

PINEWOOD SANITARY DISTRICT

Financial Statements

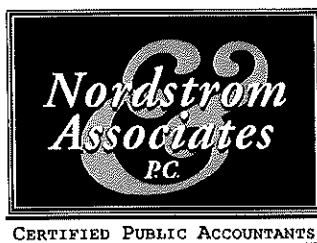
June 30, 2024 and 2023

PINEWOOD SANITARY DISTRICT
Financial Statements
June 30, 2024 and 2023

TABLE OF CONTENTS

Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-8
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12-25
Required Supplemental Information	26-27

Timothy D. Hansen, CPA
Kathleen M. Roy, CPA CFE
Timothy Anderson



MEMBERS
American Institute of
Certified Public Accountants
Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pinewood Sanitary District

We have audited the accompanying financial statements of the business-type activities of Pinewood Sanitary District (the District), which comprise the statements of net position as of June 30, 2024 and 2023, the related statements of revenues, expenses, and changes in net position for the years then ended, the statements of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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 within 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 opinion. 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 generally accepted auditing standards 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.

Board of Directors
Pinewood Sanitary District

In performing an audit in accordance with generally accepted auditing standards, 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 Management's Discussion and Analysis on pages 4 through 8, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 26, and the Schedule of District Pension Contributions on page 27 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic 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 inquires 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.

Nordstrom & Associates, P.C.

Nordstrom & Associates, P.C.

Flagstaff, AZ

December 6, 2024

PINEWOOD SANITARY DISTRICT
18075 FAIRWAY DRIVE
PO BOX 18758
MUNDS PARK AZ 86017
800-785-5515 PH# 928-286-9166 FAX# 928-286-2465

Management's Discussion and Analysis

As Management of the Pinewood Sanitary District, we offer readers of the District's financial statements the narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2024. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes.

Financial Highlights

- **In 2024, the District implemented an Operating and Maintenance rate increase from \$54.90 to \$74.90. This increase was effective as of July 1, 2024 and was in response to the need for plant infrastructure.**
- **Also in the current fiscal year, the District was able to collect construction costs related to the West Side Sewer expansion project. Monies were collected from Royce/Inspire RV Park, Schuster properties Phase 5, and Raschke "Lost Boulder Estates" properties. Nearly \$690,000 was collected from unpaid properties. Schuster properties settled the Phase 5 construction fees, and Royce/Inspire and the District agreed regarding the amounts owed.**
- **The District asked homeowners to approve a \$15 million WIFA loan, in order fund numerous system wide improvements. This is in response to an aging sewer system and a significant increase in users which are causing the system to regularly be overwhelmed. The vote regarding this proposed WIFA loan was held on November 7th, 2023 and passed. The initial loan amount approved by WIFA was \$3 million. However, the District can apply for additional \$3 million loans until the \$15 million cap approved by homeowners is reached.**
- **The District has implemented quarterly rather than monthly billing. This has resulted in man hour and postage savings for the District.**

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statement and is comprised of two components:

- 1) The financial statements
- 2) Notes to the financial statements that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements provide both long-term and short-term information about the District's overall financial status.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position.

This statement provides information about the nature and the amounts of investments in resources (assets) and the obligation to District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, one will need to consider other financial factors such as changes in economic conditions, population and customer growth, and new or changed government requirements.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operation over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees, other charges and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. This statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

Net Position

As previously noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$4,602,055 at the close of the most recent fiscal year.

