



PINETOP-LAKESIDE SANITARY DISTRICT
LAKESIDE, ARIZONA
FINANCIAL STATEMENTS
June 30, 2020 and 2019

TABLE OF CONTENTS
PINETOP-LAKESIDE SANITARY DISTRICT

REPORT ON AUDIT OF FINANCIAL STATEMENT	
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	9
Statements of Cash Flows	10
Notes to Financial Statements	13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the District's Proportionate Share of the Net Pension Liability – Cost- Sharing Pension Plan	32
Schedule of the Districts Pension Contributions	33
COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i> .	34

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Pinetop-Lakeside Sanitary District, Arizona as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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 September 8, 2020, 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.

Henry + Horne, LLP

Tempe, Arizona
September 8, 2020

PINETOP-LAKESIDE SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 and 2019

This document is the District's Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ending June 30, 2020.

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 2020 – 2019 are as follows:

- The assets of the Pinetop-Lakeside Sanitary District exceeded its liabilities at the close of the most recent fiscal year by \$29,863,608. Of this amount, \$7,660,857 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's net position *decreased by* \$376,015.
- Operating revenues for 2020 totaled \$2,414,080, an increase of \$32,419 over 2019.
- Operating expenses totaled \$2,152,787, a *increase* of \$244,069 from 2019 due primarily to an addition to the collection department and increase in employee benefits.

Condensed Statements of Net Position

	2020	2019
Assets:		
Current and other assets:	\$ 9,398,989	\$ 8,535,314
Capital Assets (net of depreciation)	22,202,751	23,444,906
Total Assets	31,601,740	31,980,220
Deferred Outflow of Resources	153,217	200,003
Liabilities:		
Current liabilities	295,408	282,680
Other non-current liabilities	1,460,937	1,425,330
Total Liabilities	1,756,345	1,708,010
Deferred Inflow of Resources	135,004	232,620
Net Position:		
Invested in capital assets	22,202,751	23,444,906
Unrestricted net position	7,660,857	6,794,717
Total Net Position	\$ 29,863,608	\$ 30,239,623

Operating Financial Activity

The Statement of Revenues, Expenses, and Changes in Net Position show how the District's net position 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 2020 operating results compared to budget.

Revenues: Total operating revenues exceeded budget by \$32,418 with the largest variances in commercial sewer user fees \$31,234.

Expenses: Operating expenses, before depreciation, were \$237,600 over budget, attributed to a increase in payroll costs, legal and professional, and collection material, and supplies.

Non-Operating revenue – expenses: Revenue exceeded budget by \$162,269 with the increase of \$83,975 interest income and the annexation of 2 parcels, and with issuing 8 more connection permits than were anticipated.

Condensed Statements Changes of Net Position

	2020	2019
Operating revenues	\$ 2,414,080	\$ 2,381,661
Operating expenses	<u>(2,152,787)</u>	<u>(1,908,718)</u>
Operating income before depreciation	261,293	472,943
Depreciation	<u>1,406,800</u>	<u>1,523,260</u>
Loss from operations	(1,145,507)	(1,050,317)
Total other income	792,310	760,956
Total other expense	<u>(22,818)</u>	<u>(22,818)</u>
	769,492	738,138
Change in net position	(376,015)	(312,179)
Net position at beginning of year	<u>30,239,623</u>	<u>30,534,287</u>
Net position at year end	<u><u>\$ 29,863,608</u></u>	<u><u>\$ 30,239,623</u></u>

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, 2020:

- Treatment Equipment – The District purchased a tub grinder, roto mixer, and tractor to modify the bio-solids composting process.

Debt Administration:

The District's net pension liabilities for the unfunded portion of the retirement plan were \$1,460,937 and \$1,425,330 for the years ending June 30, 2020 and 2019, 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 2020 – 2021.

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.

Economic and Other Factors (Continued)

