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MEMORANDUM RECEIVED

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TO: Docket Control
Arizona Corporation Commission

2007 DEC 19 P 3:38

FROM: Ernest G. Johnson *EJ*
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

Date: December 19, 2007

RE: DIAMOND VALLEY WATER USERS CORPORATION'S APPLICATION
FOR TRANSFER OF ASSETS TO THE DIAMOND VALLEY WATER
DISTRICT (DOCKET NO. W-03263A-07-0244)

On April 13, 2007, the above-captioned docket was opened in the matter of Diamond Valley Water Users Corporation's ("DVWUC" or "Company") transfer of its assets to the Diamond Valley Water District ("DVWD" or "District"). A hearing on this matter was held on November 16, 2007.

During the hearing, Administrative Law Judge Nodes directed Staff to docket a late-filed exhibit on Staff's post-hearing evaluation of the assets and liabilities of the Company.

Evaluation of Company Assets and Liabilities

Staff visited the Company's office on November 30, 2007, and met with the Company's interim manager Don Bohlier and employee Karen Alexander. Mr. Bohlier and Mrs. Alexander discussed with, and demonstrated to Staff, the accounting procedures and policies in place to properly and accurately record various accounting transactions. Staff examined the Company's records, both actual physical records and the electronic data recorded and maintained on the computer. Mr. Bohlier maintains the Company's physical records in several filing cabinets inside his home.

During Staff's evaluation of the Company's electronic and physical records and the Company's policies and procedures, Staff did not find any unrecorded assets or liabilities that had not been previously reported in Darlene Wood's audit of the 2006 Company financials. The only change to the Wood audit that Staff notes, would be an update to the financial results for the 2007 year-to-date.

Although Staff did not find any unrecorded assets or liabilities during its evaluation, Staff did receive clarification on several items that the District had expressed some concerns about during the November 16, 2007 hearing. Those items follow.

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Computer and Software

There was some ambiguity as to who actually owns the computer and the related software that interim manager Don Bohlier utilizes to record the Company's financials. Based on invoices and reimbursements Staff observed during its evaluation, the computer and its related software was originally purchased by Don Bohlier for his management company using his company funds in December 2005 and January 2006. Mr. Bohlier processed a reimbursement for his management company from Diamond Valley on February 28, 2006. As the District began the process to acquire the assets of the Company, Mr. Bohlier believed that only his management company was licensed to operate the RVS software used to record Company transactions so he sought to pay Diamond Valley back for the reimbursement he had received in February 2006. Mr. Bohlier's management company paid back the reimbursement on November 16, 2007.

This provides explanation as to why Mr. Bohlier first stated that the computer and its software belonged to Diamond Valley and later stated that it belonged to his management company. Mr. Bohlier was of the belief that only his management company can be licensed to operate the software. However, Staff spoke with RVS customer service and was informed that if Mr. Bohlier provides written consent to RVS to unlicense himself and license the District that RVS could accommodate the request.

Company Truck

Another item that was not clear at the hearing was the status of a Company truck that was previously listed as part of the assets of the Company. Based on Staff's evaluation, this truck is no longer part of the Company's assets. There currently is no truck being operated by Mr. Bohlier in his service as interim manager. Mr. Bohlier stated to Staff that when he took over as interim manager he never received a Company truck. Staff was unable to ascertain as to when the truck was removed from the Company and by whom.

Customer Deposits

Although the customer deposits account was not a principal issue for the District at the hearing, Staff would like to convey that there is a possibility that the current amount recorded by Mr. Bohlier for customer deposits might not be totally accurate. Mr. Bohlier expressed his concern that he has recorded customer deposits as he has received them as interim manager; however he was not confident that all customer deposits received before his service as interim manager have been recorded. Although the difference might not be significant, Mr. Bohlier states that there might be some slight difference for this account.

EGJ: DRE:kdh

Originator: Darak R. Eaddy