

BLACK CANYON CITY WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2006

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 year ended June 30, 2006. This information is presented in conjunction with the audited basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2006

- The District's net assets increased 5%
- Operating revenues decreased by 5%
 - The District implemented a rate decrease effective January of 2005 which accounts for the decrease in revenue. The financial statement supports the rates with a sizable Net Ordinary Income in the O&M budget.
- Operating expenses increased by 10%
 - The Board and Management continue to strive to keep overhead costs down.
- Following are the most significant projects undertaken during the fiscal year:
 1. The largest single project for the fiscal year was adding state-of-the-art chlorination systems. This capital improvement project represents 81% of the total capital project outlay.
 2. Additional minor fencing was added as part of the arsenic systems installed last fiscal year for enhanced security measures.
 3. The District installed a new fire hydrant on Old Black Canyon Hwy in the "business district". The District worked with the Fire Chief in selecting the site chosen with the hydrant off of a 6" main line to maximize the amount of water for fire protection.
 4. Other capital improvements consisted of engineering work for a well site, abandonment of an old water main, a main line replacement at Phyllis & Mud Springs and the installation of a new altitude valve at the April tank site.

Total capital outlay for these projects was above the total billed to the customer base and collected monthly. Additional funds from the reserves set aside aided in implementing all the improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to the accounting principles which are generally accepted in the United States of America. The Statement of Net Assets includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenues, Expenses and changes in Net Assets identify the District's revenues and expenses for the fiscal year ended June 30, 2006. This statement provides information on the District's operations over the past year and can be used to determine whether the District has

recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and change in cash and cash equivalents balance.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets and Statement of Revenues, Expense and Changes in Net Assets provide an indication of the District's financial condition and also indicate that the financial condition of the District improved during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

NET ASSETS

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

	Jun 30, 06	Jun 30, 05	\$ Change	% Change
Total current and other assets	566,682	660,789	(94,107)	-14%
Capital assets, net	1,044,481	1,007,500	36,981	3%
Total assets	1,611,163	1,668,289	(57,126)	3%
Long-term debt	382,406	427,585	(45,179)	-10%
Other liabilities	45,253	108,563	(63,310)	-58%
Total liabilities	427,659	536,148	(108,489)	-20%
Net assets invested in capital assets, net of related debt	662,075	579,915	82,160	14%
Unrestricted undesignated	480,860	555,226	(74,366)	-13%
	40,569	-	40,569	100%
Unrestricted, Board designated				
Total net assets	1,183,504	1,132,141	51,363	5%

As the above table indicates, total assets decreased by \$57,126 during the fiscal year ended June 30, 2006. This is comprised of a decrease of \$94,107 in current assets and an increase of \$36,981 in capital assets. The decrease in current and other assets is primarily due to a decrease in banking accounts due to expenses incurred for the chlorine improvement project and the arsenal removal project. The increase in fixed assets is primarily due to an increase in capital improvements regarding the 2006 arsenic project, additional hydrants, and a chlorination system.

Total liabilities reflect a decrease of \$63,310, primarily due to a decrease in accounts payable at June 30, 2006. Table 1 also indicates that total net assets increased by \$51,363 a 5% increase.

REVENUES AND EXPENSES

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

Table 2
Condensed Statements of Revenues, Expenses
As of June 30, 2006 and 2005

	Jun 30, 06	Jun 30, 05	\$ Change	% Change
Operating revenues	368,391	389,803	(21,412)	-5%
Nonoperating revenues	21,950	16,128	5,822	36%
Total revenues	390,341	405,931	(15,590)	-4%
Depreciation expense	110,074	102,501	7,573	7%
Other operating expenses	212,474	190,988	21,486	11%
Nonoperating expenses	16,430	16,612	(182)	-1%
Total expenses	338,978	310,101	28,877	9%
Income before special item	51,363	95,830	(44,467)	-46%
Special item				
Loss on sale of land	-	(17,099)	(17,099)	100%
Changes in net assets	51,363	78,731	(27,368)	-35%
Beginning net assets	1,132,142	1,053,411	78,731	7%
Ending net assets	1,183,504	1,132,142	51,363	5%

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, net assets increased during the year by \$51,363, or 5%. The District's total revenue decreased by \$15,590 or 4%. Total expenses increased by \$28,877 or 9% during the same time period.

