilling its responsibility of delivering water as provided in the Master Repayment Agreement and to collect revenues produced by the CAP. The District has used the repayment obligation specified in the settlement Stipulation, plus certain advances to the federal government and other adjustments, in recording the permanent service right. The cost of the permanent service right may be adjusted in the future as a result of determinations to be made as a consequence of the settlement Stipulation (see Note 3).

Although the District's interest in the CAP is reflected in the accompanying balance sheets, the United States retains a paramount right or claim in the CAP arising from the original construction and operation of the CAP as a Federal Reclamation Project. The District's right to the possession and use of, and to all revenues produced by, the CAP is evidenced by the Master Repayment Agreement, various laws, and other agreements with the United States. Legal title to the CAP will remain with the United States until otherwise provided by Congress.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The District amortizes the permanent service right on the straight-line method over the estimated useful lives of the major components of the CAP, generally 100 years for the aqueduct, 30 years for the Navajo power plant and related transmission facilities, 50 years for buildings and structures, and 20 years for the pumping plant equipment.

	December 31 2004			December 31 2005
	Balance	Increases	Decreases	Balances
	<i>(in thousands)</i>			
Permanent Service Right	\$1,789,627	\$ –	\$ –	\$ 1,789,627
Navajo Generating Station assets	1,826	–	–	1,826
Total being amortized/depreciated	1,791,453	–	–	1,791,453
Less accumulated amortization/depreciation				
Permanent Service Right	329,745	30,376	–	360,121
Navajo Generating Station assets	767	27	–	794
Total accumulated amortization/depreciation	330,512	30,403	–	360,915
Permanent Service Right capital asset net	\$1,460,941	\$ (30,403)	\$ –	\$ 1,430,538

	December 31 2003			December 31 2004
	Balance	Increases	Decreases	Balances
	<i>(in thousands)</i>			
Permanent Service Right	\$1,789,627	\$ –	\$ –	\$ 1,789,627
Navajo Generating Station assets	1,826	–	–	1,826
Total being amortized/depreciated	1,791,453	–	–	1,791,453
Less accumulated amortization/depreciation				
Permanent Service Right	299,368	30,377	–	329,745
Navajo Generating Station assets	741	26	–	767
Total accumulated amortization/depreciation	300,109	30,403	–	330,512
Permanent Service Right capital asset net	\$1,491,344	\$ (30,403)	\$ –	\$ 1,460,941

The cost of periodic maintenance is charged to operations expense and the cost of major replacements is capitalized.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Bond Issuance Costs, Discounts and Premiums

Bond issuance costs, discounts and premiums are deferred and amortized over the term of the related bonds on the interest method. Bond discounts and premiums are presented as a reduction or increase of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

Revenue Recognition

The District records revenue from the sale of water, the sale of power, the sale of emissions credits, the collection of property taxes and the provision of certain contract services to other outside entities. Water rates consist of a water service capital charge and an operations, maintenance and replacement (OM&R) charge. Generally, OM&R charges are determined by the Board of Directors after giving consideration to the amount of OM&R costs to be paid by the various subcontractors and through property taxes. Water is delivered to subcontractors and other customers based on delivery requests. Revenue from OM&R charges is recognized as it is earned and revenue from water service capital charges is recognized ratably over the period of the billing. Generally, OM&R charges for scheduled water deliveries are due in advance.

Revenues from contract services, the sale of power and emissions credits are recorded when earned.

Property taxes are recorded as revenue when received. Tax equivalency charges are recorded when received if there is no obligation to deliver any services or provision for refund.

Operating and Nonoperating Revenues

The District's primary operating revenues are water sales, capital charges associated with water sales, and power and Basin Fund Development Fund revenues. The District's primary nonoperating revenues are property taxes and interest earnings.

Application of Restricted or Unrestricted Resources

In cases where an expense is incurred for purposes which both restricted and unrestricted net assets are available, the expense is applied to the restricted net assets first.

Statement of Cash Flows

For the purpose of the statement of cash flows, investments in the state of Arizona Local Government Investment Pools are treated as cash and cash equivalents due to their liquidity.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Water Inventory Adjustment

The water inventory adjustment for water inventory is a means to adjust the pumping energy component of water service charges to recognize that the cost of power used to pump water into Lake Pleasant should be recovered, through OM&R charges, in the year the water is delivered to customers, not the year in which it is pumped into Lake Pleasant. The water inventory adjustment is valued at the threshold rate.

The District's share of Lake Pleasant storage as of December 31, 2005 and 2004 was 487,000 acre feet and 399,000 acre-feet, respectively.

In 2002, the District entered into a water exchange agreement with Salt River Project that allowed for an exchange of up to 150,000 acre-feet. In 2005 and 2004, the District stored about 130,000 acre-feet with Salt River Project. The water inventory adjustment represented the weighted average energy cost associated with the increase in storage level over the calendar year.

Investments

Investments held by governmental entities are reported at fair value. Fair value adjustments are included in interest income.

Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

3. Master Repayment Agreement

The Agreement

Reclamation and the District have a contract for delivery of water and repayment of costs of the CAP. This contract (the Master Repayment Agreement) was originally entered into in 1972, and amended in 1988. In the Master Repayment Agreement, Reclamation agreed to construct the CAP and the District agreed to repay various reimbursable construction costs of the CAP, various OM&R costs during construction and interest during construction on various costs.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

Commencement of Repayment

Reclamation notified the District that the water supply system, the first CAP construction stage, was substantially complete on October 1, 1993. This notification initiated repayment by the District for the water supply system. Reclamation notified the District that the regulatory storage facilities stage, consisting of New Waddell and Modified Roosevelt Dams, was substantially complete on September 30, 1996. This notification initiated repayment by the District for the regulatory storage facilities stage.

The Master Repayment Agreement requires the District to make annual payments to the United States on the repayment obligation related to the completed construction stages. These payments are required to be made over a 50-year period and are based on paying a percentage of the remaining outstanding repayment obligation, plus interest, with each construction stage having a separate 50-year repayment period as follows: contract years 1-7: 1%; 8-14: 1.3%; 15-21: 1.6%; 22-28: 2%; 29-35: 2.6%; and 36-50: 2.7%.

Repayment Litigation and Stipulation

In July 1995, the District filed a lawsuit against the United States seeking a judicial determination of the District's repayment obligation. The United States also filed a lawsuit against the District. The two lawsuits were consolidated into a single action in the Federal District Court (the Court) in Phoenix, Arizona (the Repayment Litigation). In May 2000, the District and the United States entered into a Stipulation Regarding a Stay of Litigation, Resolution of Issues During the Stay and for Ultimate Judgment upon the Satisfaction of Conditions (the Stipulation) to resolve all the issues in the Repayment Litigation. The Court approved the Stipulation on May 9, 2000.

The ultimate effectiveness of the Stipulation is subject to a number of conditions, including settlement of certain Indian water rights claims, and requires that certain State of Arizona and federal legislation be enacted. As originally filed in 2000, the Stipulation provided that if the conditions were not met by May 9, 2003, and the parties did not amend the Stipulation or extend the deadline, the Stipulation would terminate and litigation would resume. Recognizing that the conditions would not be met by the original deadline, the District and the United States agreed to amend the Stipulation (the "Amended Stipulation") to extend the deadline for satisfying the conditions in the original Stipulation for nine additional years, so that the conditions must be satisfied by May 9, 2012. The Amended Stipulation was approved by the Court on April 28, 2003, and supersedes and replaces the original Stipulation.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

Except as noted below, all terms and conditions of the original Stipulation remain in effect under the Amended Stipulation. Thus, the ultimate effectiveness of the Amended Stipulation, and the entry of final judgment in the Repayment Litigation in accordance with the terms of the Amended Stipulation, remain subject to the satisfaction of the conditions contained in the original Stipulation, including the settlement of certain Indian water rights claims and the passage of state and federal legislation necessary to implement those conditions. However, the Amended Stipulation affords the District and the United States an additional nine years to satisfy the conditions. Either party may petition the Court to terminate the Amended Stipulation and resume litigation prior to May 9, 2012, if it believes that the conditions cannot be satisfied by that date. The major issues addressed in the Amended Stipulation are described below.

The Arizona Water Settlement Agreement

The Amended Stipulation requires as a condition of its ultimate effectiveness that there be a reallocation of CAP water supplies such that the total amount of CAP water allocated for federal uses shall be increased to 667,724 acre feet, or approximately 47% of average annual CAP supplies. The remaining CAP supplies, or 747,276 acre-feet, are required to be made available for non-Indian agricultural, municipal and industrial use under the Amended Stipulation.

This reallocation is to be accomplished through the acquisition of the CAP water supplies of non-Indian agricultural CAP subcontractors and the eventual reallocation of those supplies to Indian and municipal and industrial water users, although some of the non-federal share may remain in non-Indian agricultural hands. A total of 293,795 acre-feet of non-Indian agricultural CAP water is being sought from existing agricultural subcontractors for this purpose – essentially the entire remaining CAP non-Indian agricultural water supply. As part of this effort, the District negotiated and approved the Arizona Water Settlement Agreement in December 2002 among the United States, the District and the Arizona Department of Water Resources (the “Water Settlement”). The District and the Arizona Department of Water Resources executed the Water Settlement at that time, but the United States did not.

On December 10, 2004, President Bush signed into law the Arizona Water Settlements Act (the “Settlements Act”), which is the federal legislation needed to implement the conditions of the Amended Stipulation. The District, the Arizona Department of Water Resources and the United States are negotiating changes to the Water Settlement, including changes needed to conform to the Settlements Act and expect to execute the revised Water Settlement in 2006.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

The Water Settlement provides a framework under which CAP non-Indian agricultural subcontractors may permanently relinquish their long-term rights to CAP water. The relinquished CAP water would then be available for reallocation to Indian and municipal and industrial water users, thus satisfying several of the conditions to the Amended Stipulation. Relinquishing subcontractors would receive certain debt and regulatory relief and will be allowed to purchase excess CAP water at reduced rates through 2030.

In 2003, six agricultural districts executed relinquishment agreements pursuant to the Water Settlement. In 2004, two of those districts relinquished additional water and another district executed a full relinquishment. As a result of these and other actions, a total of 282,755 acre-feet of non-Indian agricultural CAP water will be available for reallocation in accordance with the Water Settlement. One agricultural subcontractor has elected to retain a portion of its CAP subcontract entitlement, for a total of 11,040 acre-feet, and executed an amended subcontract for the amount retained. Under the amended subcontract, if the subcontractor fails to make payments due the District, then the subcontract will terminate and the associated CAP entitlement will immediately be reallocated in accordance with the Water Settlement. Certain landowners challenged the authority of two of the subcontractors to relinquish their CAP entitlements, but those claims were rejected by the Arizona Supreme Court in *Maricopa-Stanfield Irrigation and Drainage District v. Robertson*, CV-04-0385-SA, decided November 30, 2005.

Repayment Obligation

The original Stipulation established the District's repayment obligation for the CAP water supply system and the regulatory storage facilities at \$1.65 billion, premised on a total allocation of 665,224 acre-feet of CAP water for federal use. Currently, 453,224 acre-feet of CAP water is allocated for federal use. One condition of the Stipulation is that additional CAP water be made available for federal use. The Amended Stipulation reduces the principal amount of the District's repayment obligation for the water supply system and regulatory storage facilities stages of the CAP from \$1.65 billion to \$1,646,462,500 in light of the agreement to increase the amount of CAP water allocated for federal use to 667,724 acre-feet, which is 2,500 acre-feet more than was assumed when the Stipulation was originally executed. The Amended Stipulation provides that the repayment obligation is subject to further adjustment if the total amount of CAP water ultimately made available for federal use is not 667,724 acre-feet.

In the Repayment Litigation, Reclamation had taken the position that the repayment ceiling in the Master Repayment Agreement on the District's repayment obligation for the water supply system and the regulatory storage facilities (Repayment Ceiling) was \$2.0 billion. The District had argued that the Repayment Ceiling on these facilities was not more than \$1.781 billion. Notwithstanding the Repayment Ceiling, Reclamation contended that the District's repayment obligation for these facilities was \$2.183 billion, premised on a total allocation of 453,224 acre-feet of CAP water for federal use.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

In November 1998, the Court issued an interlocutory order to the effect that the District's repayment obligation for the water supply system and regulatory storage facilities is limited to \$1.781 billion. However, the United States appealed the Court order. After the Stipulation was entered, the appeal was voluntarily dismissed without prejudice. The Amended Stipulation preserves the United States' appeal rights if the Repayment Litigation resumes.

The Stipulation provides that 73% of the District's repayment obligation will bear interest at the rate established in the Master Repayment Agreement of 3.342% per annum, and 27% of the repayment obligation will be non-interest bearing. The Stipulation fixes these percentages for the duration of the repayment period.

