

**Black Canyon City Water
Improvement District
Financial Statements
June 30, 2021**

Black Canyon City Water Improvement District
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Black Canyon City Water Improvement District (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents, which collectively comprise the District's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Black Canyon City Water Improvement District as of June 30, 2021, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Black Canyon City Water Improvement District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Black Canyon City Water Improvement District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures, include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Black Canyon City Water Improvement District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Black Canyon City Water Improvement District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (required supplementary information), as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated January 31, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Black Canyon City Water Improvement District's internal control over financial reporting and compliance.

SC Audit & Accounting Solutions, LLC

Prescott, Arizona
January 31, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Required Supplementary Information)

Black Canyon City Water Improvement District
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended June 30, 2021

As management of the Black Canyon City Water Improvement District (the District), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021. This discussion and analysis is designed to focus on the significant financial issues and activities of the District as well as to identify any significant changes in the District's financial position. We encourage readers to consider the information presented here in conjunction with the audited financial statements as a whole, which follow this narrative. The discussion and analysis that follows will reflect the most recent fiscal year with both current year events and comparisons to the preceding fiscal year.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$1,682,774 (net position). Of this amount, \$245,919 (unrestricted net assets) may be used to meet the District's ongoing obligations to owner/users, and further the purpose of the District. The remaining balance of \$1,436,855 is invested in capital assets.

As of the close of the current fiscal year, the District reported a total ending net position of \$1,682,774, an increase of \$72,032 from the prior year. Of this amount, \$245,919 or 15%, is available for spending at the District's discretion (unrestricted fund balance).

- The District's total net position increased by \$72,032 or 4.47%.
- The District's operating revenues increased by \$51,897 or 10.43%
- The District's total expenses decreased by \$4,948 or 1.02%.

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.

The District approved the following capital improvement projects during the current fiscal year ended June 30, 2021: 1) Mud Springs Road Project \$75,000 and 2) K-Field Wanda Transite Line Replacement Project \$234,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic 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 Net Position* identifies the District's revenues and expenses

Black Canyon City Water Improvement District
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended June 30, 2021

for the fiscal year ended June 30, 2021. 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, Expenses and Changes in 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.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Financial Analysis of the District

The following table presents a comparison of the District's net position for the fiscal years ended June 30, 2021 and 2020.

Black Canyon City Water Improvement District's Condensed Statement of Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and cash equivalents	\$ 311,839	\$ 296,011	\$ 15,828	5.35 %
Other assets	81,655	99,650	(17,995)	(18.06)%
Capital assets, net	<u>1,436,855</u>	<u>1,276,659</u>	<u>160,196</u>	12.55 %
Total assets	<u>1,830,349</u>	<u>1,672,320</u>	<u>158,029</u>	9.45 %
Total current liabilities	<u>147,575</u>	<u>61,578</u>	<u>85,997</u>	139.66 %
Net investment in capital assets	1,436,855	1,276,659	160,196	12.55 %
Unrestricted	<u>245,919</u>	<u>334,083</u>	<u>(88,164)</u>	(26.39)%
Total Net Position	<u><u>\$ 1,682,774</u></u>	<u><u>\$ 1,610,742</u></u>	<u><u>\$ 72,032</u></u>	4.47 %

Total assets increased by \$158,030 or 9.45% during the fiscal year ended June 30, 2021.

As noted earlier, net assets may serve over time as one useful indicator of the District's financial condition. The assets of the District exceeded liabilities by \$1,682,774 as of June 30, 2021. The District's net position increased by \$72,032 or 4.47% during the fiscal year ended June 30, 2021.

The following table presents a comparison of the District's condensed statement of revenues, expenses and changes in net position for the fiscal years ended June 30, 2021 and 2020.

**Black Canyon City Water Improvement District
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended June 30, 2021**

Black Canyon City Water Improvement District's Condensed Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2021	June 30, 2020	\$ Change	% Change
Operating revenues	\$ 549,337	\$ 497,440	\$ 51,897	10.43 %
Non-operating revenues	<u>1,383</u>	<u>4,303</u>	<u>(2,920)</u>	(67.86)%
Total revenues	<u>550,720</u>	<u>501,743</u>	<u>48,977</u>	9.76 %
Depreciation expense	162,573	160,798	1,775	1.10 %
Other operating expenses	316,115	317,789	(1,674)	(0.53)%
Non-operating expense	<u>-</u>	<u>5,049</u>	<u>(5,049)</u>	(100.00)%
Total expenses	<u>478,688</u>	<u>483,636</u>	<u>(4,948)</u>	(1.02)%
Increase (decrease) in net position	72,032	18,107	53,925	297.81 %
Net position - beginning	<u>1,610,742</u>	<u>1,592,635</u>	<u>18,107</u>	1.14 %
Net position - ending	<u>\$ 1,682,774</u>	<u>\$ 1,610,742</u>	<u>\$ 72,032</u>	4.47 %

