

Black Canyon City Water Improvement District

Financial Statements

Fiscal Years Ended June 30, 2016 and 2015

**Black Canyon City Water Improvement District
Financial Statements
Years Ended June 30, 2016 and 2015**

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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 (District) annual financial report presents an analysis of the District’s financial performance during the fiscal years ended June 30, 2016 and 2015. This information is presented in conjunction with the audited basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2016

- The District’s net position increased by 4.43%
- Operating revenues increased by 4.03%
- Other operating expenses decreased by 3.17 %

The Board continues its strategy of improving the District while controlling costs for all users within the District. As capital improvement funds are collected, they are set aside strictly for capital improvement projects. These projects are board approved on an as-needed basis and relate to the availability of fund balances. This process followed by the District Board, helps to eliminate high costs associated with interest-bearing loans. Accumulated reserves plus current capital improvement revenues have funded these projects historically, keeping the District debt free. Re-piping the aging infrastructure will be spread out over a number of years with a Proposed 10-Year Capital Improvements Plan outlining the projects needing consideration. Funds will continue to be collected to fund these projects and may require increases to meet the need.

Arsenic filtration systems were implemented in 2005, as mandated by the Federal Government and ADEQ. The systems require the media to be replaced periodically to prevent the levels from exceeding the maximum level allowed. All three sites were replaced in 2014. The media life fluctuates from site to site and is mostly effected by the amount of water pumped. The average cost per site is \$45,000 and to plan for this expense, a Sinking Fund was created whereby funds are transferred from the General Fund to the Sinking Fund monthly, enabling the District to have enough in reserves to pay for this high dollar expenditure when needed.

The District approved and Management has installed a new generator for the Cholla site situated on the eastside of the freeway. Generators have been in service at the Big John and GOA well sites as well as the April Tank site for years. These generators are all located on the west side of the freeway enabling the continuation of water service during a power failure. With the new generator at the Cholla site, the District will now be able to provide this same service to the customer base on the eastside during a power failure. Safeguarding equipment at the well sites included replacing the shade screen material at all sites.

The District has taken great efforts over the years to be pro-active in preventative maintenance. Part of this philosophy includes storage tank inspections and repairs. This service was performed this year. In addition to the cleaning, minor underwater repairs were made.

A lawsuit was filed in the Superior Court of AZ, Yavapai County- Case #P1300CV2016-00448 against the District with the outcome unknown at this time. Legal Counsel has been retained to respond.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management Discussion and Analysis and Basic Financial Statements.

USING THE BASIC 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 that are generally accepted in the United States of America.

The Statement of Net Position reports 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 Fund Net Position identifies the District's revenues and expenses for the fiscal years ended June 30, 2016 and 2015. This statement informs the reader of 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 fees and other revenue sources.

The Statement of Net Position and the Statement of Revenues, Expense and Changes in Fund Net Position provide an indication of the District's financial condition and also identifies whether the financial condition of the District has improved during the last fiscal year. An increase in net position 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 Financial Statements provide additional information that is essential to a full understanding of the information provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT:

NET POSITION – COMPARISON OF JUNE 30, 2016 AND 2015

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

	June 30, 16	June 30, 15	\$ Change	% Change
Total current and other assets	515,352	331,453	183,899	55.48%
Capital assets, net	1,194,172	1,306,675	(112,503)	-8.61%
Total assets	1,709,524	1,638,128	71,396	4.36%
Current liabilities	47,005	46,142	863	1.87%
Total liabilities	47,005	46,142	863	1.87%
Net investments in capital assets	1,194,172	1,306,675	(112,503)	-8.61%
Restricted	89,720	-	89,720	100.00%
Unrestricted	378,627	285,311	93,316	32.71%
Total net position	1,662,519	1,591,986	70,533	4.43%

Total assets increased by \$71,396 or 4.36% during the fiscal year ended June 30, 2016. The increase is attributed to past and current accumulation of funds for future improvements, offset by accumulated depreciation of the District's infrastructure and two major capital improvements.

Table 1 also indicates that the District's total net position increased by \$70,533 or 4.43% for the fiscal year ended June 30, 2016.

REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION COMPARISON OF JUNE 30, 2016 AND 2015

A condensed Statement of Revenues, Expenses, and Changes in Fund Net Position is presented in

Table 2:

	June 30, 16	June 30, 15	\$ Change	% Change
Operating revenues	453,299	435,738	17,561	4.03%
Non-operating revenues	1,264	1,215	49	4.03%
Total revenues	454,563	436,953	17,610	4.03%
Depreciation expense	127,851	100,903	26,948	26.71%
Other operating expenses	256,179	264,564	(8,385)	-3.17%
Non-operating expenses	-	14,840	(14,840)	-100.00%
Total expenses	384,030	380,307	3,723	0.98%
Change in net position	70,533	56,646	13,887	24.52%
Beginning net position	1,591,986	1,535,340	56,646	3.69%
Ending net position	1,662,519	1,591,986	70,533	4.43%

The Statement of Revenues, Expenses and Changes in Fund Net Position identifies the various revenue and expense items that affect the change in net position. As the information in Table 2 indicates, the District's net position at June 30, 2016, was \$1,662,519.

Operating revenues increased by \$17,561 in the fiscal year ended June 30, 2016. The increase was due to a rate increase approved by the Board of Directors at the November 2015 rate hearing.

Total expenses increased by \$3,723 in the fiscal year ended June 30, 2016.

CAPITAL ASSETS

In the current fiscal year, the District installed a new generator at the Cholla Site and refurbished the arsenic sites with new shade screening to protect the equipment from the harsh UV-rays of the sun.

LONG-TERM DEBT

The District did not have any long-term debt in the fiscal year ended June, 30, 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Tiered water rates were implemented several years ago at the recommendation of ADEQ to encourage conservation efforts. Heavily tiered water sales rates have proven to be successful for conservation with a decrease in overall consumption within the District. The reduced consumption, however, has a negative effect on finances. This fiscal year was the first in more than 5 years that there was an increase in water sales. Board and Management had been expecting water use (gallons) to continue its decline. This increase may be a sign of economic improvement, but the District will have to continue monitoring to see if the trend continues or was a onetime anomaly. The District is implementing a 10-Year Capital Improvement Plan outlining a number of infrastructure projects. As some of the District's piping is over forty years old, and recognizing the District's reluctance to use taxation or debt funding, the accumulation of capital investment monies to fund future distribution system problems is not only necessary but is expected to be ongoing. The annual budgets need to strive to fund a minimum of \$100,000 a year to meet the needs of the 10-Year Plan.

There is, unfortunately, an active lawsuit against the District filed on June 20, 2016, in the Superior Court of AZ, Yavapai County. The need to defend the suit will burden the District with attorney fees that must be paid. It is too early to know what the final outcome will be, and the District must consider the economic impact it will have. The legal defense is an operating cost not planned for in the budget and may necessitate a rate increase depending on the length of time it takes to come to the conclusion.

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 PO Box 1007, Black Canyon City, Arizona 86324.

The physical address is 34501 South Old Black Canyon Highway, #6; Telephone 623-374-9408. Website: bccwid.org



Alyx Cohan, CPA PC
Auditing / Accounting / Tax

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of Black Canyon City Water Improvement District (District) as of and for the years ended June 30, 2016 and 2015, and the related Notes to Financial Statements, which collectively comprise the Black Canyon City Water Improvement District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Black Canyon City Water Improvement District, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 consisted 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.

