

DESERT HILLS FIRE DISTRICT
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

DESERT HILLS FIRE DISTRICT

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Independent Auditors' Report

To the Board of Directors of
Desert Hills Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of Desert Hills Fire District, as of and for the year ended June 30, 2017, 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.

Auditors' 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 and each major fund of Desert Hills Fire District, as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the general fund.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension related schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, on our consideration of the Desert Hills Fire 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 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 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 Desert Hills Fire District's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
October 13, 2017

BOARD OF DIRECTORS

John Hayes	Chair
Brad Shelton	Clerk
Matthew Espinosa	Member
Dolores Moscou	Member

CHIEF OFFICER

Pat Dennen	Fire Chief
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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Desert Hills Fire District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total liabilities exceed total assets (net position) by \$123,522 at the close of the fiscal year.
- Total net position decreased by \$172,165
- Total revenues from all sources were \$2,020,298 and the total cost of all District programs was \$2,192,463.
- Total revenue received in the General Fund was \$35,029 more than the final budget and expenditures were \$51,697 less than the final budget.
- Unassigned fund balance increased \$65,444 during the fiscal year. The unassigned balance at June 30, 2017 was \$510,815 compared to \$445,371 at June 30, 2016.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the District as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements. (3) Notes to the financial statements.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the District's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the District’s basic services are considered to be governmental activities. Property and fire assistance taxes, intergovernmental revenues and charges for services finance most of this activity.
- Proprietary activities/Business type activities – The District currently does not maintain any proprietary activities; all activities are accounted for as governmental activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. The District’s major fund uses the accounting approaches as explained below.

- Governmental funds – All of the District’s basic services are reported in governmental funds.

Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. The District's combined liabilities exceed assets by \$123,522 as of June 30, 2017 as shown on the following condensed statement of net position.

	Governmental activities	
	<u>6/30/2017</u>	<u>6/30/2016</u>
Current and other assets	\$ 611,576	\$ 549,819
Capital assets	770,740	341,780
Total assets	<u>1,382,316</u>	<u>891,599</u>
Deferred outflows related to pensions	<u>542,759</u>	<u>387,243</u>
Long-term liabilities outstanding	1,145,833	836,029
Other liabilities	275,285	117,849
Total liabilities	<u>1,421,118</u>	<u>953,878</u>
Deferred inflows related to pensions	<u>627,479</u>	<u>276,321</u>
Net position:		
Invested in capital assets, net of related debt	378,003	341,780
Unrestricted	(501,525)	(293,137)
Total net position	<u>\$ (123,522)</u>	<u>\$ 48,643</u>

Governmental Activities

The cost of all Governmental activities this year was \$2,192,463. Program revenues totaled \$534,253 and general revenues, including taxes, investment earnings and other revenues totaled \$1,486,045.

The District's programs includes: General Government (fire protection services). Each program's revenues and expenses are presented below.

	Governmental activities	
	<u>6/30/2017</u>	<u>6/30/2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 135,384	\$ 49,071
Operating grants and contributions	327,059	339,745
Capital grants and contributions	71,810	-
General revenues:		
Taxes	1,477,712	1,416,310
Unrestricted interest earnings	3,001	1,458
Other revenues	5,332	16,304
Total revenues	<u>2,020,298</u>	<u>1,822,888</u>
Expenses:		
Public Safety	<u>2,192,463</u>	<u>1,926,315</u>
Total expenses	<u>2,192,463</u>	<u>1,926,315</u>
Increase/(decrease) in net position	(172,165)	(103,427)
Net position, beginning	48,643	(1,137)
Restatement adjustment	-	153,207
Net position, ending	<u>\$ (123,522)</u>	<u>\$ 48,643</u>

Total resources available during the year to finance governmental operations were \$2,068,761 consisting of net position at July 1, 2016 of \$48,463, program revenues of \$534,253 and General Revenues of \$1,486,045. Total Governmental Activities expenses during the year were \$2,192,463; thus Governmental Net Position at year end decreased by \$172,165 to (\$123,522).

