

CAP

04

Central
Arizona
Project

annual report

Water Buffaloes

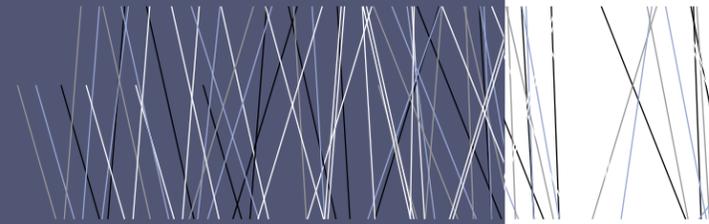
Undeterred

WATER BUFFALO DO NOT WORK QUICKLY. THEY PLOD ALONG AT ABOUT 3 KM PER HOUR. IN MOST PARTS OF SOUTHEAST ASIA THEY ARE WORKED ABOUT 5 HOURS A DAY AND MAY TAKE 6-10 DAYS TO PLOW, HARROW AND GRADE ONE HECTARE OF A RICE FIELD. THEIR STAMINA AND DRAWING POWER INCREASE WITH BODY WEIGHT. BECAUSE THEY HAVE DIFFICULTY KEEPING COOL IN HOT, HUMID WEATHER, IT IS NECESSARY TO LET WORKING BUFFALOS COOL OFF, PREFERABLY IN A WALLOW, EVERY 2 HOURS OR SO. WITHOUT THIS REST, THEIR BODY TEMPERATURES MAY RISE TO DANGEROUS LEVELS.



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The theme of Central Arizona Project's 2004 annual report, *Water Buffalos Undeterred*, is kind of an in-joke among the water community. However, it is the kind of joke that

should include the public.

Since before Arizona was a state a small group of individuals has always been concerned with water issues. These people, who are virtually unknown to the general public, are responsible for what we are today.

They were the visionaries that looked upon the Salt River Valley, considered how to make it better and were responsible for the construction of Roosevelt and the other dams on the Salt and Verde rivers. Without the dams, and the reliable water supply they provide, there would be no Valley of the Sun.

They were also the visionaries who realized that Arizona had to begin to bring in and use its share of the Colorado River. They worked tirelessly, and always behind the scenes, to get Congress to approve the construction of Central Arizona Project (CAP).

Those actions give us the protection against sustained drought that other parts of the Southwest envy. Because these water experts were wise, we have two sources of surface water—CAP and Salt River Project (SRP)—in addition to groundwater supplies. That foresight, and their sacrifice and hard work, have paid off for everyone during the last few years of extended, and serious, drought. Their actions insulated Maricopa, Pinal and Pima counties from water shortages.

Within the industry, those folks are called "Water Buffalos." There are a lot of theories about how the name evolved. Some say it's because they were just a bunch of grumpy old men. Some say it's because, like the water buffalo, these Water Buffalos plodded along and would not be deterred from accomplishing their goals.

Whatever the reason for the name, we salute those visionaries. Because of the Water Buffalos, CAP brought 1,597,631 acre-feet of Colorado River water into the central part of the state in 2004. That water meant that no one in Maricopa, Pinal or Pima counties had to do without their full allocation of water despite an ongoing drought.

So when you turn on the tap to brush your teeth, shower, or swim...give a moment of thought to those Water Buffalos. They are the people who made it possible for the hundreds of hard-working employees of CAP to deliver that water to you.



David S. 'Sid' Wilson Jr.
DAVID S. 'SID' WILSON JR., GENERAL MANAGER



Long before Arizona became a state, water was the source of discussions, of arguments, of legal battles, of fistfights and, no doubt, of gunfights.

Through all the years there has always been a core of people deeply involved in water and water issues. They were the visionaries that helped convince the U.S. Congress to create the Bureau of Reclamation (BOR).

They were the ones who worked tirelessly to help the state lobby Congress for and gain approval of the construction of Central Arizona Project (CAP).

They are the ones who helped develop Arizona's water law, the 1980 Groundwater Management Act.

They are the ones who lobbied the Legislature and created the Arizona Department of Water Resources (ADWR).

They are the ones who were the force behind developing recharge sites throughout the state to protect and ensure Arizona's water supply.

They are the ones who worked for decades to help Arizona reach an Indian water rights settlement.

Who are these people and why are they not well known by the public?

The easy answer is to call them what they call themselves: Water Buffalos.

No one is exactly sure how the term "Water Buffalos" came about for Arizona's long line of water experts.

Some say it's because most of them are grumpy old men who toil tirelessly, virtually unnoticed.

Others say it's because they are dependable. They get no glory, no recognition, no praise. And, like the water buffalo, they plod along, undeterred, until the goal is achieved.

Like water buffalos that wallow in the mud, these Water Buffalos wallow in policy issues, plod through them, plow through them.

Just as children in Asia move water buffalos with sharp raps, so too, do the politicians move the Water Buffalos, rapping them with deadlines to develop plans for drought, for water use, for water conservation.

The water managers and board members at CAP are proud to call themselves Water Buffalos.

Through the years CAP has continued to pull its share of the load, delivering water when it was scarce, storing water for the future when it was plentiful, protecting Arizona's right to its share of the Colorado River.

Like the water buffalo it is, CAP itself has ponderously moved forward.

One example of the plodding, but sure, pace is CAP's years of disputes with the federal government over its share of the cost of constructing the 336-mile-long CAP system. There were setbacks. Lawsuits were threatened. Negotiations took place, broke down, took place again.

With a groan of fatigue from bearing the burden, the Water Buffalos lowered their heads and returned to their sure, steady, forward pace. A lawsuit was filed and court actions dominated, yet CAP's Water Buffalos grimly continued on, doing their job of delivering water to a thirsty Arizona.

Through rain and drought, through lawsuits and negotiations, through damage and repairs, CAP's Water Buffalos remained undeterred.

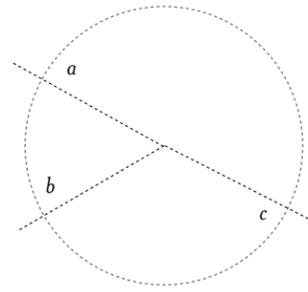
Then 2004 brought an end to many of their labors. CAP's Water Buffalos resolved many issues that had plagued it from its inception.

Then, like the water buffalo left alone to wallow in the mud in celebration, CAP's Water Buffalos took their brief bow in public. They received public praise in the media and by government officials.

Then CAP's Water Buffalos put their heads down and moved into 2005, determined to resume their tasks of providing and protecting Arizona's water supply.



External Accomplishments



IN 2004 CAP DELIVERED 1,597,631 ACRE-FEET OF COLORADO RIVER WATER TO ITS THREE-COUNTY SERVICE AREA, THAT IS, MARICOPA, PINAL AND PIMA COUNTIES.

