

PINEWOOD SANITARY DISTRICT

FINANCIAL STATEMENTS

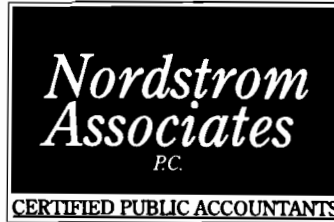
JUNE 30, 2009 and 2008

PINEWOOD SANITARY DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Pinewood Sanitary District

We have audited the accompanying basic financial statements of Pinewood Sanitary District as of and for the year ended June 30, 2009 and 2008. These financial statements are the responsibility of the management of Pinewood Sanitary District. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nordstrom & Associates, P.C.

December 14, 2009

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Management's Discussion and Analysis

As Management of the Pinewood Sanitary District we offer readers of the District's financial statements the narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes.

Financial Highlights

- The District's net assets of \$4,523,904 increased over the course of this year's operation by \$1,047,403 or 6.3%. This increase was principally due to loan principal payments made by the District and fees collected for future bond payments.
- During 2009, the District paid down long term debt by \$231,053.

Overview of Financial Statements

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

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

Required Financial Statements

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

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

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

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

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

Financial Analysis of the District

Net Assets

As previously noted, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$4,523,904 at the close of the most recent fiscal year.

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

Table A-1
Condensed Statements of Net Assets

	<u>2009</u>	<u>2008</u>	Percentage Increase(decrease)
Current and other assets	\$ 1,117,044	\$ 733,794	52.23%
Net capital assets	<u>8,872,660</u>	<u>9,135,397</u>	-2.88%
Total assets	<u>9,989,704</u>	<u>9,869,191</u>	<u>1.22%</u>
Current liabilities	966,410	301,320	220.73%
Noncurrent liabilities outstanding	<u>4,499,390</u>	<u>5,328,465</u>	-15.56%
Total liabilities	<u>5,465,800</u>	<u>5,629,785</u>	-2.91%
Invested in capital assets net of related debt	3,460,679	3,575,360	-3.21%
Restricted - capital projects	1,836	-	100.00%
Restricted - debt service	1,042,444	653,059	59.62%
Unrestricted	<u>18,945</u>	<u>10,987</u>	-72.43%
Total net assets	<u>\$ 4,523,904</u>	<u>\$ 4,239,406</u>	<u>6.71%</u>

The increase in net assets for 2009 is directly related to the District's paying down of debt related to its five year Capital Improvements Program plan. The increase in current assets and current liabilities relates to the timing of the District's annual bond payment which was paid on June 30 in the previous year but was paid after June 30 for this year.

Revenues and Expenses

While the Statements of Net Assets (Table A-1) shows the change in our financial position the statements of revenues, expenses, and changes in net assets provides answers as to the nature and source of these changes. Operating revenues consist primarily of service fees charged to our customers to support operating expenses and debt payments. Operating expenses are incurred to support the operations of the sewer district. Also included in expenses is depreciation on capital assets and interest expense incurred on outstanding debt. See the summary of these revenues and expenses in Table A-2 following.

The District revenue is fee based although it does have taxing authority per Arizona Revised Statutes. The average monthly customer bill is \$64.54, which is not an increase in rates charged during the 2007 – 2008 fiscal year. A portion of the monthly fees are reserved for debt repayments. (GOB bonds - \$16.22; WIFA - \$12.86 improved lots and \$8.25 unimproved lots). The Management and Board of Directors continually review the capital improvement and operational needs of the District in an effort to maintain as affordable efficient operation as possible.

The operations portion of fees was increased in the 2006-2007 fiscal year, primarily due to the depletion of reserve funds and increased operating costs in plant operations, office expenses, and vehicle maintenance. As a result of this increase, the operating cash is in a much better financial position. The board determined there would be no fee increase in fiscal year 2008-2009.

