



Arizona City Sanitary District
Financial Statements
Years Ended June 30, 2020 and 2019

Arizona City Sanitary District

Financial Statements
Years Ended June 30, 2020 and 2019

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	25
Note to Required Supplementary Information	27
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 <i>Government Auditing Standards</i>	29

(This page intentionally left blank)

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, 2020 and 2019, 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, 2020 and 2019, 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, 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 24, 2021, 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.

Tucson, Arizona

February 24, 2021

**ARIZONA CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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, 2020 and 2019. 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, 2020, and \$10.0 million at June 30, 2019. Of this amount, \$2.6 million at June 30, 2020, and \$943,339 at June 30, 2019, represented unrestricted net position which may be used to meet the Sanitary District's ongoing obligations.
- The Sanitary District's total net position increased \$16,384 (less than one percent) from the prior fiscal year and decreased by \$105,455 (one percent) in 2019.
- Operating revenues accounted for \$2.0 million in fiscal year 2020 and \$1.9 million in fiscal year 2019, and primarily consisted of sewer fees. Non-operating revenue in the form of interest income accounted for \$49,419 in fiscal year 2020 and \$60,572 in fiscal year 2019.
- Operating expenses accounted for \$2.1 million in fiscal year 2020 and \$2.1 million in fiscal year 2019, and primarily consisted of general and administrative, plant, and depreciation expenses. Non-operating interest expense amounted to \$19,785 in fiscal year 2019, and the Sanitary District did not record interest expense in fiscal year 2020.

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) financial statements and 2) notes to the financial statements.

Financial statements. The financial statements consist of the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. The accrual basis of accounting is used for the financial statements.

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.

**ARIZONA CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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 only 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 financial statements. The notes to the financial statements can be found immediately following the 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 plan 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 \$11.0 million and liabilities and deferred inflows totaled \$1.0 million resulting in net position of \$10.0 million as of June 30, 2020. As of June 30, 2019, 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.

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. The Sanitary District has no related debt. 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.

**ARIZONA CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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, 2020, June 30, 2019, and June 30, 2018.

	As of <u>June 30, 2020</u>	As of <u>June 30, 2019</u>	As of <u>June 30, 2018</u>
Current and other assets	\$ 3,537,884	\$ 3,141,292	\$ 5,380,966
Capital assets	7,417,728	8,074,520	8,317,138
Total assets	<u>10,955,612</u>	<u>11,215,812</u>	<u>13,698,104</u>
 Deferred outflows	 <u>79,758</u>	 <u>123,276</u>	 <u>103,206</u>
Current liabilities	301,241	491,598	402,008
Long-term liabilities	610,318	651,418	3,039,799
Total liabilities	<u>911,559</u>	<u>1,143,016</u>	<u>3,441,807</u>
 Deferred inflows	 <u>104,390</u>	 <u>193,035</u>	 <u>251,011</u>
 Net position:			
Net investment in capital assets	7,417,728	8,074,520	5,956,572
Restricted		985,178	968,288
Unrestricted	2,601,693	943,339	3,183,632
Total net position	<u>\$ 10,019,421</u>	<u>\$ 10,003,037</u>	<u>\$ 10,108,492</u>

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 two fiscal years.

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 of loans payable, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**ARIZONA CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Financial Analysis of the Sanitary District

Changes in Net Position – The Sanitary District’s total revenues for the current fiscal year were \$2.1 million. The total cost of all operations and services was \$2.1 million. The following table presents a summary of the changes in net position for the years ended June 30, 2020, June 30, 2019, and June 30, 2018.

	Fiscal Year Ended <u>June 30, 2020</u>	Fiscal Year Ended <u>June 30, 2019</u>	Fiscal Year Ended <u>June 30, 2018</u>
Revenues:			
Operating Revenues:			
Charges for services	\$ 2,022,352	\$ 1,924,225	\$ 1,940,808
Miscellaneous	2,190	20,020	554
Nonoperating revenues:			
Property taxes			208,796
Interest income	49,419	60,572	60,290
Total revenues	<u>2,073,961</u>	<u>2,004,817</u>	<u>2,210,448</u>
Operating Expenses:			
General operating expenses	863,883	870,328	804,795
Plant and project expenses	1,193,694	1,220,159	1,175,657
Nonoperating expenses		19,785	86,397
Total expenses	<u>2,057,577</u>	<u>2,110,272</u>	<u>2,066,849</u>
Changes in net position	16,384	(105,455)	143,599
Beginning net position	10,003,037	10,108,492	9,964,781
Net effect of prior period adjustments			112
Beginning net position, as restated			9,964,893
Ending net position	<u>\$ 10,019,421</u>	<u>\$ 10,003,037</u>	<u>\$ 10,108,492</u>

Capital Assets and Debt Administration

Capital Assets. The Sanitary District had invested \$21.6 million at June 30, 2020, and \$21.5 million at June 30, 2019, 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 \$126,823 from fiscal year 2019 to 2020 and a net increase of \$523,537 from fiscal year 2018 to 2019. Total depreciation expense was \$783,615 and \$766,155 for the current and prior year, respectively.

