



Tri-City Regional Sanitary District
Single Audit Reporting Package
For the Year Ended June 30, 2023

Tri-City Regional Sanitary District

Single Audit Reporting Package
Year Ended June 30, 2023

Tri-City Regional Sanitary District

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Independent Auditor's Report

Board of Directors
Tri-City Regional Sanitary District

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Tri-City Regional Sanitary District (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-City Regional Sanitary District, as of June 30, 2023, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. 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 Tri-City Regional Sanitary District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 and *Government 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. In performing an audit in accordance with generally accepted auditing standards and *Government 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, on our consideration of Tri-City Regional Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Tri-City Regional Sanitary District's 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 Tri-City Regional Sanitary District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
March 25, 2024

**Tri-City Regional Sanitary District
Management's Discussion and Analysis
Year Ended June 30, 2023**

As management of the Tri-City Regional Sanitary 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 year ended June 30, 2023. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

Financial Highlights

- The District had a net position of \$1.3 million at year end.
- The District's total net position increased \$167,387 or fifteen percent from the prior fiscal year primarily due to a decrease in contract service costs.
- Nonoperating revenues accounted for \$253,839, and primarily consisted of property taxes.
- Operating expenses of \$101,540 primarily consisted of contract service costs.

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) financial statements and 2) notes to the financial statements.

Financial statements. The financial statements consist of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The accrual basis of accounting is used for the financial statements.

The statement of net position presents information on all of 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 presents the District's cash flows from operating, investing, capital, and non-capital activities.

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.

**Tri-City Regional Sanitary District
Management’s Discussion and Analysis
Years Ended June 30, 2023**

Financial Analysis of the District

Net position may serve over time as a useful indicator of financial position. In the case of the District, assets totaled \$4.7 million and liabilities totaled \$3.4 million resulting in net position of \$1.3 million as of year end.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., construction in progress), less any related outstanding debt or outstanding payments on construction contracts used to acquire those assets. The District will use these capital assets to provide future services when fully operational; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance is unrestricted and may be used to meet the District’s ongoing obligations to its citizens.

The following table presents a summary of the District’s net position for the fiscal years ended June 30, 2023 and June 30, 2022.

	<u>As of June 30, 2023</u>	<u>As of June 30, 2022</u>
Current and other assets	\$ 465,202	\$ 790,720
Capital assets	4,200,222	3,249,902
Total assets	4,665,424	4,040,622
Current liabilities	3,411,263	1,563,818
Long-term liabilities	1,390,030	1,390,030
Total liabilities	3,411,263	2,953,848
Net position:		
Net investment in capital assets	795,325	299,054
Unrestricted	458,836	787,720
Total net position	\$ 1,254,161	\$ 1,086,774

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

- The addition of \$950,320 in capital assets through the purchase of design, engineering, permitting, and legal services is a significant transaction that had an impact on the Statement of Net Position.
- The addition of \$2.0 million in long-term debt due to additional drawdowns of the Water Infrastructure Finance Authority (WIFA) loan.

**Tri-City Regional Sanitary District
Management’s Discussion and Analysis
Years Ended June 30, 2023**

Financial Analysis of the District

Changes in Net Position – The District’s total revenues for the current fiscal year were \$294,351. The total cost of all operations and services was \$126,964. The following table presents a summary of the changes in net position for the years ended June 30, 2023 and June 30, 2022.

