

Financial Reports



PINETOP-LAKESIDE SANITARY DISTRICT
LAKESIDE, ARIZONA
FINANCIAL STATEMENTS
June 30, 2019 and 2018

TABLE OF CONTENTS
PINETOP-LAKESIDE SANITARY DISTRICT

Independent Auditors' Report	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	12
Notes to Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the District's Proportionate Share of the Net Pension Liability – Cost- Sharing Pension Plan	33
Schedule of the Districts Pension Contributions	34
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Preformed in Accordance with <i>Government Auditing Standards</i> .	35

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pinetop-Lakeside Sanitary District
Pinetop-Lakeside, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Pinetop-Lakeside Sanitary District, Arizona as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinetop-Lakeside Sanitary District, Arizona as of June 30, 2019 and 2018, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, 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 August 22, 2019, on our consideration of the Pinetop-Lakeside Sanitary District, Arizona'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 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 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 Pinetop-Lakeside Sanitary District, Arizona's, internal control over financial reporting and compliance.



Tempe, Arizona
August 22, 2019

PINETOP-LAKESIDE SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019 and 2018

This document is the District's Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ending June 30, 2019.

Information contained in this MD&A has been prepared by the District's management and should be considered in conjunction with the financial statements and the accompanying notes to the financial statements which follow this section.

Overview of the Financial Statements

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The basic financial statements include: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows.

Analysis of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position illustrate whether the District's financial position has improved as a result of the year's activity. The Statements of Net Position presents information on all the District's assets and liabilities, with the difference being reported as net position. Over time the increases and decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating. The Statements of Revenues, Expenses and Changes in Net Position reflect how the operating and non-operating activities of the District affected changes in the net position of the District. These activities are recorded under the accrual basis of accounting reflecting the timing of the underlying event regardless of the timing of related cash flows.

Although the financial statements provide useful information in assessing the financial health of the District, consideration of other factors not shown on the financial reports should be evaluated to assess the District's true financial condition. Factors such as changes to the District operations and the local economy should also be considered when assessing the financial health of the District.

Governmental entities typically account for activities by utilizing "fund" accounting. A fund is a grouping of related accounts that is used to maintain control or restrict the use of resources that have been segregated for a specific activity or objective. The District uses only one fund, an enterprise fund, which reports all business type activities of the District.

Financial Highlights

Key financial highlights for fiscal year 2019 – 2018 are as follows:

- The assets of the Pinetop-Lakeside Sanitary District exceeded its liabilities at the close of the most recent fiscal year by \$30,239,623. Of this amount, \$6,794,717 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net position *decreased by* \$294,664.
- Operating revenues for 2019 totaled \$2,381,661, an increase of \$2,455 over 2018.
- Operating expenses totaled \$1,907,030, a *decrease* of \$33,613 from 2018 due primarily to staff turnover resulting in temporary vacant position.

Condensed Statements of Net Position

	2019	2018
Assets:		
Current and other assets:	\$ 8,535,314	\$ 7,751,331
Capital Assets (net of depreciation)	23,444,906	24,675,822
Total Assets	<u>31,980,220</u>	<u>32,427,153</u>
Deferred Outflow of Resources	<u>200,003</u>	<u>200,709</u>
Liabilities:		
Current liabilities	282,680	274,825
Other non-current liabilities	1,425,330	1,667,625
Total Liabilities	<u>1,708,010</u>	<u>1,942,450</u>
Net Position:		
Invested in capital assets, net of related debt	23,444,906	24,675,822
Unrestricted net position	6,794,717	5,858,465
Total Net Position	<u>\$ 30,239,623</u>	<u>\$ 30,534,287</u>

Operating Financial Activity

The Statement of Revenues, Expenses, and Changes in Net Position show how the District's net assets changed during the fiscal year as result of operations. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future fiscal period cash flows.

The following summary represents the 2019 operating results compared to budget.

Revenues: Total operating revenues exceeded budget by \$56,920 with the largest variances in sewer user fees \$33,460, septic receiving \$13,185, and compost sales \$8,000.

Expenses: Operating expenses, before depreciation, were \$195,583 below budget, attributed to a decrease in payroll costs, chemicals, material, and supplies.

Non-Operating revenue – expenses: Revenue exceeded budget by \$297,242 with the increase of \$82,466 interest income and the annexation of 3 parcels, and with issuing 23 more connection permits than were anticipated.

