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IN THE SUPERIOR COURT OF THE STATE OF ARIZONA
IN AND FOR THE COUNTY OF YAVAPAI

GEORGE W. HANCE, et al.,) No. P1300CV4772

Plaintiffs,)

vs.)

Division 1

WALES ARNOLD, et ex., et al.,)

Defendants.)

**NOTICE OF FILING AUDIT
RESULTS OF THE VERDE DITCH
COMPANY FINANCIAL
STATEMENTS YEAR ENDED
SEPTEMBER 30, 2015**

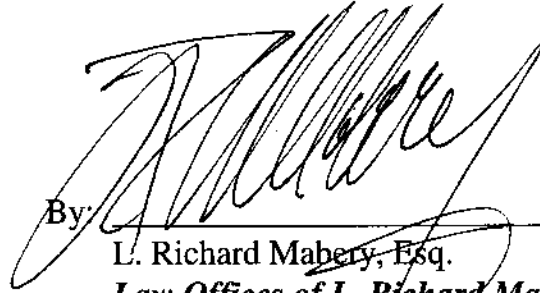
In the matter of the VERDE DITCH)
COMPANY)
_____)

NOTICE IS HEREBY GIVEN that the Verde Ditch Company, through counsel undersigned, files the Audit Results of the Verde Ditch Company Financial Statements Year Ended September 30, 2015.

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1 DATED this 19th day of October, 2017.

2 L. RICHARD MABERY, P.C.

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7 By: 

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VERDE DITCH COMPANY

FINANCIAL STATEMENTS

Year Ended September 30, 2015



Schutte &

Hilgendorf pllc - CPA'S

Solving Accounting, Audit & Tax Puzzles

VERDE DITCH COMPANY

FINANCIAL STATEMENTS

Year Ended September 30, 2015

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Solving Accounting, Audit & Tax Puzzles

INDEPENDENT AUDITORS' REPORT

To the Judge of Yavapai Superior Court
And Master of the Verde Ditch and Commissioners
Camp Verde, Arizona

We have audited the accompanying financial statements of Verde Ditch Company, which comprise the statement of assets and liabilities arising from cash transactions as of September 30, 2015, and the related statements of revenue collected and expenses paid and changes in fund balances for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Ditch's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

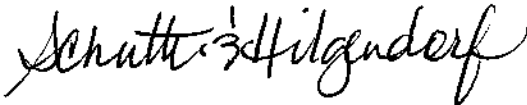
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of Verde Ditch Company as of September 30, 2015, and its revenue collected and expenses paid during the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Our opinion is not modified with respect to this matter.



Schutte & Hilgendorf, PLLC
Prescott, Arizona
November 9, 2016

VERDE DITCH COMPANY
STATEMENT OF ASSETS AND LIABILITIES - CASH BASIS
SEPTEMBER 30, 2015

ASSETS	General Fund	Special Assessments	Grant	Total
Cash and cash equivalents (Note 2)	\$ 60,753	\$ 5,430	\$ 74	\$ 66,257
Due from Grant Fund	74	-	-	74
Property and equipment, net (Note 3)	12,060	-	-	12,060
TOTAL ASSETS	<u>\$ 72,887</u>	<u>\$ 5,430</u>	<u>\$ 74</u>	<u>\$ 78,391</u>
LIABILITIES				
Payroll tax liabilities (Note 2)	\$ 1,300	\$ -	\$ -	\$ 1,300
Legal fees payable (Note 2)	-	43,203	-	43,203
Due to General Fund	-	-	74	74
TOTAL LIABILITIES	<u>1,300</u>	<u>43,203</u>	<u>74</u>	<u>44,577</u>
FUND BALANCES	<u>71,587</u>	<u>(37,773)</u>	<u>-</u>	<u>33,814</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 72,887</u>	<u>\$ 5,430</u>	<u>\$ 74</u>	<u>\$ 78,391</u>