Alex Cohan, CPA

Prescott Valley, AZ
September 23, 2016

Black Canyon City Water Improvement District
Statement of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 307,114	\$ 210,719
Accounts receivable (net of \$2,677, respectively, allowance for uncollectible accounts)	30,116	28,797
Supplies inventory	<u>43,977</u>	<u>48,202</u>
Total current assets	381,207	287,718
Other assets		
Restricted cash and cash equivalents	<u>134,145</u>	<u>43,735</u>
Total current and other assets	<u>515,352</u>	<u>331,453</u>
Capital assets		
Nondepreciable capital assets		
Land and land rights	69,225	69,225
Depreciable capital assets		
Property, plant and equipment, net of accumulated depreciation of \$2,139,020, and \$2,011,169, respectively	<u>1,124,947</u>	<u>1,237,450</u>
Total capital assets	<u>1,194,172</u>	<u>1,306,675</u>
Total assets	<u>\$ 1,709,524</u>	<u>\$ 1,638,128</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	-	55
Accrued expenses	2,580	2,352
Customer security deposits	<u>44,425</u>	<u>43,735</u>
Total current liabilities	<u>47,005</u>	<u>46,142</u>
Total liabilities	<u>\$ 47,005</u>	<u>\$ 46,142</u>
Net position		
Net investment in capital assets	1,194,172	1,306,675
Restricted for capital improvements	89,720	-
Unrestricted	<u>378,627</u>	<u>285,311</u>
Total net position	<u>\$ 1,662,519</u>	<u>\$ 1,591,986</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Water sales	\$ 326,231	\$ 306,247
Surcharge fees	95,068	92,750
Impact fees	10,000	12,800
Water maintenance fees and other revenue	<u>22,000</u>	<u>23,941</u>
Total operating revenues	<u>453,299</u>	<u>435,738</u>
Operating expenses		
Advertising	37	46
Bad debt	54	-
Depreciation	127,851	100,903
Insurance	9,729	9,527
Licenses and permits	656	508
Management services	180,000	180,000
Office expenses	3,536	2,732
Outside services	4,344	4,433
Professional fees	6,100	6,400
Supplies, repairs and testing	31,544	41,241
Utility expense - pumps	19,579	19,077
Well and right of way lease	<u>600</u>	<u>600</u>
Total operating expenses	<u>384,030</u>	<u>365,467</u>
Net operating revenue	<u>69,269</u>	<u>70,271</u>
Nonoperating revenues (expenses)		
Interest income	1,264	1,215
Loss on disposition of asset	<u>-</u>	<u>(14,840)</u>
Total nonoperating revenues (expenses)	<u>1,264</u>	<u>(13,625)</u>
Increase in net position	70,533	56,646
Net position beginning of year	<u>1,591,986</u>	<u>1,535,340</u>
Net position end of year	<u>\$ 1,662,519</u>	<u>\$ 1,591,986</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Cash flows from operating activities</u>		
Cash received from customer water sales	\$ 324,913	\$ 309,421
Cash received from other water charges	127,068	129,491
Cash payments for contract services	(180,000)	(180,000)
Cash payments for water system operations	(67,519)	(80,289)
Cash payments for administration	<u>(3,573)</u>	<u>(2,778)</u>
Net cash provided by operating activities	<u>200,889</u>	<u>175,845</u>
<u>Cash flows from capital and related financing activities</u>		
Purchase of fixed assets of capital assets	<u>(15,348)</u>	<u>(327,237)</u>
Net cash used by capital and related financing activities	<u>(15,348)</u>	<u>(327,237)</u>
<u>Cash flows from investing activities</u>		
Interest on investments	<u>1,264</u>	<u>1,215</u>
Net cash provided by investing activities	<u>1,264</u>	<u>1,215</u>
Net increase (decrease) in cash and cash equivalents	186,805	(150,177)
Cash and cash equivalents at beginning of year	<u>254,454</u>	<u>404,631</u>
Cash and cash equivalents at end of year	<u>\$ 441,259</u>	<u>\$ 254,454</u>
<u>Cash and cash equivalents in balance sheet</u>		
Cash and cash equivalents	\$ 307,114	\$ 210,719
Restricted cash and cash equivalents	<u>134,145</u>	<u>43,735</u>
Total cash and cash equivalents	<u>\$ 441,259</u>	<u>\$ 254,454</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Operating income	\$ 69,269	\$ 70,271
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	127,851	100,903
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,318)	3,174
(Increase) decrease in inventory	4,225	1,304
Increase (decrease) in customer security deposits	690	70
Increase (decrease) in accounts payable and accrued expenses	<u>172</u>	<u>123</u>
Net cash provided by operating activities	<u>\$ 200,889</u>	<u>\$ 175,845</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 1 – DESCRIPTION OF ENTITY

Description of Operations

The Black Canyon City Water Improvement District (District) was established in 1986 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 owners/users within the District in accordance with Arizona Revised Statutes.

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 Governmental Accounting Standards Board (GASB).

Basis of Accounting and Measurement Focus

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.

Measurement Focus

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 on the Statement of Net Position. Net fund position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt, restricted, and unrestricted components.

Proprietary-fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first then unrestricted resources as they are needed.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus (continued)

Accounts receivable represent amounts billed for services and are unsecured. All receivables are current and, therefore, due within one year. Receivables are reported net of an allowance for uncollectible amounts. Allowances are reported when accounts are proven to be uncollectible.

Deferred revenue, when presented, represents prepaid water fees that have been collected for water services not yet provided by the District.

Operating revenues are those revenues that are generated from the primary operations of the District. All other revenues are considered non-operating.

Net Fund Position

Net fund position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components.

Net investment in capital assets: This component of net fund position 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.

Unrestricted: 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 assets are available, the District's policy is to apply restricted assets first.

Cash

For purpose of the Statement 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.

