# Sunsites-Pearce Fire District

## Basic Financial Statements

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## Year ended June 30, 2018

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**Independent Auditor's Report**

Board of Directors
Sunsites-Pearce Fire District
Pearce, Arizona

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison of Sunsites-Pearce Fire District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the budgetary comparison of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Management has omitted management's discussion and analysis and the 10-year schedule of pension information required for cost-sharing plans that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

*Compliance with Title 48, Chapter 5, Article 1 Applicable to Debt and Warrant Issuance Limitations*

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of Title 48, Chapter 5, Article 1 limiting the amount of certain debt and warrants that can be issued by the District, insofar as such compliance relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with Title 48, Chapter 5, Article 1, insofar as they relate to accounting matters.

The communication related to compliance with the provisions of Title 48, Chapter 5, Article 1 referred to in the preceding paragraph is intended solely for the information and use of members of the Arizona State Legislature, the Board of Directors, management, and other responsible parties within the District and is not intended to be and should not be used by anyone other than these specified parties.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 29, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Walker & Armstrong, LLP

Phoenix, Arizona
January 29, 2019

**Sunsites-Pearce Fire District**
**Statement of Net Position**
**June 30, 2018**

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and investments | $ 72,095 |
| Receivables, net | |
| Ambulance | 89,801 |
| Property taxes | 243,877 |
| Out-of-district | 27,143 |
| Wildland | 62,825 |
| Prepaid expenses | 17,106 |
| Capital assets, net | 354,331 |
| Net pension asset | 51,363 |
| Total assets | 918,541 |
| **Deferred outflows of resources** | |
| Deferred outflows related to pensions and other postemployment benefits | 152,714 |
| Total deferred outflows of resources | 152,714 |
| **Liabilities** | |
| Accounts payable | 13,978 |
| Accrued payroll and related | 9,920 |
| Unearned grant revenue | 2,722 |
| Note payable | 30,000 |
| Noncurrent liabilities | |
| Due within one year: | |
| Compensated absences | 9,641 |
| Due in more than one year: | |
| Compensated absences | 18,529 |
| Total liabilities | 84,790 |
| **Deferred inflows of resources** | |
| Deferred inflows related to pensions and other post employment benefits | 202,040 |
| Total deferred inflows of resources | 202,040 |
| **Net position** | |
| Net investment in capital assets | 354,331 |
| Restricted | 4,747 |
| Unrestricted | 425,347 |
| Total net position | $ 784,425 |

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

**Sunsites-Pearce Fire District**
**Statement of Activities**
**Year Ended June 30, 2018**

| | Governmental Activities |
|---|---|
| **Program expenses** | |
| *Public safety-fire protection and emergency medical services* | |
| Personnel costs | $ 680,899 |
| Operations | 267,226 |
| Administration | 129,682 |
| Depreciation | 45,488 |
| Total program expenses | 1,123,295 |
| **Program revenues** | |
| Charges for services | 609,835 |
| Grant revenue | 34,209 |
| Total program revenues | 644,044 |
| Net program expense | (479,251) |
| **General revenues** | |
| Taxes: | |
| Real and personal property taxes | 398,448 |
| Fire district assistance tax | 67,269 |
| Fire insurance premium tax | 2,919 |
| Investment earnings | 811 |
| Miscellaneous | 11,770 |
| Total general revenues | 481,217 |
| Change in net position | 1,966 |
| Net position, July 1, 2017, as restated | 782,459 |
| Net position, June 30, 2018 | $ 784,425 |

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

**Sunsites-Pearce Fire District**
**Balance Sheet -**
**Governmental Fund**
**June 30, 2018**

| | | Governmental Fund / General Fund |
|---|---|---|
| **Assets** | | |
| Cash and investments | $ | 72,095 |
| Receivables, net | | |
| Ambulance | | 89,801 |
| Property taxes | | 243,877 |
| Out-of-district | | 27,143 |
| Wildland | | 62,825 |
| Prepaid expenses | | 17,106 |
| Total assets | $ | 512,847 |
| **Liabilities** | | |
| Accounts payable | $ | 13,978 |
| Accrued payroll and related | | 9,920 |
| Unearned grant revenue | | 2,722 |
| Note payable | | 30,000 |
| Total liabilities | | 56,620 |
| **Deferred inflows of resources** | | |
| Unearned revenues | | 348,133 |
| Total deferred inflows of resources | | 348,133 |
| **Fund balances** | | |
| Nonspendable | | 17,106 |
| Restricted | | 4,747 |
| Unassigned | | 86,241 |
| Total fund balances | | 108,094 |
| Total liabilities, deferred inflows of resources and fund balances | $ | 512,847 |