THE BREAKDOWN IN TOTAL USAGE FOR 2004 IS:

a M&I USES: 1,005,187 ACRE-FEET.

b INDIAN USES: 191,477 ACRE-FEET

c AG USES: 400,967 ACRE-FEET

The path to the resolution of many issues in 2004 for CAP's Water Buffalos was a long and tortuous one. Throughout 2004 the ongoing drought continued to dominate

WATER ISSUES

water issues throughout Arizona and the West.

The media began to focus on the declining reservoir levels as Lake Mead and Lake Powell continued to shrink. Headlines seemed like a death watch:

Drought Has West In Chokehold

Drought Settles In, Lake Shrinks and West's Worries Grow

Looming Colorado River shortage forcing tough choices in the West

Then, in the middle of the summer, the Associated Press ran this story:

Western Drought Now Beats Dust Bowl

Las Vegas—The drought gripping the West could be the biggest in 500 years, with effects in the Colorado River basin considerably worse than during the Dust Bowl years, scientists at the U.S. Geological Survey said Thursday.

“That we can now say with confidence,” said Robert Webb, lead author of the new fact sheet. “Now I’m completely convinced.”

Despite the headlines, the concern expressed by government officials and some water providers, the bulk of Arizona’s population was largely unaffected by the drought. The Salt River Project (SRP) again determined it would reduce its deliveries by one-third and, as they had the last two years, most water customers turned to Central Arizona Project to make up for the lost water. SRP itself relied on

CAP water to shore up its dwindling supplies.

That water continued to be available because of CAP’s efforts. CAP operates and maintains a 336-mile-long aqueduct that annually brings about 1.5 million acre-feet of Colorado River water to cities, agricultural users and Indian communities in Maricopa, Pinal and Pima counties. One acre-foot is about 326,000 gallons or enough water to fill 20-25 backyard swimming pools.

In 2004, CAP took 1,597,631 acre-feet off the Colorado River for its customers. That water, needed to ensure and enhance the lives of Arizona residents in its three-county service area, was delivered reliably to Municipal and Industrial (M&I) customers, Agricultural (AG) users and Indians. The water also went to underground storage and to the Arizona Water Banking Authority, where the water is put into the aquifer for future use.

If working tirelessly to deliver water in times of drought were not enough, other events were occupying the time of the Water Buffalos.

A series of statewide and regional issues, including a final Indian water rights settlement, reaching an interstate water banking agreement with Nevada, working to communicate the need for change in Arizona’s junior water rights status, promoting the operation of the Yuma Desalting Plant (YDP), protecting Lake Powell, and developing a 10-year plan of operation for the Central Arizona Groundwater Replenishment District (CAGR) were the major external issues in 2004.



ALTHOUGH THE WATER BUFFALO WAS ORIGINALLY AN ASIAN ANIMAL, IT ARRIVED EARLY (ABOUT 600 A.D.) IN THE NEAR EAST AND NORTH AFRICA.



For years CAP had been embroiled in a complex, complicated financial dispute with the federal government over CAP's repayment obligations for

construction costs for building the system.

CAP was built by the U.S. Bureau of Reclamation (BOR), a part of the Interior Department. The work began in 1973 and, 20 years later, the system was declared to be "substantially complete." That meant it was time to pay back the federal government for building it.

Repayment negotiations began immediately and the cost charged back to the Central Arizona Water Conservation District (CAWCD) Board, which governs CAP operations, was disputed. The dispute went on for years and the Water Buffalos on the CAWCD Board and among CAP managers, slogged onward, never quitting.

The dispute went to U.S. District Court and the two sides negotiated an agreement during the trial that CAP would repay \$1.65 billion, not the \$2.3 billion sought by BOR. However, there was a catch. The agreement only went into effect if the Arizona Indian water rights dispute could be settled, a task that seemed akin to building Noah's Ark without the use of a hammer.

Like the water buffalo leaving one plowed field to work another, CAP's leaders pushed into the fray. The water rights dispute, which had raged for decades, chiefly involved the question of the amount of water due to Indian tribes in Arizona, especially the Gila River Indian Community (GRIC) and the Tohono O'Odham Nation.

A 1908 U.S. Supreme Court ruling said that Indian tribes could claim enough water to irrigate all lands that could be practicably irrigated. The GRIC claimed that water from the Salt River, now trapped behind Roosevelt Dam, and the Gila River, now trapped behind Coolidge Dam, used to flow through the reservation. The GRIC claimed to be an agrarian society and, simply put, they wanted their water back so they could return to farming... and that was a lot of water!

The federal and Arizona state governments did not want to take apart all the dams on the Salt and Gila rivers. Simplifying a very complex solution, the deal that was made is to trade the tribes CAP water (the CAP canal passes through both reservations) for water that normally would flow through the now-dry Salt and Gila rivers. Water from other sources, including the Salt, Verde and Gila rivers, also would be used to satisfy tribal claims.

The settlement, which had to be approved by Congress, was introduced into the Senate by Sen. Jon Kyl and in the House by Rep. J. D. Hayworth. Late in 2004, Congress approved the deal and President Bush signed it into law, making the settlement a milestone in CAP history akin to the first water deliveries.



J u n i o r R i g h t s , Y D P , P r o t e c t i n g L a k e P o w e l l

The interstate water banking agreement also gained an ally for Arizona and CAP in its fight to address CAP's junior rights status.

THE HORNS OF WATER BUFFALOS ARE SELDOM REMOVED OR PREVENTED FROM GROWING, A TESTAMENT TO THE ANIMALS' DOCILITY.

When CAP entered into the revised interstate water banking agreement, Mulroy promised that if Arizona cities face a water reduction due to drought during the next two decades while the deal is in effect, Nevada will also voluntarily take the same reduction in use.

She also said CAP's junior rights status makes no sense and needs to be revisited.

"We are as committed as you are to revisiting those issues," she said.

CAP's junior rights status means that if a shortage is declared on the Colorado River, California could take its full 4.4 million acre-foot apportionment of Colorado River water before CAP could take any of its 1.5 million acre-foot share. If CAP could change its status, all river water users would share any shortage equally.

While the water banking agreement got Arizona one ally in Nevada, it also has raised hackles in California.

CAP showed a short film during the annual Colorado River Water Users Association (CRWUA) meeting in Las Vegas in December. In the film, CAP calls for help on three major issues: changing its junior rights status, getting BOR to operate the Yuma Desalting Plant (YDP) and protecting Lake Powell.

Most of the river users at the convention agreed that BOR should begin operation of the YDP. If the plant were brought back online, it would reduce over-deliveries of water to Mexico and allow the thirsty basin states to keep as much as 100,000 acre-feet of water a year in Lake Mead. Currently, that water is being released to help reduce the salinity levels of Colorado River water deliveries to Mexico.

