



Pinetop-Lakeside Sanitary District

Financial Statements

June 30, 2023 and 2022

Pinetop-Lakeside Sanitary District

Table of Contents
June 30, 2023 and 2022

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	12
Required Supplementary Information	
Schedule of the District's Proportionate Share of the Net Pension Liability - Cost-Sharing Pension Plan	24
Schedule of the District's Pension Contribution	25
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>	26
Schedule of Findings and Responses	28



Independent Auditors' Report

To the Board of Directors of
Pinetop-Lakeside Sanitary District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pinetop-Lakeside Sanitary District (the District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023 and 2022, and the changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Tempe, Arizona
September 14, 2023

Pinetop-Lakeside Sanitary District

Management's Discussion and Analysis
June 30, 2023 and 2022

This document is the District's Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year ending June 30, 2023.

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 nonoperating 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 2023 - 2022 are as follows:

- The assets and deferred inflows of the Pinetop-Lakeside Sanitary District exceeded its liabilities and deferred outflows at the close of the most recent fiscal year by \$29,344,078.
- The District's net position decreased by \$302,200
- Operating revenues for 2023 totaled \$2,643,384, an increase of \$74,451 over 2022.
- Operating expenses, before depreciation, totaled \$3,845,409, an increase of \$209,518 from 2022 due primarily to an increase inflation of materials and supplies, and salary increases.

Pinetop-Lakeside Sanitary District

Management's Discussion and Analysis
June 30, 2023 and 2022

Condensed Statements of Net Position

	<u>2023</u>	<u>2022</u>
Assets:		
Current and other assets	\$ 11,055,132	\$ 10,621,578
Capital assets (net of depreciation)	<u>19,864,822</u>	<u>20,638,694</u>
Total assets	<u>30,919,954</u>	<u>31,260,272</u>
Deferred outflow of resources	<u>211,894</u>	<u>288,855</u>
Liabilities:		
Current liabilities	278,158	275,219
Other noncurrent liabilities	<u>1,420,033</u>	<u>1,144,455</u>
Total liabilities	<u>1,698,191</u>	<u>1,419,674</u>
Deferred outflow of resources	<u>89,579</u>	<u>483,127</u>
Net position:		
Invested in capital assets	19,864,822	20,638,694
Unrestricted net position	<u>9,479,256</u>	<u>9,007,632</u>
Total net position	<u>\$ 29,344,078</u>	<u>\$ 29,646,326</u>

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 2023 operating results compared to budget.

Revenues

Total operating revenues exceeded budget by \$159,280 in Commercial user fees. Transfer, Late fees, Compost Sales exceeded budget as well. Septage Receiving exceeded budget as well due to new companies dumping at our facilities now, and rate increase to dump approved by Board of Directors.

Expenses

Operating expenses, before depreciation, were \$612,788 under budget, attributed to an increase in payroll costs.

Nonoperating Revenue, Expenses

Revenue exceeded budget by \$347,012 with the increase of Connection and Capacity Fees as well as investment income.

Pinetop-Lakeside Sanitary District

Management's Discussion and Analysis
June 30, 2023 and 2022

Condensed Statements of Changes in Net Position

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 2,643,424	\$ 2,568,933
Operating expenses before depreciation	<u>(2,430,800)</u>	<u>(2,241,082)</u>
Operating income before depreciation	212,624	327,851
Depreciation	<u>1,414,697</u>	<u>1,394,809</u>
Loss from operations	<u>(1,202,073)</u>	<u>(1,066,958)</u>
Total other income	907,012	823,627
Total other expense	<u>(7,187)</u>	<u>(5,832)</u>
	<u>899,825</u>	<u>817,795</u>
Change in net position	(302,248)	(249,163)
Net Position, Beginning	<u>29,646,326</u>	<u>29,895,489</u>
Net Position, Ending	<u>\$ 29,344,078</u>	<u>\$ 29,646,326</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, 2023:

- Collection Equipment - The District purchased a New Kubota Excavator for the Collections Crew, Replaced the 2013 Ford F-150, Purchased 2019 Ford Ranger for Collections Department
- The District sold the GMC Envoy and replaced it with 2020 GMC Terrain for the front office Debt Administration.