The statement of revenues, expenses, and changes in net position identifies the various revenue and expense items that affect the change in net position. As the information in this table indicates, the District's net position as of June 30, 2021 was \$1,682,774.

Operating revenues increased by \$51,897 in the fiscal year ended June 30, 2021. The increase is due in part to increased water sales of over 5 million gallons over the prior year.

Total expenses decreased by \$4,948. The decrease was due to the loss on disposition of assets in prior years offset by higher depreciation expense during the current year.

Capital Assets

The net investment in capital assets increased by \$160,196. This was due to the new GOA Well #3, K-Field Wanda Project and the Mud Spring Project, and other system improvements. These improvements were offset by depreciation of new and existing capital improvements.

Long-term Debt

The District did not have any long-term debt in the fiscal years ended June 30, 2021 and 2020.

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 we experienced an increase in water sales but still falls short of record highs from years ago. Conservation is still of great importance.

Black Canyon City Water Improvement District
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended June 30, 2021

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, the accumulation of capital investment monies to fund future distribution system challenges is not only necessary, but is expected to be ongoing. The annual budgets need to strive to fund approximately \$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, and other elements. All equipment has a "useful" life and over time needs extensive repairs or replacement.

Additional engineering costs will be incurred during the next fiscal year for the new GOA #3 Well before it can be placed in service. New capital improvement projects will be reviewed by the Board for consideration.

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 any questions concerning any of the information found 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: <https://bccwid.org>.

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BASIC FINANCIAL STATEMENTS

Black Canyon City Water Improvement District
STATEMENT OF NET POSITION
For the year ended June 30, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 265,439
Accounts receivable, net	32,784
Supplies inventory	48,163

Other assets

Cash and cash equivalents, restricted	46,400
Prepaid expenses	<u>708</u>
Total current and other assets	393,494

Capital assets

Non-depreciable	439,356
Depreciable, net	<u>997,499</u>
Total assets	<u>1,830,349</u>

LIABILITIES

Current liabilities

Accounts payable	97,252
Sales tax payable	3,238
Customer security deposits	<u>47,085</u>

Total current liabilities	<u>147,575</u>
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NET POSITION

Net investment in capital assets	1,436,855
Unrestricted	<u>245,919</u>
Total net position	<u>\$ 1,682,774</u>

The notes to the financial statements are an integral part of this statement.

Black Canyon City Water Improvement District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
For the year ended June 30, 2021

OPERATING REVENUES

Water sales	\$ 399,898
Impact fees	15,000
Surcharge fees	105,426
Water maintenance fees and other revenue	<u>29,013</u>
Total operating revenues	549,337

OPERATING EXPENSES

Management services	205,695
Advertising	367
Insurance	11,578
Lease expense	600
Licenses and permits	205
Office expense	6,896
Outside services	6,351
Professional fees	6,800
Pumps and boosters - electric	23,740
Repairs and maintenance	40,282
Supplies and testing	13,601
Depreciation	<u>162,573</u>
Total operating expenses	<u>478,688</u>
Net operating change	<u>70,649</u>

NON-OPERATING REVENUE

Interest income	<u>1,383</u>
Total non-operating revenue	<u>1,383</u>
Change in net position	72,032
Net position - beginning	<u>1,610,742</u>
Net position - ending	<u><u>\$ 1,682,774</u></u>

The notes to the financial statements are an integral part of this statement.

Black Canyon City Water Improvement District
STATEMENT OF CASH FLOWS
For the year ended June 30, 2021

Cash flows from operating activities:	
Increase (decrease) in net assets	\$ 72,032
Adjustments to reconcile change in net assets	
to net cash provided by (used by) operating activities:	
Depreciation	162,573
Changes in:	
Accounts receivable	14,722
Prepaid expenses	(3,029)
Inventory	3,981
Accounts payable	97,252
Accrued expenses	113
Customer deposits	785
Deferred revenue	<u>(12,153)</u>
Net cash provided by (used by) operating activities	336,276
Cash flows from investing activities:	
Purchase of property and equipment, net of adjustments	<u>(320,448)</u>
Net cash provided by (used by) investing activities	<u>(320,448)</u>
Net change in cash	15,828
Cash and cash equivalents, beginning of year	<u>296,011</u>
Cash and cash equivalents, end of year	<u><u>\$ 311,839</u></u>

The notes to the financial statements are an integral part of this statement.

