



**Pine-Strawberry Water Improvement District**  
**Financial Statements**  
**for the Fiscal Year Ended June 30, 2017**  
**with Report of Certified Public Accountants**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
<b>Financial Statements:</b>	
Statement of Net Position.....	10
Statement of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows .....	13
Notes to the Basic Financial Statements.....	14
<b>Required Supplementary Information:</b>	
<b>Other Communications from Independent Auditors:</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters.....	27
Findings and Recommendations.....	29

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Pine-Strawberry Water Improvement District  
Pine, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pine-Strawberry Water Improvement District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pine-Strawberry Water Improvement District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



HintonBurdick Arizona, PLLC  
Flagstaff, Arizona  
October 23, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**(Required Supplementary Information)**

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

As management of the Pine-Strawberry Water Improvement District (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 year ended June 30, 2017.

**FINANCIAL HIGHLIGHTS**

- The District's total net position increased \$667,853, which represents a 83 percent increase from the prior fiscal year as a result of increased taxes, reduction of interest expense, and receipt of insurance claims.
- Operating revenues accounted for \$2.7 million in revenue, an increase of 9 percent from the prior year.
- The District had approximately \$1.9 million in operating expenses, a decrease of 0.67 percent from the prior fiscal year.
- The District had \$242,338 in non-operating expenses, a decrease of \$236,716 due to decreased interest and finance payments on the note payable refinanced in the fiscal year ending June 30, 2016.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) proprietary financial statements, and 2) notes to the financial statements.

The statement of net position presents information on all the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows outlines the cash inflows and outflows related to the operation of the District for the year ended June 30, 2017.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

**OVERVIEW OF FINANCIAL STATEMENTS**

As discussed more thoroughly in Note 1 to the financial statements, the operations of the District are accounted for in a single proprietary fund. As a result, only the financial statements required for a proprietary fund are presented.

**Notes to the 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 financial statements can be found immediately following the basic financial statements.

**FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets and deferred outflows by \$133,018 at the current fiscal year end. At the fiscal year end the District reported negative total net position. In addition, portions of the District's net position are restricted for debt service repayment and capital projects.

The following table presents a summary of the District's net position for the fiscal years ended June 30, 2016 and June 30, 2017.

	<i>(As restated)</i>	
	<b>Balance as of</b>	<b>Balance as of</b>
	<b>June 30, 2016</b>	<b>June 30, 2017</b>
	<u>                    </u>	<u>                    </u>
Assets:		
Current assets	\$ 1,263,280	\$ 1,561,446
Capital assets, net	3,414,793	3,676,750
Total assets	<u>4,678,073</u>	<u>5,238,196</u>
Deferred outflows of resources	<u>1,037,479</u>	<u>1,006,040</u>
Total assets and deferred outflows of resources	<u>5,715,552</u>	<u>6,244,236</u>
Liabilities:		
Current liabilities	439,456	517,877
Long-term liabilities	6,076,967	5,859,377
Total liabilities	<u>6,516,423</u>	<u>6,377,254</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>6,516,423</u>	<u>6,377,254</u>
Net position:		
Net investment in capital assets	(2,871,587)	(2,400,217)
Restricted	264,057	278,057
Unrestricted	<u>1,806,659</u>	<u>1,989,142</u>
Total net position	<u>\$ (800,871)</u>	<u>\$ (133,018)</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

**FINANCIAL ANALYSIS**

The District's financial position is the product of several financial transactions including the net result of activities, the acquisition of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following is a significant current year transaction that had an impact on the Statement of Net Position.