Before the Stipulation, the Master Repayment Agreement provided that Reclamation would determine both the amount of the District's repayment obligation and the portion of that obligation that would bear interest. Costs allocated to the non-Indian agricultural water supply function were to be repaid by the District without interest, while costs allocated to the M&I water supply and the commercial power functions were to be repaid with interest at 3.342% per annum. The Master Repayment Agreement also provided that Reclamation would periodically revise its cost allocation to reflect actual water deliveries, which could have the effect of altering the percentage of the District's repayment obligation that bears interest.

In the Repayment Litigation, the District disputed Reclamation's cost allocation. If the litigation resumes, the portion of the District's repayment obligation that bears interest would be subject to periodic revision by Reclamation based on its cost allocations. However, the Amended Stipulation provides that the District's repayment obligation for the period from October 1, 1993, until the Amended Stipulation is terminated or expires, will always be deemed to be 73% interest-bearing and 27% non-interest-bearing regardless of any interest-bearing split that may be applicable after the Amended Stipulation is terminated or expires.

Construction Deficiencies

When Reclamation issued notices of completion for the water supply system and regulatory storage facilities stages of the CAP, a number of construction deficiencies remained. The Stipulation provides that the construction deficiencies will be corrected without increasing the District's repayment obligation. The Stipulation identifies those deficiencies that will be corrected by the United States, at no additional cost to the District, and those that the District will correct itself and for which it will receive a corresponding credit against its annual repayment obligation. The Stipulation also provides a repayment credit for the District's past expenditures to correct construction deficiencies.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

In the Repayment Litigation, the District had sought to hold the United States responsible for costs incurred by the District in correcting CAP construction deficiencies. The United States had argued that it had no obligation to fund the correction of CAP construction deficiencies because of the dispute regarding the Repayment Ceiling and the fact that Reclamation had determined that the ceiling had been exceeded. The United States had also disclaimed any responsibility for costs incurred by the District in correcting the deficiencies.

Application of Development Fund Revenues

The Stipulation provides that all miscellaneous revenues and net power revenues accumulating in the Lower Colorado River Basin Development Fund (Development Fund) of the United States Treasury in each year will be credited annually against the amount due from the District on its repayment obligation.

In the Repayment Litigation, the United States had asserted that it was not obligated to apply Development Fund revenues toward the District's repayment obligation, but could use those revenues to pay Reclamation's operating costs.

Payments Due on the District's Repayment Obligation

The Stipulation established a new repayment schedule based on the revised \$1.65 billion repayment obligation and reconciled the District's past payments, Development Fund credits and construction deficiency credits against that revised payment schedule. The Amended Stipulation further revised the District's repayment schedule to reflect the adjusted repayment obligation of \$1,646,462,500, retroactive to October 1, 1993. The District received a credit of \$1,308,195 that was applied against its January 2004 payment, for the amounts paid through 2003 that are in excess of those due under the revised schedule, including interest at the Arizona State Treasury investment rate. If litigation ultimately resumes, the Amended Stipulation provides that no penalties will be assessed against the District for any underpayment that might be determined to relate to the period from October 1, 1993, until the Amended Stipulation is terminated or expires, and that any over- or underpayment that is determined to exist for the period from October 1, 1993, until the Amended Stipulation is terminated or expires, including interest on the over- or underpayment, will be capitalized and amortized over the remainder of the District's repayment period.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

Payments to Maturity

The required payments under the Amended Stipulation on the repayment obligation are as follows:

Years	Principal	Interest	Total
	<i>(in thousands)</i>		
2006	\$ 21,404	\$ 33,642	\$ 55,046
2007	21,404	32,953	54,357
2008	25,167	32,265	57,432
2009	25,167	31,450	56,617
2010	25,167	30,636	55,803
2011-2015	136,735	140,570	277,305
2016-2020	161,511	116,536	278,047
2021-2025	197,106	88,193	285,299
2026-2030	216,549	53,849	270,398
2031-2035	221,880	17,710	239,590
2036-2040	222,274	354	222,628
2041-2045	154,530	–	154,530
2046	10,583	–	10,583
Total	\$1,439,477	\$ 578,158	\$2,017,635

Changes in Repayment Obligation Balance

December 31 2004 Balance	Additions	Reductions	December 31 2005 Balance	Amount Due Within One Year
	<i>(in thousands)</i>			
\$1,460,881	\$ –	\$ 21,404	\$1,439,477	\$ 21,404
December 31 2003 Balance	Additions	Reductions	December 31 2004 Balance	Amount Due Within One Year
	<i>(in thousands)</i>			
\$1,482,285	\$ –	\$ 21,404	\$1,460,881	\$ 21,404

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

3. Master Repayment Agreement (continued)

Amounts Recorded in Financial Statements

The repayment obligation and amounts due on that obligation reported in these financial statements reflect the terms of the Amended Stipulation. The District's repayment obligation and the amounts due could be adjusted in the future if the Repayment Litigation resumes.

It is not possible to predict whether the Amended Stipulation will become finally effective and result in the entry of final judgment in the Repayment Litigation in accordance with the terms of the Amended Stipulation, be amended again, or terminate, or whether litigation will resume. If litigation resumes, and results in an adverse determination on any of the major issues in dispute, it could have a material adverse effect on the financial operations of the District.

4. Operations

Operations and Maintenance Agreement

Reclamation has transferred responsibility for operation and maintenance of completed CAP features to the District. The District performs these responsibilities under the Master Repayment Agreement, an agreement with Reclamation for the operation and maintenance of the facilities (the OM&R Transfer Contract), and an Operating Agreement between Reclamation and the District that took effect as part of the settlement Stipulation.

Water Delivery Contracts and Subcontracts

Long-term CAP water service began pursuant to contracts and subcontracts on October 1, 1993, upon notice of completion of the water supply system. The term of the contracts and subcontracts is generally 50 years beginning January 1, 1994, and the contracts and subcontracts are renewable. Water deliveries for 2005 were 1,276,120 acre-feet.

Long-term subcontracts have been signed by municipal and industrial (M&I) entities for approximately 87% of the total CAP M&I water allocation of 638,823 acre-feet. Of the CAP water currently under M&I subcontracts the cities of Tucson, Phoenix, Mesa, Scottsdale, Peoria and Glendale account for approximately 67%. All ten Indian entities originally allocated CAP water by the Secretary signed long-term CAP contracts for the CAP Indian water allocation of 309,828 acre-feet. Up to 357,896 acre-feet of additional CAP water has been or could be allocated to Indian entities or treated as Indian water supplies as a result of completed, pending or future Indian water rights settlements. The remaining available CAP water was allocated to non-Indian agricultural entities.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

4. Operations (continued)

The non-Indian subcontracts require the payment of a water service capital charge and an OM&R charge. For the M&I subcontractors, the water service capital charge is applicable to each subcontractor's maximum annual entitlement to CAP water. Under the current M&I water service subcontracts and current District pricing structure, the M&I water service capital charge is an escalating charge, which began at an annual rate of \$10.50 per acre-foot of entitlement in 1994, increasing to \$48 per acre-foot of entitlement by 1999. The M&I water service capital charge has gradually been reduced since 2001 to a rate of \$28 per acre-foot for 2005. The amount of this M&I water service capital charge may be adjusted periodically by the District as a result of repayment determinations provided for in the Master Repayment Agreement and to reflect all sources of revenue, but the water service capital charge will not be greater than necessary to amortize project capital costs allocated to the M&I function with interest. Indian contractors of CAP water pay no water service capital charge, since the capital costs associated with the delivery of CAP water to Indian entities are not reimbursable by the District pursuant to the Master Repayment Agreement.

The OM&R costs of the CAP are of two types: energy costs and fixed costs. Energy costs are incurred to pump water from the Colorado River through the CAP aqueduct system and fixed costs are the non-energy costs associated with operation, maintenance and replacement. The District has completed a cost of service study to better define what components properly constitute fixed OM&R costs and how to allocate those costs among classes of CAP water users.

M&I subcontractors and Indian contractors must pay OM&R charges on water scheduled for delivery.

Indian tribes, or the United States on behalf of Indian tribes, will pay the fixed OM&R charges and pumping energy charges associated with the delivery of CAP water to Indian tribes. If the conditions of the Settlements Act are satisfied and the Act becomes effective, the United States may use funds available in the Development Fund to pay Indian fixed OM&R charges beginning in 2010. The United States pays OM&R charges for water delivered to the Ak-Chin Indian Community pursuant to a 1984 settlement of that tribe's water rights claims. Disputes that existed with respect to the amounts of those charges and the proper method of calculating OM&R charges were conditionally resolved as part of the settlement Stipulation.

As an integral part of the Settlements Act, the District also offers a special pool of excess water to non-Indian agricultural water users. Those users pay pumping energy charges, but not fixed OM&R charges, for that water.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

4. Operations (continued)

The District's Board of Directors reviews charges annually and sets a rate schedule for the succeeding five years. The water service charges to be charged M&I subcontractors and the United States on behalf of Indian contractors of CAP water service for 2005 were confirmed by the Board of Directors in June 2004. In order to facilitate water planning, the Board of Directors also established advisory rates for the period 2005 through 2008. Since approving the Amended Stipulation, the use of the 1993 Plan for rate-setting purposes has been replaced by an annual update of the District's Long-Range Financial Forecast (LRFF).

If the assumptions reflected in the LRFF prove to be materially incorrect or the objectives of the LRFF are not achieved, and the Amended Stipulation is terminated or expires, the capital repayment and OM&R costs allocated to M&I subcontractors, and the OM&R costs allocated to the United States on behalf of Indian contractors, could be significantly higher than anticipated. M&I subcontractors use CAP water in their total water supply in various percentages and fund their payment of the District's charges in a variety of ways. Therefore, it is difficult to estimate the effect of possible increases in the water service charges on M&I subcontractors and on retail ratepayers, if applicable, including households in the service areas of CAP M&I subcontractors.

The District purchased over-threshold pumping power that was purchased in excess of energy needs in 2004. The District sold this energy at the end of 2004. As of December 31, 2004, the District had \$10,969,000 included in other receivables. The \$10,969,000 was collected in January 2005.

5. Power

Navajo Power Plant

Reclamation is one of six participants in the Navajo Generating Station (NGS). NGS consists of three 750,000 kilowatt coal-fired, steam-electric generating units which commenced operations in 1974 through 1976, a railroad to deliver fuel and 500 kilovolt transmission lines and switching stations to deliver the power and energy to the various participants. An agreement among the participants governs the construction, operation, and maintenance of NGS. Reclamation entered into this agreement in order to acquire a portion of the capacity of NGS for supplying the power requirements of the CAP. Reclamation has a 24.3% entitlement in the generating station, resulting in a power entitlement of 546,750 kilowatts of nominal capacity. The District is charged for the costs associated with the energy used to operate the CAP.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

5. Power (continued)

Hoover B Power Purchases

The 1984 Hoover Power Plant Act (Hoover Act) authorized upgrading the Hoover power plant, located at Hoover Dam, to increase generating capacity at the plant by 503 megawatts (MW). This additional capacity and its associated energy is known as Hoover B Power. The Hoover Act allocated 188 MW and 212,000 megawatt hours (MWh) of associated firm annual energy of the Hoover B Power to purchasers in Arizona. The Arizona Power Authority (Authority) distributes Arizona's share of the Hoover B Power. The District has contracted with Arizona Power Authority for all but 26.5 MW of Hoover B Power.

Power Revenues

Power revenues are derived from the sale of surplus power from NGS (power associated with Reclamation's NGS entitlement that is in excess of the pumping requirements of the CAP) and from a surcharge on energy sold in Arizona from the Hoover power plant.

Additional Rate Component

The Hoover Act authorized the establishment and collection of additional rate components on sales and exchanges of the capacity and energy associated with Reclamation's NGS entitlement in excess of the pumping requirements of the CAP and any needs for desalting and protective pumping facilities as may be required under the Colorado River Basin Salinity Control Act (Navajo surplus). The Hoover Act further authorized the payment of revenues from such additional rate components to entities that have advanced funds for the construction and repayment of construction costs of the CAP.

The Secretary determined that the excess capacity and energy, which constitutes Navajo surplus to be marketed pursuant to long-term contracts, is 400,000 kilowatts of capacity and 760 kilowatt hours of energy per year per kilowatt of such capacity. The District and Reclamation have entered into power sales contracts with Salt River Project Agricultural Improvement and Power District (Salt River Project) for the sale of an aggregate of 350,000 kilowatts of such capacity and the associated energy from May 1993 through September 2011.

The additional rate component on the sale of such capacity has been established by the District at \$6 per kilowatt of allocated capacity per month. Revenues from the additional rate component are paid directly to the District's bond trustee to repay the contract revenue bonds sold by the District.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

5. Power (continued)

Sale of Remaining Navajo Surplus

The District has entered into a contract with Salt River Project, Reclamation and the Department of Energy for the sale of the remaining Navajo surplus. The contract, which is for the period June 1994 through September 2011, grants Salt River Project the use of the remaining United States entitlement to output of the Navajo Generating Station, the right to schedule and integrate with the Salt River Project system the District's contractual rights to Hoover capacity and energy and energy produced at New Waddell Dam, and certain transmission rights, and requires Salt River Project to sell energy at cost to the District to meet CAP pumping requirements up to a defined threshold level for each contract year. If CAP energy requirements exceed the threshold, the District must purchase additional energy either from Salt River Project or through other energy sources. Under the contract, Salt River Project pays a monthly charge of \$1,812,500 to the Development Fund. The District records these revenues as funds held by the federal government as of December 31 of each year and then applies them against the annual payment due from the District under the Master Repayment Agreement the following January 15. The extent to which such revenues must be applied against the annual payments due from the District under the Master Repayment Agreement is among the issues that were in dispute in the Repayment Litigation and were conditionally resolved in the Stipulation.

