

BLACK CANYON CITY WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 2010 and 2009

Black Canyon City Water Improvement District MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Black Canyon City Water Improvement District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended June 30, 2010 and 2009. This information is presented in conjunction with the audited Basic Financial Statements that follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2010 and 2009

- The District's net assets increased by .70% in 2010, and 7.7% in 2009.
- Operating revenues decreased by 11.29% in 2010, and 2.1% in 2009.
- Operating expenses increased by 8.97% in 2010, and decreased by 4.3% in 2009.
- The Board and Management continue to strive to keep overhead costs down.
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In January 2010 Mother Nature landed a heavy blow to the Black Canyon City area and the Water District. Heavy rains produced extreme flooding, leaving some folks homeless and others stranded. Damages were huge with the two (2) most major for the District being a 6" main line crossing the Black Canyon Creek being completely swept away and another main line along the south side of the Old Black Canyon Highway bridge being hit and ruptured by a steel tank carried in the flooding waters and being lodged under the bridge. Although damages were extreme, the area was not declared a national disaster leaving the cost of the cleanup and restoration to the District.

The unexpected costs incurred by this disaster were to install, first, a temporary line across the Black Canyon Creek to service those customers on the other side on Maren and Lisa Drive followed by the installation of a new permanent line. Immediately following the disaster, Management was able to get the Arizona National Guard to fly in a Black Hawk helicopter to deliver bottled water to those stranded. The temporary line was strung overhead and stayed in place for about five to six months until the waters receded and the new main could be installed. This was successfully completed in July 2010.

Other, less major work/improvements included new controls for the arsenic system and upgraded electrical work at the well sites including new pumps, surge arrestors and pump protectors. Routine maintenance has prolonged the useful life of equipment, but replacement is still sometimes necessary.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and Basic Financial Statements. The Financial Statements include notes that explain in detail some of the information included in the Basic Financial Statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to the accounting principles which are generally

accepted in the United States of America. The Statement of Net Assets includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the fiscal years ended June 30, 2010 and 2009. This statement provides information on the District's operations over the past year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the change in cash and cash equivalents balance.

The notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets and Statement of Revenues, Expense and Changes in Net Assets provides an indication of the District's financial condition and also indicates whether or not the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

NET ASSETS

A summary of the District's Statements of Net Assets is presented below:

Table 2
Condensed Statements of Net Assets
As of June 30, 2009 and 2008

	Jun 30, 09	Jun 30, 08	\$ Change	% Change
Total current and other assets	341,966	556,087	-214,121	-38.5%
Capital assets, net	1,135,073	1,108,127	26,946	2.4%
Total assets	1,477,039	1,664,214	-187,175	-11.2%
Long-term debt	-	239,844	-239,844	-100.0%
Other liabilities	43,438	93,355	-49,917	-53.5%
Total liabilities	43,438	333,199	-289,761	-87.0%
Net assets invested in capital assets, net of related debt	1,135,073	817,523	317,550	38.8%
Restricted for capital improvements				
Unrestricted undesignated	298,528	513,492	-214,964	-41.9%
Total net assets	1,433,601	1,331,015	102,586	7.7%

As the above table indicates, total assets decreased by \$187,175 or 11.2% during the fiscal year ended June 30, 2009. This is comprised of a decrease of current and other assets of \$214,121 that is attributed to the pay-off the District's long term debt, and an increase of \$26,946 in capital assets, net of accumulated depreciation.

Total liabilities reflect a decrease of \$289,761 or 87.0%. Table 2 also indicates that total net assets increased by \$102,586 or 7.7%.

