

BLACK CANYON CITY WATER IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 2007 and 2006

Black Canyon City Water Improvement District

Index to Financial Statements

Fiscal Years Ended June 30, 2007 and 2006

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

This section of the Black Canyon City Water Improvement District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2007. This information is presented in conjunction with the audited basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2007

- The District's net assets increased by 3.6%
- Operating revenues Increased by 4.2%
- Operating expenses increased by 8.2%
 - The Board and Management continue to strive to keep overhead costs down. The most significant increase was in supplies and repairs.
- Following are the most significant projects undertaken during the fiscal year:
 1. The largest single project for the fiscal year was the line replacement project required by Yavapai County road improvement. This represented 86% of the Capital outlay for the year ended June 30, 2007.
 2. The district purchased mapping software and invested in creating Water System Maps for the District.
 3. Other Capital improvements consisted of work on the BJ Hydro Tank, and School tank Road improvements.

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, 2007. 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:

Table 1
Condensed Statements of Net Assets
As of June 30, 2007 and 2006

	<u>Jun 30, 07</u>	<u>Jun 30, 06</u>	<u>\$ Change</u>	<u>% Change</u>
Total current and other assets	413,402	566,681	-153,279	-27.1%
Capital assets, net	1,193,712	1,044,481	149,231	14.3%
Total assets	1,607,114	1,611,163	-4,049	-.3%
Long-term debt	290,603	342,377	-51,774	-15.2%
Other liabilities	90,168	85,282	4,886	5.7%
Total liabilities	380,771	427,659	-46,888	-10.9%
Net assets invested in capital assets, net of related debt	858,316	662,075	196,241	29.6%
Unrestricted undesignated	368,038	521,428	-153,390	-29%
Total net assets	1,226,354	1,183,503	42,851	3.6%

As the above table indicates, total assets decreased by \$4,049 during the fiscal year ended June 30, 2007. This is comprised of a decrease of \$153,279 in current assets and an increase of \$149,231 in capital assets.

Total liabilities reflect a decrease of \$46,888; a decrease of 10.9%. Table 1 also indicates that total net assets increased by \$42,851; a 3.6% 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, 2007 and 2006

	Jun 30, 07	Jun 30, 06	\$ Change	% Change
Operating revenues	390,860	375,061	15,799	4.2%
Non-operating revenues	19,240	15,280	3,960	25.9%
Total revenues	410,100	390,341	19,759	5%
Depreciation expense	122,679	110,074	12,605	11%
Other operating expenses	229,984	212,473	17,511	8.2%
Non-operating expenses	14,587	16,431	-1,844	-11%
Total expenses	367,250	338,978	28,272	8.3%
Changes in net assets	42,850	51,362	-8,512	-16.6%
Beginning net assets	1,183,504	1,132,141	51,363	4.5%
Ending net assets	1,226,354	1,183,503	42,850	3.6%

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 \$42,850, or 3.6%. The District's total revenue increased by \$19,759 or 5%. Total expenses increased by \$28,272 or 8.3% during the same time period.

CAPITAL ASSETS

As of June 30, 2007, the District's investment in capital assets totaled \$1,193,712, which is an increase of \$149,231 over the capital asset balance of \$1,044,181 at June 30, 2006. The increase in fixed assets is due to an increase in capital improvements.

LONG-TERM DEBT

As of June 30, 2007, the District had \$335,396 in outstanding debt compared to \$382,406 as of June 30, 2006. Additional information on the district's long-term debt is provided in Note 6 of the financial statements.

ECONOMIC FACTORS:

The fund created for the arsenic media replacement continues to be utilized, 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: 34500 South Old Black Canyon Highway, #6; Telephone 623-374-9408.