**ARIZONA CITY SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

Capital Assets and Debt Administration

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2020, June 30, 2019, and June 30, 2018.

	As of <u>June 30, 2020</u>	As of <u>June 30, 2019</u>	As of <u>June 30, 2018</u>
Capital assets – non-depreciable	\$ 130,579	\$ 130,579	\$ 130,579
Capital assets – depreciable, net	7,287,149	7,943,941	8,186,559
Total	<u>\$ 7,417,728</u>	<u>\$ 8,074,520</u>	<u>\$ 8,317,138</u>

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

Debt Administration. At June 30, 2020 and 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, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash and investments	\$ 3,196,978	\$ 1,865,296
Sewer fees receivable, net of allowance	45,917	30,294
Reconnection fees receivable, net of allowance	3,239	3,893
Availability fees receivable, net of allowance	195,815	204,946
Property tax receivable	42,215	45,088
Laboratory fees receivable	1,384	2,276
Prepaid expenses	52,336	2,675
Total current assets	3,537,884	2,154,468
Noncurrent assets:		
Restricted cash and investments		985,178
Capital assets, net of depreciation	7,417,728	8,074,520
Net other postemployment benefit assets		1,646
Total noncurrent assets	7,417,728	9,061,344
Total assets	10,955,612	11,215,812
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension and other postemployment benefit plan items	79,758	123,276
Total deferred outflows of resources	79,758	123,276
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	2,658	203,843
Accrued payroll and benefits	4,295	1,434
Compensated absences	23,866	13,070
Unearned revenue	227,826	226,061
Customer deposits	62,137	60,260
Total current liabilities	320,782	504,668
Noncurrent liabilities:		
Net other postemployment benefit liability		2,388
Net pension liability	590,777	635,960
Total noncurrent liabilities	590,777	638,348
Total liabilities	911,559	1,143,016
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension and other post employment benefit plan items	104,390	193,035
Total deferred inflows of resources	104,390	193,035
<u>NET POSITION</u>		
Net investment in capital assets	7,417,728	8,074,520
Restricted		985,178
Unrestricted	2,601,693	943,339
Total net position	\$ 10,019,421	\$ 10,003,037

ARIZONA CITY SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating revenues:		
Sewer fees	\$ 1,626,883	\$ 1,627,079
Reconnection fees	5,076	4,053
Availability fees	202,027	200,849
Hook up fees	25,000	10,000
Capacity fees	130,000	52,000
Environmental services income	33,366	30,244
Miscellaneous	2,190	20,020
Total operating revenues	2,024,542	1,944,245
Operating expenses:		
General and administration expenses	773,965	770,034
Office expenses	89,918	100,294
Plant expenses	320,629	350,280
Collections expenses	49,329	59,484
Laboratory expenses	40,121	44,240
Depreciation	783,615	766,155
Total operating expenses	2,057,577	2,090,487
Operating income (loss)	(33,035)	(146,242)
Nonoperating revenues (expenses):		
Investment income	49,419	60,572
Interest expense		(19,785)
Total nonoperating revenues (expenses)	49,419	40,787
Changes in net position	16,384	(105,455)
Total net position, beginning of year, as restated	10,003,037	10,108,492
Total net position, end of year	\$ 10,019,421	\$ 10,003,037