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 ensuring 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
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,024,305	\$ 8,099,258
Accounts receivable	136,543	137,510
Covenants receivable	25,892	24,301
Levied tax receivables	14,285	13,417
	<u>9,201,025</u>	<u>8,274,486</u>
NONCURRENT ASSETS		
Accounts receivable, net of current	16,561	16,561
Covenants receivable, net of current	181,403	244,267
Capital assets, non depreciable	165,454	165,454
Capital assets, net of accumulated depreciation	22,037,297	23,279,452
	<u>22,400,715</u>	<u>23,705,734</u>
	<u>31,601,740</u>	<u>31,980,220</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	153,217	200,033
	<u>153,217</u>	<u>200,033</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	29,022	22,997
Accrued wages	45,132	39,200
Accrued payroll taxes	20,048	14,700
Unearned revenue - prepaid accounts	51,692	48,330
Accrued compensated absences	149,514	157,453
	<u>295,408</u>	<u>282,680</u>
NONCURRENT LIABILITIES		
Net pension liability	1,460,937	1,425,330
	<u>1,460,937</u>	<u>1,425,330</u>
	<u>1,756,345</u>	<u>1,708,010</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	135,004	232,620
	<u>135,004</u>	<u>232,620</u>
NET POSITION		
Invested in capital assets	22,202,751	23,444,906
Unrestricted	7,660,857	6,794,717
	<u>29,863,608</u>	<u>30,239,623</u>
	<u>\$ 29,863,608</u>	<u>\$ 30,239,623</u>

See accompanying notes.

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE		
User and inspection fees	\$ 2,345,583	\$ 2,296,499
Lateral fees	7,300	8,200
Miscellaneous	61,197	76,962
TOTAL OPERATING REVENUES	<u>2,414,080</u>	<u>2,381,661</u>
OPERATING EXPENSES		
Salaries and wages	1,114,320	1,070,001
Employee benefits and payroll taxes	445,437	272,366
Materials and supplies	111,502	93,100
Repairs and maintenance	72,663	69,427
Professional fees	88,565	71,849
Utilities	165,388	174,725
Administrative costs	124,461	132,560
Depreciation	1,406,800	1,523,260
Miscellaneous	30,451	24,690
TOTAL OPERATING EXPENSES	<u>3,559,587</u>	<u>3,431,978</u>
OPERATING INCOME (LOSS)	<u>(1,145,507)</u>	<u>(1,050,317)</u>
NONOPERATING REVENUES (EXPENSES)		
Ad valorem tax	402,368	402,565
Annexation fees	15,339	5,098
Connection fees	105,541	103,976
Capacity charge fees	110,089	120,607
Investment earnings	158,973	128,710
Tax collection expense	(22,818)	(22,818)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>769,492</u>	<u>738,138</u>
INCOME (EXPENSE) BEFORE CONTRIBUTIONS	<u>(376,015)</u>	<u>(312,179)</u>
CONTRIBUTIONS	<u>-</u>	<u>17,515</u>
CHANGE IN NET POSITION	<u>(376,015)</u>	<u>(294,664)</u>
NET POSITION - BEGINNING OF YEAR	<u>30,239,623</u>	<u>30,534,287</u>
NET POSITION - END OF YEAR	<u>\$ 29,863,608</u>	<u>\$ 30,239,623</u>

See accompanying notes.

PINETOP-LAKESIDE SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,418,408	\$ 2,421,160
Payments for operating expenses	(587,005)	(559,977)
Payments to employees	<u>(1,571,610)</u>	<u>(1,505,096)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>259,793</u>	<u>356,087</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts of ad valorem tax	401,501	401,666
Payments for tax collection expense	(22,818)	(22,818)
Receipts for connection fees	166,814	131,980
Receipts for annexation fees	<u>15,339</u>	<u>5,098</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>560,836</u>	<u>515,926</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Assessments received	-	253
Capacity charges received	110,089	120,607
Acquisition of capital assets	<u>(164,644)</u>	<u>(274,828)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(54,555)</u>	<u>(153,968)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>158,973</u>	<u>128,723</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	925,047	846,768
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,099,258</u>	<u>7,252,490</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 9,024,305</u></u>	<u><u>\$ 8,099,258</u></u>

See accompanying notes.

PINETOP-LAKESIDE SANITARY DISTRICT
 STATEMENTS OF CASH FLOWS (Continued)
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,145,507)	\$ (1,050,317)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,406,800	1,523,260
(Increase) decrease in:		
Accounts receivable	967	35,416
Deferred outflows of resources related to pensions	46,816	676
Increase (decrease) in:		
Accounts payable	6,025	6,378
Accrued wages and benefits	3,340	(2,606)
Unearned revenue-prepaid accounts	3,361	4,082
Net pension liability	35,607	(236,394)
Deferred inflows of resources related to pensions	<u>(97,616)</u>	<u>75,592</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 259,793</u>	<u>\$ 356,087</u>
Noncash investing, capital, and financing activities:		
Capital contributions	-	17,515



PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 as of June 30, 2020. The District is comprised of a single enterprise fund and one component unit as of June 30, 2019. 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 as of June 30, 2019. 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 as of June 30, 2019.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 \$3,365,454 and \$3,195,111, respectively, as of June 30, 2020 and 2019.