As can be seen in Table A-1 below, the largest portion of the District's net position reflects its investment in capital assets (i.e., sewers, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sewerage treatment services and to maintain and improve mains & manholes for the entire District Service area; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

Table A-1
Condensed Statements of Net Position

	<u>2024</u>	<u>2023</u>	<u>Percentage Increase(decrease)</u>
Current and other assets	\$ 1,024,428	\$ 805,140	27.24%
Net capital assets	6,303,701	6,412,857	-1.70%
Deferred outflows of resources	<u>102,004</u>	<u>202,639</u>	<u>-49.66%</u>
Total assets	<u>7,430,133</u>	<u>7,420,636</u>	<u>0.13%</u>
Current liabilities	279,958	325,012	-13.86%
Noncurrent liabilities outstanding	2,375,125	2,595,110	-8.48%
Deferred inflows of resources	<u>172,995</u>	<u>222,026</u>	<u>-22.08%</u>
Total liabilities	<u>2,828,078</u>	<u>3,142,148</u>	<u>-10.00%</u>
Invested in capital assets net of related debt	4,674,664	4,597,036	1.69%
Restricted - capital projects	30,353	30,353	0.00%
Restricted - debt service	197,797	378,313	-47.72%
Unrestricted	<u>(300,759)</u>	<u>(727,214)</u>	<u>-58.64%</u>
Total net assets	<u>\$ 4,602,055</u>	<u>\$ 4,278,488</u>	<u>7.56%</u>

Revenues and Expenses

While the condensed statements of net position (Table A-1) show the change in our financial position, the statements of revenues, expenses, and changes in net position provides answers as to the nature and source of these changes. Operating revenues consist primarily of service fees charged to our customers to support operating expenses and debt payments. Operating revenues also consist of contract services provided by the District and sales of reclaimed water. These amounts are reflected as other income in operating revenue. Operating expenses are incurred to support the operations of the sewer district. Also, included in expenses is depreciation on capital assets and interest expense incurred on outstanding debt. See the summary of these revenues and expenses in Table A-2, following on page 7.

The District revenue is fee based although it does have taxing authority per Arizona Revised Statutes. The average monthly customer bill is \$54.90, based on rates charged during the 2023-2024 fiscal year.

The Management and Board of Directors continually review the capital improvement and operational needs of the District in an effort to maintain as affordable efficient operation as possible.

Table A-2
Condensed Statements of Revenues, Expenses
and Changes in Net Position

	<u>2024</u>	<u>2023</u>	<u>Percentage Increase(Decrease)</u>
Operating revenues	\$ 2,841,057	\$ 2,683,478	5.87%
Nonoperating revenues	<u>29,797</u>	<u>9,588</u>	<u>210.77%</u>
Total revenues	2,870,854	2,693,066	6.60%
Depreciation expense	616,077	591,078	4.23%
Other operating expense	1,882,544	1,989,203	-5.36%
Interest expense	<u>48,666</u>	<u>48,573</u>	<u>0.19%</u>
Total expenses	<u>2,547,287</u>	<u>2,628,854</u>	<u>-3.10%</u>
Change in net position	<u>\$ 323,567</u>	<u>\$ 64,212</u>	<u>403.90%</u>

Capital Assets

As of June 30, 2024, the District's capital assets net of accumulated depreciation amounted to \$6,303,701, which represents a net decrease of \$109,156 over the previous year.

The decrease is the net result of current capital additions less depreciation on capital assets. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Debt Service

Indebtedness for the loan through WIFA amounted to \$1,629,037 as of June 30, 2024 with an interest rate at 2.81%.

Payments are made on July 1st and January 1st each fiscal year on the WIFA loans.

Project and other Highlights

During the past fiscal year, the District has achieved significant milestones and navigated leadership transitions.

The District addressed regulatory compliance and engaged engineering support. The District actively addressed Arizona Department of Environmental Quality (ADEQ) consent orders. The District entered into a contract with Ardurra Engineering Group to support ongoing compliance and improvement initiatives.

To address inflow and infiltration (I&I) mitigation, 33 infiltration bowls were installed in low-lying manholes. The District contracted with Tiffany Construction to repair 15 surface level manholes damages by snowplows, which lead to substantial snowmelt entering the collection system.

The District inspected over 90,500 feet of main lines using camera technology to identify and isolate I&I sources. During this time a significant boulder-sized hole was identified and addressed.

