

2006

The City
of Tucson
Water
Department



**Working
with Our
Customers**

**to Build
a
Sustainable
Water Future**

**Annual
Report**

**Fiscal
Year
2006**



Our New Development area provides "one-stop shopping" for customers who come in to request a new water meter.



Tucson, the county seat for Pima County, is the second largest city in Arizona. Incorporated in 1877, the City of Tucson began as a 2 square mile village located in what is now Tucson’s central downtown. It has now grown to approximately 225 square miles and lies within a greater metropolitan region of more than 400 square miles, with a population of over one million people. Tucson Water services customers both inside and outside the Tucson city limits. The Central Arizona Project, delivering water via 335 miles of canals, meets an increasing portion of our community’s water demand.

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**City of
Tucson
Council**

José J. Ibarra
Ward 1

Carol W. West
Ward 2

Karin Uhlich
Ward 3

Shirley C. Scott
Ward 4

Steve Leal
Ward 5

Nina Trasoff
Ward 6

Mike Hein
City Manager



**Letter from
Robert E. Walkup
Mayor**

Cooperation. It's a word that has defined, for me, the best method of ensuring positive outcomes for any decision. In recent years, I've observed a growing spirit of cooperation among many diverse interests in the Tucson region. I believe that the economic and environmental well being of our community and our region depends powerfully on a well-informed and engaged citizenry.

Tucson Water's public education and involvement programs are crucial elements of creating that corps of knowledgeable and involved citizens. By building water wisdom from the ground up among the youngest in our community, they're ensuring that future generations of Tucsonans are prepared to make wise decisions about water.

If we want to make sure that Tucson continues to be a vibrant and thriving community, nothing is more important than careful planning. Tucson Water's Water Plan 2000-2050 was developed as a discussion guide for our community to envision the opportunities and challenges that lie ahead and work together to select strategies that provide the highest potential for a sustainable future.

One example of a cooperative planning effort that has arisen out of the Water Plan outreach program is Tucson Water's Community Conservation Task Force, which represents a broad swath of business, environmental, educational and residential interests. The Task Force was empanelled to develop a consensus list of conservation strategies that have the potential to reduce per capita usage on a permanent basis. Because all segments of the community are involved in the discussion, the Task Force recommendations will already enjoy broad support among those who will be impacted.

Cooperation. It has been a hallmark of Tucson Water's relationship with its customers and the community at large. I hope that commitment comes through clearly as you read through this Annual Report.

Sincerely,

A handwritten signature in black ink that reads "R. Walkup". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Robert E. Walkup
Mayor



**Letter from
David V. Modeer
Director**

Over the past three decades, Tucson has become an internationally recognized leader in water conservation and water resource management. Looking to the future, how can we ensure that we remain a thriving and sustainable community in the decades to come? Four commitments come to mind:

- Make wise water use decisions on a daily basis
- Invest appropriately to ensure a sound water system
- Plan carefully in order to provide adequate supplies of safe and affordable water
- Work together to make important decisions about our water future

In this Annual Report, you will read about Tucson Water’s multi-faceted programs to work cooperatively with our customers and stakeholders in order to meet that final commitment.

As with any successful decision-making process, building a shared foundation of knowledge and information must be a priority. Tucson Water’s education programs are designed to engage students, teachers and parents in classroom and extracurricular activities that will enhance their understanding about the many water issues facing our region. Our outreach programs provide water information to both targeted and general audiences. Tucson Water’s long-standing commitment to public involvement ensures that interested citizens are provided with multiple opportunities to get involved in both operational and planning decisions.

After you’ve read this Annual Report, be sure to visit our web site at www.tucsonaz.gov/water for examples of our many communication programs. I hope that you will be motivated to participate in the community discussions that will take place in the months and years ahead as we work together to ensure a sustainable water future for our desert home.

Sincerely,

David V. Modeer
Director

Citizens’ Water Advisory Committee

- | | | |
|-----------------------|----------------------------|-------------------------|
| Frank J. Boyle, Chair | Keith Gentzler, Vice Chair | Martin M. Fogel |
| Jim Aslin | Robert Emanuel | Robert Logan |
| Corina A. Baca | Dr. Evan Canfield, PE | David A. Smutzer |
| Dr. James J. Riley | James Horvath | James T. Barry, MA, PhD |
| John R. Carhuff | Daniel J. Sullivan | Sarah T. Evans |

Tucson Water

Marie S. Pearthree, PE
Deputy Director

Bruce Johnson
Assistant Director

Dennis Rule
Intergovernmental Affairs

Eric Unangst
Customer Services

Ray Wilson
Operations & Maintenance

Pat Eisenberg, PE
Engineering

Jeff Biggs
Water Quality Management

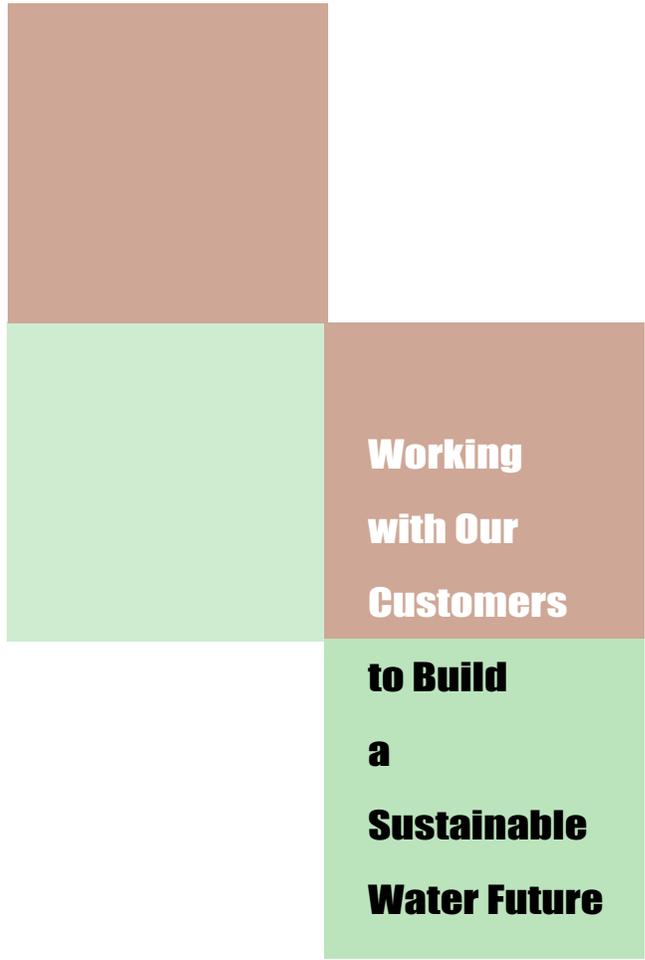
Sandy Elder, PE
Planning

David Cormier, CPA
Business Services

Ralph Marra
Water Resource Management



The Zanjero Program, which provides free, individualized conservation assistance to residential customers, is one of Tucson Water's most popular programs. Call 791-3242 to set up a Zanjero appointment!





Keeping our staff up to date with the latest information is an important part of ensuring that our customers get accurate, timely information on a wide variety of water-related topics.

Working With Our Customers to Build a Sustainable Water Future

Partnerships are important to us at Tucson Water. Whether it's working with advisory groups on water issues and policies, cooperating with educational institutions to teach students and teachers about our water, or asking for our customers'



input on important decisions that will direct our water future, we understand the need and benefits of sharing ideas with an informed and engaged community. We offer many programs to ensure our customers are aware of how we're handling their most precious resource. We greatly value the partnership with our customers, and we need and appreciate their help in finding solutions to the challenges of water sustainability in our desert city.

VOLUNTEER GROUPS

We're fortunate to have many interested Tucsonans willing to serve on water-related volunteer committees and task forces. These groups assist us in policy-making and help ensure our accountability to our ratepayers. Whether they're appointed by our governing body or solicited throughout the community, the volunteers all share a common interest: to ensure our ability to efficiently deliver affordable, high quality water for the long term.

Citizens Water Advisory Committee (CWAC)

As the official advisory body, the CWAC forwards recommendations to the Mayor and Council for action on water issues. Since 1977, the CWAC has provided a direct voice for Tucson Water customers on many water policy issues including the budgeting, financial, and ratemaking processes of the utility. This 15-member committee is made up of Tucson Water customers who have professional or technical experience in an area relevant to a water

utility, such as water resource planning, engineering, law, financial management, or public health, etc. The members, who meet once a month, are appointed by the Mayor and Council and City Manager for up to two four-year terms, and represent water customers in our service area both inside and outside the city limits.

In addition to reviewing Tucson Water's capital and operating and maintenance budgets, the CWAC participates in the development of our utility's annual financial plan and works with staff to determine water rate and other fee recommendations. The committee also assists with water supply and resource planning, conservation education and other issues.

Customer Rate Design Group

Since 2001, the Customer Rate Design Group, consisting of representatives from our major customer classes, has provided input during the annual water rate development process. While representing the interests of their specific customer class, group members gain insight and understanding of our rate process and the rate impacts of the resource and operational issues facing the utility. Tucson Water staff introduces group members to our current water rate design and alternative rate structures, cost of service allocations, and related policies. After some discussion, the group is asked for their input on general rate setting policies, structures, and potential rate design changes. Ultimately, each customer representative recommends a rate structure they believe to be most appropriate for their specific customer class. Their recommendations are provided to the CWAC and Mayor and Council as part of our annual water rates setting process.

Community Conservation Task Force

For decades, Tucson Water customers have been among the most efficient water users in the nation. To reduce our usage further, we must take advantage of new technology, strengthen our conservation programming, and identify funding sources for these initiatives. In 2005, the utility convened the

Working With Our Customers to Build a Sustainable Water Future

Community Conservation Task Force. This group of stakeholders represents a variety of interested groups and individuals, including local businesses, neighborhoods, developers, property managers, environmentalists, landscape professionals, school systems, low-income support agencies and residential customers. The mission of the Task Force is to ensure community involvement in the development of a more aggressive water conservation program strategy that will provide measurable water savings for the future.

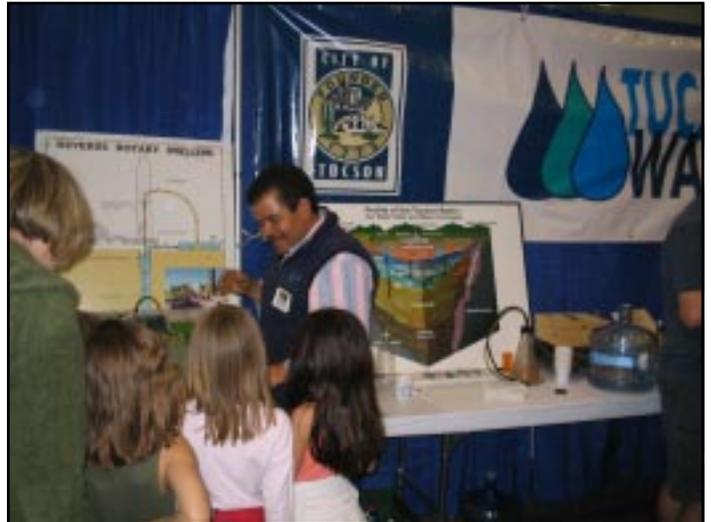
OUTREACH AND EDUCATION

Public outreach and water education have long been a Tucson Water priority. Our Public Information Office is dedicated to “getting the word out” to customers and the community at large. Our programs and activities are designed not only to enhance the public’s knowledge of water-related issues, but to prepare our youth to be tomorrow’s good water stewards. In pursuit of these goals, we provide a variety of education programs and opportunities for our customers, both in and out of the classroom.

Teacher and Student Training

An important part of being a responsible water provider includes providing local educational programs that directly involve the students and teachers in our schools. Our Educational Outreach programs include classroom presentations tailored to different grade levels from elementary to middle school, covering topics such as the water cycle, water sources and delivery systems, and conservation. Our *Da-Drops and Dr. Faucet* program is designed for students in grades K-3 and features an animated video presentation that introduces the youngsters to basic water information. More advanced information is provided to 4th and 5th graders through *Our Water, Our Future*, a teacher-led, easy to use lesson plan, followed up with a classroom presentation by Tucson Water staff. The *Tucson Toolkit* is a five-unit curriculum that teaches middle school children in grades 6 – 8 about water issues facing our community, in addition to more detailed information about water cycles and conservation. All of our

classroom trainings include hands-on learning activities and activity books to further enhance the students’ experience.



We also invite all students in grades K – 12 to learn about our aquifer in preparation for guided tours by participating in our interactive Groundwater Flow Model presentations. Topics include groundwater storage and production, contamination and cleanup. The Groundwater Flow Model presentations are portable and can be tailored to classroom settings, field environments, or community events. We’ve reached over 30,000 students and adults since the program began in 1999.

We share information with educators, too. Our Summer Teacher Internship program is an intensive two week summer course for middle and high school teachers. Each year, we invite as many as 25 teachers to interact with us in an educational setting, and introduce them to water resource management issues facing the community. Not just for science teachers, the internship promotes water-related learning opportunities for all curriculum areas. By the end of the course, participants have developed lesson plans for water related projects to be taught in their classrooms in the school year following their internship.

Working With Our Customers to Build a Sustainable Water Future

Arizona Project WET (Water Education for Teachers)

builds effective water education lessons and unique, Arizona-specific information into school districts' core curriculum, and ensures that the water education unit meets Arizona Academic Standards for science. Tucson Water sponsors an average of 9 workshops each year that provide educators an opportunity to learn about Arizona's resources by participating in fun, interactive, classroom-ready activities. The activities, developed and tested by teachers in Arizona and nationwide, are designed to develop critical thinking and build an understanding of concepts through experiential learning. We typically reach over 100 teachers (and college students preparing to be teachers) who, in turn, report reaching thousands of students.

Spanish Language Outreach

According to surveys and demographic data, approximately thirty percent of our water customers are of minority cultures, with Spanish-speaking Hispanics constituting the largest segment. Our Multi-Cultural Outreach program focuses on effective communication to the Hispanic population. To this end, we have developed tools such as public service announcements for Spanish language television and radio that address current water issues and provide information about our water facilities and organizational structure. Additionally, we are piloting a weekly call-in radio show in Spanish that explores various water topics of particular interest to our Hispanic customers.