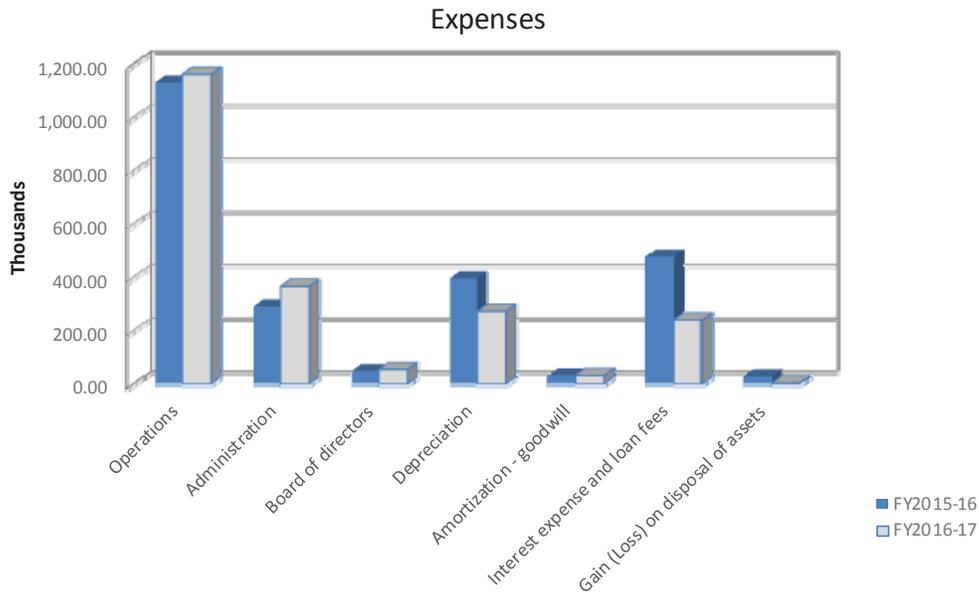
- The decrease of \$217,590 in long-term liabilities due to annual debt service.

**Changes in net position.** The District's total revenues for the current fiscal year were \$2.5 million. The total expenses were \$2.4 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2017.

	<i>(As restated)</i>	
	<b>Fiscal Year Ended June 30, 2016</b>	<b>Fiscal Year Ended June 30, 2017</b>
<b>Revenues:</b>		
Operating revenues:		
Other local	\$ 58,132	\$ 21,856
Property taxes	472,383	695,680
Water Fee	1,998,485	1,999,068
Nonoperating revenues:		
Investment Income	7,422	1,114
Receipts from insurance claims	-	91,352
<b>Total revenues</b>	<u>2,536,422</u>	<u>2,809,070</u>
<b>Expenses:</b>		
Operating expenses:		
Operations	1,127,814	1,159,497
Administration	292,247	364,366
Board of directors	49,242	54,857
Depreciation	396,008	273,818
Amortization - goodwill	31,438	31,439
Nonoperating expenses:		
Interest expense and loan fees	479,054	240,217
Gain (Loss) on disposal of assets	28,945	2,121
<b>Total expenses</b>	<u>2,404,748</u>	<u>2,126,315</u>
<b>Change in net position</b>	131,674	682,755
<b>Net position, beginning</b>	(218,436)	(800,871)
<b>Net effect of prior period adjustments</b>	(714,109)	(14,902)
<b>Net position, beginning restated</b>	<u>(932,545)</u>	<u>(815,773)</u>
<b>Net position, ending</b>	<u>\$ (800,871)</u>	<u>\$ (133,018)</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

**FINANCIAL ANALYSIS**



The following are significant current year transactions that had an impact on the change in net position.

- The increase of \$31,683 in operations expense due to normal fluctuations in the costs of operations.
- The increase of \$72,119 in administration expense due primarily due to changes in the staffing arrangement of the District.
- The decrease of \$238,837 in interest expense and loan fees due to non-reoccurring financing costs in the prior fiscal year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** At year end, the District had invested \$5.9 million in capital assets, including wells, distribution piping, fire hydrants, vehicles, computers, and other equipment. This amount represents a net increase of \$533,609, prior to depreciation, from the prior fiscal year, primarily due to completion of distribution piping and valve installation. Total depreciation expense for the current fiscal year was \$275,292.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2017**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2016 and June 30, 2017.

