



**Hellsgate Fire District
Financial Statements
June 30, 2020**

**Hellsgate Fire District
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June 30, 2020**

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Northwest Phoenix
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Phoenix, AZ 85053

It's about time.

INDEPENDENT AUDITOR'S 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, 2020, 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, 2020, 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.

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 February 10, 2021 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.

ATLAS CPAs & Advisors PLLC

Phoenix, Arizona
February 10, 2021



BASIC FINANCIAL STATEMENTS

Hellsgate Fire District
STATEMENT OF NET POSITION
June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 505,231
Due from other governments	157,085
Taxes receivable	30,049
Capital assets:	
Non-depreciable, land	133,777
Depreciable, net	<u>900,542</u>
Total assets	<u>1,726,684</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>729,271</u>
LIABILITIES	
Accounts payable	16,848
Accrued payroll and related liabilities	25,684
Long-term liabilities:	
Due within one year	93,784
Due in more than one year	<u>2,234,080</u>
Total liabilities	<u>2,370,396</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	193,731
NET POSITION	
Invested in capital assets, net of related debt	48,950
Unrestricted	<u>(157,122)</u>
Total net position	<u>\$ (108,172)</u>

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

**Hellsgate Fire District
STATEMENT OF ACTIVITIES
Year ended June 30, 2020**

	<u>Governmental Activities</u>
EXPENSES	
Public safety, fire protection:	
Emergency services	\$ 1,400,810
Administrative and support services	27,776
Depreciation	74,113
Interest on long-term debt	<u>25,205</u>
Total program expenses	<u>1,527,904</u>
PROGRAM REVENUES	
Charges for services	332,738
Operating grants and contributions	<u>103,089</u>
Total program revenues	<u>435,827</u>
Net program expenses	<u>1,092,077</u>
GENERAL REVENUES	
Property taxes	848,617
Centrally assessed taxes	75,756
Investment earnings	<u>10,582</u>
Total general revenues	<u>934,955</u>
Decrease in net assets	(157,122)
Net position – beginning	<u>48,950</u>
Net position – ending	<u><u>\$ (108,172)</u></u>

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

**Hellsgate Fire District
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2020**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 505,231
Due from other governments	157,085
Taxes receivable	<u>30,049</u>
Total assets	<u><u>692,365</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts payable	16,848
Accrued payroll and related liabilities	<u>25,684</u>
Total liabilities	<u>42,532</u>
Deferred inflows of resources:	
Deferred revenue	<u>22,567</u>
Total deferred inflows of resources	<u>22,567</u>
Fund balance:	
Committed for capital projects	300,950
Unassigned	<u>326,316</u>
Total fund balance	<u>627,266</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 692,365</u></u>

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

Hellsgate Fire District
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2020

Fund balance - total governmental fund		\$ 627,266
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 fund balance sheet.		1,034,319
Receivables which are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund balance sheet.		22,567
Deferred outflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental fund balance sheet.		729,271
Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental fund balance sheet.		(193,731)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental fund balance sheet, specifically:		
Capital leases payable	(598,362)	
Compensated absences	(57,510)	
Pension liabilities	<u>(1,671,992)</u>	
		<u>(2,327,864)</u>
Net position of governmental activities		<u>\$ (108,172)</u>

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

Hellsgate Fire District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN
FUND BALANCE - GOVERNMENTAL FUND
Year Ended June 30, 2020

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 850,783
Fire district assistance taxes	75,756
Intergovernmental	49,089
Charges for services	332,507
Contributions	506
Interest income	10,582
Other revenue	<u>53,725</u>
Total revenues	<u>1,372,948</u>
EXPENDITURES	
Current:	
Public safety, fire protection:	
Emergency services	1,246,092
Administrative and support services	27,776
Debt service:	
Principal	84,590
Interest on long-term debt	<u>25,205</u>
Total expenditures	<u>1,383,663</u>
Excess of expenditures over revenues	<u>(10,715)</u>
Net change in fund balance	(10,715)
Fund balance – beginning	<u>637,981</u>
Fund balance – ending	<u><u>\$ 627,266</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 CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

Net change in fund balance - total governmental fund	\$ (10,715)
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.	(74,113)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund. 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 fund.	(2,166)
Repayment of the principal of long-term debt is reported as an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	84,590
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 fund, specifically:	
Pension expenses	<u>(154,718)</u>
Change in net position of governmental activities	<u>\$ (157,122)</u>

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

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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:

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.

