

Pine-Strawberry Water Improvement District
Financial Statements
for the Fiscal Year Ended June 30, 2024
with Report of Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Pine-Strawberry Water Improvement District, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 September 23, 2024, 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 solely 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 effectiveness of 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, PLLC

Mesa, Arizona
September 23, 2024



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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, 2024**

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, 2024.

FINANCIAL HIGHLIGHTS

- The District's total net position increased \$982,598. This represents a 17.05 percent increase from the prior fiscal year ending net position due to revenues in excess of expenses of \$982,598.
- Operating revenues for water fees accounted for \$2.86 million in revenue, an increase of 12.69 percent from the prior year.
- The District had approximately \$2.73 million in operating expenses, an increase of 14.15 percent from the prior fiscal year.
- The District had (\$132,544) in net non-operating revenue and expenses, a decrease of \$33,050 due to a loss on disposal of assets.

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, 2024.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2024**

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, assets and deferred outflows of resources exceeded liabilities by \$6,747,034 at the current fiscal year end. At the fiscal year end the District reported an increase in total net position. In addition, portions of the District's net position are restricted for debt service repayment.

The following table presents a summary of the District's net position for the fiscal years ended June 30, 2023 and June 30, 2024.

	Balance as of June 30, 2023	Balance as of June 30, 2024
Assets:		
Current assets	\$ 4,745,594	\$ 6,931,488
Capital assets, net	13,460,795	20,810,371
Total assets	<u>18,206,389</u>	<u>27,741,859</u>
Deferred outflows of resources	<u>817,406</u>	<u>785,967</u>
Total assets and deferred outflows of resources	<u>19,023,795</u>	<u>28,527,826</u>
Liabilities:		
Current liabilities	2,022,988	3,477,893
Long-term liabilities	11,236,371	18,302,899
Total liabilities	<u>13,259,359</u>	<u>21,780,792</u>
Net position:		
Net investment in capital assets	1,842,183	667,446
Restricted	871,049	895,227
Unrestricted	<u>3,051,204</u>	<u>5,184,361</u>
Total net position	<u>\$ 5,764,436</u>	<u>\$ 6,747,034</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2024**

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.

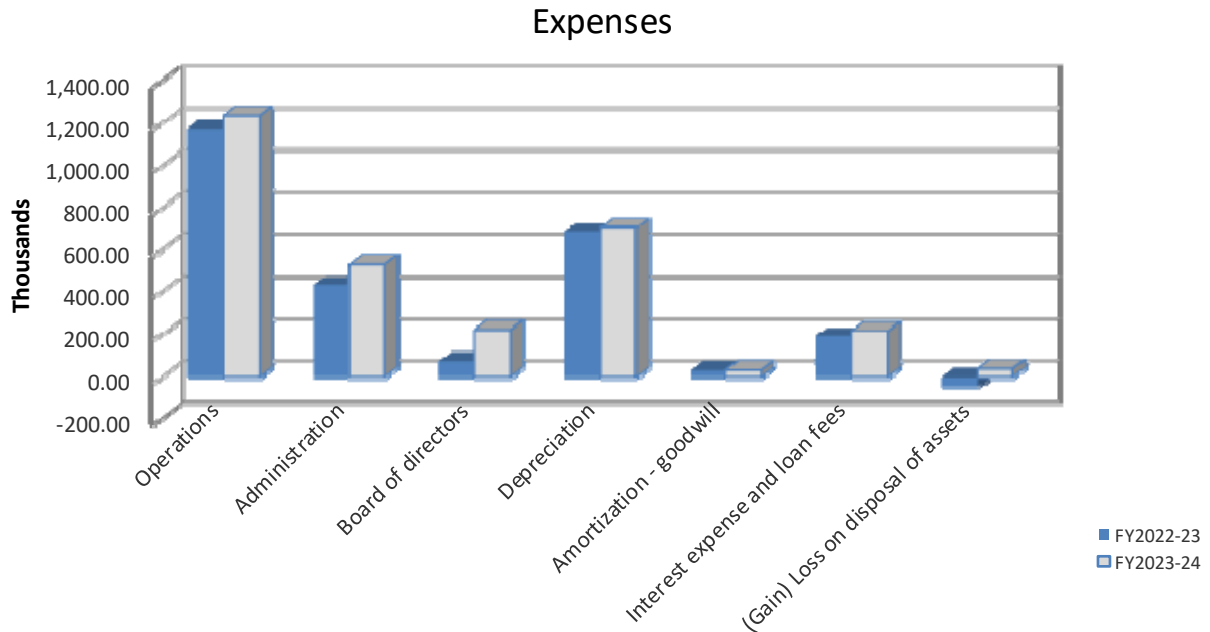
- Capital assets net of accumulated depreciation and amortization increased \$7,349,576 due to additional construction in progress at year end.
- Long-term liabilities increased a net of \$8,533,921 due to additional loans for construction projects.