By treaty, the United States must deliver 1.5 million acre-feet of water to Mexico each year. The treaty also says the deliveries cannot exceed a certain salinity level. To help reduce the salt levels, the US built the YDP. However, in the 1990s, there were a series of floods which produced excess water and the YDP was not needed. The plant was placed in a standby mode and has remained in that condition because BOR has determined it is easier and cheaper to release additional water to dilute the salt levels than to operate the plant.

While that was acceptable before the drought when supplies were plentiful, it has not been the case in the last few years. CAP managers say that if the YDP were in operation then about 100,000 acre-feet a year would have been saved over the last 10 years. That one million acre-feet of precious water would have been nice to have in the midst of the drought.

This is a battle the Water Buffalos continue to fight. Currently, YDP still is idle.

Protecting Lake Powell from those who wish to see it decommissioned also was applauded by the CRWUA membership. The value of Lake Powell has been amply demonstrated during this sustained drought.

Changing CAP's junior rights status, however, is going to be a battle the Water Buffalos will have to continue to wage. During the CRWUA meeting, a panel discussed the issue with the California representative firmly opposed to the change. CAP's junior status only can be changed by an act of Congress. That may be a long time coming and, in the meantime, every effort will be made to store our available supplies prudently and augment those supplies where possible.





In 1993 the Central Arizona Groundwater Replenishment District (CAGRD) was created by the state legislature to be operated by CAWCD as a way for

WATER BUFFALOS ARE ALSO SELF RELIANT. FOR SEVERAL MONTHS EACH YEAR IN VIETNAM AND MALAYSIA, FOR INSTANCE, THEY ARE TURNED LOOSE IN THE FORESTS TO FEED FOR THEMSELVES.

landowners and water providers who had no direct access to CAP water to secure an assured water supply.

Arizona law, under the Assured Water Supply (AWS) Rules established in 1995, mandates that groundwater may not be the basis for any new development in the Phoenix, Tucson and in some Pinal active management areas. The CAGRD provides a way to lessen the depletion of groundwater resources by developers and allow them to comply with AWS Rules which require proof of a consistently available, quality water supply for 100-years.

As members of CAGRD, the water provider or landowner can meet their obligation because the CAGRD agrees to replace via recharge groundwater used by members. If a development does not have CAP water or other renewable supplies, it can join the CAGRD.

CAGRD membership is voluntary. Any city, town, water company, subdivision or homeowner's association located in Pima, Pinal or Maricopa counties may join. There are two member types: Member Service Areas, which include the service area of a city, town or private water company, including any additions to or extensions of the service area and Member Lands, which are individual subdivisions with defined legal descriptions.

When a city, town or water company joins the CAGRD as a member service area, it agrees to declare its service area and all extensions thereof to be in the CAGRD. With Member Lands, the applicant provides a projection of future population and water use. This projection serves as a basis for estimating CAGRD's long-term replenishment obligation.

By law, the CAGRD is required to develop a new Plan of Operation every 10 years and submit it to the

Arizona Department of Water Resources for review and approval.

The first operating plan, approved in 1995, essentially said it would cover CAGRD's water demands by purchasing excess CAP water.

The new plan, due by Jan. 1, 2005, must project the annual replenishment obligation for current and future members through 2015, describe the water supplies it will use to meet its annual replenishment obligations for the next 20 years and list the water supplies potentially available to CAGRD to meet its projected obligations during the subsequent 80 years.

In addition, the plan must say how it will develop a "replenishment reserve," water CAGRD recharges for future use in meeting its replenishment obligations during times of drought or shortage.

To comply with this requirement, a team of CAP employees was formed in 2003 to develop the new Plan. In addition, staff worked closely throughout 2004 with an external working group of CAGRD stakeholders to develop consensus on controversial provisions of the Plan.

The new plan that projects that CAGRD's replenishment obligations will grow to about 227,000 acre-feet per year over the next 30 years. The plan also identifies a water supply acquisition strategy to meet these obligations and develop a "reserve account" of underground storage credits totaling nearly 1.6 million acre-feet.

The plan was adopted by the CAGRD Board (the CAWCD Board also acts as the CAGRD Board) in November and the plan was sent to DWR for approval which is expected some time during 2005.



WATER BUFFALO ARE USUALLY ENTRUSTED TO CHILDREN, OLD PEOPLE, OR WOMEN NOT ENGAGED IN OTHER FARM DUTIES; THE BUFFALO ALLOWS THEM TO BE USEFUL AND PRODUCTIVE.



CAP's Community Investment Program continues to be an integral part of CAP's overall goal to support the communities it serves. The program

drew more applications in 2004 than any previous year. To some people, the annual total of \$50,000 may not sound like much. To many of the recipients, however, it means everything; operating or not operating.

Another change in 2004 is that, while some of the applicants were organizations which had applied for grants in the past, they were requesting funds to develop new programs or projects and employing innovative approaches to reach either more people or the same audience but more efficiently.

For more details about these grants, visit the Charitable Contributions link on CAP's website at www.cap-az.com.

JUNE 2004 GRANTS:	
ARIZONA STATE ENVIROTHON	\$3,000
ARIZONA HYDROLOGICAL SOCIETY	\$1,400
EARTHKEEPERS EDUCATION PROGRAM	\$1,000
EAST MARICOPA RESOURCE MANAGEMENT EDUCATION CENTER	\$4,240
FRIENDS OF THE DESERT OUTDOOR CENTER	\$3,400
NATURAL RESOURCE EDUCATION CENTER	\$3,500
TOHONO CHUL PARK	\$2,500
TUCSON'S RIVER OF WORDS YOUTH POETRY & ART CONTEST	\$2,000
WATER RESOURCES RESEARCH CENTER	\$2,880
WICKENBURG ENVIRONMENTAL EDUCATION CENTER	\$1,350
DECEMBER 2004 GRANTS:	
ARIZONA STATE ENVIROTHON	\$3,000
ARIZONA ZOOLOGICAL SOCIETY	\$2,500
AUDUBON ARIZONA	\$5,000
EAST MARICOPA RESOURCE MANAGEMENT EDUCATION CENTER	\$5,000
HOHOKAM MIDDLE SCHOOL	\$500
TUCSON BOTANICAL GARDENS	\$5,000

I n t e r n a l A c c o m p l i s h m e n t s



WATER BUFFALOS

ARE ADAPTABLE AND
ARE MANAGED IN
MANY WAYS.
IN GENERAL,
THEY ARE RAISED
LIKE CATTLE.

While the external actions drew most of the media and public attention, CAP's **Water Buffalos** were far from idle internally. Just as the **Water Buffalos** plodded along, never **wavering** on many external **actions**, such as securing financial certainty with **the Indian water rights settlement**, so, too, did they push forward on **long-term** internal projects.