Table 2
Condensed Statements of Net Assets
As of June 30, 2010 and 2009

	<u>Jun 30, 10</u>	<u>Jun 30, 09</u>	<u>\$ Change</u>	<u>% Change</u>
Total current and other assets	401,375	341,966	59,409	17.37%
Capital assets, net	1,087,595	1,135,073	-47,478	-4.18%
Total assets	1,488,970	1,477,039	11,931	0.80%
Other liabilities	45,378	43,438	1,940	4.46%
Total liabilities	45,378	43,438	1,940	4.46%
Net assets invested in capital assets, net of related debt	1,087,595	1,135,073	-47,478	-4.18%
Restricted for capital improvements	103,516	29,811	73,705	257.30%
Unrestricted undesignated	252,481	268,717	-16,236	-6.04%
Total net assets	1,443,592	1,433,601	9,991	0.70%

As the above table indicates, total assets increased by \$11,931 or .80% during the fiscal year ended June 30, 2010. This is comprised of a decrease of current and other assets of \$59,409 that is attributed to a combination of an increase of cash and a decrease of accounts receivables and meters and supplies inventory, and a decrease of capital assets of \$47,478, net of accumulated depreciation.

Total liabilities reflect an increase of \$1,940 or 4.46%. Table 2 also indicates that total net assets increased by \$9,991 or .70%.

REVENUES AND EXPENSES

A condensed Statement of Revenue, Expenses and Changes in Net Assets is presented in Table 3 and Table 4:

Table 4
Condensed Statements of Revenues, Expenses and Changes in Net Assets
As of June 30, 2009 and 2008

	<u>Jun 30, 09</u>	<u>Jun 30, 08</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	410,824	419,666	-8,842	-2.1%
Non-operating revenues	8,162	14,854	-6,692	-45.1%
Total revenues	418,986	434,520	-15,534	-3.6%
Depreciation expense	84,409	96,402	-11,993	-12.4%
Other operating expenses	226,095	216,789	9,306	4.3%
Non-operating expenses	5,896	16,668	-10,772	-64.6%
Total expenses	316,400	329,859	-13,459	-4.1%
Changes in net assets	102,586	104,661	-2,075	-2.0%
Beginning net assets	1,331,015	1,226,354	104,661	8.5%
Ending net assets	1,433,601	1,331,015	102,586	7.7%

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that affect the change in net assets. As the information in Table 4 indicates, net assets increased during the year by \$102,586 or 7.7%. The District's total revenue decreased by \$15,534 or 3.6%. Total expenses decreased by \$15,534 or 3.6% during the same time period.

Table 4
Condensed Statements of Revenues, Expenses and Changes in Net Assets
As of June 30, 2010 and 2009

	Jun 30, 10	Jun 30, 09	\$ Change	% Change
Operating revenues	364,462	410,824	-46,362	-11.29%
Non-operating revenues	1,935	8,162	-6,227	-76.29%
Total revenues	366,397	418,986	-52,589	-12.55%
Depreciation expense	106,669	84,409	22,260	26.37%
Other operating expenses	246,370	226,095	20,275	8.97%
Non-operating expenses	3,367	5,896	-2,529	-42.89%
Total expenses	356,406	316,400	40,006	12.64%
Changes in net assets	9,991	102,586	-92,595	-90.26%
Beginning net assets	1,433,601	1,331,015	102,586	7.71%
Ending net assets	1,443,592	1,433,601	9,991	0.70%

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that affect the change in net assets. As the information in Table 4 indicates, net assets increased during the year by \$9,991 or .70%. The District's total revenue decreased by \$52,589 or 12.55%. Total expenses increased by \$40,006 or 12.64% during the same time period.

CAPITAL ASSETS

As of June 30, 2010, the District's investment in capital assets was \$1,087,595, which is a decrease of \$47,478 over the capital asset balance of \$1,135,073 at June 30, 2009. The decrease in fixed assets is due to capital improvements in the fiscal year coupled with accumulated depreciation at June 30, 2010.

As of June 30, 2009, the District's investment in capital assets was \$1,135,073, which is an increase of \$26,946 over the capital asset balance of \$1,108,127 at June 30, 2008. The increase in fixed assets is due to capital improvements in the fiscal year coupled with accumulated depreciation at June 30, 2009.

LONG-TERM DEBT

The District had no debt in its fiscal year ending June, 30, 2010, as it had paid off all of its debt in the fiscal year ending June 30, 2009. Additional information on the district's long-term debt is provided in Note 6 of the financial statements.

