

Black Canyon City Water Improvement District

Financial Statements

Fiscal Years Ended June 30, 2018 and 2017

**Black Canyon City Water Improvement District
Financial Statements
Years Ended June 30, 2018 and 2017**

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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, 2018 and 2017. This information is presented in conjunction with the audited basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2018

- The District’s net position decreased by .7%
- Operating revenues increased by 14.1%
- Other operating expenses increased by 5%

The Board continues its strategy of improving the District while controlling costs for all Owner/Users within the District and has historically taken great efforts to be pro-active in preventative maintenance. 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 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 is only a part of the capital improvements needing consideration and will be spread out over a number of years in the Proposed 10-Year Capital Improvements Plan. Funds have been accumulated through an Impact Fee for new services plus a monthly billing to all customers. A rate increase implemented in April of 2017, included modifying the Capital Improvement funds being collected monthly and allocating the fees collected to the General Fund due, in part, to the legal fees being incurred for the ongoing legal matter. Now settled, it is intended to reverse this measure so more funds can be allocated for the much-needed capital improvements.

The District approved the following capital improvement projects during the current fiscal year ended June 30, 2018: (1) re-piping Reynolds Road because the County indicated they were planning to blacktop; (2) re-piping Old Mud Springs Road- again, a road the County had plans to blacktop. The cost of these two major projects were over \$70,000. In addition, two smaller projects were completed; restoration/erosion control work on a water line easement and road improvements to the school tank site.

On June 20, 2018, the Judge presiding over the Superior Court case #P1300CV2016-00448 in Yavapai County dismissed the 2016 lawsuit against the District, dismissing the case with prejudice (meaning it cannot be brought up again for re-litigation in the future). The District received a Quit-Claim Deed for the waterline easement corridor from Kings Way to the April tank site westward to where it abuts parcel 501-03-017Q, as well as a Quit-Claim Deed for the land under the tank where it encroached on the adjoining parcel.

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, 2018 and 2017. 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, 2018 AND 2017

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

	June 30, 18	June 30, 17	\$ Change	% Change
Total current and other assets	559,559	594,198	(34,639)	-5.8%
Capital assets, net	1,143,626	1,105,858	37,768	3.4%
Total assets	1,703,185	1,700,056	3,129	0.2%
Current liabilities	107,585	93,825	13,760	14.7%
Total liabilities	107,585	93,825	13,760	14.7%
Net investments in capital assets	1,143,626	1,105,858	37,768	3.4%
Restricted	-	139,415	(139,415)	-100%
Unrestricted	451,975	360,958	91,017	25.2%
Total net position	1,595,601	1,606,231	(10,630)	-0.7%

Total assets increased by \$3,129 or 0.2% during the fiscal year ended June 30, 2018. The net increase is attributed to capital improvements.

Table 1 also indicates that the District's total net position decreased by \$10,630 or 0.7% for the fiscal year ended June 30, 2018.

REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION COMPARISON OF JUNE 30, 2018 AND 2017

A condensed Statement of Revenues, Expenses, and Changes in Fund Net Position is presented in Table 2:

	June 30, 18	June 30, 17	\$ Change	% Change
Operating revenues	513,933	450,578	63,355	14.1%
Non-operating revenues	5,167	2,044	3,123	152.8%
Total revenues	519,100	452,622	66,478	14.7%
Depreciation expense	131,147	129,440	1,707	1.3%
Other operating expenses	398,583	379,470	19,113	5.0%
Non-operating expenses	-	-	-	-
Total expenses	529,730	508,910	20,820	4.1%
Change in net position	(10,630)	(56,288)	45,658	-81.1%
Beginning net position	1,606,231	1,662,519	(56,288)	-3.4%
Ending net position	1,595,601	1,606,231	(10,630)	-0.7%

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, 2018, was \$1,595,601.

Operating revenues increased by \$63,355 in the fiscal year ended June 30, 2018. The increase was due to an increase in water rates to offset costs associated with litigation fees.

Total expenses increased by \$20,820 in the fiscal year ended June 30, 2018. The increase includes a 1.13% increase in the management fees with the renewal of the 5-year contract beginning July 26, 2017 and an increase in legal and litigation costs.

CAPITAL ASSETS

In the current fiscal year, the District re-piped the main water lines at Reynolds Road and Old Mud Springs Road; completed an easement restoration/erosion project and completed road improvements to the school tank site.

LONG-TERM DEBT

The District did not have any long-term debt in the fiscal year ended June, 30, 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Tiered water rates were implemented a number of 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 there was a slight increase over last year in water sales but the District, as well as the entire state of Arizona, is facing severe drought conditions and the Board declared a Level 2 in the Drought Emergency Plan asking for increased voluntary conservation measures by all Owner/Users.

The District's 10-Year Capital Improvement Plan outlines a number of infrastructure projects. As some of the District's piping is over fifty 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.