Hoover Surcharge

The Hoover Act also provided for the addition of a surcharge to the rates for energy sold from the Hoover and Parker-Davis power plants of 4.5 mills per kilowatt-hour for energy sold in Arizona. Revenues from the surcharge on Hoover power sales began in 1987 and revenues from Parker-Davis power sales began in 2005. Revenues from this surcharge are credited to the Development Fund.

The District records these revenues as funds held by the federal government as of December 31 of each year and then applies them against the annual payment due from the District the following January 15. The extent to which such revenues must be applied against the annual payments due from the District under the Master Repayment Agreement is among the issues that were in dispute in the Repayment Litigation and were conditionally resolved in the Stipulation.

6. Cash and Investments

Cash

As of December 31, 2005, the District reported \$353,000 in cash on its general ledger with bank balances of \$1,752,000. The CAWCD Insurance Company, Inc. accounts are on demand deposit at First Hawaiian Bank. The Federal Insurance Deposit Corporation (FDIC) insures the accounts for a total of \$100,000. There are no other collateral for the CAWCD Insurance Company, Inc., accounts and thus \$1,132,000 in account bank deposits are subject to custodial credit risk.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

6. Cash and Investments (continued)

The Arizona statutes require that funds be guaranteed for at least 102% of the deposit. Eligible collateral can be any of the following: 1) obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities, 2) collateralized repurchase agreements purchased from securities, 3) bonds or other evidences of indebtedness of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, and 4) Arizona treasurer's warrant notes. The District has no formal custodial credit risk policy.

Investments

As a multi-county water conservation district, the Arizona State Treasurer as prescribed by the District's Enabling Act holds the District's investments, including the restricted assets in Note 7, except for the bond trust account and the state demonstration project account for 2004. The District had money in CAWCD Long-Term Pool 12, Pool 500 (LGIP Long-Term Pool), and LGIP-Pool 5 (Local Government Investment Pool).

The target duration of the CAWCD Long-Term Pool 12 is 4.5 years. Securities, at time of purchase, will carry, as a minimum, an A or better rating by either Moody's Investors Service or Standard and Poor's Rating Service or their successors. Eligible securities include U.S. Treasury, agency, corporate notes, mortgage backed securities/asset backed securities, and money market instruments with a minimum rating of A1/P1.

The LGIP Long-Term Pool 500 is used to meet the longer-term investment needs of local government/public entities. The investments have a shorter-term investment requirement than the CAWCD Long-Term Pool. The final maturity, or applicable average life based on Bloomberg average pre-payment estimates at time of purchase, of any fixed-rate security shall not exceed 5 years from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed 5 years. The duration for the pool shall not exceed .75 years greater than the Merrill 1-5 U.S. Domestic Master Index. The investment policy objectives of the Arizona State Treasurer, in order of priority, are safety of principal, liquidity, and return on investments.

The State Treasurer's Office invests in SEC-registered investment company shares that have readily available share prices. Fair values of securities are determined using Bank of New York (BONY) prices. BONY obtains prices from independent, industry leading data vendors whose values are either exchange provided or matrix based on similar securities. Equity securities are priced utilizing the primary market close price. In the absence of a closed price, the mid, bid or ask price will be utilized. All bonds are priced using an evaluated price, the closing exchange price or the most recent exchange or quoted bid. The official price is normally the last traded price. Short-term instruments such as certificates of deposit and commercial paper are based an internal model which uses primarily a vendor price. The State

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

Treasurer also compares all equity prices to Bloomberg's Index Alert. Any differences in prices are researched and generally Bloomberg's end of day price is used over BONY's price.

The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with A.R. S. §35-311.

The District's portion of pooled investments as of December 31, 2005, consist of the following (stated at fair value):

	<i>(in thousands)</i>
Pooled investments – current:	
Local Government Investment Pool 5	\$ 84,515
Pooled investments – noncurrent	
CAWCD Long-Term Pool 12	54,357
Local Government Investment Pool Long-Term Pool 500	29,183
	<hr/>
	83,540
Pooled investments – included in restricted assets	
Local Government Investment Pool Long-Term Pool 5	2,624
CAWCD Long-Term Pool 12	50,208
	<hr/>
	52,832
	<hr/>
	<u>\$220,887</u>

The pooled investments are not rated by a nationally recognized statistical rating organization. The District does not have a credit risk policy for its pooled investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investments. The District does not have an interest rate risk policy for its pooled investments.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

6. Deposits and Investments (continued)

At December 31, 2005, the interest rate risk of the three pools in the aggregate are:

	Market Value	Weighted Average Maturity (Years)
Local Government Investment Pool 5	\$ 87,142	0.85
Local Government Investment Pool Long-Term Pool 500	29,183	5.81
CAWCD Long-Term Pool 12	104,562	7.21
	\$220,887	4.52

The Board of Directors has designated \$50,000,000 of the Pool 12 investments as capital projects funds, \$5,000,000 as insurance reserves and \$20,000,000 of the Pool 500 investments as operating reserve funds at December 31, 2005.

7. Restricted Assets

Restricted assets, including accrued interest receivable, consist of the following:

	December 31	
	2005	2004
	<i>(in thousands)</i>	
Bond trust accounts, primarily debt service accounts	\$ 39,108	\$ 38,645
State Demonstration Project account	–	3,427
Master Repayment Agreement repayment and operating reserves	44,399	44,284
CAGR account	2,627	181
Ak-Chin account	5,922	5,764
	\$ 92,056	\$ 92,301

Bond Trust Accounts

Bond trust accounts held by the trustee may be invested in direct obligations of, or obligations guaranteed by the U.S. government, FNMA or FHLMC securities, certificates of deposit, obligations of any state or political subdivision, or a guaranteed investment contract (GIC), all subject to meeting certain ratings by national agencies, and maximum maturity limits. The trustee holds the investments in trust for the District and the bondholders pursuant to the trust agreements.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

7. Restricted Assets (continued)

As of December 31, 2005, the bond trust accounts consist primarily of two GICs: HBCS (formerly Republic National Bank of New York) and Bayerische Landesbank. The District does not have a formal policy on credit risk.

HBCS is rated A+ by S&P and Aa3 by Moody's. The Pricing (interest) Rate is 6.64% per annum which shall not be reduced for any reason and is collateralized at a margin amount of 112% which shall not be reduced for any reason. There is no interest rate risk.

Bayerische Landesbank is rated AAA by S&P and Aaa by Moody's. The Pricing (interest) Rate is 7.54% and it is collateralized at a margin amount of 103%. There is no interest rate risk.

State Demonstration Projects

The restricted asset of \$3,427,000 at December 31, 2004, was used for planning, developing and operating State Demonstration Recharge projects during 2005. A 1996 amendment to State law expanded the District's 4-cent ad valorem taxing authority to include Pinal County in addition to Maricopa and Pima Counties and created the Arizona Water Banking Authority (AWBA) which stores water at recharge sites. Pursuant to this authority, the District levied an ad valorem tax of 4 cents per \$100 assessed valuation in Maricopa, Pinal, and Pima Counties in 2003 and 2004. For the 2003-2004 and 2004-2005 tax years, revenues were deposited with the District and used by the District to defray the annual operation, maintenance and replacement costs associated with the purchase of CAP water by the AWBA. During 2005 and 2004, the District sold 92,732 and 270,284 acre-feet of excess CAP water to the AWBA at \$73 and \$70 per acre-foot, respectively, for underground storage.

Master Repayment and Operating Reserves

The District is required under the terms of the Master Repayment Agreement to establish and fund over a ten-year period (1) an operations and maintenance reserve fund of \$4,000,000 for extraordinary costs of operations, maintenance and replacement of project works, and (2) a repayment reserve fund of \$40,000,000 for the purpose of assuring payments of future obligations.

At December 31, 2005, the fair value of the operations and maintenance and repayment reserves totaled \$4,399,000, and \$40,000,000, respectively, including interest. See the cash and investments footnote (Note 6) for risk disclosures as of December 31, 2005 related to investments held by the Arizona State Treasurer.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

7. Restricted Assets (continued)

CAGRD Account

The District is required by state statute to use replenishment reserve charges and fees within each active management area together with all interest earned on these charges and fees to store water in the active management area in advance of groundwater replenishment obligations for the purpose of developing long-term storage credits. See the cash and investments footnote (Note 6) for risk disclosures as of December 31, 2005 related to investments held by the Arizona State Treasurer.

Ak-Chin Account

In August 1985, the District's Board of Directors approved participation in an account established pursuant to legislation enacted by the Congress of the United States for the acquisition or conservation of water to supplement CAP water supplies (Ak-Chin account). The District and the United States government each have contributed \$1,000,000 to this account, which is administered by the District.

The District, acting as administrator of the account, is empowered to direct the expenditure of the trust funds in accordance with the provisions of a trust agreement between the District and the Arizona State Treasurer.

In November 2004, the Ak-Chin account was transferred from the LGIP to the CAWCD Long Term Pool, which invests primarily in U.S. Treasury, agency, corporate notes, mortgage backed securities/asset backed securities, and money market instruments with a minimum rating of A1/P1 and has a target duration of four to five years. See the cash and investments footnote (Note 6) for the disclosures as of December 31, 2005 related to investments held by the Arizona State Treasurer.

8. Advances to Federal Government

At December 31, 2005 and 2004, the District has incurred \$495,963 and \$3,055,998, respectively, in costs related to repairs of CAP construction and siphon deficiencies which have been recorded in the accompanying financial statements as advances to the federal government. The District applied these amounts against its annual payments due under the Master Repayment Agreement on January 15, 2006 and 2005, respectively. On a cumulative basis, the District has incurred costs of \$49,088,000 for the correction of CAP construction and siphon deficiencies and applied this amount against its annual payments under the Master Repayment Agreement. Under the Stipulation, credits available for application against the amounts due from the District are subject to audit by the United States.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

9. Underground Water Storage and Recovery

In 1992, the District entered into an agreement with the Metropolitan Water District of Southern California (MWD) and subsequently with Southern Nevada Water Authority (SNWA), whereby up to an aggregate of 100,000 acre-feet of interstate underground water storage credits would be set aside for potential assignment to MWD and SNWA in years in which there is a surplus on the Colorado River. Once assigned, MWD and SNWA can request recovery of these credits in years in which there is a normal supply on the Colorado River. If assigned credits are recovered, the District must forbear diversion of Colorado River water in an amount diverted by MWD and SNWA, and recover the stored credits in an amount equal to the CAWCD's reduced diversion. In 1995, the agreement with MWD was amended, increasing the amount of water that can be stored from 100,000 acre-feet to 300,000 acre-feet.

In 1999, the Secretary adopted regulations that allow the AWBA to engage in interstate banking of Colorado River water in cooperation with other lower basin states. The rules require agreements between the AWBA, the Secretary, and the authorized entity in the other lower basin state.

The AWBA has completed the agreements necessary to conduct interstate water banking with SNWA. Under the terms of the agreement, the AWBA will store an additional 1,200,000 acre-feet of credits in Arizona for SNWA. The District has transferred credits previously stored by the District on behalf of SNWA (50,000 acre-feet) to the AWBA to hold in its SNWA storage account. At present, MWD has not entered into interstate storage agreements with AWBA required for MWD to participate in interstate water banking. As of December 31, 2005, the District held 89,000 acre-feet of credits in its storage credit account on behalf of MWD.

