

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA

IN AND FOR THE COUNTY OF YAVAPAI

DIVISION: 1

NORBERT G. WEDEPHL, Clerk of the Superior Court

HON. RICHARD ANDERSON, Judge

By: Susan Lynn Collins, Deputy Clerk

CASE NO.: 4772

DATE: August 2, 1991

TITLE:	:	COUNSEL:
	:	
	:	
GEORGE W. HANCE et al.,	:	
	:	
Plaintiff(s),	:	
	:	
vs.	:	
	:	
WALES ARNOLD et ux., et al.	:	
In the Matter of:	:	
THE VERDE DITCH COMPANY,	:	
	:	
Defendant(s).	:	

HEARING ON: Meeting at Request of Court re Audit and Organization for 1991 **REPORTER: David W. Lundy**

The meeting is called to order at 4:05, P.M., in the Division 1 courtroom by the Honorable Richard Anderson, Yavapai County Superior Court Judge. The following persons are present:

- Glen Everett, Commissioner (elected by shareholders 3/74)
- Howard "Doc" Ferguson, Commissioner (elected 12/87)
- John Reddell, Commissioner (Court appointed 1988)
- L. Richard Mabery, counsel for the Verde Ditch Company Commissioners
- Martie Cathcart, Secretary/Treasurer
- Stephen C. Huson, CPA
- Representative shareholders and members of the public

The Court makes statement that upon adjournment of the December 6, 1990, Annual Shareholders' meeting the Court had indicated a follow-up meeting was anticipated to be scheduled in February 1991 for the purpose of reviewing the audit and a report from the Commissioners ordered by the Court, as well as to announce the organization of the Ditch Company for 1991.

Re: Meeting set by Court to Review Audit and to
Announce Organization of the Ditch for 1991

August 2, 1991

Mr. Mabery makes statement that copies of the audit are available to shareholders; copies are made of the Commissioners' report (filed with the Court in December 1990) and a schedule of the work performed 1989/1990 and proposed work plan for 1990/1991, which are also available.

The Court makes further statement that on August 8, 1989, the Court approved new rules for the operation of the Ditch, which, although in effect for some two years, have not been fully implemented to date. To facilitated bringing the Ditch operations into compliance with the rules, IT IS ORDERED that the existing Commissioners shall serve until December 31, 1991.

To effect implementation of the Commissioners' staggered terms, the Court instructs the clerk to randomly draw--and pursuant to the result of drawing IT IS SO ORDERED appointing the existing Commissioners for the respective districts to thereafter serve--the terms to be served by the Commissioners for the respective districts commencing January 1, 1992:

District 1 (Howard "Doc" Ferguson), 3 years
District 2 (John Reddell), 2 years
District 3 (Glen Everett), 1 year

The Court makes statement that the rules provide for two additional Commissioners-at-large, and the Court will appoint such individuals to serve one-year terms. IT IS ORDERED and directed that interested persons shall submit their resumes and applications to the Ditch Company office, which shall be submitted to the Court by the Commissioners, together with any comments, after the October 1991 Annual Shareholders Meeting. The Court will thereafter appoint two at-large Commissioners.

The Court extends his thanks to the Commissioners and for their past and continued services and makes further statement that he is satisfied that the Ditch has been and continues to be properly run; the Court will not further participate in the Ditch concerns except as is necessitated by legal matters which may arise from time to time in this continuing lawsuit and as may be required by the rules.

Mr. Mabery makes statement that the audit performed by Mr. Huson reflects the financial affairs of the Ditch Company have been appropriately conducted to date; that Mr. Huson has made some recommendations regarding record keeping.

The Court invites questions, comments, and discussion from the floor, after which he recommends that if shareholders are not satisfied with the new rules which are now in full force and effect, they should seek modification/ amendment of those rules by such formal means as were utilized in promulgating the new rules, by working through the Commissioners and Mr. Mabery.

The meeting is adjourned at 5:30, P.M.

cc: L. Richard Mabery, Esq.; Glen Everett; John Reddell; Howard Ferguson;
Martie Cathcart

3 years

Doc Ferguson

Dist # 1

2 years

Redell

Dist # 2

1 year

Doverett

Dist # 3

Verde Ditch Company
P.O. Box 2345
10 First
Camp Verde, Arizona 86322
Phone 567-4212

December 18, 1990

The Honorable Richard Anderson
Master of the Verde Ditch
Yavapai County Courthouse
Prescott, Arizona 86301

Dear Judge Anderson:

We, the Board of Commissioners for the Verde Ditch Company have given our attention and thoughts to the possible reorganization of the Verde Ditch.

We feel that the management structure of this board is good and worked together in a positive fashion and has made many many improvements to our ditch. These improvements will be enjoyed by the shareholders for years in the future.