CAPITAL ASSETS

As of June 30, 2006, the District's investment in capital assets totaled \$1,044,481, which is an increase of \$36,981 over the capital asset balance of \$1,007,500 at June 30, 2005. The increase in fixed assets is primarily due to an increase in capital improvements regarding the arsenic project, additional hydrants, and a chlorination system

LONG-TERM DEBT

As of June 30, 2006, the District had \$382,406 in outstanding debt compared to \$427,585 as of June 30, 2005. Additional information on the district's long-term debt is provided in Note 6 of the financial statements.

ECONOMIC FACTORS:

Annually, the Board appoints a Budget Committee comprised of two Board members, Management and several members of the Public/Owner-Users to review the prior year and determine the upcoming year's budget. This year was no exception and rates were again reviewed. With additional Capital Improvement projects needed on an ongoing basis a Rate Hearing was held in June 2006 to consider a rate distribution to decrease the funds for O&M and increase the funds for capital improvements. The new rates will take effect August 1, 2006. In addition, the District is required by the State to implement a Water Conservation Plan with the State strongly advocating a "tiered" rate structure. The tiered rate structure adds additional costs for high-end water consumption. The District added a reward to customers who conserve with a Rebate Program. The rebate will be calculated annually with customers receiving a credit if usage is below 36,000 gallons annually. Lastly, the rate hearing dealt with late fees with the late fee being increased from 1-1/2% to 3%. The due date, however, was extended from the 10th of the month to the 15th. An additional delinquent fee of \$15.00 will be assessed on any prior balance not paid by the last day of the billing month.

The Sinking Fund created for the arsenic media replacement continues to be utilized, thereby setting aside the funds needed when the media needs to be replaced in the future. After the first year in place, it appears the media will last longer than originally anticipated.

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: 19375 E Oasis Drive; Telephone 623-374-9408.

Darlene Wood

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Black Canyon City Water Improvement District

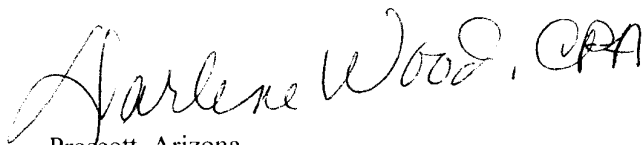
Black Canyon City, Arizona

I have audited the accompanying basic financial statements of Black Canyon City Water Improvement District as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of Black Canyon City Water Improvement District 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, 2006, 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.

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



Prescott, Arizona
October 27, 2006

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Black Canyon City Water Improvement District
Statement of Net Assets
June 30, 2006

Assets

Current assets

Cash and cash equivalents	\$ 274,637
Accounts receivable, net of \$500 allowance for uncollectible accounts	31,360
Supplies inventory	41,885
Prepaid expenses	1,287
Prepaid insurance	<u>1,608</u>
Total unrestricted current assets	350,778
Restricted cash and cash equivalents	<u>215,904</u>
Total current assets	<u>566,682</u>

Capital assets

Nondepreciable capital assets	
Land and land rights	48,625
Depreciable capital assets	
Property, plant and equipment, net of accumulated depreciation	<u>995,856</u>
Total capital assets	<u>1,044,481</u>

Total assets	<u>1,611,163</u>
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Liabilities

Current liabilities

Accounts payable and accrued expenses	5,543
Customer security deposits	39,710
Current portion of long-term debt	<u>40,029</u>
Total current liabilities	85,283

Long-term debt	<u>342,377</u>
Total liabilities	<u>427,659</u>

Net assets

Invested in capital assets, net of related debt	662,075
Unrestricted	<u>521,428</u>
Total net assets	<u>\$ 1,183,504</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, 2006