The 1993 state demonstration project agreement requires that when stored water is recovered, the associated account is to be debited by 110% of the amount being recovered. As a result, only about 91% of the storage credits are available for recovery. Ultimately there will be 1,245,455 acre-feet for SNWA and 80,909 acre-feet for MWD of recoverable credits.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

10. Bonds Payable

Bonds payable consist of the following:

	December 31	
	2005	2004
	<i>(in thousands)</i>	
Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Bonds, Series A 1990 (1990 Bonds) (original maturity amount of \$19,470,000, excluding 1990 Bonds which have been refunded), due in varying annual amounts through 2011; interest rate for capital appreciation is a yield of 7.25%:		
Capital appreciation (maturity value of \$11,760,000)	\$ 10,322	\$ 9,613
	10,322	9,613
Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Bonds, Series B 1991 (1991 Bonds) (original maturity amount of \$29,685,000, excluding 1991 Bonds which have been refunded), due in varying amounts through 2011; interest rates vary among individual maturities ranging from 5.80% to 6.80%:		
Term	100	100
Capital appreciation (maturity value of \$23,095,000)	7,405	14,335
	7,505	14,435
Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Refunding Bonds, Series A 1993 (1993 Bonds) (original maturity amount of \$106,535,000), due in varying annual amounts through 2010; interest rates vary among individual maturities ranging from 5.0% to 5.50%:	55,050	66,921
Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Refunding Bonds, Series B 1994 (1994 Bonds) (original maturity amount of \$53,430,000), due in varying amounts through 2009; interest rates vary among individual maturities ranging from 4.50% to 4.75%:		
Serial	23,996	25,836
Subordinate serial	3,295	3,836
Deferred loss on refunding	(1,506)	(2,037)
	25,785	27,635
	98,662	118,604
Less current portion	(22,850)	(22,085)
	\$ 75,812	\$ 96,519

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

10. Bonds Payable (continued)

Changes in bonds payable during the year ended December 31, 2005, are summarized below:

	Balance December 31 2004	Additions	Redemption	Accretion and Amortization	Balance December 31 2005	Amounts Due Within One Year
<i>(in thousands)</i>						
1990 Bonds						
Capital appreciation	\$ 9,613	\$ -	\$ -	\$ 709	\$ 10,322	\$ -
1991 Bonds						
Term	100	-	-	-	100	-
Capital appreciation	14,335	-	7,700	770	7,405	7,700
1993 Bonds	66,921	-	11,935	64	55,050	12,580
1994 Bonds		-				
Serial	25,836	-	1,905	65	23,996	1,995
Subordinate serial	3,836	-	545	4	3,295	575
Deferred loss	(2,037)	-	-	531	(1,506)	-
	<u>\$ 118,604</u>	<u>\$ -</u>	<u>\$ 22,085</u>	<u>\$ 2,143</u>	<u>\$ 98,662</u>	<u>\$ 22,850</u>

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

10. Bonds Payable (continued)

Changes in bonds payable during the year ended December 31, 2004, are summarized below:

	Balance December 31 2003	Additions	Redemption	Accretion and Amortization	Balance December 31 2004	Amounts Due Within One Year
<i>(in thousands)</i>						
1990 Bonds						
Capital appreciation	\$ 8,952	\$ -	\$ -	\$ 661	\$ 9,613	\$ -
1991 Bonds						
Term	100	-	-	-	100	-
Capital appreciation	20,820	-	7,695	1,210	14,335	7,700
1993 Bonds	78,188	-	11,335	68	66,921	11,935
1994 Bonds						
Serial	27,595	-	1,825	66	25,836	1,905
Subordinate serial	4,352	-	520	4	3,836	545
Deferred loss	(2,525)	-	-	488	(2,037)	-
	<u>\$ 137,482</u>	<u>\$ -</u>	<u>\$ 21,375</u>	<u>\$ 2,497</u>	<u>\$ 118,604</u>	<u>\$ 22,085</u>

The 1990 Bonds and 1993 Bonds are secured by a pledge of revenues, and related interest thereon, from the additional rate component charged by the District to the Salt River Project on the sale of 200 MW of allocated capacity of surplus power associated with Reclamation's 24.3% entitlement in Navajo. The 1991 Bonds and 1994 Bonds are secured by a similar pledge of revenues from the additional rate component charged Salt River Project on the sale of an additional 150 MW of allocated Navajo capacity.

The 1990 and 1991 Bonds are not subject to optional redemption. The 1994 Bonds are subject to optional redemption commencing in 2004 at a price of 102% with a declining price to par in 2006.

Debt service requirements to maturity, which include the sinking fund requirement and interest of \$12,936,000 for the six series of bonds are as follows: Years ending: 2006: \$27,160,000; 2007: \$27,155,000; 2008: \$27,134,000; 2009: \$19,185,000; 2010: \$14,602,000 and 2011: \$21,000.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

10. Bonds Payable (continued)

In 1994, the District adopted Governmental Accounting Standard Board Statement No. 23 (GASB No. 23), *Accounting and Financing Reporting for Refundings of Debt Reported by Proprietary Activities*, and has deferred the accounting loss of \$8,109,000 related to the 1991 Bonds. The accounting loss is being amortized to income on the interest method over the life of the 1994 Bonds.

A 2001 refunding resulted in an accounting loss of \$328,800 and \$316,500 (on the 1990 Bonds and 1991 Bonds, respectively), but will result in a reduction in the aggregate debt service payments of approximately \$5,120,788. Under GASB No. 23, the District has deferred the accounting loss. The accounting loss is being amortized to income on the interest method over the life of the 2001 Bonds.

11. Commitments, Contingencies and Subsequent Events

Insurance Reserve

The District's Board of Directors has designated \$5,000,000 of noncurrent unrestricted investments to act as a reserve for property and liability damages to be available to respond to any claims, judgments, and related costs against the District, its officers, directors, and employees, if any, in excess of the outstanding insurance coverage.

Litigation

The District is a party to various pieces of litigation, some of which could result in increases in costs or monetary liability. The most significant of these is the Repayment Litigation, discussed above, if the conditions of the Amended Stipulation are not satisfied or if the Amended Stipulation is terminated and litigation resumes for any other reason. In addition, the District has intervened in an action that challenges the Secretary's authority to reallocate CAP water as called for by the Amended Stipulation and has participated with other similarly situated water users in the filing of friend of the court briefs in certain cases that could affect the District's ability to receive delivery of Colorado River water under its Master Repayment Agreement, to operate the CAP as intended, or to complete the settlements that are conditions to the final effectiveness of the Amended Stipulation. The outcome of these matters cannot be predicted at this time.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

12. Pension Plans

Benefits were provided for service prior to July 1, 1998, through the Central Arizona Water Conservation District Retirement Plan (the District Plan) and from July 1, 1998 through December 31, 2005, through the Arizona State Retirement System Plan (ASRS Plan). Employees retired or terminated prior to July 1, 1998, or their beneficiaries, continue to be provided benefits through the District Plan, which was terminated in 2004. Annuities were purchased during 2004 to cover remaining obligations.

Arizona State Retirement System Plan

Effective July 1, 1998, the District became a member of the ASRS, a cost-sharing, multiple-employer, public employee retirement system established by the State of Arizona to provide benefits for employees of the State and participating political subdivisions and school districts. The ASRS Board administers the ASRS Plan, which is a defined benefit pension plan. The ASRS Plan provides for retirement, disability, health insurance premium benefits, and death and survivor benefits as established by State statute. Substantially all employees of the District are covered by the ASRS Plan.

The ASRS Plan issues a Comprehensive Annual Financial Report, including financial statements and supplemental information, which may be obtained by writing to Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix Arizona 85067-3910 or by calling (602) 240-2000 or 1-800-621-3778.

The Arizona Revised Statutes provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. The employee and employer contribution rates for the ASRS Plan years ending June 30, 2005, June 30, 2004, and June 30, 2003, were set at 5.70%, 5.70% and 2.49%, respectively, of covered wages as determined by actuarial computations. The contribution rate for plan year ending June 30, 2006, will be 7.40%.

Contributions for calendar years 2005, 2004 and 2003 were \$4,292,085, \$3,424,891, and \$2,346,411, respectively, for both employees and the District.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

12. Pension Plans (continued)

Post Employment Benefit Plan

The District provides post employment health care benefits to employees who are eligible for monthly retirement benefits under the pension plan and who have received coverage under the District's group medical plan for at least five years preceding retirement. Coverage is also available to the employee's legal spouse provided that certain conditions are met and to other dependents as required by law. This post employment benefit plan is funded on a pay-as-you-go basis and there are currently three employees eligible to receive benefits. The current annual cost is \$3,600 per year. Based on life expectancies, the District recorded an expense and a liability of \$313,000 during 2000. The liability on December 31, 2005 is \$52,332.

13. Savings and Deferred Compensation Plans

The District has adopted and maintains the Central Arizona Water Conservation District Savings Plan (Savings Plan), a defined contribution plan, in accordance with Section 401(k) of the Internal Revenue Code. The Savings Plan provides that all active, nonunion employees are eligible to participate as of their date of employment. The Savings Plan is governed by the Board of Trustees.

Eligible employees are allowed to contribute up to 16% of their biweekly compensation, and the District has agreed to contribute to an employee's account an amount equal to one-half of the amount contributed by the employee up to three percent of the employee's biweekly compensation. Contributions expense, paid by the district for the Savings Plan for the years ended December 31, 2005 and 2004 was approximately \$802,000 and \$779,000, respectively. Contributions paid by employees were approximately \$2,710,000 and \$2,637,245, respectively. Accrued benefits attributable to the District's contributions on behalf of participants vest 20% for each year of completed service.

During 2003, the District adopted and currently maintains the Central Arizona Water Conservation District Deferred Compensation Plan in accordance with Section 457 of the Internal Revenue Code. The District does not make contributions to this plan. Only employee contributions are accepted.

14. Asset Retirement Obligation

The District has an asset retirement obligation for the Navajo Generating Station, of which the District's share is 24.3%. The asset retirement obligation primarily relates to final plant decommissioning. This obligation is based on the requirements for removing portions of the plant at the end of the lease term. The estimated liability for the District's portion of the decommissioning in 2044 is approximately \$32,420,000. The present value of the obligation at December 31, 2005 and 2004 was \$4,835,000 and \$4,605,000, respectively. The obligation is being accreted using a discount rate of 5.0%.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

14. Asset Retirement Obligation (continued)

The following schedule shows the change in the District's asset retirement obligations during the years ended December 31, 2005 and 2004 (dollars in thousands):

	<u>2005</u>	<u>2004</u>
Balance at January 1	\$ 4,605	\$ 4,386
Changes attributable to accretion expense	<u>230</u>	<u>219</u>
Balance at December 31	<u>\$ 4,835</u>	<u>\$ 4,605</u>

15. Tax Levy Authority

The District has the authority to levy two limited ad valorem taxes against all taxable property within its boundaries. The first ad valorem tax, which may not exceed 10 cents per \$100 of assessed valuation, is for the District's operations and payment of the District's repayment obligation to the United States. The second ad valorem tax, which may not exceed 4 cents per \$100 of assessed valuation, is for water storage to the extent that it is not required for the District's operations or payment of the repayment obligation. The ad valorem tax for operations and repayment was levied at 8 cents per \$100 of assessed valuation for the tax years ending 2003, 2004 and 2005. The ad valorem tax for water storage was levied at 4 cents per \$100 of assessed valuation for the tax years ending 2003, 2004 and 2005. The ad valorem tax for water storage is deposited with the District to be used by the District to defray the annual operation, maintenance and replacement cost associated with the purchase of CAP water by the AWBA. The respective counties collect property taxes on behalf of the District.

The ad valorem property tax is levied against all taxable property in the District. In each county within the District, the County Assessor establishes a full cash value for each parcel of taxable property. Based on the applicable property classification ratio, the assessed value of each parcel is determined. (For example, commercial and industrial property is assessed at 25% of full cash value, and owner-occupied residential property is assessed at 10% of full cash value.)

The property taxes due to the District are billed, along with State, County and other property taxes, in September of each year and are payable in two installments, October and March. The delinquent tax dates are November 1 and May 1 and delinquent taxes are subject to a penalty of 16% per annum unless the full year tax is paid by December 31. At the close of the tax collection period, the County Treasurer prepares a delinquent property tax list and the property so listed is advertised for sale in February of the succeeding year. In the event that there is no purchaser for the property at the tax sale, the title to such

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

15. Tax Levy Authority (continued)

property is vested in the State, and the property is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent and current taxes.

Additional information concerning the full cash value and assessed value of property within the District's service area, tax levies and tax collections appears in the Other Statistical and District Information section.

16. Risk Management and Captive Insurance

The District maintains a risk management program to protect it from financial harm by identifying, analyzing and controlling risk at the lowest possible cost. Under this program, the District believes it is more economical to manage risks internally and insure for catastrophic loss. The District's Board of Directors has designated \$5,000,000 of noncurrent unrestricted investments as a reserve for property and liability damages. With the exception of automobile physical damage, which is self-insured, the District insures itself through the CAWCD Insurance Company, Inc. (Captive).

The Captive was incorporated under the laws of the State of Hawaii as a nonprofit captive insurance company pursuant to Article 19 of Chapter 431 of the Hawaii Revised Statutes. The Captive received its Certificate of Authority from the Hawaii Insurance Division on December 18, 2003 and operations commenced on January 1, 2004. The Certificate of Authority enables the Captive to operate as a captive insurance company in the State of Hawaii. The District is the sole member of the Captive. The Captive provides the first \$2,000,000 of coverage on all lines of coverage. The District also purchases reinsurance on property, public officials liability and workers' compensation over the \$2,000,000 covered by the Captive.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses includes the unpaid accumulation of case estimates for losses reported, estimates for losses incurred but not reported, and estimates of expenses for investigating and adjusting incurred losses. The reserve for unpaid losses and loss adjustment expenses is based upon the aggregated loss experience of the District and is estimated using individual case-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency. However, management believes the reserve for losses and loss adjustment expenses is adequate. The estimates are continually reviewed and adjusted, as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

17. Multi-Species Conservation Program

On March 3, 2005, the District's Board of Directors adopted a resolution authorizing participation in the Lower Colorado River Multi-Species Conservation Program (LCR MSCP) and approving related documents.