	<i>(As restated)</i>	
	<b>Balance as of</b>	<b>Balance as of</b>
	<b>June 30, 2016</b>	<b>June 30, 2017</b>
Capital assets - non-depreciable	\$ 201,967	\$ 314,827
Capital assets - depreciable, net	3,239,213	3,361,923
<b>Total</b>	<b>\$ 3,441,180</b>	<b>\$ 3,676,750</b>

Additional information on the District's capital assets can be found in Note 6.

**Debt Administration.** At year end, the District had \$6.1 million in long-term debt outstanding. This represents a net decrease of \$209,411 due primarily to annual debt service.

Additional information on the District's long-term debt can be found in Notes 8 and 9.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Many factors were considered by the District's administration during the process of developing the fiscal year 2016-17 budget. Among them:

- Fiscal year 2016-17 budget balance carry forward (estimated \$250,000).
- Capital projects/Repairs (estimated \$789,475).

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Business and Finance Department, Pine-Strawberry Water Improvement District, P.O. Box 134, Pine, AZ 85544-0134.

*Basic Financial Statements*

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position**  
**June 30, 2017**

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**Assets**

Current assets:

Cash and investments	\$ 689,094
Restricted cash and investments	278,057
Property taxes receivable	12,747
Accounts receivable, net of allowance	214,614
Customer deposits	182,856
Prepaid items	96,421
Inventory	87,657
Total current assets	<u>1,561,446</u>

Noncurrent assets:

Capital assets, non-depreciable	314,827
Capital assets, depreciable (net)	<u>3,361,923</u>
Total noncurrent assets	<u>3,676,750</u>
Total assets	<u>5,238,196</u>

**Deferred outflows of resources**

Goodwill - net of amortization	<u>1,006,040</u>
Total deferred outflows	<u>1,006,040</u>
Total assets and deferred outflows	<u>\$ 6,244,236</u>

The accompanying notes are an integral part of the financial statements.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Statement of Net Position - Continued**  
**June 30, 2017**

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**Liabilities**

Current liabilities:

Accounts payable	\$ 57,376
Payroll liabilities	914
Deposits held for others	182,856
Interest payable	59,141
Current portion of notes payable	<u>217,590</u>
Total current liabilities	<u>517,877</u>

Noncurrent liabilities:

Non-current portion of long-term obligations	<u>5,859,377</u>
Total noncurrent liabilities	<u>5,859,377</u>
Total liabilities	<u>6,377,254</u>

**Net Position**

Net investment in capital assets	(2,400,217)
Restricted for:	
Debt service	250,000
Capital outlay	28,057
Unrestricted	<u>1,989,142</u>
Total net position	<u>(133,018)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 6,244,236</u>

The accompanying notes are an integral part of the financial statements.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2017**

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**Operating revenues**

Other local	\$	21,856
Property taxes		695,680
Water fees		1,999,068
		2,716,604

**Operating expenses**

Operations		1,159,497
Administration		364,366
Board of Directors		54,857
Depreciation & amortization		305,257
		1,883,977
Operating income / (loss)		832,627

**Non-operating income (expenses)**

Investment income		1,114
Receipts from insurance claims		91,352
Interest expense and loan fees		(240,217)
Gain / (loss) on disposal of assets		(2,121)
		(149,872)
Changes in net position		682,755
Total net position - beginning of year		(800,871)
Prior period adjustment		(14,902)
Total net position - end of year	\$	(133,018)

The accompanying notes are an integral part of the financial statements.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2017**