ECONOMIC FACTORS

The fund created for the arsenic media replacement continues to be utilized, setting aside the funds needed for media replacement in future years. In October of 2008, the media was replaced at a cost of \$89,787. It was anticipated that the media would need to be replaced every 20 months; however, the life of the original media was approximately four years. Additional media costs for the year ending June 30, 2010, are \$7,153.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Black Canyon City Water Improvement District Management Office at P O Box 1007, Black Canyon City, Arizona 86324.

Physical address is: 34501 South Old Black Canyon Highway, #6; Telephone 623-374-9408.

Darlene Wood

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Black Canyon City Water Improvement District
Black Canyon City, Arizona

We have audited the accompanying basic financial statements of Black Canyon City Water Improvement District as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Black Canyon City Water Improvement District management. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Black Canyon City Water Improvement District as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Darlene Wood CPA

Prescott, Arizona
February 7, 2011

Black Canyon City Water Improvement District
Statement of Net Assets
June 30, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents (Note 3)	\$ 180,416	\$ 181,961
Accounts receivable, net of \$500 allowance for uncollectible accounts (Note 4)	32,426	39,395
Supplies inventory	<u>42,827</u>	<u>49,594</u>
Total unrestricted current assets	255,669	270,950
Restricted cash and cash equivalents (Note 3)	<u>145,706</u>	<u>71,016</u>
Total current assets	<u>401,375</u>	<u>341,966</u>
Capital assets		
Nondepreciable capital assets		
Land and land rights	69,225	48,625
Depreciable capital assets		
Property, plant and equipment, net of accumulated depreciation of \$1,615,599 and \$1,510,431 (Note 5)	<u>1,018,370</u>	<u>1,086,448</u>
Total capital assets	<u>1,087,595</u>	<u>1,135,073</u>
Total assets	<u>1,488,970</u>	<u>1,477,039</u>
	<u>Liabilities</u>	
Current liabilities		
Accounts payable and accrued expenses	3,188	2,233
Customer security deposits (Note 3)	<u>42,190</u>	<u>41,205</u>
Total current liabilities	<u>45,378</u>	<u>43,438</u>
Total liabilities	<u>45,378</u>	<u>43,438</u>
Net assets		
Invested in capital assets, net of related debt	1,087,595	1,135,073
Restricted for capital improvements from user fees	103,516	71,016
Unrestricted	<u>252,481</u>	<u>227,512</u>
Total net assets	<u>\$ 1,443,592</u>	<u>\$ 1,433,601</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Water sales	\$ 156,516	\$ 174,144
Surcharge fees (Note 3)	120,095	128,448
Water maintenance fees and other revenue	75,051	83,232
Impact fees (Note 3)	<u>12,800</u>	<u>25,000</u>
Total operating revenues	<u>364,462</u>	<u>410,824</u>
Operating expenses		
Management services (Note 7)	156,034	155,340
Depreciation (Note 5)	106,669	84,409
Supplies, repairs and testing	48,376	29,904
Utility expense - pumps	21,221	19,719
Insurance	7,918	8,144
Office expenses	2,411	5,257
Professional fees	8,091	4,188
Bad debt expense	252	60
Well leases (Note 8)	1,200	1,800
Licenses and permits	386	581
Advertising	69	264
Miscellaneous	<u>412</u>	<u>838</u>
Total operating expenses	<u>353,039</u>	<u>310,504</u>
Net operating revenue	<u>11,423</u>	<u>100,320</u>
Nonoperating revenues (expenses)		
Interest income	1,935	8,162
Loss on disposition of assets	(3,367)	-
Interest expense and loan fees	<u>-</u>	<u>(5,896)</u>
Total nonoperating revenues (expenses)	<u>(1,432)</u>	<u>2,266</u>
Increase in net assets	9,991	102,586
Net assets beginning of year	<u>1,433,601</u>	<u>1,331,015</u>
Net assets end of year	<u>\$ 1,443,592</u>	<u>\$ 1,433,601</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Cash flows from operating activities:</u>		
Cash received from customer water sales	\$ 163,232	\$ 169,143
Cash received from capital fund/surcharge	120,096	128,448
Cash received from impact/development fees	12,800	25,000
Cash received from water maintenance fees	53,094	53,567
Cash received from connections, late fees, and other revenues	22,941	29,665
Cash payments for contract services	(156,034)	(157,567)
Cash payments for water system operations	(67,264)	(52,676)
Cash payments for administration	<u>(15,098)</u>	<u>(15,050)</u>
Net cash provided by operating activities	<u>133,767</u>	<u>180,530</u>
<u>Cash flows from capital and related financing activities:</u>		
Payments for debt interest	-	(5,895)
Payments for principal	-	(290,604)
Purchase/disposition of fixed assets of capital assets	(59,190)	-
Loss on disposition of capital assets	<u>(3,367)</u>	<u>(111,354)</u>
Net cash used by capital and related financing activities	<u>(62,557)</u>	<u>(407,853)</u>
<u>Cash flows from investing activities:</u>		
Interest on investments	<u>1,935</u>	<u>8,162</u>
Net cash provided by investing activities	<u>1,935</u>	<u>8,162</u>
Net increase (decrease) in cash and cash equivalents	73,145	(219,161)
Cash and cash equivalents at beginning of year	<u>252,977</u>	<u>472,138</u>
Cash and cash equivalents at end of year	<u>\$ 326,122</u>	<u>\$ 252,977</u>
<u>Cash and cash equivalents in balance sheet:</u>		
Cash and cash equivalents	\$ 180,416	\$ 46,442
Restricted cash and cash equivalents	<u>145,706</u>	<u>206,535</u>
Total cash and cash equivalents	<u>\$ 326,122</u>	<u>\$ 252,977</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>		
Operating income	\$ 11,423	\$ 100,320
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	106,669	84,409
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	6,969	(8,285)
(Increase) decrease in inventory	6,767	1,245
(Increase) decrease in prepaids	-	1,998
Increase (decrease) in customer security deposits	985	705
Increase (decrease) in accounts payable and accrued expenses	<u>954</u>	<u>138</u>
Net cash provided by operating activities	<u>\$ 133,767</u>	<u>\$ 180,530</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 1 – DESCRIPTION OF ENTITY

