

Diamond Valley Water District
Financial Statements
Years Ended June 30, 2018 and 2017

Diamond Valley Water District

Table of Contents

	<u>Page</u>
Independent Accountants' Audit Report.....	1
Management's Discussion and Analysis.....	2
Basic Financial Statements	
Statement of Net Position.....	6
Statement of Revenues, Expenses and Changes in Net Position.....	7
Statement of Cash Flows.....	8
Notes to the Financial Statements.....	9

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Diamond Valley Water District
Prescott, AZ 86303

We have audited the accompanying statement of net position of Diamond Valley Water District as of June 30, 2018, and the related statements of Revenues, Expenses and Changes in Net Position and cash flows for the year then ended. These financial statements are the responsibility of Diamond Valley Water District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Diamond Valley Water District as of June 30, 2018, statements of Revenues, Expenses and Changes in Net Position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Statement of Net Position, and related Statements of Revenues, Expenses and Changes in Net Position for the period ending June 30, 2017, were reviewed by me as of October 16, 2017, in accordance with Statements on Standards for Accounting and Review Services (SSARSs). Accordingly there were no material modifications that should have been made for the year ending June 30, 2017, in order for them to be in conformity with accounting principles generally accepted in the United States of America



David A. Snyder CPA, PLLC
October 23, 2018

**Diamond Valley Water District
Management's Discussion and Analysis
June 30, 2018 and 2017**

As management of Diamond Valley Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with District's financial statements.

FINANCIAL HIGHLIGHTS

- During the year, the District's total net position increased by \$141,050.
- Total District operating revenue received in 2018 increased by \$65,997 from 2017.
- Total District operating expenses in 2018 increased by \$32,349 from 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of two components: (1) the basic financial statements, and (2) notes to the basic financial statements.

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 the District's creditors (liabilities).

The Statement of Revenues, Expenses and Changes in Net Position identifies the District's revenues and expenses for the fiscal years ended June 30, 2018 and 2017. This statement informs the reader of the District's operations over the past years and can be used to determine whether the District has recovered all its actual and projected costs through fees and other revenue sources.

The Statement of Net Position and the Statement of Revenues, Expense and Changes in Net Position provide an indication of the District's financial condition and also identify whether the financial condition of the District has improved during the last two fiscal years. 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 the cash and cash equivalents balances for the past year.

Management's Discussion and Analysis - Continued

Notes to Basic 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 basic financial statements can be found on pages 9-13 of this report.

NET POSITION – COMPARISON OF JUNE 30, 2018 and 2017

Condensed Statement of Net Position

	Governmental Activities	
	2018	2017
Assets:		
Cash and cash equivalents	\$ 429,763	\$ 605,729
Other assets	139,873	138,241
Capital assets, net	1,087,927	802,551
Total assets	1,657,563	1,546,521
Liabilities:		
Accounts payable and accrued	30,393	63,663
Other liabilities	90,355	87,093
Total liabilities	120,748	150,756
Net position:		
Net investment in capital assets	1,087,927	802,551
Restricted	74,017	74,466
Unrestricted	374,871	518,748
Total net position	\$ 1,536,815	\$ 1,395,765

In 2018, the District's net position increased by \$141,050. Key elements of this change from the prior year are as follows:

- Cost of water delivery and operations increased by \$22,745 in 2018 as a result of increased in water sales by \$52,553.

Management's Discussion and Analysis - Continued

The following table presents a comparative summary of the District's revenues and expenditures for the current and preceding fiscal years.

Condensed Statement of Changes in Net Position

	District Activities	
	2018	2017
Revenues:		
Operating revenue:		
Water sales	\$ 636,065	\$ 583,512
Service fees and contributions	54,282	40,838
Other	7,620	9,644
Investment earnings	6,652	2,466
Total revenues	704,619	636,460
Expenses:		
Operating expenses	349,469	326,724
Professional services	148,645	140,446
General administration	65,455	64,050
Total expenses	563,569	531,220
Increase in net position	141,050	105,240
Net position, beginning	1,395,765	1,290,525
Net position, ending	\$ 1,563,815	\$ 1,395,765

- Total operating revenues from 2017 to 2018 increased by \$65,997; the increase was a result of an increased water usage and increased numbers of water users in 2018.
- Total water delivery and operating cost was \$349,469 and \$326,724 in 2018 and 2017, respectively. The increase of \$22,745 is primarily attributed to the increase in water purchases for the period.

Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

During fiscal year 2018 there were no modifications to the District's originally adopted budget. Total actual operating revenues were \$636,065 which was over the original budgeted amount of \$590,000 by \$46,065. Total actual expenses for operations, professional services and administration during 2018 was \$563,569, this includes depreciation expense of \$31,375, a non-budget item.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – The District's investment in capital assets as of June 30, 2018 and 2017, totals \$1,087,927 and \$802,551 (net accumulated depreciation), respectively. These assets include land and land improvements, the distribution system, structures and water delivery equipment, and administrative equipment.

During 2018 and 2017 the District allocated \$210,000 of capital improvement funds for various distribution system projects, including new digital meter remote read and underground installations.