Darlene Wood

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying basic financial statements of Black Canyon City Water Improvement District as of and for the year ended June 30, 2007 and 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, 2007 and 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
December 12, 2007

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Black Canyon City Water Improvement District
Statement of Net Assets
June 30, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets		
Cash and cash equivalents (Note 3)	\$ 216,088	\$ 274,637
Accounts receivable, net of \$1,265 and \$500 allowance for uncollectible accounts (Note 4)	31,257	31,360
Supplies inventory	51,056	41,885
Prepaid expenses	1,131	1,287
Prepaid insurance	<u>867</u>	<u>1,608</u>
Total unrestricted current assets	300,399	350,777
Restricted cash and cash equivalents	<u>113,003</u>	<u>215,904</u>
Total current assets	<u>413,402</u>	<u>566,681</u>
Capital assets		
Nondepreciable capital assets		
Land and land rights	48,625	48,625
Depreciable capital assets		
Property, plant and equipment, net of accumulated depreciation of \$1,329,618 and \$1,206,938 (Note 5)	<u>1,145,087</u>	<u>995,856</u>
Total capital assets	<u>1,193,712</u>	<u>1,044,481</u>
Total assets	<u>1,607,114</u>	<u>1,611,163</u>
 <u>Liabilities</u>		
Current liabilities		
Accounts payable and accrued expenses	5,133	5,543
Customer security deposits (Note 3)	40,242	39,710
Current portion of long-term debt (Note 6)	<u>44,793</u>	<u>40,029</u>
Total current liabilities	<u>90,168</u>	<u>85,282</u>
Long-term debt (Note 6)	<u>290,603</u>	<u>342,377</u>
Total liabilities	<u>380,771</u>	<u>427,659</u>
Net assets		
Invested in capital assets, net of related debt	858,316	662,075
Unrestricted	<u>368,038</u>	<u>521,428</u>
Total net assets	<u>\$ 1,226,354</u>	<u>1,183,503</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Water sales	\$ 191,507	\$ 183,330
Surcharge fees (Note 3)	96,277	68,389
Water maintenance fees and other revenue	84,076	96,342
Impact fees (Note 3)	<u>19,000</u>	<u>27,000</u>
Total operating revenues	<u>390,860</u>	<u>375,061</u>
Operating expenses		
Management services (Note 7)	154,941	151,126
Depreciation (Note 5)	122,679	110,074
Supplies, repairs and testing	31,870	19,296
Utility expense - pumps	20,933	16,839
Insurance	10,043	9,332
Office expenses	4,050	4,358
Professional fees	4,150	4,100
Bad debt expense	953	2,738
Well leases (Note 8)	1,800	1,800
Equipment lease	-	1,676
Licenses and permits	103	134
Advertising	643	543
Miscellaneous	<u>498</u>	<u>531</u>
Total operating expenses	<u>352,663</u>	<u>322,547</u>
 Net operating revenue	 <u>38,196</u>	 <u>52,514</u>
Nonoperating revenues (expenses)		
Interest income	19,240	15,280
Interest expense and loan fees	<u>(14,587)</u>	<u>(16,431)</u>
Total nonoperating revenues (expenses)	<u>4,653</u>	<u>(1,151)</u>
 Increase in net assets	 42,850	 51,362
 Net assets beginning of year	 <u>1,183,504</u>	 <u>1,132,141</u>
Net assets end of year	<u>\$ 1,226,354</u>	<u>\$ 1,183,503</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 38,196	\$ 52,514
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	122,679	110,074
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	103	(1,935)
(Increase) Decrease in other assets	510	(578)
(Increase) Decrease in inventory	(9,171)	(16,876)
Increase (Decrease) in accounts payable and accrued expenses	(487)	(63,094)
Increase (Decrease) in security deposits	610	(215)
Net cash provided by operating activities	<u>152,440</u>	<u>79,890</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	(271,533)	(147,056)
Principles payments on debt	(47,010)	(45,179)
Interest and fees paid on debt	(14,587)	(16,431)
Net cash used by capital and related financing activities	<u>(333,130)</u>	<u>(208,666)</u>
Cash flows from investing activities:		
Interest received on investments	<u>19,240</u>	<u>15,280</u>
Net cash provided by investing activities	<u>19,240</u>	<u>15,280</u>
Net decrease in cash and cash equivalents	(161,450)	(113,496)
Cash and cash equivalents at beginning of year	<u>490,541</u>	<u>604,037</u>
Cash and cash equivalents at end of year	<u>\$ 329,091</u>	<u>\$ 490,541</u>
Cash and cash equivalents:		
Cash and cash equivalents	216,088	274,637
Restricted cash and cash equivalents	113,003	215,904
Total cash and cash equivalents	<u>\$ 329,091</u>	<u>\$ 490,541</u>

See accompanying notes to financial statements.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2007 and 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, 2007 and 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$329,091 (\$145,595 unrestricted, and \$183,495 restricted), and the bank balance was \$352,014. 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 \$40,320 for the year ended June 30, 2007.