The District replaced outdated and obsolete plant equipment to ensure operational efficiency and reliability. The District also hired an Operator of Record to assist in critical areas such as capital improvement planning, development of standard operating procedures, safety training and certification training.

The District was focused on financial planning and addressing its challenges. The District focused on creating a sustainable revenue stream. The District is ineligible for grant financing due to its classification as a special district and the community's classification as exceeding poverty level thresholds.

Ongoing customer issues with property were resolved in lieu of any potential litigation arising from prior District Manager decisions.

The board experienced several leadership changes during the year and currently has Kass Kral as the Chairman of the Board of Directors.

Jim Carpenter stepped down as the District Manager and David Richardson was appointed as the new District Manager on April 17, 2024.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pinewood Sanitary District, PO Box 18758, Munds Park, AZ 86017-8758 or www.pinewoodsanitary.com.

PINEWOOD SANITARY DISTRICT
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 610,886	\$ 346,070
Cash for restricted purposes	228,150	408,667
Prepaid expenses	30,443	18,265
Accounts receivable, net	<u>154,949</u>	<u>32,138</u>
Total current assets	<u>1,024,428</u>	<u>805,140</u>
Capital assets, at cost	19,517,069	19,046,389
Less accumulated depreciation	<u>(13,213,368)</u>	<u>(12,633,532)</u>
Net capital assets	<u>6,303,701</u>	<u>6,412,857</u>
Deferred outflows of resources related to pensions and other postemployment benefits	<u>102,004</u>	<u>202,639</u>
Total assets	<u>\$ 7,430,133</u>	<u>\$ 7,420,636</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 129,787	\$ 138,228
Long-term obligations due within one year	<u>150,171</u>	<u>186,784</u>
Total current liabilities	<u>279,958</u>	<u>325,012</u>
Noncurrent liabilities:		
Net pension liability	896,259	966,073
WIFA loans	1,629,037	1,815,821
Less current portion of long-term obligations	<u>(150,171)</u>	<u>(186,784)</u>
Total noncurrent liabilities	<u>2,375,125</u>	<u>2,595,110</u>
Total liabilities	<u>2,655,083</u>	<u>2,920,122</u>
Deferred inflows of resources related to pensions and other postemployment benefits	<u>172,995</u>	<u>222,026</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	4,674,664	4,597,036
Restricted - capital projects	30,353	30,353
Restricted - debt service	197,797	378,313
Unrestricted	<u>(300,759)</u>	<u>(727,214)</u>
Total net position	<u>4,602,055</u>	<u>4,278,488</u>
Total liabilities and net position	<u>\$ 7,430,133</u>	<u>\$ 7,420,636</u>

PINEWOOD SANITARY DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenue		
Service fees:		
Operations and maintenance	\$ 2,778,228	\$ 1,957,955
WIFA loan repay	24,947	682,034
WIFA loan reserve	8,494	5,731
Other income	<u>29,388</u>	<u>37,758</u>
Total operating revenue	<u>2,841,057</u>	<u>2,683,478</u>
Operating expenses		
Personnel expenses	744,902	892,338
Administrative and office	76,891	96,956
Professional services	293,823	183,791
Telephone and utilities	144,511	142,587
Insurance	171,631	233,887
Plant operation and maintenance	309,782	405,087
System operation and maintenance	141,004	34,557
Depreciation	<u>616,077</u>	<u>591,078</u>
Total operating expenses	<u>2,498,621</u>	<u>2,580,281</u>
Operating income (loss)	<u>342,436</u>	<u>103,197</u>
Nonoperating revenues (expenses)		
Interest income	17,571	9,588
Gain (loss) on asset sales	12,226	-
Interest expense - leases and loans	<u>(48,666)</u>	<u>(48,573)</u>
Total nonoperating revenues (expenses)	<u>(18,869)</u>	<u>(38,985)</u>
Change in net position	323,567	64,212
Net position at beginning of year	<u>4,278,488</u>	<u>4,214,276</u>
Net position at end of year	\$ <u>4,602,055</u>	\$ <u>4,278,488</u>