Changes in net position. The District's total revenues for the current fiscal year were \$3.97 million. The total expenses were \$2.99 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2023 and June 30, 2024.

	<u>Fiscal Year Ended June 30, 2023</u>	<u>Fiscal Year Ended June 30, 2024</u>
Revenues:		
Operating revenues:		
Other local	\$ 21,780	\$ 19,678
Property taxes	924,163	965,277
Water Fee	2,541,039	2,863,571
Nonoperating revenues:		
Interest Income	22,123	109,601
Settlement and restitution proceeds	13,224	13,450
Total revenues	<u>3,522,329</u>	<u>3,971,577</u>
Expenses:		
Operating expenses:		
Operations	1,172,275	1,238,550
Administration	431,812	533,807
Board of directors	73,254	225,068
Depreciation	685,797	704,520
Amortization - goodwill	31,439	31,439
Nonoperating expenses:		
Interest expense and loan fees	190,595	217,478
Loss on disposal of assets	(55,754)	38,117
Total expenses	<u>2,529,418</u>	<u>2,988,979</u>
Change in net position	992,911	982,598
Net position, beginning	<u>4,771,525</u>	<u>5,764,436</u>
Net position, ending	<u>\$ 5,764,436</u>	<u>\$ 6,747,034</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2024**

FINANCIAL ANALYSIS



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

- The increase of \$322,532 in water fees due to rate increases and additional lateral fees and hook-up fees.
- The increase of \$151,814 in board of directors' expense due to additional litigation expenses.
- The increase of \$101,995 in administration expense is due to normal fluctuations in the costs of administration.
- The increase of \$18,723 in depreciation and amortization expense due primarily to the District's investment in capital assets and leased right-to-use assets.
- The increase of \$93,871 in loss on disposal of assets due to several assets being scrapped.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At year end, the District had invested \$20.81 million in capital assets, net of accumulated depreciation and amortization, including wells, distribution piping, fire hydrants, vehicles, computers, and other equipment. This amount represents a net increase of \$7,349,576, from the prior fiscal year, primarily due continued construction activity improving the infrastructure such as water distribution lines and tanks. Total depreciation and amortization expense for the current fiscal year was \$704,520.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2024**

CAPITAL ASSETS AND DEBT ADMINISTRATION

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2023 and June 30, 2024.

	<u>Balance as of June 30, 2023</u>	<u>Balance as of June 30, 2024</u>
Capital assets - non-depreciable	\$ 3,006,844	\$ 10,665,894
Capital assets - depreciable, net	10,453,951	10,144,477
Total	<u>\$ 13,460,795</u>	<u>\$ 20,810,371</u>

Additional information on the District's capital assets can be found in Note 4.

Debt Administration. At year end, the District had \$20.1 million in long-term debt outstanding. This represents a net increase of \$8,524,313. This is due primarily to additional WIFA and USDA loan draws for construction projects of \$8,916,078 net debt service payments of \$391,765.

