

# **Blue Ridge Domestic Water Improvement District**

**Financial Statements and  
Independent Accountants' Review Report**

**June 30, 2024**




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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of  
Blue Ridge Domestic Water Improvement District

We have reviewed the accompanying financial statements of Blue Ridge Domestic Water Improvement District (the District,) a nonprofit organization, which comprise the statement of net position as of June 30, 2024, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Blue Ridge Domestic Water Improvement District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on page 13 through page 14 be presented to supplement the basic financial statements. Such information, although not a required 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. Such information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information and we do not express an opinion, a conclusion, nor provide any assurance on it.

Haynie & Company  
Flagstaff, AZ

December 15, 2024

# Blue Ridge Domestic Water Improvement District

## Statement of Net Position

June 30, 2024

|  | <u>2024</u>               |
|--|---------------------------|
| <b><u>Assets</u></b>                         |                           |
| <b>Current assets:</b>                       |                           |
| Cash and cash equivalents                    | \$ 98,901                 |
| Accounts receivable, net                     | 19,123                    |
| Prepaid expenses                             | 12,336                    |
| Total current assets                         | <u>130,360</u>            |
| <b>Noncurrent assets:</b>                    |                           |
| Capital Assets - Property and equipment, net | 1,589,549                 |
| Goodwill, net                                | 940,211                   |
| Total noncurrent assets                      | <u>2,529,760</u>          |
| <b>Total assets</b>                          | <u><u>\$2,660,120</u></u> |
| <b><u>Liabilities and Net Assets</u></b>     |                           |
| <b>Current liabilities:</b>                  |                           |
| Accounts payable                             | \$ 11,334                 |
| Accrued liabilities                          | 25,210                    |
| Customer prepayments                         | 16,938                    |
| Long-term debt - Current portion             | 111,942                   |
| Total current liabilities                    | <u>165,424</u>            |
| <b>Noncurrent liabilities:</b>               |                           |
| Long-term debt                               | 2,337,327                 |
| Forgivable portion                           | 402,500                   |
| Less Current portion                         | <u>(111,942)</u>          |
| Long-term debt, net of Current portion       | 2,627,885                 |
| Meter and security deposits                  | 56,078                    |
| Total noncurrent liabilities                 | <u>2,683,963</u>          |
| <b>Total liabilities</b>                     | 2,849,387                 |
| <b>Net position:</b>                         |                           |
| Unrestricted                                 | <u>(189,267)</u>          |
| Total net position                           | <u>(189,267)</u>          |
| <b>Total liabilities and net position</b>    | <u><u>\$2,660,120</u></u> |

See accompanying notes and Independent Accountants' Review Report

**Blue Ridge Domestic Water Improvement District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2024**

|                                       | <b>2024</b>  |
|---------------------------------------|--------------|
| <b>Operating Support and Revenue:</b> |              |
| Metered water sales                   | \$ 384,134   |
| Hookup and establishment fees         | 21,425       |
| Meter installation fees               | 11,150       |
| Reconnection fees                     | 1,575        |
| Late payment and other fees           | 1,746        |
| Total operating support and revenue   | 420,030      |
| <b>Operating Expenses:</b>            |              |
| Purchased power                       | 22,087       |
| Materials and supplies                | 1,315        |
| Repairs and maintenance               | 62,862       |
| Office supplies and expense           | 15,601       |
| Management fees                       | 121,012      |
| Professional services                 | 19,819       |
| Other contractual services            | 96,396       |
| Insurance                             | 16,239       |
| Licenses and permits                  | 1,109        |
| Other expenses                        | 933          |
| Total Expenses                        | 357,373      |
| <b>Non-operating activities</b>       |              |
| Interest income                       | 1            |
| Gain on sale of assets                | 3,000        |
| Amortization expense - Goodwill       | (81,449)     |
| Depreciation expense                  | (54,957)     |
| Interest and fees - WIFA              | (37,100)     |
| Total non-operating activities        | (170,505)    |
| <b>Change in Net Position</b>         | (107,848)    |
| Net position beginning of year        | (81,419)     |
| Net position end of year              | \$ (189,267) |