During the year ended December 31, 1996 the Board adopted an impact/development fee for all new meter installations. The amounts received for these fees are to be used only for future development of the District. During the year ended June 30, 1999 the Board adopted a surcharge fee for all customers. The amounts received for the surcharge fees were initially used for either capital improvements of operation 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 years ended June 30, 2007 and 2006, \$19,000 and \$27,000 respectively, was received for impact/development fees. \$96,277 was received in surcharges in 2007 and \$68,389 in 2006, and \$271,533 was used for capital improvements in 2007 and \$147,434 in 2006.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable are net of an allowance for doubtful accounts of \$1,264 (2007) and \$500 (2006) and are \$31,257 at June 30, 2007, and \$31,860 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, 2007	Cost	Accumulated Depreciation	Cost, net of Accum. Deprec.	Years
Water Plant				
Wells	\$ 63,086	\$35,272	\$2,555	20
Pumping equipment	38,439	35,966	2,473	20
Distribution reservoirs	40,528	38,881	1,647	20
Transmission and Distribution mains	875,543	852,132	18,256	20
Palo Verde Water System	70,000	61,250	8,750	20
Services and meters	56,686	56,310	0	20
Capital improvements 6/00	111,936	39,733	72,203	20
Capital improvements 6/01	91,395	27,667	63,728	20
Capital improvements 6/02	74,672	19,418	55,254	20
Capital improvements 6/03	73,129	16,194	56,935	20
Capital improvements 6/04	20,648	3,789	17,859	20
Capital improvements 6/05	477,347	76,037	430,770	20
Capital improvements 6/06	147,434	14,676	132,739	20
Capital Improvements 6/07	271,533	13,577	257,956	20
Total Water Plant	2,412,376	1,290,902	1,121,125	
Structures and improvements	18,086	16,672	1,414	20
Office furniture and equipment	17,189	8,510	8,679	20
Other general equipment	27,026	13,534	13,869	20
Land and land rights	48,625	-	48,625	n/a
TOTALS	\$2,523,330	\$ 1,329,618	\$1,193,712	

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, 2007	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	\$ 335,396	\$44,793	\$ 290,603

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 6 – NOTES PAYABLE (Continued)

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

<u>Year Ended</u>	<u>Amount</u>
June 30, 2008	44,793
June 30, 2009	50,760
June 30, 2010	52,828
Future Years	<u>187,015</u>
Totals	<u>\$335,396</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, 2007 were \$154,841 and \$151,126 in 2006. The minimum payments due on the agreement are as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2008	154,200
June 30, 2009	154,200
June 30, 2010	<u>154,200</u>
Totals	<u>\$ 462,600</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, 2007 and 2006 totaled \$1,200 respectively.

Black Canyon City Water Improvement District
Notes to Financial Statements
June 30, 2007 and 2006

NOTE 8 – OPERATING LEASES (Continued)

During the year ended June 30, 2002, due to the drought conditions the District entered into an agreement to lease a water well for a term of twenty years with monthly payments of \$50. The lease may be canceled by the District with 30 days notice. The location was deemed, by the Board, to be an excellent water source and due to the close proximity to the Big John Well, developing costs for power and connecting to existing mains were reduced. The lease may be canceled by the lessor with a thirty-day notice if certain restrictions are violated. However, all improvements within the fenced well site shall become property of the lessor should the District cancel the lease. The District is responsible for all repairs, operation and maintenance of the well and well site. Lease payments for the years ended June 30, 2007 and 2006 totaled \$600 each year. The minimum lease payments due on the above two leases are \$1,800 for the year ended June 30, 2007, and succeeding years.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2007 and 2006, the District sold water to Board members in the normal course of business.

During the years ended June 30, 2007 and 2006, the District paid \$1,200 (each year) 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, 2007, the District paid the contract management firm \$1,323.38 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 \$32.34.

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.