



**Hellsgate Fire District  
Financial Statements  
June 30, 2018**

**Hellsgate Fire District  
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June 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Governing Board of the  
Hellsgate Fire District  
Star Valley, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hellsgate Fire District (the District), as of and for the year ended June 30, 2018, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

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

**Emphasis of Matter**

As discussed in the notes to the basic financial statements, for the year ended June 30, 2018, the District adopted new accounting guidance, *GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

**Other Matters**

As described in the notes to the financial statements, the District has adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments*, GASB Statement No. 27, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2003, as well as GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. However, the Hellsgate Fire District has elected not to present Management's Discussion and Analysis, the Budgetary Comparison Schedule, or other supplementary information that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be a part of, the basic financial statements.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019 on consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

**Restriction on Use**

This report is intended solely for the information and use of the Governing Board, Management, Gila County and the State of Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

AtHca CPAs & Advisors PLLC

Phoenix, Arizona  
March 13, 2019



# **BASIC FINANCIAL STATEMENTS**

**Hellsgate Fire District**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 397,882
Due from other governments	287,352
Taxes receivable	32,792
Capital assets:	
Non-depreciable	133,777
Depreciable (net)	<u>1,049,691</u>
Total assets	<u>1,901,494</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>926,620</u>
<b>LIABILITIES</b>	
Accounts payable	32,371
Accrued payroll and related liabilities	46,731
Long-term liabilities:	
Due within one year	85,472
Due in more than one year	<u>2,304,833</u>
Total liabilities	<u>2,469,407</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	237,151
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	<u>121,556</u>
Total net position	<u><u>\$ 121,556</u></u>

The notes to the financial statements are an integral part of this statement.

**Hellsgate Fire District  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2018**

	<u>Governmental Activities</u>
<b>EXPENSES</b>	
Public safety, fire protection:	
Emergency services	\$ 1,216,661
Administrative and support services	193,746
Depreciation	88,224
Interest on long-term debt	<u>31,912</u>
Total program expenses	<u>1,530,543</u>
<b>PROGRAM REVENUES</b>	
Charges for services	233,418
Operating grants and contributions	<u>424,040</u>
Total program revenues	<u>657,458</u>
Net program expenses	<u>873,085</u>
<b>GENERAL REVENUES</b>	
Property taxes	\$ 752,972
Centrally assessed taxes	65,938
Net gain/(loss) on sale of capital assets	(35,629)
Investment earnings	<u>2,221</u>
Total general revenues	<u>785,502</u>
Increase (Decrease) in net assets	(87,583)
Net position – beginning	<u>209,139</u>
Net position – ending	<u><u>\$ 121,556</u></u>

The notes to the financial statements are an integral part of this statement.

**Hellsgate Fire District  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 397,882
Due from other governments	287,352
Taxes receivable	<u>32,792</u>
 Total assets	 <u><u>718,026</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	32,371
Accrued payroll and related liabilities	<u>46,731</u>
Total liabilities	79,102
Deferred inflows of resources:	
Deferred revenue	<u>111,457</u>
 Total deferred inflows of resources	 111,457
Fund balances:	
Committed for capital projects	300,673
Unassigned	<u>226,794</u>
 Total fund balances	 <u>527,467</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u><u>\$ 718,026</u></u>

The notes to the financial statements are an integral part of this statement.



**Hellsgate Fire District**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**June 30, 2018**

Fund balances - total governmental funds		\$ 527,467
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		1,183,468
Receivables which are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds balance sheet.		111,457
Deferred outflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental funds balance sheet.		926,620
Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental funds balance sheet.		(237,151)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet, specifically:		
Capital leases payable	(769,953)	
Compensated absences	(50,460)	
Pension liabilities	<u>(1,569,892)</u>	
		<u>(2,390,305)</u>
Net position of governmental activities		<u>\$ 121,556</u>

The notes to the financial statements are an integral part of this statement.

**Hellsgate Fire District**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2018**

	<u>General Fund</u>
<b>REVENUES</b>	
Property taxes	\$ 757,824
Fire district assistance taxes	65,938
Intergovernmental	399,269
Charges for services	550,351
Contributions	600
Interest income	2,221
Other revenue	<u>24,171</u>
Total revenues	<u>\$ 1,800,374</u>
<b>EXPENDITURES</b>	
Current:	
Public safety, fire protection:	
Emergency services	\$ 1,223,016
Administrative and support services	193,746
Debt service:	
Principal	89,242
Interest on long-term debt	31,912
Capital outlay	<u>-</u>
Total expenditures	<u>\$ 1,537,916</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>262,458</u>
<b>OTHER FINANCING SOURCES/(USES)</b>	
Proceeds from sale of capital assets	<u>130,551</u>
Total other financing sources and uses	<u>130,551</u>
Net changes in fund balances	393,009
Fund balances – beginning	<u>134,458</u>
Fund balances – ending	<u><u>\$ 527,467</u></u>

The notes to the financial statements are an integral part of this statement.