In 2004, CAP's emphasis on its ME, or Maintenance Excellence, program continued. Since CAP's mission is to deliver water by managing a river

that goes uphill (the lift from the Colorado River to the terminus just south of Tucson is about 3,000 vertical feet), maintenance of the pumps, checks, and turnouts is paramount.

"Maintenance Excellence will help us develop, organize and manage our maintenance programs even more efficiently and effectively, enabling us to use our operations and maintenance systems to their full capacities," CAP General Manager Sid Wilson said at the beginning of the effort.

"Failure is not an option," he added.

In 2004, 18 months after its inception, the ME initiative has experienced tremendous progress. To measure progress, a reassessment was done by CAP's Internal Audit Department. The assessment focused on program foundation, scorekeeping, organizational teams, information sources, reliability-centered maintenance, and operational control.

The 2004 assessment score was 599, up significantly from the initial assessment in 2002, of 417. A score of 750 indicates "Excellence" and a score of 850 indicates "World Class."

"Clearly, we've made significant progress," said John D. Newman, Assistant General Manager of Maintenance. "However, most of our improvements have occurred in the basic program foundation including streamlining organizational structure. Now our efforts are focused on the more difficult tactical areas including our planning and scheduling processes and the preventive maintenance program itself."

Another key to a successful ME program is the development of partnerships with departments that deal with or are supported by Maintenance. Partnerships with Operations, Purchasing, Warehouse, Finance/IT,

and Employee Services will continue to enhance communications, trust and teamwork.

Tim Kacerek, Manager of Water Operations, says customer service has been significantly improved because of these ME partnerships.

"Effective maintenance provides capacity and reliability, and reliable capacity is what we need to move the water when and where our customers require it," he said. "Maintenance Excellence is a continuous journey toward this common goal."

The ME project and the changes it brings has spilled over into other CAP departments where the organization is becoming more efficient and more secure.

One example is the implementation of a reorganization of the Engineering department's workflow process. Representatives from Maintenance, Information Technologies, Human Resources and Finance were involved in the creation of the new structure, which features five divisions: Engineering Resources, Project Management, Technical Support, Lands & Records and Drawing Services.

These changes are the latest evolution in how CAP works since the start of the ME effort. Essentially, the structure streamlines the process for submitting and managing projects, thereby improving Engineering Services' ability to communicate to the departments submitting work orders.

In order to pursue the best practice of integrated supply chain management, the Purchasing and Material Control and Distribution departments were combined. This restructuring allows for all goods and services to be sourced, acquired, received, stored and distributed by the new combined group, all under direction of a single manager.

A Change in Tucson

For 15 years employees in Tucson have been without a permanent CAP home. Administrative people have been working out of a crowded trailer and



maintenance crews were scattered. There was no shop or storage space, so maintenance crews were working out of pumping plants. As Facilities Services manager Pam Newman pointed out, "We needed a better place for all our people out there."

In 2004 construction began to erect three new buildings at the Twin Peaks Pumping Plant on the site where the old trailer now stands. The three buildings will include a 7,500 square foot administration building. It will have office space for Electronics, Checks and Turnouts, Aqueduct Maintenance, and all the others assigned to the Tucson area. There maintenance building similar to the vehicle shop at Headquarters. Finally, there is a storage building for maintenance groups to store equipment.

There will also be a new well for potable water and conference rooms to seat 50 people with complete audio-visual technology, which will eliminate the need to rent space for meetings.

A mosaic mural created by students

at Hohokam middle school will adorn the entry to the new building. The mural was donated to thank CAP for adopting Hohokam as the beneficiary of its community outreach efforts. The mural depicts the CAP canal and its customers. The new office building will be complete in Spring 2005.

THE WATER BUFFALO HAS VERY FLEXIBLE PASTERN AND FETLOCK JOINTS IN THE LOWER LEG SO THAT IT CAN BEND BACK ITS HOOVES AND STEP OVER OBSTACLES MORE EASILY THAN CATTLE.

A WATER BUFFALO'S LARGE BOXY HOOVES
ALLOW IT TO MOVE IN THE SOFT MUD OF RICE FIELDS.



In an effort
to manage an ever-
increasing amount
of data produced
by current and new
technology, CAP
replaced the
enterprise document

management system, Cimage, with a more extensive system called Livelink.

Livelink is better equipped to meet CAP's document management needs for any type of electronic file including office documents, photos, spreadsheets, presentations, CAD drawings and video files. It has a user-friendly interface and integrates with other Microsoft Office products currently used throughout CAP. The system also makes it easy to find documents with a simple search tool. Another benefit to Livelink is that employees can automate their document management, such as change requests, and review and approval processes.

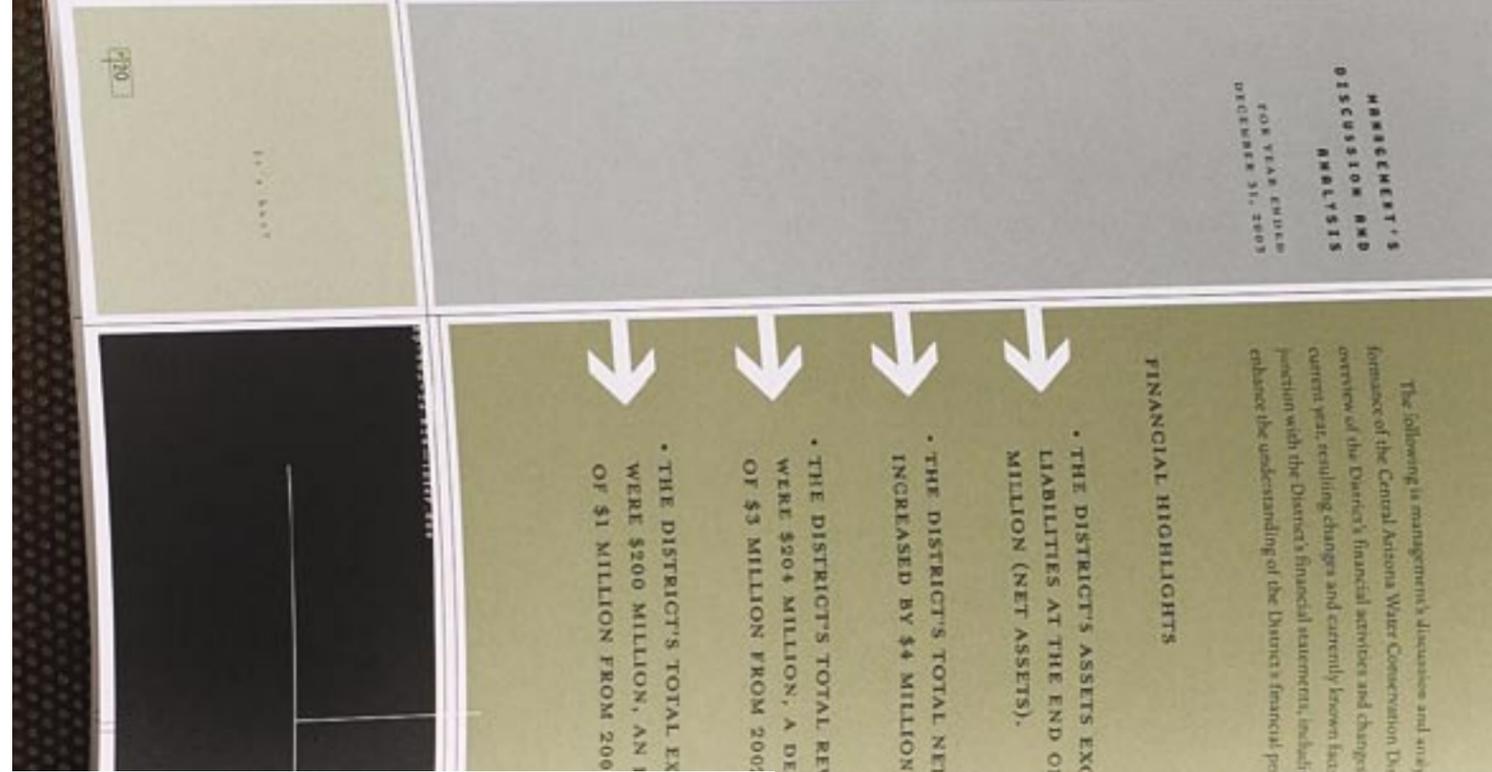
"Smart cards," an important Security measure, was implemented in 2004 as a result of recommendations made by Sandia National Laboratories during a security and IT audit.