See accompanying notes and Independent Accountants' Review Report

# Blue Ridge Domestic Water Improvement District

## Statement of Cash Flows

For the Year Ended June 30, 2024

|   | <u>2024</u>             |
|---|-------------------------|
| <b>Cash flows from operating activities:</b>  |                         |
| Change in net position  | \$ (107,848)            |
| Adjustments to reconcile changes in net position<br>to net cash provided by operating activities: |                         |
| Amortization - Goodwill   | 81,449                  |
| Depreciation  | 54,957                  |
| Gain on sale of assets  | (3,000)                 |
| Changes in assets and liabilities:  |                         |
| Accounts receivable   | (19,123)                |
| Prepaid expenses  | (12,336)                |
| Accounts payable  | 11,334                  |
| Accrued liabilities   | 25,210                  |
| Customer prepayments  | 16,938                  |
| Meter and security deposits   | <u>(7,586)</u>          |
| Net cash from operating activities  | 39,995                  |
| <b>Cash flows from investing activities:</b>  |                         |
| Purchases of property and equipment   | (12,502)                |
| Proceeds from sales of assets   | <u>3,000</u>            |
| Net cash used in investing activities   | <u>(9,502)</u>          |
| <b>Cash flows from financing activities:</b>  |                         |
| Contribution from Starlight   | 110,000                 |
| Borrowings of long-term debt  | 65,801                  |
| Principal repayments of long-term debt  | <u>(109,794)</u>        |
| Net cash from financing activities  | <u>66,007</u>           |
| Net change in cash and cash equivalents   | 96,500                  |
| <b>Cash balance - beginning of year</b>   | 2,401                   |
| <b>Cash balance - end of year</b>   | <u><u>\$ 98,901</u></u> |

See accompanying notes and Independent Accountants' Review Report

# **Blue Ridge Domestic Water Improvement District**

## **Notes to Financial Statements**

### **June 30, 2024**

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#### **1. ORGANIZATION**

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Blue Ridge Domestic Water Improvement District (the District) is a rural community water improvement district established in 2020 and operating under the authority of Title 48, Chapter 6 of the Arizona Revised Statutes (ARS). On September 13, 2023, the District acquired the assets of another water company for \$2.7 million. The purchase was financed by a \$2.9 million Water Infrastructure Financing Authority (WIFA) loan through the state of Arizona. The District is a political subdivision of the government of the state of Arizona under ARS 48-271.B and accordingly, it is vested with the rights, privileges and immunities of a municipality to the extent consistent with its stated purposes. As a small, non-profit organization, it owns assets but operates to make only enough money to pay for maintenance and improvements of infrastructure. As a non-profit, it has access to federal and state grants and loans to make system improvements at low rates of interest.

The District is governed by a Board consisting of five members, elected by the property owners who are members of the District. The District Board is under the direct oversight of the Coconino County Board of Supervisors. The Arizona State Department of Water Quality oversees the quality of the water. Water is tested monthly for chemicals, and a full water analysis is required annually.

The mission of the District is to assure safe and available water at the lowest possible cost to the Blue Ridge Community in Happy Jack, Arizona.

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#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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##### **Basis of Accounting**

The financial statements of the 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.

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 related cash flows.

**Blue Ridge Domestic Water Improvement District**  
**Blue Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Financial Statement Presentation**

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 water services to the users are financed through use charges.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are water and wastewater fees, installation and establishment fees, and miscellaneous fees. Operating expenses for the District include administration expenses, Board of Director expenses, depreciation on capital assets, and expenses related to water operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Use of Estimates**

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

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 includes cash in checking and savings accounts.