With the water adjudication still not settled, we all feel that it is very important to stay under the Superior Court of Arizona.

We would like to suggest, that with our Rules and Regulations calling for a five member board, and now that the board has been cut to three, the two vacant positions could be used as advisors. The two members would sit with the board, would not be paid positions, but would be used for public relations. The two positions would be elected by the shareholders and their terms would also be staggered.

Staggered terms for the commissioners position is a good suggestion, but the most important factor here is getting qualified people. We would like to suggest that any person interested in the position send a complete resume to the Master of the Ditch, then, after a complete back ground check, the names of only the qualified people would be placed on a ballot. At this time any other business that would require a vote could also be placed on the same ballot. The ballot would be sent to each shareholder and returned to the ditch office for counting. This would all be done through the mail. The counting would be done by the ditch secretary with the board

present. The results would be posted as well as advertised in the local papers.

The board is in full agreement that the time has come that a Zan Jero position is needed. . When a metering system is required three positions will need to be filled. Attached is a projected cost of such positions.

This board, for many years, has hired L. Richard Mabery, who is known as a water law expert. He has always kept us informed and well advised as to the water rights and adjudication process. Therefore, this board is very active in any action that would affect the Verde Ditch shareholders and their water rights.

Windy Point has and will probably continue to be a problem. Very little money, in the past several years, has been spent on the Windy Point pipe line, but has to be watched constantly. As long as Windy Point Hill moves and shifts the problem will not subside.

The diversion dam has always been a topic of discussion for people who do not understand or who have been misinformed. There are many Federal as well as State agencies which prohibit any type of permanent structure. If a permanent structure could be placed in the Verde River the cost alone would be in excess of one million dollars. This board is not sure what the examiners are stating under long term objectives, number 3. This board would not want to be involved in any flood control structure on the Verde River.

This board has always welcomed new ideas and suggestions, but the most important factor is usually forgotten, finances. Due to the length of this ditch, eighteen miles, and the acreage it services, it can't pay for itself.

Of recent date, this board had the opportunity to price some pipe that would be suitable in our ditch. The cost of the pipe alone was \$19.00 per foot. For one mile of pipe line it would cost \$ 100,320.00 just for the pipe. The estimated cost of one mile of completed pipe line would be in excess of \$200,000.00. If it were possible to cost share on such a project, the Verde Ditch Company could not pay it's share. This board has always tried to keep the expenses down in order to keep the irrigation affordable to the shareholders.

This board feels that it has a very good set of rules and regulations. If these rules and regulations were followed and enforced the problems surrounding the Verde Ditch Company would diminish.

Verde Ditch Company
Projected Costs of Possible Employment of Zan Jero(s)

	<u>Per Week</u>	<u>Per Month</u>	<u>Per Year</u>
\$7.00 per hour, 40 hours a week:			
<u>One Zan Jero</u>			
Wages	\$ 280.00	\$ 1,120.00	\$ 14,560.00
Fica Expense	21.42	85.68	1,113.84
State Unemployment	7.56	30.24	393.12
Federal Unemployment	2.24	8.96	116.48
Industrial Insurance	<u>12.35</u>	<u>49.39</u>	<u>642.20</u>
Total Costs	<u>\$ 323.57</u>	<u>\$ 1,294.27</u>	<u>\$ 16,825.64</u>

<u>Two Zan Jeros</u>			
Wages	\$ 560.00	\$ 2,240.00	\$ 29,120.00
Fica Expense	42.84	171.36	2,227.68
State Unemployment	15.12	60.48	786.24
Federal Unemployment	4.48	17.92	232.96
Industrial Insurance	<u>24.70</u>	<u>98.78</u>	<u>1,284.40</u>
Total Costs	<u>\$ 647.14</u>	<u>\$ 2,588.54</u>	<u>\$ 33,651.28</u>

<u>Three Zan Jeros</u>			
Wages	\$ 840.00	\$ 3,360.00	\$ 43,680.00
Fica Expense	64.26	257.04	3,341.52
State Unemployment	22.68	90.72	1,179.36
Federal Unemployment	6.72	26.88	349.44
Industrial Insurance	<u>37.05</u>	<u>148.17</u>	<u>1,926.60</u>
Total Costs	<u>\$ 970.71</u>	<u>\$ 3,882.81</u>	<u>\$ 50,476.92</u>

- 7.65 % Gross Wages - Fica Expense
- 2.70 % Gross Wages - State Unemployment (up to \$7,000.00)
- .008 % Gross Wages - Federal Unemployment (up to \$7,000.00)
- 4.41 % Gross Wages - Industrial Insurance

Verde Ditch Company
Work Schedule

WORK PERFORMED for the year 1989/1990:

General repair and maintenance.

