Arizona City Sanitary District
Financial Statements
Years Ended June 30, 2019 and 2018

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ARIZONA CITY SANITARY DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S 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	11
REQUIRED SUPPLEMENTARY INFORMATION	
Pension Schedules	27
OPEB Schedules	28
Note to Required Supplementary Information	30
REPORT ON INTERNAL CONTROL AND ON COMPLIANCE	
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*	32
Schedule of Findings and Responses	34

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arizona City Sanitary District

Report on the Financial Statements

We have audited the accompanying financial statements of Arizona City Sanitary District (Sanitary District), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Sanitary 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from 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 auditor's 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 Arizona City Sanitary District, as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and net pension liability information, and other postemployment benefit plan information 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 February 19, 2020, on our consideration of Arizona City Sanitary 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 Arizona City Sanitary 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 Arizona City Sanitary District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
February 19, 2020

As management of the Arizona City Sanitary District, we offer readers of the Sanitary District's financial statements this narrative overview and analysis of the financial activities of the Sanitary District as of and for the years ended June 30, 2019 and 2018. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

Financial Highlights

- The Sanitary District had a net position of $10.0 million at June 30, 2019, and $10.1 million at June 30, 2018. Of this amount, $943,339 at June 30, 2019, and $3.2 million at June 30, 2018, represented unrestricted net position which may be used to meet the Sanitary District's ongoing obligations.

- The Sanitary District's total net position decreased $105,455 (one percent) from the prior fiscal year and increased by $143,599 (one percent) in 2018.

- Operating revenues accounted for $1.9 million in fiscal year 2019 and $1.9 million in fiscal year 2018, and primarily consisted of sewer fees. Non-operating revenue in the form of interest income and property taxes accounted for $60,572 in fiscal year 2019 and $269,086 in fiscal year 2018.

- Operating expenses accounted for $2.1 million in fiscal year 2019 and $2.0 million in fiscal year 2018, and primarily consisted of general and administrative, plant, and depreciation expenses. Non-operating interest expense amounted to $19,785 in fiscal year 2019 and $86,397 in fiscal year 2018.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Sanitary District's basic financial statements. The Sanitary District's basic financial statements comprise two components: 1) basic financial statements and 2) notes to the financial statements.

Basic financial statements. The basic financial statements consist of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The statement of net position presents information on all of the Sanitary District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Sanitary District is improving or deteriorating.

Overview of Financial Statements

The statement of revenues, expenses, and changes in net position presents information showing how the Sanitary District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statement of cash flows presents the Sanitary District's cash flows from operating, investing, capital, and non-capital activities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Sanitary District's pension plan. Schedules for the pension and other postemployment benefit plans have been provided as required supplementary information.

Financial Analysis of the Sanitary District

Net position may serve over time as a useful indicator of financial position. In the case of the Sanitary District, assets and deferred outflows totaled $11.3 million and liabilities and deferred inflows totaled $1.3 million resulting in net position of $10.0 million as of June 30, 2019. As of June 30, 2018, assets and deferred outflows totaled $13.8 million and liabilities and deferred inflows totaled $3.7 million resulting in net position of $10.1 million.

The largest portion of the Sanitary District's net position reflects its investment in capital assets (e.g., land, construction in progress, sewer plant in service, buildings and improvements, machinery, office furniture and equipment), less any related outstanding debt used to acquire those assets. The Sanitary District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the Sanitary District's investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Sanitary District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the Sanitary District's ongoing obligations to its citizens and creditors.

Financial Analysis of the Sanitary District

The following table presents a summary of the Sanitary District's net position for the fiscal years ended June 30, 2019, June 30, 2018, and June 30, 2017.