The District's net pension liabilities for the unfunded portion of the retirement plan were \$1,420,033 and \$1,144,455 for the years ending June 30, 2023 and 2022, respectively.

Economic and Other Factors

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 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.

Pinetop-Lakeside Sanitary District

Management's Discussion and Analysis
June 30, 2023 and 2022

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 Amber Wright, Office Supervisor either by telephone, (928) 368-5370 or direct email, amberw@plsd.com.

Pinetop-Lakeside Sanitary District

Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 10,723,441	\$ 10,277,007
Accounts receivable	151,809	156,611
Covenants receivable	17,507	17,507
Levied tax receivables	9,527	8,183
Total current assets	<u>10,902,284</u>	<u>10,459,308</u>
Noncurrent Assets		
Accounts receivable, net of current	16,561	16,561
Covenants receivable, net of current	136,287	145,709
Capital assets, nondepreciable	758,553	540,858
Capital assets, net of accumulated depreciation	<u>19,106,269</u>	<u>20,097,836</u>
Total noncurrent assets	<u>20,017,670</u>	<u>20,800,964</u>
Total assets	30,919,954	31,260,272
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	<u>211,894</u>	<u>288,855</u>
Total assets and deferred outflows of resources	<u>\$ 31,131,848</u>	<u>\$ 31,549,127</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 2,042	\$ 3,844
Accrued wages	14,305	36,487
Accrued payroll taxes	20,444	20,834
Unearned revenue, prepaid accounts	94,995	75,572
Accrued compensated absences	<u>146,372</u>	<u>138,482</u>
Total current liabilities	278,158	275,219
Noncurrent Liabilities		
Net pension liability	<u>1,420,033</u>	<u>1,144,455</u>
Total liabilities	<u>1,698,191</u>	<u>1,419,674</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	<u>89,579</u>	<u>483,127</u>
Net Position		
Invested in capital assets	19,864,822	20,638,694
Unrestricted	<u>9,479,256</u>	<u>9,007,632</u>
Total net position	<u>\$ 29,344,078</u>	<u>\$ 29,646,326</u>

See notes to financial statements

Pinetop-Lakeside Sanitary District

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenue		
User and inspection fees	\$ 2,473,461	\$ 2,431,090
Lateral fees	7,500	10,640
Miscellaneous	162,463	127,203
Total operating revenues	<u>2,643,424</u>	<u>2,568,933</u>
Operating Expenses		
Salaries and wages	1,126,158	1,073,493
Employee benefits and payroll taxes	521,343	391,938
Materials and supplies	176,454	132,974
Repairs and maintenance	137,829	148,856
Professional fees	26,050	53,660
Utilities	231,607	221,354
Administrative costs	159,724	159,241
Depreciation	1,414,697	1,394,809
Miscellaneous	51,635	59,566
Total operating expenses	<u>3,845,497</u>	<u>3,635,891</u>
Operating loss	<u>(1,202,073)</u>	<u>(1,066,958)</u>
Nonoperating Revenues (Expenses)		
Ad valorem tax	400,463	401,817
Annexation fees	24,508	33,326
Connection fees	105,300	163,079
Capacity charge fees	152,743	166,533
Investment earnings	223,998	58,872
Tax collection expense	(7,187)	(5,832)
Total nonoperating revenues (expenses)	<u>899,825</u>	<u>817,795</u>
Change in net position	(302,248)	(249,163)
Net Position, Beginning	<u>29,646,326</u>	<u>29,895,489</u>
Net Position, Ending	<u>\$ 29,344,078</u>	<u>\$ 29,646,326</u>

