

PINEWOOD SANITARY DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

PINEWOOD SANITARY DISTRICT
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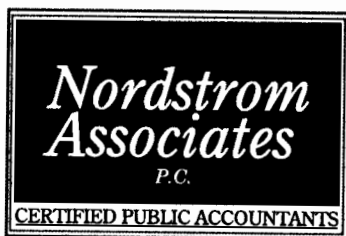
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MEMBER
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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Pinewood Sanitary District

We have audited the accompanying basic financial statements of Pinewood Sanitary District as of and for the year ended June 30, 2017 and 2016 and the related notes to the 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. 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 financial statement presentation.

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 the District as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity 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 on pages 3 through 6, Schedule of the District's Proportionate Share of the Net Pension Liability – Cost Sharing Plans on page 24, and Schedule of District Pension Contributions on page 25 be presented to supplement the basic financial statements. Such information, although not a required 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 U.S. generally accepted auditing standards, 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.

Nordstrom & Associates, P.C.

November 7, 2017

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Management's Discussion and Analysis

As Management of the Pinewood Sanitary District we offer readers of the District's financial statements the narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes.

Financial Highlights

- **We are pleased to report that we are able to move forward into the fiscal year 2017 without a rate increase. This is the fifth year in a row that we have had no rate increase.**
- During 2017, the District paid off long term debt in the amount of \$539,348
- During 2017, the District incurred new debt in the amount of \$913,021 to fund District expansion and improvements. The repayment of this debt will be funded primarily by new customers benefiting from the expansion.
- The District's net position of \$4,130,897 decreased over the course of this year's operation by \$101,239 or 2.4%. This decrease was principally due to depreciation on fixed assets.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statement and is comprised of two components:

- 1) The financial statements
- 2) Notes to the financial statements that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements provide both long term and short-term information about the District's overall financial status.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position.

This statement provides information about the nature and the amounts of investments in resources (assets) and the obligation to District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, one will need to consider other financial factors such as changes in economic conditions, population and commercial customer growth, and new or changed government requirements.

Required Financial Statements, continued

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operation over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees, other charges and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. This statement provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

Net Position

As previously noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$4,130,897 at the close of the most recent fiscal year.

As can be seen in Table A-1 below, the largest portion of the District's net position reflects its investment in capital assets (i.e., sewers, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide sewerage treatment services and to maintain and improve mains & manholes for the entire District Service area; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

Table A-1
Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>Percentage Increase(decrease)</u>
Current and other assets	\$ 737,049	\$ 646,441	14.02%
Net capital assets	8,211,194	7,860,744	4.46%
Deferred outflows of resources	<u>412,785</u>	<u>255,634</u>	<u>61.47%</u>
Total assets	<u>9,361,028</u>	<u>8,762,819</u>	<u>6.83%</u>
Current liabilities	711,009	650,826	9.25%
Noncurrent liabilities outstanding	4,341,562	3,770,766	15.14%
Deferred inflows of resources	<u>177,560</u>	<u>109,091</u>	<u>62.76%</u>
Total liabilities	<u>5,230,131</u>	<u>4,530,683</u>	<u>15.44%</u>
Invested in capital assets net of related debt	4,777,428	4,845,648	-1.41%
Restricted - capital projects	24,499	45,145	-45.73%
Restricted - debt service	466,739	465,277	0.31%
Unrestricted	<u>(1,137,769)</u>	<u>(1,123,934)</u>	<u>1.23%</u>
Total net assets	<u>\$ 4,130,897</u>	<u>\$ 4,232,136</u>	<u>-2.39%</u>

The decrease in net position for 2017 is principally related to depreciation on the District's capital assets.