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<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 2,171,358
Cash received from property taxes	695,514
Cash paid to suppliers for goods and services	(1,524,104)
Cash paid to employees	<u>(102,331)</u>
Cash flows from operating activities	<u>1,240,437</u>
<b>Cash flows from capital and related financing activities:</b>	
Principal paid on long-term debt	(209,411)
Interest paid	(242,171)
Cash received from overpayment of debt service	112,841
Purchase of capital assets	(667,685)
Proceeds from the sale of capital assets	<u>4,000</u>
Cash flows from capital and related financing activities	<u>(1,002,426)</u>
<b>Cash flows from non-capital financing activities:</b>	
Proceeds from insurance payment	<u>91,352</u>
Cash flows from noncapital financing activities	<u>91,352</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>1,114</u>
Cash flows from investing activities	<u>1,114</u>
Net change in cash and cash equivalents, including restricted cash	330,477
Cash and cash equivalents, beginning of year including restricted cash	<u>819,530</u>
<b>Cash and cash equivalents, end of year including restricted cash</b>	<u><u>\$ 1,150,007</u></u>

The accompanying notes are an integral part of the financial statements.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Statement of Cash Flows - Continued**  
**For the Years Ended June 30, 2017**

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**Reconciliation of operating income (loss) to net cash  
flows from operating activities:**

Operating income / (loss)	\$ 832,627
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:	
Depreciation	273,818
Amortization	31,439
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	134,239
(Increase)/decrease in property taxes receivable	(166)
(Increase)/decrease in inventories	(42,172)
(Increase)/decrease in prepaid expenses	(59,590)
Increase/(decrease) in accounts payable	37,541
Increase/(decrease) in accrued liabilities	16,506
Increase/(decrease) in deposits held for others	16,195
	<hr/>
Net cash flows from operating activities	<u><u>\$ 1,240,437</u></u>

The accompanying notes are an integral part of the financial statements.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies**

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The financial statements of the Pine-Strawberry Water District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The operations of the District are presented in the accompanying financial statements as a single proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2017, the District implemented the provisions of GASB Statement No. 77, *Tax abatement Disclosures*. This Statement addresses financial reporting standards for tax abatement agreements entered into by state and local governments. There are no tax abatement agreements applicable to the District for the year ended June 30, 2017.

The more significant of the District's accounting policies are described below.

**Reporting Entity**

Management of the District is independent of other state or local governments. The County Treasurer collects taxes for the District, but exercises no control over its expenditures/ expenses.

The Board of Directors consists of seven members elected by the public. Under existing statutes, the Board of Directors' duties and powers include, but are not limited to, the acquisition, maintenance and disposition of District property, charges for water and related services.

The Board also has broad financial responsibilities, including the approval of the annual budget, and the establishment of a system of accounting and budgetary controls.

The financial reporting entity consists of a primary government. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. 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 or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected Board of Directors is financially accountable. The District's major operations include construction and maintenance of District facilities, and charges for water and related services.

**Basis of presentation – fund financial statements**

The fund financial statements provide information about the government's funds. The District has only one fund which is the water fund. The water fund is a proprietary fund and all of the financial activities of the District are reported within this fund.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are water fees and property taxes. Operating expenses include the cost of goods and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**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. Cash and cash equivalents at year end were cash in bank, and cash and investments held by the County Treasurer.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

**Accounts Receivable**

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is included in nonoperating revenues in the proprietary financial statements.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Property Tax Calculator**

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

**Inventories**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the proprietary financial statements.

**Capital Assets**

Capital assets, which include infrastructure; land and improvements; buildings and improvements; vehicles, furniture, and equipment; and construction in progress, are reported in the proprietary financial statements.

On September 30, 2009 the District acquired a water utility company. The District valued the assets using the Reconstructed Cost New Less Depreciation (RCNLD) method.

Capital assets are defined by the District as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than two years. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Depreciation**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	5 – 50 years
Leasehold improvements	3 – 5 years
Buildings and improvements	3 – 15 years
Vehicles, furniture and equipment	5 – 10 years

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this section, goodwill resulting from the 2009 water utility company purchase.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in the category.