For more detailed information, see page 13 in the notes to the financial statements (note 5).

Long-term debt – The District had no long-term debt for the fiscal years ended June 30, 2018 and 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's total revenues and expenses were both over the budgeted amount for the fiscal year ended June 30, 2018. This is mostly the result of an increasing number of residents in the District's serving boundaries. In addition, for the 2018 fiscal year, the District's board budgeted \$210,000 for a digital meter remote read and underground installation within the District. The total cost of those improvements for the period amounted to \$316,751 which is over the original budget by \$106,751. Please refer to our website www.diamondvalleywaterdistrict.com for a copy of the fiscal year 2018 budget.

The current plan of the District's board is to maintain the existing water distribution system to the best of its ability and to provide safe drinking water at a cost reasonable to the citizens of the District. The District has also begun the process of evaluating a 5-year capital improvements plan.

REQUEST FOR 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 Water District at PO Box 26527, Prescott Valley, Arizona 86312.

Diamond Valley Water District
Statement of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 429,763	\$ 605,729
Accounts receivable, net of allowance	65,856	63,775
Other assets:		
Restricted cash	74,017	74,466
Noncurrent assets:		
Capital assets not being depreciated	254,343	254,343
Capital assets being depreciated, net	833,584	548,208
Total assets	<u>1,657,563</u>	<u>1,546,521</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	30,393	63,663
Deferred revenue	16,338	12,627
Customer security deposits	74,017	74,466
Total liabilities	<u>120,748</u>	<u>150,756</u>
Net Position		
Net investment in capital assets	1,087,927	802,551
Restricted	74,017	74,466
Unrestricted	374,871	518,748
Total net position	<u>\$ 1,536,815</u>	<u>\$ 1,395,765</u>

The accompanying notes are an
integral part of these basic financial statements.

Diamond Valley Water District
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Water sales	\$ 636,065	\$ 583,512
Establishment and reconnect fees	4,515	4,960
Late fees	2,026	1,196
New service contributions	46,894	34,523
Other revenues	847	159
Total operating revenues	690,347	624,350
Operating expenses:		
<i>Water delivery and operations</i>		
Water purchase	198,112	178,444
Water testing	950	1,297
System maintenance and supplies	5,968	-
Repairs and maintenance	122,076	125,049
Utilities	22,363	21,934
<i>Professional services</i>		
Management services	116,598	110,484
Administrative and accounting services	27,790	24,758
Legal services	4,257	5,204
<i>General administration</i>		
Computer and website maintenance	1,035	1,637
Advertising	139	311
Bank service fees	618	302
Board member stipends and expenses	8,025	6,901
Insurance	2,634	2,577
Licenses, permits, dues	4,493	3,417
Office Space	5,489	4,666
Office supplies	2,858	1,350
Postage	473	436
Other	8,316	5,655
Depreciation expense	31,375	36,798
Total operating expenses	563,569	531,220
Operating income	126,778	93,130
Other income (expenses):		
Tower rents	7,620	9,644
Interest income	6,652	2,466
Total other income (expenses)	14,272	12,110
Change in net position	141,050	105,240
Net position - July 1, 2017	1,395,765	1,290,525
Net position - June 30, 2018	\$ 1,536,815	\$ 1,395,765

The accompanying notes are an
integral part of these basic financial statements.

Diamond Valley Water District
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customer water sales	\$ 637,246	\$ 599,407
Cash received from other water operating activities	29,588	32,571
Cash payments for water system operations	(382,739)	(299,508)
Cash payments for professional services	(148,645)	(140,446)
Cash payments for administration	(34,080)	(27,252)
Net cash provided by (used for) operating activities	<u>101,370</u>	<u>164,772</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(292,057)	(173,029)
Cash from other recurring income sources	7,620	9,644
Net cash received from (used by) capital and related financing activities	<u>(284,437)</u>	<u>(163,385)</u>
Cash flows from investing activities:		
Cash from interest	6,652	2,466
Net cash received from investing activities	<u>6,652</u>	<u>2,466</u>
Net increase in cash and cash equivalents	(176,415)	3,853
Cash and cash equivalents, beginning of year	680,195	676,342
Cash and cash equivalents, end of year	<u>\$ 503,780</u>	<u>\$ 680,195</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	\$ 126,778	\$ 93,130
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	31,375	36,798
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,081)	216
Increase (decrease) in accounts payable and accrued expenses	(33,270)	27,216
Increase (decrease) in deferred revenues	3,711	2,813
Increase (decrease) in customer deposits	(449)	12,866
Non-cash service line contributions	(24,694)	(8,267)
Net cash provided by operating activities	<u>\$ 101,370</u>	<u>\$ 164,772</u>

The accompanying notes are an
integral part of these basic financial statements.

Diamond Valley Water District
Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 1-DESCRIPTION OF ENTITY

Description of Operations

On December 20, 2006, the Diamond Valley Water District (the "District") was established as a special district under the provisions of Arizona Revised Statutes Title 48 for the purpose of facilitating the mission, policy, and guidance for the operation of the District. In September of 2008 all assets were transferred from the Arizona Corporation Commission to the District. The District's primary operations include charges for water and related services to customers in the Diamond Valley Water District, Arizona. The District is governed by a board of directors elected from within the District.