The LCR MSCP is a comprehensive program for the protection of 26 covered species and their habitat in the Lower Colorado River Basin, including six endangered and threatened species. The purpose of the LCR MSCP is to comply with the Endangered Species Act (Act) and thereby protect existing and future activities associated with water use and power production.

The LCR MSCP is intended to satisfy the requirements of Section 7 of the Act for the federal agencies involved and the requirements for issuance of a Section 10 permit to the non-federal participants for the non-federal activities covered by the program.

The covered Arizona activities include on-going diversions of Colorado River water by users such as the CAP, future diversions, including transfers of Colorado River entitlements and changes in the points of diversion of up to 200,000 acre-feet per year, and on-going and future use of hydropower from Hoover, Parker and Davis Dams. The Section 10 permit issued to Arizona participants, including the District, authorizes the "incidental taking" of covered species during the course of carrying out covered activities.

The total costs of the program are approximately \$626,000,000, in 2003 dollars, over the 50-year period of the program and the permit. The federal government will bear 50% of this cost. The Lower Basin States of Arizona, California and Nevada will bear the other 50%. Of the share allocated to the States, Arizona will bear 25%, or approximately \$78 million. These costs will be indexed for inflation.

The Arizona participants in the program include 26 entities that are agencies that have been actively involved in developing the program since its inception or are water or power users that want the protection of the Section 10 permit. The documents include: an Implementing Agreement Among state and federal Participants; a Funding and Management Agreement among state and federal Participants; a Trust Indenture and Joint Payment Agreement from Arizona participants to a trustee; and a Permit issued by the United States Fish and Wildlife Service.

Central Arizona Water Conservation District

Notes to Financial Statements (continued)

17. Multi-Species Conservation Program (continued)

The Implementing Agreement essentially defines the relationship of the parties to the Fish and Wildlife Service with respect to the LCR MSCP. The Funding and Management Agreement defines the obligations of the state parties and Reclamation with respect to payment of MSCP costs. The Trust Indenture and Joint Payment Agreement from Arizona participants to a trustee defines the relationship of the Arizona parties with respect to payment of Arizona's share of MSCP costs. The Permit issued by the United States Fish and Wildlife Service is the document that gives the state parties the right to "take" species during the course of carrying out otherwise lawful activities such as water diversion and power use.

The Funding and Management Agreement allows Arizona to pay less than 25% of the States' costs during the first ten years, in return for agreeing to make up the difference between what it pays in the early years and 25% over the next 20 years, with an inflation adjustment at the agreed rate. The District has agreed to underwrite payment of Arizona's share of MSCP costs. The District may elect to pay the full 25% at any time.

Under the Trust Indenture and Joint Payment Agreement, water and power users named in the Permit are required to share in paying Arizona's share of MSCP costs. Pre-1968 and post-1968 water users (including the District) will pay 25 cents per acre-foot of consumptive use of Colorado River water during the first ten years of the program; pre-1968 water users will pay 50 cents per acre-foot thereafter and post-1968 water users (including the District) will pay \$1.00 per acre-foot thereafter. These amounts are in 2003 dollars, and are to be escalated by a specified inflation index. Power users in Arizona will pay 12.5% of Arizona's costs. The District will have the obligation under the Trust Indenture and Joint Payment Agreement to pay any portion of the Arizona obligation that is not covered by the payments made by other Arizona participants. No party will have any right to enforce the obligation to pay other than through requesting that the Fish and Wildlife Service suspend or revoke the permit as to any party that fails to pay its share.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT
OTHER FINANCIAL INFORMATION

Central Arizona Water Conservation District
Statement of Net Assets - by Fund and Account

December 31, 2005
(In thousands)

	Total	Reclassifications and Eliminations	General Fund	Ak-Chin Account	Central Arizona Ground Water Replenishment District Account	State Demonstration Project Account	Series A & B Bond Account	Captive Insurance Company
Assets								
Current assets:								
Cash	\$ 353	\$ -	\$ (1,539)	\$ -	\$ -	\$ -	\$ -	\$ 1,892
Cash equivalents	84,515	-	82,519	-	1,996	-	-	-
Total cash and cash equivalents	84,868	-	80,980	-	1,996	-	-	1,892
Receivables:								
Accrued interest receivable	1,726	-	1,696	-	30	-	-	-
Due from water customers, less allowance for doubtful accounts	11,414	-	11,414	-	-	-	-	-
Other	2,864	-	1,305	-	1,559	-	-	-
Materials and supplies inventory	4,369	-	4,369	-	-	-	-	-
Water inventory	20,843	-	19,559	-	1,284	-	-	-
Interfund receivable	-	(312)	-	-	290	22	-	-
Other	1,390	-	1,378	-	-	-	-	12
Total current assets	127,474	(312)	120,701	-	5,159	22	-	1,904
Noncurrent assets:								
Funds held by federal government	51,096	-	51,096	-	-	-	-	-
Investments	92,056	-	44,399	5,922	2,627	-	39,108	-
Advances to federal government	496	-	496	-	-	-	-	-
Capital assets, less accumulated depreciation	68,414	-	68,414	-	-	-	-	-
Permanent service right, less accumulated amortization	1,430,538	-	1,430,538	-	-	-	-	-
Bond issuance costs, net of amortization	228	-	-	-	-	-	228	-
Total noncurrent assets	1,642,828	-	1,594,943	5,922	2,627	-	39,336	-
Total assets	\$ 1,770,302	\$ (312)	\$ 1,715,644	\$ 5,922	\$ 7,786	\$ 22	\$ 39,336	\$ 1,904

Central Arizona Water Conservation District
Statement of Net Assets - by Fund and Account

December 31, 2005
(In thousands)

	Total	Reclassifications and Eliminations	General Fund	Ak-Chin Account	Central Arizona Ground Water Replenishment District Account	State Demonstration Project Account	Series A & B Bond Account	Captive Insurance Company
Liabilities								
Current liabilities:								
Accounts payable	\$ 28,171	\$ -	\$ 24,187	\$ -	\$ 2,227	\$ -	\$ 406	\$ 1,351
Accrued payroll, payroll taxes and other accrued expenses	5,625	-	5,625	-	-	-	-	-
Water operations and capital charges deferred revenue	15,987	-	15,987	-	-	-	-	-
Interfund payable	-	(312)	312	-	-	-	-	-
Current liabilities payable from restricted assets, advances to federal government, and other noncurrent assets:								
Accrued interest payable	34,336	-	33,642	-	-	-	694	-
Repayment obligation, due within one year	21,404	-	21,404	-	-	-	-	-
Contract revenue bonds, due within one year	22,850	-	-	-	-	-	22,850	-
Total current liabilities	128,373	(312)	101,157	-	2,227	-	23,950	1,351
Noncurrent liabilities:								
Repayment obligation, due after one year	1,418,073	-	1,418,073	-	-	-	-	-
Contract revenue bonds, due after one year, net of unamortized discounts	75,812	-	-	-	-	-	75,812	-
Other noncurrent liabilities	6,952	-	6,952	-	-	-	-	-
Total noncurrent liabilities	1,500,837	-	1,425,025	-	-	-	75,812	-
Total liabilities	1,629,210	(312)	1,526,182	-	2,227	-	99,762	1,351
Net assets (deficits)								
Invested in capital assets, less related debt	(38,959)	-	59,475	-	-	-	(98,434)	-
Restricted bond trust accounts, State Demonstration project, master repayment agreement, Ak-Chin account	57,314	-	10,757	5,922	2,627	-	38,008	-
Unrestricted	206,277	(350)	203,120	-	2,932	22	-	553
Total net assets (deficit)	224,632	(350)	273,352	5,922	5,559	22	(60,426)	553
Total liabilities and net assets	\$ 1,853,842	\$ (662)	\$ 1,799,534	\$ 5,922	\$ 7,786	\$ 22	\$ 39,336	\$ 1,904

Central Arizona Water Conservation District
Statement of Revenues, Expenses and Changes in Net Assets – By Fund and Account
Year Ended December 31, 2005
(In thousands)

	Total	Reclassifications and Eliminations	General Fund	Ak-Chin Account	Central Arizona Ground Water Replenishment District Account	State Demonstration Project Account	Series A & B Bond Account	Captive Insurance Company
Operating revenues								
Water operations and maintenance charges	\$ 92,126	\$ –	\$ 92,126	\$ –	\$ –	\$ –	\$ –	\$ –
Water service capital charges	20,283	–	20,283	–	–	–	–	–
Power and Basin Development Fund revenues	75,729	–	50,529	–	–	–	25,200	–
Reimbursements and other operating revenues	9,848	(3,728)	3,863	–	9,045	–	–	668
Total operating revenues	197,986	(3,728)	166,801	–	9,045	–	25,200	668
Operating expenses								
Salaries and related costs	40,143	(376)	40,104	–	326	89	–	–
Pumping power	58,094	–	58,094	–	–	–	–	–
Power transmission	1,492	–	1,492	–	–	–	–	–
Hoover capacity charges	2,515	–	2,515	–	–	–	–	–
Amortization of permanent service right	30,403	–	30,403	–	–	–	–	–
Depreciation	8,086	–	8,086	–	–	–	–	–
Provision for doubtful accounts	540	–	540	–	–	–	–	–
Other operating expenses	23,490	(3,352)	17,358	–	3,386	5,506	11	581
Total operating expenses	164,763	(3,728)	158,592	–	3,712	5,595	11	581
Operating income (loss) before unusual expense item	33,223	–	8,209	–	5,333	(5,595)	25,189	87
Nonoperating revenues (expenses)								
Property taxes	46,267	–	46,267	–	–	–	–	–
Interest income and other nonoperating revenues	9,416	(28)	6,401	158	77	135	2,642	31
Interest expense and other nonoperating expenses	(40,975)	28	(33,660)	–	(27)	–	(7,316)	–
Total nonoperating revenues (expenses)	14,708	–	19,008	158	50	135	(4,674)	31
Change in net assets	47,931	–	27,217	158	5,383	(5,460)	20,515	118
Net assets at beginning of year	176,701	(350)	246,135	5,764	176	5,482	(80,941)	435
Net assets at end of year	\$ 224,632	\$ (350)	\$ 273,352	\$ 5,922	\$ 5,559	\$ 22	\$ (60,426)	\$ 553

Central Arizona Water Conservation District

Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Bonds, Series A 1990, and Contract Revenue Refunding Bonds, Series A 1993
Schedule of Activity – Bond Account

Year ended December 31, 2005

Description	Bond Account	
	Principal Sub-Account	Interest Sub-Account
	<i>(in thousands)</i>	
Balance at December 31, 2004	\$ 4,375	\$ 613
Transfers from:		
Revenue Fund	12,508	3,566
Interest payments	–	(3,674)
Redemptions	(11,935)	–
Interest earned on account	630	76
Interest transferred to revenue fund	(630)	(76)
Balance at December 31, 2005	<u>\$ 4,948</u>	<u>\$ 505</u>

Note 1: The above schedule discloses only activity in the Principal and Interest Sub-Accounts of the Bond Fund as established by the Bond Indenture relating to the Contract Revenue Bonds, and Contract Revenue Refunding Bonds between the Central Arizona Water Conservation District and Bank of New York (California), as trustee, dated May 1, 1990 as amended by the Supplemental Indentures dated March 1, 1993, and September 1, 2001, and does not include activity in various other accounts and funds held by the trustee pursuant thereto. There were no balances and no activity in the Sinking and Subordinate Debt Accounts of the Bond Account as of and for the year ended December 31, 2005.