PROPOSED WORK PLAN for the year 1990/1991:

- A. Repair and maintenance (dig and clean)
 - 1. From Lake Verde Club Estates to Roadrunner Ranch.
 - 2. From Copper Canyon to Ryal Canyon.
 - 3. From diversion dam to the north end of Finney Flat.
- B. New siphon at the lower end of Windy Point.
- C. Rip-rap ditch below pipe line at Windy Point.
- D. New trash rack at Ryal Canyon.
- E. Repair turn out gate at Lake Verde Club Estates.

Estimated cost of these projects are \$30,000.00.

VERDE DITCH COMPANY
FINANCIAL STATEMENTS

Year Ended September 30, 1990

Stephen C. Huson

CERTIFIED PUBLIC ACCOUNTANT

Sawmill Village
543 South Main Street
Post Office Box 1326
Cottonwood, AZ 86326

(602) 634-5562

Plaza 777
West Highway 89A
Post Office Box J
Sedona, AZ 86336

(602) 282-7903

ACCOUNTANT'S REPORT

Verde Ditch Commissioners
Verde Ditch Company
Camp Verde, Arizona

We have examined the financial statements of the various funds and account groups of the VERDE DITCH COMPANY for the year ended September 30, 1990. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as described in the following paragraph.

Because the Company did not have complete records of the historical costs of major ditch improvements prior to 1986, these accounts were excluded from the scope of our examination. Accordingly, we were unable to satisfy ourselves as to the valuation of major ditch improvements included in the General Fixed Assets Groups of Accounts of \$93,159 and the associated Investment in General Fixed Assets. The Company has kept its records and has prepared its financial statements for previous years on a modified accrual basis. Although appropriate adjustments have been made to the fund balance as of the beginning of the year, it was not practicable to determine what adjustments would be necessary in the financial statements of the preceding year to restate results of operations and changes in financial position in conformity with the accounting principles used in the current year.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Company had complete historical cost records of major ditch improvements, the financial statements referred to above present fairly the assets and liabilities of the various funds of the VERDE DITCH COMPANY at September 30, 1990, and the results of operations of the various funds and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.



June 27, 1991

VERDE DITCH COMPANY
COMBINED BALANCE SHEET - ALL FUNDS

September 30, 1990

	<u>General Fund</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
<u>A S S E T S</u>			
Cash in Bank	\$ 5,673	\$ -0-	\$ -0-
Accounts receivable, net of allowance for uncollectables of \$158	6,624	---	---
Pre-paid expenses	609	---	---
Accrued revenue	419	---	---
Fixed Assets (Note 2)			
Land	---	100	---
Furniture and equipment	---	1,362	---
Major Ditch Improvements	---	93,159	---
Amount to be provided for re- tirement of Long-Term Debt	---	---	45,200
TOTAL ASSETS AND OTHER DEBTS	<u>\$13,325</u>	<u>\$94,621</u>	<u>\$45,200</u>
 <u>L I A B I L I T I E S ,</u> <u>R E S E R V E A N D</u> <u>F U N D B A L A N C E</u>			
Accounts payable	\$ 5,080	\$ ---	\$ ---
Unearned assessment revenue	2,131	---	---
Accrued interest payable	135	---	---
Long-Term Debt (Note 3)	---	---	45,200
Fund Balance (Note 4)	5,979	---	---
Investment in general fixed assets	---	94,621	---
TOTAL LIABILITIES, RESERVE AND FUND BALANCE	<u>\$13,325</u>	<u>\$94,621</u>	<u>\$45,200</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VERDE DITCH COMPANY
 COMBINED ANALYSIS OF CHANGES IN FUND BALANCES
 AND INVESTMENT IN GENERAL FIXED ASSETS - ALL FUNDS

 For The Fiscal Year Ended September 30, 1990

	<u>General Fund</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
Balance October 1, 1989	\$(47,274)	\$ -0-	\$ -0-
Prior Period Adjustments and Reclassifications (Note 4)	<u>56,078</u>	<u>94,372</u>	<u>---</u>
Add:			
Excess of revenue over expenditures:			
Revenues	\$ 77,474	\$ ---	\$ ---
Expenditures	<u>80,299</u>	<u>---</u>	<u>---</u>
Excess (deficit)	<u>\$ (2,825)</u>	<u>\$ ---</u>	<u>\$ ---</u>
Capital Additions	<u>\$ ---</u>	<u>\$ 249</u>	<u>\$ ---</u>
Balance September 30, 1990	<u>\$ 5,979</u>	<u>\$94,621</u>	<u>\$ ---</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VERDE DITCH COMPANY
STATEMENT OF REVENUE AND GENERAL EXPENDITURES