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$51,697 more than actual expenditures. Actual revenues were more than the final budget by \$35,029.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the District are those assets that are used in performance of District functions. Capital Assets include land, buildings and improvements, emergency vehicles, and equipment. At the end of fiscal year 2017, net capital assets of the government activities totaled \$770,740. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

Debt

At year end, the District had \$1,226,737 in governmental-type debt. This amount includes compensated absences, capital leases and net pension liability.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the District Budget for fiscal year 2018, the District Board and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pat Dennen, Fire Chief, 3983 London Bridge Road, Lake Havasu City, AZ 86406 or call (928) 764-3333.

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BASIC FINANCIAL STATEMENTS

DESERT HILLS FIRE DISTRICT
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 526,681
Receivables	84,895
Capital assets not being depreciated:	
Land	25,000
Capital assets, net of accumulated depreciation:	
Buildings and improvements	147,774
Emergency vehicles	421,083
Equipment, Fire	176,883
Total assets	1,382,316
Deferred Outflows of Resources	
Deferred outflows related to pensions	542,759
Liabilities	
Accounts payable and other current liabilities	186,275
Accrued interest payable	8,106
Noncurrent liabilities:	
Due within one year	80,904
Due in more than one year	1,145,833
Total liabilities	1,421,118
Deferred Inflows of Resources	
Deferred inflows related to pensions	627,479
Net Position	
Net investment in capital assets	378,003
Unrestricted	(501,525)
Total net position	\$ (123,522)

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

DESERT HILLS FIRE DISTRICT
Statement of Activities
For the Year Ended June 30, 2017

	Governmental Activities
Expenses:	
Public safety - fire protection and emergency services	\$ 2,106,054
Depreciation	70,450
	2,192,463
 Program revenues:	
Charges for services	135,384
Operating grants and contributions	327,059
Capital grants and contributions	71,810
	534,253
Total program expenses	1,658,210
 General revenues	
Property taxes	1,336,999
Fire District Assistance Tax (FDAT)	140,713
Unrestricted interest earnings	3,001
Other revenues	5,332
	1,486,045
Total general revenues	(172,165)
Change in net position	(172,165)
Net position - beginning	48,643
Net position - ending	\$ (123,522)

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

DESERT HILLS FIRE DISTRICT
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Total Governmental Funds
Assets:		
Cash	\$ 526,681	\$ 526,681
Property tax receivables	45,714	45,714
Accounts receivable, net of allowance of \$13,875	1,549	1,549
Due from other governments	37,632	37,632
Total Assets	611,576	611,576
Liabilities:		
Accrued liabilities	73,998	73,998
Total Liabilities	73,998	73,998
Deferred Inflows of Resources		
Unavailable revenue - property taxes	26,763	26,763
Total deferred inflows of resources	26,763	26,763
Fund Balance:		
Unassigned	510,815	510,815
Total Fund Balance	510,815	510,815
Total liabilities, deferred inflows of resources and fund balance	\$ 611,576	

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.	770,740
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	26,763
Some liabilities, including capital leases and net pension liabilities, are not due and payable in the current period and therefore are not reported in the funds.	(1,347,120)
Deferred inflows and outflows relating to pensions Do not provide or require current financial resources and are therefore not reported in the funds.	(84,720)
Net position of governmental activities	\$ (123,522)

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

DESERT HILLS FIRE DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues:		
Property taxes	\$ 1,347,994	\$ 1,347,994
Fire district assistance tax	140,713	140,713
Intergovernmental revenue	375,146	375,146
Charges for services	135,384	135,384
Donations	23,723	23,723
Interest income	3,001	3,001
Miscellaneous income	5,332	5,332
Total Revenues	<u>2,031,293</u>	<u>2,031,293</u>
Expenditures:		
Current:		
Personnel related costs	1,665,463	1,665,463
Dispatch	12,301	12,301
Communications	8,487	8,487
Administration	4,887	4,887
Legal and professional	17,096	17,096
Firefighter costs	2,939	2,939
Education and training	10,151	10,151
Insurance	20,098	20,098
Dues and subscriptions	2,222	2,222
Repairs and maintenance	44,281	44,281
Vehicle fuel, oil and lube	12,518	12,518
Supplies	4,625	4,625
Utilities	16,213	16,213
Uniforms	9,412	9,412
Grant related expense	71,810	71,810
Wildland expense	8,400	8,400
Miscellaneous	515	515
Debt service:		
Principal	42,969	42,969
Interest	7,853	7,853
Capital outlay	431,209	431,209
Total Expenditures	<u>2,393,449</u>	<u>2,393,449</u>
Excess of Revenues Over (Under) Expenditures	<u>(362,156)</u>	<u>(362,156)</u>
Other financing sources (uses)		
Capital lease proceeds	427,600	427,600
Total other financing sources (uses):	<u>427,600</u>	<u>427,600</u>
Net change in fund balance	65,444	65,444
Fund Balance - Beginning of Year	<u>445,371</u>	<u>445,371</u>
Fund Balance - End of Year	<u>\$ 510,815</u>	<u>\$ 510,815</u>