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.

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, 2020

The District reports the following major governmental fund:

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.

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.

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.

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, 2020

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.

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.

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.

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.

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, 2020

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.

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.

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, 2020 the District had \$498,686 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, 2020, the District's carrying amount of demand deposits was \$6,545 and the bank balance was \$22,456. 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, 2020

NOTE 3 - RECEIVABLES

Receivables as of June 30, 2020 for the District's general fund, including the applicable allowances for uncollectible accounts, which as of June 30, 2020 are \$0, are as follows:

	General Fund
Taxes	\$ 30,049
Intergovernmental	<u>157,085</u>
Total receivables	<u>\$ 187,134</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, 2020, deferred revenue consisted of the following:

General Fund	Unavailable
Deferred property taxes	\$ <u>24,733</u>
Total deferred revenues	<u>\$ 24,733</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Land, not depreciated	\$ 133,777	\$ -	\$ -	\$ 133,777
Buildings and improvements	982,192	-	-	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>2,846,311</u>	<u>-</u>	<u>-</u>	<u>2,846,311</u>
Less accumulated depreciation	<u>(1,737,879)</u>	<u>(74,113)</u>	<u>-</u>	<u>(1,811,992)</u>
Total capital assets	<u>\$ 1,108,432</u>	<u>\$ (74,113)</u>	<u>\$ -</u>	<u>\$ 1,034,319</u>

Depreciation expense for the period was \$74,113; all depreciation was expensed to the public safety - fire protection function.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 6 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2020 was as follows:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 682,952	\$ -	\$ (84,590)	\$ 598,362	\$ 93,784
Compensated absences	57,510	-	-	57,510	-
PSPRS Pension Obligation	1,484,785	85,079	-	1,569,864	-
ASRS Pension Obligation	<u>101,858</u>	<u>270</u>	<u>-</u>	<u>102,128</u>	<u>-</u>
Total governmental liabilities	<u>\$ 2,327,105</u>	<u>\$ 85,349</u>	<u>\$ (84,590)</u>	<u>\$ 2,327,864</u>	<u>\$ 93,784</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, 2020, the assets capitalized and acquired through the capital lease are as follows:

	Governmental Activities
Apparatus and building	\$ 1,200,610
Less accumulated depreciation	<u>(357,049)</u>
Total	<u>\$ 843,561</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020, are as follows:

<u>Year ended June 30,</u>	
2020	\$ 120,675
2021	120,675
2022	54,768
2023	54,768
2024	54,768
2025-2032	<u>438,144</u>
Total minimum lease payments	843,798
Less amount representing interest	<u>(160,846)</u>
Present value of future minimum payments	<u>\$ 598,362</u>

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020, the District reported \$189,140 of pension and other postemployment benefits (OPEB) expenditures in the governmental funds for all plans to which it contributes.

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.

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
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment 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, 2020, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 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 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the members' annual covered payroll.

The District's contributions to ASRS for the years ended June 30, 2020, 2019 and 2018 were \$8,986, \$8,632, and \$8,158, respectively, which were equal to the required contributions for the years then ended. During fiscal year 2020 100% of all contributions were paid from the General Fund.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Pension Liability: As of June 30, 2020, the District reported a liability of \$102,128 for its proportionate share of the ASRS net pension/OPEB liability. The net pension/OPEB liability was measured as of June 30, 2019. 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, 2018, to the measurement date of June 30, 2019. 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, 2019 was:

<u>ASRS</u>	<u>Proportion June 30, 2019</u>
Pension	0.00070%
Health insurance premium benefit	0.00072%
Long-term disability	0.00072%

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, 2020, the district reported deferred outflows of resources and deferred inflows of resources related to ASRS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings/experiences	\$ 1,895	\$ 257
Changes in assumptions	892	4,056
Difference between projected and actual investment earnings	-	2,558
Changes in proportion and differences between contributions and proportionate share of contributions	37,480	962
District contributions subsequent to measurement date	<u>8,986</u>	<u>-</u>
Total	<u>\$ 49,253</u>	<u>\$ 7,833</u>

The \$8,986 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2021	\$ 35,135
2022	(3,197)
2023	(349)
2024	725
2025	50
Thereafter	<u>70</u>
Total	<u>32,434</u>