	Fiscal Year Ended <u>June 30, 2023</u>	Fiscal Year Ended <u>June 30, 2022</u>
Nonoperating revenues:		
Property taxes	\$ 248,480	\$ 233,081
Interest income	5,359	2,308
Capital contributions		
Grants	<u>40,512</u>	<u>480,340</u>
Total revenues	<u>294,351</u>	<u>715,729</u>
Operating expenses:		
Contract services	81,757	270,464
Facilities and operations	5,784	5,400
Insurance	9,388	6,016
Travel and meetings	4,241	1,745
Other	370	312
Nonoperating expenses:		
Interest and fiscal charges	<u>25,424</u>	<u>4,281</u>
Total expenses	<u>126,964</u>	<u>288,218</u>
Change in net position	167,387	427,511
Beginning net position	<u>1,086,774</u>	<u>659,263</u>
Ending net position	<u>\$ 1,254,161</u>	<u>\$ 1,086,774</u>

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

- The decrease in capital contributions of \$439,828 was due to a decrease in receipts of the capital grant from the federal government.
- The decrease of \$188,707 in contract services was primarily due to a decrease in bond counsel and financial advisor fees.

Capital Assets and Debt Administration

Capital Assets. At year end, the District had invested \$4.2 million in capital assets, consisting entirely of construction in progress. This amount represents a net increase of \$1.0 million from the prior fiscal year due to the purchase of design, engineering, permitting, and legal services for a wastewater treatment system. The estimated cost to complete current construction projects is \$24.5 million. The District did not incur depreciation expense for the current year as there are no depreciable capital assets. Additional information on the District’s capital assets can be found in Note 3.

**Tri-City Regional Sanitary District
Management's Discussion and Analysis
Years Ended June 30, 2023**

Capital Assets and Debt Administration

Debt Administration. At year end, the District had \$3.4 million in long-term debt outstanding, an increase of \$2.0 million due to additional drawdowns of the WIFA loan. Additional information on the District's long-term debt can be found in Note 4.

Economic and Other Factors

Phase I of the TRSD Wastewater Collection and Treatment Project has been funded by USDA – Rural Development (RD) and TRSD anticipates beginning Phase I construction in the third quarter of 2024, with Phase I operations to commence in the fourth quarter of 2025. The delayed Federal Budget process has impacted RD's funding for Phases II and III of the Project . Regardless, TRSD maintains the ability to pay operating expenses incurred during Phase I operations while continuing to pursue the beginning of Phases II and III engineering and construction activities.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and benefactors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Tri-City Regional Sanitary District, c/o Harper Law Offices; 111 W. Cedar Lane, Suite C; Payson, Arizona 85541.

Tri-City Regional Sanitary District
Statement of Net Position
June 30, 2023

Assets

Current assets:

Cash and investments	\$	446,989
Property tax receivable		12,137
Prepaid expenses		<u>6,076</u>
Total current assets		<u>465,202</u>

Noncurrent assets:

Capital assets, not being depreciated		<u>4,200,222</u>
Total noncurrent assets		<u>4,200,222</u>
Total assets		<u><u>4,665,424</u></u>

Liabilities

Current liabilities:

Accounts payable		6,366
Construction contracts payable		36,545
Loan payable - current portion		<u>3,368,352</u>
Total current liabilities		<u>3,411,263</u>
Total liabilities		<u><u>3,411,263</u></u>

Net position

Net investment in capital assets		795,325
Unrestricted		<u>458,836</u>
Total net position		<u><u>\$ 1,254,161</u></u>

Tri-City Regional Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023

Operating expenses	
Contract services	\$ 81,757
Facilities and operations	5,784
Insurance	9,388
Travel and meetings	4,241
Other	370
Total operating expenses	101,540
Operating income (loss)	(101,540)
Nonoperating revenues (expenses)	
Property taxes	248,480
Investment income	5,359
Interest and fiscal charges	(25,424)
Total nonoperating revenues (expenses)	228,415
Income (loss) before capital contributions	126,875
Capital contributions	
Grants	40,512
Change in net position	167,387
Total net position, beginning of year	1,086,774
Total net position, end of year	\$ 1,254,161

**Tri-City Regional Sanitary District
Statement of Cash Flows
For the Year Ended June 30, 2023**

Increase in Cash and Investments

Cash flows from operating activities

Cash payments to vendors	\$ (95,470)
Net cash used for operating activities	(95,470)

