Arizona City Sanitary District
Financial Statements
Years Ended June 30, 2021 and 2020

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ARIZONA CITY SANITARY DISTRICT

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Independent Auditor's Report

Board of Directors
Arizona City Sanitary District

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Arizona City Sanitary District (Sanitary District), as of and for the years ended June 30, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arizona City Sanitary District, as of June 30, 2021 and 2020, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 November 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
November 24, 2021

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As management of the Arizona City Sanitary District (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 for the years ended June 30, 2021 and 2020. 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 $9.9 million at June 30, 2021, and $10.0 million at June 30, 2020. Of this amount, $1.8 million at June 30, 2021, and $2.6 million at June 30, 2020, represented unrestricted net position which may be used to meet the Sanitary District's ongoing obligations.

- The Sanitary District's total net position decreased $124,804 (one percent) from the prior fiscal year and increased by $16,384 (less than one percent) in 2020.

- Operating revenues accounted for $2.4 million in fiscal year 2021 and $2.0 million in fiscal year 2020, and primarily consisted of sewer fees. Non-operating revenue in the form of interest income accounted for $15,076 in fiscal year 2021 and $49,419 in fiscal year 2020.

- Operating expenses accounted for $2.5 million in fiscal year 2021 and $2.1 million in fiscal year 2020, and primarily consisted of general and administrative, plant, golf course, and depreciation expenses. The Sanitary District did not record interest expense in fiscal year 2020 and 2021.

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.

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 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 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 $1.1 million resulting in net position of $9.9 million as of June 30, 2021. As of June 30, 2020, 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.

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.

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, 2021, June 30, 2020, and June 30, 2019.

	As of June 30, 2021	As of June 30, 2020	As of June 30, 2019
Current and other assets	$ 2,755,403	$ 3,537,884	$ 3,141,292
Capital assets	8,109,686	7,417,728	8,074,520
Total assets	10,865,089	10,955,612	11,215,812
Deferred outflows	144,592	79,758	123,276
Current liabilities	340,182	301,241	491,598
Long-term liabilities	751,827	610,318	651,418
Total liabilities	1,092,009	911,559	1,143,016
Deferred inflows	23,055	104,390	193,035
Net position:			
Net investment in capital assets	8,109,686	7,417,728	8,074,520
Restricted			985,178
Unrestricted	1,784,931	2,601,693	943,339
Total net position	$ 9,894,617	$ 10,019,421	$ 10,003,037

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 acquisition of capital assets, and the depreciation of capital assets.

The following are significant current year transactions that had an impact on the Statement of Net Position.

- The addition of $1.5 million in capital assets through the purchase of a golf course, sewer plant improvements, and machinery and equipment.
- The addition of $779,040 in accumulated depreciation through depreciation expense.
- The increase of $130,006 in pension liabilities.

The following are significant prior year transactions that had an impact on the Statement of Net Position.

- The addition of $783,615 in accumulated depreciation through depreciation expense.

Financial Analysis of the Sanitary District

Changes in Net Position – The Sanitary District's total revenues for the current fiscal year were $2.4 million. The total cost of all operations and services was $2.5 million. The following table presents a summary of the changes in net position for the years ended June 30, 2021, June 30, 2020, and June 30, 2019.

	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019
Revenues:			
Operating Revenues:			
Charges for services	$ 2,363,328	$ 2,022,352	$ 1,924,225
Miscellaneous	9,659	2,190	20,020
Nonoperating revenues:			
Interest income	15,076	49,419	60,572
Total revenues	2,388,063	2,073,961	2,004,817
Operating Expenses:			
General operating expenses	1,092,257	863,883	870,328
Plant and project expenses	1,420,610	1,193,694	1,220,159
Nonoperating expenses			19,785
Total expenses	2,512,867	2,057,577	2,110,272
Changes in net position	(124,804)	16,384	(105,455)
Beginning net position	10,019,421	10,003,037	10,108,492
Ending net position	$ 9,894,617	$ 10,019,421	$ 10,003,037

The following are significant current year transactions that have had an impact on the change in net position.