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

**Sunsites-Pearce Fire District**
**Reconciliation of the Governmental Fund Balance Sheet**
**to the Government-wide Statement of Net Position**
**Year Ended June 30, 2018**

| | | |
|---|---|---|
| **Total fund balances** | | $ 108,094 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Capital assets | $ 1,266,962 | |
| Less: accumulated depreciation | (912,631) | |
| | | 354,331 |
| Net pension asset held in trust for future benefits is not available resources for District operations and therefore, is not reported in the funds. | | 51,363 |
| Some of the District's receivables will be collected after year-end, but are not available soon enough to pay for the current period expenditures and therefore are deferred in the funds. | | 348,133 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the funds as follows: | | |
| Compensated absences | | (28,170) |
| Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds. | | (49,326) |
| **Net position of governmental activities** | | $ 784,425 |

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

**Sunsites-Pearce Fire District**
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund**
**Year Ended June 30, 2018**

| | Governmental Fund / General Fund |
|---|---|
| **Revenues** | |
| *Taxes* | |
| Real and personal property taxes | $ 370,947 |
| Fire district assistance tax | 67,269 |
| Fire insurance premium tax | 2,919 |
| Grant revenue | 34,209 |
| Charges for services | 574,146 |
| Investment earnings | 811 |
| Miscellaneous | 11,770 |
| Total revenues | 1,062,071 |
| **Expenditures** | |
| *Public safety-fire protection and emergency medical services* | |
| Current: | |
| Personnel costs | 719,009 |
| Operations | 267,226 |
| Administration | 129,682 |
| Capital outlay | 50,090 |
| Total expenditures | 1,166,007 |
| Net change in fund balances | (103,936) |
| Fund balances, July 1, 2017, as restated | 212,030 |
| Fund balances, June 30, 2018 | $ 108,094 |

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

**Sunsites-Pearce Fire District**
**Reconciliation of the Statement of Revenues,**
**Expenditures and Changes in Fund Balance of the Governmental Fund**
**to the Statement of Activities**
**Year Ended June 30, 2018**

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | $ | (103,936) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period: | | |
| Expenditures for capital outlays | | 50,090 |
| Depreciation expense | | (45,488) |
| Property tax revenues and certain charges for services reported in the statement of activities do not provide current financial resources and threfore, are not reported as revenues in the governmental funds. | | 63,190 |
| District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension/ OPEB asset is measured a year before the District's report. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities (includes both PSPRS & ASRS): | | |
| District pension/OPEB contributions | | 45,543 |
| Pension/OPEB expense | | (6,032) |
| Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | | |
| Compensated absence expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | (1,401) |
| **Change in net position of governmental activities** | $ | 1,966 |

**Sunsites-Pearce Fire District**
**Budgetary Comparison Schedule -**
**General Fund**
**Year Ended June 30, 2018**

| | Original and Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|
| **Revenues** | | | |
| *Taxes:* | | | |
| Real and personal property taxes | $ 395,542 | $ 370,947 | $ (24,595) |
| Fire district assistance tax | 80,000 | 67,269 | (12,731) |
| Fire insurance premium tax | 3,600 | 2,919 | (681) |
| Grant revenue | 850,000 | 34,209 | (815,791) |
| Charges for services | 390,000 | 574,146 | 184,146 |
| Investment earnings | 1,000 | 811 | (189) |
| Miscellaneous | 11,610 | 11,770 | 160 |
| Total revenues | 1,731,752 | 1,062,071 | (669,681) |
| **Expenditures** | | | |
| *Public safety-fire protection and emergency medical services* | | | |
| Current: | | | |
| Personnel costs | 629,745 | 719,009 | (89,264) |
| Operations | 174,950 | 267,226 | (92,276) |
| Administration | 127,057 | 129,682 | (2,625) |
| Capital outlay | 800,000 | 50,090 | 749,910 |
| Total expenditures | 1,731,752 | 1,166,007 | 565,745 |
| Net change in fund balances | - | (103,936) | (103,936) |
| Fund balances, July 1, 2017, as restated | - | 212,030 | 212,030 |
| Fund balances, June 30, 2018 | $ - | $ 108,094 | $ 108,094 |

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

## Sunsites-Pearce Fire District
## Statement of Fiduciary Net Position -
## Fiduciary Fund
## June 30, 2018

| | | Volunteer Fire Pension Fund |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 20,721 |
| Investments at fair value | | 64,022 |
| Total assets | $ | 84,743 |
| **Net Position** | | |
| Held in trust for pension trust participants | $ | 84,743 |