Description of Operations

The District was established in 1984 for the purpose of purchasing an existing domestic water delivery system. The District's primary operations include charges for water and related services. It is governed by a Board of Directors elected from within the District.

Reporting Entity

In accordance with the GASB Statement No. 14, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those entities for which its elected governing board is financially accountable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the District, as summarized below, are in conformity with generally accepted accounting principles applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB).

Basis of Presentation and Accounting

The accompanying financial statements have been prepared in accordance with the reporting model defined by GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The reporting model requires supplementary information in the form of Management's Discussion and Analysis and makes other changes in the presentation of the financial statements.

The District is a proprietary fund type, specifically an enterprise fund, and is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the District are included in the Statement of Net Assets. Net assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service, and unrestricted components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized by the District. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

For purposes of the Statements of Cash Flows, the District considers all demand deposit accounts and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

A. Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to Yavapai County's (County) governance of Special Districts. The County requires that the District hold a significant portion of its deposits in pooled County funds.

Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not participate in investment transactions and does not have a formal policy for custodial credit risk for investments nor does it have invested funds.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District does not participate in investment transactions and does not have a formal policy for credit risk nor does it have invested funds.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investment will adversely affect the fair value of an investment. The District does not participate in debt investment and does not have a formal policy for interest rate risk.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not participate in investment transactions and does not have a formal policy for concentration of credit risk.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and Equipment

Property, plant and equipment are stated at cost or estimated historical cost. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of depreciable assets are:

	<u>Estimated Useful Lives</u>
Water distribution	30 years
Vehicles	5 years
Office equipment	5-7 years
Capital improvements office	15 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Supplies inventory

Supplies inventory consists principally of spare parts that are recorded when purchased and expensed when used.

Operating revenues and expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District and consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from nonexchange transactions or ancillary activities.

Comparative Data and Reclassifications

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with current year's presentation.

Net assets

Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components.