- The increase in charges of services of $340,976 was primarily due to additional capacity and hook up fees from property developments.
- The increase in expenses of $455,290 was primarily due to golf course and increased wage expenses.

Capital Assets and Debt Administration

Capital Assets. The Sanitary District had invested $23.1 million at June 30, 2021, and $21.6 million at June 30, 2020, in capital assets, including land, sewer plant, buildings and improvements, office furniture, machinery, computers, and other equipment. This amount represents a net increase prior to depreciation of $1.5 million from fiscal year 2020 to 2021 due to the purchase of a golf course, sewer plant improvements, and machinery and equipment, and a net increase of $126,823 from fiscal year 2019 to 2020. Total depreciation expense was $779,040 and $783,615 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, 2021, June 30, 2020, and June 30, 2019.

	As of June 30, 2021	As of June 30, 2020	As of June 30, 2019
Capital assets – non-depreciable	$ 930,579	$ 130,579	$ 130,579
Capital assets – depreciable, net	7,179,107	7,287,149	7,943,941
Total	$ 8,109,686	$ 7,417,728	$ 8,074,520

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

Debt Administration. At June 30, 2021 and June 30, 2020, 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, 2021 AND 2020

	2021	2020
ASSETS		
Current assets:		
Cash and investments	$ 2,473,856	$ 3,196,978
Sewer fees receivable, net of allowance	62,527	45,917
Reconnection fees receivable, net of allowance	1,846	3,239
Availability fees receivable, net of allowance	168,056	195,815
Laboratory fees receivable, net of allowance		1,384
Property tax receivable	5,449	42,215
Permit fees receivable	40	
Golf course rent receivable	10,000	
Prepaid expenses	33,629	52,336
Total current assets	2,755,403	3,537,884
Noncurrent assets:		
Capital assets not being depreciated	930,579	130,579
Capital assets, net of accumulated depreciation	7,179,107	7,287,149
Total noncurrent assets	8,109,686	7,417,728
Total assets	10,865,089	10,955,612
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan items	144,592	79,758
LIABILITIES		
Current liabilities:		
Accounts payable	18,901	2,658
Accrued payroll and benefits	8,779	4,295
Compensated absences	31,044	23,866
Unearned revenue	239,471	227,826
Customer deposits	73,031	62,137
Total current liabilities	371,226	320,782
Noncurrent liabilities:		
Net pension liability	720,783	590,777
Total liabilities	1,092,009	911,559
DEFERRED INFLOWS OF RESOURCES		
Pension plan items	23,055	104,390
NET POSITION		
Net investment in capital assets	8,109,686	7,417,728
Unrestricted	1,784,931	2,601,693
Total net position	$ 9,894,617	$ 10,019,421

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, 2021 AND 2020

	2021	2020
Operating revenues:		
Sewer fees	$ 1,664,864	$ 1,626,883
Reconnection fees	6,528	5,076
Availability fees	177,709	202,027
Hook up fees	84,900	25,000
Capacity fees	383,678	130,000
Environmental services income	35,649	33,366
Golf course rent	10,000	
Miscellaneous	9,659	2,190
Total operating revenues	2,372,987	2,024,542
Operating expenses:		
General and administration expenses	978,908	773,965
Office expenses	113,349	89,918
Plant expenses	351,753	320,629
Collections expenses	46,372	49,329
Laboratory expenses	48,590	40,121
Golf course expenses	194,855	
Depreciation	779,040	783,615
Total operating expenses	2,512,867	2,057,577
Operating income (loss)	(139,880)	(33,035)
Nonoperating revenues (expenses):		
Investment income	15,076	49,419
Total nonoperating revenues (expenses)	15,076	49,419
Changes in net position	(124,804)	16,384
Total net position, beginning of year	10,019,421	10,003,037
Total net position, end of year	$ 9,894,617	$ 10,019,421