Condensed Statements Changes of Net Position

	2019	2018
Operating revenues	\$ 2,381,661	\$ 2,379,206
Operating expenses	(1,908,718)	(1,940,643)
Operating income before depreciation	472,943	438,563
Depreciation	1,523,260	1,569,786
Loss from operations	(1,050,317)	(1,131,223)
Total other income	760,956	918,982
Total other expense	(22,818)	(23,000)
	738,138	895,982
Change in net position	(312,179)	(235,241)
Net position at beginning of year	30,534,287	30,769,528
Net position at year end	\$ 30,239,623	\$ 30,534,287

Capital Assets and Debt Administration:

Capital Assets:

Capital assets are reported at actual cost. These amounts do not represent the replacement cost, which could be significantly higher.

Changes to the capital assets during fiscal year ending June 30, 2019:

- General Equipment – The District purchased a replacement sewer camera truck, and lift station pumps and motors
- Line Extension Sewers – The District accepted a 700 linear foot sewer line extension into the wastewater collection system and replaced an aging lift station.

Debt Administration:

The District's net pension and OPEB liabilities for the unfunded portion of the retirement plan were \$1,425,330 and \$1,667,625 for the years ending June 30, 2019 and 2018, respectively.

Economic and Other Factors

The rate at which new connections were added to the systems remained flat for the fiscal year, with less than 1.0% increase in connections to the systems. This trend is forecasted to continue at least through fiscal year 2019 – 2020.

The goal of the District is to be proactive in meeting both the immediate and future needs of the connected users. The District will continue to introduce sewer infrastructure in areas currently not served; as long as capital funds are available. Additionally, repairs, replacement, or upgrades to existing infrastructure are being planned and completed as needs warrant.

The Board of Directors has reviewed all connection fees and procedures, and has approved a modification to the flat rate for all new connections established last fiscal year. The flat fee is based on the total number of potential customers (as the systems are currently designed) and the total cost of the systems to date. This program goes a long way to insuring that each connection is responsible for not only service to their property, but also their portion of the infrastructure's cost. This also is in line with the Board's policy that new growth is not financed by existing customers, or becomes a financial burden.

Financial Contact

The District's financial statements are designed to present users with a general overview of the finances and to demonstrate accountability. If you have any questions about the report, or need additional financial information, please contact Mark Heberer, Finance Manager either by telephone, (928) 368 – 5370 or direct email, mheberer@plsd.com.

BASIC FINANCIAL STATEMENTS

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF NET POSITION
 Years Ended June 30, 2019 and 2018

ASSETS	2019	2018*
Current assets:		
Cash and cash equivalents	\$ 8,099,258	\$ 7,252,490
Accounts receivable	137,510	172,927
Assessments receivable	-	253
Covenants receivable	24,301	30,934
Levied tax receivables	13,417	12,517
Interest receivables	-	13
	<hr/>	<hr/>
Total current assets	<hr/> 8,274,486	<hr/> 7,469,134
Non-current assets:		
Accounts receivable, net of current	16,561	16,561
Covenant receivable, net of current	244,267	265,638
Net OPEB asset	-	5,901
Capital Assets not being depreciated	165,454	165,454
Capital Assets, net of accumulated depreciation	23,279,452	24,510,368
	<hr/>	<hr/>
Total non-current assets	<hr/> 23,705,734	<hr/> 24,963,922
	<hr/>	<hr/>
Total assets	<hr/> 31,980,220	<hr/> 32,433,056
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow related to pensions	200,033	194,637
Deferred outflow related to OPEB	-	6,072
	<hr/>	<hr/>
Total deferred outflows of resources	<hr/> 200,033	<hr/> 200,709

* reclassified

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF NET POSITION (Continued)
 Years Ended June 30, 2019 and 2018

LIABILITIES	2019	2018
Current liabilities:		
Accounts payable	21,819	15,441
Accrued wages	39,200	35,176
Accrued payroll taxes	14,700	20,944
Unearned revenue - prepaid accounts	48,330	44,249
Other accrued liabilities	1,178	1,178
Accrued compensated absences	157,453	157,837
Total current liabilities	282,680	274,825
Other non-current liabilities:		
Net pension liability	1,425,330	1,663,736
Net OPEB liability	-	3,889
Total other non-current liabilities	1,425,330	1,667,625
Total liabilities	1,708,010	1,942,450
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	232,620	149,793
Deferred inflows related to OPEB	-	7,235
Total deferred inflows of resources	232,620	157,028
Net Position		
Invested in capital assets	23,444,906	24,675,822
Unrestricted	6,794,717	5,858,465
Total net position	\$ 30,239,623	\$ 30,534,287