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

**Sunsites-Pearce Fire District**
**Statement of Changes in Fiduciary Net Position -**
**Fiduciary Fund**
**Year Ended June 30, 2018**

| | | Volunteer Fire Pension Fund |
|---|---|---|
| **Additions** | | |
| Contributions | $ | 176 |
| ***Investment Earnings*** | | |
| Interest and dividends | | 1,069 |
| Total investment earnings | | 1,069 |
| Less: investment expenses | | 748 |
| Net investment earnings | | 321 |
| Total additions | | 497 |
| Change in net position | | 497 |
| Net position, July 1, 2017 | | 84,246 |
| Net position, June 30, 2018 | $ | 84,743 |

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

## Note 1 – Summary of Significant Accounting Policies

The accounting policies of Sunsites-Pearce Fire District (the "District") conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

### A. Reporting Entity

The District, operating since 1973, is a special purpose local governmental unit that is governed by an elected governing board. The District was formed and is operated pursuant to the provisions of Title 48 of the Arizona Revised Statutes. The purpose of the District is to provide fire protection, emergency medical and related services to the residents and guests of the District and the surrounding area. The day-to-day operations are supervised by the fire chief and the chief's staff.

The District has the power to issue bonds, levy taxes, bill for services and raise revenues with the power of the County government. In addition, the District has the power to expend public funds for any legitimate purpose required to further its needs. The District operates as an independent governmental agency directly responsible to the local taxpayers and voters.

### B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between entities to enhance the usefulness of the information.

**Government-wide statements** – These statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include charges to customers for ambulance and fire services provided and operating and capital grants and contributions.

Revenues not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenue.

**Note 1 – Summary of Significant Accounting Policies - Continued**

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

**Fund financial statements** – provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the general fund as its only governmental fund. The *general* fund is the District's primary operating fund which accounts for all financial resources except those required to be accounted for in another fund.

A budgetary comparison schedule for the general fund is included as part of the basic financial statements to provide meaningful comparison of actual results to budgeted amounts.

The District also reports a *fiduciary* fund which accounts for the activity of the volunteer fire pension fund.

### C. Basis of Accounting

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year they are levied.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Taxes, leases, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measureable and available only when cash is received by the government.

## Note 1 – Summary of Significant Accounting Policies - Continued

**Fund Balance Classifications** - Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted (which includes committed, assigned, and unassigned fund balance classifications).

The nonspendable fund balance classification includes amounts that cannot be expended because they are either not in spendable form, such as prepaid items, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Board of Directors, which is the highest level of decision-making authority within the District. The constraints placed on committed fund balances can only be removed or changed by the Board of Directors.

Assigned fund balances are resources constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Directors has authorized the Fire Chief to make assignments of resources for a specific purpose. Modifications or recissions of constraints can also be removed by the same action that limited the funds.

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications. Deficits in fund balances of the other governmental funds are reported as unassigned. When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the District's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the District's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

**Cash, Cash Equivalents and Investments** – Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

Investment earnings are composed of interest and net changes in the fair value of applicable investments.

## Note 1 – Summary of Significant Accounting Policies - Continued

**Prepaid Items** – Prepaid items are accounted for using the purchase method in the governmental fund financial statements. Under this method, expenditures are reported at the time of purchase and unexpended amounts at year-end are reported on the balance sheet as a prepaid item for informational purposes only and are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources."

In the government-wide financial statements, prepaid purchases are recorded as assets when the goods or services are purchased and are expensed over the period consumed.

**Receivables –** Receivables outstanding at year-end consist of amounts due for property taxes, fire suppression and other similar services, and emergency medical services. Management periodically evaluates the collectability of receivables based on their age and collection efforts and an allowance is established for estimated uncollectible accounts. Uncollectible accounts are written off after all efforts for collection have been exhausted. As of June 30, 2018, the allowance for uncollectible accounts was $351,250.

**Capital Assets** – Capital assets are reported in the government-wide financial statements at actual cost or estimated historical cost if historical records are not available. Donated capital assets are reported at estimated fair value when received. Capital assets are assets with an estimated useful life exceeding one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed as incurred.

Capital assets are depreciated using the straight-line method as follows:

| Capital asset class | Estimated useful life |
|---|---|
| Land | Non-depreciable |
| Buildings and improvements | 15 to 40 years |
| Vehicles, furniture and equipment | 5 to 20 years |

**Compensated Absences** – The District allows full-time employees to accumulate earned but unused vacation. A liability is reported for paid time off that is payable upon termination or retirement. Accordingly, compensated absences are accrued as a liability only in the government-wide financial statements. The District policy on sick leave allows part-time employees to accrue hours based on hours worked. No amount is paid out for sick leave upon termination.