**Hellsgate Fire District**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2018**

Net change in fund balances - total governmental funds	\$	393,009
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources.		(88,224)
Loss on disposal of assets is reported in the statement of activities, but it does not require the use of current financial resources.		(35,629)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This is the amount by which revenues reported in the statement of activities exceeded those amounts received and reported as current financial resources in the governmental funds.		(321,785)
Proceeds from the sale of capital assets is reported as a source of revenue in the governmental funds, but the total loss on the sale is reported in the statement of net assets.		(130,551)
Repayment of the principal of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		89,242
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 the governmental funds, specifically:		
Compensated absences		(3,436)
Pension expenses		<u>9,791</u>
Change in net position of governmental activities	\$	<u><u>(87,583)</u></u>

The notes to the financial statements are an integral part of this statement.

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Hellsgate Fire District (the District) conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the District's more significant accounting policies follows:

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.

**A. Reporting Entity**

The District, established in 2008 pursuant to Arizona Revised Statute Title 48, is a special purpose local government that is governed by an elected governing body, a legally separate entity, and is fiscally independent of other state and local governments. As required under generally accepted accounting principles, these financial statements present the activities of the District (a special purpose government). Component units are legally separate entities for which the District is considered to be financially accountable. The District does not report any component units.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from the business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 (e.g. special assessments). Taxes and other revenues not included among program revenues are reported instead as general revenues.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Special assessments are recognized as revenues in the year for which the related capital projects are substantially complete. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. User fees, licenses, 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. All other revenue items are considered to be measurable and available only when cash is received by the District.

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 District 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.

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

The District reports the following major governmental funds:

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Cash and cash equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Arizona Revised Statutes authorize special districts to invest public monies in the Arizona State Treasurer's local government investment pool, interest bearing savings accounts, certificates of deposit and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral. All investments are stated at fair value based on market prices.

**E. Receivables and payables**

All program service receivables are shown net of an allowance for uncollectibles, if such estimates are necessary.

The District levies real property taxes on or before the third Monday in August. Such levies, collected by Gila County, become due and payable in two equal installments; the first is due on the first day of October and the second is due on the first day of March in the subsequent year. There is no allowance for uncollectibles on taxes receivable as the District has a subordinated lien on all properties subject to the tax.

**F. Capital assets**

The District's capital assets, which include land, buildings and related improvements, furniture, vehicles, equipment, and construction in progress are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost greater than the established threshold and an estimated useful life in excess of one year.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Type of asset</u>	<u>Threshold</u>	<u>Years</u>
Buildings and improvements	\$5,000	2 - 40
Improvements, other than building	\$5,000	2 - 40
Furniture, vehicles and equipment	\$5,000	5 - 20

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**G. Deferred outflows and inflows of resources**

The statement of net position and balance sheet include separate sections 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 a revenue in future periods.

**H. Pensions**

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

**I. Compensated absences**

It is the District's policy to permit employees to accumulate earned but unused personal leave, compensatory and vacation. Upon termination such unused time will be paid according to the District's policies, which vary based on employee function and years of service. Compensated absences are accrued and reported as liabilities in the government-wide financial statements. Governmental funds report only the current portion of compensated absences payable as a result of employee termination, resignation or retirement.

**J. Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets and balance sheet.

**K. Fund equity**

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

***Nonspendable fund balance*** - amounts that cannot be spent because they are either (a) not spendable in form (such as prepaid items or inventory) or (b) legally or contractually required to be maintained intact.

***Restricted fund balance*** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

***Committed fund balance*** - amounts that can only be used for specific purposes determined by formal action of the District's decision making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

***Assigned fund balance*** - amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or an official designated for that purpose.

***Unassigned fund balance*** - the residual classification for the District's General Fund that includes amounts not contained in other classifications.

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**L. Intergovernmental grants and aid**

Monies received from other government agencies in the form of grants or aid based on an entitlement period are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

**M. Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual amounts may differ from such estimates.

**N. Budgetary accounting**

The District is required, under Arizona Revised Statutes, to adopt a budget each fiscal year and to submit it to the county treasurer and the county board of supervisors no later than the first day of August each year. The adopted budget is on the modified accrual basis of accounting, which is the legally mandated basis for budgetary purposes.

All annual appropriations lapse at fiscal year end. The District is subject to expenditure limitations under Arizona Revised Statutes. This law does not permit the District to incur unsecured debt in excess of its tax levy outstanding and to be collected plus available and unencumbered cash. The limitation is applied to the total of the combined funds.

**NOTE 2 - CASH AND INVESTMENTS**

Arizona Revised Statutes authorize special districts to invest public monies in the Arizona State Treasurer's local government investment pool, interest bearing savings accounts, certificates of deposit and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral. The District has no investment policy that would further limit its investment choices.

**District's Cash and Cash Equivalents Deposits**

As of June 30, 2018 the District had \$364,246 on deposit with the Gila County Treasurer's investment pool (GCTIP). The GCTIP is an external investment pool with no regulatory oversight. The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission. The Gila County Treasurer invests the cash in a pool under policy guidelines established by the County. The County accounts for the investment pool in their Fiduciary Investment Trust Fund. Credit risk, concentration of credit risk, and interest rate risk regarding the GCTIP is included in the Comprehensive Annual Financial Report of Gila County. The fair value of each participant's position in the GCTIP approximates the value of the participant's shares in the pool.