Central Arizona Water Conservation District

Central Arizona Water Conservation District (Central Arizona Project) Contract Revenue Bonds, Series B 1991, Contract Revenue Refunding Bonds, Series B 1994, and Contract Revenue Refunding Subordinate Bonds, Series B
Schedule of Activity – Bond Account

Year ended December 31, 2005

Description	Bond Account			
	Principal Sub-Account	Interest Sub-Account	Subordinate Debt Account	Sinking Account
	<i>(in thousands)</i>			
Balance at December 31, 2004	\$ 314	\$ 219	\$ 325	\$ 2,361
Transfers from:				
Revenue Fund	1,920	1,278	651	8,028
Interest payments	–	(1,293)	(104)	–
Redemptions	(1,905)	–	(545)	(7,700)
Interest and dividends earned on account	142	24	70	100
Interest and dividends transferred to revenue fund	(142)	(24)	(70)	(96)
Balance at December 31, 2005	<u>\$ 329</u>	<u>\$ 204</u>	<u>\$ 327</u>	<u>\$ 2,693</u>

Note 1: The above schedule discloses only activity in the Principal, Interest, Subordinate Debt, and Sinking Account Sub-Accounts of the Bond Account as established by the Bond Indenture relating to the Contract Revenue Bonds, Contract Revenue Refunding Bonds, and Contract Revenue Refunding Subordinate Bonds between the Central Arizona Water Conservation District and Bank of New York (California), as trustee, dated August 1, 1991 as amended by the Supplemental Indentures dated February 1, 1994, and September 1, 2001, and does not include activity in various other accounts and funds held by the trustee pursuant thereto.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

OTHER STATISTICAL AND DISTRICT INFORMATION

(UNAUDITED)

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Net Assets by Component
(Dollars in Millions)

	2000	2001	2002	2003	2004	2005
Investments in capital assets, net of debt	\$ (125)	\$ (109)	\$ (100)	\$ (80)	\$ (58)	\$ (39)
Restricted	96	63	58	55	57	58
Unrestricted	184	189	193	180	178	206
Total net assets	<u>\$ 155</u>	<u>\$ 143</u>	<u>\$ 151</u>	<u>\$ 155</u>	<u>\$ 177</u>	<u>\$ 225</u>

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Change in Net Assets
(Dollars in Thousands)

	2000	2001	2002	2003	2004	2005
Operating revenues						
Water operations & maintenance charges	\$ 60,516	\$ 56,892	\$ 73,964	\$ 71,115	\$ 89,840	\$ 92,126
Water service capital charges	28,283	25,417	28,585	25,765	19,416	20,283
Power & Basin Fund revenues	51,533	56,747	61,333	53,068	59,494	75,729
Reimbursements & other operating revenues	3,729	5,561	3,914	12,991	16,328	9,848
Total operating revenues	144,061	144,617	167,796	162,939	185,078	197,986
Total operating expenses	123,424	148,641	149,977	150,817	170,574	164,763
Operating income (loss)	20,637	(4,024)	17,819	12,122	14,504	33,223
Nonoperating revenues (expenses)						
Property taxes, less assignment to AWBA	23,629	24,152	27,113	33,619	42,864	46,267
Interest income	21,009	16,410	11,920	7,171	7,126	9,416
Interest expense & other nonoperating expenses	(49,895)	(48,553)	(48,736)	(45,984)	(42,786)	(40,975)
Total nonoperating revenues (expenses)	(5,257)	(7,991)	(9,703)	(5,194)	7,204	14,708
Change in net assets, before cumulative effect of change in accounting principle	15,380	(12,015)	8,116	6,928	21,708	47,931
Cumulative effect of change in accounting principle	–	–	–	(3,066)	–	–
Change in net assets	15,380	(12,015)	8,116	3,862	21,708	47,931
Net assets at beginning of year	139,650	155,030	143,015	151,131	154,993	176,701
Net assets at end of year	\$ 155,030	\$ 143,015	\$ 151,131	\$ 154,993	\$ 176,701	\$ 224,632

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Set Water Delivery Rates for Various Classes of Water Service

Units = \$/ acre-foot

(The Letter Designations in the Formulas Refer to the Rate Components Shown Below)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Municipal and Industrial					
Long Term Subcontract (C+D)	\$ 58	\$ 62	\$ 66	\$ 74	\$ 79
Excess Water (A+C+D)	101	105	109	106	107
AWBA/CAGRDR Recharge (0.1xC+E+\$6/af)	45	55	54	70	73
Incentive Recharge (0.1xC+E+\$6/af)	45	55	54	70	73
AWBA Interstate Recharge (A+C+F+G)	164	189	144	161	153
Federal (C+D)	58	62	66	74	79
Agricultural					
Pool 1	34	35	36	-	-
Pool 2	24	25	26	-	-
Pool 3	36	36	38	-	-
RSEDRA (Drought)	36	36	38	-	
Settlement Pool (D)	-	-	-	28	32
Long Term Subcontract (B+C+D)	-	-	-	76	81
Miscellaneous (E+\$5/af)	45	55	66	66	67
<u>RATE COMPONENTS</u>					
Capital Charges					
(A) Municipal and Industrial - Long Term Subcontract	43	43	32	32	28
(B) Agricultural - Long Term Subcontract	2	2	2	2	2
Delivery Charges					
(C) Fixed OM&R	29	33	46	46	47
(D) Pumping Energy Rate 1	29	29	28	28	32
(E) Pumping Energy Rate 2	40	50	61	61	62
(F) Pumping Energy Rate 3	72	95	62	62	58
(G) Property Tax Equivalency	-	-	-	20	20

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Set Water Delivery Rates for Various Classes of Water Service (continued)
 Units = \$/ acre-foot
 (The Letter Designations in the Formulas Refer to the Rate Components Shown Below)

	2001	2002	2003	2004	2005
<u>DIRECT RECHARGE</u>					
Recharge O&M					
Phoenix AMA	\$ -	\$ -	\$ -	\$ 8	\$ 8
Avra Valley	21	21	25	-	-
Pima Mine Road	9	6	7	-	-
Lower Santa Cruz	13	13	11	-	-
Agua Fria	2	4	4	-	-
Hieroglyphic Mountains	N/A	8	9	-	-
Tonopah	N/A	N/A	N/A	-	-
Tucson AMA	-	-	-	11	12
Recharge Capital Charge					
Phoenix AMA	N/A	N/A	N/A	15	15
Tucson AMA	N/A	N/A	N/A	9	9

Qualifications for Various Classes of Water Service

Long Term Municipal and Industrial (M&I) Subcontract--M&I subcontractors.

Excess--M&I users who are not subcontractors and the CAGR; rate is for "as available" water.

AWBA/CAGR and M&I Incentive Recharge--The Arizona Water Banking Authority (available for scheduling after all other schedules have been filled) and M&I subcontractors and other Arizona entities who have valid Arizona Department of Water Resources permits and accrue long term recharge/storage credits from this activity.

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Central Arizona Groundwater Replenishment District Assessment Rates

Units = \$/acre-foot

	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Phoenix Active Management Area						
Water & Replenishment Component	\$ -	\$ -	\$ -	\$ 116	\$ 117	\$ 121
Administrative Component	-	-	-	45	40	40
Infrastructure & Water Rights Component	-	-	-	15	20	40
Replenishment Reserve Charge	-	-	-	12	28	30
Total Assessment Rate (\$/AF)	187	189	164	188	205	231
Pinal Active Management Area						
Water & Replenishment Component	-	-	-	109	80	83
Administrative Component	-	-	-	45	40	40
Infrastructure & Water Rights Component	-	-	-	15	20	40
Replenishment Reserve Charge	-	-	-	-	21	21
Total Assessment Rate (\$/AF)	161	161	165	169	161	184
Tucson Active Management Area						
Water & Replenishment Component	-	-	-	127	121	125
Administrative Component	-	-	-	45	40	40
Infrastructure & Water Rights Component	-	-	-	15	20	40
Replenishment Reserve Charge	-	-	-	12	27	31
Total Assessment Rate (\$/AF)	187	188	198	199	208	236
Contract Replenishment Tax - Scottsdale						
Cost of Water	-	-	-	109	106	107
Cost of Transportation	-	-	-	-	-	-
Cost of Replenishment	-	-	-	-	-	-
Administrative Component	-	-	-	45	40	40
Total Tax Rate (\$/AF)	N/A	N/A	N/A	154	146	147
Enrollment Fee	N/A	N/A	N/A	N/A	20	20
Activation Fee	N/A	N/A	N/A	N/A	60	60

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Acre/Feet of Water Delivered by Water Customer Type

Description	2001	2002	2003	2004	2005
Municipal & Industrial	263,284	372,853	520,307	560,398	394,231
Agricultural	471,203	584,929	555,372	400,967	381,731
Federal	123,584	134,897	139,367	191,477	137,705
Recharge	463,586	366,403	336,016	429,531	242,716
Interstate Water Banking	N/A	66,595	N/A	15,258	120,541
Total	1,321,657	1,525,677	1,551,062	1,597,631	1,276,924
Capital Charges A/F Allocation	555,440	555,440	555,440	555,440	555,440

Note: Excludes transfer of stored water credits to CAGR

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Principal Revenue Payers (Dollars) -- Annual Top Ten

	2001	2002	2003	2004	2005
Payers					
Active Resource Management	N/A	N/A	N/A	\$ 3,500,000	N/A
Ak-Chin Indian Community	\$ 3,744,596	\$ 4,440,812	\$ 4,575,186	5,127,086	\$ 6,006,150
AZ Water Bank	9,394,101	23,885,330	11,505,040	21,684,477	27,952,871
Central Arizona Irrigation & Drainage District	3,967,412	3,868,480	4,399,931	3,456,712	4,477,520
City of Glendale	2,139,847	N/A	2,465,048	N/A	N/A
City of Mesa	6,710,226	6,929,372	4,142,332	4,048,344	4,685,028
City of Peoria	N/A	N/A	N/A	N/A	2,290,690
City of Phoenix	11,845,424	12,409,008	15,513,788	14,455,308	14,110,344
City of Scottsdale	4,724,068	5,365,783	5,512,967	5,979,757	5,387,807
City of Tucson	7,288,633	7,763,082	8,291,238	8,538,572	8,673,132
Gila River Indian Community (Toka Sticks)	N/A	2,321,632	N/A	3,996,206	N/A
Harquahala Valley Irrigation District	3,621,072	3,418,724	2,364,446	N/A	N/A
Maricopa-Stanfield Irr. & Drainage District	4,662,403	3,789,240	4,893,082	3,889,936	5,566,468
Vidler Water Company	N/A	N/A	N/A	N/A	2,438,482

Note: Includes revenue from water O&M and capital charges

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Acre/Feet of Water Delivered by Customer Type -- Top Ten Customers

Customer Type	2001	2002	2003	2004	2005
Municipal & Industrial					
Agua Fria (Citizens)	9,761	N/A	N/A	N/A	N/A
AZ-American Water Co	N/A	10,861	N/A	N/A	N/A
AZ-American Water Co (Sun City)	N/A	N/A	11,961	N/A	N/A
AZ-American Water Co (Apache Jt)	5,163	N/A	N/A	N/A	N/A
AZ-American Water Co (West Vlly)	N/A	N/A	N/A	13,061	14,161
AZ Water Bank	N/A	66,595	N/A	15,258	120,541
CAGR D	5,127	7,292	10,999	N/A	14,411
Chaparral City Water Co	6,003	N/A	N/A	N/A	N/A
City of Chandler	4,980	7,963	N/A	N/A	N/A
City of Glendale	18,152	12,671	19,763	16,589	15,391
City of Mesa	21,853	33,704	30,059	34,041	24,394
City of Peoria	N/A	N/A	12,407	15,657	17,200
City of Phoenix	106,781	107,199	138,337	130,638	122,100
City of Scottsdale	37,641	48,890	49,295	52,208	44,164
City of Tempe	N/A	N/A	9,800	9,812	N/A
City of Tucson	19,176	20,433	42,597	56,590	61,596
Salt River Project	N/A	10,449	138,606	153,566	16,716
Agricultural					
BKW Farms	N/A	N/A	N/A	N/A	3,740
Central AZ Irrigation & Drainage	123,404	132,404	143,201	123,454	114,156
Cortaro Marana Irrigation District	N/A	N/A	N/A	N/A	5,750
Gila River Indian Community	N/A	68,150	62,667	N/A	N/A
Harquahala Valley Irrigation Dist	102,980	96,023	64,333	31,462	44,238
HoHoKam Irrigation Dist	20,545	30,149	31,166	39,921	36,915
Maricopa-Stanfield Irrig & Drainage	129,692	129,692	154,117	120,892	111,961
Maricopa Water District	N/A	N/A	15,715	4,296	N/A
New Magma Irrig & Drainage	42,546	46,546	43,775	29,023	31,083
Queen Creek Water Company	26,094	31,094	27,094	18,112	18,112
Roosevelt Water Conserv District	3,604	N/A	N/A	7,500	7,845
Salt River Project	N/A	N/A	N/A	4,081	N/A
San Carlos Irrigation District	1,173	39,618	3,986	9,676	N/A
Tonopah Irrigation District	6,436	5,259	5,259	N/A	3,460
V.F. Investments	2,057	3,954	N/A	N/A	N/A

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Acre/Feet of Water Delivered by Customer Type -- Top Ten Customers (continued)