**Blue Ridge Domestic Water Improvement District**  
**Blue Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Accounts Receivable**

Accounts receivable are stated at net realizable value. Late fees are applied if payment is not received by the due date. After 30 days, the District may discontinue service to a customer whose bill is delinquent. The District may, pursuant to A.R.S. 48-910, file a lien on the property for the nonpayment of user fees for services provided if fees are delinquent for more than 90 days. All accounts receivable are expected to be collected within one year.

**Allowance for Credit Losses**

The allowance for credit losses is a valuation account that is deducted from, or added to, the receivables to present the net amount expected to be collected. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. There was no allowance for credit losses at December 31, 2023. During the year ended December 31, 2023, the District incurred no bad debt expense.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. Prepaid expenses are recorded as expenses when consumed.

**Capital Assets – Property and Equipment**

Capital assets are defined by the District as assets with an initial, individual cost in excess of \$500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at 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 following estimated useful lives:

|                          |               |
|--------------------------|---------------|
| Structures               | 30 years      |
| Wells and Springs        | 30 years      |
| Pumping Equipment        | 10 years      |
| Water System             | 12 – 40 years |
| Transportation Equipment | 10 years      |

See Independent Accountants' Review Report

**Blue Ridge Domestic Water Improvement District**  
**Blue Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Goodwill**

Goodwill represents the amount paid for the acquisition of capital assets on September 13, 2023 in excess of the fair value of the assets acquired, less liabilities assumed. Essentially, goodwill represents the water rights and customer base acquired by the District. The District has adopted the accounting policy election under FASB ASU 2017-04 allowing non-public entities and not-for-profits to amortize goodwill over a period not to exceed 10 years. Impairment will be measured when there is a triggering event as described by the standard. Accordingly, the District is amortizing its goodwill over 10 years. Amortization expense was \$81,449 for the period ending June 30, 2024.

**Meter Deposits**

The District assumed the meter deposit liabilities from the seller of the assets per the Asset Purchase Agreement executed on September 13, 2023. These meter deposit liabilities are applied as a credit to the customer's account each November over a period of 10 years from the deposit date.

**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.

**Subsequent Events**

Subsequent events have been evaluated through the accountants' review report date, which is the date the financial statements were available to be issued. During this period, the District was not aware of any material recognizable subsequent events.

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**3. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

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**Cash and Cash Equivalents**

The District's cash and cash equivalents consist of cash on deposit with reputable financial institutions.

**Blue Ridge Domestic Water Improvement District**  
**Blue Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

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**3. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

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**Cash and Cash Equivalents (Continued)**

*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 fiscal year ending June 30, 2024, the carrying amount of the District’s deposits was \$98,901 and the bank balance was \$76,618.

*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.

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**4. CAPITAL ASSETS – Property and Equipment**

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

|  | Beginning<br>Balance | Increase     | Decrease | Ending<br>Balance |
|--|----------------------|--------------|----------|-------------------|
| Capital assets, not being depreciated        |                      |              |          |                   |
| Land   | \$ -                 | 16,000       | -        | \$ 16,000         |
| Total capital assets, not depreciated        | -                    | 16,000       | -        | 16,000            |
| Capital assets, being depreciated:           |                      |              |          |                   |
| Structures                                   | -                    | 58,955       | -        | 58,955            |
| Wells and Springs                            | -                    | 118,652      | -        | 118,652           |
| Pumping Equipment                            | -                    | 15,888       | -        | 15,888            |
| Water System                                 | -                    | 1,284,773    | -        | 1,284,773         |
| Meters and Hydrants                          | -                    | 143,541      | -        | 143,541           |
| Transportation Equipment                     | -                    | 95           | -        | 95                |
| Office and Tools                             | -                    | 3,537        | -        | 3,537             |
|  | -                    | 1,641,441    | -        | 1,641,441         |
| Less accumulated depreciation                | -                    | (51,892)     | -        | (51,892)          |
| Total capital assets, being depreciated, net | \$ -                 | \$ 1,589,549 | \$ -     | \$ 1,589,549      |