PINEWOOD SANITARY DISTRICT
Statements of Cash Flows
Years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>Cash flows from operating activities</u>		
Receipts from customers and users	\$ 2,718,246	\$ 2,680,747
Payments to suppliers	(1,158,261)	(1,051,135)
Payments to employees	<u>(763,112)</u>	<u>(917,823)</u>
Net cash provided by operating activities	<u>796,873</u>	<u>711,789</u>
<u>Cash flows from capital and related financing activities</u>		
Payment of WIFA loans	(186,785)	(183,709)
Cash received from sale of assets	17,600	16,500
Interest paid on long-term obligations	(48,666)	(48,573)
Cash paid for asset acquisition and construction	<u>(512,294)</u>	<u>(285,834)</u>
Net cash used by financing activities	<u>(730,145)</u>	<u>(501,616)</u>
<u>Cash flows from investing activities</u>		
Interest income	<u>17,571</u>	<u>9,588</u>
Net cash provided by investing activities	<u>17,571</u>	<u>9,588</u>
Net change in cash and restricted cash	84,299	219,761
Cash and restricted cash at beginning of year	<u>754,737</u>	<u>534,976</u>
Cash and restricted cash at end of year	\$ <u><u>839,036</u></u>	\$ <u><u>754,737</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 342,436	\$ 103,197
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	616,077	591,078
Loss on disposal of assets	-	(1,489)
Pension expense	56,788	65,552
Pension contributions	(74,998)	(91,037)
Changes in assets and liabilities:		
Accounts receivable	(122,811)	(1,242)
Prepaid expenses	(12,178)	11,570
Accounts payable and accrued expenses	<u>(8,441)</u>	<u>34,160</u>
Net cash provided by operating activities	\$ <u><u>796,873</u></u>	\$ <u><u>711,789</u></u>

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 1 Summary of Significant Accounting Policies

Organization

Pinewood Sanitary District of Coconino County, Arizona (“District”) was formed on May 18, 1992 pursuant to Section 48-261, Arizona Revised Statutes, as a special district, and is authorized to provide sanitary services at Munds Park, Arizona. Various fees charged for sanitary services to the District’s lot owners are charged at predetermined rates. These fees are the primary source of the District’s revenues. Should the District’s revenues fall short of amounts required to cover operating expenses and debt retirement, these fees could be raised by the District, through procedures prescribed by Arizona Revised Statutes.

Method of accounting

The District’s financial statements are presented on the full accrual basis of accounting and conform to U.S. generally accepted accounting principles. The District has elected under GASB Statement No. 20, to apply all applicable GASB pronouncements as well as any applicable FASB pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Accounts receivable and allowance for doubtful accounts

Accounts receivable represents monthly billings for service fees and related debt retirement and capital payments. Accounts receivable includes vacant lot availability fees. The District has no method to enforce payment of vacant lot availability fees except to deny connection to the sanitary system until all back fees are paid. The District has established an allowance for doubtful accounts based on a periodic review of its outstanding accounts receivable. An allowance for doubtful accounts of \$9,500 was established as of June 30, 2024 and 2023, respectively.

Compensated absences

Compensated absences payable consists of vacation leave and a calculated amount of paid time off (comp time) earned by employees based on services already rendered.

Employees may accumulate up to 120 hours of vacation depending on years of services, but they forfeit any unused vacation hours in excess of 120 hours at year-end. Upon termination of employment, all unused and un-forfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees can accumulate up to 60 hours of paid time off (comp time) for hours worked in excess of 40 hours per week. Upon termination of employment, any unused comp time is paid to employees. Accordingly, comp time benefits are accrued as a liability in the financial statements.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 1 Summary of Significant Accounting Policies, continued

Capital assets

Capital assets, which include land, buildings, sewer plant, and equipment are carried at cost less accumulated depreciation. Routine repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 5 to 40 years for plant, system and buildings and 5 to 15 years for furniture and equipment.