Cash flows from investing activities

Interest income	5,359
Net cash provided by investing activities	5,359

Cash flows from noncapital financing activities

Property tax receipts	246,796
Net cash provided by noncapital financing activities	246,796

Cash flows from capital and related financing activities

Acquisition and construction of capital assets	(2,474,593)
Capital grants	520,852
Loan proceeds	1,978,322
Interest and fiscal charges	(25,424)
Net cash used for capital and related financing activities	(843)

Net increase in cash and investments	155,842
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Cash and investments, beginning of year	291,147
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Cash and investments, end of year	\$ 446,989
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Reconciliation of operating loss to net cash used for operating activities

Operating loss	\$ (101,540)
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Adjustments to reconcile operating loss to net cash used for operating activities:

(Increase) decrease	
Prepaid expenses	2,704
Increase (decrease)	
Accounts payable	3,366
Net cash used for operating activities	\$ (95,470)

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Tri-City Regional Sanitary District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2023, the District implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This Statement increases the usefulness of the financial statements by requiring the recognition of certain assets and liabilities for SBITAs. This Statement also requires a government to disclose essential information about the arrangement. The District's analysis of SBITAs in effect at the beginning of the year resulted in no changes to beginning balances reported in the financial statements due to the implementation of this standard.

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

A. Reporting Entity

The Tri-City Regional Sanitary District was organized as a District in 2011, under the laws of the State of Arizona. The District was formed with a foundation and mission to improve the quality of life for the Tri-City area of southern Gila County, Arizona by developing a plan to provide and manage a new wastewater collection and treatment system. The District's geographical area is comprised of Lower Miami, Claypool, Miami Gardens, Country Club Manor, Midland City, Bechtel Tract and Central Heights. The District is administered by a board of five members, and management of operations is performed entirely by Board members as the District has no employees. Revenues received by the District are primarily property taxes until the sewer system is operational, at which time charges for services will be collected.

The financial reporting entity consists of a primary government and its component units. 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 a single enterprise fund, which represents the only funds of those organizational entities for which its elected governing board is financially accountable.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 1 – Summary of Significant Accounting Policies

B. Principles of Reporting

The District accounts for its operations using the Governmental Enterprise Fund Concept. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing sewer services to the users are financed through use charges.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting relates to the timing of the measurements made and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the District are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. The District does not have any operating revenues. Operating expenses for the District 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.

D. 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 and investment held by the County Treasurer and cash in bank.

A.R.S. requires the District to deposit certain cash with the County Treasurer. That cash is pooled for investment purposes. Interest earned from investments purchased with pooled monies is allocated to the District's fund based on average balances. All investments are stated at fair value.

Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. 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 federal depository 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.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 1 – Summary of Significant Accounting Policies

E. Property Tax Calendar and Property Taxes Receivable

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal property taxes 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.

F. 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.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

H. Capital Assets

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 one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the 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.

Capital assets are depreciated using the straight-line method over the estimated useful life of the asset. Intangible right-to-use assets are amortized over the shorter of the lease/subscription term or the underlying asset's useful life. There were no depreciable capital assets at year end.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 1 – Summary of Significant Accounting Policies

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net 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 assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

J. Long Term Obligations

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

K. Net Position Flow Assumption

In the financial statements the District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

L. 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.

Note 2 – Cash and Investments

A.R.S. authorize the District to invest public monies in the State Treasurer’s local government investment pools, the County Treasurer’s investment pool, obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the District’s investments.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 2 – Cash and Investments

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 \$168 and the bank balance was \$168.

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	1.06 years	\$ 446,821

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. At 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.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 3 – Capital Assets

A summary of capital asset activity for the current and prior fiscal years follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 3,249,902	\$ 950,320	\$	\$ 4,200,222
Total capital assets, not being depreciated	<u>3,249,902</u>	<u>950,320</u>	<u>\$</u>	<u>4,200,222</u>
Capital assets, net	<u>\$ 3,249,902</u>	<u>\$ 950,320</u>	<u>\$</u>	<u>\$ 4,200,222</u>

Contractual Commitments – At year end, the District had contractual commitments related to phase I of the wastewater treatment system, and had spent \$4.2 million on the project with estimated remaining contractual commitments of \$24.5 million to complete the project. The project will be funded with existing debt, as well as additional debt and federal funding to be obtained in future years.