We are also making a positive difference with our participation in the Hispanic community's annual Women's Leadership Training program. We train Community Health Promoters, or *Promotoras*, on environmental issues, including water quality and water conservation. The Promotoras then assist with staffing community events such as Cinco de Mayo and Mexican Independence Day, providing information to event goers in one-on-one settings.

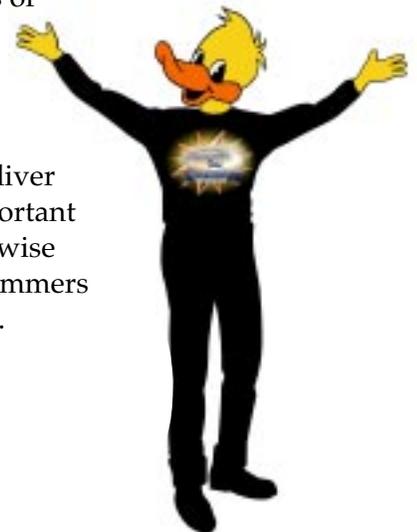
Speakers Bureau

Our Speakers Bureau consists of Tucson Water employees who volunteer to go into the community, via town halls and meetings of various groups and associations, to talk with customers about important water news and upcoming events. For instance, hundreds of presentations may be given by our employee speakers in the months leading up to water revenue bonds elections to discuss and answer voters' questions about the projects we intend the bonds to fund. Presentations by our Speakers Bureau are popular and effective tools to get information on the most current issues to our customers where they live and work.

Conservation Education

Although most of our public outreach and education touches on water conservation in some way, we also have campaigns and education programs that focus solely on the importance of wise water use in the desert.

We first launched our *Beat the Peak* summer conservation campaign 30 years ago as a public information and awareness program to reduce peak hour water demands during our hottest months of the year. Ratepayers supported the program so strongly that *Beat the Peak* became an annual summer water conservation education program. Our water conservation duck mascot, Pete the Beak, reappears each year in a new identity, and is featured in public service announcements as well as in activity books distributed to thousands of students in classrooms across our region. Pete also makes appearances at dozens of school and community events to deliver his lighthearted but important tips on how to be water wise during our hot desert summers and throughout the year.



Working With Our Customers to Build a Sustainable Water Future

Tucson Water sponsors the popular *SmartScape* conservation education program offered by the University of Arizona Cooperative Extension. The program offers free workshops to both residential and commercial customers to promote attractive, water-efficient landscaping. Homeowners attend *Water\$mart* workshops to learn the how's and why's of drip irrigation, xeriscape, and rainwater harvesting for irrigation use. The *SmartScape* series targets professional landscapers and local green industry employees, and focuses on improving landscape irrigation water management practices, during the course of nine workshops. Since outdoor water use constitutes a significant portion of our total water demand, teaching our customers to maximize water efficiency in landscaping is an essential move toward water sustainability.

Facilities Tours

Guided tours of our water facilities provide participants with first hand information about where our water comes from, how its quality is maintained, and how we use reclaimed water to preserve our groundwater. Since 1998, more than 17,000 people have taken the opportunity to learn about our major facilities. The free tours, led by our Outreach Coordinator, are geared toward all ages. Tour locations include the Clearwater facility where Colorado River water is recharged through constructed basins, blends with the groundwater below, and is then recovered through a system of wells and a large pumping station. At the Hayden



Udall Treatment Plant, also the site of our state-of-the-art water quality lab, tour participants learn how water recovered from the Clearwater facility is processed and made ready for delivery to customers. Other tour options include our Reclaimed Water Treatment Plant where we demonstrate the filtration, disinfection, and pumping facilities involved in creating and distributing recycled wastewater for reuse as irrigation water, or the Tucson Airport Area Remediation Project (TARP) where participants learn about the air-stripping process to remove trichloroethylene (TCE) from the groundwater, and gain a broad understanding about groundwater contamination and cleanup in Tucson.

A favorite of young and old alike, the Sweetwater Wetlands tour teaches about ecology and water resource management. This innovative treatment facility uses natural processes to filter treated wastewater to make it ready for use in our reclaimed water system, and is a perfect venue for viewing various migratory bird species and other wildlife not readily seen in other parts of the community.



Working With Our Customers to Build a Sustainable Water Future

SOLICITING FEEDBACK

It's our philosophy at Tucson Water to keep in touch with our customers, not only so they know what we're doing with their water, but also so we can ask for their informed input when important decisions need to be made. Through the years, we've asked for feedback on the kinds of information our customers would like to receive from us, as well as their opinions on how well we serve them, and their responses have helped us improve our methods of communication and customer service. The public is encouraged to provide input by email, telephone comment line, focus groups, and customer surveys, in addition to participation at various water-related public meetings, presentations, and community events.

Some of the most important input we've received from the community has involved taste testing water of varying mineral levels. In the late 1990's, in anticipation of the introduction of our blended water (recharged Colorado River mixed with groundwater), we launched the *At the Tap* campaign. Tucson Water staff distributed bottles of the blended water throughout the community and conducted taste tasting and customer surveys at malls and numerous local events. We also selected neighborhoods throughout the service area to receive the blend through their taps for a month in our Ambassador Program. Our customers overwhelmingly told us that a maximum mineral level of 450 mg/L in the blended water was acceptable, and as such, our Clearwater facility was designed to maintain mineral levels below that level for as long as possible.

Now, in 2006, as we anticipate the mineral content in our blended water to naturally rise above 450 mg/L with an increased ratio of Colorado River water to groundwater, we're about to begin another process that will determine what the water of the future will be like. We need to decide whether to let the mineral content rise to a maximum 650 mg/L (the naturally occurring mineral level of Colorado River water) or to construct a treatment facility to remove minerals to maintain the level at 450 mg/L. Later this year, as an expansion of our Speakers Bureau, employees will

learn about these options, including costs, household maintenance and environmental issues. Then, they will take the information to community, conducting taste tests and surveys at kiosks in local shopping malls, community events, neighborhood centers, trade shows, and other venues. We'll provide the customer taste preferences and survey results to Mayor and Council for consideration in their final decision.

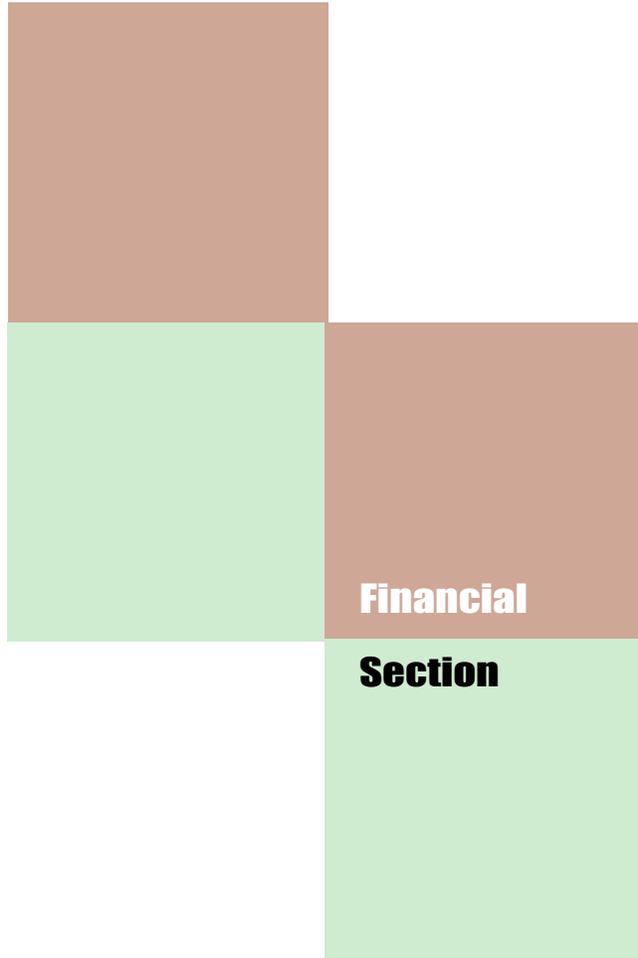
Customers who want to submit comments or questions to us also may use the Tucson Water website. The public can access a wealth of information on topics from billing to water quality, including current water rates and fees, meeting agendas, documents, brochures and other educational materials (many also in Spanish), and tour information. Each web page contains a link to phone numbers, mailing addresses, a map, and an "email button" that will send customers' messages to us directly. For those so inclined, the City of Tucson also maintains a website and Mayor and Council hotline, and water-related inquiries made there are forwarded to us for response. In these ways, we make sure that the public, and specifically, our customers, can contact us at their convenience.

As we move into the future, we'll continue to encourage honest dialogue between our staff and our customers. We believe that by working together as partners, we'll best be able to meet the challenges of a secure water future for our service area. As we have shown in the past, this type of partnership is good for our customers, good for us, and good for our community.





Whether it's in person, on the phone, or via e-mail, Tucson Water's customers are assured prompt, friendly service.





Reaching and teaching the next generation of Tucsonans means getting them involved in activities that make learning about water fun.

Management's Discussion and Analysis

Overview

Tucson Water is an enterprise fund of the City of Tucson. This means we operate similar to a private business, covering all costs of doing business with revenues from operations. Our fiscal year runs from July 1 through June 30. Our authority and responsibility are derived from the City's Charter and ordinances and resolutions of the Mayor and Council. We provide water service to over 710,000 people (about 85% of the greater Tucson metropolitan area's total population) within a 300 square-mile service area of Pima County. We ended fiscal year 2006 with approximately 221,000 customer connections to our water system, and during the year delivered enough potable water to fill nearly 2.3 million residential swimming pools (37.1 billion gallons). Additionally, we delivered 4.5 billion gallons of reclaimed water for turf irrigation.

Potable Customer Connections (FY 2005 average)	220,571
FY 2006 Growth in Connections	4,660 /2.2%
Potable Peak Day Demand	165.3 mg
Potable Average Day Demand	109.5 mg
Miles of Pipelines	over 4,500
Potable Reservoirs	51
Potable Storage Capacity	296 mg

In FY 2006, our Clearwater Renewable Resource Facility, (CRRF), an \$81 million project completed during fiscal year 2004, pumped 46,305 acre-feet of blended recharged / recovered CAP water and groundwater into our distribution system. The facility's recharge and

recovery production will increase to approximately 77,000 acre-feet during FY 2007. CRRF, constructed northwest of the City of Tucson, is composed of recharge basins, recovery well fields, storage, and transmission facilities. The facility handles the recharge of up to 71.4 million gallons per day (80,000 acre-feet / year) of Colorado River water. Current recovery well capacity is 54 million gallons per day. Within five years we intend to meet nearly one hundred percent of our customers' current demand for potable water with Colorado River water, enabling us to nearly eliminate groundwater pumpage from the central well field, over which the majority of the City of Tucson lies, thereby easing concerns related to land subsidence.

Units of measure:	1 Acre foot = 325,851 gallons
	1 Ccf = 748 gallons

Operations

Potable Water:

During FY 2006 we obtained our municipal potable water (water meeting or exceeding all federal, state, and local drinking water standards) from our four groundwater well fields (Central, Avra Valley, Santa Cruz, and Southside) and a facility where we recharge and recover Colorado River water. These four well fields and the recharge and recovery facility provide us with an aggregate production capacity of approximately 190 million gallons per day.

Our surface water source contract with the United States Department of the Interior and the Central Arizona Water Conservation District ("CAWCD") provides us access to 135,966 acre-feet annually of Colorado River water, delivered via the Central Arizona Project (CAP). The CAP consists of 335 miles of waterworks and associated facilities designed to deliver water from Lake Havasu on the Colorado River to Maricopa, Pinal, and Pima Counties in central/southern Arizona.

Reclaimed Water:

Although only 10.8% of our total FY 2006 water sales, reclaimed water (effluent treated to higher water quality) is playing an increasingly important role in our meeting current and future water demands. Tucson Water has the right to use over half of the effluent produced at the metropolitan wastewater treatment facilities owned and operated by Pima County. Planning for the reclaimed water system was initiated in 1982 and we began delivering reclaimed water to customers for turf irrigation in 1984. The reclaimed water we produce meets the State of Arizona standards for Class A water (water suitable for irrigation of sites having unrestricted public access, cooling towers, use on vegetable gardens and orchards, and for toilet flushing).

Our reclaimed system currently includes a treatment plant which filters secondary effluent, a wetlands which biologically treats the backwash water from the filtration plant, constructed basins for the recharge of secondary effluent with wells to recover

Management's Discussion and Analysis

this recharged water, and a managed in-channel recharge and recovery project recovering, via wells, some of the effluent that has been discharged by the Pima County Wastewater treatment plants into the nearby Santa Cruz River. This recovered water is blended with water produced at our filtration plant or distributed directly to customers throughout the reclaimed system. Additionally, we receive reclaimed water from a Pima County-operated wastewater treatment plant located mid-town. This facility generates 3 million gallons per day of Class A reclaimed water which is piped directly into the reclaimed water system.

Our next increment of reclaimed water supply will come from the expansion of the recharge and recovery facility. Tucson Water continues to work to bring additional customers onto the reclaimed water system, thereby transferring their demand from potable to reclaimed water.

Discussion of Basic Financial Statements

We report our financial results on the accrual basis of accounting, in conformance with all applicable Governmental Accounting Standards Board (GASB) Statements, including GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and the related statement numbers 36 (Recipient Reporting for Certain Shared Nonexchange Revenue), 37 (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus), and 38 (Certain Financial Statement Note Disclosures).

Our annual financial reporting includes three basic financial statements and accompanying notes.

Statement	Description/Purpose
<i>Statement of Net Assets</i>	A summary of our current and long-term obligations and our assets available to meet those obligations. The difference between total assets and total obligations represents our net assets.

Statements of Revenues, Expenses and Changes in Net Assets A summary of our revenues and operating and non-operating expenses, and the resulting change in net assets.

Statement of Cash Flows A summary of our cash sources, including proceeds from the sale of water revenue bonds, and our use of cash.

Financial Highlights/Condensed Financial Statements

Net Assets: Our total assets exceeded our total liabilities at the close of the fiscal year by \$635.3 million, an increase from FY 2005 of \$26.1 million. Of this amount, \$3.3 million was restricted for capital projects or debt service. At June 30, 2006 we had capital assets, net of depreciation, of \$974.8 million, and outstanding long-term debt of \$373.3 million.