Management of the District reviews its property and equipment for impairment when events or changes in circumstances indicate the carrying amounts of the property may not be recoverable. When such conditions exist, management estimates future cash flows from operations and disposition of the property. If the estimated undiscounted future cash flows from operations and the disposition of the property is less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related property's estimated fair market value would be recognized and an impairment loss would be recognized. No such impairment losses have been recognized.

Use of estimates

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

Cash and cash equivalents

All cash balances of the District are held in appropriate accounts allowed per Arizona Revised Statutes. The cash balances are primarily held by Coconino County. All cash deposits of the District were covered either by Federal Depository Insurance or collateral held by the pledging financial institution's trust department or agent in the County's name per state statutes. Cash represents cash and cash equivalent financial instruments which generally have maturities of three months or less. Due to their short maturities, cash and cash equivalents are carried at amounts that reasonably approximate fair value.

Deferred outflows and inflows of resources

The statement of net assets includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net assets that applies to future periods and will be recognized as a revenue in future periods.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 1 Summary of Significant Accounting Policies, continued

Postemployment benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB), assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the pension plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position

Net position is displayed in three components as follows:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash is excluded from the determination.

Restricted – consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use the restricted resources first, then unrestricted resources when they are needed.

Unrestricted – consists of net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

Income taxes

There is no provision or liability for income taxes included in the financial statements, as the District is a tax exempt, special district, under Arizona Revised Statutes.

Revenue recognition

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 2 Cash for Restricted Purposes

Cash for restricted purposes consists of the following funds:

	<u>2024</u>	<u>2023</u>
WIFA Repayment (503 & 504)	197,797	378,314
WIFA Improvements (506)	<u>30,353</u>	<u>30,353</u>
	<u>\$ 228,150</u>	<u>\$ 408,667</u>

Accounts 503 and 504 are restricted for repayment of the WIFA loans, see note 7. Account 506 is restricted for approved construction under the WIFA loan agreements. Predetermined amounts of the District’s monthly fee revenues are allocated to these accounts.

NOTE 3 Cash and Investments

Cash and investments consist of petty cash on hand in the amount of \$307, cash in banks in the amount of \$163,013 and cash on deposit with Coconino County in the amount of \$675,716. The County Treasurer pools the deposits held at Coconino County with other County and entity monies for investment in the County Treasurer’s pool. The District’s deposits are included in the Treasurer’s investment pool but are not identified with specific investments. The fair value of the District’s position in the pool approximates the value of the District’s pool shares.

Fair value measurements – The Fund 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 SEC. 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.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 3 Cash and Investments, continued

Credit risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The Coconino County Treasurer’s investment pool is unrated.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the counterparty’s failure, the County will not be able to recover the value of its investments or collateral securities that are in an outside party’s possession. The County does not have a formal policy with respect to custodial credit risk.

Concentration of credit risk – The County has no formal policy with respect to limiting the amount the Treasurer may invest in any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The County does not have a formal investment policy with respect to interest rate risk. The Coconino County Treasurer’s investment pool had a weighted average maturity of 485 days at June 30, 2023.

Legal provisions – Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer’s investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and certain open-end and closed-end mutual funds including exchange traded funds. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United State or District of Columbia.

Credit risk – Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investor’ service and Standard and Poor’s rating service. If only one of the above-mention services rates the security, it must carry the highest rating of that service.

Custodial credit risk – Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

PINEWOOD SANITARY DISTRICT

Notes To Financial Statements

June 30, 2024 and 2023

NOTE 3 Cash and Investment, continued

Concentration of credit risk – Statutes do not include any requirements for concentration of credit risk.