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 uncollectible accounts receivable is presented.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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, 2020 and 2019

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.

ASRS net OPEB (assets)/liabilities have not been recorded, or further disclosed, at June 30, 2020 and 2019, in accordance with 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, 2020 and 2019

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, 2020 and 2019, the carrying amount of the District's deposits was \$815,854 and \$532,416, respectively, and the bank balance was \$818,900 and \$538,872, respectively. At June 30, 2020 and 2019, bank balances are covered by federal depository insurance up to \$437,941 and \$364,225, respectively. Deposits of \$380,959 and \$189,647 were collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the District's name.

As of June 30, 2020 and 2019, balances of \$8,208,451 and \$7,566,843, 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.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

Cash Equivalents

The District held no instruments accounted for as investments as of June 30, 2020 or 2019. 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.

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, 2020 and 2019 was \$1.00. The District's balances in Pool 5 at June 30, 2020 and 2019, was \$260,399 and \$256,257, respectively.

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.

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, 2020 and 2019 was \$1.00. The District's balances in the County Treasurer's investment pool at June 30, 2020 and 2019 was \$1,525,660 and \$1,496,179, respectively.

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

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:

	<u>2020</u>	<u>2019</u>
Covenants due from various users for connection fees, payable over a 10 to 20 year period with interest	\$ 207,295	\$ 268,569
Less: current portion	25,892	24,301
	<u>\$ 181,403</u>	<u>\$ 244,268</u>

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 5 CAPITAL ASSETS

The following table summarizes the changes to capital assets for the year ended June 30, 2020:

	June 30, 2019 Balance	Additions	Deletions	June 30, 2020 Balance
Capital asset not being depreciated				
Land & Easements	\$ 165,454	\$ -	\$ -	\$ 165,454
Capital assets being depreciated				
Buildings	1,109,243	-	-	1,109,243
Treatment	8,057,468	-	-	8,057,468
Collector sewers				
Improvement districts	18,288,321	-	-	18,288,321
Line extensions	15,209,744	-	-	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	1,678,563	-	-	1,678,563
Plant equipment	1,348,714	164,645	-	1,513,359
SCADA	167,418	-	-	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>56,114,787</u>	<u>164,645</u>	<u>-</u>	<u>56,279,432</u>
Less accumulated depreciation for:				
Buildings	(543,792)	(38,256)	-	(582,048)
Treatment	(5,768,006)	(201,126)	-	(5,969,132)
Collector sewers				
Improvement districts	(11,293,141)	(401,508)	-	(11,694,649)
Line extensions	(5,731,474)	(366,300)	-	(6,097,774)
Interceptor sewers	(4,006,554)	(107,790)	-	(4,114,344)
Sewer chimneys and laterals	(493,474)	(13,885)	-	(507,359)
Digester and scales	(1,783,066)	(1,250)	-	(1,784,316)
Wetland marsh	(1,134,845)	(46,393)	-	(1,181,238)
Well	(64,717)	(1,890)	-	(66,607)
General equipment	(895,439)	(101,964)	-	(997,403)
Plant equipment	(850,491)	(97,016)	-	(947,507)
SCADA	(86,023)	(27,132)	-	(113,155)
Tools and shop equipment	(72,474)	(2,290)	-	(74,764)
Computers	(72,784)	-	-	(72,784)
Furniture and fixtures	(39,055)	-	-	(39,055)
Total accumulated depreciation	<u>(32,835,335)</u>	<u>(1,406,800)</u>	<u>-</u>	<u>(34,242,135)</u>
Total capital assets being depreciated, net	<u>23,279,452</u>	<u>(1,242,155)</u>	<u>-</u>	<u>22,037,297</u>
Business-type activities capital assets, net	<u>\$ 23,444,906</u>	<u>\$ (1,242,155)</u>	<u>\$ -</u>	<u>\$ 22,202,752</u>

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 5 CAPITAL ASSETS (Continued)

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
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, 2020 and 2019

NOTE 6 PENSION

Arizona State Retirement System (ASRS)

The District reported the following aggregate amounts related to pensions for all plans to which it contributes as of June 30:

Statement of Net Position:	2020	2019
Net pension liabilities	1,460,937	1,425,330
Deferred outflows of resources	153,217	200,033
Deferred inflows of resources	135,004	232,620
Pension expense	100,833	124,742

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, 2020 and 2019

NOTE 6 PENSION (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.

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, 2020, statute required active ASRS members to contribute the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium, and 0.17 percent for long-term disability) of the active member's annual covered payroll. 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.