Revenues and Expenses

While the statements of net position (Table A-1) shows the change in our financial position the statements of revenues, expenses, and changes in net position provides answers as to the nature and source of these changes. Operating revenues consist primarily of service fees charged to our customers to support operating expenses and debt payments. Operating revenues also consist of contract services provided by the District and sales of reclaimed water. These amounts are reflected as other income in operating revenue. Operating expenses are incurred to support the operations of the sewer district. Also, included in expenses is depreciation on capital assets and interest expense incurred on outstanding debt. See the summary of these revenues and expenses in Table A-2 following.

The District revenue is fee based although it does have taxing authority per Arizona Revised Statutes. The average monthly customer bill is \$58.43, unchanged from rates charged during the 2013-2014 fiscal year. A portion of the monthly fees are reserved for debt repayments.(WIFA - \$12.86 improved lots and \$8.25 unimproved lots). Even though rates have remained unchanged, we were able to increase overall revenue by 3%, due to bringing new lots into the system through our expansion efforts and due to increasing our revenues from contract services.

The Management and Board of Directors continually review the capital improvement and operational needs of the District in an effort to maintain as affordable efficient operation as possible.

The operations portion of fees remained unchanged in the 2016-2017 fiscal year.

Table A-2
Condensed Statements of Revenues, Expenses
and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Percentage Increase(Decrease)</u>
Operating Revenues	\$ 2,267,558	\$ 2,200,989	3.02%
Nonoperating Revenues	21,448	(2,321)	-1024.08%
Total revenues	2,289,006	2,198,668	4.11%
Depreciation expense	624,274	626,290	-0.32%
Other operating expense	1,672,696	1,644,579	1.71%
Interest expense	93,275	95,721	-2.56%
Total expenses	<u>2,390,245</u>	<u>2,366,590</u>	<u>1.00%</u>
Change in Net Assets	<u>\$ (101,239)</u>	<u>\$ (167,922)</u>	<u>-39.71%</u>

Capital Assets

As of June 30, 2017, the District's capital assets net of accumulated depreciation amounted to \$8,211,194, which represents a net increase of \$350,450 over the previous year.

The increase is the net result of current capital additions less depreciation on capital assets. More detailed information about the District's capital assets are presented in the notes to the financial statements.

Debt Service

Indebtedness for loans through WIFA amounted to \$3,113,076 as of June 30, 2017 at interest rates from 2.81 to 3.85%.

There are also outstanding loans and capital lease liabilities at June 30, 2017, in the amount of \$322,690. This debt was incurred to acquire equipment for the District.

Payments are made on July 1st and January 1st each fiscal year on the WIFA loans.

Project Highlights

With the signing of the new Water Infrastructure Finance Authority loan of \$3,000,000, construction plans were completed for the four areas designated by that loan, to include Northern-Aire (Navajo and Havasupai Roads), the East and the West Side Commercial areas, and the North Lodge Subdivision. Each of these areas will be responsible for any debt incurred for their specific project. Boring under I-17 and permits for the Eastside Commercial area and North Lodge from the Arizona Department of Environmental Quality and Coconino County were received, allowing the District to start these projects in 2014-2015. We did complete the boring under I-17 and install two four-inch pressure lines through the bore casing. We also completed the pressure main for the East Side Commercial area and placed that system up into service in 2015-2016. The restaurant and realty office were connected. We still have not connected the Shell Station or the old Woody's building to our system. Easement issues have been resolved on the Southern end of the West Side Commercial Sewer Expansion allowing the District to move forward with construction. The District did encounter elevated levels of ground water at the northern end of this project requiring re-engineering of that portion and resubmittal to the Arizona Department of

Environmental Quality for new permitting. We have installed approximately 20 % of the one mile of main lines for this project and have installed the main lift station at the southern end of the project. We hope to complete this project by mid- summer of 2018. The District did purchase several new pieces of equipment in 2014-2015 to include a new Vac-con Sewer Jetter Vacuum truck and a new trailer mounted pressure cleaner, with no rate increases to our rate payers. We also acquired other various pieces of equipment to help the organization to be much more self-sufficient and efficient in 2016-2017.