See notes to financial statements

Pinetop-Lakeside Sanitary District

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 2,667,649	\$ 2,555,390
Payments for operating expenses	(785,101)	(785,430)
Payments to employees	(1,703,192)	(1,587,317)
	<u>179,356</u>	<u>182,643</u>
Net cash provided by operating activities		
Cash Flows From Noncapital Financing Activities		
Receipts of ad valorem tax	399,119	403,872
Payments for tax collection expense	(7,187)	(5,832)
Receipts for connection fees	114,722	178,637
Receipts for annexation fees	24,508	33,326
	<u>531,162</u>	<u>610,003</u>
Net cash provided by noncapital financing activities		
Cash Flows From Capital and Related Financing Activities		
Capacity charges received	152,743	166,533
Acquisition of capital assets	(640,825)	(482,366)
	<u>(488,082)</u>	<u>(315,833)</u>
Net cash used in capital and related financing activities		
Cash Flows From Investing Activities		
Interest received	<u>223,998</u>	<u>58,872</u>
Net change in cash and cash equivalents	446,434	535,685
Cash and Cash Equivalents, Beginning	<u>10,277,007</u>	<u>9,741,322</u>
Cash and Cash Equivalents, Ending	<u>\$ 10,723,441</u>	<u>\$ 10,277,007</u>

See notes to financial statements

Pinetop-Lakeside Sanitary District

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities		
Operating loss	\$ (1,202,073)	\$ (1,066,958)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	1,414,697	1,394,809
(Increase) decrease in:		
Accounts receivable	4,802	(24,956)
Deferred outflows of resources related to pensions	76,961	2,240
Increase (decrease) in:		
Accounts payable	(1,802)	(9,779)
Accrued wages and benefits	(14,682)	(23,601)
Unearned revenue-prepaid accounts	19,423	11,413
Net pension liability	275,578	(548,346)
Deferred inflows of resources related to pensions	(393,548)	447,821
Net cash provided by operating activities	<u>\$ 179,356</u>	<u>\$ 182,643</u>

See notes to financial statements

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

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.

Basis of Presentation and Reporting

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 \$4,087,983 and \$3,879,432, respectively, as of June 30, 2023 and 2022.

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

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.

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:

	<u>Years</u>
Sewer system and improvements	40-50
Building and improvements	15-30
Plant equipment	5-15
Vehicles and equipment	3-10
Office furniture and equipment	2-3

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.

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.

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.

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, in accordance with GASB Statement 75, due to the relative insignificance to the District's financial statements.

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.

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 taxpayer fails to pay the tax within a period specified by state law.

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% of all deposits not covered by Federal Depository Insurance Corporation (FDIC).

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022, the carrying amount of the District's deposits was \$431,119 and \$438,429, respectively, and the bank balance was \$431,790 and \$453,998, respectively. At June 30, 2023 and 2022, bank balances are covered by federal depository insurance up to \$440,979 and \$395,645, respectively. In 2023, there were no balances that were collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the District's name. In 2022, \$58,354 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, 2023 and 2022, balances of \$10,292,322 and \$9,838,578, 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, 2023 and 2022. 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 five 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, 2023 and 2022 was \$1.00. The District's balances in Pool 5 at June 30, 2023 and 2022, was \$271,613 and \$261,385, 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.

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022 was \$1.00. The District's balances in the County Treasurer's investment pool at June 30, 2023 and 2022 was 2,156,920 and \$2,174,730, 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.