Customer Type	2001	2002	2003	2004	2005
Recharge					
Active Resource Management	N/A	N/A	27,000	50,000	24,925
AZ Water Banking Authority	110,409	279,294	213,095	270,284	92,732
Central AZ Groundwater Replen Dist	N/A	N/A	N/A	N/A	7,715
Central AZ Irrig & Drainage Dist	11,016	N/A	N/A	N/A	N/A
City of Avondale	N/A	N/A	5,355	9,856	5,000
City of Chandler	23,888	15,525	13,800	20,000	21,000
City of Goodyear	17,670	23,121	23,594	23,000	13,324
City of Mesa	80,000	54,000	7,000	N/A	16,129
City of Peoria	N/A	3,500	N/A	N/A	5,206
City of Scottsdale	N/A	N/A	3,071	3,530	N/A
City of Tempe	10,007	10,025	N/A	7,000	N/A
City of Tucson	N/A	8,533	N/A	N/A	N/A
HoHoKam Irrigation District	54,928	N/A	N/A	N/A	N/A
Maricopa-Stanfield Irr & Drainage Dist	47,755	N/A	N/A	N/A	N/A
Metro Domestic Water Improve Dist	N/A	7,104	N/A	N/A	N/A
New Magma Irr & Drainage Dist	44,835	N/A	N/A	N/A	N/A
Pinal Cty Water Augmentation Auth	N/A	N/A	N/A	3,071	N/A
Salt River Project	14,935	N/A	N/A	N/A	N/A
Town of Gilbert	N/A	7,500	7,000	17,000	10,000
Vidler Water Company	N/A	10,945	25,196	30,130	32,411
Water Utilities Com Facilities Dist	N/A	N/A	2,883	N/A	N/A
Federal					
Ak-Chin Indian Community	64,124	71,626	69,321	69,229	71,705
Anthem (Ak-Chin)	N/A	3,249	4,300	4,810	3,727
City of Chandler	7,658	7,652	7,657	7,668	3,395
City of Glendale	5,355	5,351	5,355	5,362	5,358
City of Mesa	4,924	4,920	4,923	4,931	4,927
City of Phoenix	13,232	13,225	13,230	13,243	13,236
Del-Webb (Ak-Chin)	9,500	6,150	N/A	N/A	N/A
Gila River Indian Comm (Toka Sticks)	N/A	N/A	N/A	53,986	N/A
San Carlos Apache Tribe	4,166	7,000	10,285	6,301	6,597
San Xavier Co-op Farm	820	N/A	1,516	N/A	2,625
Schuk Toak	N/A	N/A	N/A	N/A	10,739
Tohono O'Odham Indian Nation	8,337	9,899	11,892	11,141	N/A
Town of Gilbert	4,592	3,741	9,712	11,686	12,086

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Acres/Feet of Water Delivered by Customer Type -- Top Ten Customers (continued)

Customer Type	2001	2002	2003	2004	2005
Total					
Active Resource Mgmt	N/A	N/A	N/A	50,000	N/A
Ak-Chin Indian Community	64,124	71,626	69,321	69,229	71,705
AZ Water Bank	110,409	345,889	213,095	285,542	213,273
Central AZ Irrigation & Drainage	143,420	132,404	143,201	123,454	114,156
City of Mesa	106,777	92,624	N/A	N/A	45,450
City of Phoenix	120,013	120,424	151,567	143,881	135,336
City of Scottsdale	47,444	52,066	53,054	56,426	47,558
City of Tucson	N/A	N/A	N/A	56,590	61,596
Gila River Indian Comm (Toka)	N/A	68,150	62,667	53,986	N/A
Harquahala Valley Irrig District	102,980	96,023	64,333	N/A	44,238
HoHoKam Irrigation District	75,473	N/A	N/A	N/A	36,915
Maricopa-Stanfield Irr & Drainage	177,447	129,692	154,117	120,892	111,961
New Magma Irrigation & Drainage	87,381	46,546	43,775	N/A	N/A
Salt River Project	N/A	N/A	138,606	157,647	N/A
Capital Charges A/F Allocation	N/A	N/A	N/A	N/A	N/A
Agua Fria (Citizens)	11,093	N/A	N/A	N/A	N/A
AZ-American Water Co (Aqua Fria)	N/A	11,093	11,093	N/A	N/A
AZ-American Water Co (West Valley)	N/A	N/A	N/A	17,654	17,654
AZ State Land Dept	32,076	32,076	32,076	32,076	32,076
ASARCO, Ray Mine	21,000	21,000	21,000	21,000	21,000
Casa Grande System (AZ Water Co)	8,884	8,884	8,884	8,884	8,884
City of Glendale	14,183	14,183	14,183	14,183	14,183
City of Mesa	36,388	36,388	36,388	36,388	36,388
City of Peoria	19,709	19,709	19,709	19,709	19,709
City of Phoenix	113,914	113,914	113,914	113,914	113,914
City of Scottsdale	48,529	49,829	49,829	49,829	49,829
City of Tucson	138,920	138,920	134,466	135,966	135,966

**Central Arizona Water Conservation District
Other Statistical and District Information (Unaudited)**

**Schedule of Customer Activity—Water Delivery Charges and Subcontractor Capital Charges
Year Ended December 31, 2005**

Customer	WATER DELIVERY CHARGES										SUBCONTRACTOR CAPITAL CHARGES		TOTAL PAID
	Municipal & Industrial		Agricultural		Recharge		Federal		Total		Acre-Foot Allocation	Revenue \$ (a)	
	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$			
Active Resource Management	-	\$ -	-	\$ -	24,925	\$ 1,819,525	-	\$ -	24,925	\$ 1,819,525	-	\$ -	\$ 1,819,525
Ak-Chin Indian Community	-	-	-	-	-	-	71,705	6,006,150	71,705	6,006,150	-	-	6,006,150
Ancala Country Club	463	49,541	-	-	-	-	-	-	463	49,541	-	-	49,541
Anthem (Ak-Chin)	-	-	-	-	-	-	3,727	345,334	3,727	345,334	-	-	345,334
Apache Jct Water Co	362	30,384	-	-	2,883	210,459	-	-	3,245	240,843	-	-	240,843
AZ-American Water Co. (Paradise Valley)	2,730	215,670	-	-	-	-	-	-	2,730	215,670	3,231	90,468	306,138
AZ-American Water Co. (West Valley Cities)	14,161	1,118,719	-	-	-	-	-	-	14,161	1,118,719	17,654	494,312	1,613,031
AZ Pacific Materials	64	12,848	-	-	-	-	-	-	64	12,848	-	-	12,848
AZ Public Service	85	22,820	-	-	-	-	-	-	85	22,820	-	-	22,820
AZ State Land Dept.	955	75,680	-	-	-	-	-	-	955	75,680	32,076	898,128	973,808
AZ Water Banking Authority	120,541	22,785,645	-	-	92,732	5,167,226	-	-	213,273	27,952,871	-	-	27,952,871
AZ Water Co/Apch. Jct.	4,962	391,998	-	-	-	-	-	-	4,962	391,998	6,000	168,000	559,998
AZ Wholesale Growers	24	4,068	-	-	-	-	-	-	24	4,068	-	-	4,068
ASARCO, Ray Mine	-	-	-	-	-	-	-	-	-	-	21,000	588,000	588,000
ASU Karsten Golf	610	65,270	-	-	-	-	-	-	610	65,270	-	-	65,270
Berneil Water Company	-	-	-	-	-	-	-	-	-	-	200	5,600	5,600
BKW Farms	-	-	3,740	119,680	-	-	-	-	3,740	119,680	-	-	119,680
Carefree Water Co.	529	47,948	-	-	-	-	-	-	529	47,948	1,300	36,400	84,348
Casa Grande System (AZ Water Co.)	2,554	213,610	-	-	-	-	-	-	2,554	213,610	8,884	248,752	462,362
Cave Creek Water Co.	1,385	112,470	-	-	-	-	-	-	1,385	112,470	1,600	44,800	157,270
Central Arizona Groundwater Replenishment District	14,411	1,342,639	-	-	7,715	563,195	-	-	22,126	1,905,834	-	-	1,905,834
Central Arizona Irrigation & Drainage District	-	554,528	114,156	3,652,992	-	270,000	-	-	114,156	4,477,520	-	-	4,477,520
Central Arizona Project	-	-	-	-	2,463	179,799	-	-	2,463	179,799	-	-	179,799
Chandler Heights Citrus Irrigation District	-	-	667	21,344	-	10,200	-	-	667	31,544	315	8,820	40,364
Chaparral City Water Co.	6,253	493,987	-	-	-	-	-	-	6,253	493,987	6,978	195,384	689,371
Circle City Water Co.	-	-	-	-	-	-	-	-	-	-	3,932	110,096	110,096
City of Avondale	7,101	608,159	-	-	5,000	365,000	-	-	12,101	973,159	4,746	132,888	1,106,047

Customer	WATER DELIVERY CHARGES										SUBCONTRACTOR CAPITAL CHARGES		TOTAL PAID
	Municipal & Industrial		Agricultural		Recharge		Federal		Total		Acre-Foot Allocation	Revenue \$ (a)	
	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$			
City of Chandler	3,971	\$ 313,709	-	\$ -	21,100	\$ 1,540,300	3,395	\$ 268,628	28,466	\$ 2,122,637	3,668	\$ 102,704	\$ 2,225,341
City of Eloy	2,086	167,144	-	-	-	-	-	-	2,086	167,144	2,171	60,788	227,932
City of Glendale	15,391	1,249,713	-	-	-	-	5,358	423,282	20,749	1,672,995	14,183	397,124	2,070,119
City of Goodyear	-	-	-	-	13,324	991,264	-	-	13,324	991,264	3,381	94,668	1,085,932
City of Mesa	24,394	2,095,433	-	-	16,129	1,181,498	4,927	389,233	45,450	3,666,164	36,388	1,018,864	4,685,028
City of Peoria	17,200	1,358,800	-	-	5,206	380,038	-	-	22,406	1,738,838	19,709	551,852	2,290,690
City of Phoenix	122,100	9,875,108	-	-	-	-	13,236	1,045,644	135,336	10,920,752	113,914	3,189,592	14,110,344
City of Scottsdale	44,164	3,702,007	-	-	2,706	236,236	688	54,352	47,558	3,992,595	49,829	1,395,212	5,387,807
City of Surprise	-	-	-	-	-	-	-	-	-	-	7,373	206,444	206,444
City of Tempe	3,975	592,364	-	-	-	-	188	14,852	4,163	607,216	4,315	120,820	728,036
City of Tucson	61,596	4,866,084	-	-	-	-	-	-	61,596	4,866,084	135,966	3,807,048	8,673,132
Community Water Co. of Green Valley	-	-	-	-	-	-	-	-	-	-	1,337	37,436	37,436
Coolidge System (AZ Water Co.)	-	-	-	-	-	-	-	-	-	-	2,000	56,000	56,000
Cortaro Marana Irrigation District	-	-	5,750	184,000	-	-	-	-	5,750	184,000	-	-	184,000
Del Webb (Ak-Chin)	-	-	-	-	-	-	357	28,203	357	28,203	-	-	28,203
DMB White Tank, LLC	-	-	-	-	40	2,920	-	-	40	2,920	-	-	2,920
Festival (Ak-Chin)	-	-	-	-	-	-	815	77,968	815	77,968	-	-	77,968
Flowing Wells Irr. District	-	-	-	-	-	-	-	-	-	-	4,354	121,912	121,912
Gila River Indian Community	-	-	-	-	-	-	1,125	88,875	1,125	88,875	-	-	88,875
Green Valley Water Co.	604	47,716	-	-	-	-	-	-	604	47,716	1,900	53,200	100,916
H2O Inc.	370	40,865	-	-	-	-	-	-	370	40,865	-	-	40,865
Harquahala Valley Farm Partnership	-	-	-	10,875	-	-	-	-	-	10,875	-	-	10,875
Harquahala Valley Irrigation District	-	-	44,238	1,415,616	-	-	-	-	44,238	1,415,616	-	-	1,415,616
HoHoKam Irrigation District	-	314,860	36,915	1,181,280	-	285,000	-	-	36,915	1,781,140	-	-	1,781,140
Kai Farms	-	-	1,500	48,000	-	13,830	-	-	1,500	61,830	-	-	61,830
Litchfield Park Service Co.	-	-	-	-	-	-	-	-	-	-	5,580	156,240	156,240
Maricopa County Parks & Recreation Dept.	611	50,572	-	-	-	-	-	-	611	50,572	665	18,620	69,192
Maricopa Drilling & Equipment Co.	1	932	-	-	-	-	-	-	1	932	-	-	932
Maricopa-Stanfield Irrigation & Drainage District	-	1,172,756	111,961	4,123,712	-	270,000	-	-	111,961	5,566,468	-	-	5,566,468
Mazatzal Tree Farm	14	2,323	-	-	-	-	-	-	14	2,323	-	-	2,323
Mesa Family Golf Centers	45	5,940	-	-	-	-	-	-	45	5,940	-	-	5,940
Metropolitan Domestic Water Improvement District	8,858	699,782	-	-	-	-	-	-	8,858	699,782	8,858	248,024	947,806
New Harquahala Generating Co.	351	149,157	-	-	-	-	-	-	351	149,157	-	-	149,157
New Magma Irrigation & Drainage District	-	-	31,083	994,656	-	715,890	-	-	31,083	1,710,546	-	-	1,710,546
New River Utility Co.	-	-	-	-	-	-	-	-	-	-	1,885	52,780	52,780