See independent auditors' report and notes to financial statements

VERDE DITCH COMPANY
STATEMENT OF REVENUE COLLECTED AND EXPENSES PAID
AND CHANGES IN FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Special Assessments	Grant	Total
REVENUES				
Assessment revenue	\$ 160,291	\$ 36,968	\$ -	\$ 197,259
Grant income	-	-	71,400	71,400
Interest income	4	5	-	9
Total revenue	<u>160,295</u>	<u>36,973</u>	<u>71,400</u>	<u>268,668</u>
EXPENSES				
Administration and accounting fees	10,800	2,500	-	13,300
Auto expense	8,675	79	-	8,754
Bank fees	63	44	-	107
Depreciation expense	8,442	-	-	8,442
Diesel fuel	1,225	-	-	1,225
Ditch maintenance	30,935	-	-	30,935
Ditch flow monitoring	1,505	-	-	1,505
Equipment rental and maintenance	5,575	-	-	5,575
Grant administration and legal fees	-	-	4,000	4,000
Grant expenditures - ditch improvements	-	-	51,003	51,003
Homestead patents and mapping	-	13,037	-	13,037
Insurance	7,335	-	-	7,335
Legal fees	4,513	123,449	-	127,962
Office and supplies	2,322	-	-	2,322
Payroll taxes	4,834	-	-	4,834
Postage and shipping	281	3,758	-	4,039
Rent	3,864	-	-	3,864
Salaries and wages	54,097	-	-	54,097
Staff and board development	-	11,200	-	11,200
Telecommunications	1,360	-	-	1,360
Tools	913	-	-	913
Website	915	-	-	915
Utilities	1,277	-	-	1,277
Total expenses	<u>148,931</u>	<u>154,067</u>	<u>55,003</u>	<u>358,001</u>
EXCESS(DEFICIT) OF REVENUES OVER EXPENSES	11,364	(117,094)	16,397	(89,333)
FUND BALANCES AT BEGINNING OF PERIOD	147,503	79,321	-	226,824
Prior period adjustments (Note 7)	<u>(87,280)</u>	<u>-</u>	<u>(16,397)</u>	<u>(103,677)</u>
ENDING FUND BALANCES	<u>\$ 71,587</u>	<u>\$ (37,773)</u>	<u>\$ -</u>	<u>\$ 33,814</u>

See independent auditors' report and notes to financial statements

**VERDE DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1 – ORGANIZATION AND PURPOSE

Verde Ditch Company (“The Ditch”) functions as an unincorporated association of land owners whom receive Verde River water through a common canal. Each of the “shareholders” are successors in interest to the original homesteaders which built or claimed the right to receive water from the Verde Ditch. It is one of the oldest ditches in the Verde Valley and delivers water to approximately 1,400 acres along 18 miles of canal banks. Since 1908 the Verde Ditch has been under the continuing jurisdiction of the Territorial Court, and upon statehood, under the Yavapai County Superior Court under the title of *Hance v. Arnold*.

The Court exercises its jurisdiction through the appointment of commissioners responsible for the daily operation, maintenance, and repair of the Ditch, and collection of assessments and expenditure of funds. The Ditch operates for the benefit of the land owners, currently estimated at 600. The Organization’s primary sources of revenue and support come from assessments and grants.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Consequently, the Company has not recognized accounts receivable from landowners or accounts payable to vendors and their related effects on earnings in the accompanying financial statements, except where noted as a modification in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Ditch considers short term, highly liquid investments which are readily convertible to cash within ninety (90) days of purchase to be cash equivalents. The Ditch doesn’t have any investments or certificates of deposit at September 30, 2015.

Legal Fees Payable and Payroll Liabilities

Under the pure cash basis of accounting, accounts payable and accrued expenses are not recognized. However, the Ditch has modified the cash basis by accruing legal fees payable at September 30, 2015 due to the materiality of the amount to the financial statements as a whole. Payroll taxes payable have also been accrued due to the amounts being held in trust for the IRS and State taxing authorities. Both are short term in nature. All other accruable liabilities are considered immaterial to the financial statements at September 30, 2015.