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

DESERT HILLS FIRE DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ 65,444
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	428,960
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(384,631)
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 net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changed in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.	(160,133)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,995)
Some 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.	<u>(102,704)</u>
Change in net position of governmental activities	<u><u>\$ (172,165)</u></u>

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

DESERT HILLS FIRE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund – Budget and Actual
For the Year Ended June 30, 2017

	Budget Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property taxes	\$ 1,360,537	\$ 1,360,537	\$ 1,347,994	\$ (12,543)
Fire district assistance tax	145,000	145,000	140,713	(4,287)
Intergovernmental revenue	424,179	424,179	375,146	(49,033)
Charges for services	40,000	40,000	135,384	95,384
Donations	25,000	25,000	23,723	(1,277)
Interest income	1,548	1,548	3,001	1,453
Miscellaneous income	-	-	5,332	5,332
Total Revenues	<u>1,996,264</u>	<u>1,996,264</u>	<u>2,031,293</u>	<u>35,029</u>
Expenditures:				
Current:				
Personnel related costs	1,739,498	1,739,498	1,665,463	74,035
Dispatch	12,403	12,403	12,301	102
Communications	5,900	5,900	8,487	(2,587)
Administration	37,450	37,450	4,887	32,563
Legal and professional	-	-	17,096	(17,096)
Firefighter costs	2,600	2,600	2,939	(339)
Education and training	2,500	2,500	10,151	(7,651)
Insurance	18,000	18,000	20,098	(2,098)
Dues and subscriptions	-	-	2,222	(2,222)
Repairs and maintenance	37,650	37,650	44,281	(6,631)
Vehicle fuel, oil and lube	11,000	11,000	12,518	(1,518)
Supplies	7,500	7,500	4,625	2,875
Utilities	20,840	20,840	16,213	4,627
Uniforms	39,805	39,805	9,412	30,393
Grant related expense	100,000	100,000	71,810	28,190
Wildland expense	-	-	8,400	(8,400)
Miscellaneous	-	-	515	(515)
Debt service:				
Principal	42,147	42,147	42,969	(822)
Interest	7,853	7,853	7,853	-
Capital outlay	360,000	360,000	431,209	(71,209)
Total Expenditures	<u>2,445,146</u>	<u>2,445,146</u>	<u>2,393,449</u>	<u>51,697</u>
Excess of Revenues Over/(Under) Expenditures	<u>(448,882)</u>	<u>(448,882)</u>	<u>(362,156)</u>	<u>86,726</u>
Other Financing Sources (Uses):				
Capital lease proceeds	-	-	427,600	427,600
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>427,600</u>	<u>427,600</u>
Net change in fund balance	(448,882)	(448,882)	65,444	514,326
Fund Balance - Beginning of Year	<u>445,371</u>	<u>445,371</u>	<u>445,371</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ (3,511)</u>	<u>\$ (3,511)</u>	<u>\$ 510,815</u>	<u>\$ 514,326</u>

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

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

Desert Hills Fire District (the District) was organized as a Special Service District pursuant to the provisions of Chapter 5 of Title 48 of the Arizona Revised Statutes – Special Taxing Districts, which sets forth the legal framework for a fire district. The District provides fire protection, emergency medical services, and public education programs for the community of Desert Hills. The District is governed by an elected five member board of directors, which appoints the chairman. The day to day operations are supervised by a fire chief and his staff. The District does not have any component units, meaning entities for which the District is considered to be financially accountable.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds. The emphasis of the District's fund financial statements is on major governmental funds, each is displayed in a separate column. Currently the District has only one fund, the General Fund.

The District reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government.