Generally, the state statutes allow investments in certain certificates of deposit, interest-bearing savings accounts in qualified banks and savings and loan institutions, repurchase agreements with maximum maturity of thirty days, and pooled investment funds established by the state treasurer. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 101% of all deposits not covered by federal depository insurance.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash (continued)

A portion of the District's monies is under the direct supervision of the Yavapai County (County) Treasurer's Office, which has the fiduciary responsibility to administer all monies held in the County Treasury. The treasurer invests in the Local Government Investment Pool on a pooled cash basis. Interest earned from investments purchased with such pooled monies is allocated quarterly to each of the funds based on the average month-end cash balances. For additional information on cash and investments, see the Yavapai County Financial Statements for the fiscal years ended June 30, 2016 and 2015.

Custodial Credit Risk

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.

Supplies Inventory

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

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	20 years
Vehicles	5 years
Office equipment	5-7 years
Capital improvements office	15 years

Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and the useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 County 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.

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 the current year's presentation.

NOTE 3 – CASH AND RESTRICTED CASH

Deposits

The carrying amount of the District's deposits for June 30, 2016 and 2015, totaled \$441,259 and \$254,454, respectively. The bank balance at June 30, 2016 and 2015, totaled \$442,534 and \$255,723, respectively. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

The majority 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.

Restricted Cash

Restricted cash requirements for customer security deposits totaled \$44,425 and \$43,735 for the fiscal years ended June 30, 2016 and 2015, respectively.

Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 3 – CASH AND RESTRICTED CASH (continued)

Restricted Cash (continued)

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 capital improvements of the District. The total proceeds from impact and development fees totaled \$10,000 and \$12,800 for the fiscal years ended June 30, 2016 and 2015, respectively.

During the fiscal 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 capital improvement of the District. The amount of capital fund/surcharges received totaled \$95,068 and \$92,750 for the fiscal years ended June 30, 2016 and 2015, respectively.

Capital improvement restricted cash balance of unspent and surcharge fees totaled \$89,720 and zero at June 30, 2016 and 2015, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, are net of an allowance for doubtful accounts of \$2,677, 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 ended June 30, 2016, follows:

	Balance <u>6/30/15</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>6/30/16</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	3,064,718	15,348	-	3,080,066
Other equipment	166,713	-	-	166,713
Office equipment	17,188	-	-	17,188
Total assets being depreciated	<u>3,248,619</u>	<u>15,348</u>	<u>-</u>	<u>3,263,967</u>
Less accumulated depreciation:				
Water plants	(1,971,450)	(97,114)	-	(2,068,564)
Other equipment	(24,342)	(29,878)	-	(54,220)
Office equipment	(15,377)	(859)	-	(16,236)
Total accumulated depreciation	<u>(2,011,169)</u>	<u>(127,851)</u>	<u>-</u>	<u>(2,139,020)</u>
Total property plant and equip	<u>\$ 1,306,675</u>	<u>\$ (112,503)</u>	<u>\$ -</u>	<u>\$ 1,194,172</u>

Depreciation expense for the fiscal years ended June 30, 2016 and 2015, totaled \$127,851 and \$100,903, respectively.

**Black Canyon City Water Improvement District
Notes to the Financial Statements
June 30, 2016 and 2015**

NOTE 6—CONTINGENT LIABILITIES

During the fiscal 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 includes 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. In July of 2012 the District Board moved to extend the management agreement through June 30, 2017. Total management service payments for the fiscal years ended June 30, 2016 and 2015, totaled \$180,000, respectively. Minimum annual payments due on the agreement are as follows at June 30:

<u>Fiscal year ended</u>	<u>Amount</u>
2017	\$ 180,000
Total remaining liability at June 30, 2016	<u>\$ 180,000</u>

NOTE 7— OPERATING LEASE

During the fiscal year ended June 30, 2002, due to 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, development costs for power and connection 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.

Summary of payments due fiscal years ending:

2017	\$ 600
2018	600
2019	600
2020	600
2021	600
Thereafter	600
Total lease commitment at June 30, 2016	<u>\$ 3,600</u>

Annual lease payments for the fiscal years ended June 30, 2016 and 2015, totaled \$600 per year.

NOTE 8— RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2016 and 2015, the District sold water to board members and management of the District in the normal course of business at the rates established for all water customers.

Black Canyon City Water Improvement District
Notes to the Financial Statements
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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

Management of the District has evaluated events and transactions subsequent to June 30, 2016, for potential recognition or disclosure in the financial statements. The District had no subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2016. Subsequent events have been evaluated through September 23, 2016, which is the date the financial statements were available to be issued.