*Custodial Credit Risk - Deposits.* In the case of demand and time deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2018, the District's carrying amount of demand deposits was \$33,003 and the bank balance was \$33,393. The Federal Deposit Insurance Corporation protects the District against loss on the first \$250,000 of demand deposits and \$250,000 of time deposits located within the state. The remaining balance is covered by collateral held by the pledging financial institution's trust department in the District's name.

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 3 - RECEIVABLES**

Receivables as of June 30, 2018 for the District's general fund, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
Taxes	\$ 32,792
Intergovernmental	<u>287,352</u>
Gross receivables	320,144
Less: allowance for uncollectibles	<u>-</u>
Total receivables, net	<u>\$ 320,144</u>

**NOTE 4 - DEFERRED REVENUE**

Governmental funds report *deferred revenues* in connection with receivables for revenues that are not collected within 60 days as these revenues are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2018, deferred revenue consisted of the following:

General Fund	<u>Unavailable</u>
Deferred intergovernmental revenues	\$ 82,981
Deferred taxes	<u>28,476</u>
Total deferred revenues	<u>\$ 111,457</u>

**NOTE 5 - CAPITAL ASSETS**

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

Governmental Activities:	Beginning Balance	Additions	Deletions	Ending Balance
Land, not depreciated	\$ 203,777	\$ -	\$ (70,000)	\$ 133,777
Buildings and improvements	1,108,675	-	(126,483)	982,192
Vehicles and apparatus	1,586,906	-	-	1,586,906
Equipment	<u>143,436</u>	<u>-</u>	<u>-</u>	<u>143,436</u>
Total capital assets	<u>3,042,794</u>	<u>-</u>	<u>(196,483)</u>	<u>2,846,311</u>
Less accumulated depreciation	<u>(1,604,922)</u>	<u>(88,224)</u>	<u>30,303</u>	<u>(1,662,843)</u>
Total capital assets, net	<u>\$ 1,437,872</u>	<u>\$ (88,224)</u>	<u>\$ (166,180)</u>	<u>\$ 1,183,468</u>

Depreciation expense for the period was \$88,224; all depreciation was expensed to the public safety - fire protection function.



**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**NOTE 6 - LONG-TERM DEBT**

Long-term debt activity for the year ended June 30, 2018 was as follows:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 859,195	\$ -	\$ (89,242)	\$ 769,953	\$ 85,472
Compensated absences	47,024	3,436	-	50,460	-
PSPRS Pension Obligation	1,654,902	4,555	(198,744)	1,460,713	-
ASRS Pension Obligation	<u>114,601</u>	<u>133</u>	<u>(5,555)</u>	<u>109,179</u>	<u>-</u>
Total governmental liabilities	<u>\$ 2,675,722</u>	<u>\$ 8,124</u>	<u>\$ (293,541)</u>	<u>\$ 2,390,305</u>	<u>\$ 85,472</u>

**A. Capital leases**

Purchase Lease: The District granted leasehold interests in the underlying assets to the creditors (the Banks). The Banks, in turn, leased the property to the District under a long-term agreement. Under this agreement, the District is obligated to make lease payments to the Banks, subject to receiving Board appropriations, until the obligations to the Banks are satisfied. Once the obligations to the Banks are satisfied, all rights, title, and interest in the property are transferred to the District. However, if the Board appropriations are not received, the District is relieved of any subsequent obligation and the obligations are considered in default. If the default is not cured, the District has agreed that the Bank may terminate the leases, take possession of, and liquidate, the assets pledged under the agreement.

As of June 30, 2018, the assets capitalized and acquired through the capital lease are as follows:

	Governmental Activities
Apparatus and building	\$ 1,200,610
Less accumulated depreciation	<u>(282,013)</u>
Total	<u>\$ 918,597</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, are as follows:

Year ended June 30,	
2019	\$ 120,675
2020	120,675
2021	120,675
2022	54,768
2023	54,768
2024-2032	<u>492,912</u>
Total minimum lease payments	964,473
Less amount representing interest	<u>(194,520)</u>
Present value of future minimum payments	<u>\$ 769,953</u>

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**B. Compensated absences**

All full-time employees of the District are given paid time off based on the amount stated in policy determined by their years of service. Paid time off is accrued on a bi-weekly basis for full time employees and the maximum accrual can not exceed two times the employee's annual accrual rate. Additionally, part-time employees receive paid time off accrued on a pro-rated basis, calculated by dividing the average number of hours worked per week by forty. Any accrued paid time off hours will be paid at 50% upon termination of employment if the employee has completed six (6) months of employment and 75% upon meeting the requirements of the department pension plan when retiring.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

**A. Inter-governmental agreements and indemnifications**

The District is party to a variety of inter-governmental agreements entered into in the ordinary course of business pursuant to which it may be obligated to provide services outside of its geographic boundaries and/or receive assistance from other parties. As part of these agreements, the District is obligated to indemnify other parties for certain liabilities that arise out of, or relate to, the subject matter of the agreements.