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Note premiums and discounts, are amortized over the life of the notes using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**Net Position**

Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position are classified in the following three components.

*Net investment in capital assets:* This component of the 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 net position, net of related debt. Rather, that portion of the debt is included in the same net asset component of the unspent proceeds.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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*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.

*Unrestricted net position:* This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

**Net Position Flow Assumption**

The District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

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**Note 2. Stewardship, Compliance, and Accountability**

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**Net Position** – At year end, the District reported a net position deficit of \$133,018, an increase in net position of \$667,853 from the prior year ending net position deficit of \$800,871. The deficit arose primarily due to unfunded depreciation expense and amortization expense. Continued attempts to reduce costs and increase revenues in future fiscal years are expected to eliminate the deficit.

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**Note 3. Cash and Investments**

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**Deposits**

*Custodial Credit Risk – Deposits.*

Custodial credit risk is the risk that in the event of bank failure the District’s deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the District’s deposits was \$1,098,035 and the bank balance was \$1,211,705. At year end, \$763,077 of the District’s deposits were covered by collateral held by the pledging financial institution’s trust department or agent but not in the District’s name. Additionally, the District had \$600 cash on hand at year end.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 3. Cash and Investments, Continued**

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*Fair Value Measurements.*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices in active markets for identical assets

Level 2 inputs are significant other observable inputs

Level 3 inputs are significant unobservable inputs

The County Treasurer's pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The fair value of each participant's position in the County Treasurer investment pool approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

At year end, the District's investments consisted of the following:

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer's investment pool	0.88 years	\$ 51,372
Total		<u>\$ 51,372</u>

*Interest Rate Risk*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk*

The District has no investment policy that would further limit its investment choices. As of year end, the District's investment in the County Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

*Custodial Credit Risk - Investments*

The District's investment in the County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

**Note 4. Receivables**

Accounts receivables are net of an allowance for doubtful accounts of \$11,086 leaving a net accounts receivable balance of \$214,614 at June 30, 2017. The District's receivables primarily consist of amounts due from individuals and businesses in the communities of Pine, Arizona and Strawberry, Arizona. Amounts are not subject to liens unless accounts are delinquent.

**Note 5. Capital Assets**

A summary of capital asset activity for the current fiscal year follows:

	<b>June 30, 2016 (as restated)</b>	<b>Additions</b>	<b>Disposals</b>	<b>June 30, 2017</b>
Capital assets not being depreciated:				
Land	\$ 201,967	\$ -	\$ -	\$ 201,967
Construction in progress	-	334,280	(221,420)	112,860
Total capital assets not being depreciated	<u>201,967</u>	<u>334,280</u>	<u>(221,420)</u>	<u>314,827</u>
Capital assets being depreciated:				
Infrastructure	4,901,159	373,644	(4,754)	5,270,049
Buildings and improvements	70,385	-	-	70,385
Leasehold Improvements	19,555	-	-	19,555
Vehicles, furniture and equipment	231,273	29,112	(20,505)	239,880
Total capital assets being depreciated	<u>5,222,372</u>	<u>402,756</u>	<u>(25,259)</u>	<u>5,599,869</u>
Less: accumulated depreciation for:				
Infrastructure	(1,815,578)	(259,102)	-	(2,074,680)
Buildings and improvements	(56,954)	(1,622)	-	(58,576)
Leasehold Improvements	(19,555)	-	-	(19,555)
Vehicles, furniture and equipment	(91,072)	(14,568)	20,505	(85,135)
Total accumulated depreciation	<u>(1,983,159)</u>	<u>(275,292)</u>	<u>20,505</u>	<u>(2,237,946)</u>
Total capital assets being depreciated, net	<u>3,239,213</u>	<u>127,464</u>	<u>(4,754)</u>	<u>3,361,923</u>
Total capital assets, net of accumulated depreciation	<u>\$ 3,441,180</u>	<u>\$ 461,744</u>	<u>\$ (226,174)</u>	<u>\$ 3,676,750</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