The District did have one issue that has resulted in a lawsuit in the North Lodge subdivision. The suit was filed in July of 2013 and did cost additional legal fees to defend the Districts' position. The case has been resolved in the Courts with a final decision being rendered in the Districts' favor. However, we still have been unable to move forward with drainage way issues and lift station relocation . We purchased an additional piece of property next to our existing lift station and have acquired a Conditional Use Permit from Coconino County so we can install a new lift station outside of a drainage way. Construction is on hold awaiting our building permit from the County.

The District renewed its' intergovernmental agreement with Coconino County in 2016-2017, for storm drainage cleaning in Munds Park and other areas of Coconino County.

We have been busy in 2016-2017 with outsourcing our services to other organizations such as Flagstaff Ranch and Kachina Village to name a few. This has brought in additional revenue and allowed us the ability to make needed improvements without the need for a rate increase in the 2015-16 Budget year or 2016-2017 Budget year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pinewood Sanitary District, PO Box 18758, Munds Park, AZ 86017-8758 or www.pinewoodsanitary.com.

PINEWOOD SANITARY DISTRICT

Statements of Net Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 133,340	\$ 59,448
Cash for restricted purposes	491,237	510,422
Prepaid expense	45,370	42,375
Accounts receivable, net	<u>67,102</u>	<u>34,196</u>
Total current assets	<u>737,049</u>	<u>646,441</u>
Capital assets, at cost	17,392,841	16,510,713
Less accumulated depreciation	<u>(9,181,647)</u>	<u>(8,649,969)</u>
Net capital assets	<u>8,211,194</u>	<u>7,860,744</u>
Deferred outflows of resources related to pensions	<u>412,785</u>	<u>255,634</u>
Total assets	\$ <u>9,361,028</u>	\$ <u>8,762,819</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 157,658	\$ 114,468
Long-term obligations due within one year	<u>553,351</u>	<u>536,358</u>
Total current liabilities	<u>711,009</u>	<u>650,826</u>
Noncurrent liabilities		
Net pension liability	1,459,147	1,292,028
Capital lease and installment notes	322,690	410,125
WIFA loans	3,113,076	2,604,971
Less current portion of long-term obligations	<u>(553,351)</u>	<u>(536,358)</u>
Total noncurrent liabilities	<u>4,341,562</u>	<u>3,770,766</u>
Total liabilities	<u>5,052,571</u>	<u>4,421,592</u>
Deferred inflows of resources related to pensions	<u>177,560</u>	<u>109,091</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	4,777,428	4,845,648
Restricted - capital projects	24,499	45,145
Restricted - debt service	466,739	465,277
Unrestricted	<u>(1,137,769)</u>	<u>(1,123,934)</u>
Total net position	<u>4,130,897</u>	<u>4,232,136</u>
Total liabilities and net position	\$ <u>9,361,028</u>	\$ <u>8,762,819</u>

See accompanying notes to financial statements.

PINEWOOD SANITARY DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenue		
Service fees:		
Operations and maintenance	\$ 1,695,548	\$ 1,651,676
WIFA loan repay	363,060	359,875
WIFA loan reserve	91,150	91,494
Other income	<u>117,800</u>	<u>97,944</u>
Total operating revenue	<u>2,267,558</u>	<u>2,200,989</u>
Operating expenses		
Personnel expenses	892,573	919,446
Administrative and office	76,718	78,686
Professional services	20,943	17,191
Telephone and utilities	116,918	129,926
Insurance	247,906	217,153
Plant operation and maintenance	294,380	261,494
System operation and maintenance	23,258	20,683
Depreciation	<u>624,274</u>	<u>626,290</u>
Total operating expenses	<u>2,296,970</u>	<u>2,270,869</u>
Operating income	<u>(29,412)</u>	<u>(69,880)</u>
Nonoperating revenues (expenses)		
Interest income	2,948	3,865
Gain (Loss) on disposal of assets	18,500	(6,186)
Interest expense - leases and loans	<u>(93,275)</u>	<u>(95,721)</u>
	<u>(71,827)</u>	<u>(98,042)</u>
Change in net position	(101,239)	(167,922)
Net position at beginning of year	<u>4,232,136</u>	<u>4,400,058</u>
Net position at end of year	\$ <u>4,130,897</u>	\$ <u>4,232,136</u>

See accompanying notes to financial statements.

