



**Tri-City Regional Sanitary District**  
**Single Audit Reporting Package**  
For the Year Ended June 30, 2024

# Tri-City Regional Sanitary District

Single Audit Reporting Package  
Year Ended June 30, 2024

## 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, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the 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, 2024, 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.

#### ***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 May 2, 2025, 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  
May 2, 2025

**Tri-City Regional Sanitary District  
Management's Discussion and Analysis  
Year Ended June 30, 2024**

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, 2024. 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 \$917,457 at year end.
- The District's total net position decreased \$336,704 or 27 percent from the prior fiscal year primarily due to costs associated with new debt agreements.
- Nonoperating revenues accounted for \$250,392, and primarily consisted of property taxes.
- Operating expenses of \$157,878 primarily consisted of contract service costs.
- Nonoperating expenses of \$687,218 primarily consisted of debt issuance 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, 2024**

**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 \$6.3 million and liabilities totaled \$5.4 million resulting in net position of \$917,457 as of year end.

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, 2024 and June 30, 2023.

	<u>As of June 30, 2024</u>	<u>As of June 30, 2023</u>
Current and other assets	\$ 797,425	\$ 465,202
Capital assets	5,493,495	4,200,222
Total assets	<u>6,290,920</u>	<u>4,665,424</u>
Current liabilities	559,833	42,911
Long-term liabilities	4,813,630	3,368,352
Total liabilities	<u>5,373,463</u>	<u>3,411,263</u>
Net position:		
Net investment in capital assets	149,187	795,325
Unrestricted	768,270	458,836
Total net position	<u>\$ 917,457</u>	<u>\$ 1,254,161</u>

The District’s financial position is the product of several financial transactions including the net result of activities, the acquisition and payment 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 \$1.3 million 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 \$5.6 million in long-term debt due to additional drawdowns of the Water Infrastructure Finance Authority (WIFA) funds and the issuance of a bond anticipation note; and the reduction of \$4.1 million in long term debt due to the retirement of one WIFA loan.

**Tri-City Regional Sanitary District  
Management’s Discussion and Analysis  
Years Ended June 30, 2024**

**Financial Analysis of the District**

**Changes in Net Position** – The District’s total revenues for the current fiscal year were \$508,392. The total cost of all operations and services was \$845,096. The following table presents a summary of the changes in net position for the years ended June 30, 2024 and June 30, 2023.

	Fiscal Year Ended <u>June 30, 2024</u>	Fiscal Year Ended <u>June 30, 2023</u>
Nonoperating revenues:		
Property taxes	\$ 239,251	\$ 248,480
Interest income	11,141	5,359
Capital contributions		
Grants	240,000	40,512
Donated land	18,000	
Total revenues	<u>508,392</u>	<u>294,351</u>
Operating expenses:		
Contract services	126,946	81,757
Facilities and operations	16,203	5,784
Insurance	6,588	9,388
Travel and meetings	7,166	4,241
Other	975	370
Nonoperating expenses:		
Interest and fiscal charges	43,588	25,424
Debt issuance costs	643,630	
Total expenses	<u>845,096</u>	<u>126,964</u>
Change in net position	(336,704)	167,387
Beginning net position	<u>1,254,161</u>	<u>1,086,774</u>
Ending net position	<u>\$ 917,457</u>	<u>\$ 1,254,161</u>

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

- The increase in capital contributions of \$217,488 was due primarily to federal COVID-19 grant monies received by the District.
- The increase of \$661,794 in nonoperating expenses was primarily due to increased fees related to financial, consulting, and legal work associated with new debt issuances.

**Tri-City Regional Sanitary District  
Management's Discussion and Analysis  
Years Ended June 30, 2024**

**Capital Assets and Debt Administration**

**Capital Assets.** At year end, the District had invested \$5.5 million in capital assets, primarily consisting of construction in progress. This amount represents a net increase of \$1.3 million from the prior fiscal year due to purchase of design, engineering, permitting, and legal services for a wastewater treatment system. The estimated cost to complete current construction projects is \$42.7 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.

**Debt Administration.** At year end, the District had \$4.8 million in long-term debt outstanding, a net increase of \$1.4 million primarily due to additional drawdowns of WIFA funds and a bond anticipation note. Additional information on the District's long-term debt can be found in Notes 4 through 6.