**ARIZONA CITY SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,987,682	\$ 1,912,804
Miscellaneous receipts	35,556	50,264
Payments to vendors	(1,119,372)	(794,856)
Payments to employees	(482,831)	(500,784)
Net cash provided (used) by operating activities	421,035	667,428
Cash flows from noncapital financing activities:		
Property tax receipts	2,873	13,695
Net cash provided (used) by noncapital financing activities	2,873	13,695
Cash flows from capital and related financing activities:		
Purchase of capital assets	(126,823)	(523,536)
Interest paid on obligations		(62,983)
Principal paid on loan		(2,360,565)
Net cash provided (used) by capital and related financing activities	(126,823)	(2,947,084)
Cash flows from investing activities:		
Interest income	49,419	60,572
Net cash provided (used) by investing activities	49,419	60,572
Net change in cash and cash equivalents	346,504	(2,205,389)
Cash and cash equivalents at beginning of year	2,850,474	5,055,863
Cash and cash equivalents at end of year	\$ 3,196,978	\$ 2,850,474
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (33,035)	\$ (146,242)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	783,615	766,155
(Increase) decrease		
Sewer fees receivable	(15,623)	1,258
Reconnection fees receivable	654	1,507
Availability fees receivable	9,131	5,698
Laboratory fees receivable	892	1,699
Prepaid expenses	(49,661)	9,749
Increase (decrease)		
Accounts payable	(201,185)	124,220
Accrued payroll and benefits	2,861	(93)
Compensated absences	10,796	(994)
Unearned revenues	1,765	97
Customer deposits	1,877	8,564
Pension and other post employment benefit plan items	(91,052)	(104,190)
Net cash provided (used) by operating activities	\$ 421,035	\$ 667,428
Cash and cash equivalents reconciliation		
Cash and investments	\$ 3,196,978	\$ 1,865,296
Restricted cash and investments	-	985,178
	\$ 3,196,978	\$ 2,850,474

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 Sanitary 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 presentation purposes, and the Sanitary District is not included in any other 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 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.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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. Cash and cash equivalents at year end were cash in bank and cash and investment held by the County Treasurer.

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.

Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. 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.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 2020 or 2019. As of June 30, 2020, the Sanitary District had \$42,215 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, dividends, and net changes in the fair 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. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition 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 following 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) 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.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 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

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.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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, 2020	\$ 153,425	\$ 121,883
June 30, 2019	70,711	68,910

Fair Value Measurements. The Sanitary District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

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, 2020	350 days	\$ 3,043,053
June 30, 2019	288 days	2,779,263

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.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 – CASH AND INVESTMENTS

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. The allowance for uncollectibles was \$547,881 and \$525,602 for the years ended June 30, 2020 and 2019, respectively.

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2020 and 2019 follows:

<u>Capital Assets</u>	<u>Balance July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>
Capital assets, not being depreciated:				
Land	\$ 130,579	\$	\$	\$ 130,579
Total capital assets, not being depreciated	<u>130,579</u>			<u>130,579</u>
Capital assets, being depreciated:				
Sewer plant in service	19,258,067	33,599		19,291,666
Building and improvements	930,757			930,757
Machinery and equipment	1,018,635	93,224		1,111,859
Office furniture and equipment	137,306			137,306
Total capital assets, being depreciated	<u>21,344,765</u>	<u>126,823</u>		<u>21,471,588</u>
Less accumulated depreciation for:				
Sewer plant in service	(12,143,097)	(684,139)		(12,827,236)
Building and improvements	(260,788)	(36,632)		(297,420)
Machinery and equipment	(873,781)	(61,050)		(934,831)
Office furniture and equipment	(123,158)	(1,794)		(124,952)
Total accumulated depreciation	<u>(13,400,824)</u>	<u>(783,615)</u>		<u>(14,184,439)</u>
Total capital assets, being depreciated, net	7,943,941	(656,792)		7,287,149
Capital assets, net	<u>\$ 8,074,520</u>	<u>\$ (656,792)</u>	<u>\$</u>	<u>\$ 7,417,728</u>

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 – CAPITAL ASSETS

<u>Capital Assets</u>	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	<u>130,579</u>			<u>130,579</u>
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 capital assets, being depreciated	<u>20,821,228</u>	<u>523,537</u>		<u>21,344,765</u>
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	<u>(12,634,669)</u>	<u>(766,155)</u>		<u>(13,400,824)</u>
Total capital assets, being depreciated, net	8,186,559	(242,618)		7,943,941
Capital assets, net	<u>\$ 8,317,138</u>	<u>\$ (242,618)</u>	\$	<u>\$ 8,074,520</u>

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 \$5,079 and \$5,112 for the years ended June 30, 2020 and 2019, respectively. These operating leases have remaining noncancelable lease terms of 2 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:		
	2021	\$ 4,711
	2022	<u>4,339</u>
Total minimum payments required		<u>\$ 9,050</u>

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2020 and 2019 follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Compensated absences payable	\$ 13,070	\$ 30,970	\$ 24,499	\$ 19,541	\$ 19,541
Net OPEB liability	2,388		2,388		
Net pension liability	635,960		45,183	590,777	
Long-term liabilities	<u>\$ 651,418</u>	<u>\$ 30,970</u>	<u>\$ 72,070</u>	<u>\$ 610,318</u>	<u>\$ 19,541</u>

	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	<u>\$ 3,039,798</u>	<u>\$ 27,092</u>	<u>\$ 2,415,472</u>	<u>\$ 651,418</u>	<u>\$ 13,070</u>

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

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. The ASRS OPEB plans are not further disclosed because of their relative insignificance to the Sanitary District's financial statements.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 – PENSIONS

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.