For The Fiscal Year Ended September 30, 1990

REVENUES

Ditch assessments	\$72,510
Late fees, penalties and interest	1,843
Interest income	205
Sale of equipment	2,000
Settlement - Heitt	<u>916</u>
TOTAL REVENUE	<u>\$77,474</u>

EXPENDITURES

Repairs and maintenance - ditch	\$10,516
Repairs and maintenance - equipment	640
Supplies	923
Property taxes	1,107
Labor	20,386
Equipment rental	5,327
Office expense and postage	690
Vehicle expense	5,506
Insurance	2,032
Telephone	131
Professional fees	11,974
Advertising	15
Bank charges	256
Film development	22
Bad debts	158
Miscellaneous	90
Capital additions	249
Payments on Long-Term Debt including interest	16,401
Examining committee expenses	<u>3,876</u>
TOTAL EXPENDITURES	<u>\$80,299</u>
EXCESS OF EXPENDITURES OVER REVENUE	<u>\$(2,825)</u>

The accompanying Notes to Financial Statements are
an integral part of this statement.

VERDE DITCH COMPANY
STATEMENT OF CHANGES IN FINANCIAL POSITION
CASH BASIS

For The Fiscal Year Ended September 30, 1990

SOURCES OF CASH

From operations:	
Revenues	\$77,474
Add adjustments to convert to cash basis:	
Increase in accrued receivables	2,132
Increase in accounts payable	1,463
Increase in unearned revenue	<u>2,131</u>
	\$83,200
From other sources:	
Prior period adjustment - expense recognition (Note 4)	<u>420</u>
TOTAL CASH FROM ALL SOURCES	\$83,620

USES OF CASH

Expenditures	80,299
Increase in pre-paid expenses	<u>609</u>
TOTAL USES OF CASH	<u>\$80,908</u>
NET INCREASE IN CASH DURING PERIOD	\$ 2,712
CASH BALANCE - OCTOBER 1, 1989	<u>2,961</u>
CASH BALANCE - SEPTEMBER 30, 1990	<u><u>\$ 5,673</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VERDE DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS

September 30, 1990

(1) Summary of significant accounting policies

The summary of significant accounting policies of Verde Ditch Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Company, the accounts of the Company are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. The assets, liabilities and fund balance of the Company are reported in the operating fund, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of Company operations.

Nature of Business

The Company's primary activity is the supply of irrigation water to its members within their boundary.

Property, Equipment and Improvements

All fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. In accordance with generally accepted accounting principles for this type of entity, no provision for depreciation is made for general fixed assets.

VERDE DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS

September 30, 1990

Other Matters

During the year, the Company was involved in various legal activity. It is anticipated that many of these activities will continue into the current year and additional expenditures will be incurred. The Verde Ditch Company has a judgment from 1986 regarding the wilful destruction of a protective dike. The damages sustained to the ditch, punitive damages, attorney's fees and accruing interest now exceeds \$65,000. This matter had been appealed to the Arizona Court of Appeals.

(2) Fixed Assets

All long-term assets of the Company are general fixed assets. They are accounted for by placing them in a single, self-balancing group of accounts called the General Fixed Assets Group of Accounts. The acquisition of assets by the Company is accounted for as an expenditure in the fund in which the expenditure is made and also an increase in the asset account in the General Fixed Assets Group of Accounts. Complete records have not been maintained on the cost of major ditch improvements prior to 1986. However, records have been maintained subsequent to 1985.

(3) Long-Term Debt

Long-term liabilities expected to be financed from operational funds are accounted for in the General Long-Term Debt Account Group.

Long-term debt as of September 30, 1990, consisted of the following:

Note payable to Valley National Bank, payable semi-annually at \$3,750 plus interest at VNB prime plus 3%, not to exceed 21.5%	\$ 3,750
Note payable to the Small Business Administration, payable \$3,100 semi-annually, including interest at 8 1/4% per annum.	<u>41,450</u>
	<u>\$45,200</u>

VERDE DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS

September 30, 1990

Maturities of long-term debt are as follows:

<u>Year Ended September 30</u>	<u>Amount</u>
1991	\$ 6,588
1992	3,077
1993	3,336
1994	3,617
1995	3,921
Thereafter	<u>24,661</u>
	<u>\$45,200</u>

(4) Prior Period Adjustments and Reclassifications

A prior period insurance payment related to 1990 expenses has required that an adjustment to the opening fund balance of \$420 be made. An additional adjustment was necessary to recognize major ditch improvements from 1986 through 1990 and to establish the General Fixed Assets and General Long-Term Debt Account Groups.