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, 2021 AND 2020

	2021	2020
Increase/Decrease in Cash and Cash Equivalents		
Cash flows from operating activities:		
Cash receipts from customers and users	$ 2,354,144	$ 1,987,682
Cash receipts from other sources	45,268	35,556
Cash payments to vendors	(1,082,916)	(1,119,372)
Cash payments to employees	(583,696)	(482,831)
Net cash provided by/used for operating activities	732,800	421,035
Cash flows from investing activities:		
Interest income	15,076	49,419
Net cash provided by/used for investing activities	15,076	49,419
Cash flows from noncapital financing activities:		
Property tax receipts		2,873
Net cash provided by/used for noncapital financing activities		2,873
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,470,998)	(126,823)
Net cash provided by/used for capital and related financing activities	(1,470,998)	(126,823)
Net increase/decrease in cash and cash equivalents	(723,122)	346,504
Cash and cash equivalents, beginning of year	3,196,978	2,850,474
Cash and cash equivalents, end of year	$ 2,473,856	$ 3,196,978
Reconciliation of Operating Income/Loss to Net Cash Provided by/Used for Operating Activities		
Operating income/loss	$ (139,880)	$ (33,035)
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:		
Depreciation expense	779,040	783,615
(Increase) decrease		
Sewer fees receivable	(16,610)	(15,623)
Reconnection fees receivable	1,393	654
Availability fees receivable	27,759	9,131
Laboratory fees receivable	1,384	892
Property tax receivable	36,766	
Permit fees receivable	(40)	
Golf course rent receivable	(10,000)	
Prepaid expenses	18,707	(49,661)
Increase (decrease)		
Accounts payable	16,243	(201,185)
Accrued payroll and benefits	4,484	2,861
Compensated absences	7,178	10,796
Unearned revenues	11,645	1,765
Customer deposits	10,894	1,877
Pension plan items	(16,163)	(91,052)
Net cash provided by/used for operating activities	$ 732,800	$ 421,035

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 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.

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 because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, 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. Consequently, the Sanitary District's financial statements include a single enterprise fund, which represents the only funds of those organizational entities for which its elected governing board is financially accountable.

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.

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 general and administrative expenses, as well as, expenses for the plant, lab, collection system, golf course, and depreciation on capital assets. 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 a maturity of three months or less 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 federal depository 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.

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

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise. The Sanitary District did not levy a tax for fiscal year 2021 or 2020. As of June 30, 2021, the Sanitary District had $5,449 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.

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

For purposes of measuring the net pension liability, related deferred outflows of resources and deferred inflows of resources, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. At June 30, 2021, $14,363 of the Sanitary District's deposits was covered by collateral held by the pledging financial institution's trust department or agent but not in the Sanitary District's name.

Fiscal Year Ended	Carrying Amount of Deposits	Bank Balance
June 30, 2021	$ 136,392	$ 264,343
June 30, 2020	153,425	121,883

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, 2021	657 days	$ 2,336,964
June 30, 2020	350 days	3,043,053

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.

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 $483,397 and $547,881 for the years ended June 30, 2021 and 2020, respectively.

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2021 and 2020 follows:

Capital Assets	Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021
Capital assets, not being depreciated:				
Land	$ 130,579	$ 800,000	$	$ 930,579
Total capital assets, not being depreciated	130,579	800,000		930,579
Capital assets, being depreciated:				
Sewer plant in service	19,291,666	156,814		19,448,480
Building and improvements	930,757	370,000		1,300,757
Machinery and equipment	1,111,859	113,007		1,224,866
Office furniture and equipment	137,306	31,177		168,483
Total capital assets, being depreciated	21,471,588	670,998		22,142,586
Less accumulated depreciation for:				
Sewer plant in service	(12,827,236)	(680,715)		(13,507,951)
Building and improvements	(297,420)	(38,689)		(336,109)
Machinery and equipment	(934,831)	(55,609)		(990,440)
Office furniture and equipment	(124,952)	(4,027)		(128,979)
Total accumulated depreciation	(14,184,439)	(779,040)		(14,963,479)
Total capital assets, being depreciated, net	7,287,149	(108,042)		7,179,107
Capital assets, net	$ 7,417,728	$ 691,958	$	$ 8,109,686

NOTE 4 – CAPITAL ASSETS

Capital Assets	Balance July 1, 2019	Increase	Decrease	Balance June 30, 2020
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	19,258,067	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	21,344,765	126,823		21,471,588
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	(13,400,824)	(783,615)		(14,184,439)
Total capital assets, being depreciated, net	7,943,941	(656,792)		7,287,149
Capital assets, net	$ 8,074,520	$ (656,792)	$	$ 7,417,728

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 $5,128 and $5,079 for the years ended June 30, 2021 and 2020, respectively. These operating leases have remaining noncancelable lease terms of one year and provides renewal options.