Tucson Water Summarized Statement of Net Assets as of June 30 (in thousands)

	2006	2005
Current Assets	\$ 45,839	\$ 43,657
Restricted Assets	31,063	52,552
Other Assets	4,415	4,685
Capital Assets	974,773	930,035
Total Assets	1,056,090	1,030,929
Current Liabilities	24,844	22,013
Liabilities from		
Restricted Assets	22,688	19,627
Long-term Debt		
Outstanding	373,265	380,065
Total Liabilities	420,797	421,705
Net assets		
Invested in capital		
assets net of debt	602,172	576,713
Restricted	3,254	186
Unrestricted	29,867	32,325
Total Net Assets	\$ 635,293	\$ 609,224

Management's Discussion and Analysis

Revenues –Potable and reclaimed water sales revenues, including the Central Arizona Project surcharge, make up approximately 88% of the Utility's operating revenues. During FY 2006 water sales revenues were \$105.9 million and water sales volume totaled 55.5 million Ccfs or about \$5.1 million and 3.3 million Ccfs greater than in FY 2005. Total revenues, when combined with System Equity fee collections (reported as Contributed Capital on the *Statement of Changes in Net Assets*) increased by \$9.9 million; in addition to the water sales revenue increase, significant increases included billing services revenues (\$1.0 million) and increases in area development fees and connection fees (\$.8 million each).

Operating Expenses - The majority of our operating costs are fixed, at least in the twelve months of our fiscal year. On average, approximately 65%-70% of our annual operating expenses will not vary as a result of the quantity of water we sell. Staff related expenses, payments to the City of Tucson for administrative support, and CAP capital payments are our most significant fixed items. The remaining 30%-35% of our operating expenses are made up of expenses that vary with the quantity of water produced (power costs, purchase of CAP water, chemicals) or are of a *discretionary* nature (for example, community relations, training, and consultant costs).

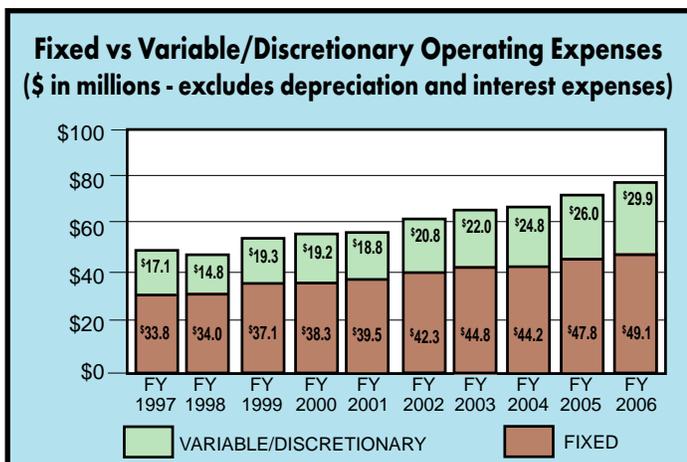
Excluding the \$.7 million increase in depreciation, FY 2006 operating costs were \$5.2 million higher than FY 2005 costs.

Fixed Costs (\$1.3 million net increase from FY 2005)
 Increased costs:

- Employee costs increased \$1.3 million resulting from cost of living adjustments, employee merits, and increases in employee insurance costs.
- The administrative charge paid to the City of Tucson for indirect services provided increased \$.5 million.
- Increases of \$.3 million each in fleet related and water system maintenance costs resulting from increased gas prices and increased main break repair expenses.

Offsetting these increases were the following reductions to fixed costs:

- A bond authorization election was held in FY 2005 with expenses of \$.6 million – no election was held in FY 2006.
- The CAP capital charge (set by the Central Arizona Water Conservation District) was reduced in FY 2006, lowering costs by \$.5 million.



Variable/Discretionary Costs \$29.9 million (\$3.9 million increase from FY 2005)
 Increased costs:

- Increased power costs of \$2.4 million reflecting record water sales and higher power rates.
- Increased chemical and other supply costs of \$.5 million related to record water sales.
- Increased CAP water expense of \$.4 million resulting from purchasing more CAP water.
- Increased consultant costs of \$.6 million resulting from initiation of studies to assess future water quality treatment alternatives.

Management's Discussion and Analysis

Tucson Water Summarized Statement of Revenues, Expenses and Changes in Net Assets Fiscal Years Ending June 30 (\$\$ in thousands)

	2006	2005
Operating Revenues:		
Water Sales	\$ 103,951	\$ 98,989
Other Revenues (including CAP surcharge)	15,887	15,358
Total Operating Revenues	119,838	111,347
Operating Expenses	99,637	93,781
Net Operating Income	20,201	17,566
Non-Operating Income	2,655	1,621
Non-Operating Expenses	19,550	18,578
Net Income before Capital Contributions/ Adjustments	3,306	609
Capital Contributions		
System Equity (buy-in) Fee	7,844	7,438
Developer Contributions/Grant Receipts/Transfers	14,919	6,864
Total Capital Contributions	22,763	14,302
Change in Net Assets	\$ 26,069	\$ 14,911

The remainder of this *Management's Discussion and Analysis* provides a closer look into our fiscal year 2006 revenues, operating expenses, capital outlays, debt service, changes in net assets, and cash flows.

Revenues

KEY DATA: REVENUES	2006 Actual	2006 Planned	2005 Actual
Total Water Sales Revenue ¹	\$ 105.9	\$ 103.3	\$ 100.8
Potable	\$ 100.1	\$ 98.2	\$ 95.2
Reclaimed	\$ 5.8	\$ 5.1	\$ 5.6
Other Revenue ²	\$ 24.4	\$ 22.4	\$ 19.6
Total Water Sales (Ccf ³)	55,533,422	53,520,066	52,253,833
Potable	49,535,732	48,283,718	47,250,548
Reclaimed	5,997,690	5,236,348	5,003,285
Average Monthly Water Service Connections ³	221,521	221,139	216,653
Potable Metered	217,685	217,371	213,025
Fire Protection	2,886	2,805	2,760
Reclaimed Metered	950	963	868
Potable Water 12-Month Average			
Use Per Svc Per Month (Ccf)	18.97	18.52	18.49
Single Family Customers Only	11.80	11.39	11.44
Total Additions: Potable Metered Service Connections ⁴	4771	4744	3941

¹ Total water sales revenue includes revenue generated by usage rates, fixed monthly charges based on meter size, and special surcharges based on water usage.

² Other revenue consists of other operating revenues and non-operating income from the audited financial statements. Development fees which result in cash collections have been included in other revenue for both FY 2006 and FY 2005, but developer-contributed infrastructure has been excluded in both years.

³ 1 Ccf = 748 gallons. Monthly average connections for the 12 months of the Fiscal Year.

⁴ The change in potable metered connections from June of one fiscal year to June of the following fiscal year.

Management's Discussion and Analysis

FY 2006 set a record as Tucson Water's strongest revenue year ever. Water sales revenue, the combined total of the potable and reclaimed systems, exceeded both the plan for the year and last year's actual revenue by 2.5% and 5.0%, respectively. Other revenue, including the 'buy-in' development fee known as the system equity fee, also exceeded both the plan for the year and last year's actual revenue by 9.0% and 25.0%, respectively. Revenue from the system equity fee (\$7.8 million) exceeded last year's by around \$400,000, fueled by 4,771 new potable metered connections added during the course of the year. Of note, all of these revenue increases occurred absent any change in the Utility's rates and fees. (See Appendix A for the FY 2006 monthly water rate schedule.)

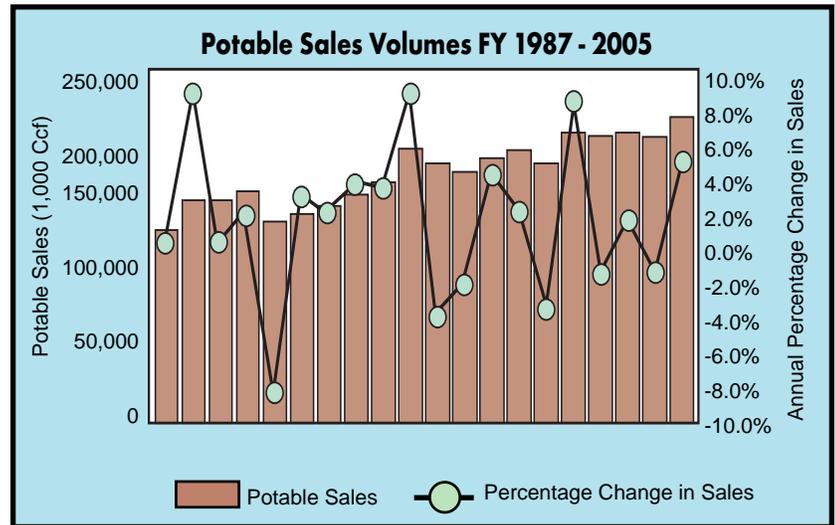
Potable Water Sales Volume, Metered Connections, Revenue Effects:

Our FY 2006 potable water sales volume (37.1 billion gallons or 49,535,732 Ccf) exceeded FY 2005's volume by 4.8%. It was also greater than the plan for FY 2006 by 2.6%. Since Tucson Water's rate structure is weighted in favor of volume rates, the level of sales volume was the main determinate in this particular year of the favorable revenue results.

The most interesting aspect of the year, however, was the fact that both revenue and volume trailed the plan for eight months of the year, and the catch-up to the plan occurred during the winter and early spring months (December through March). For anyone familiar with Tucson's climate, this pattern would be deemed unusual.

FY 2006, while its outcomes were favorable financially, continued to illustrate the unpredictability of potable sales volume. The chart above, showing twenty years of volume sales, illustrates that fact.

Management discussions in prior years have noted that both water sales volume and water sales revenues are influenced by many factors: for



example, metered connection growth; weather; plumbing codes encouraging or enforcing low water use fixtures and appliances in new construction; new single family homes having less acreage than in the past; landscaping codes encouraging low water use plants; on-going conservation programs emphasizing education and behavioral changes; and conservation-oriented rate structures.

Metered connection growth always pulls potable revenues in a positive direction, due to the additional volume of water provided to the new connection as well as the monthly service charge assessed to each account regardless of the amount of water used. FY 2006 growth in average metered service connections (4,660, or 2.2%) was greater than that for FY 2005 (4,201, 2.0%) and slightly above the plan for the year. However, it should be noted that the annual growth rate in average metered connections has been trending downward since FY 2000, FY 2004 being an exception to the trend; the system equity fee was first introduced in FY 2004 and a rush of meter applications occurred prior to the fee's becoming effective.

Weather can pull sales volume and hence revenue in either a positive or contrary direction. Overall, FY 2006 was both hotter and drier than FY 2005 (whose water sales volume and revenues were less than those of the prior year, FY 2004) and so weather is assumed to have had a positive water sales effect in FY 2006. The rainfall pattern for FY 2006 conforms particularly well to the pattern of water sales volume for the year.

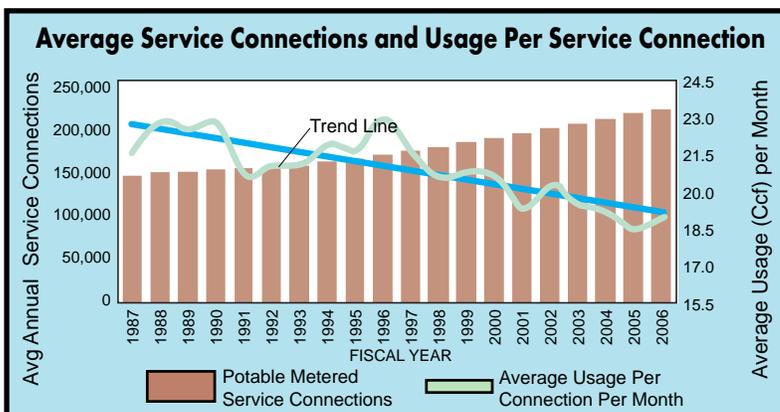
Management's Discussion and Analysis

Rainfall occurred almost entirely in summer months (6.11 inches of the 6.53 inches total for the year), with the winter months being extremely dry (0.42 inches). In addition, while the entire year was hotter than the prior year and hotter than normal, the winter months were over 30% hotter than either the prior year or the norm.

FY 2006 represents the second year of our meter replacement program. Initial tests at the beginning of the program indicated that 20% of the then-existing meters were under-registering water use, so it is also possible that improved meter accuracy contributed to sales volume being higher than in FY 2005. It is likely prudent to remember, however, that many variables can influence how much water customers use, that individually the variables may pull water usage in different directions, and that the majority of variables are beyond the control of Tucson Water.

Positive water sales volume and metered connection growth combined in FY 2006 to produce the first upward tick in monthly usage per metered connection that Tucson Water has seen since FY 2002; average monthly usage per metered connection for FY 2006 (18.97 Ccf) was approximately 0.5 Ccf more than in FY 2005 but was still less than every fiscal year this century except for FY 2005.

Thus, the *trend* in monthly usage per connection remains downward while service growth continues to increase, albeit at a reduced pace. The following chart illustrates this conclusion.



Reclaimed Water Sales Revenue, Sales Volume, Metered Connections:

Reclaimed water sales revenue for FY 2006 offered the same positive results as potable sales revenue. FY 2006 revenue of \$5.8 million was about 3.6% more than FY 2005 revenue and around 13.0% (about \$0.7 million) greater than plan. Reclaimed water sales volume (5,997,690 Ccf or 4.5 billion gallons) was about 20.0%, or 994,405 Ccf, greater than in FY 2005 and 14.5% greater than the plan for the year. Two months into FY 2006, Tucson Water began selling reclaimed water to another nearby municipality which uses the reclaimed water to irrigate golf courses within its jurisdiction. Sales to this one new customer accounted for 41.0% of the increase in sales volume from FY 2005 to FY 2006.

Average metered connections for FY 2006 increased by 82 to 950. New residential connections accounted for 71 of the 82. FY 2006 continued the trend of residential customers driving connection growth but commercial customers (golf courses, parks, schools) driving sales volume.