	As of June 30, 2019	As of June 30, 2018	As of June 30, 2017
Current and other assets	$ 3,141,292	$ 5,380,966	$ 5,628,173
Capital assets	8,074,520	8,317,138	8,683,457
Total assets	11,215,812	13,698,104	14,311,630
Deferred outflows	123,276	103,206	198,668
Current liabilities	491,598	402,008	516,875
Long-term liabilities	651,418	3,039,799	3,899,036
Total liabilities	1,143,016	3,441,807	4,415,911
Deferred inflows	193,035	251,011	129,606
Net position**:**			
Net investment in capital assets	8,074,520	5,956,572	5,783,906
Restricted	985,178	968,288	956,196
Unrestricted	943,339	3,183,632	3,224,679
Total net position	$ 10,003,037	$ 10,108,492	$ 9,964,781

At the end of the current fiscal year the Sanitary District reported positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

The Sanitary District's financial position is the product of several financial transactions including the net result of activities, the principal retirement of $2.4 million in fiscal year 2019 and $538,986 in fiscal year 2018 of loans payable, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Financial Analysis of the Sanitary District

Changes in Net Position – The Sanitary District's total revenues for the current fiscal year were $2.0 million. The total cost of all operations and services was $2.2 million. The following table presents a summary of the changes in net position for the years ended June 30, 2019, June 30, 2018, and June 30, 2017.

	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Revenues:			
Operating Revenues:			
Charges for services	$ 1,924,225	$ 1,940,808	$ 1,863,042
Miscellaneous	20,020	554	6,323
Nonoperating revenues:			
Property taxes		208,796	698,265
Interest income	60,572	60,290	42,741
Total revenues	2,004,817	2,210,448	2,610,371
Operating Expenses:			
General operating expenses	870,328	804,795	930,586
Plant and project expenses	1,220,159	1,175,657	1,166,285
Nonoperating expenses	19,785	86,397	112,382
Total expenses	2,110,272	2,066,849	2,209,253
Changes in net position	(105,455)	143,599	401,118
Beginning net position	10,108,492	9,964,781	9,563,663
Net effect of prior period adjustments		112	
Beginning net position, as restated		9,964,893	
Ending net position	$ 10,003,037	$ 10,108,492	$ 9,964,781

Property tax revenue decreased from $208,796 in fiscal year 2018 to $0 in fiscal year 2019. This was due to the Sanitary District not levying a property tax levy in Pinal County in fiscal year 2019.

Capital Assets and Debt Administration

Capital Assets. The Sanitary District had invested $21.5 million at June 30, 2019, and $21.0 million at June 30, 2018, in capital assets, including sewer plant, buildings and improvements, office furniture, machinery, computers, and other equipment. This amount represents a net increase prior to depreciation of $523,537 from fiscal year 2018 to 2019 and a net increase of $340,528 from fiscal year 2017 to 2018. Total depreciation expense was $766,155 and $720,955 for the current and prior year, respectively.

Capital Assets and Debt Administration

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2019, June 30, 2018, and June 30, 2017.

	As of June 30, 2019	As of June 30, 2018	As of June 30, 2017
Capital assets – non-depreciable	$ 130,579	$ 130,579	$ 783,800
Capital assets – depreciable, net	7,943,941	8,186,559	7,899,657
Total	$ 8,074,520	$ 8,317,138	$ 8,683,457

Additional information on the Sanitary District's capital assets can be found in Note 4.

Debt Administration. At June 30, 2018, the Sanitary District had $2.4 million in long-term debt outstanding, $558,713 due within one year. In fiscal year 2019, the Sanitary District opted to repay the remaining loans payable in full, therefore at June 30, 2019, the Sanitary District had no outstanding debt. Additional information on the Sanitary District's long-term debt can be found in Note 6.

Economic and Other Factors

The state of the economy has affected and will continue to affect the Sanitary District going forward. The area has started to see new home construction over the past fiscal year. The Sanitary District expects to maintain the ability to pay operating expenses and maintain high quality standards in the operation of the Sanitary District and the treatment process.

Contacting the Sanitary District's Financial Management

This financial report is designed to provide our citizens and benefactors with a general overview of the Sanitary District's finances and to demonstrate the Sanitary District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Arizona City Sanitary District, P.O. Box 2377, Arizona City, AZ 85223.