**B. Risk management**

The District is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the District's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. The District has not incurred claims in excess of insurance coverage in any of the last three fiscal years. No provision has been made in the financial statements for possible losses of this nature.

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS**

The District contributes to multiple plans as described below. Benefits for non-public safety personnel and for public safety personnel are established by state statutes which regulate retirement, death, long-term disability, and survivor insurance premium benefits.

As of June 30, 2018, the District reported \$184,416 of pension and other postemployment benefits (OPEB) expenditures in the governmental funds for all plans to which it contributes.

**A. Arizona State Retirement System (ASRS)**

Plan Description: Eligible employees of the District not covered by the other pension plans described below participate in The *Arizona State Retirement System* (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long term disability (OPEB) plan. The Arizona State Retirement Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at [www.azasrs.gov](http://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:

**Hellsgate Fire District**  
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<b>Retirement and Disability</b>	<b>Initial Membership Date:</b>	
	<b>Before July 1, 2011</b>	<b>On or After July 1, 2011</b>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

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

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, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.5 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.5 percent (10.9 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the members' annual covered payroll.

The District's contributions to ASRS for the years ended June 30, 2018, 2017 and 2016 were \$8,158, \$7,810, and \$7,617, respectively, which were equal to the required contributions for the years then ended. During fiscal year 2018 100% of all contributions were paid from the General Fund.

**Hellsgate Fire District**  
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Pension Liability: As of June 30, 2018, the District reported a liability of \$109,179 for its proportionate share of the ASRS net pension/OPEB liability. The net pension/OPEB liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 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 pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017 and the changes from its proportions measured as of June 30, 2016 were:

ASRS	Proportion June 30, 2017	Increase (Decrease) from June 30, 2016
Pension	10.78%	-(0.07%)
Health insurance premium benefit	0.56%	0.06%
Long-term disability	0.14%	0.02%

The net assets 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 District's net asset and net liabilities as a result of these changes is not known.

Deferred outflows/inflows of resources: As of June 30, 2018, the district reported deferred outflows of resources and deferred inflows of resources related to ASRS from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between projected and actual earnings/experiences	\$ 783	\$ 3,270
Changes in assumptions	4,736	3,261
Changes in proportion and differences between contributions and proportionate share of contributions	-	2,056
District contributions subsequent to measurement date	<u>8,158</u>	<u>-</u>
Total	<u>\$ 13,677</u>	<u>\$ 8,587</u>

The \$8,518 reported as deferred outflows of resources relates to ASRS pensions resulting from the District's contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2019	\$ (5,810)
2020	(4,018)
2021	1,233
2022	(2,508)

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
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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	8.0%
Projected salary increases	3.0% - 6.75%
Inflation	3.0%
Permanent benefit increases	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012. The long-term expected rate of return on ASRS pension plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future and 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 Real Rate of Return</u>
Equity	58 %	6.73 %
Fixed income	25 %	3.70 %
Real estate	10 %	4.25 %
Multi-asset	5 %	3.41 %
Commodities	2 %	3.84 %
Total	<u>100 %</u>	

Discount Rate: The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that the 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 plans' 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.

Sensitivity of the District's Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability in the Discount Rate: The following table presents the District's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension/OPEB (asset) 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. Source: *ASRS schedule of pension amounts by employer*

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
The District's proportionate share of the net pension liability	\$ 139,963	\$ 109,659	\$ 83,213

**Hellsgate Fire District**  
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Pension Fiduciary Plan net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

**B. Public Safety Personnel Retirement System**

Plan Description: The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. 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. District public safety employees participate in the agent plans. County attorney investigators who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The reports are available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

Benefits Provided: The *Public Safety Personnel Retirement System* 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.

	<b>Initial Membership Date:</b>	
Retirement and Disability	Before January 1, 2012	On or after Jan. 1, 2012 and before July 1, 2017
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.
<b>Benefit percent</b>		
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 of 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	
<b>Survivor Benefit</b>		
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	

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
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Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. PSPRS also provides temporary disability benefits of fifty percent (50%) of the member's compensation up to twelve (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 pension plans' benefit terms:

Active employees	7
Retirees & Beneficiaries	2
DROP	1
Inactive/Vested	<u>0</u>
Total	10

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 and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2018 are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>Active Member Pension</u>	<u>District Pension</u>	<u>Health Insurance Premium Benefit</u>
Active members -pension	7.65%		
District:			
Pension	33.79%		0.28%
Tier 3 Risk Pool	9.94%	9.68%	0.26%

Also, statute required the District to contribute at the actuarially determined rate of 9.94 percent (9.68 percent for pension and .26 percent for health insurance premium benefit) of the annual covered payroll of employees who were PSPRS Tier 3 Risk Pool members, in addition to the District's required contributions to the PSPRS Tier 3 Risk Pool.

For this agent plan, 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, 2018 were:

**Pension**

Contributions made \$ 159,219

**Health Insurance Premium Benefit**

Annual OPEB cost Contributions made \$ 1,737

During the year ended June 30, 2018 the District paid all PSPRS pension and OPEB contributions from the General Fund.

Pension Liability: At June 30, 2018, the District had a net pension liability of \$1,456,158 and a net OPEB liability of \$4,555.