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, Fire District Assistance Taxes (FDAT), and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, cash equivalents, and investments

Cash includes cash on hand, demand deposits with banks and deposits with the Mohave County Treasurer. The District's policy allows for the investment of funds in time certificates of deposit with federally insured depositories and other investments as allowed by state statutes.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the District's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include land, buildings, improvements, vehicles, equipment and furniture and fixtures, are reported in the governmental activities column in the government-wide statement of net position. In accordance with GASB 34, the District has opted not to retroactively report infrastructure assets. Capital assets are defined by the District as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of two years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings and improvements	5-40 years
Vehicles	5-10 years
Equipment	5-7 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government currently has one type of item which qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 7 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from only one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is pension related items reported on the government-wide financial statements. See footnote 7 for more information.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

Pensions

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 of the Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board (board) has by resolution authorized the board chairman to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid.

The County levies real property taxes on or before the third Monday in August, which 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. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter. A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick time, which are eligible for payment upon separation from government service. For governmental funds, amounts of vested or accumulated vacation that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and government-wide statement of net position:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. The differences primarily result from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

When capital assets (property, plant and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the District as a whole.

Cost of capital assets	\$ 1,983,067
Accumulated depreciation	<u>(1,212,327)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$ 770,740</u></u>

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	\$ 499,410
Depreciation expense	<u>(70,450)</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position - governmental activities	<u><u>\$ 428,960</u></u>

NOTE 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds. Budgeted amounts are as originally adopted, or as amended by the Board.

Budgetary Process: State law requires that on or before the third Monday in July of each fiscal year, the Board must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption, however, they may be decreased.

Final Budget Adoption: State law specifies that at least seven days prior to the day the property tax levy is adopted, the Board must adopt the final budget for the fiscal year. The date in State law for adoption of the tax levy is on or before the third Monday in August. The adopted budget then becomes the amount proposed for expenditure in the upcoming fiscal year. The adoption of the final budget may take place through a simple motion approved by the Board.

Budget amendments are required to increase expenditure budgets. Expenditures may not legally exceed budgeted appropriations at the local activity level.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

NOTE 3. Stewardship, Compliance and Accountability (Continued)

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the fund level. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual report as listed in the table of contents present expenditures/expenses over appropriations for the year ended June 30, 2017, if any.

Note 4. Deposits and Investments

Deposits as of the District at June 30, 2017 consist of the following:

Deposits:	
Cash on hand	\$ 100
Cash in bank	353,531
Cash on deposit with the Mohave County Treasurer	<u>173,050</u>
Total deposits	<u><u>\$ 526,681</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of June 30, 2017, none of the District's bank balance of \$543,043 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The District's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the county treasurer's pool, and other investments as allowed by state statutes. Eligible Arizona depositories as defined by state statutes are any commercial bank or savings and loan association with its principal place of business in the state of Arizona, which are insured by the federal deposit insurance corporation, or any other insuring instrumentality of the United States. The District had no investments as of June 30, 2017.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had no assets measured at fair value as of June 30, 2017.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 4. Deposits and Investments (Continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the state statutes which define allowable investments.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing exposure to credit risk is to comply with the state statutes which define allowable investments.

Note 5. Capital Assets

The following table summarizes changes to capital assets for the year ended June 30, 2017:

Governmental Activities:	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,000	\$ -	\$ -	\$ 25,000
Total capital assets, not being depreciated	25,000	-	-	25,000
Capital assets, being depreciated:				
Buildings and improvements	276,785	-	-	276,785
Emergency vehicles	792,440	427,600	(30,000)	1,190,040
Equipment, Admin	21,000	-	-	21,000
Equipment, Fire	398,432	71,810	-	470,242
Total capital assets, being depreciated	1,488,657	499,410	(30,000)	1,958,067
Less accumulated depreciation for:				
Buildings and improvements	(122,014)	(6,997)	-	(129,011)
Emergency vehicles	(762,454)	(36,503)	30,000	(768,957)
Equipment, Admin	(21,000)	-	-	(21,000)
Equipment, Fire	(266,409)	(26,950)	-	(293,359)
Total accumulated depreciation	(1,171,877)	(70,450)	30,000	(1,212,327)
Total capital assets, being depreciated, net	341,780	428,960	-	770,740
Governmental activities capital assets, net	\$ 341,780	\$ 428,960	\$ -	\$ 770,740