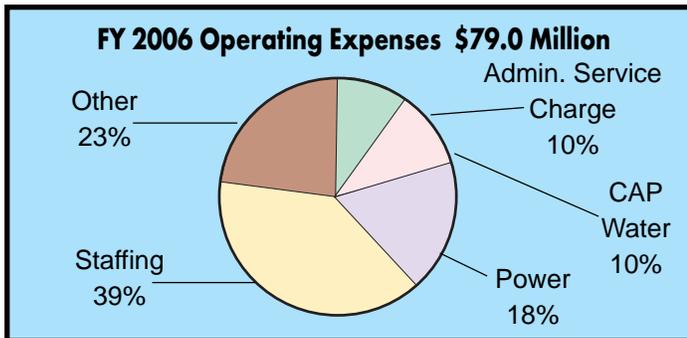
Revenue Outlook: Next Five Years

The major revenue change we are expecting during the next five years continues to be in fees affecting new development, or connection growth, in our service area. While the pace of new connection growth appears to be tapering off in the early years of this century, growth is still occurring and additional water resources and water system infrastructure are required as a result. Our analysis of long-term water resource requirements continues to be reviewed by the community and our governing body, and discussions continue to indicate that impact, or development, fees will play a major role in financing future water resource requirements and related infrastructure. Higher annual water rate increases are also anticipated to provide for costs not eligible to be recovered in development fees, such as increasing energy costs and replacement of an aging infrastructure.

Management's Discussion and Analysis

Operating Expenses

We expend considerable financial resources to operate our two water systems (potable and reclaimed). We incurred \$79.0 million in operating expenses in FY 2006 (excluding depreciation of \$20.6 million and taxes of \$9.5 million) or about \$357 per service account, a 4% increase over FY 2005.

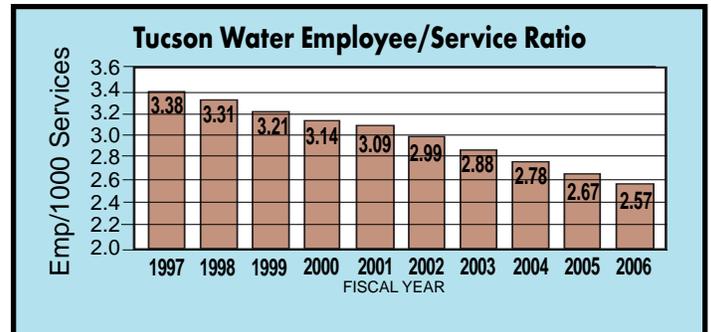


Despite continuing increases in the number of customers, our ratio of employees per 1,000 customer services (meter connections) has steadily decreased in recent years. Restructuring of meter reading routes, flexible work hours, reorganization of fieldwork teams, and increased use of technology and automation continue to contribute to a reduction in the employee per-service ratio. While our focus on obtaining efficiencies will continue, we expect that increasing maintenance and replacement needs, along with steady increases in our customer base, will require our staffing levels to rise in the coming years.

We are a large utility with many varied expenses, four cost categories made up 77% of our total operating costs: employee costs, power costs, CAP water costs, and administrative service charges.

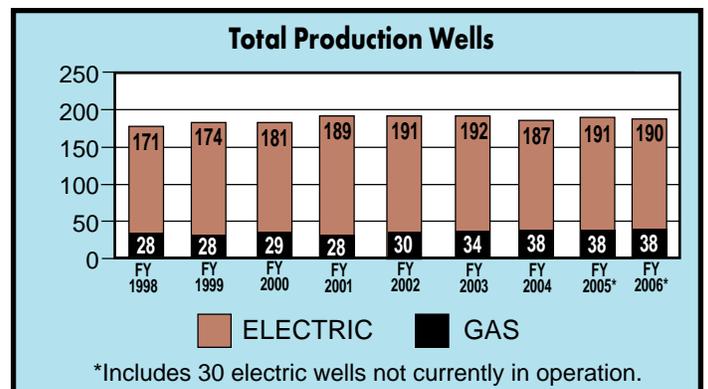
Employee costs (\$30.5 million in FY 2006 and \$29.2 million in FY 2005) relate to our diverse staff of 571 employees (a reduction of five employees from FY 2005). Our employees serve in varying roles: planning for our community's growing water resource needs; insuring the quality of the water we deliver; designing storage and delivery systems to meet our customer demands; providing proper maintenance to all elements of our system; and providing customer service through accurate meter

reading and billing. A cost of living adjustment, employee merit increases, and increases in employee insurance premiums contributed to the \$1.3 million increase in employee costs from FY 2005.



Power costs (approximately \$14.3 million in FY 2006 and \$12.1 million in FY 2005 respectively) are incurred as we pump water up from depths ranging to 700 feet and move it through our distribution system. To control power costs, we have converted, where feasible, to less expensive, interruptible rates and designed our system to operate with a mix of electric and gas powered pumps.

With both increased power rates and increased water sales during FY 2006, total power costs increased significantly, nearly 17% over fiscal year 2005. We anticipate increasing power costs in the coming years as we increase production from our recharge and recovery facilities. Recharged water, recovered and moved from the facilities approximately 20 miles outside of our central service area, will continue to replace groundwater from numerous wells currently located throughout the central wellfield.



Management's Discussion and Analysis

CAP water costs (\$8.3 million in FY 2006 and \$8.4 million in FY 2005) result from our purchase of Colorado River water from the CAWCD. Our FY 2006 CAP water costs consisted of two components:

- The capital financing charge, \$3.3 million in FY 2006 and \$3.8 million in FY 2005, is based on the Utility's allotment of 135,966 acre-feet. The FY 2006 decrease was the result of a rate reduction by CAWCD.
- The commodity charge \$5.0 million and \$4.6 million in FYs 2006 and 2005, respectively is based on actual CAP water taken. We purchased approximately 48,000 acre-feet of CAP water in FY 2006, down slightly from FY 2005 purchases levels. The increased expenses reflects the increased cost per acre-foot charged by CAWCD.

Administrative service charges, \$7.7 million in both FY 2006 and FY 2005, are our payments to the City of Tucson for support services (procurement/ payroll/ budget/ etc). All payments are for direct services or indirect administrative support. No Utility funds are transferred to support non-Utility related purposes. FY 2005 administrative service charges included direct costs resulting from holding a water revenue bond election; when adjusted for this non-recurring charge, FY 2006 administrative service charges costs increased by \$.5 million over the prior year.

Operating Expenses Outlook: Next Five Years

Managing our operational expenses continues to be a significant challenge. Operating expenses are anticipated to increase significantly over the next five years due to expanded use of CAP water. Operating costs will be incurred for purchasing increasing amounts of water at increasing rates, as well as operation of the expanded recharge and recovery facilities. Additional operational cost pressures are expected from continued customer growth, the potential for continued volatility in power costs, increasing employee related costs (particularly those related to health care,) and general inflationary pressures.

The Utility will be challenged with managing costs while meeting increasing demands for water and

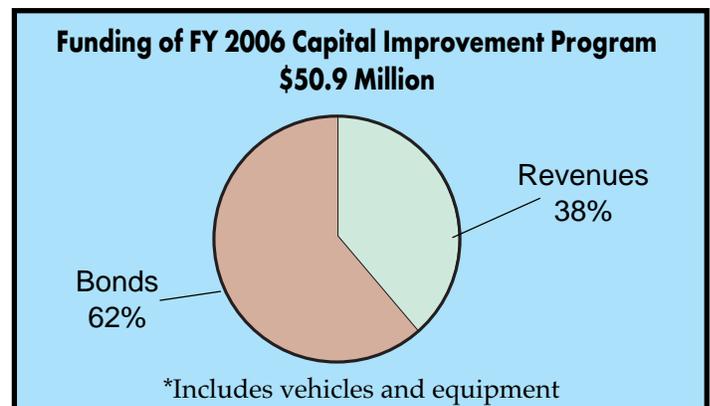
maintaining water rate adjustments to levels acceptable to the community we serve. We have ongoing planning efforts throughout our organization.

Capital Improvements

At the end of FY 2006, our water system was composed of 208 potable wells, 7 reclaimed wells, approximately 4,500 miles of delivery pipelines, 113 boosters to move water around our delivery area, and 52 reservoirs (46 potable and 6 reclaimed) to store water to meet peak demands. Our capital planning focuses on the design, and construction improvements to our system; the infrastructure requirements to meet the demands of our current and future customers.

We fund our capital program with a combination of current revenues (cash from the sale of water to our customers) and bond proceeds (cash from the sale of revenue bonds). This enables both current and future customers to participate in the funding of capital improvements. In May 2005, the citizens of Tucson approved a \$142 million Water Revenue Bond authorization; as of June 30, 2006, we have utilized \$36.2 million of this authorization. This authorization is anticipated to provide the funds to meet our bond requirements through FY 2010.

During FY 2006 we spent approximately \$51 million on improvements to our system compared with FY 2005 spending of \$39 million. Higher spending in FY



Management's Discussion and Analysis

2006 was partially the result of completing several large projects in the reclaimed program - over \$12.7 million was expended on four reclaimed projects. In addition, \$3.7 million was spent on three related potable projects focused on protecting the integrity of our water mains. Another \$4.3 million was spent on System Enhancements (Roadway Improvement Projects), and \$1.5 million on a meter replacement program. Also during FY 2006, \$2.8 million was spent on projects related to construction of our second major recharge and recovery facility.

The following program areas made up the remaining \$ 25.0 million of FY 2006 CIP spending:

Transmission and distribution mains	\$5.8 million
Capitalized expense	\$5.4 million
Reservoirs and pumping facilities	\$3.2 million
New services	\$3.1 million
Well drilling, equipping, and upgrades	\$2.4 million
General plant improvement/vehicle/equipment	\$6.1 million

Capital Expenditure Outlook: Next Five Years

The Five-Year CIP is the infrastructure foundation of our water supply strategy for the community. Over the next five years, we plan to spend nearly \$260 million to fund important capital projects. During this five year period, our emphasis will be on construction of our second facility (and related infrastructure) to enable us to eventually recharge and recover an additional 60,000 acre feet of Colorado River water, thereby reducing groundwater pumping and utilizing our full CAP allocation. This facility will include drilling additional recovery wells and construction of recharge basins, a 10 million gallon reservoir, and raw water and recovery transmission mains. Also included in our five-year CIP are storage and transmission projects to address the Utility's growing customer base and various improvements to protect the security and integrity of the water system.

Bond Ratings:

- **Moody's Investors Service** **Aa3**
- **Standard and Poors** **A+**
- **Fitch** **AA**

Debt and Debt Service

At June 30, 2006, we had \$342.9 million in outstanding water revenue bonds. In addition, we had \$40.4 million outstanding in Water Infrastructure Finance Authority (WIFA) loans. Water revenue bond interest payments on this debt (\$18.9 million in FY 2006) are reported as expenses on our income and flow of funds statements. Repayment of principal (\$11.2 million in FY 2006) is reported only on our flow of funds statement. In addition, we paid \$0.5 million in fiscal agent fees.

During FY 2006, the following bond sales or loans agreements occurred:

<u>Amount</u>	<u>Interest Rate</u>	<u>Month</u>
\$2.5 million WIFA loan*	3.42%	April
\$2.0 million WIFA loan*	3.21%	April

*Long Term Bonds payable are increased for WIFA loans as expenditures occur on loan financed projects.

Cash receipts generated from the System Equity (buy-in) fee are dedicated to payment of the annual requirements for debt service.

	<u>FY 2006</u>	<u>FY 2005</u>
System Equity		
Fee Revenue	\$7.8 million	\$7.4 million
Water Revenue		
Bond/WIFA		
Loan Debt Service	\$30.1 million	\$27.9 million
System Equity		
Fee as % of		
Debt Service	26%	27%

Management's Discussion and Analysis

The financing of our capital program with a combination of bond proceeds/loans *and* water sales revenues insures a healthy ratio of outstanding water revenue bond debt to system fixed assets. This ratio has averaged .37 over the last ten years.

RATIO OF OUTSTANDING WATER REVENUE BONDS TO CAPITAL ASSETS⁽¹⁾ June 30, (\$ in millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Land	\$ 41.4	\$ 43.1	\$ 44.6	\$ 46.9	\$ 46.4	\$ 45.1	\$ 45.1	\$ 45.1	\$ 45.3	\$ 45.5
Buildings	95.7	96.3	97.3	97.3	100.7	102.1	108.5	108.6	134.5	119.4
Water Mains	408.5	442.5	467	528.2	549.3	582.2	608.6	635.7	739.7	803.7
Reservoirs	114	127.3	132.5	142.1	183.1	199.6	198.2	202.3	102.4	110.7
Construction in Progress	117.6	109.3	127.2	108.3	106.7	95.9	115.2	134.9	147.4	153.5
Machinery	11.9	15.6	17.1	15.2 ⁽²⁾	16.7	19.6	20.8	22.6	23.2	24.3
Less Accumulated Depreciation	(143.8)	(156.9)	(169.6)	(181.6)	(196.5)	(217.1)	-225	-244.3	(262.4)	(282.3)
Total Capital Assets	\$ 645.3	\$ 677.2	\$ 716.1	\$ 756.4	\$ 806.4	\$ 827.4	\$ 870.6	\$ 904.9	\$ 930.1	\$ 974.8
Water Revenue Bonds/WIFA Loans Outstanding	\$223.9	\$216.7	\$250.0	\$244.1	\$273.9	\$335.0	\$334.0	\$365.8	\$388.3	\$383.3
Ratio Water Revenue Bonds/ Capital Assets	0.35	0.32	0.35	0.32	0.34	0.40	0.38	0.40	0.42⁽³⁾	0.39

(1) Goodwill and capitalized water rights not included

(2) \$2 million of machinery assets were written off in FY 2000 due to change in capitalization threshold.

(3) Includes \$31.7 million of bonds sold in June and unspent at June 30, 2005; ratio with this debt removed is .38.

Management's Discussion and Analysis

Change in Net Assets and Flow of Funds

The change in net assets is the amount by which our revenues and capital contributions exceed our expenses, including depreciation. The change in net assets for FY 2006 was \$26.1 million, a \$11.2 million increase from FY 2005.