Operating revenues:	
Water sales	\$ 183,330
Surcharge fees	68,389
Water maintenance fees and other revenue	96,342
Impact fees	<u>27,000</u>
Total operating revenues	<u>375,061</u>
Operating expenses	
Management services	151,126
Depreciation	110,074
Supplies, repairs and testing	19,296
Utility expense - pumps	16,839
Insurance	9,332
Office expenses	4,358
Professional fees	4,100
Bad debt expense	2,738
Well leases	1,829
Equipment lease	1,676
Licenses and permits	134
Advertising	543
Miscellaneous	<u>502</u>
Total operating expenses	<u>322,547</u>
Net operating revenue	<u>52,514</u>
Nonoperating revenues (expenses)	
Interest income	15,280
Interest expense and loan fees	<u>(16,431)</u>
Total nonoperating revenues (expenses)	<u>(1,152)</u>
Increase in net assets	51,362
Net assets beginning of year	<u>1,132,141</u>
Net assets end of year	<u><u>\$ 1,183,504</u></u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 52,514
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	110,074
Changes in assets and liabilities:	
(Increase) Decrease in accounts receivable	(1,935)
(Increase) Decrease in other assets	(578)
(Increase) Decrease in inventory	(16,876)
Increase (Decrease) in accounts payable and accrued expenses	(63,094)
Increase (Decrease) in security deposits	(215)
Net cash provided by operating activities	<u>79,890</u>
Cash flows from capital and related financing activities:	
Additions to capital assets	(147,056)
Principles payments on debt	(45,179)
Interest and fees paid on debt	<u>(16,431)</u>
Net cash used by capital and related financing activities	<u>(208,666)</u>
Cash flows from investing activities:	
Interest received on investments	<u>15,280</u>
Net cash provided by investing activities	<u>15,280</u>
Net decrease in cash and cash equivalents	(113,497)
Cash and cash equivalents at beginning of year	<u>604,037</u>
Cash and cash equivalents at end of year	<u>\$ 490,541</u>
Cash and cash equivalents in balance sheet:	
Cash and cash equivalents	\$ 274,637
Restricted cash and cash equivalents	<u>215,904</u>
Total cash and cash equivalents	<u>\$ 490,541</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2006

NOTE 1 – DESCRIPTION OF ENTITY

Description of Operations

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

Reporting Entity

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation and Accounting

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

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

Estimates

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

Cash

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

Plant and Equipment

Plant and equipment are carried at cost. Depreciation is recorded on the straight line method at rates established by local regulatory agencies.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2006

Supplies inventory

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

Operating revenues and expenses

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

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 assets component as the unspent proceeds.

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

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."

NOTE 3 – CASH AND RESTRICTED CASH

Deposits

The carrying amount of the District's deposits was \$490,541 (\$274,637 unrestricted, and \$215,904 restricted), and the bank balance was \$493,233. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Restricted cash

Restricted cash requirements for customer security deposits totaled \$39,710 for the year ended June 30, 2006.

During the year ended December 31, 1996 the Board adopted an impact/development fee for all new meter installations. The fees are \$1,500 for residential meters and \$1,800 for commercial meters. The amounts received for these fees are to be used only for future development of the District. During the year ended June 30, 1999 the Board adopted a surcharge fee for all customers. The monthly fee is \$10 for residential customers and \$12 for commercial customers. The amounts received for the surcharge fees were initially used for either capital improvements of operation and maintenance as needed. This was revised, by Board action, during the fiscal year ended June 30, 2002 whereby the fees collected are strictly designated for future capital development of the District. During the year ended June 30, 2006, \$27,000 was received for impact/development fees, \$68,389 was received in surcharges and \$147,056 was used for capital improvements. As of June 30, 2006 the restricted amount for impact/development fees and surcharges was a negative balance of (\$157,114).