Reporting Entity

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 Accounting and Measurement Focus

The accompanying financial statements have been prepared in accordance with the reporting model defined by GASB Statement No. 34, Basic Financial Statements. The reporting model requires supplementary information in the form of the 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 and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of the District are included in the Statement of Net Position.

Notes to Basic Financial Statements - Continued

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net position (total assets net of total liabilities) are segregated into invested in capital assets, net of related debt, restricted, and unrestricted components. Proprietary-fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Under this basis of accounting, revenues are recognized when earned, and expenses are recorded when the related liability is incurred.

Operating revenues are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Deferred revenues represent prepayments by customers for water. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) 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.

Vendor Concentrations

The District receives all of the water that it sells to customers from the Town of Prescott Valley, Arizona, (Town). The District would not be able to supply its customers with water in the event the Town limited the supply of water sold to the District.

Cash and Investments

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased 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 are under the direct supervision of the Yavapai County (County) Treasurer's Office, which has the fiduciary responsibility to administer all monies held in the County Treasury. The treasurer invests in the Local Government Investment Pool on a pooled cash basis. Interest earned from investments purchased with such pooled monies is allocated quarterly to each of the funds based on the average month-end cash balances. For additional information on cash and investments, see the Yavapai County Financial Statements for the years ended June 30, 2018 and 2017.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the county's governance of special districts. County regulations require the District to hold a significant portion of its deposits in pooled county funds. In addition to pooled county funds, the District may maintain several accounts in one commercial bank, which may, at times, exceed federally insured limits.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District does not participate in investment transactions, except as noted above as required by the County, and has no formal policy for credit risk.

Plant and Equipment

Plant and equipment recorded at time of transfer from the Arizona Corporation Commission to the District are carried at original cost less depreciation as estimated by the Handy-Whitman index. A capitalization limit of \$3,000 has been established by management for purchases of equipment with a useful life of more than one year. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of depreciable assets range from three to fifty years.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Net Position

The District's net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components.

Invested in capital assets, net of related debt: This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted: This component of net 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.

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrestricted: This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When an expense is incurred for purposes for which both restricted and unrestricted funds are available, the District's policy is to apply restricted funds first. The District would typically use restricted fund balances first, followed by unrestricted resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

NOTE 3-CASH AND RESTRICTED CASH

Deposits

The carrying amount of the District's deposits for June 30, 2018 and 2017, totaled \$503,780 and \$680,195, respectively. The County and bank balances at June 30, 2018 and 2017, totaled \$588,928 and \$835,159, respectively. The difference between the County and bank balances and the carrying balances represents outstanding checks and deposits in transit.

Restricted cash

Restricted cash requirements for customer security deposits totaled \$74,017 and \$74,466 for the years ended June 30, 2018 and 2017, respectively.

NOTE 4-ACCOUNTS RECEIVABLE

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. All receivables are considered due within one year and are therefore considered current. It is the District's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Accounts receivable are net of an allowance for doubtful accounts of \$8,510 and \$3,357 for the fiscal years ended June 30, 2018 and 2017, respectively.

The allowance is estimated according to management's best estimate of the amounts that will not be collected. An allowance of 5% of the receivables balances has been established by management of the District.

Notes to Basic Financial Statements - Continued

NOTE 5-PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2018 and 2017, are summarized by major classifications as follows:

	Balance, 30-Jun-17	Increases	Decreases	Balance, 30-Jun-18
Capital assets not being depreciated:				
Land	254,343	-	-	254,343
Total capital assets not being depreciated	<u>254,343</u>	<u>-</u>	<u>-</u>	<u>254,343</u>
Capital assets being depreciated:				
Distribution system	966,131	316,751	-	1,282,882
Equipment	27,048	-	-	27,048
Structures	108,891	-	-	108,891
Land Improvements	8,947	-	-	8,947
Total capital assets being depreciated	<u>1,111,017</u>	<u>316,751</u>	<u>-</u>	<u>1,427,768</u>
Total Accumulated Depreciation:	<u>(562,809)</u>	<u>(31,375)</u>	<u>-</u>	<u>(594,184)</u>
Total capital assets being depreciated, net	<u>548,208</u>	<u>285,376</u>	<u>-</u>	<u>833,584</u>
Total property, plant, and equipment, net	<u>802,551</u>	<u>285,376</u>	<u>-</u>	<u>1,087,927</u>

Depreciation expense for the years ending June 30, 2018 and 2017, is \$31,375 and \$36,798; respectively.

NOTE 6-RELATED PARTY TRANSACTIONS

During the years ended June 30, 2018 and 2017, the District sold water to Board members and vendors 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- SUBSEQUENT EVENTS

Management of the District has evaluated events and transactions subsequent to June 30, 2018, for potential recognition or disclosure in the financial statements. The District had no subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2018. Subsequent events have been evaluated through October 23, 2018, which is the date the financial statements were available to be issued.