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
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asset or liability was determined by an actuarial valuation as of that date. 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 liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the County'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	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rates	Not applicable

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

The long-term expected rate of return on PSPRS pension plan investments was determined by 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. 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 equity	12 %	6.75%
Real estate	10 %	3.75%
Credit opportunities	16 %	5.83%
Non U.S. equity	14 %	8.70%
U.S. equity	<u>16 %</u>	7.60%
Total	<u>100 %</u>	



**Hellsgate Fire District**  
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**June 30, 2018**

Pension 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 percent from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the PSPRS discount rates 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 plans' 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.

The projection of cash flows used to determine the PSPRS discount rates 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 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:

	<b>Increase</b>	<b>(Decrease)</b>	
	<b>Total Pension</b>	<b>Plan Fiduciary</b>	<b>Net Pension</b>
	<b>Liability</b>	<b>Net Position</b>	<b>Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
Balances at June 30, 2016	\$ 3,287,956	\$ 1,710,079	\$ 1,577,877
Changes for the current year:			
Service cost	108,180	-	108,180
Interest on the total pension liability	247,166	-	247,166
Changes of benefit terms	15,733	-	15,733
Differences between expected and actual experience of the total pension liability	(170,574)	-	(170,574)
Changes of assumptions	97,060	-	97,060
Contributions - Employer	-	146,625	(146,625)
Contributions - Employee	-	68,151	(68,151)
Net investment income	-	206,714	(206,714)
Benefit payments, including refunds of employee contributions	(93,008)	(93,008)	-
Administrative expense and other changes	-	(2,206)	2,206
Net Changes	<u>204,557</u>	<u>326,276</u>	<u>(121,719)</u>
Balances at June 30, 2017	<u>\$ 3,492,513</u>	<u>\$ 2,036,355</u>	<u>\$ 1,456,158</u>

Sensitivity of the District's 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	Current	1% Increase
	(6.40%)	Discount Rate (7.40%)	(8.40%)
The District's net pension liability	\$ 1,987,588	\$ 1,456,158	\$ 1,027,806
The District's net OPEB liability (asset)	\$ 14,085	\$ 4,555	\$ (3,334)

Pension plan fiduciary net position: Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

**Hellsgate Fire District**  
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**June 30, 2018**

Deferred outflows/inflows of resources: For the year ended June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to PSPRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 433,893	\$ 150,577
Changes of assumptions or other inputs	210,272	-
Net difference between projected and actual earnings on pension plan investments	98,509	74,722
District contributions subsequent to measurement date	<u>159,219</u>	<u>-</u>
 Total	 <u>\$ 901,893</u>	 <u>\$ 225,299</u>

The \$159,219 reported as deferred outflows of resources relates to PSPRS pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2019	\$ 102,891
2020	118,432
2021	105,240
2022	75,520
2023	69,962
Thereafter	<u>45,330</u>
Total	<u><u>517,375</u></u>

**Agent plan OPEB actuarial assumptions** — The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for Tier 1 & 2 Level dollar closed for Tier 3
Remaining amortization period	18 years for underfunded, 20 years for overfunded for Tier 1 & 2. 10 years for Tier 3
Asset valuation method	7-year smoothed market; 80%/120% market for Tier 1 & 2. 5 year smoothed market; 80%/120% market for Tier 3
Actuarial assumptions:	
Investment rate of return	7.40% for tier 1 & 2. 7% for Tier 3.
Projected salary increases	3.50% - 7.50%
Payroll growth	3.50%
Permanent Benefit Increases	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

**Hellsgate Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
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Agent plan OPEB trend information: The table below present the annual OPEB costs information for health insurance premium benefit for the current and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual OPEB Required Contribution</u>	<u>Percent of Annual Cost Contributed</u>
2018	\$ 2,431	100 %
2017	2,291	100 %
2016	1,737	100 %

Agent plan OPEB funded status: The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2018, are as follows:

<u>Valuation date June 30,</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funding Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
2018	\$ 70,484	\$ 76,066	\$ 5,582	93 %	\$ 461,853	1 %
2017	67,748	69,931	2,183	97 %	455,110	- %
2016	63,165	51,284	(11,881)	123 %	573,718	- %

**C. Deferred Compensation Plan**

The District has established a defined contribution deferred compensation plan for all fulltime employees in order to provide for supplementary retirement benefits. Contributions to the plan are administered by a third-party, Nationwide Retirement Solutions. Employer contributions to the plan for the year ended June 30, 2018 totaled \$20,687. The District provides neither administrative services nor investment advice. Accordingly, no fiduciary relationship exists between the District and the compensation plan. As of June 30, 2018, a summary of the plan assets follows:

	<u>Firefighters' 457 (b) &amp; 401 (a) Deferred Compensation Plans</u>
<b>ASSETS</b>	
Cash	\$ 31,403
Participant Loan	42,576
Investments, fair value	<u>443,890</u>
 Total assets	 <u>\$ 517,869</u>
 <b>NET POSITION</b>	
Held for deferred compensation benefits	 <u>\$ 517,869</u>

**NOTE 9 – SUBSEQUENT EVENTS**

In preparing the financial statements, the District has evaluated events and transactions for potential disclosure through March 13, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2018 that would require disclosure.