Customer	WATER DELIVERY CHARGES										SUBCONTRACTOR CAPITAL CHARGES		TOTAL PAID		
	Municipal & Industrial		Agricultural		Recharge		Federal		Total		Acre-Foot Allocation	Revenue \$ (a)			
	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$					
Oasis Golf Resort & Community, LLC	1,959	\$ 209,613	-	\$ -	-	\$ -	-	\$ -	-	\$ -	1,959	\$ 209,613	-	\$ -	\$ 209,613
Phelps Dodge, Inc.	-	-	-	-	-	-	-	-	-	-	-	-	2,906	81,368	81,368
Phoenix Memorial Park Cemetery	-	-	-	-	-	-	-	-	-	-	-	-	84	2,352	2,352
Picacho Elementary School															
District No. 33	10	2,420	-	-	-	-	-	-	-	-	10	2,420	-	-	2,420
Pinal County Water Augmentation Authority	-	-	-	-	265	61,310	-	-	-	-	265	61,310	-	-	61,310
Pinal County Department of Public Works	27	2,889	-	-	-	-	-	-	-	-	27	2,889	-	-	2,889
Pine Water Company	-	-	-	-	-	-	-	-	-	-	-	-	161	4,508	4,508
Queen Creek Irrigation District	-	-	18,112	579,584	-	37,290	-	-	-	-	18,112	616,874	-	-	616,874
Queen Creek Water Co.	1,267	125,825	-	-	-	-	-	-	-	-	1,267	125,825	348	9,744	135,569
Quintero Golf & Country Club	621	85,422	-	-	-	-	-	-	-	-	621	85,422	-	-	85,422
Recreational Center, Inc.	140	14,980	-	-	-	-	-	-	-	-	140	14,980	-	-	14,980
Red Mountain Ranch Country Club	647	69,229	-	-	-	-	-	-	-	-	647	69,229	-	-	69,229
Red Mountain Ranch Owners Assoc.	15	1,680	-	-	-	-	-	-	-	-	15	1,680	-	-	1,680
Rio Verde Utilities, Inc.	285	22,515	-	-	-	-	-	-	-	-	285	22,515	812	22,736	45,251
Roosevelt Water Conservation District	-	-	7,845	251,040	-	-	-	-	-	-	7,845	251,040	-	-	251,040
Salt River Project	16,716	183,876	-	-	-	-	-	-	-	-	16,716	183,876	-	-	183,876
San Carlos Apache Tribe	-	-	-	-	-	-	6,597	521,163	-	-	6,597	521,163	-	-	521,163
San Carlos Irrigation & Drainage District	-	-	2,195	70,240	-	-	-	-	-	-	2,195	70,240	-	-	70,240
San Tan Irrigation District	-	-	-	-	-	-	-	-	-	-	-	-	236	6,608	6,608
San Xavier Co-op Farm	-	-	-	-	-	-	2,625	323,747	-	-	2,625	323,747	-	-	323,747
Schuk Toak	-	-	-	-	-	-	10,739	1,029,848	-	-	10,739	1,029,848	-	-	1,029,848
Shea Sunbelt Pleasant Point, LLC	1,888	202,991	-	-	-	-	-	-	-	-	1,888	202,991	-	-	202,991
Sonoran Land Group	499	55,718	-	-	-	-	-	-	-	-	499	55,718	-	-	55,718
Southern Dunes Golf Club	730	83,360	-	-	-	-	-	-	-	-	730	83,360	-	-	83,360
Spanish Trail Water Co.	-	-	-	-	-	-	-	-	-	-	-	-	3,037	85,036	85,036
Stone Creek Farm	4	503	-	-	-	-	-	-	-	-	4	503	-	-	503
Sun Environments, Inc.	-	75	-	-	-	-	-	-	-	-	-	75	-	-	75
Sun State Rock & Materials Corp.	43	5,876	-	-	-	-	-	-	-	-	43	5,876	-	-	5,876
Sunrise Water Company	-	-	-	-	-	-	-	-	-	-	-	-	944	26,432	26,432
Table Top Nursery	8	856	-	-	-	-	-	-	-	-	8	856	-	-	856
Temporary Water Permits	4,330	418,625	-	-	-	-	-	-	-	-	4,330	418,625	-	-	418,625
Tierra DR	-	-	-	-	-	-	137	29,764	-	-	137	29,764	-	-	29,764
Tonopah Irrigation District	-	-	3,460	110,720	-	-	-	-	-	-	3,460	110,720	-	-	110,720
Tonto Hills Utility Co.	31	2,449	-	-	-	-	-	-	-	-	31	2,449	71	1,988	4,437
Tonto National Forest	50	5,350	-	-	-	-	-	-	-	-	50	5,350	-	-	5,350

Customer	WATER DELIVERY CHARGES										SUBCONTRACTOR CAPITAL CHARGES		TOTAL PAID
	Municipal & Industrial		Agricultural		Recharge		Federal		Total		Acre-Feet Allocation	Revenue \$ (a)	
	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$	A/F Delivered	Revenue \$			
Town of Buckeye	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	434	\$ 12,152	\$ 12,152
Town of Florence	2,048	161,792	-	-	-	-	-	-	2,048	161,792	2,048	57,344	219,136
Town of Gilbert	91	327,870	-	-	10,000	730,000	12,086	954,794	22,177	2,012,664	7,235	202,580	2,215,244
Town of Marana	-	-	-	-	2,531	184,763	-	-	2,531	184,763	47	1,316	186,079
Town of Oro Valley	-	-	-	-	2,500	182,500	-	-	2,500	182,500	6,748	188,944	371,444
V.F. Investments	-	-	109	11,663	-	-	-	-	109	11,663	-	-	11,663
Vail Water Company	-	-	-	-	786	57,378	-	-	786	57,378	786	22,008	79,386
Val Vista Lakes	65	6,955	-	-	-	-	-	-	65	6,955	-	-	6,955
Vidler Water Company	-	-	-	-	32,411	2,438,482	-	-	32,411	2,438,482	-	-	2,438,482
Viewpoint RV & Golf Resort	377	53,314	-	-	-	-	-	-	377	53,314	-	-	53,314
Water Utilities Community Facilities District	-	-	-	-	-	-	-	-	-	-	2,919	81,732	81,732
Water Utility of Greater Buckeye, Inc.	-	-	-	-	-	-	-	-	-	-	43	1,204	1,204
Water Utility of Greater Tonopah, Inc.	-	-	-	-	-	-	-	-	-	-	64	1,792	1,792
West End Water Co.	-	-	-	-	-	-	-	-	-	-	157	4,396	4,396
White Tank System (Arizona Water Co.)	-	-	-	-	-	-	-	-	-	-	968	27,104	27,104
Subtotal	514,772	56,895,432	381,731	\$ 12,775,402	242,716	\$ 17,894,103	137,705	\$ 11,601,837	1,276,924	\$ 99,166,774	555,440	\$ 15,552,320	\$ 114,719,094
Water Storage Tax - AWBA	-	-	-	-	-	(2,344,248)	-	-	-	(2,344,248)	-	-	(2,344,248)
Transfer of Stored Water Credits	270	19,710	-	-	-	-	-	-	270	19,710	-	-	19,710
Adjustment	-	15,123	-	-	-	-	-	-	-	15,123	-	-	15,123
TOTAL	515,042	\$ 56,930,265	381,731	\$ 12,775,402	242,716	\$ 15,549,855	137,705	\$ 11,601,837	1,277,194	\$ 96,857,359	555,440	\$ 15,552,320	\$ 112,409,679

Notes:

(a) Excess water deliveries include a component for facility use. Revenues of \$4,731,073 were collected and reflected in Water O&M charges, but recorded in the Statement of Operations as Capital Charges.

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Schedule of Ad Valorem Property Tax – Full Cash Value and Assessed Value

Tax Year	Full Cash Value		Assessed Value	
1998	\$	167,921,203,091	\$	21,253,568,043
1999		181,711,885,662		23,318,202,275
2000		202,047,209,445		25,784,794,867
2001		224,701,894,776		28,142,398,130
2002		242,193,366,728		30,156,473,662
2003		281,820,154,268		33,876,622,814
2004		303,542,048,300		36,815,405,953
2005		336,753,118,147		40,525,437,546

Source: Maricopa, Pinal and Pima County Assessor's Office.

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Schedule of Ad Valorem Property Tax – Tax Levy and Collections

Fiscal Year	Tax Levy	Collected to June 30 End of Tax Fiscal Year (a)		Collections in Subsequent years	Total Collections (b)	
		Amount	Percent of Tax Levy		Amount	Percent of Tax Levy
2001-2002	\$ 36,273,596	\$ 34,933,451	96.31%	\$ 977,197	\$ 35,910,648	99.00%
2002-2003	38,887,725	37,471,708	96.36%	1,007,196	38,478,904	98.95%
2003-2004	40,169,000	39,073,592	97.27%	909,236	39,982,828	99.53%
2004-2005	43,871,952	43,209,703	97.08%	(c)	43,209,703	98.49%
2005-2006	48,262,927	(c)	(c)	(c)	(c)	(c)

(a) Reflects collections made through June 30, the end of the taxing fiscal year, on such year’s levy.

(b) Reflects collections made through December 31, 2005 against current and prior levies.

(c) In the process of collection.

Source: Maricopa, Pima and Pinal County Treasurers’ Office

Central Arizona Water Conservation District
Other Statistical and District Information (Unaudited)

Revenue Bonds and Pledged Revenue

Description	2001	2002	2003	2004	2005
Principal Debt	\$ 18,050,000	\$ 18,915,000	\$ 20,235,000	\$ 21,375,000	\$ 22,085,000
Interest Debt	9,324,801	7,518,595	6,653,607	5,784,458	5,072,011
Pledge Revenue from SRP	25,200,000	25,200,000	25,200,000	25,200,000	25,200,000
Debt Service Coverage Ratio	0.920554637	0.953332303	0.937199908	0.927853568	0.927937172
Total Debt on Revenue Bonds	171,246,000	155,045,000	137,482,000	118,604,000	98,662,000

Management

The District is governed by a fifteen-member Board of Directors elected for staggered six year terms by voters in each of its three member counties (Maricopa, Pima, Pinal). The number of directors from each county is based on population. Currently, ten members are elected from Maricopa County, four from Pima County and one from Pinal County. The General Manger supervises the District's current staff of approximately 460 full-time employees. The current members of the District's Executive Staff are as follows:

General Manager	David S. ("Sid") Wilson, Jr.
Deputy General Manager-Operations, Planning and Engineering	Larry R. Dozier
Assistant General Manager-Maintenance	John D. Newman
Assistant General Manager-Employee Services	Donna M. Murphy
General Counsel	Douglas K. Miller
Assistant General Manager-Finance and Information Technologies	Theodore C. Cooke
Director-Communications, Public Affairs and Governmental Relations	Kathryn B. Schmitt
Executive Associate	Donna J. Micetic

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Full-Time Equivalent Employees by Function/Program

Function/Program	Full Time Equivalent Positions (Average)								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Manager	6.3	6.6	5.6	5.7	5.6	6.0	6.0	6.2	5.5
Legal	6.5	6.8	6.0	6.0	6.1	6.5	6.6	6.6	6.6
Communications, Public Affairs, and Governmental Relations	5.2	6.7	6.0	5.7	6.0	6.3	6.5	6.7	6.8
Operations, Planning, and Engineering	72.4	75.6	82.3	85.6	89.4	92.1	89.3	86.3	89.1
Employee Services	29.8	33.4	35.3	35.1	36.0	37.1	38.4	37.6	37.7
Finance and Information Technologies	46.1	48.9	52.2	50.8	52.1	56.0	55.8	57.6	59.3
Maintenance	236.8	240.4	243.4	248.6	251.0	253.8	250.7	252.3	248.9
Total	403.1	418.4	430.8	437.5	446.2	457.8	453.3	453.3	453.9

Source: District-Financial Services Department

Average calendar year full-time equivalent (FTE) positions are based on actual CAWCD positions filled at the end of each calendar month and then averaged for the calendar year.

Central Arizona Water Conservation District

Other Statistical and District Information (Unaudited)

Capital Asset Statistics
(Dollars in Millions)

	2000	2001	2002	2003	2004	2005
Capital Asset (net of depreciation & amortization)						
Permanent service right	\$ 1,586.0	\$ 1,555.0	\$ 1,521.0	\$ 1,491.0	\$ 1,461.0	\$ 1,430.5
Land	0.2	0.5	0.8	0.8	0.8	0.8
Structures & improvements	1.4	1.3	3.0	3.0	5.4	14.8
Computers	–	8.1	6.7	5.7	3.9	3.6
Furniture/office equipment	1.2	0.1	0.2	0.1	0.2	0.3
Transportation	2.2	2.1	1.8	1.7	1.7	1.8
Field & other equipment	6.6	6.6	7.4	12.5	10.2	11.1
Communications	1.2	0.9	1.9	1.7	2.3	6.1
Construction in progress	10.3	12.4	17.0	22.6	35.7	29.9
Total capital assets	<u>\$ 1,609.1</u>	<u>\$ 1,587.0</u>	<u>\$ 1,559.8</u>	<u>\$ 1,539.1</u>	<u>\$ 1,521.2</u>	<u>\$ 1,498.9</u>