Black Canyon City Water Improvement District
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

NOTE 1 - DESCRIPTION OF ENTITY

Description of Operations

The Black Canyon City Water Improvement District (the 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. The District is governed by a board of directors elected from owners/users within the District in accordance with Arizona Revised Statutes.

Reporting Entity

The District is a special purpose government that a separately elected governing body governs. It is legally separate from and 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 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 accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of 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.

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 recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows.

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

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

Operating revenues are those revenues that are generated from the primary operations of the District. All other

Black Canyon City Water Improvement District
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

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.

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 and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes 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 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 year ended June 30, 2021.

Custodial credit risk for deposits is the risk that, in the event of a failure of the counterparty to a transaction, 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 to repair the water system that are recorded when purchased and expensed when used. Supplies inventory is recorded at cost.

Black Canyon City Water Improvement District
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

Prepaid items

Certain payments to vendors reflect costs applicable to future periods and may be recorded as prepaid items in the financial statements.

Capital assets

The District's capital assets, which include land, building improvements, furniture, vehicles, equipment, construction in progress and the water distribution system 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 expensed 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.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Type of asset</u>	<u>Estimated Useful Lives</u>
Building improvements	15 years
Water distribution system	20 years
Furniture, vehicles and equipment	5 - 7 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 amounts may differ from such estimates.

Budgets and budgetary accounting

The District is required, under Arizona Revised Statutes, to prepare and adopt a budget each fiscal year in a manner consistent with the annual financial statements. The budget must be submitted to the county treasurer and the county board of supervisors no later than July 10 of each year. The budgeting process also includes publishing a summary of the estimates of revenues and expenses that includes the addresses of libraries and of websites where the complete copy of the estimates of revenues and expenses can be found, and posting the complete estimate on the District's website.

NOTE 3 - CASH AND RESTRICTED CASH

As of June 30, 2021 the District had \$285,503 on deposit with the Yavapai County Treasurer's investment pool (YCTIP). As of June 30, 2021 the District held \$26,336 in a local financial institution.

Black Canyon City Water Improvement District
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

The Yavapai County Treasurer invests the cash in a pool under policy guidelines established by the County. The County accounts for the investment pool in their Fiduciary Investment Trust Fund. Credit risk, concentration of credit risk, and interest rate risk regarding the YCTIP is included in the Annual Comprehensive Financial Report of Yavapai County. The fair value of each participant's position in the YCTIP approximates the value of the participant's shares in the pool.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an insurer or other counterparty to an investment in a debt security will not fulfill its obligations. State law limits deposits and investments to the Arizona State Treasurer's local government investment pool (LGIP); interest bearing savings accounts, certificates of deposit; United States Treasury Bills, notes or bonds which have a maturity date of not more than one year and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral. The District has no investment policy that would further limit its investment choices. The Yavapai County Treasurer's investment pool is an external investment pool with no regulatory oversight. The YCTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2021 the YCTIP had not received a credit quality rating from a national rating agency.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the City will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The District does not have a formal policy for custodial credit. However, all investments are held in safekeeping by Yavapai County in the District's name.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal policy for concentration of credit risk.

Restricted Cash. Restricted cash requirements for customer security deposits totaled \$46,400.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivables as of June 30, 2021 are net of an allowance for doubtful accounts of \$2,677. 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 the accounts are delinquent.

Black Canyon City Water Improvement District
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

NOTE 5 - CAPITAL ASSETS

Capital asset (plant, property and equipment) activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and land rights	\$ 69,225	\$ -	\$ -	\$ 69,225
Construction in progress	52,491	317,640	-	370,131
Total assets not being depreciated	121,716	317,640	-	439,356
Depreciable assets:				
Water plant	3,470,929	322,769	(317,640)	3,476,058
Other equipment	261,600	-	-	261,600
Office equipment	17,188	-	-	17,188
Total depreciable assets	3,749,717	322,769	(317,640)	3,754,846
Total capital assets	3,871,433	640,409	(317,640)	4,194,202
Less accumulated depreciation	(2,594,774)	(162,573)	-	(2,757,347)
Total capital assets, net	<u>\$ 1,276,659</u>	<u>\$ 477,836</u>	<u>\$ (317,640)</u>	<u>\$ 1,436,855</u>

Depreciation expense for the period was \$162,573.