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>2023</u>	<u>2022</u>
Covenants due from various users for connection fees, payable over a 10 to 20 year period with interest	\$ 153,794	\$ 163,216
Less current portion	<u>17,507</u>	<u>17,507</u>
	<u>\$ 136,287</u>	<u>\$ 145,709</u>

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

5. Capital Assets

The following table summarizes the changes to capital assets for the year ended June 30, 2023:

	Balance, June 30, 2022	Additions	Deletions	Balance, June 30, 2023
Capital asset not being depreciated:				
Land and easements	\$ 165,454	\$ -	\$ -	\$ 165,454
Construction work in progress	375,404	498,275	(280,580)	593,099
Total capital assets not being depreciated	540,858	498,275	(280,580)	758,553
Capital assets being depreciated:				
Buildings	1,109,243	-	-	1,109,243
Treatment	8,065,233	-	-	8,065,233
Collector sewers:				
Improvement districts	18,462,478	-	-	18,462,478
Line extensions	15,209,744	206,589	-	15,416,333
Interceptor sewers	5,370,740	91,586	-	5,462,326
Sewer chimneys and laterals	700,790	-	-	700,790
Digester and scales	54,202	-	-	54,202
Wetland marsh	2,106,023	-	-	2,106,023
Well	70,386	-	-	70,386
General equipment	1,794,539	122,222	(50,220)	1,866,541
Plant equipment	2,040,739	2,733	-	2,043,472
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	55,374,596	423,130	(50,220)	55,747,506
Less accumulated depreciation for:				
Buildings	(647,822)	(31,216)	-	(679,038)
Treatment	(6,295,965)	(150,358)	-	(6,446,323)
Collector sewers:				
Improvement districts	(12,508,114)	(408,475)	-	(12,916,589)
Line extensions	(6,830,376)	(386,960)	-	(7,217,336)
Interceptor sewers	(4,329,925)	(110,843)	-	(4,440,768)
Sewer chimneys and laterals	(535,129)	(13,885)	-	(549,014)
Digester and scales	(54,202)	-	-	(54,202)
Wetland marsh	(1,274,023)	(46,393)	-	(1,320,416)
Well	(70,387)	-	-	(70,387)
General equipment	(1,166,059)	(124,975)	50,220	(1,240,814)
Plant equipment	(1,206,157)	(139,303)	-	(1,345,460)
SCADA	(167,417)	-	-	(167,417)
Tools and shop equipment	(79,345)	(2,290)	-	(81,635)
Computers	(72,784)	-	-	(72,784)
Furniture and fixtures	(39,055)	-	-	(39,055)
Total accumulated depreciation	(35,276,760)	(1,414,698)	50,220	(36,641,238)
Total capital assets being depreciated, net	20,097,836	(991,568)	-	19,106,268
Total capital assets	\$ 20,638,694	\$ (493,293)	\$ (280,580)	\$ 19,864,821

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

The following table summarizes the changes to capital assets for the year ended June 30, 2022:

	Balance, June 30, 2021	Additions	Deletions	Balance, June 30, 2022
Capital asset not being depreciated:				
Land and easements	\$ 165,454	\$ -	\$ -	\$ 165,454
Construction work in progress	-	375,404	-	375,404
Total capital assets not being depreciated	165,454	375,404	-	540,858
Capital assets being depreciated:				
Buildings	1,109,243	-	-	1,109,243
Treatment	8,065,233	-	-	8,065,233
Collector sewers:				
Improvement districts	18,462,478	-	-	18,462,478
Line extensions	15,209,744	-	-	15,209,744
Interceptor sewers	5,370,740	-	-	5,370,740
Sewer chimneys and laterals	700,790	-	-	700,790
Digester and scales	1,784,316	-	(1,730,114)	54,202
Wetland marsh	2,106,023	-	-	2,106,023
Well	70,386	-	-	70,386
General equipment	1,717,499	106,962	(29,922)	1,794,539
Plant equipment	2,040,739	-	-	2,040,739
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	57,027,670	106,962	(1,760,036)	55,374,596
Less accumulated depreciation for:				
Buildings	(616,606)	(31,216)	-	(647,822)
Treatment	(6,145,606)	(150,359)	-	(6,295,965)
Collector sewers:				
Improvement districts	(12,099,639)	(408,475)	-	(12,508,114)
Line extensions	(6,464,075)	(366,301)	-	(6,830,376)
Interceptor sewers	(4,222,135)	(107,790)	-	(4,329,925)
Sewer chimneys and laterals	(521,244)	(13,885)	-	(535,129)
Digester and scales	(1,784,316)	-	1,730,114	(54,202)
Wetland marsh	(1,227,630)	(46,393)	-	(1,274,023)
Well	(68,497)	(1,890)	-	(70,387)
General equipment	(1,095,931)	(100,050)	29,922	(1,166,059)
Plant equipment	(1,067,127)	(139,030)	-	(1,206,157)
SCADA	(140,286)	(27,131)	-	(167,417)
Tools and shop equipment	(77,055)	(2,290)	-	(79,345)
Computers	(72,784)	-	-	(72,784)
Furniture and fixtures	(39,055)	-	-	(39,055)
Total accumulated depreciation	(35,641,986)	(1,394,810)	1,760,036	(35,276,760)
Total capital assets being depreciated, net	21,385,684	(1,287,848)	-	20,097,836
Total capital assets	\$ 21,551,138	\$ (912,444)	\$ -	\$ 20,638,694