"Smart cards" contain microchip technology which provides the ability to store information such as the complex passwords that were issued to all CAP employees and are required for access to all facilities and computer systems. Employees must also have the cards visible at all times for identification at CAP.



New Budget Cycle

On November 4th the CAWCD Board approved a proposal that will move CAP to a two-year budgeting cycle. The expectation is that by moving to a



biennial budget, CAP can eliminate overlapping work processes, produce higher quality information, and give managers and supervisors the opportunity to focus on short-term and long-range financial and business planning. The off year would be concentrated on strategic planning and rate setting.

Seven workgroups were formed to implement the change, each lead by a member of an implementation team that coordinates between groups. They generally meet weekly to address such issues as budget reporting, technology, capital planning, rate setting, processes, staffing, and communications.

Each workgroup has a timeline that must be strictly observed in order to implement changes in time for the 2006/2007 budget cycle, which will produce the first two-year budget. Part of the challenge will be to build more flexibility into the process and still maintain the necessary controls.

STATEMENTS	DESCRIPTION
STATEMENTS OF NET ASSETS	Summarize the District's current and long-term obligations (liabilities) and the assets available to meet those obligations. The difference between total assets and total liabilities represents the District's net assets.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	Summarize the District's operating and non-operating expenses for the year and the revenues that were available to cover those expenses, as well as changes in net assets.
STATEMENTS OF CASH FLOWS	Summarize the District's use of cash during the year and the sources of cash available to finance those uses. The statements of cash flows, as well as



CAP's Human Side

CAP made a concerted effort to change its safety culture in 2004 through its Target Zero safety campaign. Although this comprehensive communications

THE WESTERN ASIA WATER BUFFALO TEND TO PREFER TO WALLOW IN CLEAN WATER.



campaign made zero injuries a company-wide goal, the focus of the plan stressed, not numbers, but keeping people safe from injuries. By making employees number one and by making them responsible for their own safety and the safety of others, CAP was able to cut injuries by 80 percent.

As part of a CAP Wellness Committee initiative to promote employee health and safety, CAP held three Health and Safety Expos at Headquarters, in Tucson and at Lake Havasu.

The highlight of the Health and Safety Expo was a free health risk assessment and wellness screening that included the following tests:

- SMAC-28 BLOOD CHEMISTRY PANEL TO TEST THE VALUES FOR CHOLESTEROL, DIABETES, KIDNEY, IRON AND LIVER CONDITIONS
- PROSTATE SPECIFIC ANTIGEN (PSA)
- REGULAR BLOOD PRESSURE, HEIGHT, WEIGHT AND BODY FAT ANALYSIS
- OSTEOPOROSIS BONE DENSITY.



Participating vendors included CAP business partners AmeriBen, Delta Dental, Avesis, Blue Cross Blue Shield, and local chiropractic, safety, and wellness providers.

Two-thirds of CAP's workforce attended, and employee response was so positive that CAP will continue conducting Health and Safety Fairs incorporating wellness education programs and activities in the upcoming year.



CAP Turnouts, CAP's employee volunteer organization, sponsored eight community service projects in 2004 including:

- A TOY DRIVE FOR ANDREA'S CLOSET, AN ORGANIZATION THAT PROVIDES TOYS FOR HOSPITALIZED CHILDREN UNDERGOING MEDICAL PROCEDURES.
- A FUNDRAISER FOR UNITED WAY, WHICH RAISED NEARLY \$27,000.
- A BACK-TO-SCHOOL DRIVE SOLICITING SUPPLIES FOR CHILDREN AT HOHOKAM MIDDLE SCHOOL, ONE OF TUCSON'S MOST AT-RISK STUDENT POPULATIONS.
- TWO BLOOD DRIVES FOR UNITED BLOOD SERVICES.
- MEAL SERVICE FOR THE HOMELESS AT ST. VINCENT DE PAUL'S BECKER DINING HALL IN SUNNYSLOPE.
- A CAP FLOAT IN THE PARADA DEL SOL IN SCOTTSDALE.
- A SPECIAL DAY OF FISHING AT LAKE PLEASANT FOR CHILDREN WITH SPECIAL NEEDS AT C.A.S.T. FOR KIDS.
- A DAY BUILDING HOMES WITH HABITAT FOR HUMANITY.

Each year, CAP's Water Buffalos stop to recognize that many employees, such as the Turnouts members, "give back" to their communities by participating in charitable organizations. In 2004, 36 employees were recognized for their volunteer service at the 8th annual President's Award for Community Service Luncheon.

Each agency for which employees volunteer received a \$100 donation in

honor of the employee's volunteer service. In addition, drawings for grand prize donations of \$500 went to West Greenway Baptist Church, \$750 went to Arizona Cats and \$1,000 went to C.A.S.T. for Kids.

The event's keynote address was delivered by David "Fitz" Fitzsimmons, political cartoonist for Tucson's Arizona Daily Star. Fitz's humor and impromptu caricature sketches of several "lucky" CAP employees, combined with his strong sense of community, made the event one to remember.