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 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members' annual covered payroll. The Sanitary District's contributions to the pension plan for the year ended June 30, 2020 were \$50,877.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 – PENSIONS

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 10.41 percent (10.29 for retirement, 0.05 percent for health insurance premium benefit, and 0.07 percent for long-term disability). ACR contributions are included in employer contributions presented above.

Pension Liability. The net pension liability was measured as of June 30, 2019. The total liability used to calculate the net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The Sanitary District’s proportion of the net 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, 2019.

At June 30, 2020, the Sanitary District reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2019, the Sanitary District’s percentage proportion for the plan and the related change from its proportion measured as of June 30, 2018 was:

<u>Net Liability</u>	<u>Sanitary District % Proportion</u>	<u>Increase (Decrease)</u>
\$ 590,777	0.004	(0.001)

Pension Expense and Deferred Outflows/Inflows of Resources. The Sanitary District has deferred outflows and inflows of resources related to the net pension liability. Certain changes in the net pension liability are recognized as pension expense over a period of time rather than the year of occurrence. The Sanitary District’s pension expense for the year ended June 30, 2020 was \$40,905.

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 – PENSIONS

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,673	\$ 111
Changes of assumptions or other inputs	2,497	23,526
Net difference between projected and actual earnings on pension investments		13,279
Changes in proportion and differences between contributions and proportionate share of contributions	15,711	67,474
Contributions subsequent to the measurement date	50,877	
Total	\$ 79,758	\$ 104,390

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 liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2021	(37,722)
2022	(38,793)
2023	(2,550)
2024	3,556

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 – PENSIONS

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Inflation	2.3%
Projected salary increases	2.7-7.2%
Permanent base increases	Included
Mortality rates	2017 SRA Scale U-MP

The actuarial assumptions used in the June 30, 2018 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.

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 are summarized in the following table:

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

**ARIZONA CITY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 – PENSIONS

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the 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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Sanitary District’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the proportionate share of the net pension 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:

	1% Decrease	Current Discount Rate	1% Increase
Rate	6.5%	7.5%	8.5%
Net liability	\$ 840,813	\$ 590,777	\$ 381,812

Contributions payable. The Sanitary District’s accrued payroll and employee benefits included \$395 of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2020.

Pension Plan Fiduciary Net Position. Detailed information about the pension 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.

NOTE 9 – SUBSEQUENT EVENT

In October 2020, the Sanitary District acquired the Arizona City Golf Course for \$1.2 million. The purchase was made using cash in the PC Debt Reserve and Debt Repair with the remaining cash coming from General cash and investments.

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
District's proportion of the net pension (assets) liability	0.004%	0.005%	0.004%	0.006%
District's proportionate share of the net pension (assets) liability	\$ 590,777	\$ 635,960	\$ 663,625	\$ 986,215
District's covered payroll	\$ 427,674	\$ 444,323	\$ 424,212	\$ 545,502
District's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	138.14%	143.13%	156.44%	180.79%
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%

**SCHEDULE OF PENSION CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
LAST SIX FISCAL YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 50,877	\$ 47,814	\$ 47,898	\$ 45,730
Contributions in relation to the actuarially determined contribution	<u>50,877</u>	<u>47,814</u>	<u>47,898</u>	<u>45,730</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 444,341	\$ 427,674	\$ 444,323	\$ 424,212
Contributions as a percentage of covered payroll	11.45%	11.18%	10.78%	10.78%

NOTE: The pension 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.

2016

2015

June 30, 2015

June 30, 2014

0.006%

0.006%

\$ 903,608

\$ 881,015

\$ 536,841

\$ 568,065

168.32%

155.09%

68.35%

69.49%

2016

2015

\$ 59,187

\$ 58,462

59,187

58,462

\$

\$

\$ 545,502

\$ 536,841

10.85%

10.89%

**ARIZONA CITY SANITARY DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2020**

NOTE 1 – PENSION 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, 2018, 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

(This page intentionally left blank)

**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, 2020, 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 24, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
February 24, 2021