At June 30, 2021, the future minimum rental payment required under the operating lease due in fiscal year 2022 was $4,339.

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2021 and 2020 follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year
Compensated absences payable	$ 19,541	$ 44,494	$ 32,991	$ 31,044	$ 31,044
Net pension liability	590,777	130,006		720,783	
Long-term liabilities	$ 610,318	$ 174,500	$ 32,991	$ 751,827	$ 31,044

	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	$ 651,418	$ 30,970	$ 72,070	$ 610,318	$ 19,541

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.

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 12.22 percent (12.04 percent for retirement and 0.18 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 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 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, 2021 were $58,704.

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 10.21 percent (10.14 for retirement 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, 2020. 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, 2019, to the measurement date of June 30, 2020. 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, 2020.

At June 30, 2021, the Sanitary District reported the following amounts for its proportionate share of the pension plan net liability. In addition, at June 30, 2020, the Sanitary District's percentage proportion for the plan and the related change from its proportion measured as of June 30, 2019 was:

Net Liability	Sanitary District % Proportion	Increase (Decrease)
$ 720,783	0.004	-

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, 2021 was $42,541.

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	$ 6,521	$
Net difference between projected and actual earnings on pension investments	69,520	
Changes in proportion and differences between contributions and proportionate share of contributions	9,847	23,055
Contributions subsequent to the measurement date	58,704	
Total	$ 144,592	$ 23,055

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, 2022. 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:	
2022	(9,797)
2023	25,982
2024	25,146
2025	21,502

NOTE 8 – PENSIONS

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

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
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, 2019 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%	6.39%
Credit	20	5.44
Interest rate sensitive bonds	10	0.22
Real estate	20	5.85
Total	100%	

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	$ 985,661	$ 720,783	$ 499,359

Contributions payable. The Sanitary District's accrued payroll and employee benefits included $781 and $395 of outstanding pension contribution amounts payable to ASRS for the years ended June 30, 2021 and 2020, respectively.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	2021	2020	2019	2018
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Sanitary District's proportion of the net pension (assets) liability	0.004%	0.004%	0.005%	0.004%
Sanitary District's proportionate share of the net pension (assets) liability	$ 720,783	$ 590,777	$ 635,960	$ 663,625
Sanitary District's covered payroll	$ 444,341	$ 427,674	$ 444,323	$ 424,212
Sanitary District's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	162.21%	138.14%	143.13%	156.44%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%

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

	2021	2020	2019	2018
Actuarially determined contribution	$ 58,704	$ 50,877	$ 47,814	$ 47,898
Contributions in relation to the actuarially determined contribution	58,704	50,877	47,814	47,898
Contribution deficiency (excess)	$	$	$	$
Sanitary District's covered payroll	$ 503,897	$ 444,341	$ 427,674	$ 444,323
Contributions as a percentage of covered payroll	11.65%	11.45%	11.18%	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.

2017	2016	2015
June 30, 2016	June 30, 2015	June 30, 2014
0.006%	0.006%	0.006%
$ 986,215	$ 903,608	$ 881,015
$ 545,502	$ 536,841	$ 568,065
180.79%	168.32%	155.09%
67.06%	68.35%	69.49%

2017	2016	2015
$ 45,730	$ 59,187	$ 58,462
45,730	59,187	58,462
$	$	$
$ 424,212	$ 545,502	$ 536,841
10.78%	10.85%	10.89%

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, 2019, 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

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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 Arizona City Sanitary District, as of and for the year ended June 30, 2021, 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 November 24, 2021.

Report on 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 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. 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 or significant deficiencies may exist that have not been identified.

Report on 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
November 24, 2021