



Pine-Strawberry Water Improvement District
Financial Statements
for the Fiscal Year Ended June 30, 2018
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 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, 2018, 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, 2018, 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 2, 2018 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, PLLC
Flagstaff, Arizona
October 2, 2018

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, 2018**

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, 2018.

FINANCIAL HIGHLIGHTS

- The District's total net position increased \$1,281,812, which represents a 91.93 percent increase from the prior fiscal year change in net position as a result of increased taxes, reduction of interest expense, and receipt of grants.
- Operating revenues accounted for \$2.1 million in revenue, an increase of 4.4 percent from the prior year.
- The District had approximately \$1.9 million in operating expenses, a decrease of 1.2 percent from the prior fiscal year.
- The District had \$219,833 in non-operating expenses, a decrease of \$20,384 due to decreased interest and finance payments on the note payable refinanced in July 2015.

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, 2018.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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 \$1,148,794 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 and capital projects.

The following table presents a summary of the District's net position for the fiscal years ended June 30, 2017 and June 30, 2018.

	<u>Balance as of June 30, 2017</u>	<u>Balance as of June 30, 2018</u>
Assets:		
Current assets	\$ 1,561,446	\$ 1,906,112
Capital assets, net	<u>3,676,750</u>	<u>4,167,213</u>
Total assets	<u>5,238,196</u>	<u>6,073,325</u>
Deferred outflows of resources	<u>1,006,040</u>	<u>974,601</u>
Total assets and deferred outflows of resources	<u>6,244,236</u>	<u>7,047,926</u>
Liabilities:		
Current liabilities	517,877	719,860
Long-term liabilities	<u>5,859,377</u>	<u>5,179,272</u>
Total liabilities	<u>6,377,254</u>	<u>5,899,132</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>6,377,254</u>	<u>5,899,132</u>
Net position:		
Net investment in capital assets	(2,400,217)	(1,242,164)
Restricted	278,057	342,057
Unrestricted	<u>1,989,142</u>	<u>2,048,901</u>
Total net position	<u>\$ (133,018)</u>	<u>\$ 1,148,794</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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.

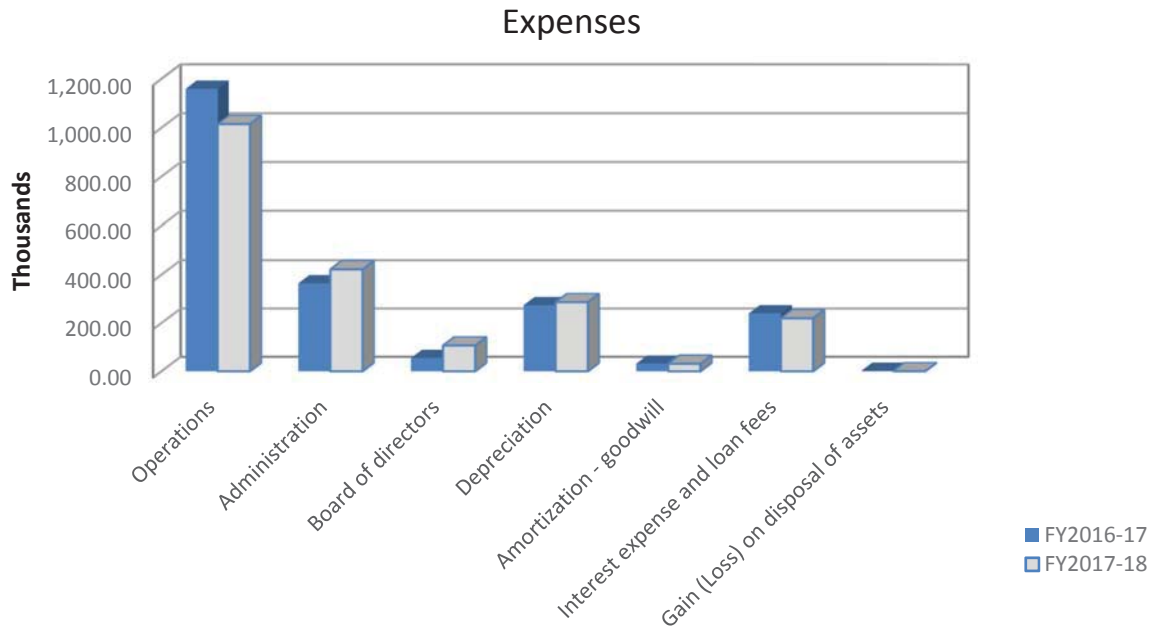
- The decrease of \$667,590 in long-term liabilities due to annual debt service.