**INDEPENDENT ACCOUNTANTS' REPORT  
ON COMPLIANCE WITH SPECIFIED REQUIREMENTS  
APPLICABLE TO ARIZONA FIRE DISTRICTS AS REQUIRED  
UNDER ARIZONA REVISED STATUTE TITLE 48 § 805.02(G)**

To the Governing Board of the  
Hellsgate Fire District  
Star Valley, Arizona

Arizona Revised Statute, Title 48 § 805.02 relates to the budgetary and financial requirements for fire districts. This statute concerns the specific compliance requirements regarding budget adoption, issuance of warrants, expenditure limitation, line of credit, and debt and liability limits. The governing board and management are responsible for the District's compliance with such requirements.

Our responsibility, under A.R.S. § 805.02(G), is to attest to the District's compliance based on our examination. Accordingly, we have examined management's assertions included in its representation letter dated March 13, 2019, Hellsgate Fire District (the District) complied with those requirements. The following is our opinion, based on the relevant attestation standards, as to the Districts' compliance.

**Opinion, Compliance and Other Matters**

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America, attestation standards established by the American Institute of Certified Public Accountants, and Arizona Revised Statute, Title 48 § 805.02(G)(1)-(3). Our examination of evidence relating to the compliance of the District with the statutory provisions, cited below, was based on the aforementioned standards and was conducted on a test basis. We have performed such actions, using such procedures as we considered necessary under the circumstances so that our examination provides a reasonable basis for our opinion. We hereby attest as follows:

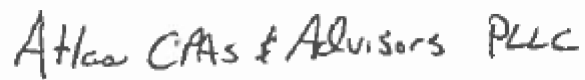
1. That, based on the information obtained during our engagement, and to extent that we have information relating to such matters, we are not aware of anything to indicate that the District has not incurred any debts or liability in excess of taxes levied and to be collected and that the monies were actually available and unencumbered at the time in the district general fund except for those liabilities as prescribed in A.R.S. § 48-805(B)(2), and A.R.S. §§ 48-806 & 48-807.
2. That, based on the information obtained during our engagement, and to extent that we have information relating to such matters, we are not aware of anything to indicate that the District has failed to comply with A.R.S. § 48-805.02(F).
3. And that, based on the information obtained during our engagement, and to extent that we have information relating to such matters, that there is no information to contradict the certification made by the Chairman and Clerk, under A.R.S. § 48-805.02(D)(1).

Our opinion is not based on a thorough or exhaustive investigation, and to the extent that we may have formed an opinion on these matters, our opinion does not constitute a legal determination of the District's compliance with the specified requirements.

Our opinion is based only on the evidence that was obtained during the course of our audit engagement; and, in our opinion, Hellsgate Fire District has complied, in all material aspects, with the aforementioned requirements for the year ended June 30, 2018.

**Purpose of this Report**

This report is intended solely for the information of and use of management, the Governing Board, Gila County and the State of Arizona, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Atlea CPAs & Advisors PLLC". The signature is written in a cursive, slightly slanted style.

Phoenix, Arizona  
March 13, 2019

**Hellsgate Fire District**

**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***

**June 30, 2018**

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FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board of  
Hellsgate Fire District  
Star Valley, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities and each major fund of the Hellsgate Fire District (the District) as of, and for the year ended, June 30, 2018, and the related notes, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2019.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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 and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.



## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Hellsgate Fire District's financial statements are free of 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

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Atlea CPAs & Advisors PLLC

Phoenix, Arizona  
March 13, 2019

**Hellsgate Fire District**

**INDEPENDENT AUDITORS' COMMUNICATION TO  
THOSE CHARGED WITH GOVERNANCE**

**June 30, 2018**

**Hellsgate Fire District  
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## INDEPENDENT AUDITORS' COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

To the Governing Board of  
Hellsgate Fire District  
Star Valley, Arizona

We have audited the basic financial statements of Hellsgate Fire District (the District) as of and for the year ended June 30, 2018, and have issued our report thereon dated March 13, 2019. Professional standards require that we advise you of the following matters relating to our audit.

### OUR RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS

As communicated in our engagement letter dated June 6, 2018 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with the reporting requirements as prescribed by the State of Arizona, and when applicable, *Government Auditing Standards*. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you. Any communication of significant matters is included in the report described in the following paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019 on our consideration of the District's internal control over financial reporting and on our tests of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. We have provided our comments regarding significant control deficiencies, and material weaknesses, if applicable, and other matters noted during our audit in a separate letter to you dated March 13, 2019.

## **OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, as we are not aware of any other documents containing the District's audited financial statements, we have not performed any additional procedures in accordance with such standards.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

## **PLANNED SCOPE AND TIMING OF THE AUDIT**

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our engagement letter.