Depreciation expense of \$70,450 was charged to the public safety function of the District.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 6. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

Governmental Activities:	Balance 6/30/2016	Additions	Retirements	Balance 6/30/2017	Current Portion
Capital leases	\$ -	\$ 427,600	\$ (42,969)	\$ 384,631	\$ 36,925
Compensated absences	68,212	51,818	(61,391)	58,639	43,979
Net pension liabilities	818,976	-	(35,509)	783,467	-
Total	<u>\$ 887,188</u>	<u>\$ 479,418</u>	<u>\$ (139,869)</u>	<u>\$ 1,226,737</u>	<u>\$ 80,904</u>

Capital Leases

In June 2016, the District entered into a capital lease agreement with First Bankers Corporation, as lessor to finance the purchase of the 2003 and 2001 Pierce Pumper vehicles. The capital lease to First Bankers Corporation totaled \$427,600. Under the terms of the lease, annual payments of \$50,822 shall be made including interest at an effective rate of 3.61 percent. The final payment is due December 1, 2025.

A summary of the assets financed through capital leases is as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Emergency Vehicles	\$ 427,600	\$ 28,507	\$ 28,507
Total	<u>\$ 427,600</u>	<u>\$ 28,507</u>	<u>\$ 28,507</u>

The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ended June 30th:

Year	Pierce Pumper Trucks
2018	\$ 50,822
2019	50,822
2020	50,822
2021	50,822
2022	50,822
2023-2026	<u>203,288</u>
Total remaining lease payments	457,398
Less: amount representing interest	<u>(72,767)</u>
Present value of net remaining minimum lease payments	<u>\$ 384,631</u>

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans

The District contributes to the plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2017, the District reported the following aggregate amounts related to pensions for all to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension liabilities	\$ 783,467
Deferred outflows of resources	542,759
Deferred inflows of resources	627,479
Pension expense	330,793

The District's accounts payable and other current liabilities includes \$12,382 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2017. Also, the District reported \$170,660 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

Public Safety Personnel Retirement System (PSPRS)

Plan description – The District contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a nine-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The report is available on the PSPRS website at www.psprs.com.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

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	Initial Membership Date On or After January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, 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 months
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%	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	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, the Legislature may enact permanent one-time benefit increases 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.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

Employees covered by benefit terms – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	3
Active employees	24
Total	29

Contributions and annual OPEB cost – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements for 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. For the year ended June 30, 2017, active PSPRS members were required by statute to contribute 11.65 percent of their annual covered salary to the PSPRS and the District was required to contribute 18.87 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.54 percent.

For the agent plans, the District’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2017, were:

Pension	
Contributions made	\$ 165,743
 Health Insurance Premium Benefit	
Annual OPEB cost	\$ 4,917
Contributions made	4,917

Pension liability – At June 30, 2017, the District reported a net pension liability of \$783,467. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS and CORP plans.

The net pension liabilities measured as of June 30, 2017, 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 District’s net pension liabilities as a result of these changes is not known.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Investment rate of return	7.50%
Projected salary increases	4.0% to 8.0% including inflation
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

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, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50 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 real rates of return 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
U.S. Equity	16.00%	6.23%
Non-U.S. Equity	14.00%	8.25%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	2.92%
Credit Opportunities	13.00%	7.08%
Absolute Return	5.00%	4.11%
GTAA	10.00%	4.38%
Real Assets	8.00%	4.77%
Real Estate	10.00%	4.48%
Risk Parity	4.00%	5.13%
Short Term Inv	2.00%	0.75%
Total	<u>100.00%</u>	

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

Discount Rate –At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50%, which was a decrease of 0.35% from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the 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 actuarially determined contribution rates and the member rate. Based on these 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.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 2,681,082	\$ 1,862,106	\$ 818,976
Changes for the year:		-	
Service cost	220,878	-	220,878
Interest on total pension liability	214,025	-	214,025
Changes of benefit terms	140,399	-	140,399
Difference between expected and actual experience in the measurement of the pension liability	(465,946)	-	(465,946)
Changes of assumptions	131,631	-	131,631
Contributions - employer	-	182,837	(182,837)
Contributions - employee	-	132,346	(132,346)
Net investment income	-	11,177	(11,177)
Benefit payments, including refunds of employee contributions	(130,167)	(130,167)	-
Other changes*	-	(49,864)	49,864
Net changes	110,820	146,329	(35,509)
Balances at June 30, 2017	\$ 2,791,902	\$ 2,008,435	\$ 783,467

* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves.