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

6. Pension

Arizona State Retirement System (ASRS)

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.azsrs.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 Benefit percent per year of service	Highest 36 consecutive months of last 120 months 2.1% to 2.3%	Highest 60 consecutive months of last 120 months 2.1% to 2.3%

* with actuarially reduced benefits.

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.

Pinetop-Lakeside Sanitary District

Notes to Financial Statements

June 30, 2023 and 2022

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, 2023, statute required active ASRS members to contribute the actuarially determined rate of 12.41% (12.22% for retirement and 0.19% for long term disability) of the members annual covered payroll, and statute required the District to contribute at the same actuarially determined rate of 12.41% (12.01% for retirement, 0.21% for health insurance premium and 0.19% for long-term disability) of the active member's annual covered payroll. For the year ended June 30, 2022, statute required active ASRS members to contribute the actuarially determined rate of 12.41% (12.22% for retirement and 0.19% for long term disability) of the members annual covered payroll, and statute required the District to contribute at the same actuarially determined rate of 12.41% (12.01% for retirement, 0.21% for health insurance premium, and 0.19% 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, 2023 and 2022, were \$127,129 and \$122,449, respectively.

Liability

At June 30, 2023, Pinetop-Lakeside Sanitary District reported a liability of \$1,420,033 for its proportionate share of the ASRS' net pension liability. The net liability was measured as of June 30, 2022. 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, 2021, to the measurement date of June 30, 2022.

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, 2022 was 0.008698%, which was a decrease of 0.00010225% from its proportions measured as of June 30, 2021.

At June 30, 2022, Pinetop-Lakeside Sanitary District reported a liability of \$1,144,455 for its proportionate share of the ASRS' net pension liability. The net liability was measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021.

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, 2021 was 0.008708%, which was a decrease of 0.00106% from its proportions measured as of June 30, 2020.

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

Expense and Deferred Outflows/Inflows of Resources

For the years ended June 30, 2023 and 2022, Pinetop-Lakeside Sanitary District recognized pension expense for ASRS of \$90,209 and \$25,704, 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:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,100	\$ -
Changes of assumptions or other inputs	70,479	-
Net difference between projected and actual earnings on pension plan investments	-	37,405
Changes in proportion and differences between District contributions and proportionate share of contributions	-	52,174
District contributions subsequent to the measurement date	127,129	-
Total	\$ 209,7078	\$ 89,579
	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,446	\$ -
Changes of assumptions or other inputs	148,960	-
Net difference between projected and actual earnings on pension plan investments	-	362,604
Changes in proportion and differences between District contributions and proportionate share of contributions	-	120,523
District contributions subsequent to the measurement date	122,449	-
Total	\$ 288,855	\$ 483,127

At June 30, 2023 and 2022, 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 years ended June 30, 2023 and 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized as expenses as follows:

Years ending June 30:	
2024	\$ 15,627
2025	(17,552)
2026	(64,944)
2027	59,869
2028	-
Thereafter	-
Years ending June 30:	
2023	\$ (64,901)
2024	(46,928)
2025	(79,936)
2026	(124,956)
2027	-
Thereafter	-

Pinetop-Lakeside Sanitary District

Notes to Financial Statements
June 30, 2023 and 2022

Actuarial Assumptions

For June 30, 2023 and 2022, the significant actuarial assumptions used to measure the total pension liability are as follows:

	<u>2023</u>	<u>2022</u>
Actuarial valuation date	June 30, 2021	June 30, 2020
Actuarial roll forward date	June 30, 2022	June 30, 2021
Actuarial cost method	Entry age normal	Entry age normal
Asset valuation	Fair value	Fair value
Investment rate of return	7.0%	7.0%
Projected salary increases	2.9% - 8.4% for pensions	2.9 - 8.4% for pensions
Inflation	2.3	2.3%
Permanent benefit increase	Included for pensions	Included for pensions
Mortality rates	2017 SRA Scale U-MP for pensions	2017 SRA Scale U-MP for pensions

Actuarial assumptions used in the June 30, 2021 and 2020 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2020.

The long-term expected rate of return on ASRS plan investments was determined to be 7% 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. 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:

<u>Asset Class</u>	<u>2023</u>		<u>2022</u>	
	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equity	50 %	1.95 %	50 %	4.90 %
Fixed income credit	20	1.06	20	5.20
Fixed income, interest rate sensitive	10	-0.02	10	0.70
Real estate	20	1.20	20	5.70
Total	<u>100 %</u>		<u>100 %</u>	

Discount Rate

At June 30, 2022, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0%. At June 30, 2021, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0%, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. 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, 2023 and 2022

Sensitivity of the District's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate

At June 30, 2023 and 2022, the following tables presents Pinetop-Lakeside Sanitary District's proportionate share of the net pension liability calculated using the discount rate of 7.0% and 7.0%, respectively, 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 (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	2023		
	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension liability	\$ 2,095,217	\$ 1,420,033	\$ 857,036

	2022		
	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension liability	\$ 1,800,132	\$ 1,144,455	\$ 597,802

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

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 years ended June 30, 2023 and 2022 totaled \$42,830 and \$40,457, respectively.

Pinetop-Lakeside Sanitary District

Schedule of the District's Proportionate Share of the Net Pension Liability - Cost-Sharing Pension Plan

June 30, 2023

	Reporting Fiscal Year (Measurement Date)									
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
District's proportion of the net pension liability	0.008698%	0.008708%	0.008771%	0.010044%	0.010215%	0.010680%	0.010870%	0.011270%	0.011670%	
District's proportionate share of the net pension liability	\$ 1,420,033	\$ 1,144,455	\$ 1,692,801	\$ 1,460,937	\$ 1,425,330	\$ 1,663,736	\$ 1,754,527	\$ 1,755,192	\$ 1,726,818	
District's covered payroll	\$ 1,035,404	\$ 965,734	\$ 1,053,712	\$ 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	137.15%	118.51%	160.65%	140.10%	140.68%	165.66%	172.41%	169.22%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	74.26%	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

Pinetop-Lakeside Sanitary District

Schedule of the District's Pension Contributions

June 30, 2023

	Reporting Fiscal Year										
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Statutorily required contribution	\$ 127,129	\$ 122,449	\$ 112,508	\$ 120,650	\$ 116,584	\$ 110,433	\$ 113,886	\$ 115,503	\$ 119,074	\$ 112,564	
District's contributions in relation to the statutorily required contribution	127,129	122,449	112,508	120,650	116,584	110,433	113,886	115,503	119,074	112,564	
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
District's covered payroll	\$ 1,058,526	\$ 1,019,559	\$ 965,734	\$ 1,053,712	\$ 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	12.01%	12.01%	11.65%	11.45%	11.18%	10.90%	11.34%	11.35%	11.48%	10.70%	