## Note 1 – Summary of Significant Accounting Policies - Continued

**Deferred Outflows/Inflows of Resources** – The statement of net position and balance sheets include separate sections, as appropriate, for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as revenue in future periods.

**Estimates** – The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the tax calendar reporting period. Actual results may differ from those estimates.

**Property Tax Calendar -** The District 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. A lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

**Budgetary Accounting -** The District is required, under Arizona Revised Statutes, to adopt a budget each fiscal year and submit it to the county treasurer and the county board of supervisors no later than the first day of August of each year; under the statute only the general fund must legally adopt an annual budget. The adopted budget is on the modified accrual basis of accounting, which is a legally allowable basis for budgetary purposes.

All annual appropriations lapse at fiscal year-end. The District is subject to expenditure limitations under Arizona Revised Statutes. Statutes also do not permit the District to incur debt in excess of the tax levy outstanding and to be collected plus the available and unencumbered cash on deposit. The limitation is applied to the total of the combined governmental funds.

**Adoption of a New Accounting Standard** - For the year ended June 30, 2018, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, Omnibus 2017. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

## Note 2 – Beginning Balance Restated

Beginning net position/fund balance has been restated for corrections of errors made in prior years and for the implementation of a new accounting standard as follows:

| | Net Position | Fund Balance |
|---|---|---|
| | Governmental Activities | General Fund |
| **June 30, 2017 balance, as previously reported** | $ 343,845 | $ 244,266 |
| Correction to payable, accrual and compensated absence balances | ( 5,094) | 13,612 |
| Correction of deferred revenue | 217,945 | ( 66,998) |
| Correction of prepaid and receivable balances | 21,150 | 21,150 |
| Correction of capital asset balance | 181,439 | - |
| Correction to the net pension asset | 18,836 | - |
| Implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* | 4,338 | - |
| **June 30, 2017 balance, as corrected** | $ 782,459 | $ 212,030 |

## Note 3 – Cash, Cash Equivalents and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurer's investment pools; interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; and bonds of the state of Arizona counties, cities, towns, school districts, and special districts as specified by statute.

The District utilizes Cochise County as its repository for cash and allows their pool to invest those funds; accordingly, the District does not have its own formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for investments. A.R.S. §48-807 allows the District to establish bank accounts with any financial institution that is authorized to do business in the State of Arizona for the purpose of operating a payroll account, holding special revenues, ambulance revenues or both as necessary to fulfill the District's fiduciary responsibilities.

**Note 3 – Cash, Cash Equivalents and Investments - Continued**

The District may also establish, through the County Treasurer, accounts for monies from property taxes, grants, contributions and donations. The County Treasurer is required to establish a fund known as the "fire district general fund" for the receipt of all taxes levied on behalf of the District.

The District may register warrants only if separate accounts are maintained by the County Treasurer for each governmental fund of the District. Warrants may only be registered on the maintenance and operation account and the special revenue accounts, and only after any revolving line of credit has been expended. Registered warrants may not exceed ninety percent of the taxes levied by the County for the District's current fiscal year. Registered warrants bear interest as prescribed by statute and are redeemed as provided for by law for County warrants.

Unless monies are legally restricted by contract, agreement or law, those monies may be transferred between fund accounts according to the original or amended budget of the District. Any surplus remaining in the District's general fund for the succeeding fiscal year and after subtraction of accounts payable and encumbrances, shall be used to reduce the tax levy for the following year.

**Cash on hand and deposits** – At June 30, 2018, the carrying amount of the total cash was $72,095 and the bank balance was $93,350 of which all are insured or collateralized. Cash equivalents consisting of money markets held with an investment company were $20,721 at June 30, 2018.

**Investments** – The District's investments at June 30, 2018 are categorized 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

| | Fair value measurement using | | |
|---|---|---|---|
| **Investment type** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Certificates of Deposit | $ 64,022 | $ - | $ - |

The District's investments at June 30, 2018 are comprised of amounts held by the Cochise County Treasurer totaling $22,383 and amounts held by an investment company for the volunteer pension fund investment account totaling $64,022.

**Note 3 – Cash, Cash Equivalents and Investments - Continued**

The Cochise County Treasurer's investment pool is not registered with the Securities and Exchange Commission and there is no regulatory oversight of its operations. However, the majority of Cochise County's investment pool is invested in the State of Arizona's local government investment pool which is regulated by the State Board of Investment. The pool's structure does not provide for shares, and the county has not provided or obtained any legally binding guarantees to support the value of the participants' investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

**Credit risk** – The District does not have a formal investment policy with respect to credit risk. For the District's general fund investments held by the Cochise County investment pool, the pool is governed by statute which requires specific credit ratings for debt securities.

**Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy with respect to custodial credit risk. However, for the Cochise County investment pool, statute requires collateral for deposits at 102 percent for all deposits not covered by federal depository insurance.

**Interest rate risk** – The District does not have a formal investment policy with respect to interest rate risk. At June 30, 2018, the District's investments can be withdrawn from their accounts at will and therefore, are not subject to a significant amount of interest rate risk.

**Foreign currency risk** – The District does not have a formal investment policy with respect to foreign currency risk because state statutes do not allow for foreign investments.

A reconciliation of the District's cash, deposits and investments to amounts shown on the statements of net positions are as follows:

| | General Fund | Fiduciary Fund | Total |
|---|---|---|---|
| Cash on hand | $ 600 | $ - | $ 600 |
| Cash and cash equivalents held by banks and investment companies | 49,112 | 20,721 | 69,833 |
| Cash and cash equivalents held by the Cochise County Treasurer | 22,383 | - | 22,383 |
| Investments | - | 64,022 | 64,022 |
| Total | $ 72,095 | $ 84,743 | $ 156,838 |

## Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

| | Balance, June 30, 2017, as restated | Increases | Decreases | Balance, June 30, 2018 |
|---|---|---|---|---|
| **Capital assets not being depreciated:** | | | | |
| Land and improvements | $ 31,000 | $ - | $ - | $ 31,000 |
| Total capital assets not being depreciated | 31,000 | - | - | 31,000 |
| **Capital assets being depreciated:** | | | | |
| Buildings and improvements | 196,683 | - | - | 196,683 |
| Furniture and equipment | 371,452 | 19,096 | - | 390,548 |
| Vehicles | 617,737 | 30,994 | - | 648,731 |
| Total capital assets being depreciated | 1,185,872 | 50,090 | - | 1,235,962 |
| **Less: accumulated depreciation for:** | | | | |
| Buildings and improvements | ( 131,041) | ( 5,662) | - | ( 136,703) |
| Furniture and equipment | ( 274,294) | ( 19,613) | - | ( 293,907) |
| Vehicles | ( 461,808) | ( 20,213) | - | ( 482,021) |
| Total accumulated depreciation | ( 867,143) | ( 45,488) | - | ( 912,631) |
| Total capital assets being depreciated, net | 318,729 | 4,602 | - | 323,331 |
| Total capital assets, net | $ 349,729 | $ 4,602 | $ - | $ 354,331 |

## Note 5 – Short-Term Liabilities

The District has an available line of credit totaling $150,000 with a bank which is secured by the District's property taxes. At June 30, 2018, there was no outstanding balance on the line. During fiscal year 2018, the District made draws and repayments on the line of credit of $176,750.

In June 2018, the District obtained a short-term loan for $30,000 to cover operating expenses through year-end. The loan is subject to 5% interest which is payable monthly and matures in November 2018. The District paid the loan in full after year-end.

## Note 6 – Changes in Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2018 follows:

| | Balance at July 1, 2017, as restated | Additions | Reductions | Balance at June 30, 2018 | Due Within 1 Year |
|---|---|---|---|---|---|
| Compensated absences | $ 26,769 | $ 19,334 | $ ( 17,933) | $ 28,170 | $ 9,641 |

Accumulated unpaid vacation and leave time is accrued when incurred. The current portion of such amounts has been accrued in the governmental fund (using the modified accrual basis of accounting).

## Note 7 – Deferred Compensation Plan

The District offers its employees a deferred compensation plan, created in accordance with Internal Revenue Code (IRC) Section 457. This plan, available to all District employees, allows employees to defer a portion of their current salary until future years. Assets held in IRC Section 457 plans are generally subject to claims of creditors.

It is the District's position that it has no liability for investment losses under the plan, but has the duty of due care that would be required of an ordinary prudent investor. The District believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

## Note 8 – Employee Retirement Systems and Post Employment Plans

The District and employees contribute to three retirement plans. These plans are the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS) and a volunteer pension and relief fund as established by Title 9 of the Arizona Revised Statutes. Benefits for non-public safety personnel are established based on contributions to the plan. For public safety personnel, state statute regulates retirement, death, long-term disability, and survivor insurance premium benefits.