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
User and inspection fees	\$ 2,296,499	\$ 2,305,161
Lateral fees	8,200	7,200
Miscellaneous	<u>76,962</u>	<u>66,845</u>
Total Operating revenue	<u>2,381,661</u>	<u>2,379,206</u>
Operating expenses		
Salaries and wages		
General and administrative	350,369	337,752
Line construction/maintenance	234,901	262,341
Inspections	63,275	56,528
Treatment	114,875	112,535
Digester operations	79,537	81,555
Engineering and survey	69,778	69,705
Repairs and maintenance	54,265	50,665
Small jobs and miscellaneous	<u>103,001</u>	<u>111,460</u>
Total salaries and wages	1,070,001	1,082,541
Materials and supplies		
Line construction/maintenance	20,180	13,832
Treatment	10,385	10,343
Lab	13,229	14,564
Digester operation	9,849	6,694
Chemicals	25,384	17,408
Engineering and survey	1,686	1,505
Small jobs and miscellaneous	<u>12,387</u>	<u>16,975</u>
Total material and supplies	93,100	81,321

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)
 Years Ended June 30, 2019 and 2018

	2019	2018
Other operating expenses		
Auto - gas	19,697	21,542
Directors' fees	9,000	9,000
Dues and subscriptions	1,093	1,171
Education and training	2,529	6,599
Employee benefits	272,366	321,420
Insurance - auto, liability, casualty	34,682	35,263
Legal and professional	60,949	49,724
Licenses and permits	12,219	14,212
Office supplies	30,913	30,499
Outside services	10,900	11,429
Postage	14,876	12,630
Publishing and printing	7,551	470
R & M - grounds and building	4,044	4,047
R & M - equipment	31,743	31,813
R & M - digester	7,554	6,294
R & M - office	9,341	12,529
R & M - plant	16,745	15,978
Telephone	17,940	18,323
Utilities	156,785	150,299
Miscellaneous	<u>24,690</u>	<u>23,539</u>
Total other operating expenses	745,617	776,781
Total operating expenses	<u>1,908,718</u>	<u>1,940,643</u>
Net operating income/(loss) before depreciation	472,943	438,563
Depreciation expense	1,523,260	1,569,786
Net operating income (loss)	<u>(1,050,317)</u>	<u>(1,131,223)</u>
Non-operating revenues (expenses)		
Ad valorem tax	402,565	402,695
Annexation fees	5,098	28,565
Connection fees	103,976	212,679
Capacity charge fees	120,607	154,313
Interest earnings	128,710	60,730
Tax collection expense	(22,818)	(23,000)
Gain on disposition of assets	-	60,000
Total non-operating revenue (expense)	738,138	895,982
Income (loss) before contributions	(312,179)	(235,241)
Contributions	<u>17,515</u>	-
Change in net position	(294,664)	(235,241)
Total net position - beginning	<u>30,534,287</u>	<u>30,769,528</u>
Total net position - ending	<u>\$ 30,239,623</u>	<u>\$ 30,534,287</u>

See accompanying notes.

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF CASH FLOWS
 June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,421,160	\$ 2,283,074
Payment for operating expenses	(559,977)	(520,168)
Payments to employees	<u>(1,505,096)</u>	<u>(1,509,200)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>356,087</u>	<u>253,706</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts of ad valorem tax	401,666	402,695
Payments for tax collection expense	(22,818)	(23,000)
Receipts for connection fees	131,980	212,679
Receipts for annexation fees	<u>5,098</u>	<u>28,565</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>515,926</u>	<u>620,939</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Assessments received	253	3,868
Capacity charges received	120,607	154,313
Acquisition of capital assets	(274,828)	(539,769)
Proceeds from sale of capital assets	<u>-</u>	<u>60,000</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(153,968)</u>	<u>(321,588)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>128,723</u>	<u>60,730</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	846,768	613,787
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,252,490</u>	<u>6,638,703</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,099,258</u>	<u>\$ 7,252,490</u>

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF CASH FLOWS (Continued)
 June 30, 2019 and 2018

Reconciliation of operating loss to net cash provided (used) by operating activities:	<u>2019</u>	<u>2018</u>
Operating income (loss)	\$ (1,050,317)	\$ (1,131,223)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,523,260	1,569,786
(Increase) decrease in:		
Accounts receivable	35,416	(96,091)
Deferred outflow of resources related to pensions	676	113,971
Increase (decrease) in:		
Accounts payable	6,378	19,406
Accrued wages and benefits	(2,606)	259
Unearned revenue-prepaid	4,082	(41)
Net pension liability	(236,394)	(92,803)
Deferred inflow of resources related to pensions	<u>75,592</u>	<u>(129,558)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 356,087	\$ 253,706
Noncash investing, capital, and financing activities:		
Capital contributions	\$ 17,515	\$ -



PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Pinetop-Lakeside Sanitary District, (the District) conform with accounting principles generally accepted in the United States (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District's significant accounting policies are described below.