PINEWOOD SANITARY DISTRICT

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>		<u>2016</u>
<u>Cash flows from operating activities</u>			
Receipts from customers and users	2,234,652	\$	2,203,087
Payments to suppliers	(772,363)		(713,202)
Payments to employees	<u>(814,136)</u>		<u>(876,089)</u>
Net cash provided by operating activities	<u>648,153</u>		<u>613,796</u>
<u>Cash flows from capital and related financing activities</u>			
Payment of WIFA loans	(404,916)		(392,080)
Cash received from WIFA loan draws	913,021		455,863
Repayment of construction advances	0		0
Payment of leases and installment notes	(134,433)		(133,372)
Interest paid on long-term obligations	(93,275)		(95,721)
Cash paid for asset acquisition and construction	<u>(876,791)</u>		<u>(460,988)</u>
Net cash used by financing activities	<u>(596,394)</u>		<u>(626,298)</u>
<u>Cash flows from investing activities</u>			
Interest income	<u>2,948</u>		<u>3,865</u>
Net cash provided by investing activities	<u>2,948</u>		<u>3,865</u>
Net change in cash and restricted cash	54,707		(8,637)
Cash and restricted cash at beginning of year	<u>569,870</u>		<u>578,507</u>
Cash and restricted cash at end of year	\$ <u>624,577</u>	\$	<u>569,870</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (29,412)	\$	(69,880)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	624,274		626,290
Pension expense	181,993		135,037
Pension contributions	(103,556)		(97,117)
Changes in assets and liabilities:			
Accounts receivable	(32,906)		2,099
Prepaid expenses	(2,995)		(16,309)
Accounts payable and accrued expenses	10,755		33,676
Net cash provided by operating activities	\$ <u>648,153</u>	\$	<u>613,796</u>
Equipment acquired by direct financing:	\$ <u>46,998</u>	\$	<u>-</u>
Payments to employees capitalized to asset construction	\$ <u>245,713</u>	\$	<u>164,653</u>
Interest payments capitalized to asset construction	\$ <u>5,874</u>	\$	<u>6,453</u>

See accompanying notes to financial statements.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 1 Summary of Significant Accounting Policies:

Organization

Pinewood Sanitary District of Coconino County, Arizona ("District") was formed on May 18, 1992 pursuant to Section 48-261, Arizona Revised Statutes, as a special district, and is authorized to provide sanitary services at Munds Park, Arizona. Various fees charged for sanitary services to the District's lot owners are charged at predetermined rates. These fees are the primary source of the District's revenues. Should the District's revenues fall short of amounts required to cover operating expenses and debt retirement, these fees could be raised by the District, through procedures prescribed by Arizona Revised Statutes.

Method of accounting

The District's financial statements are presented on the full accrual basis of accounting and conform to U.S. generally accepted accounting principles. The District has elected under GASB Statement No. 20, to apply all applicable GASB pronouncements as well as any applicable FASB pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

For the year ended June 30, 2015, the District implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended. GASB Statement No. 68, as amended, establishes standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit pension plans. In addition, GASB Statement No. 68 requires disclosure of information related to pension benefits.