Interest rate risk – Statutes require that public monies invested in securities and deposits have a maximum maturity of five years. The maximum maturity for investments in re-purchase agreements is 180 days.

Foreign currency risk – Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

NOTE 4 Acquisition of Plant and Sanitary System

In late 1993, the District initiated proceedings to levy special assessments against benefiting lots and parcels of land within the District to provide money to acquire the sewer collection and treatment system, then owned by the Pinewood Sewer Company and make certain improvements to the system. The special assessment proceedings provided for a levy of \$1,850,000 against 3,009 lots on the basis of \$615 per lot for such acquisitions and improvements. In response to the levy 2,357 lot owners paid the full assessment. The resulting payments were used to purchase the sewer collection and treatment system. The remaining lots pay \$5.25 monthly towards retirement of the levy, which is included as part of service fee revenue.

NOTE 5 Pension and other Postemployment Benefits

The District is eligible to participate in the Arizona State Retirement System (ASRS). Qualified full-time employees are required to participate through payroll deductions, which are matched by the District.

Plan description - The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. This report is available on its website at www.azasrs.gov.

PINEWOOD SANITARY DISTRICT

Notes To Financial Statements

June 30, 2024 and 2023

NOTE 5 Pension and other Postemployment Benefits, continued

Benefits provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
	Sum of years & age equals 80	30 years / age 55
Years of service	10 years / age 62	25 years / age 60
and age required	5 years / age 50*	10 years / age 62
to receive benefit	any years / age 65	5 years / age 50*
		any years / age 65
Final average salary is based on	Highest consecutive 36 months of contributions within the last 120 months	Highest consecutive 60 months of contributions within the last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are eligible for automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. The District was required by statute to contribute at the actuarially determined rate of 12.29 percent (12.03 percent for retirement, 0.11 percent for health benefit supplement and 0.15 percent for long-term disability) for the year ended June 30, 2024 and to contribute at the actuarially determined rate of 12.17 percent (11.60 percent for retirement, 0.39 percent for health benefit supplement and 0.18 percent for long-term disability) for the year ended June 30, 2023 of the members’ annual covered payroll. The District’s contributions to the pension plan for the years ended June 30, 2024 and 2023, were \$77,141 and \$91,037, respectively.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 5 Pension and Other Postemployment Benefits, continued

Pension and OPEB Liability – At June 30, 2024 and 2023, the District reported a liability of \$896,259 and \$966,073, respectively for its proportionate share of the ASRS’ net pension and OPEB liability. The net liability was measured as of June 30, 2023 and 2022, respectively. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2022, to the measurement date of June 30, 2023. The District’s proportion of the net pension liability was based on the District’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2023. The District’s proportion measured as of June 30, 2023, was .00573%, which was a decrease from its proportion of .00613% measured as of June 30, 2022.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2024, the District recognized pension and OPEB expense for ASRS of \$56,788. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,863	\$ 12,245
Differences between projected and actual investment earnings	-	34,258
Changes in assumptions	-	1,732
Changes in proportion and differences between district contributions and proportionate share of contributions	-	124,760
District contributions subsequent to the measurement date	77,141	-
Total	\$ <u>102,004</u>	\$ <u>172,995</u>

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 5 Pension and Other Postemployment Benefits, continued

The \$77,141 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2024	\$ (115,665)
2025	\$ (62,303)
2026	\$ 35,062
2027	\$ (4,804)

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2022
Actuarial roll forward date	June 30, 2023
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9-8.4%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 5 Pension and Other Postemployment Benefits, continued

The long-term expected rate of return on ASRS pension plan investments was determined to be 4.19 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Contribution to Expected Real Return
Public Equity	44%	3.50%	1.54%
Credit	23%	5.90%	1.36%
Real Estate	17%	5.90%	1.00%
Private Equity	10%	6.70%	0.67%
Interest Rate Sensitive	6%	1.50%	0.09%
Total	100%		4.66%

Discount Rate – The discount rate used to measure the ASRS total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 5 Pension and Other Postemployment Benefits, continued

Sensitivity of the District’s proportionate share of the ASRS net pension liability to changes in the discount rate – The following table presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension liability	\$1,388,805	\$896,259	\$542,298

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

NOTE 6 Long-term Obligations

The following is an analysis of the changes in the District’s long-term obligations for the years ending June 30, 2024 and 2023.