**Note 5. Capital Assets, Continued**

Depreciation expense was charged to expense functions as follows:

Administration	\$ 3,641
Operations	<u>270,177</u>
Total depreciation expense	<u>\$ 273,818</u>

As of June 30, 2017, the District had the following capital projects in process:

<u>Project:</u>	<u>Balance as of June 30, 2017</u>
StrawHollow 3	\$ 1,860
Mag-Ralls	8,754
Circle Drive	22,228
Str View 1	15,336
Milk Ranch Well	9,329
Chlorine Project	55,353
	<u>\$ 112,860</u>

The District has budgeted \$119,944 to complete these projects in the fiscal year ending June 30, 2018. The projects are being funded with water fees.

**Note 6. Operating Leases**

The District has a non-cancelable operating lease for the use of office facilities. The lease generally contains a renewal option and requires the District to pay for certain executory costs such as taxes, maintenance, and insurance. Rental expense for the lease consisted of \$14,400 for the year ended June 30, 2017. Future minimum lease payments on the operating lease for the next five years are:

<u>Year Ending June 30,</u>	<u>Minimum Lease Payments</u>
2018	\$ 14,400
2019	14,400
2020	14,400
2021	14,400
2022	14,400

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

**Note 7. Long Term Liabilities, Continued**

Long-term liability activity for the current fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 6,286,378	\$ -	\$ 209,411	\$ 6,076,967	\$ 217,590
Governmental activity long-term liabilities	<u>\$ 6,286,378</u>	<u>\$ -</u>	<u>\$ 209,411</u>	<u>\$ 6,076,967</u>	<u>\$ 217,590</u>

Annual debt service requirements to maturity on notes payable at year end are summarized as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 217,590	\$ 230,847	\$ 448,437
2019	226,089	222,348	448,437
2020	234,921	213,517	448,438
2021	244,096	204,341	448,437
2022	253,629	194,807	448,436
2023-2026	4,900,642	562,676	5,463,318
Total	<u>\$ 6,076,967</u>	<u>\$ 1,628,536</u>	<u>\$ 7,705,503</u>

The District entered into a secured loan agreement in the aggregate sum of \$6,444,398 to refinance the existing note payable. This is a 10-year refinance with an average interest rate of 3.85 percent due in quarterly amortized payments through June 30, 2026.

**Note 8. 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; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including property and liability, workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2017**

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**Note 9 . Prior Period Adjustment**

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The District recorded the following prior period adjustments for the year ended June 30, 2017:

After a thorough review of the District's capital assets, management concluded that several capital assets transactions were improperly recorded in prior fiscal years. In addition, several items disposed of in prior years were not properly removed from the District's records. Finally, some depreciation adjustments in prior years were coded directly against the capital asset account balances rather than to accumulated depreciation. A prior period adjustment was recorded in the current year to correct the issues noted above, which resulted in an increase in capital assets and accumulated depreciation as well as an increase in net position of \$22,359.

The District erroneously recorded some repair and maintenance costs as construction in progress in the prior fiscal year. Since the items did not meet the criteria for capitalization, a prior period adjustment was recorded to reduce construction in progress and beginning net position by \$150,000.

In prior years, two capital asset were erroneously assigned an estimated useful life of 10 years. The estimated useful life of these assets should have been 30 years instead. Thus, a prior period adjustment was recorded to decrease accumulated depreciation and increase net position by \$134,077.

In the prior fiscal year, interest payable was understated. Thus, a prior period adjustment was recorded to decrease beginning net position by \$21,338.

The net effect of the prior period adjustments is to decrease beginning net position by \$14,902.

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**Note 10. Subsequent Events**

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The Arizona Auditor General's office has been investigating allegations of theft and misuse of public monies that allegedly took place within the District's operations between October 2009 and April 2016. In October 2017, the Auditor General released their report indicating that \$524,686 was misappropriated from the District during the time period indicated. In the year ended June 30, 2017 the District identified and received insurance proceeds of \$89,601 for some of the noted activity. The District is continuing to work with the insurance company, management service company, and law enforcement to recover the missing funds where possible.