Accounts receivable and allowance for doubtful accounts

Accounts receivable represent monthly billings for service fees and related debt retirement and capital payments. Accounts receivable includes vacant lot availability fees. The District has no method to enforce payment of vacant lot availability fees except to deny connection to the sanitary system until all back fees are paid. The District has established an allowance for doubtful accounts based on a periodic review of its outstanding accounts receivable. An allowance for doubtful accounts of \$9,500 was established as of June 30, 2017 and 2016, respectively.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 1 Summary of Significant Accounting Policies, continued

Capital assets

Capital assets, which include land, buildings, sewer plant, and equipment are carried at cost less accumulated depreciation. Routine repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 30 to 40 years for plant, system and buildings and 5 to 10 years for furniture and equipment.

Management of the District reviews its property and equipment for impairment when events or changes in circumstances indicate the carrying amounts of the property may not be recoverable. When such conditions exist, management estimates future cash flows from operations and disposition of the property. If the estimated undiscounted future cash flows from operations and the disposition of the property are less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related property's estimated fair market value would be recognized and an impairment loss would be recognized. No such impairment losses have been recognized.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

All cash balances of the District are held in appropriate accounts allowed per Arizona Revised Statutes. The cash balances are primarily held by Coconino County. All cash deposits of the District were covered either by federal depository insurance or collateral held by the pledging financial institution's trust department or agent in the County's name per state statutes. Cash represents cash and cash equivalent financial instruments which generally have maturities of three months or less. Due to their short maturities, cash and cash equivalents are carried at amounts that reasonably approximate fair value.

Deferred outflows and inflows of resources

The statement of net assets include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net assets that applies to future periods and will be recognized as a revenue in future periods.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 1 Summary of Significant Accounting Policies, continued

Pension

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

Net position

Net position is displayed in three components as follows:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash is excluded from the determination.

Restricted – consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use the restricted resources first, then unrestricted resources when they are needed.

Unrestricted – consists of net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

Income taxes

There is no provision or liability for income taxes included in the financial statements, as the District is a tax exempt, special district, under Arizona Revised Statutes.

Revenue recognition

Operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the District. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 2 Cash for Restricted Purposes

Cash for restricted purposes consists of the following funds:

	<u>2017</u>	<u>2016</u>
WIFA Repayment (503)	465,738	461,383
WIFA Reserve (504)	1,000	3,894
WIFA improvements (506)	24,499	45,145
	\$ 491,237	\$ 510,422

Accounts 503 and 504 are restricted for repayment of the WIFA loans, see note 7. Account 506 is restricted for approved construction under the WIFA loan agreements. Predetermined amounts of the District's monthly fee revenues are allocated to these accounts.

NOTE 3 Acquisition of Plant and Sanitary System

In late 1993, the District initiated proceedings to levy special assessments against benefiting lots and parcels of land within the District to provide money to acquire the sewer collection and treatment system, then owned by the Pinewood Sewer Company and make certain improvements to the system. The special assessment proceedings provided for a levy of \$1,850,000 against 3,009 lots on the basis of \$615 per lot for such acquisitions and improvements. In response to the levy 2,357 lot owners paid the full assessment. The resulting payments were used to purchase the sewer collection and treatment system. The remaining lots paid \$5.25 monthly towards retirement of the levy, which is included as part of service fee revenue.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 4 Pension

The District is eligible to participate in the Arizona State Retirement System (ASRS). Qualified full-time employees are required to participate through payroll deductions, which are matched by the District.

Plan description - 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. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. This report is available on its website at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

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

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 5 Pension, continued

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. The District was required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) for the year ended June 30, 2017 and to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and .12 percent for long-term disability) for the year ended June 30, 2016 of the members' annual covered payroll. The District's contributions to the pension plan for the years ended June 30, 2017 and 2016, were \$103,556 and 97,117, respectively.