**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 second quarter of 2025, with Phase I operations to commence in the fourth quarter of 2026. Due to the size and scope of this project, RD is waiting to understand what the actual Phase 1 bid price (cost of Phase 1) is so they know better with real prices what Phase 2 & 3 will cost since original estimates were completed in 2018. 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, 2024**

**Assets**

Current assets:

Cash and investments	\$	536,517
Grant receivable		240,000
Property tax receivable		14,674
Prepaid expenses		6,234
Total current assets		797,425

Noncurrent assets:

Capital assets, not being depreciated		5,493,495
Total noncurrent assets		5,493,495
<b>Total assets</b>		<b>6,290,920</b>

**Liabilities**

Current liabilities:

Accounts payable		22,345
Construction contracts payable		530,678
Accrued interest		6,810
Total current liabilities		559,833

Noncurrent liabilities:

Loans payable		195,850
Notes payable		4,617,780
Total noncurrent liabilities		4,813,630
<b>Total liabilities</b>		<b>5,373,463</b>

**Net position**

Net investment in capital assets		149,187
Unrestricted		768,270
<b>Total net position</b>	\$	<b>917,457</b>

**Tri-City Regional Sanitary District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2024**

<b>Operating expenses</b>	
Contract services	\$ 126,946
Facilities and operations	16,203
Insurance	6,588
Travel and meetings	7,166
Other	975
<b>Total operating expenses</b>	<u>157,878</u>
<b>Operating income (loss)</b>	<u>(157,878)</u>
<b>Nonoperating revenues (expenses)</b>	
Property taxes	239,251
Investment income	11,141
Interest and fiscal charges	(43,588)
Debt issuance costs	<u>(643,630)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(436,826)</u>
<b>Income (loss) before capital contributions</b>	(594,704)
<b>Capital contributions</b>	
Grants	240,000
Donated land	<u>18,000</u>
<b>Change in net position</b>	(336,704)
<b>Total net position, beginning of year</b>	1,254,161
<b>Total net position, end of year</b>	<u><u>\$ 917,457</u></u>

**Tri-City Regional Sanitary District**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2024**

**Increase in Cash and Investments**

**Cash flows from operating activities**

Cash payments to vendors	\$ (142,057)
<b>Net cash used for operating activities</b>	<b><u>(142,057)</u></b>

**Cash flows from investing activities**

Interest income	11,141
<b>Net cash provided by investing activities</b>	<b><u>11,141</u></b>

**Cash flows from noncapital financing activities**

Property tax receipts	236,714
<b>Net cash provided by noncapital financing activities</b>	<b><u>236,714</u></b>

**Cash flows from capital and related financing activities**

Acquisition and construction of capital assets	(781,140)
Debt proceeds	5,592,616
Interest and fiscal charges	(36,778)
Principal paid on debt	(4,147,338)
Debt issuance costs	(643,630)
<b>Net cash used for capital and related financing activities</b>	<b><u>(16,270)</u></b>

<b>Net increase in cash and investments</b>	<b><u>89,528</u></b>
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Cash and investments, beginning of year	446,989
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Cash and investments, end of year	<b><u><u>\$ 536,517</u></u></b>
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**Reconciliation of operating loss to net cash used for operating activities**

Operating loss	\$ (157,878)
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Adjustments to reconcile operating loss to net cash used for operating activities:

(Increase) decrease	
Prepaid expenses	(158)
Increase (decrease)	
Accounts payable	15,979
<b>Net cash used for operating activities</b>	<b><u><u>\$ (142,057)</u></u></b>

**Noncash capital and related financing activities:**

Contribution of capital assets	\$ 18,000
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**Tri-City Regional Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2024**

**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.

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.

**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.

**Tri-City Regional Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2024**

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

**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, 2024**

**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, 2024**

**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, 2024**

**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 \$3,055 and the bank balance was \$3,055.

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

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

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

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

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer’s investment pool	0.49 years	\$ 533,462

*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, 2024**

**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:				
Land	\$	\$ 18,000	\$	\$ 18,000
Construction in progress	4,200,222	1,275,273		5,475,495
Total capital assets, not being depreciated	4,200,222	1,293,273		5,493,495
Capital assets, net	\$ 4,200,222	\$ 1,293,273	\$	\$ 5,493,495

**Contractual Commitments** – At year end, the District had contractual commitments related to phase I of the wastewater treatment system, and had spent \$5.5 million on the project with estimated remaining contractual commitments of \$42.7 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) forgivable loan agreement to finance the engineering and design for phase I of the wastewater treatment system. The funding source of the loan is the U.S. Environmental Protection Agency (EPA). The total amount authorized of \$2.1 million will be fully forgiven at the completion of construction, and after confirmation that all conditions have been satisfied. If a violation of the terms and conditions occurs, the agreement will convert to a standard non-forgivable loan. The funding is drawn-down from WIFA as the costs are incurred, and as such not all proceeds have been received as of year-end. During the current year, the District drew-down proceeds of \$195,850 related to this agreement.

As long as the agreement continues to meet WIFA's criteria as a forgivable loan, there are no anticipated principal and interest payments. If in a future period WIFA determines that the loan is no longer forgivable, repayment terms will be established based upon the amount drawn-down at that future date, to include a schedule of principal and interest payment dates. Additionally, the non-forgivable loan would also include the following terms.