**Other Communications from Independent Auditors**

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**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Pine-Strawberry Water Improvement District  
Pine, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Pine-Strawberry Water Improvement District as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 23, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal controls, described in the accompanying letter of findings and recommendations that we consider to be a significant deficiency:

2017-001 Segregation of Duties

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standard*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick Arizona, PLLC  
Flagstaff, Arizona  
October 23, 2017

## Findings and Recommendations For the Fiscal Year Ended June 30, 2017

Board of Directors  
Pine-Strawberry Water Improvement District  
Pine, Arizona

Ladies and Gentlemen:

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. In planning and performing our audit of the financial statements of the Pine-Strawberry Water Improvement District (the District) for the year ended June 30, 2017, we found a few matters that, if implemented, would strengthen the District's accounting system and control over its assets. These items are discussed below for your consideration.

### INTERNAL CONTROL OVER FINANCIAL REPORTING:

#### Significant Deficiencies:

##### 2017-001 Segregation of Duties

*Criteria:* Proper segregation of duties provides important safeguards and controls to ensure the proper recording, deposit and disposition of the District's funds. For a complete and proper segregation of duties within the accounting function, no one person should have duties in more than one of the following areas: custody of assets, recording functions and authorization duties.

*Condition:* The same individual has the ability to enter and approve accounting adjustments (recording function and authorization duties).

*Cause:* The size of the District's administrative staff prohibits the complete segregation of duties within its accounting functions.

*Effect:* Inadequate segregation of duties creates the potential for fraud, theft, or errors in financial reporting to occur.

*Recommendation:* We recognize the efforts the District has taken to improve its internal controls and realize the size of the District's administration staff may make a complete and proper segregation of duties within accounting functions difficult. To the extent possible, the District should seek to adequately segregate duties between personnel. In instances where a complete segregation of duties is not possible, the District should design and implement mitigating controls such as regular reviews of accounting adjustments by the Board.

*Response:* The District now has a full-time accountant on staff. The accounting person has the authority to enter all entries into the accounting system including the recording of journal entries necessary to complete the monthly accounting. However, all journal entries are reviewed in detail by the Board Treasurer each month and documentation of the review is signed by the Treasurer. The District considers this review the authorization portion of the entries for that month.

The accounting system reports are reviewed by the District accountant prior to preparing board reports for the Treasurer. In addition to the above review, the District's monthly profit and loss statement, balance sheet and general ledger are reviewed by the Treasurer. As part of the Treasurer's monthly review of all the accounting reports, any items that need corrections or changes are discussed with the accountant and approved by the Treasurer once made.

The QuickBooks reports are used to prepare financial reports that are posted to the District's website in the report named Treasurer's Report. All reports contained in the Treasurer's Report are prepared by the Treasurer based on reports from the accounting system. In addition to the prepared reports, the QuickBooks supporting reports are included.

The District is in the process of developing Accounting Procedures for all the administrative staff including the accountant. The Accounting Procedures will be available at the District Office in Pine, AZ.

**COMPLIANCE AND OTHER MATTERS:**

**Compliance:**

None noted.

**Other Matters:**

None noted.

The District's written responses to the findings identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This letter is intended solely for the use of management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the District during this year's audit. We would like to express our thanks to each of you who assisted us during the audit. We commend the District and its management in its efforts to provide accurate accounting data. We invite you to ask questions of us concerning the above comments and also throughout the year as you feel necessary. We look forward to a continued, pleasant, professional relationship.

A handwritten signature in cursive script that reads "Hinton Burdick Arizona PLLC".

HintonBurdick Arizona, PLLC  
Flagstaff, Arizona  
October 23, 2017