Change In Increase to Net Assets FY 2006 from FY 2005 (\$ in millions)	
Increase to net assets FY 2006	\$ 26.1
Increase to net assets FY 2005	14.9
Change in amount of Increase	\$ 11.2
 Detail of changes FY 2006 from FY 2005	
Revenues	
Increase in water sale revenues (potable and reclaimed)	\$ 5.1
Increase in other revenues	4.4
Change in revenues	9.5
Expenses	
Increase in depreciation expense	-0.7
Increase in power expense	-2.3
Increase in employee costs	-1.3
Increase in administrative service charge	-0.5
Increase in interest expense	-0.9
Increase in other expenses	-1.0
Changes in expenses	-6.7
Capital contributions	
Increase – system equity (buy-in) fee	0.4
Increase - contributed water systems/grant receipts	8.0
Changes in Capital Contributions	8.4
 Change in Increase to Net Assets FY 2006 from FY 2005	 \$ 11.2

Since we operate as a self-supporting utility of the City of Tucson, we must receive adequate cash (from revenues) during the year to support our operating and capital improvement cash requirements. In addition, we must meet financial policies governing *cash reserve balances* and *debt service coverage*. For this reason, we focus more on our projected and actual *flow of funds* than on *net income*.

Cash Reserves – During June 2002, the Mayor and Council adopted a Financial Plan that targeted cash reserve levels at approximately \$13 million by the end of FY 2006. At June 30, 2006, unrestricted / undesignated cash on hand was \$15.3 million.

Debt Service Coverage (the % by which revenues, after meeting operating cash needs, cover Water Revenue bond and WIFA loan principal and interest payments) – Mayor and Council policy is to maintain an annual average debt coverage of at least 1.75.

Management's Discussion and Analysis

Our flow of funds does not include depreciation (a non-cash expense *included* in our income statement), but does include cash outlays for capital improvements and debt principal repayments (cash use items *not included* in our income statement). In addition, revenues resulting in long-term receivables are included in our flow of funds the year in which we receive payments.

The following "summary flow of funds" identifies the major cash sources and uses during FY 2006. Appendix A provides additional details.:

Summary FY 2006 Flow of Funds (\$ in millions)			
CASH INFLOWS:			
What we received:	from sale of water*	\$	105.9
	from water system equity fees		7.8
	from other revenues/sources**		25.0
	TOTAL INFLOWS	\$	138.7
CASH OUTFLOWS & USES			
How much of our revenues we used for:			
	operations/maintenance ***	\$	88.4
	bond debt service (principal/interest)		30.6
	capital improvements		19.4
	other purposes		.3
	TOTAL OUTFLOWS	\$	138.7
* includes CAP surcharge revenues	*** includes taxes of \$9.5 million and payment to City of Tucson for direct and indirect administrative support \$7.7		
** includes taxes of \$9.5 million			

Financial Planning and Outlook:

Each year, we develop a rolling six-year *Financial Plan (current year plus five)*. This plan is built on our projected capital improvement and operating budgets, and our projected water sales revenues under existing rates. Our plan is aligned with the City of Tucson's budgetary process. This alignment enables Mayor and Council to be provided with the water revenue increases necessary to support operating and capital needs (over the five years of our financial plan period) as part of their review of those capital and operating budgets. As a result, our governing body has the opportunity to know the revenue/rate effects of the capital and operating plans being considered and can adjust the plans if the revenue/rate effects are not deemed acceptable.

Our Financial Plan for the period FY 2006-FY 2011, which was adopted by Mayor and Council during FY 2006, calls for annual water revenue adjustments beginning in FY 2007. Primary drivers behind the need for increased revenues include the continued transition from groundwater to our recharged/recovered Colorado River water resource and the financing of our capital program.

During fiscal year 2007, we will be developing a more defined business plan focusing on our strategic initiatives and core functions. This project will involve a wide cross-section of our staff and will become the cornerstone of future planning efforts and resource allocation. In addition, we will be increasing efforts to significantly improve security for our water delivery and storage infrastructure. We believe our financial planning process, combined with our ongoing focus on cost reductions and improved efficiencies, positions us to meet our goals of reduced dependence on groundwater and continued delivery of affordable, high quality water to a growing desert community.

Requests for Financial Information

Our annual report is intended to provide our customers, bondholders, and creditors with an overview of our operations and related financial activities. If you have any questions about our annual report or need additional financial information, contact Tucson Water Financial Services, P.O. Box 27210, Tucson, AZ 85726-7210, (520) 791-2666.

Appendix A: Schedule of Flow of Funds¹

Revenues for operations and debt service:		
Sale of potable water	\$ 98,096	
Sale of reclaimed water	<u>5,855</u>	
Total Sale of Water		103,951
Central Arizona Project Surcharge ²		1,966
Connection fees		3,767
System Equity Fees		7,844
Taxes:		
Business privilege tax (State/City)	8,142	
Utility tax (City)	<u>1,383</u>	
Total taxes		9,525
Investment income:		
Operating fund interest earnings	765	
Debt service fund interest earnings	340	
Bond fund interest earnings	760	
Other investment income	<u>148</u>	
Total investment income available for operations and debt service		2,013
Sewer billing services -		
Pima County Sewer, City of Tucson Environmental Services		2,962
Miscellaneous revenue:		
TCE Clean-up Reimbursement	1,172	
Area Development Fees	1,232	
Service Charges	1,995	
Plan Review and Inspection Fees	1,867	
Prior Year and Reimbursed Expenses	809	
Other	<u>117</u>	
Total miscellaneous revenue		7,192
Other receipts:		
Proceeds from sale of property and equipment	284	
Principal received on loans to Starr Pass	<u>123</u>	
Total other receipts		<u>407</u>
Total revenues for operations and debt service		<u>139,627</u>
Other sources:		
CAP Reserve Fund interest earnings ²	<u>24</u>	
Total revenues and other sources		<u>\$ 139,651</u>

¹ This schedule presents a flow of funds under the methodology utilized by the Utility in determining needs for revenue adjustments. That methodology, approved by the American Water Works Association and reviewed by the Utility's independent rate consultant, looks at projected cash requirements for the year. This statement, based on actual results, enables the Utility to compare results with those projections.

² CAP Reserve Fund revenues and interest were generated by a \$.04/Ccf charge applied to potable water sales. Surcharge revenues are designated for payments of CAP water commodity or capital charges. Related interest earnings are designated for capital projects utilizing Colorado River water.

Appendix A (Continued): Schedule of Flow of Funds¹

Operations and maintenance expense: ³		
Director's office		\$ 4,967
Business services		4,320
Customer Services		6,523
Water operations (excluding power)		19,199
Planning and engineering (including waterline relocation)		7,177
Water quality management (excluding CAP water purchases/power)		8,844
CAP water: Capital charges	3,263	
Commodity	<u>5,022</u>	
Total CAP water		8,285
Power: Potable system	13,268	
Reclaimed system	<u>1,024</u>	
Total power		14,292
General expense (including sales taxes of \$9,525)		12,603
Capitalized operations and maintenance expense		<u>(5,396)</u>
Total operations and maintenance expense		80,814
Adjustment for accrued compensated absences ⁴		(148)
Adjusted total operations and maintenance expense		<u>80,666</u>

Debt service on water revenue bonds/loans:

		Water Infrastructure Finance		
	Water Revenue Bonds ⁵	Authority Loans ⁵		
Interest	18,018	907	<u>18,925</u>	
Principal	9,325	1,877	<u>11,202</u>	
	<u>27,343</u>	<u>2,784</u>	<u>30,127</u>	
Issuance Cost of Debt			<u>523</u>	
Total debt service on water revenue bonds and WIFA loans				<u>30,650</u>

Capital outlay:

Improvements/Equipment from revenues and other sources	14,214	
Capital equipment from revenue and other sources	502	
Capitalized operations and maintenance expense	5,396	
Improvements funded by Central Arizona Project Reserve Fund	<u>50</u>	
Total capital outlay		<u>20,162</u>

Other uses:

Administrative service charges	7,727	
Increase in reserves	<u>446</u>	
Total other uses		8,173
Total expenses, debt service, capital outlay and other uses		<u>\$ 139,651</u>

³ Capitalized operations and maintenance expense reported separately on this statement. It is allocated to Utility Divisions on the Statement of Operations.

⁴ Change in year-end long-term compensated absences payable is subtracted from this statement.

⁵ Debt service coverage calculation:

Revenues (excludes other sources/other receipts and Bond Fund interest earnings)	\$138,460		
Operations and maintenance expense (excludes adjustment for compensated absences)	<u>\$ 80,814</u>		
Revenues available for Debt Service	<u>\$ 57,646</u>		
Principal/Interest Water Revenue Bonds	\$ 27,343	coverage	211%
Principal/Interest Water Revenue Bonds and Loans	\$ 30,127	coverage	191%

Appendix B: Water Rate Schedule

POTABLE WATER SERVICE CHARGES

A. MONTHLY MINIMUM CHARGE (1)

Meter Size Inches	Minimum Charge	Meter Size Inches	Minimum Charge
5/8	\$5.35	4	\$45.84
1	\$6.99	6	\$90.78
1 1/2	\$10.73	8	\$135.71
2	\$15.41	10	\$205.92
2 1/2	\$21.73	12	\$338.39
3	\$28.05		

B. MONTHLY WATER USE CHARGES

Customer Class	Winter (per Ccf) ²	Summer (per Ccf) ³
<i>Single Family:</i>		
1-15 Ccf	\$1.03	\$1.03
16-30 Ccf	\$3.60	\$3.60
31- 45 Ccf	\$5.05	\$5.05
Over 45 Ccf	\$7.13	\$7.13
<i>Duplex-Triplex:</i>		
1-20 Ccf	\$1.03	\$1.03
21-35 Ccf	\$3.60	\$3.60
36-50 Ccf	\$5.05	\$5.05
Over 50 Ccf	\$7.13	\$7.13
<i>Multifamily</i>		
<i>Basic Volume Charge:</i> ⁴	\$1.59	\$1.59
<i>Sub-metered Mobile Home Parks</i>		
<i>Basic Volume Charge:</i> ⁴	\$1.25	\$1.25
<i>Commercial:</i>		
Basic Volume Charge ⁴	\$1.49	\$1.49
Summer Surcharge-Tier 1 ⁵	—	\$0.95
Summer Surcharge-Tier 2 ⁶	—	\$0.25
<i>Industrial:</i>		
Basic Volume Charge ⁴	\$1.47	\$1.47
Summer Surcharge-Tier 1 ⁵	—	\$0.95
Summer Surcharge-Tier 2 ⁶	—	\$0.25
<i>Construction Water:</i>		
Basic Volume Charge ⁴	\$1.94	\$1.94
C. CENTRAL ARIZONA PROJECT CHARGE ⁷	\$0.04	\$0.04

The customer's monthly bill is calculated by adding together the monthly minimum charge, all monthly water use charges for the customer's class, and the Central Arizona Project (CAP) charge.

Appendix B (Continued): Water Rate Schedule

FIRE SPRINKLER SERVICE MONTHLY CHARGES

<u>Connection Size Inches</u>	<u>Minimum Charge</u>
2	\$5.41
3	\$8.39
4	\$12.96
6	\$24.87
8	\$38.87
10	\$60.63
12	\$97.58

RECLAIMED WATER SERVICE CHARGES

A. MONTHLY SERVICE CHARGE

<u>Meter Size Inches</u>	<u>Minimum Charge</u>
5/8	\$5.35
1	\$6.99
1 1/2	\$10.73
2	\$15.41
2 1/2	\$21.73
3	\$28.05
4	\$45.84
6	\$90.78
8	\$135.71
10	\$205.92
12	\$338.39

B. MONTHLY RECLAIMED USE CHARGE

Reclaimed Water Charge \$/Ccf \$1.40 (\$610 per acre foot)

The reclaimed water customer's monthly bill is calculated by adding together the monthly service charge and the monthly reclaimed use charge. The monthly reclaimed use charge is applied to all use.

NOTES:

- ¹ The monthly minimum charge is applicable to all customer classes.
- ² Winter rates are applicable to water use from November through April.
- ³ Summer rates are applicable to water use from May through October.
- ⁴ The Basic volume rate is applicable to all usage.
- ⁵ Summer surcharge, Tier 1 is applied to all use during a summer month which is in excess of the actual average monthly use during the previous six winter months. The calculated surcharge amount is added to the basic volume charge.
- ⁶ Summer surcharge, Tier 2 is applied to all use during a summer month which exceeds 145 percent of the actual average monthly use during the previous six winter months.. The calculated surcharge amount is added to the basic volume charge and to the summer surcharge Tier 1 charge.
- ⁷ The CAP rate is applied to all potable water use.



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Tucson, Arizona

We have audited the accompanying financial statements of Tucson Water, an enterprise fund of the City of Tucson, Arizona, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the management of Tucson Water and the City of Tucson. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements present only Tucson Water and do not purport to, and do not, present fairly the financial position of the City of Tucson, Arizona, as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tucson Water, an enterprise fund of the City of Tucson, Arizona, as of June 30, 2006, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the financial statements. The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

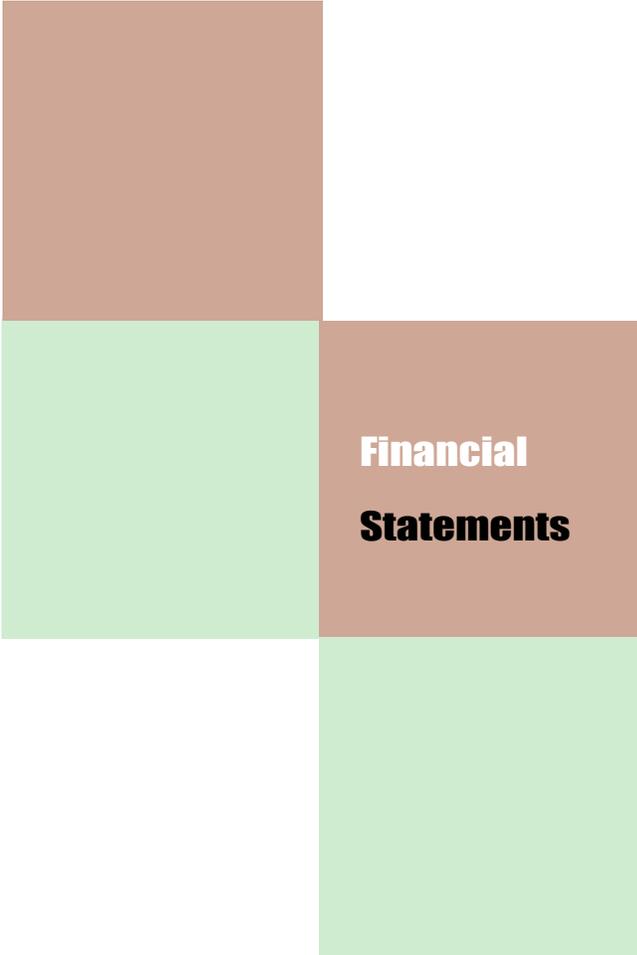
Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

June 18, 2007



Tucson Water's downtown headquarters houses most of the Utility's Planning, Engineering, Customer Service, Business Service, and Administrative staff.