Note 4 – Loan Payable

The District has entered into a Water Infrastructure Finance Authority (WIFA) loan agreement to finance the engineering and design for phase I of the wastewater treatment system. The funding is drawn-down from the lender as the costs are incurred, as such not all proceeds have been received as of year-end. During the current year, the District drew-down additional WIFA proceeds of \$2.0 million related to this loan.

<u>Business-type activity:</u>	Original Amount Issued	Interest Rate (Including Fees)	Remaining Maturities	Outstanding Principal June 30, 2023
WIFA Loan, 710195-22	\$ 5,500,000	1.00%	7/1/24	\$ 3,368,352

At June 30, 2023, the future principal payment for the loan payable, due in fiscal year 2024, was \$3.4 million and the interest due for this future minimum loan payable payment was \$33,684.

Pledged Revenues – The WIFA loan is considered a general obligation of the District and is secured by property taxes levied on all taxable property within the boundaries of the District. While secured by property taxes, the loan can be paid from any revenue source. As of year-end, and reflecting the total proceeds received to date, the total principal and interest to be paid on the loan is \$3.4 million. The current property tax revenue was \$231,841 and the total principal, interest, and fees paid on the loan was \$25,424, or eleven percent of property tax revenues.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 5 – Funding Arrangements

USDA

In August 2018, the District received a Letter of Conditions from the U.S. Department of Agriculture (USDA), which specifies conditions to be met to secure \$28.1 million in loan and grant funding for phase I of the wastewater treatment system. The conditions include, but are not limited to, environmental assessments of floodplains, cultural sites and biological impacts; property rights and rights-of-way; construction bid tabulation review by the federal agency; and interim financing during the design, engineering and construction phases of the project.

In June 2022, the District applied for additional USDA funding of approximately \$35.2 million in loan and/or grant funding for phase II of the wastewater treatment system. As of March 25, 2024, the District is awaiting USDA approval of this application.

In June 2022, the District applied for additional USDA funding of approximately \$35.4 million in loan and/or grant funding for phase III of the wastewater treatment system. As of March 25, 2024, the District is awaiting USDA approval of this application.

WIFA

In December 2022, the District applied for two additional WIFA loans of approximately \$7.8 million to help fund design and engineering costs associated with phases II and III of the wastewater treatment system. In March 2023, the District was notified that the applications were approved, but were contingent upon the USDA funding applications and cannot be drawn-down upon until USDA provides a Letter of Conditions for phases II and III. The WIFA loans include a one percent effective interest rate and a three-year repayment term.

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The District carries commercial insurance for all risks of loss, including property and liability and public official insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Tri-City Regional Sanitary District
Notes to Financial Statements
June 30, 2023

Note 7 – Contingent Liabilities

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Note 8 – Subsequent Events

The following significant events have occurred subsequent to June 30, 2023.

- In August 2023, the District awarded a competitive procurement contract to a vendor who will construct the wastewater treatment plant on the land acquired from BHP.
- In September 2023, the District entered into a real property transfer agreement with BHP Copper, Inc. (BHP) for a tract of land located in Gila County, Arizona. The District plans to construct the wastewater treatment plant on the land. In exchange, BHP has the right to purchase reclaimed water from the District for a period of 20 years, in five-year increments.
- In September 2023, the District applied to WIFA for EPA Emerging Containments Funding of approximately \$2.1 million to help fund the wastewater reclamation facility site prep construction for phase I, \$1.5 million for phase II (unassigned), and \$1.5 million for phase III (unassigned). In February 2024, the District was notified that only the \$2.1 million for phase I has been authorized and is anticipated to be received in March/April 2024.
- In November 2023, the District applied to WIFA for Water Conservation Grant Funding of approximately \$9.0 million to help fund construction costs associated with phases I, II and III of the wastewater treatment system. As of March 25, 2024, the District is awaiting WIFA approval of this application.
- As of March 25, 2024, the District has drawn-down additional WIFA proceeds of approximately \$577,492 associated with Loan 710195-22.
- As of March 25, 2024, the District's legal counsel and financial advisor are in the process of obtaining an extension for the July 1, 2024, payment due on WIFA Loan 710195-22, as well as, interim financing from WIFA or another lender to cover the cost of the payment due.