In addition, CAP employee's educated nearly 100 children about the intricacies of water delivery as part of its Take Your Kids to Work Day program. More than 60 volunteers led children through 12 activities, to introduce various workplace responsibilities and job opportunities available at CAP.

In addition to the children and grandchildren of CAP employees, 25 honor students from Hohokam middle school in Tucson attended the event, where they learned about web design, geology, pest management, warehouse distribution, carpentry, welding, engineering, vehicle repair, public relations, photography, electronics and more.

Throughout 2004 the Water Buffalos were undeterred. They were resolute, and quite successful, in meeting goals and objectives, both internally and externally. While doing so, they never lost sight of their first priority: to deliver water in an efficient, reliable, cost-effective manner to the people in central Arizona.



The following discussion provides an overview of the 2004 financial activities for the Central Arizona Water Conservation District (CAWCD or District) and reflects changes in financial position for the current year.

- Assets exceeded its liabilities at the end of 2004 by \$176.7 million (net assets).
- Total net assets increased by \$21.7 million in 2004.
- Total revenues for 2004 were \$235.1 million, an increase of \$31.4 million from 2003.
- Total expenses for 2004 were \$213.4 million, an increase of \$13.6 million from 2003.

The District's activities are accounted for using the accrual method and incorporate the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Total Assets

In 2004, total assets declined \$4.4 million due to several factors. The largest component of the District's capital assets is the permanent service right (PSR), net of accumulated amortization. For 2004, the PSR (net) decreased from \$1.49 billion to \$1.46 billion. The PSR represents the District's right to operate the Central Arizona Project (CAP) system and collect revenues from operations, for which the District has incurred a repayment obligation to the United States. While capital assets grow annually as a result of ongoing capital projects, such additions are presently more than offset by amortization of the PSR, which is approximately \$30 million per year. As a result, net capital assets tend to decrease each year.

(DOLLARS IN MILLIONS)	2004	2003	CHANGE	
Capital Assets:				
Permanent service right, net	\$ 1,460.9	\$ 1,491.3	\$ (30.4)	(2.0%)
Property and equipment, net	60.3	48.2	12.1	25.1%
Other Assets:				
Cash and investments	260.3	267.5	(7.2)	(2.7%)
Funds held by/advanced to federal gov't	36.5	27.8	8.7	31.3%
Other	46.7	34.3	12.4	36.2%
Total assets	\$ 1,864.7	\$ 1,869.1	\$ (4.4)	(0.2%)

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





Total Liabilities

The two largest components of the District's long-term liabilities are the federal repayment obligation and the contract revenue bonds. The long-term federal repayment obligation decreased from \$1.46 billion in 2003 to \$1.44 billion in 2004. This decline of \$21.4 million was due to the scheduled payment for 2004. In addition, contract revenue bonds decreased \$19.6 million. Generally, long-term liabilities will decrease each year as the repayment obligation and revenue bonds are paid off. All other long-term liabilities decreased \$2.1 million due to a decline in deferred revenue for water and a change in accounting methodology to not defer revenue associated with the Central Arizona Groundwater Replenishment District's (CAGR) advance replenishment and infrastructure.

(DOLLARS IN MILLIONS)	2004	2003	CHANGE	
Long-Term Liabilities:				
Repayment obligation	\$ 1,439.5	\$ 1,460.9	\$ (21.4)	(1.5%)
Contract revenue bonds	96.5	116.1	(19.6)	(16.9%)
Other	27.0	29.1	(2.1)	(7.2%)
Other liabilities	125.0	108.0	17.0	15.7%
Total liabilities	\$ 1,688.0	\$ 1,714.1	\$ (26.1)	(1.5%)

Other liabilities include payables, accrued interest, and current principal obligations. Overall, the net increase in other liabilities was \$17 million for 2004 resulting from the annual water customer reconciliation. The amounts payable to water customers increased and represents the amount owed to water customers based on the annual water delivery reconciliation.

Total Net Assets

As of December 31, 2004, net assets was \$176.7 million, an increase of \$21.7 million from 2003.

(DOLLARS IN MILLIONS)	2004	2003	CHANGE	
Assets				
Capital asstes, net	\$ 1,521.2	\$ 1,539.5	\$ (18.3)	(1.2%)
Other assets	343.5	329.6	13.9	4.2%
Total assets	1864.7	1,869.1	(4.4)	(0.2%)
Liabilities				
Long-term liabilities	1,563.0	1,606.1	(43.1)	(2.7%)
Other liabilities	125.0	108.0	17.0	15.7%
Total liabilities	1,688.0	1,714.1	(26.1)	(1.5%)
Net Assets				
Invested in capital assets, net of related debt	(57.9)	(79.7)	21.8	27.4%
Restricted	56.6	54.6	2.0	3.7%
Unrestricted	178.0	180.1	(2.1)	(1.2%)
Total net assets	176.7	155.0	21.7	14.0%
Total liabilities and net assets	\$ 1,864.7	\$ 1,869.1	\$ (4.4)	(0.2%)

Invested in capital assets, net of related debt, increased \$21.8 million in 2004. This increase reflects that the District is paying off the debt faster than the associated amortization and depreciation on these assets.

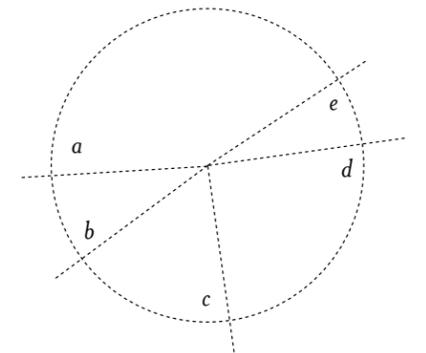
Restricted net assets increased \$2.0 million. The majority of the increase is related to payables for accrued interest, arbitrage rebate liability for the District's revenue bonds, and the Master Repayment Contract reserves.

Unrestricted net assets decreased \$2.1 million largely due to pumping power costs, which increased in 2004 due to higher over-threshold energy rates offset by a lower federal debt payment.

Revenues

The District's principal sources of revenues are water delivery O&M charges, water service capital charges, power and Basin Development Fund (BDF) revenues, property taxes, interest earnings and other revenue. For 2004, total revenues were \$235.1 million, an increase of \$31.4 million from 2003. Revenue from the sale of water made up 38 percent of District's revenues in 2004 or \$89.8 million. Water deliveries were 1.6 million acre-feet, which was a slight increase from 2003 deliveries of 1.55 million. Power and BDF revenues increased 12.3 percent in 2004 to \$59.5 million. The increase reflects an overpayment credit associated with CAWCD's federal debt payment and an increase in the sale of SO2 credits retained by the federal government. Revenues from property taxes were \$42.9 million in 2004, which was 27.7 percent higher than 2003 due to increased property values and the decision to retain the Water Storage Tax (WST) in late 2003. Other revenue increased from \$13 million in 2003 to \$16.4 million in 2004. Much of the increase represents infrastructure revenues for the CAGR, which are no longer deferred and are instead recognized in the year earned. Finally, to continue implementing the modified reserve policy, the capital charge rate was lowered in 2004. This combined with lower deliveries to municipal and industrial (M&I) nonsubcontract customers, resulted in revenues of \$19.4 million in 2004 – a \$6.4 million decline from 2003.