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

	2009	2008	Percentage Increase(Decrease)
Operating Revenues	\$ 2,349,033	\$ 2,442,819	-3.84%
Nonoperating Revenues	45,442	54,533	-16.67%
Total revenues	2,394,475	2,497,352	-4.12%
Depreciation expense	485,418	481,623	0.79%
Other operating expense	1,378,537	1,305,364	5.61%
Interest expense	246,022	284,636	-13.57%
Total expenses	2,109,977	2,071,623	1.85%
Change in Net Assets	\$ 284,498	\$ 425,729	-33.17%

Capital Assets

As of June 30, 2009, the District's capital assets net of accumulated depreciation amounted to \$8,872,660, which represents a net decrease of \$262,737 over the previous year. The decrease is the net result of current capital additions less depreciation on capital assets. More detailed information about the District's capital assets are presented in the notes to the financial statements.

Debt Service

General obligation indebtedness outstanding at June 30, 2009 amounted to \$1,645,000 for General Obligation Bonds at an interest rate of 6.00 to 6.60%.

Indebtedness for loans through WIFA amounted to \$3,632,214 as of June 30, 2009 at interest rates from 3.3 to 3.83%.

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

Project Highlights

Fiscal year 2005-2006 marked our first design and build project. This project's scope was to provide sewer service to the Motel in the Pines and several residences that were on septic systems. This project was designed and built by the District and paid for by the business and residences benefited.

We also received monies from the Federal Emergency Management Agency and the State Department of Emergency Management under the Federal and State declared emergency for December 2004 and January 2005 events. We were approved for over \$300,000 in grants for repairs to our access roads and bridges and stream remediation. The District's contribution is (10%) ten percent of the project cost. This project was completed in early fiscal year 2006-2007 and under the projected estimated cost.

We have completed the construction of Phase 1 for providing sewer service to Turkey Trail and North Lodge Drive in North Lodge. We continue working with the East and West side of I-17 Commercial properties owners in an effort to provide them with much needed sanitary sewer service. The District acted as the contractor for the North Lodge project with all of the construction costs to be eventually born by the North Lodge residents. Phase 1 of the North Lodge project was completed on July 25, 2008 and is now serving several residences in the area. Further construction in North Lodge will continue as soon as funding by the residents of North Lodge has been received by the District.

The new filters were ordered near the end of the 2006-2007 fiscal year, in order to insure that adequate funds had been collected to pay for purchase and installation of the filter units. The parts needed to retrofit the clarifiers were also ordered late in the fiscal year to insure available funding was on hand at the time of delivery. The Filter project was completed in February 2008 and the Clarifier Retrofit was completed in December of 2007.

We were also involved with the Pinewood Boulevard Road and Drainage Improvement Project being undertaken by Coconino County. This project required the District to relocate many of our sewer services and mains. This was a non budgeted project costing the District about \$160,000.00. We are looking into possible recovery of some if not all of these funds from the County.

Requests for Information

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

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

PINEWOOD SANITARY DISTRICT

Statements of Net Assets

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 26,662	\$ 41,186
Cash for restricted purposes	1,044,280	653,059
Accounts receivable, net	<u>46,102</u>	<u>39,549</u>
Total current assets	<u>1,117,044</u>	<u>733,794</u>
Capital assets, at cost	14,088,424	13,865,743
Less accumulated depreciation	<u>(5,215,764)</u>	<u>(4,730,346)</u>
Net capital assets	<u>8,872,660</u>	<u>9,135,397</u>
Total assets	\$ <u>9,989,704</u>	\$ <u>9,869,191</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 136,816	\$ 69,748
Long-term obligations due within one year	<u>845,170</u>	<u>231,572</u>
Total current liabilities	<u>981,986</u>	<u>301,320</u>
Noncurrent liabilities		
General obligation bonds payable series 1995	1,645,000	1,645,000
Installment note	51,770	66,278
WIFA loans	3,632,214	3,848,759
Less current portion of long-term obligations	<u>(845,170)</u>	<u>(231,572)</u>
Total noncurrent liabilities	<u>4,483,814</u>	<u>5,328,465</u>
Total liabilities	<u>5,465,800</u>	<u>5,629,785</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	3,460,679	3,575,360
Restricted - capital projects	1,836	-
Restricted - debt service	1,042,444	653,059
Unrestricted	<u>18,945</u>	<u>10,987</u>
Total net assets	<u>4,523,904</u>	<u>4,239,406</u>
Total liabilities and net assets	\$ <u>9,989,704</u>	\$ <u>9,869,191</u>

See accompanying notes to financial statements.