Additional information on the District's long-term debt can be found in Note 5 and 6.

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 2024-2025 budget. Among them:

- Fiscal year 2024-25 budget balance carry forward (estimated \$870,000).
- USDA/WIFA Funding capital projects (estimated \$9,600,000).

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 85544-5241.

Basic Financial Statements

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2024

Assets

Current assets:

Cash and investments	\$ 5,017,729
Restricted cash and investments	895,227
Property taxes receivable	34,566
Accounts receivable, net of allowance	237,652
Cash from customer deposits	314,770
Prepaid items	36,965
Inventory	394,579
Total current assets	<u>6,931,488</u>

Noncurrent assets:

Capital assets, non-depreciable	10,665,894
Capital assets, depreciable (net)	<u>10,144,477</u>
Total noncurrent assets	<u>20,810,371</u>
Total assets	<u>27,741,859</u>

Deferred outflows of resources

Goodwill - net of amortization	<u>785,967</u>
Total deferred outflows	<u>785,967</u>
Total assets and deferred outflows	<u><u>\$ 28,527,826</u></u>

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

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Statement of Net Position - Continued
June 30, 2024

Liabilities

Current liabilities:

Accounts payable	\$ 996,861
Retention payable	181,278
Payroll liabilities	27,186
Deposits held for others	314,770
Interest payable	95,560
Current portion of compensated absences	5,553
Current portion of leases payable	17,353
Current portion of notes payable	1,839,332
Total current liabilities	<u>3,477,893</u>

Noncurrent liabilities:

Non-current portion of compensated absences	16,659
Non-current portion of leases payable	15,279
Non-current portion of notes payable	18,270,961
Total noncurrent liabilities	<u>18,302,899</u>
Total liabilities	<u>21,780,792</u>

Net Position

Net investment in capital assets	667,446
Restricted for:	
Debt service	895,227
Unrestricted	5,184,361
Total net position	<u>6,747,034</u>
Total liabilities, deferred inflows, and net position	<u>\$ 28,527,826</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 Year Ended June 30, 2024

Operating revenues	
Other local	\$ 19,678
Property taxes	965,277
Water fees	<u>2,863,571</u>
Total operating revenues	<u>3,848,526</u>
Operating expenses	
Operations	1,238,550
Administration	533,807
Board of Directors	225,068
Depreciation & amortization	<u>735,959</u>
Total operating expenses	<u>2,733,384</u>
Operating income / (loss)	<u>1,115,142</u>
Non-operating income (expenses)	
Interest income	109,601
Restitution proceeds	13,450
Interest expense and loan fees	(217,478)
Gain / (loss) on disposal of assets	<u>(38,117)</u>
Total non-operating revenue (expenses)	<u>(132,544)</u>
Changes in net position	982,598
Total net position - beginning of year	<u>5,764,436</u>
Total net position - end of year	<u><u>\$ 6,747,034</u></u>

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

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2024

Cash flows from operating activities:	
Cash received from customers	\$ 2,889,197
Cash received from property taxes	946,665
Cash paid to suppliers for goods and services	(1,316,787)
Cash paid to employees	<u>(892,969)</u>
Cash flows from operating activities	<u>1,626,106</u>
Cash flows from capital and related financing activities:	
Proceeds from long-term debt	8,916,078
Principal paid on long-term debt	(391,765)
Interest paid	(194,254)
Purchase of capital assets	(7,998,754)
Proceeds from the sale of capital assets	<u>15,851</u>
Cash flows from capital and related financing activities	<u>347,156</u>
Cash flows from non-capital financing activities:	
Restitution proceeds	<u>13,450</u>
Cash flows from noncapital financing activities	<u>13,450</u>
Cash flows from investing activities:	
Interest proceeds	<u>109,601</u>
Cash flows from investing activities	<u>109,601</u>
Net change in cash and cash equivalents, including restricted cash	2,096,313
Cash and cash equivalents, beginning of year	
including restricted cash and customer deposits	<u>4,131,413</u>
Cash and cash equivalents, end of year	
including restricted cash and customer deposits	<u><u>\$ 6,227,726</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 Year Ended June 30, 2024