NOTE 6 - CONTINGENT LIABILITIES

During the fiscal year ended June 30, 2001, the 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 District for the tank was \$85,000. The agreement included the sale of the tank site by the District to the School District for \$1.00 and the subsequent lease of the tank site by the District at \$1.00 per year for 75 years with an option to purchase the tank site for \$1.00. The District is responsible for all repairs, operations, and maintenance of the tank and tank site.

On February 18, 2010, the District entered into an agreement with an independent management firm to manage the District's operations for a term of four years beginning July 26, 2010. In July of 2012 the 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 customers who are billed for water services. Additional customers (over 850) will be billed at a rate of \$11.00 per customer.

Total management service payments for the year ended June 30, 2021 totaled \$205,695.

Future minimum payments due under this agreement are as follows:

	Amount
Year ended June 30, 2022	<u>\$ 205,200</u>

Black Canyon City Water Improvement District
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2021

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, operations and maintenance of the well and well site.

Future minimum payments due under this lease are as follows:

	Amount
Year ended June 30, 2022	<u>\$ 600</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2021, the District sold water to board members of the District in the normal course of business at the rates established for all water customers.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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.

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 insurance coverage.

NOTE 10 - SUBSEQUENT EVENTS

The District has evaluated subsequent events and transactions subsequent to June 30, 2021 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, 2021. Subsequent events have been evaluated through January 31, 2024, which is the date the financial statements were available to be issued.

**Black Canyon City Water Improvement District
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

June 30, 2021

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Black Canyon City Water Improvement District (the District) as of June 30, 2021, and the related notes, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2024.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Black Canyon City Water Improvement District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements, will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Black Canyon City Water Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SC Audit & Accounting Solutions, LLC

Prescott, Arizona
January 31, 2024

Black Canyon City Water Improvement District
INDEPENDENT AUDITOR'S COMMUNICATION TO
THOSE CHARGED WITH GOVERNANCE

June 30, 2021

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INDEPENDENT AUDITOR'S COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

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

We have audited the basic financial statements of Black Canyon City Water Improvement District (the District) as of and for the year ended June 30, 2021, and have issued our report thereon dated January 31, 2024. Professional standards require that we advise you of the following matters relating to our audit.

OUR RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS

As communicated in our engagement letter dated August 8, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with the reporting requirements as prescribed by the State of Arizona, and when applicable, *Government Auditing Standards*. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Furthermore, in accordance with in accordance with *Government Auditing Standards*, we have issued our report dated January 31, 2024 on the District's internal control over financial reporting and on compliance and other matters

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you. Any communication of significant matters is included in the report described in the following paragraph.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, as we are not aware of any other documents containing the District's audited financial statements, we have not performed any additional procedures in accordance with such standards.

Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our engagement letter.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm, as appropriate, our firm and any related firms have complied with all relevant ethical requirements regarding independence. As part of our nonattest services related to preparing the financial statements, management was responsible for validating the completeness and accuracy of the financial statements, and all entries to present the financial statements in conformity with generally accepted accounting principles. Management performed their responsibility accordingly and approved the financial statements on January 31, 2024.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no changes in significant accounting policies or their application during the year ended June 30, 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to:

- Capital Assets - The District's investment in capital assets is not just material to the financial statements, but is key to demonstrating the District's commitment to provide quality water service to the community.

Significant Difficulties Encountered during the Audit

We are pleased to report that we encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. However, we did not identify any uncorrected misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule (RJE 2021) is for reclassification journal entries summarized for financial statement presentation that we identified as a result of our audit procedures and brought to the attention of management.

Disagreement with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which were included in the letter from management on or before January 31, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing, accounting and financial reporting matters. Based on management's representations, and consistent with our understanding of the District's activities, there were no consultations with other accountants regarding auditing, accounting and financial reporting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the District, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors, Management, Yavapai County and the State of Arizona and is and is not intended to be, and should not be, used by anyone other than these specified parties.

SC Audit & Accounting Solutions, LLC

Prescott, Arizona
January 31, 2024