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested net assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted: This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets (continued)

Unrestricted net assets: This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, the District’s policy is to apply restricted net assets first.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to May 1 of each year, the District submits to the Water Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.
- c. Arizona statutes require that on or before the third Monday in July of each fiscal year, the District Board must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption; however, they may be decreased. The tentative budget must be published once per week for two consecutive weeks prior to final adoption. Final adoption must take place on or before the second Monday in August.
- d. The level of control for each legally adopted annual budget is at the total budget level.
- e. Unused appropriations for the above annually budgeted funds lapse as of June 30. The District does not use encumbrance accounting.

NOTE 3 – CASH AND RESTRICTED CASH

Deposits

The carrying amount of the District’s deposits for June 30, 2010 and 2009, totaled \$326,122 and \$252,977 (\$180,416 and \$46,422 unrestricted, and \$145,706 and \$206,535 restricted), respectively.

The bank balance at June 30, 2010 and 2009, totaled \$320,471 and \$252,977, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

The majorities of the District’s funds are on deposit with Yavapai County (County) and are included in the County’s Investment Trust Fund. Additional information regarding County policies can be reviewed in the Audited Financial Statement for the current year.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 3 – CASH AND RESTRICTED CASH (continued)

Restricted cash

Restricted cash requirements for customer security deposits totaled \$42,190 and \$41,205 for the years ended June 30, 2010 and 2009, respectively.

During the year ended December 31, 1996, the Board adopted an impact/development fee for all new meter installations. The amounts received for these fees are to be used only for future development of the District. The total proceeds from impact and development fees totaled \$12,800 and \$25,000 for the fiscal years ending June 30, 2010 and 2009, respectively.

During the year ended June 30, 1999, the Board adopted a surcharge fee for all customers. The amounts received for the surcharge fees were initially used for either capital improvements of operation or maintenance as needed. This was revised by Board action during the fiscal year ended June 30, 2002, whereby the fees collected are strictly designated for future capital development of the District. The amount of capital fund/surcharges received totaled \$120,095 and \$128,448 for the fiscal years ending June 30, 2010 and 2009, respectively.

The total capital improvement restricted cash balance of unspent impact/development and surcharge fees is \$103,516 and \$29,811 at June 30, 2010 and 2009, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivables are net of an allowance for doubtful accounts of \$500 leaving a net accounts receivable balance of \$32,426 and \$39,395 at June 30, 2010 and 2009, respectively. The District's receivables primarily consist of amounts due from individuals and businesses in the Black Canyon City, Arizona, area and are not subject to liens unless accounts are delinquent.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment activity for the fiscal year ending June 30, 2010, is as follows:

	<u>Balance</u> <u>6/30/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/10</u>
Land and land rights	\$ 48,625	\$ 20,600	\$ -	\$ 69,225
Total assets not being depreciated	<u>48,625</u>	<u>20,600</u>	<u>-</u>	<u>69,225</u>
Depreciable assets:				
Water plant	1,149,177	7,104	(4,868)	1,151,413
Capital improvements	1,313,701	34,854	-	1,348,555
Office equipment	17,188	-	-	17,188
Other equipment	<u>116,813</u>	<u>-</u>	<u>-</u>	<u>116,813</u>
Total assets being depreciated	<u>2,596,879</u>	<u>41,958</u>	<u>(4,868)</u>	<u>2,633,969</u>
Less accumulated depreciation:				
Water plants	(1,108,325)	(15,488)	1,501	(1,122,312)
Capital improvements	(353,193)	(66,524)	-	(419,717)
Office equipment	(10,229)	(859)	-	(11,088)
Other equipment	<u>(38,684)</u>	<u>(23,798)</u>	<u>-</u>	<u>(62,482)</u>
Total accumulated depreciation	<u>(1,510,431)</u>	<u>(106,669)</u>	<u>1,501</u>	<u>(1,615,599)</u>
Total property plant and equip	<u>\$ 1,135,073</u>	<u>\$ (44,111)</u>	<u>\$ (3,367)</u>	<u>\$ 1,087,595</u>

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expense for the fiscal years ending June 30, 2010 and 2009, is \$106,669 and \$84,409, respectively.