At June 30, 2018, the District reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

| Statement of Net Position and Statement of Activities | ASRS | PSPRS | Total |
|---|---|---|---|
| Net pension and OPEB liability (asset) | $ 57,639 | $ (109,002) | $ ( 51,363) |
| Deferred outflows of resources | 49,583 | 103,131 | 152,714 |
| Deferred inflows of resources | 7,796 | 194,244 | 202,040 |
| Pension and OPEB expense (revenue) | 6,813 | ( 781) | 6,032 |

**Note 8 – Employee Retirement Systems and Post Employment Plans - Continued**

The District's accrued payroll and employee benefits includes $1,204 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2018.

**A. Arizona State Retirement System**

**Plan Description**: The District contributes to 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 administered by the *Arizona State Retirement System* (ASRS) that covers employees of the State of Arizona and employees of participating political subdivisions and school districts.

The ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statute 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. The report is available at 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:

| | Retirement Initial Membership Date | |
|---|---|---|
| | ***Before July 1, 2011*** | ***On or after July 1, 2011*** |
| Years of service and age required to receive benefits | Sum of years and age equals 80<br>10 years, age 62<br>5 years, age 50 *<br>any years, age 65 | 30 years, age 55<br>25 years, age 60<br>10 years, age 62<br>5 years, age 50*<br>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 retirement option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contribution and employer's contributions, plus interest earned.

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from $150 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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

***Contributions*** — In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.50 percent (11.34 percent retirement and 0.16 percent for long-term disability) of the active members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.50 percent (10.9 percent retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll. The District's contributions to the pension plan for the year ended June 30, 2018 were $5,337.

During fiscal year 2018, the District paid for ASRS pension and OPEB contributions from the general fund.

***Pension Liability*** – At June 30, 2018, the District reported a liability of $57,639 for its proportionate share of the ASRS net pension liability.

The net liability was measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using updated procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The District's proportion of the net asset or net liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017.

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

The District's proportion measured as of June 30, 2017, and the change from its proportion measure as of June 30, 2016 were:

| **ASRS** | **Proportion June 30, 2017** | **Increase (decrease) from June 30, 2016** |
|---|---|---|
| Pension | .00037% | .00037% |

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the County's net asset and net liabilities as a result of these actuarial changes is not known.

***Pension and OPEB Expense*** – For the year ended June 30, 2018, the District recognized pension expense of $6,813.

**Deferred outflows/inflows of resources -** At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | **Pension** | |
|---|---|---|
| | **Deferred outflows of resources** | **Deferred inflows of resources** |
| Differences between expected and actual experience | $ - | $ 1,728 |
| Changes of assumptions or other inputs | 2,503 | 1,724 |
| Net difference between projected and actual earnings on plan investments | 414 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 41,329 | 4,344 |
| District contributions subsequent to the measurement date | 5,337 | - |
| Total | $ 49,583 | $ 7,796 |

The amounts reported as deferred outflows of resources related to ASRS pensions resulting from the District's contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2019.

**Note 8 – Employee Retirement Systems and Post Employment Plans – Continued**

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 | Pension |
|---|---|
| 2019 | $ 12,398 |
| 2020 | 20,917 |
| 2021 | 4,461 |
| 2022 | ( 1,326) |

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

| | |
|---|---|
| Actuarial valuation date | June 30, 2016 |
| Actuarial roll forward date | June 30, 2017 |
| 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 |
| Healthcare cost trend rate | Not applicable |

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.

The long-term expected rate of return on ASRS plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Note 8 – Employee Retirement Systems and Post Employment Plans – Continued**

The target allocation and best-estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Arithmetic Rate of Return |
|---|---|---|
| Equity | 58% | 6.73% |
| Fixed income | 25% | 3.70% |
| Real estate | 10% | 4.25% |
| Multi-asset | 5% | 3.41% |
| Commodities | 2% | 3.84% |
| Total | 100% | |

***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 8.7 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the District's Proportionate Share of the ASRS Net Pension Liability in the Discount Rate*** – The following table presents the District's proportionate share of the net pension (asset) 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 | $ 73,980 | $ 57,639 | $ 43,984 |

***Plan Fiduciary Net Position*** – Detailed information about the plan's fiduciary net position is available in the separately issued ASRS financial report.

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

### B. Public Safety Personnel Retirement System

***Plan Description*** – The District has entered into a Joinder Agreement with the Arizona State Public Safety Personnel Retirement System (PSPRS), an agent and cost-sharing multiple-employer defined benefit pension plan and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans, to cover all full-time personnel engaged in fire suppression activities and/or fire support. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plan, and those who became members after July 1, 2017, participate in the cost-sharing plan (PSPRS Tier 3 Risk Pool).

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information for PSPRS. The report is available on the PSPRS website at www.psprs.com.