	Balance at <u>June 30, 2023</u>	<u>New Issues</u>	<u>Retirements</u>	Balance at <u>June 30, 2024</u>	Due within <u>One Year</u>
WIFA Loan #1	\$ -	\$ -	\$ -	\$ -	\$ -
WIFA Loan #2	-	-	-	-	-
WIFA Loan #3	40,710	-	40,710	-	-
WIFA Loan #4	<u>1,775,111</u>	-	<u>146,074</u>	<u>1,629,037</u>	<u>150,171</u>
Total long-term obligations	<u>\$ 1,815,821</u>	<u>\$ -</u>	<u>\$ 186,784</u>	<u>\$ 1,629,037</u>	<u>\$ 150,171</u>

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 6 Long-term Obligations, continued

	<u>Balance at</u> <u>July 1, 2022</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2023</u>	<u>Due within</u> <u>One Year</u>
WIFA Loan #1	\$ -	\$ -	\$ -	\$ -	\$ -
WIFA Loan #2	-	-	-	-	-
WIFA Loan #3	82,331	-	41,621	40,710	40,710
WIFA Loan #4	<u>1,917,199</u>	-	<u>142,088</u>	<u>1,775,111</u>	<u>146,074</u>
Total long-term obligations	<u>\$ 1,999,530</u>	<u>\$ -</u>	<u>\$ 183,709</u>	<u>\$ 1,815,821</u>	<u>\$ 186,784</u>

NOTE 7 WIFA Loans

In prior years, the District had obtained financing under three WIFA loans for rehabilitation, improvement, and expansion projects for the sewer system. During a prior fiscal year the District entered into a loan agreement for a new \$3,000,000 WIFA loan. This loan is being used to fund expansion projects into new areas of Munds Park and will be repaid by the new customers benefiting from these projects.

The WIFA loans are funded through approved construction draws and bear interest at 2.81% to 3.85%, payable semi-annually. The loan agreements require the District to build a reserve fund of one year's payments during the first five years of the loan. These funds remain with the District and can be used in an emergency with notice to WIFA. The following payment schedule is in effect based on the loan payment schedules provided by WIFA based on the timing and amount of the loan draws and payments.

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	150,171	45,752	195,923
2026	154,384	41,480	195,864
2027	158,712	37,089	195,801
2028	163,166	32,575	195,741
2029	167,743	27,934	195,677
2030-2034	<u>834,861</u>	<u>65,369</u>	<u>900,230</u>
	<u>\$ 1,629,037</u>	<u>\$ 250,199</u>	<u>\$ 1,879,236</u>

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 7 WIFA Loans, continued

The first three loans have been fully drawn while the fourth WIFA loan entered into during the June 30, 2014 fiscal year has received draws to date of \$2,963,631. The loans are being paid back on the previous page payment schedule.

It is the District's policy to capitalize interest associated with WIFA construction loans for construction projects in progress. Interest is expensed after the loan is fully drawn and the projects associated with the loan have been completed. There was no WIFA loan interest capitalized for the years ending June 30, 2024 and 2023, respectively. WIFA loan interest expense was \$48,666 and \$48,573 for the years ended June 30, 2024 and 2023, respectively.