ARIZONA CITY SANITARY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash and investments	$ 1,865,296	$ 4,087,575
Sewer fees receivable, net of allowance	30,294	31,552
Reconnection fees receivable, net of allowance	3,893	5,400
Availability fees receivable, net of allowance	204,946	210,644
Property tax receivable	45,088	58,783
Laboratory fees receivable	2,276	3,975
Prepaid expenses	2,675	12,424
Total current assets	2,154,468	4,410,353
Noncurrent assets:		
Restricted cash and investments	985,178	968,288
Capital assets, net of depreciation	8,074,520	8,317,138
Net other postemployment benefit assets	1,646	2,325
Total noncurrent assets	9,061,344	9,287,751
Total assets	11,215,812	13,698,104
DEFERRED OUTFLOWS OF RESOURCES		
Pension and other postemployment benefit plan items	123,276	103,206
Total deferred outflows of resources	123,276	103,206
LIABILITIES		
Current liabilities:		
Accounts payable	203,843	79,623
Accrued payroll and benefits	1,434	1,527
Compensated absences	13,070	14,064
Accrued interest		43,198
Unearned revenue	226,061	225,964
Customer deposits	60,260	51,696
Loan payable - current portion		558,713
Total current liabilities	504,668	974,785
Noncurrent liabilities:		
Loan payable - noncurrent portion		1,801,853
Net other postemployment benefit liability	2,388	1,544
Net pension liability	635,960	663,625
Total noncurrent liabilities	638,348	2,467,022
Total liabilities	1,143,016	3,441,807
DEFERRED INFLOWS OF RESOURCES		
Pension and other postemployment benefit plan items	193,035	251,011
Total deferred inflows of resources	193,035	251,011
NET POSITION		
Net investment in capital assets	8,074,520	5,956,572
Restricted	985,178	968,288
Unrestricted	943,339	3,183,632
Total net position	$ 10,003,037	$ 10,108,492

The accompanying notes are an integral part of these financial statements.

ARIZONA CITY SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating revenues:		
Sewer fees	$ 1,627,079	$ 1,613,905
Reconnection fees	4,053	5,700
Availability fees	200,849	204,083
Hook up fees	10,000	13,500
Capacity fees	52,000	70,200
Environmental services income	30,244	33,420
Miscellaneous	20,020	554
Total operating revenues	1,944,245	1,941,362
Operating expenses:		
General and administration expenses	770,034	717,337
Office expenses	100,294	87,458
Plant expenses	350,280	387,612
Collections expenses	59,484	22,376
Laboratory expenses	44,240	44,715
Depreciation	766,155	720,954
Total operating expenses	2,090,487	1,980,452
Operating income (loss)	(146,242)	(39,090)
Nonoperating revenues (expenses):		
Investment income	60,572	60,290
Property taxes		208,796
Interest expense	(19,785)	(86,397)
Total nonoperating revenues (expenses)	40,787	182,689
Changes in net position	(105,455)	143,599
Total net position, beginning of year, as restated	10,108,492	9,964,893
Total net position, end of year	$ 10,003,037	$ 10,108,492

The accompanying notes are an integral part of these financial statements.