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

| | Initial membership date: Before January 1, 2012 | On or after January 1, 2012 and before July 1, 2017 |
|---|---|---|
| **Retirement and Disability** | | |
| Years of service and age required to receive benefit | 20 years of service, any age<br>15 years of service, age 62 | 25 years of service or 15 years of credited service, age 52.5 |
| Final average salary is based on | Highest 36 consecutive months of last 20 years | Highest 60 consecutive months of last 20 years |
| **Benefit percent:** | | |
| Normal Retirement | 50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80% | 1.5% to 2.5% per year of credited service, not to exceed 80% |
| Accidental Disability Retirement | 50% or normal retirement, whichever is greater | |
| Catastrophic Disability Retirement | 90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater | |
| Ordinary Disability Retirement | Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20 | |
| **Survivor Benefit** | | |
| Retired Members | 80% to 100% of retired member's pension benefit | |
| Active Members | 80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job | |

**Note 8 – Employee Retirement Systems and Post Employment Plans – Continued**

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. In addition, the Legislature may enact permanent one-time benefit increase after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from $150 per month to $260 per month depending on the age of the member and dependents.

**Employees covered by benefit terms** - At June 30, 2018, the following employees were covered by the agent plan's benefit terms:

| | Pension | Health |
|---|---|---|
| Inactive employees or beneficiaries currently receiving benefits | - | - |
| Inactive employees entitled to but not yet receiving benefits | 4 | - |
| Active employees | 6 | 6 |
| Total | 10 | 6 |

***Contributions and annual OPEB Cost -*** State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. 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 is required to contribute at an actuarially determined rate. Contribution rates for the year ended June 30, 2018 are indicated below. Rates are a percentage of active members' annual covered payroll.

The rate for the year ended June 30, 2018, was 12.30% for the pension plan and .29% for the health insurance premium benefit for the District portion and 7.65% - 9.94% for the employee portion. Total pension contributions made during the year were $39,280, and the total health insurance premium benefit contributions were $926. During fiscal year 2018, the District paid for PSPRS and OPEB contributions from the general fund.

***Asset*** – At June 30, 2018, the District reported assets of $105,660 and $3,342 for pension and health insurance premium benefit, respectively. The net assets were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions.

The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the District's PSPRS net pension liabilities as a result of the refunds is not known.

***Actuarial assumptions*** - The significant actuarial assumptions used to measure the total pension/OPEB liability are as follows:

| | |
|---|---|
| Actuarial valuation date | June 30, 2017 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.40% |
| Wage inflation | 3.50% for pensions/not applicable for OPEB |
| Price inflation | 2.50% for pensions/not applicable for OPEB |
| Permanent benefit increase | Included for pensions/NA for OPEB |
| Mortality rates | RP – 2014 tables using MR-2016 improvement scale with adjustments to match current experience |
| Healthcare cost trend rate | Not applicable |

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class.

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

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 Expected Geometric Real Rate of Return |
|---|---|---|
| Short term investments | 2% | 0.25% |
| Absolute return | 2% | 3.75% |
| Risk parity | 4% | 5.00% |
| Fixed income | 5% | 1.25% |
| Real assets | 9% | 4.52% |
| GTAA | 10% | 3.96% |
| Private credit | 12% | 6.75% |
| Real estate | 10% | 3.75% |
| Credit opportunities | 16% | 5.83% |
| Non-U.S. equity | 14% | 8.70% |
| U.S. equity | 16% | 7.60% |
| Total | 100% | |

***Discount Rate*** – At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the PSPRS discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

### Changes in the Net Pension/OPEB Liability

| Pension | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension (Asset) Liability (a) – (b) |
| **Balances at June 30, 2017** | $ 587,535 | $ 652,278 | $ ( 64,743) |
| Changes for the current year: | | | |
| Service cost | 70,902 | - | 70,902 |
| Interest on the total pension liability | 46,724 | - | 46,724 |
| Changes of benefit terms | (10,363) | - | (10,363) |
| Differences between expected and actual experience in the measurement of the pension liability | (35,796) | - | (35,796) |
| Change of assumptions or other inputs | 35,431 | - | 35,431 |
| Net investment income | - | 80,457 | (80,457) |
| Contributions - employer | - | 38,842 | (38,842) |
| Contributions - employee | - | 36,754 | (36,754) |
| Pension plan administrative expense | - | (1,112) | 1,112 |
| Other changes | - | (7,126) | 7,126 |
| Net changes | 106,898 | 147,815 | ( 40,917) |
| **Balances at June 30, 2018** | $ 694,433 | $ 800,093 | $ ( 105,660) |