PINEWOOD SANITARY DISTRICT
Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenue		
Service fees:		
Operations and maintenance	\$ 1,228,910	\$ 1,242,874
Bond service and retirement	618,849	633,021
WIFA loan repay	365,506	378,846
WIFA loan reserve	94,903	91,148
Other income	<u>40,865</u>	<u>96,930</u>
Total operating revenue	<u>2,349,033</u>	<u>2,442,819</u>
Operating expenses		
Personnel expenses	780,197	675,636
Administrative and office	69,786	78,102
Professional services	23,208	42,478
Telephone and utilities	114,733	112,122
Insurance	135,424	105,309
Plant operation and maintenance	225,364	248,645
System operation and maintenance	29,825	43,072
Depreciation	<u>485,418</u>	<u>481,623</u>
Total operating expenses	<u>1,863,955</u>	<u>1,786,987</u>
Operating income	<u>485,078</u>	<u>655,832</u>
Nonoperating revenues (expenses)		
Interest income	45,442	54,533
Interest expense - bonds	(109,695)	(143,435)
Interest expense - leases and loans	<u>(136,327)</u>	<u>(141,201)</u>
	<u>(200,580)</u>	<u>(230,103)</u>
Change in net assets	284,498	425,729
Net assets at beginning of year	<u>4,239,406</u>	<u>3,813,677</u>
Net assets at end of year	\$ <u>4,523,904</u>	\$ <u>4,239,406</u>

See accompanying notes to financial statements.

PINEWOOD SANITARY DISTRICT
Statements of Cash Flows
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Cash flows from operating activities</u>		
Receipts from customers and users	2,342,480	\$ 2,433,532
Payments to suppliers	(585,091)	(602,465)
Payments to employees	<u>(780,197)</u>	<u>(675,636)</u>
Net cash provided by operating activities	<u>977,192</u>	<u>1,155,431</u>
<u>Cash flows from capital and related financing activities</u>		
Payment of WIFA loans	(216,545)	(209,277)
Payment of general obligation bonds	0	(555,000)
Payment of leases and installment notes	(14,508)	(11,329)
Interest paid on long-term obligations	(192,203)	(284,636)
Cash paid for plant construction and equipment	0	(636,043)
Cash paid for asset acquisition and construction	<u>(222,681)</u>	<u>(321,040)</u>
Net cash used by financing activities	<u>(645,937)</u>	<u>(2,017,325)</u>
<u>Cash flows from investing activities</u>		
Interest income	<u>45,442</u>	<u>54,533</u>
Net cash provided by investing activities	<u>45,442</u>	<u>54,533</u>
Net change in cash and restricted cash	376,697	(807,361)
Cash and restricted cash at beginning of year	<u>694,245</u>	<u>1,501,606</u>
Cash and restricted cash at end of year	\$ <u>1,070,942</u>	\$ <u>694,245</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 485,078	\$ 655,832
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	485,418	481,623
Changes in assets and liabilities:		
Accounts receivable	(6,553)	(9,287)
Accounts payable and accrued expenses	<u>13,249</u>	<u>27,263</u>
Net cash provided by operating activities	\$ <u>977,192</u>	\$ <u>1,155,431</u>
Equipment acquired by direct financing:	\$ <u>-</u>	\$ <u>77,608</u>

See accompanying notes to financial statements.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 1 Summary of Significant Accounting Policies:

Organization

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

Method of accounting

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

Accounts receivable and allowance for doubtful accounts

Accounts receivable represent monthly billings for service fees and related debt retirement and capital payments. Accounts receivable includes vacant lot availability fees. The District has no method to enforce payment of vacant lot availability fees except to deny connection to the sanitary system until all back fees are paid. The District has established an allowance for doubtful accounts based on a periodic review of its outstanding accounts receivable. An allowance for doubtful accounts of \$5,000 was established as of June 30, 2009 and 2008.