A water system is comprised of many components- miles of main lines for distribution, wells, tanks, boosters, equipment for arsenic removal, chlorination equipment just to name some. All equipment has a 'useful' life and over time needs extensive repairs or replacement. Our arsenic systems have been in place for over 13 years and they have served us well. There are components, however, that need to be upgraded and will be a priority in the upcoming fiscal period. Also, with the severe drought issues we are all facing, the District has authorized a new well be drilled. The permit has been obtained from AZ Water Resources and we are just waiting on the well driller's schedule.

Fortunately, now that the lawsuit has been dismissed, the District can now allocate more funds for capital improvements.

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, 2018 and 2017, 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, 2018 and 2017, 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.

Alyce Cohan, CPA

Prescott Valley, AZ
September 20, 2018

Black Canyon City Water Improvement District
Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 425,601	\$ 338,440
Accounts receivable (net of allowance for uncollectible accounts of \$2,677, respectively)	33,131	22,909
Supplies inventory	<u>55,050</u>	<u>48,324</u>
Total current assets	513,782	409,673
Other assets		
Security deposit	337	-
Restricted cash and cash equivalents	<u>45,440</u>	<u>184,525</u>
Total current and other assets	<u>559,559</u>	<u>594,198</u>
Capital assets		
Nondepreciable capital assets		
Land and land rights	69,225	69,225
Construction in process	73,167	-
Depreciable capital assets		
Property, plant and equipment (net of accumulated depreciation of \$2,392,501 and \$2,261,354, respectively)	<u>1,001,234</u>	<u>1,036,633</u>
Total capital assets	<u>1,143,626</u>	<u>1,105,858</u>
Total assets	<u>\$ 1,703,185</u>	<u>\$ 1,700,056</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	59,381	46,163
Accrued expenses	2,763	2,552
Customer security deposits	<u>45,440</u>	<u>45,110</u>
Total current liabilities	<u>107,584</u>	<u>93,825</u>
Total liabilities	<u>\$ 107,584</u>	<u>\$ 93,825</u>
Net position		
Net investment in capital assets	1,143,626	1,105,858
Restricted for capital improvements	-	139,415
Unrestricted	<u>451,975</u>	<u>360,958</u>
Total net position	<u>\$ 1,595,601</u>	<u>\$ 1,606,231</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statements of Revenues, Expenses, and Changes in Fund Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Water sales	\$ 370,703	\$ 320,762
Surcharge fees	92,779	88,978
Impact fees	22,500	17,500
Water maintenance fees and other revenue	<u>27,951</u>	<u>23,338</u>
Total operating revenues	<u>513,933</u>	<u>450,578</u>
 Operating expenses		
Advertising	184	107
Depreciation	131,147	129,440
Insurance	12,943	12,491
Licenses and permits	285	531
Management services	203,100	180,000
Office expenses	4,232	3,719
Outside services	7,103	4,414
Professional fees	115,787	132,110
Supplies, repairs and testing	28,481	24,118
Utility expense - pumps	25,868	21,380
Well and right of way lease	<u>600</u>	<u>600</u>
Total operating expenses	<u>529,730</u>	<u>508,910</u>
 Net operating loss	 <u>(15,797)</u>	 <u>(58,332)</u>
 Nonoperating revenues		
Interest income	<u>5,167</u>	<u>2,044</u>
Total nonoperating revenues	<u>5,167</u>	<u>2,044</u>
 (Decrease) increase in net position	 (10,630)	 (56,288)
Net position beginning of year	<u>1,606,231</u>	<u>1,662,519</u>
Net position end of year	<u>\$ 1,595,601</u>	<u>\$ 1,606,231</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities</u>		
Cash received from customer water sales	\$ 366,155	\$ 320,762
Cash received from other water charges	137,555	129,816
Cash payments for contract services	(203,100)	(180,000)
Cash payments for water system operations	(184,363)	(145,964)
Cash payments for administration	<u>(4,423)</u>	<u>(3,826)</u>
Net cash provided by operating activities	<u>111,824</u>	<u>120,788</u>
<u>Cash flows from capital and related financing activities</u>		
Purchase of fixed assets of capital assets	<u>(168,915)</u>	<u>(41,126)</u>
Net cash used by capital and related financing activities	<u>(168,915)</u>	<u>(41,126)</u>
<u>Cash flows from investing activities</u>		
Interest on investments	<u>5,167</u>	<u>2,044</u>
Net cash provided by investing activities	<u>5,167</u>	<u>2,044</u>
Net (decrease) increase in cash and cash equivalents	(51,924)	81,706
Cash and cash equivalents at beginning of year	<u>522,965</u>	<u>441,259</u>
Cash and cash equivalents at end of year	<u>\$ 471,041</u>	<u>\$ 522,965</u>
<u>Cash and cash equivalents in balance sheet</u>		
Cash and cash equivalents	\$ 425,601	\$ 338,440
Restricted cash and cash equivalents	<u>45,440</u>	<u>184,525</u>
Total cash and cash equivalents	<u>\$ 471,041</u>	<u>\$ 522,965</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Operating income	\$ (15,797)	\$ (58,332)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	131,147	129,440
Change in assets and liabilities:		
(Decrease) increase in accounts receivable	(10,223)	7,207
Increase (decrease) in inventory	(6,726)	(4,347)
Increase in customer security deposits	(330)	685
Increase in accounts payable and accrued expenses	<u>13,753</u>	<u>46,135</u>
Net cash provided by operating activities	<u>\$ 111,824</u>	<u>\$ 120,788</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2018 and 2017

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 Black Canyon City, 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 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.