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2006

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable are net of an allowance for doubtful accounts of \$500 at June 30, 2006. The District's receivables consist mainly 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

June 30, 2006	Cost	Accumulated Depreciation	Cost, net of Accum. Deprec.	Years
Water Plant				
Wells	\$ 37,827	\$33,381	\$4,446	20
Pumping equipment	38,439	34,044	4,395	20
Distribution reservoirs	40,528	36,854	3,674	20
Transmission and Distribution mains	870,388	808,612	61,776	20
Palo Verde Water System	70,000	57,750	12,250	20
Services and meters	56,310	54,532	1,778	20
Capital improvements 6/00	111,936	34,136	77,800	20
Capital improvements 6/01	91,395	23,097	68,298	20
Capital improvements 6/02	74,672	15,685	58,987	20
Capital improvements 6/03	73,129	12,537	60,592	20
Capital improvements 6/04	21,648	2,706	18,942	20
Capital improvements 6/05	506,807	50,697	456,110	20
Capital improvements 6/06	147,415	7,305	140,110	20
Total Water Plant	2,140,494	1,171,336	969,159	
Structures and improvements	18,086	15,768	2,318	20
Office furniture and equipment	17,189	7,650	9,539	20
Other general equipment	27,026	12,184	14,842	20
Land and land rights	48,625	-	48,625	n/a
TOTALS	\$2,251,420	\$ 1,206,938	\$1,044,481	

NOTE 6 – NOTES PAYABLE

On September 30, 2003 the District refinanced its note payable to USDA. The new note is for \$507,500 payable to Wells Fargo Brokerage Services, LLC with monthly payments of \$5,122 for ten years at 4% interest.

June 30, 2006	Total	Current	Long-Term
Note payable – Wells Fargo Bank \$507,500 original issue, 4% per annum, with monthly payments in the amount of \$5,121.69	\$ 382,406	\$ 40,029	\$ 342,377

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2006

The future principal payments due on the notes are as follows:

Year Ended	Amount
June 30, 2007	40,029
June 30, 2008	48,773
June 30, 2009	50,760
June 30, 2010	52,828
Future Years	190,016
Totals	<u>382,406</u>

NOTE 7 – COMMITMENTS

During the year ended June 30, 2001, the Water District entered into an agreement with 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.

During the year ended June 30, 2000, the District entered into an agreement with an independent management firm to manage the District's operations. The agreement was for monthly payments of \$8,250 plus \$9.50 per customer for services over 700 customers. The agreement expired in July 2002. A second agreement extends the contract until July 2005. The second agreement is for monthly payments of \$8,750 plus \$9.50 per customer for services over 700 customers. A new agreement, commencing on July 26, 2005, constitutes monthly payments of \$12,850 plus \$9.50 per customer over 825. This new agreement extends for a five year period. Total management service payments for the year ended June 30, 2006 were \$151,126. The minimum payments due on the agreement are as follows:

Year Ended	Amount
June 30, 2007	154,200
June 30, 2008	154,200
Totals	<u>\$ 308,400</u>

NOTE 8 – OPERATING LEASES

During the year ended June 30, 2003, the District entered into an agreement to lease a well site for an indefinite period with monthly payments of \$100. The lease may be canceled by the District with 30 days notice. The well site is owned by Randall and Sarah Hrabina, who are the owners of the contract management firm (See Note 7). The lease may be canceled by the lessor if certain restrictions are violated with a 30 days notice. However, all improvements within the well and well site shall become property of the lessor should the District cancel the lease. The District is responsible for all repairs, operation and maintenance of the well and well site. Lease payments for the year ended June 30, 2006 totaled \$1,200.

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 Big John Well, developing costs for power and connecting to existing mains were reduced. The lease may be canceled by the lessor if certain restrictions are violated with a 30 days notice. However, all improvements within the well shall become property of the lessor should the District cancel the lease. The District is responsible for all repairs,

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2006

operation and maintenance of the well and well site. Lease payments for the year ended June 30, 2006 totaled \$600. The minimum lease payments due on the above leases are \$1,800 for the year ended June 30, 2006, and succeeding years.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006, the District sold water to Board members in the normal course of business.

During the year ended June 30, 2006, the District paid \$1,200 to a relative of the owners of the contract management firm for the lease of a well site (See Note 8).

During the year ended June 30, 2006, the District paid the contract management firm \$1,715.56 for reimbursement of expenses. In accordance with the contract, the management firm is entitled to add 10% of the costs incurred when submitting reimbursements. The management firm waived the 10% fee saving the District \$172.56.

NOTE 11 – 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.