**VERDE DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

The Ditch's policy is to capitalize all property and equipment to which it has title or other evidence of ownership including personal property at costs in excess of \$500. Real property along the Verde Ditch (approximately 18 miles and 1480 acres) is not recorded in the financial statements as it is not legally owned by the Ditch. The Ditch is responsible for maintenance of the ditch with access and modification rights to it. Property and equipment have been depreciated using the straight line method over the estimated useful life of the assets which is an acceptable modification to the cash basis of accounting.

General Assessments and Collections

Landowners are subject to annual assessments (\$105 per share) to provide funds for the Ditch's operating expenses, future capital acquisitions and Ditch repairs and replacements. Assessments receivable are not recorded on the financial statements due to the use of the cash basis of accounting, however, accounts are considered delinquent after the tenth day of the following month after assessment. Delinquent accounts bear interest at 10% per annum. A minimum delinquent penalty of ten dollars or ten percent of unpaid assessment amount, whichever is greater is assessed. The commissioners or the court has the right to waive penalties and interest for good and reasonable cause. New owners of the property are subject to all current and past due assessments on lands purchased or transferred.

In the case of foreclosures, outstanding fines and late fees are collectible if pursued legally. Excess assessments at year end are retained by the Ditch for use in the succeeding year.

The Ditch uses fund accounting to keep separate the General Fund for operating purposes and the Special Assessment Fund for research and memorialization of a process for determination of historical water users and uses. A third fund is used for grant funds received and expended.

Special Assessments

The Ditch assessed a special assessment of \$25 per share by order of the Court to be utilized in compiling records to support historical uses. The same collection procedures apply to special assessments as noted for general assessments. The special assessment was returned to its previously approved amount of \$50 per share in the subsequent year.

Interest Income

Interest income is allocated to the general and special assessment funds in proportion to the interest-bearing deposits of each fund.

**VERDE DITCH COMPANY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015**

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2015 consists of the following:

Machinery and equipment	7 years	
John Deere backhoe		\$ 35,553
Vermeer chipper		8,200
Weed sprayer & water pump		6,290
Rammer		2,736
Tractor/mower		<u>3,800</u>
Total machinery and equipment		56,579
Less accumulated depreciation		<u>(44,519)</u>
 Total		 <u>\$12,060</u>

Depreciation expense for the year ended September 30, 2015 is \$8,442.

NOTE 4 – GRANTS

The Ditch was awarded a grant of \$71,400, effective August 21, 2014, from the United States Department of Agriculture titled: "RAC Funded – Infrastructure Improvements for Water Conveyance Efficiency". The grant was a reimbursement type grant, expiring September 30, 2015. The purpose of the project was to "upgrade the infrastructure of the Verde Ditch to improve flows and water quality in the Verde River". All submissions under the grant were submitted by September 30, 2016 and the Ditch complied with all reporting requirements under the grant.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Ditch used the services of a heavy equipment company that is owned by one of the commissioners. Approximately \$6,400 (2% of total expenses) was paid to the vendor during the year ended September 30, 2015. These services are discounted for The Ditch.

NOTE 6 – CONCENTRATIONS

The Ditch uses one attorney for all meetings, hearings, responses, and collection actions. Expenditures to this vendor are approximately 36% of total expenses for the year ended September 30, 2015 (3% of General Fund expenses; 33% of Special Assessment expenses).

VERDE DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 – PRIOR PERIOD ADJUSTMENTS

Adjustments were made to correct errors found in the financial statements. The following schedule describes the nature of each correction and the effect on beginning net assets at October 1, 2014:

	<u>Incr(decr)</u> <u>in Beginning</u> <u>Net Assets</u>
Remove obsolete assets previously capitalized	\$ (51,205)
Record accumulated depreciation	(36,077)
Record inter-fund receivable	73
Remove duplicate cash account	(71)
Move grant expenditure to period when cash expended	<u>(16,397)</u>
	<u><u>\$ (103,677)</u></u>

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 9, 2016, the date which the financial statements were available to be issued. Special assessments were returned to their previously approved amount of \$50 per share in the subsequent fiscal year ending September 30, 2016.