ARIZONA CITY SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers and users	$ 1,912,804	$ 1,919,704
Miscellaneous receipts	50,264	33,974
Payments to vendors	(794,856)	(1,002,376)
Payments to employees	(500,784)	(476,589)
Net cash provided (used) by operating activities	667,428	474,713
Cash flows from noncapital financing activities:		
Property tax receipts	13,695	241,966
Net cash provided (used) by noncapital financing activities	13,695	241,966
Cash flows from capital and related financing activities:		
Disposal (Purchase) of capital assets	(523,536)	(354,636)
Interest paid on obligations	(62,983)	(96,261)
Principal paid on loan	(2,360,565)	(538,986)
Net cash provided (used) by capital and related financing activities	(2,947,084)	(989,883)
Cash flows from investing activities:		
Interest income	60,572	60,290
Net cash provided (used) by investing activities	60,572	60,290
Net change in cash and cash equivalents	(2,205,389)	(212,914)
Cash and cash equivalents at beginning of year	5,055,863	5,268,777
Cash and cash equivalents at end of year	$ 2,850,474	$ 5,055,863
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (146,242)	$ (39,090)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	766,155	720,954
(Increase) decrease		
Sewer fees receivable	1,258	(1,151)
Reconnection fees receivable	1,507	(500)
Availability fees receivable	5,698	2,112
Laboratory fees receivable	1,699	552
Prepaid expenses	9,749	2,435
Increase (decrease)		
Accounts payable	124,220	(99,325)
Accrued payroll and benefits	(93)	(16,981)
Compensated absences	(994)	794
Unearned revenues	97	8,544
Customer deposits	8,564	2,759
Pension and other post employment benefit plan items	(104,190)	(106,390)
Net cash provided (used) by operating activities	$ 667,428	$ 474,713
Cash and cash equivalents reconciliation		
Cash and investments	$ 1,865,296	$ 4,087,575
Restricted cash and investments	985,178	968,288
	$ 2,850,474	$ 5,055,863

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Arizona City Sanitary District (Sanitary District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Arizona City Sanitary District was organized as a sanitary district in 1968, under the laws of the State of Arizona and is administered by a board of five directors.

The Sanitary District maintains and operates a sewer system for the benefit of those within its geographical district. Revenues received by the Sanitary District are primarily from charges for services delivered and property taxes assessed on property owners within the Sanitary District.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Sanitary District is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. The Sanitary District's financial statements are comprised of a single enterprise fund. There are no component units combined with the Sanitary District for financial statement purposes, and the Sanitary District is not included as a part of another governmental reporting entity.

B. Principles of Reporting

The Sanitary District accounts for its operations using the Governmental Enterprise Fund Concept. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing sewer services to the users are financed through use charges.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting relates to the timing of the measurements made and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Sanitary District are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sanitary District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Sanitary District's principal ongoing operations. The principal operating revenues of the Sanitary District are sewer fees, availability fees, hook-up fees, and capacity fees. Operating expenses for the Sanitary District include wages, depreciation on capital assets, and general and administrative expenses for the plant, lab, and collection system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

For purposes of the Statement of Cash Flows, the Sanitary District considers all highly liquid investments with original maturities of less than 90 days when purchased to be cash equivalents.

A.R.S. requires the Sanitary District to deposit certain cash with the County Treasurer. That cash is pooled for investment purposes. Interest earned from investments purchased with pooled monies is allocated to each of the Sanitary District's funds based on their average balances. All investments are stated at fair value.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

Certain resources set aside for the repayment of debt are classified as restricted cash and investments on the statement of net position, because their use is limited by applicable loan covenants.

E. Property Tax Calendar and Property Taxes Receivable

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal property taxes 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 of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Taxes are considered a lien against real property at the date of levy. The Sanitary District did not levy a tax for fiscal year 2019 and the tax levy for 2018 was $222,465. As of June 30, 2019, the Sanitary District had $45,088 in property taxes receivable from prior year levies. The Sanitary District expects to collect the entire balance.

F. Investment Income

Investment income is composed of interest and net changes in the fair market value of applicable investments. Investment income is included in nonoperating revenues.

G. Capital Assets

Capital assets are defined by the Sanitary District as assets with an initial, individual cost in excess of $1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the individual assets:

Sewer plant in service	5 – 30 years
Buildings and improvements	10 – 40 years
Machinery and equipment	3 – 10 years
Office furniture and equipment	3 – 10 years

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered. Sanitary District employees are granted from 10 days of vacation per year following one year of service up to a maximum of 25 days per year following 15 years of service. Employees are allowed to carry over up to 30 days of vacation from one calendar to another. Sanitary District employees are granted nonvesting sick leave. Upon termination an employee is not entitled to reimbursement of the accumulated sick leave. The sick leave compensation is accounted for in the period that the event takes place.

J. Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit (OPEB) assets and liabilities, related deferred outflows of resources and deferred inflows of resource, and related expenses, information about the pension and OPEB plans' fiduciary net position and additions to/deductions from the plans' 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.