Pension Liability – At June 30, 2017 and 2016, the District reported a liability of \$1,459,147 and \$1,292,028, respectively for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The District's proportion measured as of June 30, 2016, was .00904%, which was an increase from its proportion of .00829% measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the District recognized pension expense for ASRS of \$181,993. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,867	\$ 100,379
Differences between projected and actual investment earnings	\$ 158,123	
Changes in assumptions		77,201
Changes in proportion and differences between district contributions and proportionate share of contributions	142,239	
District contributions subsequent to the measurement date	103,556	
Total	<u>\$ 412,785</u>	<u>\$ 177,580</u>

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 5 Pension, continued

The \$103,556 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30		
2018	\$	(3,842)
2019	\$	72,097
2020	\$	44,337

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

ASRS	
Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017 and 2016

NOTE 5 Pension, continued

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Equity	58%	6.73%	3.90%
Fixed Income	25%	3.70%	0.93%
Multi-asset class	5%	3.41%	0.17%
Real estate	10%	4.25%	0.42%
Commodities	2%	3.84%	0.08%
Total	<u>100%</u>		<u>5.50%</u>
Inflation			<u>3.25%</u>
Expected arithmetic nominal return			<u>8.75%</u>

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 5 Pension, continued

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate – The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's proportionate share of the net pension liability	\$ 1,860,523	\$ 1,459,147	\$ 1,137,331

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

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 6 Long-term Obligations

The following is an analysis of the changes in the District's long-term obligations for the years ending June 30, 2017 and 2016.

	<u>Balance at</u> <u>July 1, 2016</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2017</u>	<u>Due within</u> <u>One Year</u>
WIFA Loan #1	\$ 243,452	\$ -	\$ 45,083	\$ 198,369	\$ 46,819
WIFA Loan #2	1,343,313	-	205,709	1,137,604	213,188
WIFA Loan #3	303,765	-	33,766	269,999	34,963
WIFA Loan #4	714,440	913,021	120,357	1,507,104	123,734
Mini Excavator Capital Lease	-	46,997	7,578	39,419	-
N/P - Backhoe	82,064	-	26,749	55,315	28,104
N/P - Kansas State Bank	210,577	-	52,069	158,508	59,239
N/P - Kansas State Bank	16,265	-	13,490	2,775	2,775
N/P - Kansas State Bank	101,220	-	34,548	66,672	35,704
Total long-term obligations	<u>\$ 3,015,096</u>	<u>\$ 960,018</u>	<u>\$ 539,349</u>	<u>\$ 3,435,765</u>	<u>\$ 544,526</u>

	<u>Balance at</u> <u>July 1, 2015</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One Year</u>
WIFA Loan #1	\$ 286,864	\$ -	\$ 43,412	\$ 243,452	\$ 45,083
WIFA Loan #2	1,542,299	-	198,986	1,343,313	206,237
WIFA Loan #3	336,374	-	32,609	303,765	33,766
WIFA Loan #4	375,650	455,863	117,073	714,440	120,357
Bobcat Capital Lease	3,651	-	3,651	-	-
N/P-Backhoe	107,460	-	25,396	82,064	26,683
N/P-Kansas State Bank	269,476	-	58,899	210,577	56,699
N/P-Kansas State Bank	28,879	-	12,614	16,265	13,368
N/P-Kansas State Bank	134,032	-	32,812	101,220	34,165
Total long-term obligations	<u>\$ 3,084,685</u>	<u>\$ 455,863</u>	<u>\$ 525,452</u>	<u>\$ 3,015,096</u>	<u>\$ 536,358</u>

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 7 WIFA Loans

In prior years, the District had obtained financing under three WIFA loans for rehabilitation, improvement, and expansion projects for the sewer system. During a prior fiscal year the District entered into a loan agreement for a new \$3,000,000 WIFA loan. This loan is being used to fund expansion projects into new areas of Munds Park and will be repaid by the new customers benefiting from these projects.

The WIFA loans are funded through approved construction draws and bear interest at 2.81% to 3.85%, payable semi-annually. The loan agreements require the District to build a reserve fund of one year's payments during the first five years of the loan. These funds remain with the District and can be used in an emergency with notice to WIFA. The following payment schedule is in effect based on the loan payment schedules provided by WIFA based on the timing and amount of the loan draws and payments.