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of			
Net pension (asset) / liability	\$ 1,265,941	\$ 783,467	\$ 397,487

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

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the District recognized pension expense for PSPRS of \$170,660. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 627,479
Changes in assumptions	252,587	-
Net difference between projected and actual earnings on pension plan investments	124,429	-
Contributions subsequent to the measurement date	165,743	-
Total	\$ 542,759	\$ 627,479

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

The \$165,743 reported as deferred outflows of resources related to PSPRS 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ (14,582)
2019	(14,583)
2020	921
2021	(13,479)
2022	(41,538)
Thereafter	(167,202)

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plan as the District and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the District and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period	21 years for unfunded actuarial accrued liability; 20 years for excess
Asset valuation method	7-Year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.50%

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2015	\$ 10,461	100%	-
	2016	7,992	100%	-
	2017	4,917	100%	-

Agent plan OPEB funded status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 72,851
Actuarial value of plan assets	63,763
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,088</u>
Funded ratio (actuarial value of plan assets/AAL)	87.53%
Covered payroll (active plan members)	\$ 1,151,007
UAAL as a percentage of covered payroll	1.08%

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 7. Retirement and Pension Plans (Continued)

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization Method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period	20 years for unfunded actuarial accrued liability; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and natural disasters. The District has insurance protection and the limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

Note 9. Commitments

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—*Hall* for EORP and *Parker* for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in *Hall* that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the *Parker* case was stayed pending the outcome of *Hall*. Nevertheless, the facts and circumstances are essentially the same where both parties to *Parker* agreed, at the time of stay, to appropriately apply the remedies of *Hall* when finalized.

After seeking further clarification from the Supreme Court on their ruling, the PSPRS Board of Trustees in April directed employers in both EORP and PSPRS plans to revert the rates back to pre-SB1609 levels for affected members. As a result, members who were hired prior to July 20, 2011 are also entitled to receive a return of those excess contributions with interest. Therefore, at its May 31, 2017 meeting, the PSPRS Board of Trustees authorized local boards who have stopped withholding at the higher rate to begin working with their employer in returning those contributions as soon as practicable. However, while the *Hall* case has been

DESERT HILLS FIRE DISTRICT
Notes to the Financial Statements
June 30, 2017

Note 9. Commitments (Continued)

remanded to the Superior Court, the ruling on the interest amount from a hearing on June 6, 2017 has yet to be decided and released. As such, the *Hall* case is not finalized yet, but the excess contributions should be returned as soon as possible to stop interest from accruing.

Because the plans administered by PSPRS are 401(a) qualified plans, the IRS dictates the method used to return the excess contributions to members. PSPRS is not allowed to return the contributions directly to members or employers. Instead, employers are required to return the excess contributions to members, and then may take advantage of credit memos set up by PSPRS to offset future employer contributions. PSPRS will prepare credit memos equal to the contributions plus pre-judgment interest. Employers that want to take advantage of those credit memos may use those credit memos in lieu of sending PSPRS future employer contributions until the credit memos are used up. As of June 30, 2017 the District owed refunds totaling \$112,277 to current and former employees, excluding interest. The payable and related claims and judgement expense are reported on the government-wide statement of net position and the statement of activities.

Required Supplementary Information

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DESERT HILLS FIRE DISTRICT
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2017