NOTE 8 Capital assets

Capital assets activity for the year ended June 30, 2024 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
Capital assets not being depreciated:					
Land	\$ 108,467				\$ 108,467
Construction in progress	-				-
Total capital assets not depreciated	108,467				108,467
Capital assets being depreciated:					
Plant and sanitary system	16,204,958	162,840			16,367,798
Buildings and land improvements	591,651				591,651
Equipment	2,141,313	349,454	41,614		2,449,153
Total capital assets being depreciated	18,937,922				19,408,602
Less accumulated depreciation	12,633,532	616,076	36,240		13,213,368
Total capital assets being depreciated, net	6,304,390				6,195,234
Total capital assets, net	<u>\$ 6,412,857</u>				<u>\$ 6,303,701</u>

PINEWOOD SANITARY DISTRICT
Notes To Financial Statements
June 30, 2024 and 2023

NOTE 8 Capital assets, continued

Capital assets activity for the year ended June 30, 2023 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
Capital assets not being depreciated:					
Land	\$ 108,467				\$ 108,467
Construction in progress	<u>2,030,770</u>	40,602	14,211	(2,057,161)	<u>-</u>
Total capital assets not depreciated	2,139,237				108,467
Capital assets being depreciated:					
Plant and sanitary system	13,902,565	245,232		2,057,161	16,204,958
Buildings and land improvements	591,651				591,651
Equipment	<u>2,159,967</u>		18,654		<u>2,141,313</u>
Total capital assets being depreciated	16,654,183				18,937,922
Less accumulated depreciation	<u>12,060,307</u>	591,078	17,853		<u>12,633,532</u>
Total capital assets being depreciated, net	<u>4,593,876</u>				<u>6,304,390</u>
Total capital assets, net	<u>\$ 6,733,113</u>				<u>\$ 6,412,857</u>

NOTE 9 Subsequent events

Management has evaluated subsequent events through December 6, 2024, the date which the financial statements were available to be issued, and have determined that no events have occurred subsequent to year end which should be disclosed in the financial statements.

PINEWOOD SANTARY DISTRICT
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Cost Sharing Pension Plans
Year Ended June 30, 2024

	Reporting Fiscal Year (Measurement Date)									
	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Arizona State Retirement System										
District's proportion of the net pension liability	0.0057%	0.0061%	0.0079%	0.0068%	0.0068%	0.0083%	0.0093%	0.0090%	0.0075%	0.0073%
District's proportion share of the net pension liability	\$ 896,259	\$ 966,073	\$ 1,001,041	\$ 1,176,782	\$ 995,442	\$ 1,147,557	\$ 1,435,864	\$ 1,459,147	\$ 1,292,028	\$ 1,106,277
District's covered-employee payroll as a percentage of its covered-employee payroll	\$ 639,060	\$ 756,325	\$ 736,604	\$ 770,094	\$ 811,446	\$ 823,639	\$ 816,107	\$ 896,638	\$ 872,818	\$ 805,011
District's proportionate share of the net pension liability	140.25%	127.73%	135.90%	152.81%	122.68%	139.33%	175.94%	162.74%	148.03%	137.42%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

PINEWOOD SANITARY DISTRICT
Required Supplementary Information
Schedule of District Pension Contributions
Year Ended June 30, 2024

	Fiscal Year										
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	
Arizona State Retirement System											
Actuarially determined contribution	\$ 77,141	\$ 91,037	\$ 87,600	\$ 112,131	\$ 88,124	\$ 84,803	\$ 93,444	\$ 103,556	\$ 97,117	\$ 88,655	
District's contributions in relation to the actuarially determined contribution	77,141	91,037	87,600	112,131	88,124	84,803	93,444	103,556	97,117	88,655	
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
District's covered-employee payroll	\$ 639,060	\$ 756,325	\$ 736,604	\$ 770,094	\$ 811,446	\$ 823,639	\$ 816,107	\$ 896,638	\$ 872,818	\$ 799,084	
District's contributions as a percentage of covered-employee payroll	12.07%	12.04%	11.89%	14.56%	10.86%	10.30%	11.45%	11.55%	11.13%	11.09%	