

**Diamond Valley Water District**  
**Financial Statements**  
**Ten Months Ended June 30, 2009**

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## **Diamond Valley Water District Management's Discussion and Analysis**

This section of the Diamond Valley Water District's annual financial report presents an analysis of the District's financial performance during the ten months ended June 30, 2009. This information is presented in conjunction with the audited Basic Financial Statements that follow this section.

As of September 30, 2008, the District received a transfer of assets from the Arizona Corporation Commission. The information presented below includes activity of the District for the ten months ending June 30, 2009. The District retained the services of Arizona Water Ways, LLC (AZWW) in September, 2008. In October and November of 2008 AZWW replaced 42 non-operating meters on the system. Meter, valve, and air relief boxes were located and mapped, several had water in boxes, and leaks were located and repaired. A valve book showing locations of valves and areas of control was created. Most air relief valves were found to be faulty. Air in the system is released manually by operators on a regular maintenance schedule. Seventy five percent (75%) of blow off valves were found to be inoperative. Both blow off and air relief valve replacements will be started in fiscal year 2009/2010. A mapping and leak minimization project grant through the Water Infrastructure Finance Authority of Arizona began by signing a contract with Tetra Technologies, Inc. This project was 85% complete by June 30, 2009.

Arizona Water Ways, LLC started to analyze the RVS Billing Software in October, 2008. Many customer accounts were duplicated, not listed, or inaccurate in the billing software. Locating all water meters and designating meters to correct addresses has been an ongoing process.

### **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's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the ten months ended June 30, 2009. This statement provides information on the District's operations over the past ten months 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. The District's net assets reflect the difference between assets and liabilities.

The following table (Table 1) shows Statements of Net Assets for the District for the ten months ended June 30, 2009. Table 2 is a review of the Statements of Revenues, Expenses and Changes in Net Assets for the ten months ending June 30, 2009.

**NET ASSETS**

A summary of the District’s Statements of Net Assets is presented below in Table 1:

**Table 1**  
**Condensed Statements of Net Assets**  
**Ten months ending June 30, 2009**

	<b>Ten Months Ended June 30, 2009</b>
Total current and other assets	106,869
Capital assets, net	510,724
Total assets	617,593
Current liabilities	38,257
Total liabilities	38,257
Net assets invested in capital assets, net of related debt	510,724
Unrestricted and reserved net assets	68,612
Total net assets	579,336

As the above table indicates, total assets for the ten months ended June 30, 2009, are \$617,593. Total assets include current and fixed assets transferred to the District in September of 2008 in addition to changes in assets occurring from time of transfer to year end.

Total liabilities include accounts payable of \$12,673, sales tax payable of \$6,482 and water user deposits of \$19,102, at June 30, 2009.

Table 1 also shows total net assets of \$579,336 at June 30, 2009. Unrestricted and reserved net assets include \$19,102 in customer security deposits and \$49,510 in unrestricted, unreserved net assets.

## REVENUES AND EXPENSES

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

	<u>For the ten months ended June 30, 2009</u>
Operating revenues	333,407
Nonoperating revenues	2,146
Total revenues	335,553
Depreciation expense	21,201
Other operating expenses	305,949
Total expenses	327,150
Changes in net assets	8,403
Transferred beginning net assets	570,933
Ending net assets	579,336

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items which affect the change in net assets. As the information in Table 2 indicates, there was an increase in net assets of \$8,403 for the ten months ended June 30, 2009.

### CAPITAL ASSETS

As of June 30, 2009, the District's investment in capital assets totaled \$510,724.

### LONG-TERM DEBT

As of June 30, 2009, the District had no long term debt.

### ECONOMIC FACTORS:

Annually, the District will submit to the Water Board a budget for fiscal year commencing July 1. Public hearings on the budget are held in accordance with legal requirements. A tentative budget is adopted prior to the third Monday in July of each fiscal year. All unused appropriations lapse at June 30. The budget for the ten months ended June 30, 2009 is a Board approved interim budget.

### 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 Diamond Valley Domestic Water District at PO Box 13070, Prescott, Arizona 86304.

**Diamond Valley Water District**  
**Statement of Net Assets**  
**June 30, 2009**

**Assets**

Current assets

Cash and cash equivalents	\$ 43,985
Restricted cash and cash equivalents (Note 3)	19,102
Accounts receivable, net of allowance (Note 4)	31,159
Inventory (Note 2)	<u>12,623</u>
Total current assets	<u>106,869</u>

Other assets

Property, plant and equipment, at cost, net of accumulated depreciation at June 30, 2009 of \$439,039 (Note 5)	<u>510,724</u>
Total other assets	<u>510,724</u>

Total assets	\$ <u>617,593</u>
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**Liabilities**

Current liabilities

Accounts payable and accrued expenses	19,155
Customer security deposits (Note 3)	<u>19,102</u>
Total liabilities	38,257

**Net assets**

Invested in capital assets, net of related debt	510,724
Unrestricted and reserved net assets:	
Unreserved net assets	49,510
Reserved net assets	<u>19,102</u>
Total net assets	<u>\$ 579,336</u>

See accompanying notes to financial statements.

**Diamond Valley Water District**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**Ten Months Ended June 30, 2009**

**Revenues**

Water sales	\$ 305,163
Other water fees	28,244
Total revenues	333,407

**Operating expenses**

Water system delivery and maintenance	297,203
Administration	8,746
Depreciation (Note 5)	21,201
Total operating expenses	327,150

Operating income	6,257
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**Other income**

Tower rents	2,000
Interest income	146
Total other income	2,146

Net income	8,403
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Beginning net assets	570,933
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Ending net assets	\$ 579,336
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See accompanying notes to financial statements.