K. Net Position Flow Assumption

In the financial statements the Sanitary District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

L. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

A.R.S. authorize the Sanitary District to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Sanitary District's investments.

NOTE 2 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Sanitary District's deposits may not be returned to the Sanitary District. The Sanitary District does not have a deposit policy for custodial credit risk. The Sanitary District's deposits are summarized below. The Sanitary District also held cash in hand of $500 at each fiscal year end. The Sanitary District had no deposits that were uninsured or uncollateralized at year end.

Fiscal Year Ended	Carrying Amount of Deposits	Bank Balance
June 30, 2019	$ 70,711	$ 68,910
June 30, 2018	768,322	779,986

The County Treasurer's pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The fair value of each participant's position in the County Treasurer investment pool approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

The Sanitary District's investments in the County Treasurer's investment pool are summarized below.

Fiscal Year Ended	Average Maturities	Fair Value
June 30, 2019	288 days	$ 2,779,263
June 30, 2018	1.59 years	4,287,041

Interest Rate Risk. The Sanitary District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Sanitary District has no investment policy that would further limit its investment choices. At year end, the Sanitary District's investment in the County Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk – Investments. The Sanitary District's investment in the County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the Sanitary District's portion is not identified with specific investments and is not subject to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from customers for services provided. These balances are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through charge to earnings and credit to a valuations allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2019 and 2018 follows:

Capital Assets	Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	$ 130,579	$	$	$ 130,579
Total capital assets, not being depreciated	130,579			130,579
Capital assets, being depreciated:				
Sewer plant in service	19,222,699	35,368		19,258,067
Building and improvements	476,758	453,999		930,757
Machinery and equipment	984,465	34,170		1,018,635
Office furniture and equipment	137,306			137,306
Total assets, being depreciated	20,821,228	523,537		21,344,765
Less accumulated depreciation for:				
Sewer plant in service	(11,457,989)	(685,108)		(12,143,097)
Building and improvements	(234,959)	(25,829)		(260,788)
Machinery and equipment	(820,432)	(53,349)		(873,781)
Office furniture and equipment	(121,289)	(1,869)		(123,158)
Total accumulated depreciation	(12,634,669)	(766,155)		(13,400,824)
Total capital assets, being depreciated, net	8,186,559	(242,618)		7,943,941
Capital assets, net	$ 8,317,138	$ (242,618)	$	$ 8,074,520

NOTE 4 – CAPITAL ASSETS

Capital Assets	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 130,579	$	$	$ 130,579
Construction in progress	653,221	214,075	(867,296)	
Total capital assets, not being depreciated	783,800	214,075	(867,296)	130,579
Capital assets, being depreciated:				
Sewer plant in service	18,285,720	939,968	(2,989)	19,222,699
Building and improvements	476,758			476,758
Machinery and equipment	934,528	51,003	(1,066)	984,465
Office furniture and equipment	130,473	16,886	(10,053)	137,306
Total assets, being depreciated	19,827,479	1,007,857	(14,108)	20,821,228
Less accumulated depreciation for:				
Sewer plant in service	(10,815,685)	(645,293)	2,989	(11,457,989)
Building and improvements	(209,117)	(25,842)		(234,959)
Machinery and equipment	(773,013)	(48,485)	1,066	(820,432)
Office furniture and equipment	(130,007)	(1,335)	10,053	(121,289)
Total accumulated depreciation	(11,927,822)	(720,955)	14,108	(12,634,669)
Total capital assets, being depreciated, net	7,899,657	286,902		8,186,559
Capital assets, net	$ 8,683,457	$ 500,977	$ (867,296)	$ 8,317,138

NOTE 5 – OBLIGATIONS UNDER OPERATING LEASES

The Sanitary District leases a copy machine and postage meter under the provisions of long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases totaled $5,112 and $5,121 for the years ended June 30, 2019 and 2018, respectively. These operating leases have remaining noncancelable lease terms of 3 years and provide renewal options.

