

BLACK CANYON CITY WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2011

Black Canyon City Water Improvement District

Financial Statements

Year Ended June 30, 2011

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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, 2011 and 2010. This information is presented in conjunction with the audited Basic Financial Statements that follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2011

- The District's net assets increased by 0.8%
- Operating revenues decreased by 3.7%
- Operating expenses decreased by 3.3%

The fiscal year ending June 30, 2011, was economically difficult for the Black Canyon City water users' community. The Board chose not to implement a rate increase for the fiscal year ending June 30, 2011. This decision by the Board was based on the current economic conditions facing the Black Canyon City water user community. However, due to rising overhead costs including electric, materials, chemicals, etc., a rate increase in the fiscal year ending June 30, 2012, may be necessary. Foreclosures have caused a negative impact on the District. Decreased revenues and a loss in the customer base have had an impact that, unfortunately, falls on the shoulders of the rest of the customer base. The decline in customer base is reflective of abandoned and bank-owned properties. For those properties that have been abandoned or the banks chose not to keep an active metered service, the District does require impact and other fees to reinstate service. This policy helps alleviate some of the District's losses. The District would like to say it has seen the worst of the economic decline, but the reality is that foreclosures are continuing.

Yavapai County (County) notified the District of the County's Roads Budget, which included improving or paving two streets within the District's boundaries. The two streets to be paved by the County are Cholla and Roadrunner Circle. Water lines in both of these areas were never installed to the required three-foot depth during initial construction many years ago. Between grading and erosion, there are areas where the lines are only inches deep, or worse yet, exposed. Replacing these mains and service lines are needed prior to the County's road construction. The majority of the work on Cholla was completed during the fiscal year ending June 30, 2011. Roadrunner Circle capital improvements are to be completed in the subsequent fiscal year ending June 30, 2012.

Additionally, improvements include upgrading the arsenic sites with the installation of new shade screening. After six years, the shade screening originally installed needed to be replaced. This screening helps protect the equipment from the harsh Arizona sun and aids in cooling.

As capital improvements funds are collected, they are set aside strictly for capital improvement projects. These projects are Board approved on an as-needed basis and are related to the available fund balances. This process followed by the District Board help to eliminate higher costs associated with interest bearing loans. The Board continues its strategy of improving the District while controlling costs for all the users in the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and 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 creditors (liabilities).

The Statement of Revenues, Expenses and Changes in Net Assets identifies the District's revenues and expenses for the fiscal year ended June 30, 2011. 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 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, if the financial condition of the District has improved during the last fiscal year. An increase in net assets over time typically indicates an improvement in financial condition.

The Statement of Cash Flows provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investments and financing activities. The Statement of Cash Flows informs the reader of sources and uses of cash and changes in cash and cash equivalents balance for the past year.

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

NET ASSETS – COMPARISON OF JUNE 30, 2011 AND 2010

A summary of the District's Statements of Net Assets is presented below in Table 1:

	June 30, 11	June 30, 10	\$ Change	% Change
Total current and other assets	426,141	401,375	24,766	6.2%
Capital assets, net	1,082,040	1,087,595	(5,555)	-0.5%
Total assets	1,508,181	1,488,970	19,211	1.3%
Other liabilities	53,506	45,378	8,128	17.9%
Total liabilities	53,506	45,378	8,128	17.9%
Net assets invested in capital assets, net of related debt	1,082,040	1,087,595	(5,555)	-0.5%
Restricted	131,751	103,516	28,235	27.3%
Unrestricted assets	240,884	252,481	(11,597)	-4.6%
Total net assets	1,454,675	1,443,592	11,083	0.8%

Total assets increased by \$19,211 or 1.3% during the fiscal year ended June 30, 2011. The increase is attributed to an increase in the capital reserve account offset by a decrease in accounts receivable, inventory, and capital assets. The decrease in capital assets is due to continued depreciation of the water system.

Total liabilities reflect an overall increase of \$8,128 or 17.9%. This increase is from larger accounts payable at June 30, 2011.

Table 1 also indicates that total net assets increased \$11,083 or 0.8% for the fiscal year ending June 30, 2011.

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS COMPARISON OF JUNE 30, 2011 AND 2010

A condensed statement of revenue and expenses is presented in Table 2:

Table 2
Condensed Statement of Revenues,
Expenses and Changes in Net Assets
As of June 30, 2011 and 2010

	June 30, 11	June 30, 10	\$ Change	% Change
Operating revenues	351,021	364,462	(13,441)	-3.7%
Non-operating revenues	1,369	1,935	(566)	-29.3%
Total revenues	352,390	366,397	(14,007)	-3.8%
Depreciation expense	100,498	106,669	(6,171)	-5.8%
Other operating expenses	240,809	246,370	(5,561)	-2.3%
Non-operating expenses	-	3,367	(3,367)	-100.0%
Total expenses	341,307	356,406	(15,099)	-4.2%
Changes in net assets	11,083	9,991	1,092	10.9%
Beginning net assets	1,443,592	1,433,601	9,991	0.7%
Ending net assets	1,454,675	1,443,592	11,083	0.8%

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items, which affect the change in net assets. As the information in Table 2 indicates, total net assets at June 30, 2011, were \$1,454,675.