**Blue Ridge Domestic Water Improvement District**  
**Blue Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

**5. Goodwill**

A summary of activity for goodwill for the current fiscal year follows:

|                                      | Beginning<br>Balance | Increase          | Decrease | Ending<br>Balance |
|--------------------------------------|----------------------|-------------------|----------|-------------------|
| Goodwill, being amortized            | \$ -                 | 1,021,660         | -        | \$ 1,021,660      |
| Less amortization of goodwill        | -                    | (81,449)          | -        | (81,449)          |
| Total Goodwill, being amortized, net | <u>\$ -</u>          | <u>\$ 940,211</u> | <u>-</u> | <u>\$ 940,211</u> |

**6. DEBT OBLIGATIONS**

The District's debt consists of a \$2.9 million note payable to the Water Infrastructure Finance Authority of Arizona (WIFA), an independent state authority authorized to finance the construction, rehabilitation, acquisition and improvement of water infrastructure throughout Arizona. The note is unsecured and bears interest and fees at a rate of 1.956% per annum (interest of 0.456% and WIFA fees of 1.5%). The note is payable in annual principal installments and matures July 1, 2041. A portion of the note will be forgiven if the District remains in compliance with the requirements of the note agreement throughout the term of the loan.

A summary of the activity for the year ended June 30, 2024 is as follows:

|                                 | Beginning<br>Balance | Borrowings          | Payments           | Ending<br>Balance   |
|---------------------------------|----------------------|---------------------|--------------------|---------------------|
| WIFA \$2.9 million note payable | \$ 83,820            | 2,765,801           | -                  | \$ 2,849,621        |
| Principal payments              | -                    | -                   | (109,794)          | (109,794)           |
|                                 | <u>\$ 83,820</u>     | <u>\$ 2,765,801</u> | <u>\$(109,794)</u> | <u>\$ 2,739,827</u> |
| Forgivable portion              | <u>\$ -</u>          | <u>\$ 402,500</u>   | <u>\$ -</u>        | <u>\$ 402,500</u>   |

**Blue Ridge Domestic Water Improvement District**  
**Blue Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

**6. DEBT OBLIGATIONS**

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

Fiscal year ending June 30:

|                           |    |           |
|---------------------------|----|-----------|
| 2025                      | \$ | 111,942   |
| 2026                      |    | 114,132   |
| 2027                      |    | 116,365   |
| 2028                      |    | 118,641   |
| 2029                      |    | 120,963   |
| Beyond                    |    | 2,157,784 |
| Total WIFA long-term debt |    | 2,739,827 |
| Less current maturities   |    | (111,942) |
| Long-term portion         | \$ | 2,627,885 |

The District is required to fund monthly a debt service reserve totaling \$158,655 to the Water Infrastructure Finance Authority (WIFA) by July 1, 2028. These funds will be used in the event the District is unable to make future required payments.

Additionally, the District is required to build and maintain a repair and replacement fund totaling \$31,731 annually, requiring semi-annual deposits of \$15,865, beginning on January 1, 2029. These funds will be used to pay for any major repairs or replacements of infrastructure funded by the WIFA loans during the life of the loan. Any unused amounts remaining in the replacement reserves at the end of the loan term can be utilized for any purpose.

**7. CHANGES IN LONG-TERM LIABILITIES**

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

|                             | Beginning<br>Balance | Increase  | Decrease   | Ending<br>Balance | Due Within<br>One Year |
|-----------------------------|----------------------|-----------|------------|-------------------|------------------------|
| Meter and security deposits | \$ -                 | \$ 63,664 | \$ (7,586) | \$ 56,078         | \$ 7,586               |

**Blue Ridge Domestic Water Improvement DistrictBlue  
Ridge Domestic Water Improvement District**  
**Notes to Financial Statements (Continued)**  
**June 30, 2024**

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**8. CASH FLOWS SUPPLEMENTARY INFORMATION**

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The District incurred \$2,700,000 in long-term debt, which was used to purchase the assets of an existing water district. Interest and fees paid to WIFA during the period ending June 30, 2024 was \$14,135. There were no income taxes paid for the period ending June 30, 2024.