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

| OPEB | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB (Asset) Liability (a) – (b) |
| **Balances at June 30, 2017** | $ 14,577 | $ 16,576 | $ ( 1,999) |
| Changes for the current year: | | | |
| Service cost | 1,285 | - | 1,285 |
| Interest on the total OPEB liability | 1,141 | - | 1,141 |
| Changes of benefit terms | 584 | - | 584 |
| Differences between expected and actual experience in the measurement of the OPEB liability | 213 | - | 213 |
| Change of assumptions or other inputs | ( 177) | - | ( 177) |
| Contributions – employer | - | 2,339 | ( 2,339) |
| Contributions – employee | - | - | - |
| Net investment income | - | 2,069 | ( 2,069) |
| OPEB plan administrative expense | - | ( 19) | 19 |
| Net changes | 3,046 | 4,389 | ( 1,343) |
| **Balances at June 30, 2018** | $ 17,623 | $ 20,965 | $ ( 3,342) |

**Sensitivity of the District's net pension/OPEB (asset) liability to changes in the discount rate –** The following table presents the District's net pension/OPEB (asset) liability calculated using the discount rates of 7.4 percent, as well as what the District's net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower, (6.4 percent) or 1 percentage point higher, (8.4 percent) than the current rate:

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|---|---|---|---|
| Net pension (asset) liability | $ 26,778 | $ ( 105,660) | $ 207,305 |
| Net OPEB (asset) liability | 103 | ( 3,342) | ( 6,055) |

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

**Plan fiduciary net position** – Detailed information about the plan's fiduciary net position is available in the separately issued PSPRS financial report.

**Expense -** For the year ended June 30, 2018, the District recognized pension expense of $(2,335) and OPEB expense of $1,554.

**Deferred outflows/inflows of resources -** At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

| | Pension | | Health insurance premium benefit | |
|---|---|---|---|---|
| | Deferred outflows of resources | Deferred inflows of resources | Deferred outflows of resources | Deferred inflows of resources |
| Differences between expected and actual experience | $ - | $ 194,078 | $ 199 | $ - |
| Changes of assumptions or other inputs | 55,575 | - | - | 166 |
| Net difference between projected and actual earnings on plan investments | 7,742 | - | (591) | - |
| District contributions subsequent to the measurement date | 39,280 | - | 926 | - |
| Total | $ 102,597 | $ 194,078 | $ 534 | $ 166 |

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

| Year Ending June 30, | Pension | Health |
|---|---|---|
| 2019 | $ ( 14,893) | $ ( 145) |
| 2020 | ( 10,358) | ( 145) |
| 2021 | ( 14,752) | ( 145) |
| 2022 | ( 23,651) | ( 145) |
| 2023 | ( 17,849) | 3 |
| Thereafter | ( 49,258) | 8 |

## Note 8 – Employee Retirement Systems and Post Employment Plans – Continued

### C. Volunteer Fire Pension

The District maintains a *Volunteer Fire Pension Fund* as allowed by A.R.S. §9-951. This plan is administered by the District. The plan is reviewed by the Arizona State Fire Marshal's office.

Benefits vary by number of years of activity and funds available. Benefits are fixed by the local board at the time of retirement. Eligibility is minimum age of 18 years and 12 months of service. Entry dates are January 1 and July 1 of each year. The local pension board has the authority to deviate from these guidelines as they feel necessary under an adopted alternative plan.

## Note 9 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and employees' 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 10 - Expenditures in Excess of Appropriations

For the year ended June 30, 2018, expenditures exceeded final budget amounts in the general fund for the following line items:

| Function | Expenditures in Excess of Appropriations |
|---|---|
| Personnel | $ 89,264 |
| Operations | 92,276 |
| Administration | 2,625 |

The excesses for the above expenditures were primarily the result of unexpected expenditures incurred. Overages were offset by lower than budgeted expenditures in other functions. The District monitors expenses on an ongoing basis to ensure that expenditures are within the budget.

## Note 11 – Subsequent Events

Management evaluated subsequent events through January 29, 2019, the date the financial statements were available to be issued noting the following transactions:

- The District advanced $54,160 from its line of credit in August 2018 for use in operations.

- During November 2018, the District received a donated cargo trailer including hazardous materials equipment with a fair market value of $100,000.

- In December 2018, the District was awarded a $60,000 grant for the purchase of farm rescue equipment and received $50,000 of the funds in January 2019, with the remainder to be received in fiscal year 2020.

No other events or transactions occurred after year-end and before the financial statements were available to be issued that require additional disclosure or adjustment to the financial statements.