Tucson Water's Public Information Office offers a variety of publications on saving water, water quality, planning for the future and more. All this is free to our customers and available by calling 791-4331.

Statement of Net Assets

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents		
Undesignated	\$ 15,321	\$ 15,056
Designated for customer deposits	3,117	2,795
Designated for infrastructure replacement	10,158	9,877
Total cash and cash equivalents	28,596	27,728
Billed accounts receivable, net of allowance for doubtful accounts of \$353 and \$280 respectively	9,364	8,956
Unbilled accounts receivable	6,131	6,671
Prepays and other assets	1,748	302
Total current assets	45,839	43,657
Restricted assets	31,063	52,552
Long-term accounts receivable	1,249	1,377
Capital assets		
Utility property, plant and equipment	1,103,600	1,045,089
Construction-in-progress	153,497	147,385
Less accumulated depreciation	(282,324)	(262,439)
Net capital assets	974,773	930,035
Other	3,166	3,308
Total assets	\$ 1,056,090	\$ 1,030,929

(Continued on next page)

Statement of Net Assets (Continued)

	<u>2006</u>	<u>2005</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 5,664	\$ 5,574
Salaries, wages and payroll taxes payable	2,639	2,440
Current installments of revenue bonds payable	13,192	11,084
Current installments of contract payable	232	115
Refundable/customer deposits	3,117	2,795
Unearned receipts	—	5
Total current liabilities	<u>24,844</u>	<u>22,013</u>
Liabilities payable from restricted assets	<u>22,688</u>	<u>19,627</u>
Long-term liabilities:		
Revenue bonds payable	371,114	378,284
Contract payable	706	484
Other long-term liabilities	1,445	1,297
Total long-term debt	<u>373,265</u>	<u>380,065</u>
Total liabilities	<u>420,797</u>	<u>421,705</u>
Commitments, contingencies and subsequent events (notes 15 and 16)		
Net assets		
Invested in capital assets net of debt	602,172	576,713
Restricted for:		
Debt service	225	45
Capital projects	3,029	141
Unrestricted	29,867	32,325
Total net assets	<u>\$ 635,293</u>	<u>\$ 609,224</u>

See accompanying notes to financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

	2006	2005
Operating revenues:		
Potable water sales	\$ 98,096	\$ 93,336
Reclaimed water sales	5,855	5,653
Total water sales	103,951	98,989
Central Arizona Project surcharge	1,966	1,852
Connection fees	3,767	2,997
Billing services -		
Pima County Sewer, City of Tucson Environmental Services	2,962	1,915
Miscellaneous:		
TCE cleanup reimbursement	1,172	714
Area development fees	1,232	439
Service charges	1,995	1,903
Plan review and inspection fees	1,867	1,877
Reimbursed prior year expenses	809	576
Other	117	85
Total miscellaneous	7,192	5,594
Total operating revenues	119,838	111,347
 Operating expenses:		
Director's office:		
Personal services	1,735	2,294
Contractual services	1,237	1,591
Commodities	155	527
Total director's office	3,127	4,412
 Business services:		
Personal services	1,836	1,574
Contractual services	1,007	815
Commodities	1,244	1,074
Total business services	4,087	3,463
 Customer services:		
Personal services	5,664	5,311
Contractual services	305	346
Commodities	554	471
Total customer services	6,523	6,128
 Water operations:		
Personal services	11,719	11,318
Contractual services	10,857	14,556
Commodities	4,671	4,308
Total water operations	27,247	30,182

(Continued on next page)

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

	<u>2006</u>	<u>2005</u>
Planning and engineering:		
Personal services	\$ 3,139	\$ 3,704
Contractual services	453	565
Commodities	262	420
Total planning and engineering	<u>3,854</u>	<u>4,689</u>
Water quality management:		
Personal services	5,300	4,356
Contractual services	8,451	2,161
Commodities	1,337	705
Total water quality	<u>15,088</u>	<u>7,222</u>
CAP water charges:		
Capital charges	3,263	3,807
Commodity charges	5,022	4,587
Total CAP water charges	<u>8,285</u>	<u>8,394</u>
General expenses:		
Personal services	1,095	594
Contractual services	9,595	8,639
Commodities	115	147
Total general expenses	<u>10,805</u>	<u>9,380</u>
Depreciation and goodwill amortization (note 2g & h)	<u>20,621</u>	<u>19,911</u>
Total operating expenses	<u>99,637</u>	<u>93,781</u>
Net operating income	<u>20,201</u>	<u>17,566</u>
Nonoperating income:		
Investment earnings	2,360	1,175
Gain on sale of property/equipment	284	436
Other nonoperating	11	10
Total nonoperating income	<u>2,655</u>	<u>1,621</u>
Nonoperating expenses:		
Interest expense	18,881	17,992
Other nonoperating expenses	669	586
Total nonoperating expenses	<u>19,550</u>	<u>18,578</u>
Net income before capital contributions	<u>3,306</u>	<u>609</u>
Capital contributions	22,758	14,302
Transfers in	5	—
Change in net assets	<u>26,069</u>	<u>14,911</u>
Net assets - July 1	609,224	594,313
Net assets - June 30	<u>\$ 635,293</u>	<u>\$ 609,224</u>

See accompanying notes to financial statements.

Statement of Cash Flow

	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 120,421	\$ 112,533
Cash payments to suppliers for goods and services	(49,516)	(42,704)
Cash payments to employees for services	(31,852)	(30,602)
Net cash provided by operating activities	<u>39,053</u>	<u>39,227</u>
Cash flows from noncapital financing activities:		
Subsidy from federal grant	<u>10</u>	<u>10</u>
Cash flows from capital and related financing activities:		
Bond proceeds	5,497	35,364
Acquisition and construction of capital assets	(41,548)	(27,563)
Principal paid on capital debt	(11,202)	(10,400)
Interest paid on capital debt	(18,955)	(17,980)
Fiscal agent fees paid on capital debt	(515)	(478)
Proceeds from sale of property and equipment	286	428
Net cash used in capital and related financing activities	<u>(66,437)</u>	<u>(20,629)</u>
Cash flows from investing activities – interest received on investments	<u>2,480</u>	<u>1,638</u>
Net increase (decrease) in cash and cash equivalents	<u>(24,894)</u>	<u>20,246</u>
Cash and cash equivalents at beginning of year	62,966	42,720
Cash and cash equivalents at end of year	<u>\$ 38,072</u>	<u>\$ 62,966</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 20,201	\$ 17,567
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	20,621	19,911
Decrease (increase) in cash resulting from changes in:		
Accounts receivable/ due from other agencies	132	(1,095)
Prepays and other assets	(3,407)	(13)
Long-term accounts receivable	128	259
Accounts payable	775	366
Accrued expenses	348	(90)
Deferred revenues		
Customers/refundable deposits/ due to other agencies	255	2,322
Net cash provided by operating activities	<u>\$ 39,053</u>	<u>\$ 39,227</u>

A reconciliation of cash and cash equivalents at June 30 follows:

Unrestricted cash	\$ 28,596	\$ 27,728
Restricted cash (included in restricted assets)	9,476	35,238
Cash and cash equivalents at June 30	<u>\$ 38,072</u>	<u>\$ 62,966</u>

Noncash investing, capital and financing activities:

Contributions of capital assets from developers	\$ 12,185	\$ 6,869
Write off of Rita Ranch payable	\$ (224)	\$ (146)



Reclaimed water is used in schools, parks, and in residential areas to save valuable drinking water for Tucson Water customers. We are constantly expanding this important system to keep in step with our growing community.

Notes to Financial Statements

1. DESCRIPTION OF THE BUSINESS

Tucson Water (the Utility), an enterprise fund of the City of Tucson, Arizona (the City), is operated and maintained as a self-supporting, municipally-owned utility of the City providing customers with potable and reclaimed water. The Utility provides water service to approximately 710,000 people within a 300 square-mile service area that encompasses approximately 85% of the greater Tucson metropolitan area's total population. Customers are classified by the type of service they receive, including residential, multifamily, mobile home park with sub-meters, commercial, and industrial services, and are located both inside and outside of the corporate limits of the City.

Water Sources

During FY 2006 the Utility obtained its municipal potable water (water meeting or exceeding all federal, state, and local drinking water standards) from four groundwater well fields (Central, Avra Valley, Santa Cruz, and Southside) and from a facility where the Utility recharges and recovers Colorado River water. These four well fields and the recharge and recovery facility provide the Utility with an aggregate production capacity of 175 million gallons per day.

The Utility's surface water source contract with the United States Department of the Interior and the Central Arizona Water Conservation District ("CAWCD") provides access to 135,966 acre-feet annually of Colorado River water, delivered via the Central Arizona Project (CAP). The CAP consists of 335 miles of waterworks and associated facilities designed to deliver water from Lake Havasu on the Colorado River to Maricopa, Pinal, and Pima Counties in central/southern Arizona.

In FY 2006, The Utility's Clearwater Renewable Resource Facility, (CRRF), an \$81 million project completed during fiscal year 2004, pumped 46,305 acre-feet of blended recharged/recovered CAP water and groundwater into the Utility's distribution system. The recovery system was offline for a portion of the year to conduct planned inspection and maintenance activities. The facility's recharge and

recovery production will approach 60,000 acre-feet during FY 2007. CRRF, constructed northwest of the City of Tucson, is composed of recharge basins, recovery well fields, storage and transmission facilities. The facility permits the recharge of about 71.4 million gallons per day (80,000 acre-feet/year) of Colorado River water, a renewable source. Current recovery well capacity is 54 million gallons per day. Meeting approximately fifty percent of customers' current demand for potable water with Colorado River water enables the Utility to reduce groundwater pumpage from the central well field, over which the majority of the City of Tucson lies, thereby easing concerns related to land subsidence.

As part of a 1979 intergovernmental agreement (IGA) transferring the sewer system from the City to Pima County, the Utility was granted the right to use 90% of the effluent discharged from the metropolitan wastewater treatment facilities. Planning for use of this water resource was initiated in 1982. In 1984, the Utility began delivering reclaimed water, or effluent treated to tertiary levels, to customers for turf irrigation purposes. The Utility's reclaimed system currently includes a reclaimed water treatment plant which processes effluent to a quality suitable for open-access turf irrigation, a wetlands which biologically treats secondary effluent, basins for the effluent recharge and wells for recovery of the recharged water for delivery in the reclaimed distribution system.

In February 2000, the IGA was amended to resolve issues related to effluent and recharge permits. The amendment contained numerous agreements, including: (1) the City, Pima County and other effluent management entities (Marana/Oro Valley) agreed to establish a Conservation Effluent Pool for use on riparian projects, (2) the City and Pima County agreed to cooperatively plan and establish recharge basins for storage of effluent, (3) effluent from the new treatment facility at Ina Road would be divided among the City, Pima County and U.S. Department of the Interior, (4) the City would no longer control effluent from non-metropolitan treatment plants, (5) the County could use its 10% of effluent for any public use.

Notes to Financial Statements

Assured Water Supply

Arizona Department of Water Resources' (ADWR) Assured Water Supply (AWS) Program is designed to encourage water providers to shift their reliance from groundwater to renewable water sources. It is important that water systems have an AWS designation because without it, no new growth can take place within the service area unless developers provide their own water supply. Receipt of the Assured Water Supply designation indicates a sufficient water supply is available to meet 100-years of projected demand for the existing population, committed demand (undeveloped, subdivided land within the service area) and provision for an increment of growth. The Utility's service area received a designation of Assured Water Supply on January 1, 1998 based upon its membership in the Central Arizona Groundwater Replenishment District (CAGR) and the planned recharge and recovery of CAP water at the CRRF.

Utility Operations

The Utility is operated and maintained as a self-supporting, municipally-owned utility of the City. Although the Utility is a department of the City, it is operated in a manner similar to a private business enterprise where the costs of providing goods and services to its customers are financed primarily by user charges. A fund structure separate from other City accounts is maintained. The Utility's authority and responsibility is derived from the City's Charter and ordinances and resolutions of the Mayor and Council of the City. The Utility has within its organization virtually all of the elements of a self-contained entity. The Mayor and Council adopt the Utility's annual budget, establish water rates and fee structures in accordance with State laws governing municipal water systems, and provide overall policy direction.

To assist with the task of operating the Utility, the Mayor and Council have adopted water service policies. A number of these policies establish guidelines for the water financing and ratemaking process. These water service policies include, but are not necessarily limited to, the following concepts:

- All costs associated with the operation of the Utility (operating, maintenance, renewal and replacement, capital and debt service) shall be funded from revenues derived from the Water System's water rates and other water-related income sources.
- Various combinations of revenue bonds, tax-secured bonds and water revenues are used to finance Utility capital improvements; regardless of what type of bond is used, repayment of the bonds shall be made only from Water System revenues.
- Some portion of the capital improvements are required to be funded from annual revenues to comply with existing bond covenants and Mayor and Council policy and to facilitate new debt issues by maintaining adequate debt coverage. An annual average debt coverage of at least 1.75 shall be maintained. The Utility was in compliance with debt coverage requirements for the fiscal year ending June 30, 2006.
- The policies require the Utility to maintain cash reserves adequate for known future obligations. In June 2002, Mayor and Council adopted a Financial Plan including increasing cash reserve levels to approximately \$13 million by the end of fiscal year 2007 (at June 30, 2006, cash reserves were \$15.3 million). Cash reserves are non-restricted cash/ equivalents less cash designated for specific purposes. As reported on the *Statement of Net Assets*, the Utility maintains two designations of cash:
 - ~ *Designated for customer deposits*-Cash/ equivalents designated for reimbursement of customer deposits (\$3,117 at June 30, 2006).
 - ~ *Designated for infrastructure replacement*-Cash/ equivalents designated for replacement of water system infrastructure. On June 3, 2002, the Mayor and Council utilized the payoff proceeds received under a legal settlement (and future interest earnings thereon) to establish a fund for future infrastructure replacement (\$10,158 at June 30, 2006).
- Charges for services shall be made on a cost of service basis. Water rate design elements shall reflect the cost of service areas across customer

Notes to Financial Statements

classes and seasons, and shall be designed so as to encourage water conservation and to control peak demand.