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability			
Service cost	\$ 220,878	\$ 224,745	\$ 227,443
Interest on total pension liability	214,025	198,314	172,774
Changes of benefit terms*	140,399	-	22,845
Difference between expected and actual experience of the total net pension liability	(465,946)	(90,930)	(173,481)
Changes of assumptions	131,631	-	174,586
Benefit payments, including refunds of employee contributions	(130,167)	(129,925)	(65,032)
Net change in total pension liability	110,820	202,204	359,135
Total pension liability - beginning	2,681,082	2,478,878	2,119,743
Total pension liability - ending (a)	<u>\$ 2,791,902</u>	<u>\$ 2,681,082</u>	<u>\$ 2,478,878</u>
Plan fiduciary net position			
Contributions - employer	\$ 182,837	\$ 147,088	\$ 202,882
Contributions - employee	132,346	112,663	120,773
Net investment income	11,177	64,434	189,613
Benefit payments, including refunds of employee contributions	(130,167)	(129,925)	(65,032)
Other (net transfer)	(49,864)	(10,461)	(59,400)
Net change in plan fiduciary net position	146,329	183,799	388,836
Plan fiduciary net position - beginning	1,862,106	1,678,307	1,289,471
Plan fiduciary net position - ending (b)	<u>\$ 2,008,435</u>	<u>\$ 1,862,106</u>	<u>\$ 1,678,307</u>
Net pension liability - ending (a) - (b)	<u>\$ 783,467</u>	<u>\$ 818,976</u>	<u>\$ 800,571</u>
Plan fiduciary net position as a percentage of the total pension liability	71.94%	69.45%	67.70%
Covered employee payroll	\$ 1,231,866	\$ 1,170,085	\$ 1,051,683
Net pension liability as a percentage of covered- employee payroll	63.60%	69.99%	76.12%

Note: The District implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

DESERT HILLS FIRE DISTRICT
Schedule of Contributions
June 30, 2017

	Reporting Fiscal Year (Measurement Date)		
	2017 (2016)	2016 (2015)	2015 (2014)
Actuarially determined contribution	\$ 182,837	\$ 147,088	\$ 202,882
Contributions in relation to the actuarially determined contribution	\$ (182,837)	\$ (147,088)	\$ (202,882)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,231,866	\$ 1,170,085	\$ 1,051,683
Contributions as a percentage of covered-employee payroll	14.84%	12.57%	19.29%

Note: The District implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

DESERT HILLS FIRE DISTRICT
Schedule of Agent OPEB Plan Funding Progress
June 30, 2017

Valuation Date	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
2013	-	79,535	79,535	0.00%	1,182,621	6.73%
2014	52,894	89,287	36,393	59.24%	1,172,801	3.10%
2015	63,763	72,851	9,088	87.53%	841,837	1.08%
2016	75,869	66,361	(9,508)	114.33%	1,151,007	0.00%
2017	**	**	**	**	**	**

DESERT HILLS FIRE DISTRICT
Notes to Pension Plan Schedules
June 30, 2017

Note 1. Actuarially Determined Contribution Rates

Actuarially determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry Age Normal
Amortization Method	Level percent closed for the unfunded actuarial liability, open for excess
Remaining Amortization Period	21 years for unfunded actuarial accrued liability; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5%.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females)

DESERT HILLS FIRE DISTRICT
Notes to Pension Plan Schedules
June 30, 2017

Note 2. Factors that Affect the Identification of Trends

In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the District's net pension liability and related ratios. These changes also increased the PSPRS' required contributions beginning in fiscal year 2016 in the schedule of district pension contributions.

Other Communications from Independent Auditors

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Desert Hills Fire District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Desert Hills Fire District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Desert Hills Fire District's basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Desert Hills Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Desert Hills Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Desert Hills Fire District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



HintonBurdick, PLLC
Flagstaff, Arizona
October 13, 2017

**Independent Auditors' Report on
State Legal Compliance**

Desert Hills Fire District
Lake Havasu City, Arizona

We have audited the basic financial statements of Desert Hills District (the District) for the year ended June 30, 2017, and have issued our report thereon dated October 13, 2017. Our audit also included test work on the District's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 48, Chapter 5, Article 1.

The management of Desert Hills Fire District is responsible for the District's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

ARS 48-805.02 requires the audit or report to include an attestation by the auditor of the District as to the following:

1. That the District has not incurred any debt or liability in excess of taxes levied and to be collected and the monies actually available and unencumbered at that time in the District general fund except for those liabilities as prescribed in section 48-805, subsection B, paragraph 2 and sections 48-806 and 48-807.
2. That the District complies with subsection F of section 48-805.
3. Whether the audit or report disclosed any information contrary to the certification made as prescribed by subsection D, paragraph 1 of section 48-805.

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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Desert Hills Fire District complied, in all material respects, with the requirements identified above for the year ended June 30, 2017.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.

Sincerely,



HintonBurdick, PLLC
Flagstaff, Arizona
October 13, 2017