Reporting Entity

Pinetop-Lakeside Sanitary District was formed April 1, 1963 as a municipal corporation, and as such, is a political subdivision of the State of Arizona. All income earned by the District in its normal course of operations is exempt from federal income taxation under Section 115 of the Internal Revenue Code of 1986. The District provides a wastewater collection, treatment and disposal system on a fee basis to the citizens within the geographical boundaries of the District in the Pinetop-Lakeside area.

The accompanying financial statements comply with the provisions of Governmental Accounting Standards Boards (GASB) Accounting Standards Codifications, in that the financial statements include all the organization, activities, functions, and component units for which the District is financially accountable. The District is comprised of a single enterprise fund and has one component unit. Management of the District is the responsibility of the District's Board of Directors elected by the area residents.

As required by GASB, management has considered all potential component units in defining the reporting entity. Various special assessment districts (SIDs) have been formed within the boundaries of the District and are considered blended component units. These SIDs were formed to finance the construction of infrastructure within the SID's boundaries. The District administers the construction and financing activities. When construction and payment of the debt is complete, the individual SID is closed, and all assets and responsibility for the maintenance and operation of these assets is transferred to the District. These SIDs, although separate legal entities, are in substance, part of the District's operations.

The following is the one special assessment district still open as of June 30, 2019 that has been blended into the District's financial statements:

- Forest View – Piney Slope Sewer Improvement District

The activities of the blended component unit are combined with the District's activities in these financial statements. Condensed financial information of the component unit has not been included as part of the notes to the financial statements as its financial activities are immaterial.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Reporting

The activities of the District are accounted for in a single enterprise fund. Enterprise funds are for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing service are financed through user charges.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on a cost of service or economic resources measurement focus utilizing full accrual accounting. Under this method, assets and revenues are recorded when earned, liabilities and expenses when incurred. Property taxes are recognized as revenues in the year for which they are levied.

The District distinguishes operating revenues and expenses from non-operating revenues and expenses. 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 are generated from sewer services provided to residents and businesses within the boundaries of the District and are billed quarterly. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Cash equivalents include amounts in demand deposit accounts as well as short term investments that are readily convertible to known amounts of cash with insignificant risks of changes in value because of changes in interest rates. The District considers all cash and monies deposited with the Navajo County Treasurer to be cash equivalents.

A portion of the District's cash and cash equivalents is set aside by direction of the Board of Directors to provide funding for the expansion of the wastewater collection, treatment and disposal systems. The balance of those funds are \$3,195,111 and \$3,000,223, respectively, as of June 30, 2019 and 2018. We have reclassified these funds as of June 30, 2018 from non-current restricted cash to current cash and cash equivalents.

Accounts Receivable

Due to the nature of the accounts receivable for this type of entity, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectable accounts receivable is presented.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Supplies inventory is deemed immaterial and not recorded.

Prepaid Expenses

Certain payments to vendors which reflect costs applicable to future accounting periods are recorded as prepaid items.

Compensated Absences

Vested or accumulated vacation leave is reported as an expense and a fund liability as the benefits accrue to the employees. In addition, 50% of the vested or accumulated sick leave is recorded as an expense and a liability as the benefits accrue to employees with five or more years of service with the District.

Capital Assets

Capital assets are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Sewer system and improvements	40-50 years
Building and improvements	15-30 years
Plant equipment	5-15 years
Vehicles and equipment	3-10 years
Office furniture and equipment	2- 3 years

When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts. Any resulting gain or loss is reflected in the change in net position for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Material construction period interest expense is capitalized net of interest earnings on the temporary investment of tax-exempt funds in accordance with GAAP.