The future minimum rental payments required under the operating leases at year end were as follows:

Year Ending June 30:	
2020	$ 4,711
2021	4,711
2022	4,339
Total minimum payments required	$ 13,761

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2019 and 2018 follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Loan payable	$ 2,360,565	$	$ 2,360,565	$	$
Compensated absences payable	14,064	26,248	27,242	13,070	13,070
Net OPEB liability	1,544	844		2,388	
Net pension liability	663,625		27,665	635,960	
Long-term liabilities	$ 3,039,798	$ 27,092	$ 2,415,472	$ 651,418	$ 13,070

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Loan payable	$ 2,899,551	$	$ 538,986	$ 2,360,565	$ 558,713
Compensated absences payable	13,270	30,146	29,352	14,064	14,064
Net OPEB liability	952	592		1,544	
Net pension liability	986,215		322,590	663,625	
Long-term liabilities	$ 3,899,988	$ 30,738	$ 890,928	$ 3,039,798	$ 572,777

NOTE 7 – RISK MANAGEMENT

The Sanitary District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees and natural disasters. The Sanitary District carries commercial insurance for all risks of loss, including property and liability, workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description. Sanitary 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 premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit 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. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Aggregate Amounts. At June 30, 2019, the Sanitary District reported the following aggregate amounts related to pensions and OPEB for all plans to which it contributes:

	Pension	OPEB
Net assets	$	$ (1,646)
Net liability	635,960	2,388
Deferred outflows of resources	116,765	6,511
Deferred inflows of resources	187,996	5,039
Expense	(54,666)	2,520
Contributions	47,814	2,632

Benefits Provided. The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit 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* Any 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 months of last 120 months	Highest 60 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

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 earnings. 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.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

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

	Contributions
Pension	$ 47,814
Health Insurance Premium	1,930
Long-Term Disability	702

Employers are also required to pay an Alternate Contribution Rate (ACR), for retired members who return to work in positions that would typically be filled by an employee who contributes to ASRS. The Sanitary District was required by statute to contribute at the actuarially determined rate of 10.53 percent (10.41 for retirement, 0.06 percent for health insurance premium benefit, and 0.06 percent for long-term disability). ACR contributions are included in employer contributions presented above.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension and OPEB Assets/Liability. The net pension and OPEB assets/liability were measured as of June 30, 2018. The total liability used to calculate the net asset or 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 liability as of June 30, 2018 reflects changes in actuarial assumptions based on the results of an actuarial experience study for the five-year period ended June 30, 2016, including decreasing the discount rate from 8.0 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 Sanitary District's proportion of the net assets/liability was based on the Sanitary District's actual contributions to the applicable plan relative to the total of all participating employers' contributions to the plan for the year ended June 30, 2018.

At June 30, 2019, the Sanitary District reported the following amounts for its proportionate share of the ASRS plans net assets/liability. In addition, at June 30, 2018, the Sanitary District's percentage proportion for each plan and the related change from its proportion measured as of June 30, 2017 was:

	Net (Assets) Liability	District % Proportion	Increase (Decrease)
Pension	$ 635,960	0.005	0.001
Health Insurance Premium	(1,646)	0.005	0.001
Long-Term Disability	2,388	0.005	0.001

Pension/OPEB Expense and Deferred Outflows/Inflows of Resources. The Sanitary District has deferred outflows and inflows of resources related to the net pension and OPEB assets/liabilities. Certain changes in the net pension and OPEB assets/liability are recognized as pension and OPEB expense over a period of time rather than the year of occurrence. For the year ended June 30, 2019, the Sanitary District recognized pension and OPEB expense as follows:

	Expense
Pension	$ (54,666)
Health Insurance Premium	1,641
Long-Term Disability	879

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Sanitary District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources		
	Pension	Health Insurance Premium	Long-Term Disability
Differences between expected and actual experience	$ 17,520	$	$ 61
Changes of assumptions or other inputs	16,829	3,174	517
Changes in proportion and differences between contributions and proportionate share of contributions	34,602	15	112
Contributions subsequent to the measurement date	47,814	1,930	702
Total	$ 116,765	$ 5,119	$ 1,392