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

Operating income / (loss)	\$ 1,115,142
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:	
Depreciation and amortization	735,959
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	(12,079)
(Increase)/decrease in property taxes receivable	(18,612)
(Increase)/decrease in inventories	(43,638)
(Increase)/decrease in prepaid expenses	(15,252)
Increase/(decrease) in accounts payable	(169,985)
Increase/(decrease) in accrued liabilities	6,936
Increase/(decrease) in compensated absences	9,608
Increase/(decrease) in deposits held for others	18,027
Net cash flows from operating activities	<u><u>\$ 1,626,106</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, 2024

Note 1. Summary of Significant Accounting Policies

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.

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, 2024

Note 1. Summary of Significant Accounting Policies, Continued

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.

Budget Policy and Procedures

The District adopts an annual budget. The budget is prepared on the cash basis of accounting. The District is not legally required to adopt or submit the budget to any state or other oversight agency before it has been adopted by the Board. The District posts its adopted budget to their website in order to make it easily accessible to the public. Budgetary information has not been amended during the year.

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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 1. Summary of Significant Accounting Policies, Continued

Interest Income

Interest income is composed of interest income on property taxes, state accounting credits, and interest bearing bank accounts. Interest income is included in nonoperating revenues in the proprietary financial statements.

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 April.

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. The cost of such inventories are recorded as expenses when utilized rather than when purchased.

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 and tangible and intangible assets, which include infrastructure; land and improvements; buildings and improvements; right-to-use leased assets; 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 (except for right-to-use leased assets, the measurement of which is discussed in the Lease note below) 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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 1. Summary of Significant Accounting Policies, Continued

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.

Depreciation/Amortization

Capital assets are depreciated/amortized 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
Right-to-use leased building	5 years
Right-to-use leased land	3 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.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the financial statements. The District's policy also permits employees to accumulate earned but unused sick leave benefits, but they are not eligible for payment upon separation from government service.

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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 1. Summary of Significant Accounting Policies, Continued

Leases

The District is a lessee for noncancellable leases of building and land. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the proprietary fund financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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.

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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 1. Summary of Significant Accounting Policies, Continued

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.

Note 2. Cash and Investments

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 were \$6,219,849 and the bank balance was \$7,153,942. At year end, all of the District’s deposits were covered by insurance or collateral held by the pledging financial institution’s trust department or agent but not in the District’s name. Additionally, the District had \$400 cash on hand at year-end.

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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 2. Cash and Investments, Continued

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

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer's investment pool	< 1 year	<u>\$ 7,477</u>
Total		<u><u>\$ 7,477</u></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.

Restricted Cash

The District has \$895,227 in restricted cash at June 30, 2024, for debt service reserve requirements. The District also has \$314,770 in restricted cash at June 30, 2024, for customer deposits.

Note 3. Receivables

Accounts receivables are net of an allowance for doubtful accounts of \$4,802 leaving a net accounts receivable balance of \$237,652 at June 30, 2024. 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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 4. Capital Assets