Changes in net position. The District's total revenues for the current fiscal year were \$3.4 million. The total expenses were \$2.1 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2018.

	<u>Fiscal Year Ended June 30, 2017</u>	<u>Fiscal Year Ended June 30, 2018</u>
Revenues:		
Operating revenues:		
Other local	\$ 21,856	\$ 16,968
Grant revenue	-	531,682
Property taxes	695,680	727,105
Water Fee	1,999,068	2,086,260
Nonoperating revenues:		
Investment Income	1,114	1,188
Receipts from insurance claims	91,352	-
Total revenues	<u>2,809,070</u>	<u>3,363,203</u>
Expenses:		
Operating expenses:		
Operations	1,159,497	1,015,180
Administration	364,366	421,976
Board of directors	54,857	106,801
Depreciation	273,818	286,162
Amortization - goodwill	31,439	31,439
Nonoperating expenses:		
Interest expense and loan fees	240,217	219,833
Gain (Loss) on disposal of assets	2,121	-
Total expenses	<u>2,126,315</u>	<u>2,081,391</u>
Change in net position	682,755	1,281,812
Net position, beginning	(800,871)	(133,018)
Net effect of prior period adjustments	(14,902)	-
Net position, beginning restated	(815,773)	(133,018)
Net position, ending	<u>\$ (133,018)</u>	<u>\$ 1,148,794</u>

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS



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

- The decrease of \$144,317 in operations expense due to normal fluctuations in the costs of operations.
- The increase of \$57,610 in administration expense due primarily due to changes in the staffing arrangement of the District.
- The decrease of \$20,384 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 \$4.2 million in capital assets, net of accumulated depreciation, including wells, distribution piping, fire hydrants, vehicles, computers, and other equipment. This amount represents a net increase of \$776,624, prior to depreciation, from the prior fiscal year, primarily due to completion of distribution piping and VFD installations. Total depreciation expense for the current fiscal year was \$286,161.

**PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2017 and June 30, 2018.

	<u>Balance as of June 30, 2017</u>	<u>Balance as of June 30, 2018</u>
Capital assets - non-depreciable	\$ 314,827	\$ 622,440
Capital assets - depreciable, net	3,361,923	3,544,773
Total	<u>\$ 3,676,750</u>	<u>\$ 4,167,213</u>

Additional information on the District's capital assets can be found in Note 5.

Debt Administration. At year end, the District had \$5.4 million in long-term debt outstanding. This represents a net decrease of \$667,590 due primarily to annual debt service and an early payment of \$450,000.

Additional information on the District's long-term debt can be found in Note 7.

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 2018-19 budget. Among them:

- Fiscal year 2017-18 budget balance carry forward (estimated \$550,000).
- Capital projects/repairs – Repairs not capitalized (estimated \$2,750,000).

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 85544-0134.

Basic Financial Statements

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Statement of Net Position
June 30, 2018

Assets

Current assets:

Cash and investments	\$ 946,199
Restricted cash and investments	342,057
Property taxes receivable	13,900
Accounts receivable, net of allowance	218,282
Intergovernmental receivables	74,979
Customer deposits	204,226
Prepaid items	29,116
Inventory	77,353
Total current assets	<u>1,906,112</u>

Noncurrent assets:

Capital assets, non-depreciable	622,440
Capital assets, depreciable (net)	3,544,773
Total noncurrent assets	<u>4,167,213</u>
Total assets	<u>6,073,325</u>

Deferred outflows of resources

Goodwill - net of amortization	974,601
Total deferred outflows	<u>974,601</u>
Total assets and deferred outflows	<u>\$ 7,047,926</u>

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

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Statement of Net Position - Continued
June 30, 2018

Liabilities

Current liabilities:

Accounts payable	\$ 206,281
Payroll liabilities	9,830
Deposits held for others	204,226
Interest payable	52,684
Current portion of compensated absences	4,184
Current portion of notes payable	242,655
Total current liabilities	<u>719,860</u>

Noncurrent liabilities:

Non-current portion of compensated absences	12,550
Non-current portion of long-term obligations	5,166,722
Total noncurrent liabilities	<u>5,179,272</u>
Total liabilities	<u>5,899,132</u>

Net Position

Net investment in capital assets	(1,242,164)
Restricted for:	
Debt service	300,000
Capital outlay	42,057
Unrestricted	2,048,901
Total net position	<u>1,148,794</u>
Total liabilities, deferred inflows, and net position	<u>\$ 7,047,926</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, 2018

Operating revenues

Other local	\$ 16,968
Property taxes	727,105
Water fees	<u>2,086,260</u>
Total operating revenues	<u>2,830,333</u>

Operating expenses

Operations	1,015,180
Administration	421,976
Board of Directors	106,801
Depreciation & amortization	<u>317,601</u>
Total operating expenses	<u>1,861,558</u>
Operating income / (loss)	<u>968,775</u>

Non-operating income (expenses)

Investment income	1,188
Grant revenue	531,682
Interest expense and loan fees	<u>(219,833)</u>
Total non-operating revenue (expenses)	313,037

Changes in net position	<u>1,281,812</u>
Total net position - beginning of year	<u>(133,018)</u>
Total net position - end of year	<u><u>\$ 1,148,794</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, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 2,120,930
Cash received from property taxes	725,952
Cash paid to suppliers for goods and services	(949,890)
Cash paid to employees	<u>(341,904)</u>
Cash flows from operating activities	<u>1,555,088</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(667,590)
Interest paid	(226,290)
Purchase of capital assets	(776,624)
Capital grants	456,703
Cash flows from capital and related financing activities	<u>(1,213,801)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,188</u>
Cash flows from investing activities	<u>1,188</u>
Net change in cash and cash equivalents, including restricted cash	342,475
Cash and cash equivalents, beginning of year including restricted cash	<u>1,150,007</u>
Cash and cash equivalents, end of year including restricted cash	<u><u>\$ 1,492,482</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, 2018

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

Operating income / (loss)	\$ 968,775
Adjustments to reconcile operating income / (loss) to cash flows from operating activities:	
Depreciation	286,161
Amortization	31,440
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	(3,668)
(Increase)/decrease in property taxes receivable	(1,153)
(Increase)/decrease in inventories	10,304
(Increase)/decrease in prepaid expenses	67,305
Increase/(decrease) in accounts payable	148,905
Increase/(decrease) in accrued liabilities	8,915
Increase/(decrease) in compensated absences	16,734
Increase/(decrease) in deposits held for others	21,370
	<hr/>
Net cash flows from operating activities	<u>\$ 1,555,088</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, 2018

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, 2018

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.

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, 2018

Note 1. Summary of Significant Accounting Policies, Continued

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, 2018

Note 1. Summary of Significant Accounting Policies, Continued

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.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the financial statements.

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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies, Continued

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.

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. Stewardship, Compliance, and Accountability

Net Position – At year end, the District reported a net position of \$1,114,794, an increase in net position of \$1,281,812 from the prior year ending net position deficit of \$133,018. The net position rose primarily due to continued attempts to reduce costs and increase revenues.

Note 3. 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 was \$1,243,971 and the bank balance was \$1,543,925. At year end, \$1,292,436 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 \$400 cash on hand at year-end.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

Note 3. Cash and Investments, Continued

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	0.09 years	<u>\$ 248,511</u>
Total		<u><u>\$ 248,511</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.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