Operating revenues decreased by \$13,441 in the fiscal year ending June 30, 2011. The decrease is attributed to foreclosures and water user conservation due to economic decline.

Total expenses decreased by \$15,099 in the fiscal year ending June 30, 2011. This was achieved through the continued diligence by District management in controlling costs.

CAPITAL ASSETS

As of June 30, 2011, the District's investment in capital assets totaled \$1,082,040, which is a decrease of \$5,555 over the capital asset balance of \$1,087,595 at June 30, 2010. The decrease in fixed assets is due to capital improvements in the fiscal year offset by continued depreciation of the system at June 30, 2011.

LONG-TERM DEBT

The District had no debt in its fiscal year ending June, 30, 2011.

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.



ALYX COHAN CPA, PC

INDEPENDENT AUDITOR'S REPORT

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

I have audited the Statement of Net Assets of Black Canyon City Domestic Water Improvement District as of and for the year ended June 30, 2011, and the related Statements of Revenues, Expenses, and Changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of Black Canyon City Domestic Water Improvement District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages i through iv, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Alyx Cohan, CPA

Alyx Cohan CPA, PC
Prescott, Arizona
December 9, 2011

Black Canyon City Water Improvement District
Statement of Net Assets
June 30, 2011

Assets

Current assets

Cash and cash equivalents (Note 3)	\$	180,643
Accounts receivable, net of \$1,562 allowance for uncollectible accounts (Note 4)		29,682
Supplies inventory (Note 2)		<u>41,640</u>
Total unrestricted current assets		251,965
Restricted cash and cash equivalents (Note 3)		<u>174,176</u>
Total current assets		<u>426,141</u>

Capital assets

Nondepreciable capital assets		
Land and land rights		69,225
Depreciable capital assets		
Property, plant and equipment, net of accumulated depreciation of \$1,716,096 (Note 5)		<u>1,012,815</u>
Total capital assets		<u>1,082,040</u>
Total assets		<u>1,508,181</u>

Liabilities

Current liabilities

Accounts payable		9,079
Accrued expenses		2,002
Customer security deposits (Note 3)		<u>42,425</u>
Total current liabilities		<u>53,506</u>
Total liabilities		<u>53,506</u>

Net assets

Invested in capital assets, net of related debt		1,082,040
Restricted for capital improvements from user fees		131,751
Unrestricted		<u>240,884</u>
Total net assets		<u>\$ 1,454,675</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 Year Ended June 30, 2011

Operating revenues:

Water sales (less rebates of \$3,643)	\$ 147,096
Surcharge fees (Note 3)	116,246
Impact fees (Note 3)	10,300
Water maintenance fees and other revenue	<u>77,379</u>
Total operating revenues	<u>351,021</u>

Operating expenses

Management services (Note 6)	177,955
Depreciation (Note 5)	100,497
Supplies, repairs and testing	20,228
Utility expense - pumps	20,776
Insurance	8,095
Office expenses	1,875
Outside services	5,124
Professional fees	4,700
Bad debt expense	1,062
Well lease (Note 7)	600
Licenses and permits	284
Advertising	<u>111</u>
Total operating expenses	<u>341,307</u>

Net operating revenue	<u>9,714</u>
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Nonoperating revenues (expenses)

Interest income	<u>1,369</u>
Total nonoperating revenues (expenses)	<u>1,369</u>

Increase in net assets	11,083
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Net assets beginning of year	<u>1,443,592</u>
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Net assets end of year	<u>\$ 1,454,675</u>
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See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Cash flows from operating activities:

Cash received from customer water sales	\$ 150,076
Cash received from capital fund/surcharge	116,246
Cash received from impact/development fees	10,300
Cash received from water maintenance fees	52,300
Cash received from connections, late fees, and other revenues	25,079
Cash payments for contract services	(177,955)
Cash payments for water system operations	(33,568)
Cash payments for administration	<u>(20,205)</u>
Net cash provided by operating activities	<u>122,273</u>

Cash flows from capital and related financing activities:

Purchase/disposition of fixed assets of capital assets	(94,943)
Net cash used by capital and related financing activities	<u>(94,943)</u>

Cash flows from investing activities:

Interest on investments	<u>1,369</u>
Net cash provided by investing activities	<u>1,369</u>