NOTE 6 – NOTES PAYABLE

On September 30, 2003, the District refinanced its note payable to the United States Department of Agriculture (USDA). The principal balance of the refinanced note is for \$507,500 payable to Wells Fargo Brokerage Services, LLC, with monthly payments of \$5,122 for ten years at 4% interest. As of May 1, 2009, the District had fulfilled its obligation under the terms of the note. The pay off of the principal balance by the District left a note payable balance obligation of zero at June 30, 2009.

NOTE 7 – COMMITMENTS

During the year ended June 30, 2001, the Water District entered into an agreement with the School District to share in the cost of a new water storage tank. The cost to the Water District for the tank was \$85,000. The agreement included the sale of the tank site by the Water District to the School District for \$1.00 and the subsequent lease of the tank site by the Water District at \$1.00 per year for 75 years with an option to purchase the tank site for \$1.00. The Water District is responsible for all repairs, operation and maintenance of the tank and tank site.

On February 18, 2010, District entered into an agreement with an independent management firm to manage the District's operations for a term of four years beginning July 26, 2010. The agreement is for monthly payments of \$15,000 for services of up to 850 customer services billed. Additional services over 850 will be billed at a rate of \$11.00 per customer. Total management service payments for the years ended June 30, 2010 and 2009, total \$156,034 and \$155,340, respectively. The minimum payments due on the agreement are as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2011	180,000
June 30, 2012	180,000
June 30, 2013	180,000
June 30, 2014	180,000
Total remaining liability at June 30, 2010	<u>\$ 720,000</u>

NOTE 8 – OPERATING LEASES

During the year ended June 30, 2003, the District entered into an agreement to lease a well site for an indefinite period with monthly payments of \$100. The lease may be canceled by the District with 30 days notice. The well site is owned by Randall and Sarah Hrabina, who are the owners of the contract management firm (See Note 7). The lease may be canceled by the Lessor with 30 days notice if certain restrictions are violated. However, all improvements within the well and well site shall become property of the lessor should the District cancel the lease. The District is responsible for all repairs, operation and maintenance of the well and well site. Lease payments for the year ended June 30, 2010 and 2009, totaled \$600 and \$1,200, respectively per year. In December 2009 the site was sold to the District in the amount of \$20,600.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2010 and 2009

NOTE 8 – OPERATING LEASES (Continued)

During the year ended June 30, 2002, due to the drought conditions, the District entered into an agreement to lease a water well for a term of twenty years with monthly payments of \$50. The lease may be canceled by the District with 30 days notice. The location was deemed by the Board to be an excellent water source; and, due to the close proximity to the District's Big John Well, developing costs for power and connections to existing mains were reduced. The lease may be canceled by the lessor with 30-days notice if certain restrictions are violated. However, all improvements within the fenced well site shall become property of the lessor should the District cancel the lease. The District is responsible for all repairs, operation and maintenance of the well and well site. Annual lease payments for the years ended June 30, 2010 and 2009, total \$600 per year.

The minimum lease payments due on the above two leases are \$1,200 and \$1,800 for the years ended June 30, 2010 and 2009. Total minimum lease payments due in succeeding year is \$600 per year for the Big John Well lease.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2010 and 2009, the District sold water to Board members in the normal course of business.

During the years ended June 30, 2010 and 2009, the District paid \$1,200 annually to a relative of the owners of the District's contract management firm for the lease of a well site (see Note 8). In December 2009 the well site was sold to the District for \$20,600. Total leased well expenses for the Oasis site for the fiscal year ending June 30, 2010, is \$600.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for all such risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The management company also carries commercial liability and theft coverage.

NOTE 11—COMMITMENTS AND CONTINGENCIES

The District enters into operating agreements in the conduct of its day-to-day operations to provide for facilities and/or services. None of these operating agreements are considered to be significant commitments.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events that require adjustment to the financial statements have been evaluated by District through the audit report date of February 7, 2011. No subsequent events have been identified that require inclusion in the financial statements.