Note 4. Receivables

Accounts receivables are net of an allowance for doubtful accounts of \$8,789 leaving a net accounts receivable balance of \$218,262 at June 30, 2018. 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:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2018</u>
Capital assets not being depreciated:				
Land	\$ 201,967	\$ -	\$ -	\$ 201,967
Construction in progress	112,860	420,473	(112,860)	420,473
Total capital assets not being depreciated	<u>314,827</u>	<u>420,473</u>	<u>(112,860)</u>	<u>622,440</u>
Capital assets being depreciated:				
Infrastructure	5,270,049	440,438	-	5,710,487
Buildings and improvements	70,385	-	-	70,385
Leasehold Improvements	19,555	-	-	19,555
Vehicles, furniture and equipment	239,880	28,573	-	268,453
Total capital assets being depreciated	<u>5,599,869</u>	<u>469,011</u>	<u>-</u>	<u>6,068,880</u>
Less: accumulated depreciation for:				
Infrastructure	(2,074,680)	(266,339)	-	(2,341,019)
Buildings and improvements	(58,576)	(1,633)	-	(60,209)
Leasehold Improvements	(19,555)	-	-	(19,555)
Vehicles, furniture and equipment	(85,135)	(18,189)	-	(103,324)
Total accumulated depreciation	<u>(2,237,946)</u>	<u>(286,161)</u>	<u>-</u>	<u>(2,524,107)</u>
Total capital assets being depreciated, net	<u>3,361,923</u>	<u>182,850</u>	<u>-</u>	<u>3,544,773</u>
Total capital assets, net of accumulated depreciation	<u>\$ 3,676,750</u>	<u>\$ 603,323</u>	<u>\$ (112,860)</u>	<u>\$ 4,167,213</u>

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

Note 5. Capital Assets, Continued

Depreciation expense was charged to expense functions as follows:

Administration	\$	1,540
Operations		<u>284,621</u>
Total depreciation expense	\$	<u><u>286,161</u></u>

As of June 30, 2018, the District had the following significant capital projects in process:

<i>Project:</i>	<i>Funding Budget</i>	<i>Costs to Date</i>	<i>Remaining Budget</i>	<i>Completed June-19</i>	<i>In Process June-19</i>
WIFA-TAG	\$ 68,500	\$ 35,966	\$ 32,534	\$ 32,534	\$ -
Strawberry View 1 Tank	342,770	288,066	54,704	54,704	-
Strawberry Knolls 2/Strawberry Ranch 2	807,640	16,971	790,669	790,669	-
Pine Haven 4" Waterline Replacement	285,903	5,956	279,947	279,947	-
Rim Vista 4" Waterline Replacement	305,546	5,956	299,590	299,590	-
Pine Creek 4" Waterline Replacement	141,062	16,776	124,286	124,286	-
Whispering Pines 6" Waterline Replacement	256,289	6,612	249,677	-	249,677
WIFA Program Management Fees & Expenses	375,750	7,916	367,834	80,668	287,166
	<u>\$ 2,583,460</u>	<u>\$ 384,219</u>	<u>\$ 2,199,241</u>	<u>\$ 1,662,398</u>	<u>\$ 536,843</u>

These projects are all funded by a WIFA Grant and Loan.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

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, 2018. Future minimum lease payments on the operating lease for the next five years are:

Year Ending June 30,	Minimum Lease Payments
2019	\$ 14,400
2020	14,400
2021	14,400
2022	14,400

Note 7. Long Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes payable	\$ 6,076,967	\$ -	\$ 667,590	\$ 5,409,377	\$ 242,655
Compensated absences	-	16,734	-	16,734	4,184
Total long-term liabilities	\$ 6,076,967	\$ 16,734	\$ 667,590	\$ 5,409,377	\$ 242,655

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

Year Ending June 30:	Principal	Interest	Total
2019	\$ 242,655	\$ 205,781	\$ 448,436
2020	251,648	196,788	448,436
2021	262,055	186,381	448,436
2022	272,341	176,095	448,436
2023	283,030	165,406	448,436
2024-2026	4,097,648	331,218	4,428,866
Total	\$ 5,409,377	\$ 1,261,669	\$ 6,671,046

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. In addition to the required payments listed above, the Board has approved to make an additional \$400,000 in principal payments each year.

PINE-STRAWBERRY WATER IMPROVEMENT DISTRICT
Notes to the Basic Financial Statements
June 30, 2018

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.

Note 9. Subsequent Events

The Arizona Auditor General's office investigated 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. During fiscal year ended June 30, 2017 the District identified and received insurance proceeds of \$89,601 for some of the noted activity. The District is currently pursuing litigation against the management service company 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, 2018 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 2, 2018.

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. 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 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 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.

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC
Flagstaff, Arizona
October 2, 2018