<u>Business-type activity:</u>	<u>Total Amount Authorized</u>	<u>Interest Rate (including Fees)</u>	<u>Maturity Date</u>	<u>Outstanding Principal June 30, 2024</u>
WIFA (910216-24)	\$ 2,068,000	2.64%	7/1/44	\$ 195,850

**Tri-City Regional Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2024**

**Note 5 – Bond Anticipation Note**

The District has entered into a \$12.0 million bond anticipation note (BAN) with a private bank to provide funds for the repayment of a WIFA loan, and for the construction costs associated with phase I of the wastewater treatment system. The BAN is considered long term in nature as the maturity date is greater than 12 months after fiscal year end, and the District intends to refinance the BAN with the August 2018 USDA federal funding when received. The BAN funding is drawn-down from the lender as costs are incurred and, as such, not all proceeds have been received as of year end. Interest associated with the BAN is variable and is based on daily Secured Overnight Financing Rate (SOFR) plus 1.45%. The District paid \$6,810 of interest during the current fiscal year. Future interest payments presented below are based upon principal amounts drawn to date and the interest rate calculated at fiscal year end of 6.76%.

<u>Business-type activity:</u>	<u>Total Amount Authorized</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding Principal June 30, 2024</u>
Bond anticipation note	\$ 12,000,000	SOFR + 1.45%	6/6/26	\$ 4,617,780

Future principal and interest payments for the BAN proceeds received to date are summarized as follows:

Year ending June 30	<u>Principal</u>	<u>Interest</u>
2025	\$	\$ 315,630
2026	4,617,780	295,687
Total	<u>\$ 4,617,780</u>	<u>\$ 611,317</u>

**Note 6 – Changes in Long-Term Liabilities**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Loans payable	\$3,368,352	\$ 974,836	\$ 4,147,338	\$ 195,850	\$
Notes payable		4,617,780		4,617,780	
Total	<u>\$3,368,352</u>	<u>\$ 5,592,616</u>	<u>\$ 4,147,338</u>	<u>\$ 4,813,630</u>	<u>\$</u>

**Tri-City Regional Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2024**

**Note 7 – Funding Arrangements**

USDA

In August 2018, the District received a Letter of Conditions (LOC) 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 May 2, 2025, the USDA has not yet issued a LOC as it is contingent upon the actual phase I bid price (cost of phase I), which is anticipated to occur during fiscal year 2024-2025.

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 May 2, 2025, the USDA has not yet issued a LOC as it is contingent upon the actual phase I bid price (cost of phase I), timing for the phase III LOC is currently unknown.

**Note 8 – 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.

**Note 9 – 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.

**Tri-City Regional Sanitary District**  
**Notes to Financial Statements**  
**June 30, 2024**

**Note 9 – Contingent Liabilities**

**Real property transfer agreement** – During fiscal year 2023-24, the District entered into a real property transfer agreement with BHP, Inc (BHP) for a tract of land in Gila County, Arizona, to be used by the District for the construction of a wastewater treatment plant. The terms of the agreement state that the property reverts to BHP if construction is not completed within 20 years of the property transfer. In exchange for the real property, the District has provided BHP the right to purchase reclaimed water from the operational wastewater plant for a period of 20 years, in five year increments. The reclaimed water will be sold at a rate consistent with the median rate charged by other effluent sellers in the region.

**Note 10 – Subsequent Events**

As of May 2, 2025, the District has drawn-down additional BAN funding of approximately \$1.3 million.

**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, 2024, 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 May 2, 2025.

**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

May 2, 2025

**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, 2024. 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, 2024.

***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 (*Government Auditing Standards*); 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, 2024, 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 May 2, 2025, 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  
May 2, 2025

**Tri-City Regional Sanitary District  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2024**

<u>Federal/Pass-Through/Agency</u>	<u>AL Number</u>	<u>Federal Award Number</u>	<u>Total Expenditures and Transfers</u>
<b><u>U.S. Department of Agriculture</u></b>			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 1,501,709
<b><u>U.S. Department of Treasury</u></b>			
Passed through Water Infrastructure Finance Authority of Arizona:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	WC6-250-2024	240,000
<b><u>Environmental Protection Agency</u></b>			
Passed through Water Infrastructure Finance Authority of Arizona:			
Clean Water State Revolving Fund	66.458	CW 018-2024 / 2024-150	<u>195,850</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ <u><u>1,937,559</u></u></b>

**Tri-City Regional Sanitary District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2024**

**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, 2024. 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.

**Clean Water State Revolving Fund**

Funds received from the Water Infrastructure Finance Authority of Arizona (WIFA) are structured as a forgivable loan. The loan principal will be fully forgiven at the completion of construction, and after confirmation that all conditions have been satisfied. As of year end, the forgivable loan outstanding is \$195,850.

**Tri-City Regional Sanitary District  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2024**

**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: No**