	Deferred Inflows of Resources		
	Pension	Health Insurance Premium	Long-Term Disability
Differences between expected and actual experience	$ 3,506	$ 1,519	$
Changes of assumptions or other inputs	56,387		
Net difference between projected and actual earnings on pension investments	15,293	3,287	231
Changes in proportion and differences between contributions and proportionate share of contributions	112,810	2	
Total	$ 187,996	$ 4,808	$ 231

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension and OPEB assets/liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension and OPEB expense as follows:

Year Ending June 30:	Pension	Health Insurance Premium	Long-Term Disability
2020	$ (70,082)	$ (634)	$ 23
2021	(18,906)	(634)	23
2022	(23,199)	(633)	23
2023	(6,858)	66	85
2024		216	96
Thereafter			209

Actuarial Assumptions. The significant actuarial assumptions used to measure the total pension and OPEB liability are as follows:

	Pension	OPEB
Actuarial valuation date	June 30, 2017	June 30, 2017
Actuarial roll forward date	June 30, 2018	June 30, 2018
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.5%	7.5%
Projected salary increases	2.7-7.2%	Not applicable
Inflation	2.3%	2.3%
Permanent base increases	Included	Not applicable
Mortality rates	2017 SRA Scale U-MP	Health Ins: 2017 SRA Scale U-MP, LTD: 2012 GLDT
Healthcare cost trend rate	Not applicable	Not applicable

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 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 excluding any expected inflation.

On June 29, 2018, the ASRS Board approved updated strategic asset allocation targets, to be effective July 2018. The target allocation and best estimates of geometric real rates of return for each major asset class for all ASRS plans are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	5.50%
Fixed income	30	3.83
Real estate	20	5.85
Total	100%	

Discount Rate. The discount rate used to measure the ASRS total pension and OPEB liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. 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 plans' 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 investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Sensitivity of the Proportionate Share of the Net Pension and OPEB Asset/Liability to Changes in the Discount Rate. The following presents the Sanitary District's proportionate share of the net pension and OPEB assets/liability calculated using the discount rate of 7.5 percent, as well as what the proportionate share of the net pension and OPEB asset/liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate share of the net (assets) liability		
	1% Decrease	Current Discount Rate	1% Increase
Rate	6.5%	7.5%	8.5%
Pension	$ 906,575	$ 635,960	$ 409,865
Health Insurance Premium	5,831	(1,646)	(8,014)
Long-Term Disability	2,706	2,388	2,079

Pension and OPEB Plan Fiduciary Net Position. Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

REQUIRED SUPPLEMENTARY INFORMATION

ARIZONA CITY SANITARY DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
LAST FIVE FISCAL YEARS

	2019	2018	2017	2016	2015
Measurement date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension (assets) liability	0.01%	0.00%	0.01%	0.01%	0.01%
District's proportionate share of the net pension (assets) liability	$ 635,960	$ 663,625	$ 986,215	$ 903,608	$ 881,015
District's covered payroll	$ 444,323	$ 424,212	$ 545,502	$ 536,841	$ 568,065
District's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	143.13%	156.44%	180.79%	168.32%	155.09%
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%

SCHEDULE OF PENSION CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
LAST FIVE FISCAL YEARS

	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 47,814	$ 47,898	$ 45,730	$ 59,187	$ 58,462
Contributions in relation to the actuarially determined contribution	47,814	47,898	45,730	59,187	58,462
Contribution deficiency (excess)	$	$	$	$	$
District's covered payroll	$ 427,674	$ 439,431	$ 424,212	$ 545,502	$ 536,841
Contributions as a percentage of covered payroll	11.18%	10.90%	10.78%	10.85%	10.89%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

ARIZONA CITY SANITARY DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
ARIZONA STATE RETIREMENT SYSTEM - HEALTH INSURANCE PREMIUM
LAST TWO FISCAL YEARS