Net Position Classifications

Net position is reported as restricted when constraints placed on the use of resources are either:
a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Deferred Outflows and Inflows of Resources

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

Postemployment benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Although an ASRS net OPEB (asset)/liability has been recorded at June 30, 2018, these plans have not been recorded, or further disclosed as of June 30, 2019 in accordance GASB Statement 75, due to the relative insignificance to the District's financial statements.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget Policy and Procedures

The District adopts an annual budget. The budget is prepared on the cash basis. The District is not legally required to adopt or submit the budget to any state or other oversight agency before it has been adopted by the Board. Budgetary information has not been amended during the year. Budget appropriations lapse at year-end.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Taxes

Arizona Revised Statutes require that property taxes be levied on or before the third Monday of August. Taxes are levied and collected by the Navajo County Treasurer. Real property taxes become a lien on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day in October and becomes delinquent after the first business day in November. The second installment is due on the first day in March of the next year and becomes delinquent after the first business day in May. Interest and penalties are assessed if a tax payer fails to pay the tax within a period specified by state law.

NOTE 3 CASH AND CASH EQUIVALENTS

Arizona Revised Statutes authorize the District to invest monies in the State or County Treasurer's investment pools; interest bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds of other obligations of the United States government; and bonds of the State of Arizona counties, cities, towns, school districts, or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits not covered by Federal Depository Insurance Corporation (FDIC).

Deposits – Custodial Credit Risk

For deposits, this is a risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk. At June 30, 2019 and 2018, the carrying amount of the District's deposits was \$532,416 and \$634,780, respectively, and the bank balance was \$538,871 and \$634,430, respectively. Bank balances are covered by federal depository insurance up to \$364,225. Amounts in excess of the FDIC limit are collateralized through the Arizona State Treasurer's Office Pooled Collateral Program.

As of June 30, 2019 and 2018, balances of \$7,566,843 and \$6,617,809, respectively, were held by the Navajo County Treasurer and Arizona State Treasurer. Navajo County and the Arizona State Treasurer combines all entity cash balances for investment purposes. As a result, they do not have pledged securities specific to Pinetop-Lakeside Sanitary District; however, all deposits are collateralized.

Cash Equivalents

The District held no instruments accounted for as investments as of June 30, 2019 or 2018. As discussed in Note 1, amounts deposited with the Navajo County Treasurer Local Government Investment Pool and the Arizona State Local Government Investment Pool are considered cash and cash equivalents.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

Cash Equivalents (Continued)

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurer's investment pools; interest bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; and bonds of the State of Arizona counties, cities, towns, school districts, or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits not covered by Federal depository insurance.

The District invests in the Arizona State Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment has oversight responsibilities of the investment pool in accordance with ARS 35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. It has a AAA f/S1+ rating and has a Weighted Average Maturity of less than three years. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State Treasurer, 1700 West Washington, Phoenix, Arizona 85007.

The net asset value per share of the pool at June 30, 2019 was \$1.00. The District's balances in Pool 5 at June 30, 2019 was \$256,257.

The District invests in the Navajo County Local Government Investment Pool (LGIP), an investment pool managed by the Navajo County Treasurer's Office that allows governments within the County to pool their funds for investment purposes. The County Treasurer has a fiduciary responsibility to administer those and the County's monies under her stewardship. The County Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. The County Treasurer invests in securities with final maturity less than two years. In addition, the County Treasurer determines the fair value of those pooled investments annually at June 30. The Navajo State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Navajo County Treasurer, Governmental Complex, 100 East Code Talkers Drive, South Highway 77, P.O. Box 668, Holbrook, AZ 86025.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

Cash Equivalents (Continued)

The County Treasurer's investment pool is not registered with the Securities and Exchange Commission as an investment company, and there is no regulatory oversight its operations. The pool's structure does not provide for shares, and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments.

The net asset value per share of the pool at June 30, 2019 was \$1.00. The District's balances in the County Treasurer's investment pool at June 30, 2019 and 2018 was \$1,496,179 and \$1,472,120 respectively.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State Law (A.R.S. 35-323) which requires that the District's investment portfolio maturities do not exceed five years from the time of purchase.

NOTE 4 COVENANTS RECEIVABLE

Covenants are agreements made with individual property owners who cannot afford to pay the connection fee at the time the permit for connection is made. Covenants are collateralized by a Deed of Trust on the individual's property.