Capital assets

Capital assets, which include land, buildings, sewer plant, and equipment are carried at cost less accumulated depreciation. Routine repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 30 to 40 years for plant, system and buildings and 5 to 10 years for furniture and equipment.

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

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 1 Summary of Significant Accounting Policies, (cont).

Use of estimates

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

Cash

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

Net assets

Net assets are displayed in three components as follows:

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

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

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

Income taxes

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

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 2 Cash for Restricted Purposes

Cash for restricted purposes consists of the following funds:

	<u>2009</u>	<u>2008</u>
Bond debt service (502)	\$ 5,978	\$ 14,926
WIFA Repayment (503)	308,555	628,886
WIFA Reserve (504)	25,282	49,627
Bond retirement (505)	702,629	(2,566)
WIFA improvements (506)	<u>1,836</u>	<u>(37,814)</u>
	<u>\$ 1,044,280</u>	<u>\$ 653,059</u>

Accounts 502 and 505 are restricted for payments of interest and principal on the District's general obligation bonds. Accounts 503 and a portion of 504 are restricted for repayment of the WIFA loans, see note 9. Account 506 is restricted for approved construction under the WIFA loan agreements. Predetermined amounts of the District's monthly fee revenues are allocated to these accounts.

NOTE 3 Acquisition of Plant and Sanitary System

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

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 4 Pension Benefits

The District is eligible to participate in the Arizona State Retirement System. Qualified full-time employees are required to participate through payroll deductions, which are matched by the District. The contribution percentages were 8.95% and 9.1% for calendar years 2009 and 2008, respectively. Matching payments by the District are included in personnel expense on the Statements of Revenues, Expenses and Fund Balance and amount to \$58,074 and \$49,067 for the years ended June 30, 2009 and 2008, respectively.

The Arizona State Retirement System administers a cost-sharing multiple-employer defined benefit pension plan. The plan issues a publicly available annual financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling ASRS, P.O. Box 33910, Phoenix AZ 85067-3910, phone number (800)621-3778.

NOTE 5 Long-term Obligations

The following is an analysis of the changes in the District's long-term obligations for the years ending June 30, 2009 and 2008.

	<u>Balance at</u> <u>July 1, 2008</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2009</u>	<u>Due within</u> <u>One Year</u>
General Obligation Bonds	\$ 1,645,000	\$ -	\$ -	\$ 1,645,000	\$ 605,000
WIFA Loan #1	548,873	-	33,324	515,549	34,607
WIFA Loan #2	2,764,478	-	157,674	2,606,804	163,533
WIFA Loan #3	535,408	-	25,547	509,861	26,454
Wells Fargo Equipment Loan	66,278	-	14,508	51,770	15,576
Total long-term obligations	<u>\$ 5,560,037</u>	<u>\$ -</u>	<u>\$ 231,053</u>	<u>\$ 5,328,984</u>	<u>\$ 845,170</u>

	<u>Balance at</u> <u>July 1, 2007</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2008</u>	<u>Due within</u> <u>One Year</u>
General Obligation Bonds	\$ 2,200,000	\$ -	\$ 555,000	\$ 1,645,000	\$ -
WIFA Loan #1	580,961	-	32,088	548,873	33,324
WIFA Loan #2	2,916,994	-	152,516	2,764,478	158,202
WIFA Loan #3	560,081	-	24,673	535,408	25,548
Wells Fargo Equipment Loan	-	77,608	11,330	66,278	14,498
Total long-term obligations	<u>\$ 6,258,036</u>	<u>\$ 77,608</u>	<u>\$ 775,607</u>	<u>\$ 5,560,037</u>	<u>\$ 231,572</u>

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 6 General Obligation Bonds Payable

The District issued general obligation bonds of \$5,750,000 (Series 1995) on October 12, 1995. Interest rates on the remaining maturities range from 6.00% to 6.60% and interest is payable on January 1 and July 1 of each year. Bond principal payments are due only on July 1 of each year. The bonds are secured by the full faith and credit of the District and mature in incremental annual amounts through July 1, 2011. Debt service requirements are as follows:

<u>Due during years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	605,000	87,975	692,975
2011	655,000	46,861	701,861
2012	<u>385,000</u>	<u>12,705</u>	<u>397,705</u>
	<u>\$ 1,645,000</u>	<u>147,541</u>	<u>1,792,541</u>

A bond principal and interest payment in the amount of \$658,819 was due and paid on July 1, 2009. The accrued interest on this payment of \$53,819 was included in accounts payable and accrued expenses at June 30, 2009. The principal payment was included in long-term obligations due within one year. The prior years payments were paid on June 30, 2008. As a result of these early payments, the balance sheet at June 30, 2008 reflects no accrued interest payable or current portion of principal due on the bonds.

The District's interest expense on the above mentioned bonds was \$109,695 and \$143,435 for the years ended June 30, 2009 and 2008, respectively.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 7 WIFA Loans

The District has obtained financing for the rehabilitation of 160 manholes and to make mainline repair from the Water Infrastructure Financing Authority of the State of Arizona (WIFA). The primary purpose of this work is to significantly reduce the intrusion of groundwater into the system, which is causing a significant burden on the District's processing operations.

The WIFA loans are funded through approved construction draws and bear interest at 3.37% and 3.85%, payable semi-annually. The loan agreements require the District to build a reserve fund of one year's payments during the first five years of the loan. These funds remain with the District and can be used in an emergency with notice to WIFA. The following payment schedule is in effect based on the loan payment schedules provided by WIFA based on the timing and amount of the loan draws and payments.

<u>Due</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2010	224,594	122,210	346,804
2011	232,377	114,293	346,670
2012	240,429	106,101	346,530
2013	248,761	97,625	346,386
2014	257,382	88,853	346,235
2014-2018	1,427,091	301,649	1,728,740
2019-2023	1,001,580	57,907	1,059,487
	<u>\$ 3,632,214</u>	<u>888,638</u>	<u>4,520,852</u>

The three loans have original commitments of \$750,000, \$3,618,470 and \$631,530, respectively. WIFA Loan #1 and Loan #2 have been fully drawn. WIFA Loan #3 was drawn to a level of \$629,143.

It is the District's policy to capitalize interest associated with WIFA construction loans for construction projects in progress. Interest is expensed after the loan is fully drawn and the projects associated with the loan have been completed. No WIFA loan interest was capitalized for the years ended June 30, 2009 and 2008. WIFA loan interest expense was \$129,537 and \$136,914 for the years ended June 30, 2009 and 2008, respectively.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 8 Capital assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
Capital assets not being depreciated:					
Land	\$ 40,747				\$ 40,747
Construction in progress	362,662	197,117		(61,618)	498,161
Total capital assets not depreciated	403,409				538,908
Capital assets being depreciated:					
Plant and sanitary system	11,990,945	4,128		61,618	12,056,691
Buildings and land improvements	542,332				542,332
Equipment	929,057	21,436			950,493
Total capital assets being depreciated	13,462,334				13,549,516
Less accumulated depreciation	4,730,346	485,418			5,215,764
Total capital assets being depreciated, net	8,731,988				8,333,752
Total capital assets, net	<u>\$ 9,135,397</u>				<u>\$ 8,872,660</u>

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

NOTE 8 Capital assets, continued

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
Capital assets not being depreciated:					
Land	\$ 40,747				\$ 40,747
Construction in progress	398,351	587,577		(623,266)	362,662
Total capital assets not depreciated	439,098				403,409
Capital assets being depreciated:					
Plant and sanitary system	11,332,447	35,232		623,266	11,990,945
Buildings and land improvements	541,106	1,226			542,332
Equipment	842,512	86,545			929,057
Total capital assets being depreciated	12,716,065				13,462,334
Less accumulated depreciation	4,248,723	481,623			4,730,346
Total capital assets being depreciated, net	8,467,342				8,731,988
Total capital assets, net	\$ 8,906,440				\$ 9,135,397