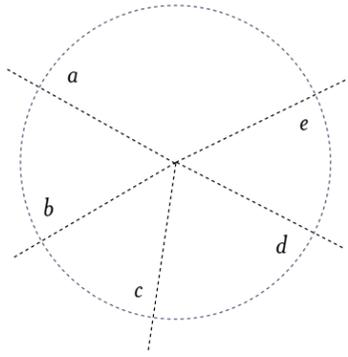
2004 TOTAL REVENUES
a WATER SALES 38%
b INTEREST & OTHER 10%
c TAXES 18%
d POWER & BDF 26%
e CAPITAL CHARGES 08%



(DOLLARS IN MILLIONS)	2004	2003	CHANGE	
Operating revenues				
Water O&M charges	\$ 89.8	\$ 71.1	\$ 18.7	26.3%
Water service capital charges	19.4	25.8	(6.4)	(24.8%)
Power and other BDF revenues	59.5	53.0	6.5	12.3%
Reimbursements & other	16.4	13.0	3.4	26.2%
Total operating revenues	\$ 185.1	162.9	22.2	13.6%
Nonoperating revenues				
Property taxes	42.9	33.6	9.3	27.7%
Interest income & other	7.1	7.2	(0.1)	(1.4%)
Nonoperating revenues	50.0	40.8	9.2	22.5%
Total revenues	\$ 235.1	\$ 203.7	\$ 31.4	15.4%

Expenses

2004 TOTAL EXPENSES
a PUMPING POWER 34%
b SALARIES & RELATED 18%
c OTHER 14%
d INTEREST 20%
e PSR AMORTIZATION 14%



Total expenses for 2004 were \$213.4 million, an increase of \$13.6 million from 2003. The District's most significant expense is pumping power, which increased to \$71.4 million in 2004. This increase of \$10.3 million from 2003 is due to higher Navajo and over-threshold energy rates. Salaries and related costs were \$38.5 million in 2004. In 2004, the District terminated the CAWCD Retirement Plan. This event combined with increases in the contribution rate to the Arizona State Retirement System that began in July 2003 resulted in higher salaries and related costs. Amortization of the PSR was \$30.4 million in 2004 and 2003. Interest expense declined to \$42.8 million in 2004 from \$46 million in 2003, reflecting that the District is paying down the debt associated with the federal repayment obligation and the revenue bonds. All remaining costs were \$30.3 million in 2004 and include depreciation expense, outside professional and commercial services, materials and supplies, travel and training, transmission charges, property and casualty insurance, water purchases by CAGR, and miscellaneous other expenses.

(DOLLARS IN MILLIONS)	2004	2003	CHANGE	
Operating expenses				
Salaries & related costs	\$ 38.5	\$ 34.5	\$ 4.0	11.6%
Pumping power	71.4	61.1	10.3	16.9%
Amortization of PSR	30.4	30.4	—	0.0%
Other	30.3	24.8	5.5	22.2%
Total operating expenses	\$ 170.6	\$ 150.8	\$ 19.8	13.1%
Nonoperating expenses	42.8	46.0	(3.2)	(7.0)%
	213.4	196.8	16.6	8.4%
Cumulative effect of change in accounting principle	—	3.0	(3.0)	(100.0)%
Total expenses	\$ 213.4	\$ 199.8	\$ 13.6	6.8%

Change In Net Assets and Ending Net Assets

The change in net assets for 2004 was \$21.7 million. This is a \$14.8 million increase from the prior year. Both revenues and expenses increased in 2004, but the increases in operating and non-operating revenues were greater than the increase in operating expenses. The District began recording an expense associated with decommissioning the Navajo Generating Station (NGS) in 2003. As a result, the cumulative effect of this change in accounting principle resulted in an expense of \$3.0 million incurred prior to 2003, but recorded in 2003, for decommissioning of the NGS.

(DOLLARS IN MILLIONS)	2004	2003	CHANGE	
Total operating revenues	\$ 185.1	\$ 162.9	\$ 22.2	13.6%
Total operating expenses	(170.6)	(150.8)	(19.8)	13.1%
Operating income (loss)	14.5	12.1	2.4	19.8%
Nonoperating revenues (expenses)	7.2	(5.2)	12.4	(238.5)%
Change in net assets	21.7	6.9	14.8	214.5%
Cumulative effect of change in accounting principle	—	(3.0)	3.0	(100.0)%
Beginning net assets	155.0	151.1	3.9	2.6%
Ending net assets	\$ 176.7	\$ 155.0	\$ 21.7	14.0%

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The information contained in this Financial Highlights is intended to provide a general overview of the District's finances and accountability for the money it receives. If you have questions or need additional financial information, contact Theodore C. Cooke, Assistant General Manager of Finance and Information Technology at:

Post Office Box 43020
 Phoenix, Arizona 85080-3020
 623-869-2167
 tcooke@cap-az.com

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The CAWCD Board

Central Arizona Water Conservation District (CAWCD)

CAWCD Board members accept a huge responsibility on behalf of their constituents, the citizens of Maricopa, Pima and Pinal counties. They are representing more than four million people, roughly 80 percent of the state's population, and all of Arizona's largest cities including Phoenix, Tucson, Mesa, Glendale, Peoria and Scottsdale. The decisions Board members make have long-term consequences related to the quantity, price and distribution of the approximately 1.5 million acre-feet of Colorado River water Central Arizona Project delivers annually. They arrive at their decisions by building trust, developing relationships and considering all the options, all the time.

The 15-member Board serves staggered six-year terms without pay. Every two years, as part of the general election ballot, the public elects one-third of the 15-member CAWCD Board. Candidates are drawn from CAP's three-county service area: Maricopa, Pinal and Pima counties. The candidates must be residents of the county they wish to represent.

The composition of the Board is based on population, so 10 are from Maricopa County, 4 from Pima County and 1 from Pinal County. The Board generally meets monthly at CAP headquarters in Phoenix.

In 2004, five Board members were up for reelection. Two of them, Grady Gammage, Jr. Esq. and Samuel P. Goddard, Jr., Esq. decided not to seek reelection. Three incumbents, Daniel J. Donahoe, Mark Lewis and Susan Bitter Smith, were reelected to six-year terms. Newcomers Tim Bray and Paul Hendricks were elected to replace Gammage and Goddard.