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

	June 30, 2023	Additions	Disposals	June 30, 2024
Capital assets not being depreciated:				
Land	\$ 300,758	\$ -	\$ -	\$ 300,758
Construction in progress	2,706,086	7,659,050	-	10,365,136
Total capital assets not being depreciated	3,006,844	7,659,050	-	10,665,894
Capital assets being depreciated and amortized:				
Infrastructure	13,618,683	161,077	(70,144)	13,709,616
Buildings and improvements	385,207	4,491	-	389,698
Leasehold improvements	41,883	-	-	41,883
Vehicles, furniture and equipment	729,622	283,446	(69,876)	943,192
Right-to-use leased building	70,849	-	-	70,849
Right-to-use leased land	23,763	-	-	23,763
Total capital assets being depreciated and amortized	14,870,007	449,014	(140,020)	15,179,001
Less: accumulated depreciation for:				
Infrastructure	(3,954,084)	(554,115)	44,371	(4,463,828)
Buildings and improvements	(82,661)	(25,380)	-	(108,041)
Leasehold improvements	(11,053)	(5,558)	-	(16,611)
Vehicles, furniture and equipment	(324,914)	(97,265)	41,681	(380,498)
Less: accumulated amortization for:				
Right-to-use leased building	(30,003)	(14,079)	-	(44,082)
Right-to-use leased land	(13,341)	(8,123)	-	(21,464)
Total accumulated depreciation and amortization	(4,416,056)	(704,520)	86,052	(5,034,524)
Total capital assets being depreciated and amortized, net	10,453,951	(255,506)	(53,968)	10,144,477
Total capital assets, net of accumulated depreciation and amortization	<u>\$ 13,460,795</u>	<u>\$ 7,403,544</u>	<u>\$ (53,968)</u>	<u>\$ 20,810,371</u>

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 4. Capital Assets, Continued

Depreciation/amortization expense was charged to expense functions as follows:

Administration	\$ 28,793
Operations	<u>675,727</u>
Total depreciation and expense	<u><u>\$ 704,520</u></u>

As of June 30, 2024, the District had the following significant capital projects in process:

Project	Funding Budget	Costs to Date	Remaining Budget	In Process June-24
USDA Legal Fees	\$ 116,733	\$ 27,058	\$ 89,675	\$ 27,058
USDA Program Management Fees	1,316,768	427,769	888,999	427,769
USDA Woodland Heights Phases A-C	2,923,905	2,921,768	2,137	2,921,768
USDA Water System Modeling	300,000	286,508	13,492	286,508
USDA Cool Pines A Waterline	1,567,393	1,564,393	3,000	1,564,393
USDA Whispering Pines Waterline	586,089	583,089	3,000	583,089
USDA White Oak/Cedar Meadows Waterline	1,634,696	857,178	777,518	857,178
USDA Strawberry Deep Well	2,526,538	1,476,461	1,050,077	1,476,461
USDA Portals 1, 2 & 3 Waterline	5,377,608	2,066,121	3,311,487	2,066,121
USDA Special Audit Fees	15,000	7,850	7,150	7,850
PSWID - Strawberry View 2-Test Pumping/Video/New Equipment	30,000	27,332	2,668	27,332
PSWID - Portals II (Midway Booster Station Upgrade)	60,000	33,417	26,583	33,417
PSWID - Milk Ranch 2 - Video/Brush&Bail/Test Pump/New Equipment	75,000	61,442	13,558	61,442
PSWID - SV3 Site Restoration	49,500	24,750	24,750	24,750
Totals	<u><u>\$ 16,579,230</u></u>	<u><u>\$ 10,365,136</u></u>	<u><u>\$ 6,214,094</u></u>	<u><u>\$ 10,365,136</u></u>

These projects are all funded by WIFA and USDA Loans.

In addition to the projects listed above, the District has been awarded a \$1,575,675 grant that will require a \$525,225 District match for waterline replacement projects that have not yet begun.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 5. Leases

The District has entered into a five-year lease agreement as lessee for the use of a building and a three-year lease agreement as lessee for the use of land. An initial lease liability was recorded in the amount of \$94,612. As of June 30, 2024, the value of the lease liabilities totaled was \$32,632. The District is required to make monthly principal and interest payments of \$1,300 for the building and \$700 for the land. The leases have an estimated incremental borrowing interest rate of 3.85%.