## **QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no changes in significant accounting policies or their application, except as disclosed in Note 1, during the year ended June 30, 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- Capital Assets – The District's investment in capital assets is not just material to the financial statements, but is key to demonstrating the District's commitment to provide quality services to the community.
- Management's estimate of depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- Pension and OPEB Liability (and related inflow/outflow accounts), represent a long-term commitment. Such long-term commitments have a ongoing impact to the District's budget, planned cash flows and ability to incur additional debt. The net pension liabilities were measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability for the plan was determined by an actuarial valuation as of that date. We evaluated the key factors and assumptions used to develop these pension estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- Capital Leases (Long Term Debt) – Such long-term commitments have a ongoing impact to the District's budget, planned cash flows and ability to incur additional debt.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to:

- Cash and Investments,
- Capital Assets
- Capital Leases and
- Post Employment Retirement Plans

### *Significant Difficulties Encountered during the Audit*

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. However, we did not identify any uncorrected misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule of misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by management; schedule CJE 2018 is for adjusting journal entries and schedule GW 2018 is for government-wide journal entries (prepared by us, and approved by management, as part of converting the financial statements from the modified accrual basis to the full accrual government-wide presentation).

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which were included in the letter from management on or before March 13, 2019.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing, accounting and financial reporting matters. Based on management's representations, and consistent with our understanding of the District's activities, there were no consultations with other accountants regarding auditing, accounting and financial reporting matters.

### **Other Significant Findings or Issues**

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the District, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

### **Restriction on Use**

This report is intended solely for the information and use of the Governing Board, Management, Gila County and the State of Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

*Atlea CPAs & Advisors PLLC*

Phoenix, Arizona  
March 13, 2019

Hellsgate Fire District: Government Type Activities

CJE 2018

Year End: June 30, 2018

Adjusting Journal Entries

Date: 7/1/2017 To 6/30/2018

Prepared KG 3/12/2019	1st Review	2nd Review
Non-Tech	Client Init	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
CJE 001	6/30/2018	Property Tax Receivable	1200 GF	4720A		38,481.00			
CJE 001	6/30/2018	Grant & Wildland Receivable	1300 GF	4720A		436,106.00			
CJE 001	6/30/2018	Accounts Payable	2000 GF	4720A			44,910.00		
CJE 001	6/30/2018	Payroll Liabilities	2100 GF	4720A		35,089.00			
CJE 001	6/30/2018	Wages Payable	2101 GF	4720A			52,415.00		
CJE 001	6/30/2018	Payroll Liabilities National Benefits	2115 GF	4720A		125,906.00			
CJE 001	6/30/2018	Payroll Liabilities Nationwide	2116 GF	4720A		26,544.00			
CJE 001	6/30/2018	Deferred Revenue	2210 GF	4720A			433,242.00		
CJE 001	6/30/2018	Retained Earnings	3001 GF	4720A			130,065.00		
CJE 001	6/30/2018	Other Income, Non Tax	4300 GF	4720A			1,494.00		
		To adjust beginning GF balance							
CJE 002	6/30/2018	Property Tax Receivable	1200 GF	3020			5,689.00		
CJE 002	6/30/2018	Deferred Revenue	2210 GF	3020		4,852.00			
CJE 002	6/30/2018	Property Taxes Previous Levy	4021 GF	3020		837.00			
		To true up AR and deferral for property taxes							
CJE 003	6/30/2018	Grant & Wildland Receivable	1300 GF	3040			231,735.00		
CJE 003	6/30/2018	Deferred Revenue	2210 GF	3040		316,933.00			
CJE 003	6/30/2018	Enterprise Account, Non Tax:Wildland Division f	4250 GF	3040			85,198.00		
		To adjust wildland AR and deferred revenue							
CJE 004	6/30/2018	Grant & Wildland Receivable	1300 GF	3050		82,981.00			
CJE 004	6/30/2018	Grants & Other Income, Non Tax:SAFER Grant	4503 GF	3050			82,981.00		
		To record payment of SAFER grant received in August 2018							
CJE 005	6/30/2018	Accounts Payable	2000 GF	3130		11,984.00			
CJE 005	6/30/2018	Emergency Services (PY AP Expense)	5999 GF	3130			11,984.00		
		To Adjust AP to CY Schedule							
CJE 006	6/30/2018	Other Income, Non Tax	4300 GF	4050			22,177.00		
CJE 006	6/30/2018	Proceeds from Long-term debt	4999 GF	4050		22,177.00			
		Reclassify long-term debt proceeds already recorded in liability							
CJE 007	6/30/2018	Zion Apparatus Lease Purchase	8001 GF	4050			6,965.00		
CJE 007	6/30/2018	Zion Building Lease Purchase	8002 GF	4050			24,467.00		
CJE 007	6/30/2018	Interest Expense	8009 GF	4050		6,965.00			
CJE 007	6/30/2018	Interest Expense	8009 GF	4050		24,467.00			
		To true up principle and interest on lease payments							
CJE 008	6/30/2018	Line of Credit Transfer In	4100 GF				480.00		
CJE 008	6/30/2018	Interest Expense	8009 GF			480.00			
		Reclass LOC interest paid							
CJE 009	6/30/2018	Station Repairs & Upkeep Cost:Repair Station 2	6710 GF			350.00			
CJE 009	6/30/2018	Capital Expenditures	8003 GF				350.00		
		Reclass capital outlay item under threshold							
CJE 010	6/30/2018	Payroll Liabilities	2100 GF	4130		3,592.00			
CJE 010	6/30/2018	Payroll Liabilities	2100 GF	4130		26,544.00			
CJE 010	6/30/2018	Wages Payable	2101 GF	4130			18,202.00		
CJE 010	6/30/2018	Payroll Liabilities Nationwide	2116 GF	4130		46,191.00			
CJE 010	6/30/2018	Payroll Expenses:Employee Benefits	5200 GF	4130			55,059.00		