As of June 30, covenants receivable consist of the following:

	2019	2018
Covenants due from various users for connection fees, payable over a 10 to 20 year with interest	\$ 268,568	\$ 296,571
Less: current portion	<u>24,301</u>	<u>30,933</u>
	<u>\$ 244,267</u>	<u>\$ 265,638</u>

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 5 CAPITAL ASSETS

The following table summarizes the changes to capital assets for the year ended June 30, 2019:

	June 30, 2018 Balance	Additions	Deletions	June 30, 2019 Balance
Capital asset not being depreciated				
Land & Easements	\$ 165,454	\$ -	\$ -	\$ 165,454
Construction work in progress				-
Total capital assets not being depreciated	<u>165,454</u>	<u>-</u>	<u>-</u>	<u>165,454</u>
Capital assets being depreciated				
Buildings	1,095,588	13,655		1,109,243
Treatment	8,057,468			8,057,468
Collector sewers				
Improvement districts	18,288,321			18,288,321
Line extensions	15,121,704	88,040		15,209,744
Interceptor sewers	5,370,741			5,370,741
Sewer chimneys and laterals	700,791			700,791
Digester and scales	1,784,316			1,784,316
Wetland marsh	2,106,023			2,106,023
Well	70,386			70,386
General equipment	1,502,945	175,618		1,678,563
Plant equipment	1,333,682	15,031		1,348,714
SCADA	474,074		(306,656)	167,418
Tools and shop equipment	111,223			111,223
Computers	72,784			72,784
Furniture and fixtures	39,054			39,054
Total capital assets being depreciated	<u>56,129,099</u>	<u>292,344</u>	<u>(306,656)</u>	<u>56,114,787</u>
Less accumulated depreciation for:				
Buildings	(501,252)	(42,540)		(543,792)
Treatment	(5,566,880)	(201,126)		(5,768,006)
Collector sewers				
Improvement districts	(10,891,633)	(401,508)		(11,293,141)
Line extensions	(5,367,378)	(364,096)		(5,731,474)
Interceptor sewers	(3,896,153)	(110,401)		(4,006,554)
Sewer chimneys and laterals	(479,589)	(13,885)		(493,474)
Digester and scales	(1,667,364)	(115,702)		(1,783,066)
Wetland marsh	(1,088,452)	(46,393)		(1,134,845)
Well	(61,611)	(3,106)		(64,717)
General equipment	(803,728)	(91,711)		(895,439)
Plant equipment	(747,586)	(102,905)		(850,491)
SCADA	(365,547)	(27,132)	306,656	(86,023)
Tools and shop equipment	(70,184)	(2,290)		(72,474)
Computers	(72,784)			(72,784)
Furniture and fixtures	(38,590)	(465)		(39,055)
Total accumulated depreciation	<u>(31,618,731)</u>	<u>(1,523,260)</u>	<u>306,656</u>	<u>(32,835,335)</u>
Total capital assets being depreciated, net	<u>24,510,368</u>	<u>(1,230,917)</u>	<u>-</u>	<u>23,279,451</u>
Business-type activities capital assets, net	<u>\$ 24,675,822</u>	<u>\$ (1,230,917)</u>	<u>\$ -</u>	<u>\$ 23,444,906</u>

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 5 CAPITAL ASSETS (Continued)

The following table summarizes the changes to capital assets for the year ended June 30, 2018:

	June 30, 2017 Balance	Additions	Deletions	June 30, 2018 Balance
Capital asset not being depreciated				
Land & Easements	\$ 165,454	\$ -	\$ (143,894)	\$ 165,454
Construction work in progress	143,894	-	(143,894)	-
Total capital assets not being depreciated	<u>309,348</u>	<u>-</u>	<u>(143,894)</u>	<u>165,454</u>
Capital assets being depreciated				
Buildings	1,088,053	7,535	-	1,095,588
Treatment	8,057,467	8,625	-	8,066,093
Collector sewers				
Improvement districts	18,288,321	-	-	18,288,321
Line extensions	15,104,773	16,931	-	15,121,704
Interceptor sewers	5,370,741	-	-	5,370,741
Sewer chimneys and laterals	700,791	-	-	700,791
Digester and scales	1,784,316	-	-	1,784,316
Wetland marsh	2,106,023	-	-	2,106,023
Well	70,386	-	-	70,386
General equipment	1,158,807	537,665	(193,527)	1,502,945
Plant equipment	1,325,057	-	-	1,325,057
SCADA	338,415	135,659	-	474,074
Tools and shop equipment	111,223	-	-	111,223
Computers	72,784	-	-	72,784
Furniture and fixtures	39,055	-	-	39,055
Total capital assets being depreciated	<u>55,616,211</u>	<u>706,416</u>	<u>(193,527)</u>	<u>56,129,100</u>
Less accumulated depreciation for:				
Buildings	(459,669)	(41,583)	-	(501,252)
Treatment	(5,365,754)	(201,126)	-	(5,566,880)
Collector sewers				
Improvement districts	(10,490,125)	(401,508)	-	(10,891,633)
Line extensions	(5,005,911)	(361,468)	-	(5,367,378)
Interceptor sewers	(3,785,752)	(110,401)	-	(3,896,153)
Sewer chimneys and laterals	(465,704)	(13,885)	-	(479,589)
Digester and scales	(1,551,662)	(115,702)	-	(1,667,364)
Wetland marsh	(1,042,059)	(46,393)	-	(1,088,452)
Well	(58,505)	(3,106)	-	(61,611)
General equipment	(918,406)	(78,848)	193,527	(803,728)
Plant equipment	(635,722)	(111,864)	-	(747,586)
SCADA	(284,400)	(81,146)	-	(365,547)
Tools and shop equipment	(67,894)	(2,290)	-	(70,184)
Computers	(72,784)	-	-	(72,784)
Furniture and fixtures	(38,125)	(465)	-	(38,590)
Total accumulated depreciation	<u>(30,242,472)</u>	<u>(1,569,786)</u>	<u>193,527</u>	<u>(31,618,731)</u>
Total capital assets being depreciated, net	<u>25,373,739</u>	<u>(863,370)</u>	<u>-</u>	<u>24,510,368</u>
Business-type activities capital assets, net	<u>\$ 25,683,087</u>	<u>\$ (863,370)</u>	<u>\$ (143,894)</u>	<u>\$ 24,675,822</u>

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Arizona State Retirement System

At June 30, 2019, the District reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position:	2019	2018
Net pension liabilities	1,425,330	1,663,736
Deferred outflows of resources	200,033	199,095
Deferred inflows of resources	232,620	149,793
Pension expense	124,742	110,433

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

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

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

*with actuarially reduced benefits.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death.

For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required active ASRS members to contribute the actuarially determined rate of 11.80 percent (11.64 percent for retirement and 0.16 percent for long term disability) of the members annual covered payroll, and statute required the District to contribute at the same actuarially determined rate of 11.80 percent (11.18 percent for retirement, 0.46 percent for health insurance premium, and 0.16 percent for long-term disability) of the active member's annual covered payroll. For the year ended June 30, 2018, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the same actuarially determined rate of 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

Pinetop-Lakeside Sanitary District's contributions to the pension plan for the years ended June 30, 2019 and 2018, were \$123,049 and \$110,433, respectively.

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Pinetop-Lakeside Sanitary District's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2019	\$ 4,797	\$ 1,668
2018	4,396	1,598
2017	5,555	1,389

Liability - At June 30, 2019, Pinetop-Lakeside Sanitary District reported a liability of \$1,425,330 for its proportionate share of the ASRS' net pension liability. The net liability was measured as of June 30, 2018. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total liabilities as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3–6.75 percent to 2.7–7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The District's proportion of the net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The District's proportion is measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017. Pinetop-Lakeside Sanitary District's proportion measured as of June 30, 2018, was 0.010215 percent, which was a decrease of 0.00046 percent from its proportion measured as of June 30, 2017.

Pinetop-Lakeside Sanitary District's reported liability at June 30, 2019, decreased by \$238,406 from the District's prior year liability of \$1,633,736 because of changes in the ASRS' net pension liability and the District's proportionate share of that liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018.

At June 30, 2018, the District reported a liability of \$1,663,736 for its proportionate share of the ASRS's net pension liability. The net liability was measured as of June 30, 2017. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumptions related to changes in loads for future potential permanent benefit increases.

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District's proportion of the net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The District's proportion measured as of June 30, 2017, was 0.01068 percent which was a decrease of 0.000190 from its proportion measured as of June 30, 2016.

The net liability is measured as of June 30, 2018 will reflect the changes of actuarial assumptions based on the results of an actuarial experience study for the 5 year period ended June 30, 2016. The change in the Districts net liability as a result of these changes is not known.

Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2019 and 2018, Pinetop-Lakeside Sanitary District recognized pension expense for ASRS of \$123,049 and \$110,433, respectively. At June 30, 2019 and 2018, Pinetop-Lakeside Sanitary District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,267	\$ 7,858
Changes of assumptions or other inputs	37,717	126,375
Net difference between projected and actual earnings on pension plan investments	-	34,276
Changes in proportion and differences between District contributions and proportionate share of contributions	-	64,111
District contributions subsequent to the measurement date	<u>123,049</u>	<u>-</u>
Total	\$ 200,033	\$ 232,620

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 49,888
Changes of assumptions or other inputs	72,260	49,749
Net difference between projected and actual earnings on pension plan investments	11,944	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	50,156
District contributions subsequent to the measurement date	<u>110,433</u>	-
Total	<u><u>\$ 194,637</u></u>	<u><u>\$ 149,793</u></u>

At June 30, 2019 and 2018, the amounts reported as deferred outflows of resources related to ASRS pensions resulting from Pinetop-Lakeside Sanitary District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020 and 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized as expenses as follows:

Year ending June 30	
2020	\$ (26,702)
2021	(61,569)
2022	(51,994)
2023	(15,371)

Year ending June 30	
2019	\$ (101,183)
2020	55,419
2021	18,447
2022	(38,271)

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions – For June 30, 2019 and 2018, the significant actuarial assumptions used to measure the total pension liability are as follows:

2019	
Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	2.7-7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Healthcare cost trend rate	Not applicable

2018	
Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017 and 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016 and June 30, 2012, respectively.

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the year ended June 30, 2019, The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimate of geometric real rates of return for each major asset class are summarized in the following table:

2019 Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Equity	50%	5.50%
Fixed Income	30%	3.83%
Real estate	20%	5.85%
Total	<u>100%</u>	

Discount Rate – At June 30, 2019, the discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – At June 30, 2019, the following tables presents Pinetop-Lakeside Sanitary District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

2019	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% increase (8.5%)
District's proportionate share of the net pension liability	\$ 2,031,841	\$ 1,425,330	\$ 918,600

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 6 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

At June 30, 2018, the following tables presents Pinetop-Lakeside Sanitary District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

2018	Current		
	1% Decrease (7%)	Discount Rate (8%)	1% increase (9%)
District's proportionate share of the net pension liability	\$ 2,135,434	\$ 1,663,736	\$ 1,269,592

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance for general liability, auto liability, employee dishonesty and worker's compensation. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past five fiscal years. Insurance expense for the year ended June 30, 2019 and 2018 totaled \$34,682 and \$35,263.

REQUIRED SUPPLEMENTARY INFORMATION

PINETOP-LAKESIDE SANITARY DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
 COST- SHARING PENSION PLAN

June 30, 2019

	Fiscal Year					Information through 2010
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
District's proportion of the net pension liability	0.010215%	0.010680%	0.010870%	0.011270%	0.011670%	
District's proportionate share of the net pension liability	\$ 1,425,330	\$ 1,663,736	\$ 1,754,527	\$ 1,755,192	\$ 1,726,818	not available
District's covered payroll	\$ 1,013,147	\$ 1,004,286	\$ 1,017,648	\$ 1,037,230	1,052,000	
District's proportionate share of the net pension liability as a percentage of its covered payroll	140.68%	165.66%	172.41%	169.22%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	73.00%	69.92%	67.06%	68.35%	69.49%	

PINETOP-LAKESIDE SANITARY DISTRICT
 SCHEDULE OF THE DISTRICTS PENSION CONTRIBUTIONS
 June 30, 2019

	Fiscal Year						2013 through 2010 Information not available
	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 116,584	\$ 110,433	\$ 113,886	\$ 115,503	\$ 119,074	\$ 112,564	
District's contributions in relation to the statutorily required contribution	116,584	110,433	113,886	115,503	119,074	112,564	
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
District's covered payroll	\$ 1,042,791	\$ 1,013,147	\$ 1,004,286	\$ 1,017,648	\$ 1,037,230	\$ 1,052,000	
District's contributions as a percentage of covered payroll	11.18%	10.90%	11.34%	11.35%	11.48%	10.70%	

INDEPENDENT AUDITORS' 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

To the Board of Directors
Pinetop-Lakeside Sanitary District
Pinetop-Lakeside, Arizona

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 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Pinetop-Lakeside Sanitary District, Arizona basic financial statements, and have issued our report thereon dated August 22, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pinetop-Lakeside Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pinetop-Lakeside 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 a 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pinetop-Lakeside 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 determination of financial statement amounts. 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.

A handwritten signature in black ink, appearing to read "Hgt Hne, LLP".

Tempe, Arizona

August 22, 2019