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	405,443	78,713	484,156
2017	418,704	67,495	486,199
2018	432,401	53,572	485,973
2019	446,552	39,185	485,737
2020	697,716	27,742	725,458
2021-2024	204,156	8,941	213,097
	<u>\$ 2,604,972</u>	<u>\$ 275,648</u>	<u>2,880,620</u>

The first three loans have been fully drawn while the fourth WIFA loan entered into during the June 30, 2014 fiscal year has received draws to date of \$1,858,414. The loans are being paid back on the above payment schedule.

It is the District's policy to capitalize interest associated with WIFA construction loans for construction projects in progress. Interest is expensed after the loan is fully drawn and the projects associated with the loan have been completed. WIFA loan interest in the amount of \$5,874 and \$6,453 was capitalized for the years ending June 30, 2017 and 2016, respectively. WIFA Loan interest expense was \$75,285 and \$70,385 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 Subsequent events

Management has evaluated subsequent events through December 7, 2016, the date which the financial statements were available to be issued, and have determined that no events have occurred subsequent to year end which should be disclosed in the financial statements.

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 9 Capital assets

Capital assets activity for the year ended June 30, 2017 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
Capital assets not being depreciated:					
Land	\$ 53,547	\$ 50,000			\$ 103,547
Construction in progress	647,313	739,545		(13,802)	1,373,056
Total capital assets not depreciated	700,860				1,476,603
Capital assets being depreciated:					
Plant and sanitary system	13,208,557	36,890		13,802	13,259,249
Buildings and land improvements	587,096	14,668			601,764
Equipment	2,014,198	136,123	95,096		2,055,225
Total capital assets being depreciated	15,809,851				15,916,238
Less accumulated depreciation	8,649,969	624,274	92,596		9,181,647
Total capital assets being depreciated, net	7,159,882				6,734,591
Total capital assets, net	<u>\$ 7,860,742</u>				<u>\$ 8,211,194</u>

PINEWOOD SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 and 2016

NOTE 9 Capital assets, continued

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balances Beginning of Year	Additions	Deductions	Transfers	Balances End of Year
Capital assets not being depreciated:					
Land	\$ 53,547				\$ 53,547
Construction in progress	364,017	382,684		(99,388)	647,313
Total capital assets not depreciated	417,564				700,860
Capital assets being depreciated:					
Plant and sanitary system	13,095,911	13,258		99,388	13,208,557
Buildings and land improvements	583,696	3,400			587,096
Equipment	1,980,135	61,645	27,582		2,014,198
Total capital assets being depreciated	15,659,742				15,809,851
Less accumulated depreciation	8,045,075	626,290	21,396		8,649,969
Total capital assets being depreciated, net	7,614,667				7,159,882
Total capital assets, net	<u>\$ 8,032,231</u>				<u>\$ 7,860,742</u>

PINEWOOD SANITARY DISTRICT
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Cost Sharing Pension Plans
Year Ended June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	June 30, 2017	June 30, 2016	2007 through 2015
District's proportion of the net pension liability	0.0090%	0.0075%	information not
District's proportion share of the net pension liability	\$ 1,459,147	\$ 1,292,028	available
District's covered-employee payroll	\$ 896,638	\$ 872,818	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	162.74%	148.03%	
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	

PINEWOOD SANITARY DISTRICT
Required Supplementary Information
Schedule of Pension Contributions
Year Ended June 30, 2017

Arizona State Retirement System	Fiscal Year			2007 through 2014
	2017	2016	2015	
Actuarially determined contribution	\$ 103,556	\$ 97,117	\$ 88,655	information not available
District's contributions in relation to the actuarially determined contribution	103,556	97,117	88,655	
District's contribution deficiency (excess)	\$ -	\$ -	\$ -	
District's covered-employee payroll	\$ 896,638	\$ 872,818	\$ 805,011	
District's contributions as a percentage of covered-employee payroll	11.55%	11.13%	11.01%	