Hellsgate Fire District: Government Type Activities

CJE 2018-1

Year End: June 30, 2018

Adjusting Journal Entries

Date: 7/1/2017 To 6/30/2018

Prepared KG 3/12/2019	1st Review	2nd Review
Non-Tech	Client Init	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
CJE 010	6/30/2018	Retirement Benefits Nationwide	5210 GF	4130			42,543.00		
CJE 010	6/30/2018	Retirement Benefits - PSPRS	5216 GF	4130		3,073.00			
		To adjust payroll accrual and retirement accts							
CJE 011	6/30/2018	Grants & Other Income, Non Tax:Sale of Surplus	4500 GF			9,449.00			
CJE 011	6/30/2018	Grants & Other Income, Non Tax Sale of Goods	4501 GF				9,449.00		
		To reclass sale of non-capital items							
						1,241,203.00	1,241,203.00		
			<b>Net Income (Loss)</b>				<b>(87,583.00)</b>		

**Hellsgate Fire District: Government Type Activities**

**GWE 2018**

Year End: June 30, 2018

Government-wide entries

Date: 7/1/2017 To 6/30/2018

Prepared KG 3/12/2019	1st Review	2nd Review
Non-Tech	Client Init	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
GW-001	6/30/2018	Land	GW-1710 GW				70,000.00		
GW-001	6/30/2018	Buildings	GW-1720 GW				126,483.00		
GW-001	6/30/2018	Accum depreciation	GW-1729 GW			30,303.00			
GW-001	6/30/2018	Loss on disposal of asset	GW-8060 GW			166,180.00			
Sold old fire station #22 and land									
GW-002	6/30/2018	Capital leases - more than 1 year	GW-2722 GW	4050		89,242.00			
GW-002	6/30/2018	Principal	GW-7011 GW	4050			89,242.00		
To record principle payments on capital leases									
GW-003	6/30/2018	Capital leases - within 1 year	GW-2711 GW	4050			85,472.00		
GW-003	6/30/2018	Capital leases - more than 1 year	GW-2722 GW	4050		85,472.00			
Record current portion of long-term debt									
GW-004	6/30/2018	Accum depreciation	GW-1729 GW	3520			88,224.00		
GW-004	6/30/2018	Depreciation	GW-8050 GW	3520		88,224.00			
To record current year depreciation									
GW-005	6/30/2018	Deferred revenue	GW-2310 GW	3020			321,785.00		
GW-005	6/30/2018	GW Property taxes	GW-4110 GW	3020		4,852.00			
GW-005	6/30/2018	GW Wild land revenue	GW-4210 GW	3020		316,933.00			
To eliminate change in deferred revenue									
GW-006	6/30/2018	Compensated absences - more than 1 year	GW-2720 GW	4170			3,436.00		
GW-006	6/30/2018	Emergency services	GW-5300 GW	4170		3,436.00			
To adjust L/T compensated absences									
GW-007	6/30/2018	Deferred outflows of resources related to pens	GW-1800 GW	4163			22,822.00		
GW-007	6/30/2018	Deferred outflows of resources related to pens	GW-1800 GW	4163		167,377.00			
GW-007	6/30/2018	Deferred inflows of resources related to pensio	GW-2500 GW	4163			182,941.00		
GW-007	6/30/2018	Public Safety Retirement Net Pension Obligator	GW-2520 GW	4163		198,744.00			
GW-007	6/30/2018	Arizona State Retirement Net Pension Obligator	GW-2540 GW	4163		5,555.00			
GW-007	6/30/2018	Emergency services	GW-5300 GW	4163			165,913.00		
To true up pension liabilities and related deferrals									
GW-008	6/30/2018	Deferred outflows of resources related to pens	GW-1800 GW	4163			149,366.00		
GW-008	6/30/2018	Emergency services	GW-5300 GW	4163		149,366.00			
To reverse PY pension payments									
GW-009	6/30/2018	Deferred outflows of resources related to pens	GW-1800 GW	4162		1,197.00			
GW-009	6/30/2018	Deferred inflows of resources related to pensio	GW-2500 GW	4162			3,265.00		
GW-009	6/30/2018	Public Safety Retirement Net Pension Obligator	GW-2520 GW	4162			4,555.00		
GW-009	6/30/2018	Arizona State Retirement Net Pension Obligator	GW-2540 GW	4162			133.00		
GW-009	6/30/2018	Emergency services	GW-5300 GW	4162		6,756.00			
To record OPEB Asset and related deferrals									
						<b>1,313,637.00</b>	<b>1,313,637.00</b>		
<b>Net Income (Loss)</b>			<b>(87,583.00)</b>						