**Diamond Valley Water District**  
**Statement of Revenues and Expenses - Budget (Budget Basis) and Actual**  
**Ten Months Ended June 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Sales	\$ 275,166	\$ 295,694	\$ 20,528
Hook up fees	1,680	2,000	320
Other	<u>5,750</u>	<u>4,554</u>	<u>(1,196)</u>
Total water revenues	<u>282,596</u>	<u>302,248</u>	<u>19,652</u>
<b>Other income</b>			
Interest earned	26	146	120
Cellular tower rental	<u>1,286</u>	<u>2,000</u>	<u>714</u>
Total other income	<u>1,312</u>	<u>2,146</u>	<u>834</u>
Total revenues	<u>283,908</u>	<u>304,394</u>	<u>20,486</u>
<b>Expenditures</b>			
Accounting fees	-	1,460	(1,460)
Auto and truck	1,056	616	440
Bad debt expense	-	1,600	
Bank service fees	45	59	(14)
Capacity service charge	4,114	4,800	(686)
Dues and subscriptions	-	433	(433)
Licenses, permits, dues	501	332	169
Management service fee	56,883	61,200	(4,317)
System maintenance	69,219	67,655	1,564
Testing	69	200	(131)
Water	119,597	128,455	(8,858)
Utilities	14,172	15,871	(1,699)
Insurance	2,695	1,572	1,123
Meeting room rent	6,514	3,800	2,714
Office supplies	876	1,270	(394)
Postage and delivery	81	47	34
Professional fees	-	2,990	(2,990)
Rent	291	270	21
Telephone	293	171	122
Travel and education	1,106	430	676
Other	<u>79</u>	<u>46</u>	<u>33</u>
Total expenditures	<u>277,591</u>	<u>293,277</u>	<u>(14,086)</u>
Excess (Deficit) of revenues over expenditures	<u>\$ 6,317</u>	<u>\$ 11,117</u>	<u>\$ 6,400</u>

See accompanying notes to financial statements.



**Diamond Valley Water District  
Statement of Cash Flows  
Ten Months Ended June 30, 2009**

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 321,350
Cash payments for water system operations	(284,530)
Cash payments for administration	(8,746)
Net cash provided by operating activities	<u>\$ 28,074</u>
<b>Cash flows from capital and related financing activities:</b>	
Cash payments for acquisition of capital assets	(19,623)
Net cash used by capital and related financing activities	<u>(19,623)</u>
Net increase in cash and cash equivalents	8,451
Cash and cash equivalents at beginning of year	54,636
Cash and cash equivalents at end of year	<u>\$ 63,087</u>
<b>Cash and cash equivalents in balance sheet:</b>	
Cash and cash equivalents	43,985
Restricted cash and cash equivalents	19,102
Total cash and cash equivalents	<u>\$ 63,087</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 6,257
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	21,201
Changes in assets and liabilities:	
(Increase) Decrease in accounts receivable	(31,159)
Increase (Decrease) in accounts payable and accrued expenses	12,673
Increase (Decrease) in customer security deposits	19,102
Net cash provided by operating activities	<u>\$ 28,074</u>

See accompanying notes to financial statements.

**Diamond Valley Water District**  
**Notes to the Financial Statements**  
**June 30, 2009**

**NOTE 1 – DESCRIPTION OF ENTITY**

Description of Operations

On December 20, 2006, the District was established for the purpose of facilitating the mission, policy, and guidance for the operation of the District. 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. In September of 2008, all assets were transferred from the Arizona Corporation Commission to the Board.

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.

**Diamond Valley Water District**  
**Notes to the Financial Statements**  
**June 30, 2009**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Plant and Equipment

Plant and equipment recorded at time of transfer from the Arizona Corporation Commission to the District is carried at original cost less depreciation as estimated by the Handy-Whitman index. All plant and equipment purchased by the District is carried at cost. Depreciation is recorded on the straight-line basis at rates established by local regulatory agencies.

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 and consist primarily of charges for services. Non-operating or other revenues and expenses consist of those revenues and expenses that are related to financing and investing 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 asset component as the unspent proceeds.

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

*Unrestricted 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 for June 30, 2009, totaled \$63,087 (\$43,985 unrestricted, and \$19,102 restricted). The bank balance at June 30, 2009, totaled \$64,870. 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 \$19,102 for the ten months ended June 30, 2009.

**Diamond Valley Water District  
Notes to the Financial Statements  
June 30, 2009**

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable are net of an allowance for doubtful accounts of \$1,600 leaving a net accounts receivable balance of \$31,159, at June 30, 2009. The District's receivables consist of amounts due from individuals and businesses in the Diamond Valley, Arizona, area and are not subject to liens unless accounts are delinquent.

**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at June 30, 2009, are summarized by major classifications as follows:

	<u>2009</u>
Mapping	\$ 19,623
Distribution system	659,391
Equipment	14,668
Land and land rights	244,292
Land improvements	1,142
Structures	10,647
Accumulated depreciation	<u>(439,039)</u>
Total property, plant and equipment	\$ 510,724

Depreciation expense for the ten months ending June 30, 2009, is \$21,201.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

During the ten months ended June 30, 2009, the District sold water to Board members in the normal course of business.

**NOTE 7 – 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.

**NOTE 8 – STATEMENT OF REVENUES AND EXPENSES-BUDGET (BUDGET BASIS) AND ACTUAL**

The Statement of Revenues and Expenses-Budget (Budget Basis) and Actual for the ten months ended June 30, 2009, is for informational purposes only as the budget was not presented to the public for approval at a Public hearing according to legal requirements. The Statement is a Board approved interim budget only.