Pinetop-Lakeside Sanitary District's contributions to the pension plan for the years ended June 30, 2020 and 2019, were \$120,650 and \$118,425, respectively.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 6 PENSION (Continued)

Liability - At June 30, 2020, Pinetop-Lakeside Sanitary District reported a liability of \$1,460,937 for its proportionate share of the ASRS' net pension liability. The net liability was measured as of June 30, 2019. 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, 2018, to the measurement date of June 30, 2019.

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, 2019 was 0.010044 percent, which was a decrease of 0.000171 from its proportions measured as of June 30, 2018.

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
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 6 PENSION (Continued)

Expense and Deferred Outflows/Inflows of Resources - For the year ended June 30, 2020 and 2019, Pinetop-Lakeside Sanitary District recognized pension expense for ASRS of \$100,833 and \$124,742, respectively. Pinetop-Lakeside Sanitary District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,392	\$ 275
Changes of assumptions or other inputs	6,175	58,177
Net difference between projected and actual earnings on pension plan investments	-	32,837
Changes in proportion and differences between District contributions and proportionate share of contributions	-	43,715
District contributions subsequent to the measurement date	120,650	-
Total	<u>\$ 153,217</u>	<u>\$ 135,004</u>
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	123,049	-
Total	<u>\$ 200,033</u>	<u>\$ 232,620</u>

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 6 PENSION (Continued)

At June 30, 2020 and 2019, 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, 2021 and 2020. 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		
2021	\$	(57,674)
2022		(47,252)
2023		(6,306)
2024		8,795
2025		-
Thereafter		-

Year ending June 30		
2020	\$	(26,702)
2021		(61,569)
2022		(51,994)
2023		(15,371)
2024		-
Thereafter		-

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 6 PENSION (Continued)

Actuarial Assumptions – For June 30, 2020 and 2019, the significant actuarial assumptions used to measure the total pension liability are as follows:

<u>2020</u>	
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions
Inflation	2.3%
Permanent benefit increase	Included for pensions
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Healthcare cost trend rate	Not applicable
<u>2019</u>	
Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2% for pensions
Inflation	2.3%
Permanent benefit increase	Included for pensions
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2018 and 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 6 PENSION (Continued)

For the year ended June 30, 2020 and 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 as of June 30:

2020 Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	20%	5.85%
Total	100%	

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	100%	

Discount Rate – At June 30, 2020 and 2019, the discount rate used to measure the ASRS total pension liability was 7.5 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.

PINETOP-LAKESIDE SANITARY DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

NOTE 6 PENSION (Continued)

Sensitivity of the District's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – At June 30, 2020 and 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:

2020	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% increase (8.5%)
District's proportionate share of the net pension liability	\$ 2,079,251	\$ 1,460,937	\$ 944,185

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

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, 2020 and 2019 totaled \$37,186 and \$34,682, respectively.

NOTE 8 COMMITMENT

As of June 30, 2020, the District has a commitment relating to the purchase of equipment for approximately \$142,000 that will be financed through operating funds. This contract will be paid in future periods.

PINETOP-LAKESIDE SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 9 SUBSEQUENT EVENT

On January 30, 2020 the World Health Organization announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

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, 2020

	Fiscal Year						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
District's proportion of the net pension liability	0.010044%	0.010215%	0.010680%	0.010870%	0.011270%	0.011670%	Information not available
District's proportionate share of the net pension liability	\$ 1,460,937	\$ 1,425,330	\$ 1,663,736	\$ 1,754,527	\$ 1,755,192	\$ 1,726,818	
District's covered payroll	\$ 1,042,791	\$ 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	140.10%	140.68%	165.66%	172.41%	169.22%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

PINETOP-LAKESIDE SANITARY DISTRICT
 SCHEDULE OF THE DISTRICTS PENSION CONTRIBUTIONS
 June 30, 2020

	Fiscal Year							2014 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 120,650	\$ 116,584	\$ 110,433	\$ 113,886	\$ 115,503	\$ 119,074	\$ 112,564	Information not available
District's contributions in relation to the statutorily required contribution	120,650	116,584	110,433	113,886	115,503	119,074	112,564	
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
District's covered payroll	\$ 996,284	\$ 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	12.11%	11.18%	10.90%	11.34%	11.35%	11.48%	10.70%	

COMPLIANCE SECTION

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
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 of Pinetop-Lakeside Sanitary District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Pinetop-Lakeside Sanitary District's basic financial statements, and have issued our report thereon dated August 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pinetop-Lakeside Sanitary District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pinetop-Lakeside Sanitary 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 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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.

Henry + Horne, LLP

Tempe, Arizona
September 8, 2020