Single Audit Section

**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
Tri-City Regional Sanitary District

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 Tri-City Regional Sanitary District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Tri-City Regional Sanitary District’s basic financial statements, and have issued our report thereon dated March 25, 2024. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tri-City Regional Sanitary District’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-City Regional Sanitary District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-City Regional Sanitary 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 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Tucson, Arizona

March 25, 2024

**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Board of Directors
Tri-City Regional Sanitary District

Report on Compliance for Each Major Federal Program
Opinion on Each Major Federal Program

We have audited Tri-City Regional Sanitary District’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Tri-City Regional Sanitary District’s major federal programs for the year ended June 30, 2023. Tri-City Regional Sanitary District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Tri-City Regional Sanitary District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Tri-City Regional Sanitary District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Tri-City Regional Sanitary District’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Tri-City Regional Sanitary District’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Tri-City Regional Sanitary District's compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate it would influence the judgment made by a reasonable user of the report on compliance about Tri-City Regional Sanitary District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Tri-City Regional Sanitary District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Tri-City Regional Sanitary District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Tri-City Regional Sanitary District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Tri-City Regional Sanitary District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Tri-City Regional Sanitary District's basic financial statements. We issued our report thereon dated March 25, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Tucson, Arizona

March 25, 2024

**Tri-City Regional Sanitary District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

<u>Federal/Pass-Through/Agency</u>	<u>AL Number</u>	<u>Federal Award Number</u>	<u>Total Expenditures and Transfers</u>
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ <u>942,355</u>
Total Expenditures of Federal Awards			\$ <u><u>942,355</u></u>

Tri-City Regional Sanitary District
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Significant Accounting Policies Used in Preparing the SEFA

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Tri-City Regional Sanitary District under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

10% De Minimis Indirect Cost Rate

The auditee did not use the de minimis indirect cost rate.

Assistance Listing Numbers

The program titles and Assistance Listing numbers were obtained from the federal or pass-through grantor or through sam.gov. If the three-digit Assistance Listing extension is unknown, there is a U followed by a two-digit number in the Assistance Listing extension to identify one or more Federal award lines from that program. The first Federal program with an unknown three-digit extension is indicated with U01 for all award lines associated with that program, the second is U02, etc.

Water and Waste Disposal Systems for Rural Communities

According to U.S. Department of Agriculture (USDA) guidance for the Water and Waste Disposal Systems for Rural Communities (ALN 10.760), expenditures of interim financing are to be considered federal in nature and included on the Schedule. As such, the amounts reported on the Schedule include costs incurred in the current fiscal year that will be reimbursed by the USDA at a future date.

**Tri-City Regional Sanitary District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023**

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: No

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: No

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: No

Findings and Questioned Costs Related to Federal Awards: No

Summary Schedule of Prior Audit Findings required to be reported: Yes



TRI-CITY REGIONAL SANITARY DISTRICT

March 25, 2024

To Whom It May Concern:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The status for each finding included in the prior year audit's Schedule of Findings and Questioned Costs has been provided.

Sincerely,

Robert Jacques
Board President

**Tri-City Regional Sanitary District
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2023**

**Status of Findings Related to Financial Statements Reported in Accordance with
*Government Auditing Standards***

Finding Number: FS-2022-001, FS-2021-001
Status: Fully corrected.