The leaders on the CAWCD Board receive, review and comprehend extraordinary quantities of information in order to make informed and educated decisions related to water policy and practice. CAWCD Board members have consistently proven themselves as prudent and responsible governors of the system. In a world where ego sometimes dictates decision-making, the Central Arizona Project is fortified by a Board of fair and responsible leaders who are intelligently planning for this state's water future well into the next century. We are fortunate to have them, indeed.



CAWCD's Official Water Buffalos

MARICOPA COUNTY

A	<i>George Brooks</i>	TERM ENDING 2006
B	<i>Daniel J. Donahoe</i>	TERM ENDING 2004*
C	<i>Grady Gammage, Jr. Esq.</i>	TERM ENDING 2004
D	<i>Samuel P. Goddard, Jr. Esq.</i>	TERM ENDING 2004
E	<i>Mark Lewis</i>	TERM ENDING 2004*
F	<i>William Perry</i>	TERM ENDING 2006
G	<i>George Renner</i>	TERM ENDING 2006
H	<i>Susan Bitter Smith</i>	TERM ENDING 2004*
I	<i>Lisa Atkins</i>	TERM ENDING 2006
J	<i>Frank Barrios</i>	TERM ENDING 2006

PIMA COUNTY

K	<i>Mike Boyd</i>	TERM ENDING 2008
L	<i>Diana Kai</i>	TERM ENDING 2008
M	<i>David Modeer</i>	TERM ENDING 2008
N	<i>Carol Zimmerman</i>	TERM ENDING 2008

PINAL COUNTY

O	<i>Jim Hartdegen</i>	TERM ENDING 2008
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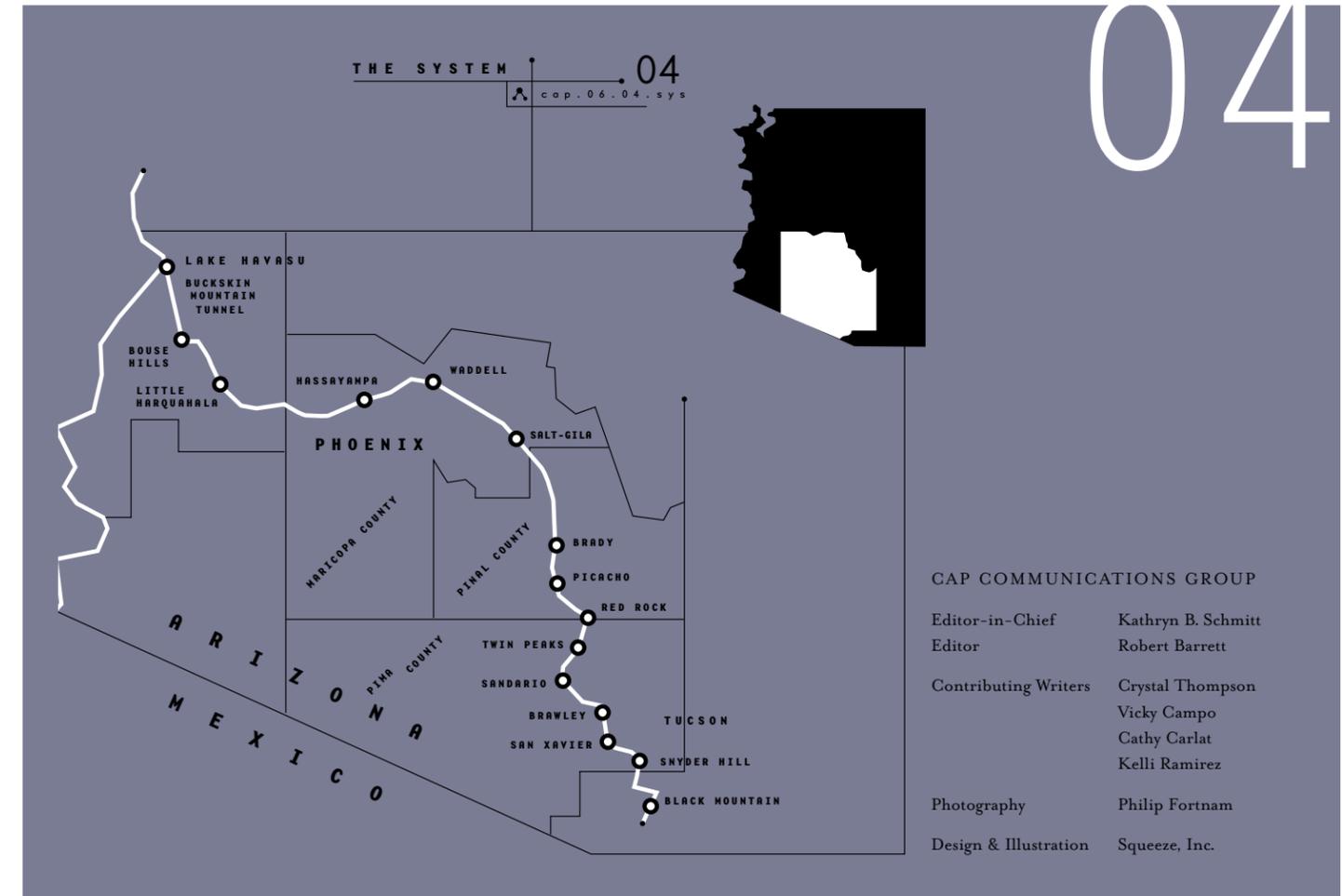
* Re-elected in 2004, new term expires in 2010

The Senior Management Team

Central Arizona Project



A	DAVID S. "SID" WILSON, JR.	GENERAL MANAGER
B	DONNA MICETIC	EXECUTIVE ASSOCIATE
C	DONNA MURPHY	ASSISTANT GENERAL MANAGER, EMPLOYEE SERVICES
D	JOHN NEWMAN	ASSISTANT GENERAL MANAGER, MAINTENANCE
E	LARRY DOZIER	DEPUTY GENERAL MANAGER, OPERATIONS, PLANNING & ENGINEERING
F	DOUGLAS MILLER	GENERAL COUNSEL
G	KATHRYN SCHMITT	DIRECTOR, COMMUNICATIONS, PUBLIC AFFAIRS & GOVERNMENTAL RELATIONS
H	TED COOKE	ASSISTANT GENERAL MANAGER, FINANCE & INFORMATION TECHNOLOGY



CAP COMMUNICATIONS GROUP

Editor-in-Chief	Kathryn B. Schmitt
Editor	Robert Barrett
Contributing Writers	Crystal Thompson Vicky Campo Cathy Carlat Kelli Ramirez
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CENTRAL ARIZONA PROJECT

P.O. BOX 43020
PHOENIX, AZ 85080-3020

623 869 2333

www.cap-az.com