- Water rates and charges shall be reviewed annually.

Mayor and Council created the Citizens' Water Advisory Committee (CWAC) in 1977 as the official advisory body to the Council on water issues. The CWAC, composed of fifteen members, annually reviews the Utility's Financial Plan and its underlying capital improvement program, operating plans, and revenue forecasts, and makes recommendations to the Mayor and Council on rate adjustments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

Tucson Water is an enterprise fund of the City. The enterprise fund accounts for the financing and operations of the Utility. All activities necessary to provide water services to Utility customers are accounted for within this enterprise fund. Any Utility annual revenues remaining after providing for operating and maintenance expense and capital project funding are retained by the Utility.

B. Basis of Accounting

The Utility accounts for its activity on the accrual basis of accounting. The Utility applies all applicable Governmental Accounting Standards Board (GASB) Statements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure. Governments are given the option of whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB Pronouncements. Tucson Water has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect (1) the reported amounts of assets and liabilities, (2) the disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

D. Cash Equivalents

All short-term investments purchased with an original maturity of three months or less are considered to be cash equivalents. For purposes of the statement of cash flow, all highly liquid investments (including participation in the City of Tucson's investment pool account) are considered to be cash equivalents.

E. Investments/Deposits

The City maintains an investment pool that is available for use by all City funds, including Tucson Water. All assets of the investment pool are held by a single master custodian in Trust. Pooled investments are reported at fair market value.

F. Income and Other Taxes

The Utility is an enterprise fund of the City of Tucson, Arizona, a municipality exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements.

Tucson Water is subject to state and municipal (Tucson, South Tucson, Marana) business privilege taxes. In addition, the City of Tucson levies a separate utility tax on the Utility's sales to customers residing within the City of Tucson limits and the State levies an environmental tax (to support Super-fund cleanup efforts) on all potable water sales.

G. Capital Assets

Property, plant, and equipment acquired prior to June 30, 1965 are stated at estimated historical cost. Additions subsequent to that date are stated at actual

Notes to Financial Statements

historical cost. Depreciation has been provided using the straight-line method over the following estimated useful lives.

Asset	Estimated useful life (years)
Buildings	40
Improvements other than buildings	10-40
Wells, reservoirs and improvements	40-100
Machinery and equipment	3 to 20

The Utility does not capitalize interest on capital projects unless it is material, using the effective interest method. No interest costs were capitalized during the fiscal years ended June 30, 2006 or 2005, as the amounts were not material. Maintenance and repairs are expensed as incurred.

H. Goodwill and Water Rights

Goodwill is recorded upon the acquisition of Water companies and represents the excess of cost over fair market value at the time of acquisition. Goodwill is being amortized over 40 years using the straight-line method. Total goodwill at June 30, 2006 was \$1,122, of which \$991 had been amortized.

Water rights are recorded at historical cost and amortized over 40 years using the straight-line method. The total historical cost of water rights at June 30, 2006 was \$802, of which \$42 had been amortized.

I. Deferred Charges

Deferred charges represent the unamortized costs resulting from the issuance of water revenue bonds. These deferred charges, reported under *Other Assets* on the *Statement of Net Assets*, are amortized over the life of the related bonds. Unamortized costs were \$2,276 at June 30, 2006.

J. Restricted Assets/Liabilities

In accordance with applicable covenants of Utility bond issues, Mayor and Council Resolutions, or other agreements, appropriate assets and liabilities have been restricted.

3. DEPOSITS/INVESTMENTS

The Utility had approximately \$18,711 in cash and investments held with fiscal agents at June 30, 2006, included in restricted assets in the accompanying statements of net assets. Cash with fiscal agents was covered by collateral held in the fiscal agents' trust departments but not in the Utility's name. Each trust department pledges a pool of collateral against all trust deposits it holds.

At year-end, the Utility had \$28,596 in unrestricted cash and cash equivalents. The City Charter and State Statutes authorize the City to invest City investment pool funds in obligations of the U.S. Government, its agencies and instrumentalities, money market funds consisting of the above, repurchase agreements, bank certificates of deposit, commercial paper rated A-1/P-1, corporate bonds and notes rated AAA or AA, and the State of Arizona Local Government Investment Pool. Operating and capital projects funds may be invested for a maximum of 3 years based on projected construction schedules. Since these funds are held by the City of Tucson in its investment pool, they are not categorized by the Utility.

Additional information on the City's investments/ deposits, including categorization of the level of custodial credit risk assumed, is provided in the City's Comprehensive Annual Report (CAFR). Copies of the CAFR can be obtained from the City's Finance Department, 255 W. Alameda Street, Tucson, AZ 85701.

4. ACCOUNTS RECEIVABLE

B. Current

The Utility's current accounts receivable at June 30, 2006 were:

Billed Accounts	\$ 9,717
Unbilled (<i>estimated unbilled water sales delivered at June 30</i>)	6,131
Less: Allowance for doubtful accounts	(353)
Total current accounts receivable	<u>\$ 15,495</u>

Notes to Financial Statements

B. Long-term

The Utility’s long-term accounts receivable at June 30, 2006 was:

Receivable from promissory note \$1,249

C. Promissory Note

In October, 2003, the City of Tucson entered a Pre-annexation Development Agreement with Starr Pass Resort Developments, LLC. As part of the agreement, the City agreed to finance, through a promissory note, water infrastructure improvements for the development in the amount of \$1,500. Interest will be paid on the note at a yearly rate of 4.25%. After substantial completion of the water improvements, as evidenced by a “Notice of Substantial Completion”, Starr Pass Resort Developments LLC agreed to make monthly payments of \$15 until all principal, interest and other associated charges on the Promissory Note have been paid to Tucson Water. As of June 30, 2005, the project was complete. As of June 30, 2006, the short term balance on the note was \$128, and the long term balance was \$1,249.



Using desert-adapted plants and making sure that irrigation water is used efficiently are two important methods to making our region more sustainable.

5. RESTRICTED ASSETS AND LIABILITIES PAYABLE FROM RESTRICTED ASSETS

A. Restricted Assets

Restricted assets as of June 30, 2006 consist of the following:

Source	Restricted Purpose	Amount
Debt service	Cash/investments held by the City of Tucson restricted for payment of matured revenue bond principal and interest	\$ 18,557
Unspent revenue bond proceeds/loan proceeds receivable	Cash/investments held by the City of Tucson/ accrued interest receivable/ other receivables restricted for authorized bond funded capital improvement projects	12,352
Construction project vendor deposited investments	Construction vendor investments (deposited in lieu of Utility retainage on construction payments) restricted for reimbursement to vendor	154
Total restricted assets		<u>\$ 31,063</u>

Notes to Financial Statements

B. Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets as of June 30, 2006 consist of the following:

Source	Restricted Purpose	\$ Amount
Debt service restricted assets	Matured bonds and interest payable	\$ 18,332
Unspent revenue bond/loan proceed assets	Accounts payable on authorized bond funded capital improvement projects/ due to other funds pending loan reimbursement	3,712
Construction project vendor deposited	Accounts payable, investments returnable to vendors (deposited in lieu of Utility retainage on construction payments)	<u>644</u>
Total liabilities payable from restricted assets		<u><u>\$ 22,688</u></u>

6. CAPITAL ASSETS

The following is a summary of the changes in Capital Assets:

	Beginning Balance	Additions/ Transfers ¹	Reductions/ Transfers	Ending Balance
Land	\$ 45,296	\$ 193	\$ (17)	\$ 45,472
Buildings & Equipment Transmission & Distribution Systems	134,567	14,772	(5,677)	143,662
Construction in Progress	865,226	49,240		914,466
Goodwill	147,385	51,938	(45,826)	153,497
Water Rights Purchases	1,122			1,122
Total at Historical Cost	\$ 1,194,345	\$ 116,196	\$ (51,520)	\$ 1,259,021
Less Accumulated Depreciation for:				
Buildings & Equipment Transmission & Distribution Systems	\$ 37,741	\$ 5,220	\$ (689)	\$ 42,272
Goodwill	224,698	15,354		240,052
Water Rights Purchases	963	28		991
Total Accumulated Depreciation	\$ 263,425	\$ 20,621	\$ (689)	\$ 283,357
Net Capital Assets	\$ 930,920	\$ 95,575	\$ (50,831)	\$ 975,664

Notes to Financial Statements

7. CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt as of June 30, 2006 is as follows:

	Beginning Balance	Additions/ Refunded Issues	Reductions/ Refunded Issues	Ending Balance	Due Within One Year
Water revenue bonds and WIFA loans payable	\$ 388,325	\$ 6,214	\$ (11,202)	\$ 383,337	\$ 13,192
Deferred amounts: Bond sale refundings	(10,248)		816	(9,432)	
Bond sale premiums	11,291		(890)	10,401	
Total water revenue bonds and WIFA loans payable	<u>389,368</u>	<u>6,214</u>	<u>(11,276)</u>	<u>384,306</u>	<u>13,192</u>
Compensated absences	3,193	178		3,371	1,926
Contracts payable	599	516	(177)	938	231
Total Long Term debt	<u>\$ 393,160</u>	<u>\$ 6,908</u>	<u>\$ (11,453)</u>	<u>\$388,615</u>	<u>\$ 15,349</u>

8. REVENUE BONDS AND WATER INFRASTRUCTURE FINANCE AUTHORITY (WIFA) LOANS PAYABLE

Water revenue bonds and WIFA loans, secured by water sales revenues, require approval of a majority of City of Tucson voters at a bond election. At the most recent bond election, held May 2005, voters approved an additional \$142 million water revenue bond authorization.

At June 30, 2006, the long-term portion of bonds payable was:

Bonds Maturing 2007 - 2026	\$ 383,337
Less current installments	(13,192)
Deferred amounts *	969
Total long-term revenue bonds payable	<u>\$ 371,114</u>

* Losses on refundings are amortized over the shorter of (1) the period remaining on refunded bonds, or (2) the repayment period of refunding bonds. Amortization during the years ended June 30, 2006 and 2005 was \$74 and \$50, respectively.

Notes to Financial Statements

Water Utility Revenue Bonds and WIFA Loans Outstanding

Series	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 2006
1984 Series D (1991)	9.75%	2010	\$ 48,000	\$ 2,500
1993 Refunding	5.25-5.50	2014	35,360	14,955
1994 Series A (1996)	6.0-8.0	2018	33,000	3,000
1994 Series B (1997)	4.50-6.25	2007	11,700	1,000
1997 Refunding	4.20-5.125	2021	32,980	32,100
1998A Water Infrastructure Finance Authority (WIFA)	3.425	2017	6,000	4,086
1994 Series C (1999)	4.75-6.75	2009	33,400	3,500
1999A Refunding	5.00	2010	14,045	8,570
1994 Series D (2000)	5.25-7.25	2024	23,740	11,315
2000 Water Infrastructure Finance Authority (WIF1)	4.125	2020	5,120	4,127
2000 Water Infrastructure Finance Authority (WIF2)	4.125	2020	7,780	6,372
2000 Series A (2001)	5.0-7.5	2023	37,800	36,000
2001 A Refunding	5.0	2016	40,850	31,320
2001 Water Infrastructure Finance Authority (WIF3)	3.43	2021	8,800	7,385
2002 Refunding	5.50	2018	57,820	54,910
2000 Series B (2002)	3.5-5.125	2021	18,900	17,400
2003 Water Infrastructure Finance Authority (WIF4)	3.48	2022	8,300	7,317
2003 Refunding	5.00	2018	12,000	12,000
2000 Series C (2003)	4.25-5.25	2021	16,300	9,400
2000 Series D (2004)	4.0-5.0	2023	18,765	18,765
2000 Water Infrastructure Finance Authority (WIF5)	3.75	2023	3,000	2,761
2004 Water Infrastructure Finance Authority (WIF6)	3.255	2023	2,500	2,303
2005 Water Infrastructure Finance Authority (WIF7)	3.113	2024	2,997	2,879
2005 Refunding	4.00-5.00	2022	55,110	55,020
2005 Series A (2005)	3.00-5.00	2025	31,665	31,135
2006 Water Infrastructure Finance Authority (WIF8)	3.424	2026	2,500	2,500
2007 Water Infrastructure Finance Authority (WIF9)	3.210	2026	2,000	717 ¹
Total			\$ 570,432	\$ 383,337

¹ WIF9 was not fully drawn down during FY2006. The balance of the loan will be recognized in FY2007.

Notes to Financial Statements

Maturities of the bonds, loans, and and related interest payable after June 30, 2006 are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 13,192	\$ 19,082	\$ 32,274
2008	14,562	18,354	32,916
2009	15,776	17,600	33,376
2010	17,417	16,786	34,203
2011	18,652	15,863	34,515
2012-2016	109,461	64,042	173,503
2017-2021	135,238	34,310	169,548
2022-2026	59,039	5,503	64,542
Total	\$ 383,337	\$ 191,540	\$ 574,877

9. ADVANCED REFUNDING/DEFEASANCE OF DEBT

In prior years, the Utility has defeased various bond issues by creating irrevocable trusts. The proceeds from the advance refundings have been deposited in these trusts and invested in U.S. Governmental Securities that are designed to meet the requirements of the refunded debt. The debt associated with the refunding issues, as well as the trust assets, has been removed from the Utility's basic financial statements. As of June 30, 2006, the amount of defeased debt outstanding, but removed, is \$56,225.