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.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus (continued)

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 fund position 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 fund position consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

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.

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.

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, 2018 and 2017.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting (continued)

- 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 has been presented in 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, 2018 and 2017, totaled \$471,042, and \$522,965, respectively. The bank balance at June 30, 2018 and 2017, totaled \$472,346, and \$528,504, 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 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 \$45,440 and \$45,110 for the fiscal years ended June 30, 2018 and 2017, 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 solely for capital improvements of the District. The total proceeds from impact and development fees totaled \$22,500 and \$17,500 for the fiscal years ended June 30, 2018 and 2017, respectively. The balance at June 30, 2018 and 2017 totaled \$0 and \$27,500, 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 or operation or maintenance as needed. This was revised by Board action during the fiscal year ended June 30, 2002, whereby the fees collected were restricted for capital improvements (capital fund) of the District. In April of 2017, the board resolved to use the surcharge fees for general operations (general fund surcharge) to fund attorney fees. Amounts collected prior to April 2017 remain restricted for capital improvements. The restricted surcharge cash balance totaled \$0 and \$111,915, at June 30, 2018 and 2017, respectively.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 3 – CASH AND RESTRICTED CASH (continued)

Restricted Cash (continued)

Funds collected for the general fund surcharge totaled \$92,779 and \$15,657 for the years ended June 30, 2018 and 2017, respectively.

The amount of capital fund/surcharges received totaled \$0 and \$73,321 for the fiscal years ended June 30, 2018 and 2017, respectively.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, 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, 2018, follows:

	Balance <u>6/30/17</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>6/30/18</u>
Land and land rights	\$ 69,225	\$ -	\$ -	\$ 69,225
Construction in process	<u>-</u>	<u>73,167</u>	<u>-</u>	<u>73,167</u>
Total assets not being depreciated	<u>69,225</u>	<u>73,167</u>	<u>-</u>	<u>142,392</u>
Depreciable assets:				
Water plant	3,108,416	95,748	-	3,204,164
Other equipment	172,383	-	-	172,383
Office equipment	<u>17,188</u>	<u>-</u>	<u>-</u>	<u>17,188</u>
Total assets being depreciated	<u>3,297,987</u>	<u>95,748</u>	<u>-</u>	<u>3,393,735</u>
Less accumulated depreciation:				
Water plants	(2,166,795)	(100,316)	-	(2,260,007)
Other equipment	(77,455)	(30,747)	-	(115,305)
Office equipment	<u>(17,104)</u>	<u>(84)</u>	<u>-</u>	<u>(17,189)</u>
Total accumulated depreciation	<u>(2,261,354)</u>	<u>(131,147)</u>	<u>-</u>	<u>(2,392,501)</u>
Total property plant and equip	<u>\$ 1,105,858</u>	<u>\$ 37,768</u>	<u>\$ -</u>	<u>\$ 1,143,626</u>

Depreciation expense for the fiscal years ended June 30, 2018 and 2017, totaled \$131,147, and \$129,440, respectively.

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.

**Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2018 and 2017**

NOTE 6—CONTINGENT LIABILITIES (continued)

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. In July of 2012 the District Board moved to extend the management agreement through June 30, 2017. In July 2017, the agreement was again extended for five years. The agreement includes monthly payments of \$17,100 for 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 fiscal years ended June 30, 2018 and 2017, totaled \$203,100 and \$180,000, respectively. Minimum annual payments due on the agreement are as follows at June 30:

<u>Fiscal year ended</u>	<u>Amount</u>
2019	\$ 205,200
2020	205,200
2021	205,200
2022	<u>205,200</u>
Total	<u>\$ 820,800</u>

Pending Litigation

In the prior year, the District was a defendant in a lawsuit arising from an easement dispute. In the fiscal year ended June 30, 2018, the suite was settled. There are no remaining contingencies as part of this suit in the fiscal year ended June 30, 2018. All remaining unpaid attorney fees are included as an expense and account payable liability in the current year financial statements.

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:

2019	\$ 600
2020	600
2021	600
2022	<u>600</u>
Total lease	<u>\$ 2,400</u>

Annual lease payments for the fiscal years ended June 30, 2018 and 2017, totaled \$600, respectively.

NOTE 8— RELATED PARTY TRANSACTIONS

During the fiscal years ended June 30, 2018 and 2017, 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 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, 2018, 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, 2018. Subsequent events have been evaluated through September 20, 2018, which is the date the financial statements were available to be issued.