Net increase in cash and cash equivalents	28,699
Cash and cash equivalents at beginning of year	<u>326,120</u>
Cash and cash equivalents at end of year	<u>\$ 354,819</u>

Cash and cash equivalents in balance sheet:

Cash and cash equivalents	\$ 180,643
Restricted cash and cash equivalents	<u>174,176</u>
Total cash and cash equivalents	<u>\$ 354,819</u>

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

Operating income	\$ 9,714
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	100,497
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	2,745
(Increase) decrease in inventory	1,187
Increase (decrease) in customer security deposits	235
Increase (decrease) in accounts payable and accrued expenses	<u>7,895</u>
Net cash provided by operating activities	<u>\$ 122,273</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2011

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 to customers in the Black Canyon City Water Improvement District, Arizona. It is governed by a Board of Directors elected from within the District.

Reporting Entity

In accordance with the Governmental Accounting Standards Board (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 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 (GAAP) require 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 the Financial Statements
June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

For purpose 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 the Financial Statements
June 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost or estimated historical cost. 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. Equipment and tools costing over \$1,000 and with a useful life of more than one year are capitalized. 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

Supplies Inventory

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

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 the Financial Statements
June 30, 2011

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, 2011, totaled \$354,819 (\$174,176 restricted and \$180,643 unrestricted).

The bank balance at June 30, 2011, totaled \$359,445. 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 County's Audited Financial Statement for the current year.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2011

NOTE 3 – CASH AND RESTRICTED CASH (continued)

Restricted Cash

Restricted cash requirements for customer security deposits totaled \$42,425 for the year ended June 30, 2011.

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 solely for future development of the District. The total proceeds from impact and development fees totaled \$10,300 for the fiscal year ended June 30, 2011.

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 designated for future capital development of the District. The amount of capital fund/surcharges received totaled \$116,246 for the fiscal year ended June 30, 2011.

The total capital improvement restricted cash balance of unspent impact/development and surcharge fees is \$131,751 at June 30, 2011.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivables at June 30, 2011, are net of an allowance for doubtful accounts of \$1,562, leaving a net accounts receivable balance of \$29,682 June 30, 2011. 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, 2011, follows:

	<u>Balance</u> <u>6/30/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/11</u>
Land and land rights	\$ 69,225	\$ -	\$ -	\$ 69,225
Total assets not being depreciated	<u>69,225</u>	<u>-</u>	<u>-</u>	<u>69,225</u>
Depreciable assets:				
Water plant	1,151,413	2,800	-	1,154,213
Capital improvements	1,348,555	92,141	-	1,440,696
Office equipment	17,189	-	-	17,189
Other equipment	<u>116,813</u>	<u>-</u>	<u>-</u>	<u>116,813</u>
Total assets being depreciated	<u>2,633,970</u>	<u>94,941</u>	<u>-</u>	<u>2,728,911</u>
Less accumulated depreciation:				
Water plants	(1,122,312)	(8,216)	-	(1,130,528)
Capital improvements	(419,717)	(67,623)	-	(487,340)
Office equipment	(11,088)	(860)	-	(11,948)
Other equipment	<u>(62,482)</u>	<u>(23,798)</u>	<u>-</u>	<u>(86,280)</u>
Total accumulated depreciation	<u>(1,615,599)</u>	<u>(100,497)</u>	<u>-</u>	<u>(1,716,096)</u>
Total property plant and equip	<u>\$ 1,087,596</u>	<u>\$ (5,556)</u>	<u>\$ -</u>	<u>\$ 1,082,040</u>

**Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2011**

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expense for the fiscal year ending June 30, 2011, is \$100,497.

NOTE 6– COMMITMENTS

During the year ended June 30, 2001, the Water District entered into an agreement with the Black Canyon City 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, the 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 year ended June 30, 2011, total \$177,955. The minimum payments due on the agreement are as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2012	180,000
June 30, 2013	180,000
June 30, 2014	<u>180,000</u>
Total remaining liability at June 30, 2011	<u><u>\$ 540,000</u></u>

NOTE 7– OPERATING LEASE

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. All improvements within the fenced well site 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 year ended June 30, 2011, total \$600.

Summary of payments due:

Total payment due within one year	\$ 600
Total payment due years two through six	3,000
Total payments due years seven through twenty	<u>3,000</u>
Total lease commitment at June 30, 2011	<u><u>\$ 6,600</u></u>

NOTE 8– RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, the District sold water to Board members and management of the District in the normal course of business.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2011

NOTE 9– 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 10– 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 11– SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the District began capital improvement of its Roadrunner Circle project. The estimated cost of the project is \$100,000. Capital improvements funds will be used to complete the project.

No additional subsequent events that require adjustment to the financial statements have been identified by the District.

Subsequent events were evaluated through December 15, 2011, which is the date the financial statements were available to be issued.