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**9. RISK MANAGEMENT**

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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. Settled claims resulting from these risks have not exceeded commercial insurance coverage to date.

**Blue Ridge Domestic Water Improvement District**  
**Management Discussion and Analysis**  
**June 30, 2024**

On Sept 13, 2023, the Blue Ridge Domestic Water Improvement District (BRDWID) closed on the purchase of the assets of Starlight Water Company (SWC). This represented a delay of two years, two months and two weeks from when the loan to support that purchase was planned to begin on July 1, 2021. The delay had multiple causes, including the delay in Starlight Water Company initiating the sale approval process with the Arizona Corporation Commission (ACC) of approximately four months; the Intervention by opposers to the sale, including decision-making time by the Administrative Judge, of approximately 18 months; and the preparation for the execution of the sale of approximately four months.

The loan repayment schedule was originally established to commence in July of 2021. The repayment schedule was restated in June of 2023, recognizing the delay in the execution of the sale. A third iteration of the repayment schedule was issued June/July of 2024 to reflect the actual timing of the sale. This third restatement of the repayment schedule was still very front-end loaded with three principal payments within the first 21 months of being in business. The \$110,000 of initial startup funding from SWC was used to make the first WIFA payment in January of 2024.

A Budget Committee, comprised of District members and BRDWID Board Directors, was formed in January of 2024 and worked through April of 2024. The Committee recommended a \$20 per month increase in the Base Rate. A Rate Hearing was conducted on April 6<sup>th</sup> to get input from the public. The budget, including a 5-year plan, was recommended to the Board, including the base rate increase, at the April 18 Board meeting. The Board unanimously approved the proposed budget.

An Infrastructure Committee, made up of District members and Board members, was sanctioned at the Board meeting on May 16. The Committee, led by Mike Bourne, developed a very detailed prioritization matrix of potential maintenance/improvement projects. The committee has prioritized the replacement of a pump control system for the Starlight Pines well site. Also on the top priority list is the same control system for the Starlight Pines Ranchettes along with a replacement of the booster pumps and the installation of a back-up generator. We are getting bids on these projects and are exploring budget capacity to accommodate these priority projects.

The other key priority for infrastructure improvement is the installation of electronic meters. Old meters under-read usage. The process of manually reading meters that are two to three feet in the ground is error-prone and extremely labor intensive, i.e. expensive. We have funding in our five-year plan to replace all of the current meters with electronic meters which can be read through telemetry, rather than manual reading. The opportunity for inaccurate reading and logging of usage data is a major customer dissatisfaction issue. We are currently exploring a zero-interest three-year loan from WIFA as a way to

**Blue Ridge Domestic Water Improvement District  
Management Discussion and Analysis (Continued)  
June 30, 2024**

accelerate the deployment of this technology faster. The accelerated deployment would enable us to achieve the financial and customer satisfaction benefits quicker.

We have a few key leadership roles that we will be filling going forward. The District Manager position has been open since our prior contractor chose not to continue, to provide more time with his family, at the end of March. Mike Bourne has been our Acting District Manager and has been doing a great job, but we need to fill this critical position.

In December, three of our Board members' terms are expiring. Mike Bourne has decided to continue in his Board position and he has been assigned to the Board by the Coconino County Board of Supervisors for a new four-year term commencing in January of 2025. We will be seeking candidates for the two other open positions.

In January 2025, we will be forming a Budget Committee to prepare the budget for FY 2025/2026. We also plan to form a Rules and Regulations Committee to review our current document and make necessary updates.

In summary, we are up & running! We are thirteen months into the journey and we are making significant progress toward having a stable, reliable water supply operation. Cash flows support our operational needs and provide funds for addressing the deferred maintenance items and making improvements in the system. 2024/2025 is proving to be another year of moving forward!

Tom Osterday  
Chairman of the Board  
Blue Ridge Domestic Water Improvement District