The future principal and interest lease payments as of June 30, 2024, are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 17,353	\$ 976	\$ 18,329
2026	15,279	321	15,600
Total	<u>\$ 32,632</u>	<u>\$ 1,297</u>	<u>\$ 33,929</u>

Note 6. Long Term Liabilities

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 from direct borrowings	\$ 11,563,637	\$ 8,916,078	\$ 369,422	\$ 20,110,293	\$ 1,839,332
Leases payable	54,975	-	22,343	32,632	17,353
Compensated absences	12,604	9,608	-	22,212	5,553
Total long-term liabilities	<u>\$ 11,631,216</u>	<u>\$ 8,925,686</u>	<u>\$ 391,765</u>	<u>\$ 20,165,137</u>	<u>\$ 1,862,238</u>

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 6. Long Term Liabilities, Continued

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

Year Ending June 30:	Principal	Interest	Total
2025	\$ 1,839,332	\$ 271,842	\$ 2,111,174
2026	488,069	252,343	740,412
2027	497,453	242,863	740,316
2028	8,234,286	194,559	8,428,845
2029	515,786	146,067	661,853
2030-2034	2,277,361	532,097	2,809,458
2035-2039	2,878,505	349,399	3,227,904
2040-2044	622,570	192,290	814,860
2045-2049	526,828	125,060	651,888
2050-2054	2,230,103	81,795	2,311,898
Total	\$ 20,110,293	\$ 2,388,315	\$ 22,498,608

The District entered into a loan agreement on February 9, 2018, with the Water Infrastructure Finance Authority of Arizona for \$7,500,000. Interest is due semiannually at a rate of 2.104%. Principal payments are due beginning July 1, 2020, through July 1, 2037. The loan is collateralized by the water distribution system and properties. In the event of default, actions may be taken as necessary, including legal action, to collect amounts due. The District is also responsible for reimbursement of all attorney fees associated with collection. As of June 30, 2024, the District had drawn down \$7,428,407 of the available loan balance and had an outstanding loan balance of \$5,988,567.

The District entered into a loan agreement on June 4, 2021 with the Water Infrastructure Finance Authority of Arizona for \$2,500,000. The loan is a design and engineering bridge loan as the District has secured funding from the USDA for the construction projects. Interest is due semiannually at a rate of 1% through October 1, 2024. The entire principal amount is due on October 1, 2024. In the event of default, actions may be taken as necessary, including legal action, to collect amounts due. The District is also responsible for reimbursement of all attorney fees associated with collection. As of June 30, 2024, the District had drawn down \$1,361,465 of the available loan balance and had an outstanding balance of \$1,361,465.

The District entered into a loan agreement on April 1, 2022 with the Water Infrastructure Finance Authority of Arizona for \$17,500,000. The loan is a construction bridge loan as the District has secured funding from the USDA for the construction projects. Interest is due semiannually at a rate of 1% beginning January 1, 2023 through July 1, 2027. The entire principal amount is due on July 1, 2027. The loan is collateralized by the water distribution system and properties. In the event of default, actions may be taken as necessary, including legal action, to collect amounts due. The District is also responsible for reimbursement of all attorney fees associated with collection. As of June 30, 2024, the District had drawn down \$7,730,261 of the available loan balance and had an outstanding loan balance of \$7,730,261.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2024

Note 6. Long Term Liabilities, Continued

The District entered into a loan agreement on June 27, 2022, with the United States Department of Agriculture for \$5,030,000. Interest is due annually at a rate of 1.125% through June 27, 2024. Beginning July 27, 2024, principal and interest payments totaling \$13,581 are due monthly through September 2051. The loan is collateralized by the water distribution system and properties. In the event of default, the USDA, at its option, may declare all or any part of such indebtedness immediately due and payable. The District may also be responsible for any fees associated with collecting the past due balance and/or collateral. As of June 30, 2024, the District had drawn down all of the available loan balance and had an outstanding loan balance of \$5,030,000.

Note 7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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.

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, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 23, 2024.

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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 financial statements. 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 Standards*.

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 results 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, PLLC

Mesa, Arizona
September 23, 2024