	2019	2018
Measurement date	June 30, 2018	June 30, 2017
District's proportion of the net OPEB (assets) liability	0.01%	0.00%
District's proportionate share of the net OPEB (assets) liability	$ (1,646)	$ (2,325)
District's covered payroll	$ 444,323	$ 424,212
District's proportionate share of the net OPEB (assets) liability as a percentage of its covered payroll	(0.37)%	(0.55)%
Plan fiduciary net position as a percentage of the total OPEB liability	102.20%	103.57%

SCHEDULE OF OPEB CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM - HEALTH INSURANCE PREMIUM
LAST TWO FISCAL YEARS

	2019	2018
Actuarially determined contribution	$ 1,930	$ 1,934
Contributions in relation to the actuarially determined contribution	1,930	1,934
Contribution deficiency (excess)	$	$
District's covered payroll	$ 427,674	$ 444,323
Contributions as a percentage of covered payroll	0.45%	0.44%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

ARIZONA CITY SANITARY DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
ARIZONA STATE RETIREMENT SYSTEM - LONG-TERM DISABILITY
LAST TWO FISCAL YEARS

	2019	2018
Measurement date	June 30, 2018	June 30, 2017
District's proportion of the net OPEB (assets) liability	0.01%	0.00%
District's proportionate share of the net OPEB (assets) liability	$ 2,388	$ 1,544
District's covered payroll	$ 444,323	$ 424,212
District's proportionate share of the net OPEB (assets) liability as a percentage of its covered payroll	0.54%	0.36%
Plan fiduciary net position as a percentage of the total OPEB liability	77.83%	84.44%

SCHEDULE OF OPEB CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM - LONG-TERM DISABILITY
LAST TWO FISCAL YEARS

	2019	2018
Actuarially determined contribution	$ 702	$ 703
Contributions in relation to the actuarially determined contribution	702	703
Contribution deficiency (excess)	$	$
District's covered payroll	$ 427,674	$ 444,323
Contributions as a percentage of covered payroll	0.16%	0.16%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

NOTE 1 – PENSION AND OPEB PLAN SCHEDULES

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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*

Independent Auditor's Report

Board of Directors
Arizona City Sanitary District

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 the of Arizona City Sanitary District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Arizona City Sanitary District's basic financial statements, and have issued our report thereon dated February 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arizona City Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arizona City Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Arizona City 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item FS-2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona City Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*s.

Arizona City Sanitary District's Response to Finding

Arizona City Sanitary District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Arizona City Sanitary District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
February 19, 2020

ARIZONA CITY SANITARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019

FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Finding Number: FS-2019-001
Repeat Finding: No
Type of Finding: Significant Deficiency
Description: Internal Controls over Capital Assets Reporting

CRITERIA
Management is responsible for establishing internal controls over capital assets to prevent or detect and correct misstatements on a timely basis.

CONDITION
The District management did not have adequate controls in place to ensure that all capitalizable assets were included on the capital assets listing and that assigned useful lives for each asset were appropriate.

CAUSE
The District missed the capitalization of the last payment on the project. In addition, the District assigned the incorrect useful life to one significant asset.

EFFECT
The District's capital asset listing required a significant revision necessary to properly state the balances and activity related to capital assets.

CONTEXT
The District did not capitalize $114,890 for building improvements during the year and incorrectly depreciated an asset due to an incorrect in service date. Additionally, the District misclassified construction in progress in the prior year and therefore recorded depreciation expense of $883 on a non-depreciable asset. Lastly, the District assigned a useful live of 5 years to a significant asset, when it was later determined that 20 years was more appropriate.

RECOMMENDATION
The District should implement the necessary controls and procedures to ensure that all capitalizable assets are included in the capital assets listing and that useful lives are appropriate. The procedures should include a detailed reconciliation of capital outlay to ensure the completeness of the District's capital asset balances and activity.

VIEWS OF RESPONSIBLE OFFICIALS
Unusual purchases during the accounts payable process will be flagged and then reviewed quarterly by the District Manager and Office Manager to assure that capitalization assets are included in the assets listing; as well as having an appropriate useful life assigned to it.