10. LEASE OBLIGATIONS/ LONG TERM CONTRACTS PAYABLE

The Utility has entered into long-term capital leases involving the acquisition of equipment for use by the Utility. Long term Contracts Payable for the Utility as of June 30, 2006 were:

Equipment Contracts	\$ 938
Less: Current Portion	232
Long Term Contracts Payable	\$ 706

Below is a schedule by years of future minimum lease payments under the capital leases as of June 30, 2006.

Years ending June 30,	
2007	\$ 262
2008	262
2009	262
2010	210
2011	14
Total Minimum Lease Payments	1,010
Less: Amount Representing Interest (interest rates range from 3.85% to 12.00%)	72
Present Value of Net Minimum Lease Payments	\$ 938

Equipment purchased for the utility through long term capital leases totaled \$1,796.

Notes to Financial Statements

11. OTHER LONG-TERM LIABILITIES

Other long-term liabilities are made up of accrued compensated absences and arbitrage rebates on Water Revenue bonds as follows:

A. Accrued Compensated Absences

The costs of employee vacation leave, sick leave, accumulated compensatory time, and any salary-related amounts are expensed as earned. Accrued compensated absences not expected to be utilized by employees within the next year are recorded as long-term liabilities. The long-term liability related to accrued compensated absences was \$1,445 at June 30, 2006.

B. Arbitrage Tax Liability

The arbitrage tax liability results when interest earnings on water revenue bond proceeds exceed the related water revenue bond's yield. The Utility's liability balance at June 30, 2006 was \$0. The Utility's next required rebate date is July 1, 2007.

12. CAPITAL CONTRIBUTIONS

Developers of land within the Utility's service area are required to install water distribution systems meeting the Utility's standards. Once completed and inspected by Utility staff, the developer donates the systems to the Utility. During the year ended June 30, 2006, developers donated water systems valued at \$14,903, the Utility received \$11 in federal and state grants, and system equity fees totaled \$7,844.

13. INSURANCE

The Utility is exposed to various risks of losses related to tort: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Coverage is obtained through participation in the City's self-insurance program. The Utility pays a premium, calculated annually based on its claims history, to the City's Self-Insurance Fund. During Fiscal Year 2006, the Utility premium was \$900. All risk management activities are accounted for in this City Fund.

During the last three years, claims and settlements have been paid out of the coverage provided by this fund. The City retains all of the risk not covered by commercial carriers and manages risk through various employee education and prevention programs.

The City has obtained commercial coverage for Property Insurance, Public Employee Fidelity Bonds, Crime Insurance, Aircraft Insurance, and Miscellaneous Insurance (surety bonds, special event insurance as needed and fine arts coverage).

14. PENSION PLAN/DEFERRED COMPENSATION PLANS/POST RETIREMENT BENEFITS

Utility employees are employees of the City of Tucson and eligible to participate in its pension, deferred compensation, and post-retirement benefit plans.

A. Pension Plan

Utility employees participate in the Tucson Supplemental Retirement System (TSRS), a single-employer defined benefit plan. Currently, employee contributions are 5% of their annual covered payroll and are made through payroll deductions. A reserve is established for contributions and earnings allocations, less amounts transferred to reserves for retirement and disability and amounts reserved for terminated employees. If an employee leaves covered employment before attaining five years' service credit (eight years' service credit if the member dies), the accumulated contributions plus interest are refunded to the employee or his designated beneficiary. The City contributes the remaining amounts necessary to finance employee participation in the System and to fund the costs of administering the System. Tucson Water's contribution rate for years ended June 30, 2006, 2005, and 2004 was 14.83%, 14.06% and 11.17%, or \$3,888, \$3,453, and \$2,611, respectively.

The TSRS issues an annual report that includes financial statements and required supplementary information. The financial statements may be obtained from their administrative office located at 255 W. Alameda Street, Tucson, AZ 85701.

Notes to Financial Statements

B. Deferred Compensation

Utility employees may participate in several deferred compensation plans offered by the City. These plans permit employees to defer a portion of their salaries until future years.

C. Post Retirement Benefits

The City subsidizes a health insurance benefit to Utility employees who have qualified to receive a monthly retirement allowance from the Tucson Supplemental Retirement System and are less than 65 years of age, and are not Medicare-eligible. These benefits apply only to those employees who retired after March 1, 1981 and were above the minimum eligible age in effect on the date of their retirement. Depending on the date of retirement, the City pays between 75% and 100% of the medical insurance premiums for eligible retirees and their dependents. The costs associated with this retirement benefit are expended as the appropriate medical insurance premiums are paid. During the year ended June 30, 2006, the Utility's portion of retiree medical insurance premiums was \$503.

15. CONTINGENCIES AND COMMITMENTS

A. Operating Leases

The Utility has entered into operating leases with terms in excess of one year which are not material when taken either individually or collectively and, therefore, are not disclosed in these notes. All the operating leases are cancelable. The Utility's total rent expense, resulting predominately from as needed rental of heavy equipment to support maintenance functions, was \$328 for the year ended June 30, 2006.

B. Litigation

The Utility is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. At June 30, 2006, it is the opinion of management, based on the advice of the City Attorney, that any pending litigation would not have a material adverse effect on the Utility's financial condition or results of operations.

C. Construction Retainage and Other Commitments

The Utility enters into numerous capital improvement project contracts. Retainage on construction contracts for contract work *completed* as of June 30, 2006 are appropriately identified as accounts payable. Contract commitments for future capital improvement work totaled \$14,905 as of June 30, 2006.

D. Central Arizona Project Contractual Obligation

The Utility has a contractual obligation for the purchase of CAP water from the Central Arizona Water Conservation District, the entity responsible for contracting with the Secretary of Interior for CAP water and the resulting subcontracting with users within the State of Arizona. The Utility's obligation consists of two components: (1) a capital financing charge based upon the Utility's current allotment of 135,966 acre-feet, and (2) a commodity charge based upon actual CAP water taken.

During fiscal year 2006, the Utility made capital and commodity payments of \$3,263 and \$5,022, respectively. Estimated CAP water expenses for the next five years are as follows:

CAP Payment Schedule (Unaudited)		
Fiscal Year	CAP Capital*	CAP Commodity**
2007	\$ 2,855	\$6,713
2008	\$ 4,214	\$9,143
2009	\$ 4,366	\$12,550
2010	\$ 2,059	\$14,491
2011	\$ 2,059	\$16,215

* Includes capital cost impacts associated with obtaining an additional 8,206 acre-feet of CAP allocation in fiscal year 2008 as part of a statewide distribution of unallocated CAP water.

** Includes commodity costs associated with an additional 20,000 acre-feet for the Southern Avra Valley Storage and Recovery Project facility beginning in fiscal year 2008 and increasing to 45,000 acre-feet in fiscal year 2009.

Notes to Financial Statements

E. Membership in Central Arizona Groundwater Replenishment District (CAGRDR)

The Utility entered into a membership agreement with the CAGRDR during December 1996 to ensure meeting the December 31, 1996 deadline for early application for the State of Arizona's Assured Water Supply (AWS) designation. By meeting the early filing deadline, the Utility was permitted to pump groundwater during 1998, 1999, and 2000 (about 300,000 acre-feet) without being subject to the groundwater pumping limitations in the AWS rules.

Under terms of the agreement, the Utility is committed to pay an annual replenishment tax for water recharged on the Utility's behalf. Annual payments began in October 2002 and continue through October 2007. The per-acre-foot tax will consist of the current capital and commodity charges for CAP water, as established annually by CAWCD, plus an administrative fee, a CAGRDR capital facility fee, and a CAGRDR recharge facility operational fee. The tax will be multiplied by the acre-feet of water recharged by the CAGRDR on behalf of the Utility during the prior calendar year, but in no case will it be less than 5,000 acre-feet annually during the six-year membership period.

F. Water Quality Regulations

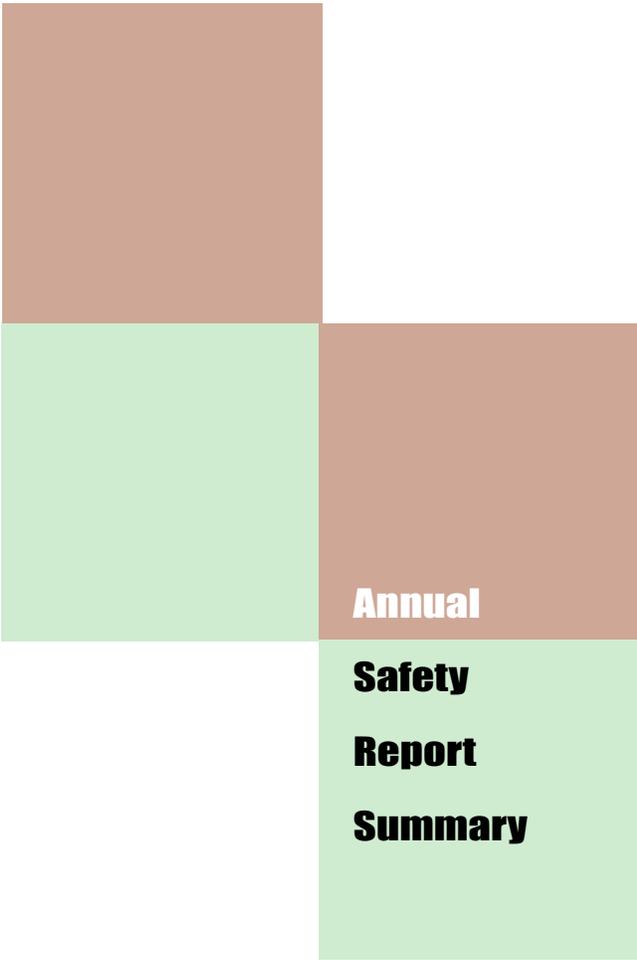
The EPA continues to evaluate studies that may result in a new standard for radon in drinking water. Until the new standard is set, the Utility cannot estimate associated treatment costs.

16. SUBSEQUENT EVENTS

On December 21, 2006, the City issued \$85,460,000 par amount in Water Revenue Refunding Bonds Series 2006 to refund all or partial debt scheduled after July 1, 2007 of the 1994-D (2000), 2000-A (2001), 2000-B (2002), 2000-C (2003) and 2000-D (2004) Water Revenue Bonds, and to pay costs relating to the issuance of the bonds. The interest rate on the bonds ranges from 3.5% to 5.0% with a final maturity date of July 1, 2024. Debt service payments are scheduled semi-annually at amounts that range from \$240,000 to \$17,050,000 for principal, and from \$104,160 to \$3,452,048 for interest. The economic gain from this refunding is \$3,338,981, based on Net Present Value from delivery date. The difference in cash flow requirements to service the old debt (\$138,341,875) and the cash flows to service the new debt (\$133,735,781) is \$4,606,094.



Tours to the Sweetwater Wetlands (shown above), the Treatment Plant and other facilities are available for classes and individuals. Call 791-4331 to arrange your tour.



**Annual
Safety
Report
Summary**



Tucson Water employees often participate in public outreach to better inform our customers and to get their input about the choices we face in the future.

Annual Safety Report Summary

Tucson Water participates in the 5 Star Safety System. The program is based on internationally recognized safety standards and compares our safety systems with the world's best practices and quantifies our safety performance with a star rating system. Tucson Water achieved a **4 Star** rating by certified external safety auditors during October 2006.

The results of the audit are as follows:

	FY 2005	FY 2006
Effort Grade	73%	80%

★	40-50	Fair
★★	51-60	Average
★★★	61-74	Good
★★★★	75-90	Very Good
★★★★★	91-100	Excellent

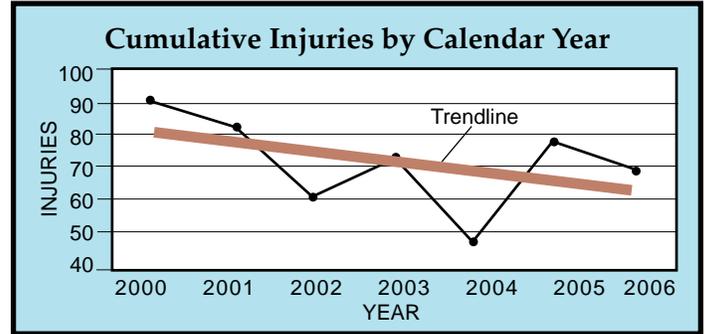
One of the components that affect our rating is employee injury experience. A reduction in injury rates occurs if accidents and injuries are tracked, reviewed for cause and followed up with prevention steps to decrease worker injury experience. In addition, we must comply with annual accident and injury reporting requirements as promulgated by the Occupational Safety and Health Act (OSHA).

Tucson Water continues to develop a strong, proactive approach to health and safety with the backing of senior management. Internal communications, safety meetings, and ongoing training; coupled with safety awareness throughout the organization has resulted in a trend of decreased lost time and OSHA recordable injuries.

We began tracking Lost Time Incidents (LTI), OSHA reportable incidents and first aid cases in 2000 with the 5 Star Program. The graph provides a summary of reported injury incidents over the last seven years. Overall, all Department injuries, including First Aid, are down for 2006.

Important statistics this year related to employee injuries include:

- In 2006 the total number of all internally reported injuries noted on the graph such as Lost Time, Limited Duty, OSHA Recordable and First-Aid cases decreased from 79 to 71 reported injuries.



- In 2006 the Utility had on average 550 full-time employees (filled positions); for this workforce Tucson Water reported 257 lost workdays and 37 restricted duty days.
- During 2006 Tucson Water employees incurred a total of 55 injuries as reported in the Federal OSHA 300 log.

To achieve further safety improvements, each Division within Tucson Water is responsible for setting safety priorities and developing safe workplace strategies. New safety initiatives such as safety recognition programs, Division Administrator injury reviews, and a process to enable employee input on potential improved work methods have been implemented this year. All of the initiatives are focused on injury prevention and intended to ensure that all employees return home safely every day.

Two of the important initiatives attained this year were the completion of the Tucson Water Safety Manual and department training for the Federal Emergency Management (FEMA) Act. The safety manual provides an overview to our 5 star standards and our safety policy. It is provided to every new employee during orientation. The FEMA training for every employee included information on the Incident Command System and the National Incident Management System. As a result of this training, the department is eligible for grant funding.

Tucson Water continues to integrate the 5 Star Safety System with a goal of obtaining a 5 Star rating. The acquisition of the 4th Star shows that we are serious about safety and on our way to implementing the world's best safety practices.

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