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Asset valuation	Fair value
Discount rate	7.5%
Projected salary increases	2.7% - 7.2%
Inflation	2.3%
Permanent benefit increases	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions related to funding were selected on the basis of an experience study which was performed for the 5-year period ended June 30, 2016. The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future and real rates of return by the target asset allocation percentage. The ASRS' estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	Target Asset Allocation Effective July 1, 2018	Real Return Geometric Basis	Long-Term Contribution to Expected Real Rate of Return
Equity	50 %	6.09 %	3.05 %
Credit	20 %	5.36 %	1.07 %
Interest rate sensitive bonds	10 %	1.62 %	0.16 %
Real estate	<u>20 %</u>	5.85 %	1.17 %
Total	<u>100 %</u>		

Discount Rate: The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that 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 Retirement Fund's fiduciary net position was projected to be available to make all the projected future benefit payments of current members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate as of June 30, 2020.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
The District's proportionate share of the net pension liability	\$ 146,495	\$ 102,128	\$ 65,023

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

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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.

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.

	Initial Membership Date:	
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 of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years.
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5 % per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months, then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with 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	
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	

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020, the following employees were covered by the agent pension plans' benefit terms:

Active employees	7
Retirees & Beneficiaries	2
DROP	<u>1</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, 2020 are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active Member Pension	District Pension	Health Insurance Premium Benefit
Active members -pension	7.65% - 11.65%		
District:			
Pension	7.65% - 11.65%	37.69%	0.78%
Tier 3 Risk Pool	9.94%	9.94%	0.14%

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, 2020 were:

Pension

Contributions made	\$ 166,670
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Health Insurance Premium Benefit

Annual OPEB cost Contributions made	\$ 13,130
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During the year ended June 30, 2020 the District paid all PSPRS pension and OPEB contributions from the General Fund.

Pension Liability: At June 30, 2020, the District had a net pension/OPEB liability of \$1,569,864.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

The net assets and net liabilities were measured as of June 30, 2019, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Asset valuation method	Fair Value of Assets
Payroll growth	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Salary increases	3.5% to 7.5% including inflation
Investment rate of return	7.4%, net of investment and administrative expenses
Retirement age	Experienced-based table of rates that is specific to the type of eligible condition. Last updated for the 2017 valuation pursuant to an experience study the period July 1, 2011 - June 30, 2016.
Mortality	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019, 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 using a building-block method in which expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. These real rates of return recombined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short term investments	2 %	0.25%
Risk parity	4 %	4.01%
Fixed income	5 %	3.00%
Real assets	9 %	6.75%
GTS	12 %	4.01%
Private equity	12 %	8.40%
Real estate	10 %	4.50%
Private credit	16 %	5.36%
Non U.S. equity	14 %	5.00%
U.S. equity	<u>16 %</u>	4.75%
Total	<u>100 %</u>	

Single Discount Rate: A Single Discount Rate of 7.3% was used to measure the pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.4%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rate. Based on those assumptions, the plan's fiduciary net

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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/OPEB Liability:

	Increase Total Pension Liability	(Decrease) Plan Fiduciary Net Position	Net Pension/OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2019	\$ 3,650,202	\$ 2,169,343	\$ 1,480,859
Changes for the current year:			
Service cost	88,971	-	88,971
Interest on the total pension liability	273,189	-	273,189
Changes in OPEB	11,334	3,388	7,946
Differences between expected and actual experience of the total pension liability	(32,463)	-	(32,463)
Changes of assumptions	64,670	-	64,670
Contributions - Employer	-	181,351	(181,351)
Contributions - Employee	-	22,788	(22,788)
Net investment income	-	120,910	(120,910)
Benefit payments, including refunds of employee contributions	(94,868)	(94,868)	-
Administrative expense and other changes	-	(4,343)	4,343
Net Changes	310,833	229,226	81,607
Adjustment to beginning of year	-	(7,398)	7,398
Balances at June 30, 2020	<u>\$ 3,961,035</u>	<u>\$ 2,391,171</u>	<u>\$ 1,569,864</u>

Sensitivity of the District's Net pension liability to the Single Discount Rate Assumption: The following table presents the District's net pension liability calculated using the single discount rate of 7.3%, as well as what the District's net pension liability would be if it were calculated using a single discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease (6.30%)	Current Single Discount Rate Assumption (7.30%)	1% Increase (8.30%)
The District's net pension liability	\$ 2,170,371	\$ 1,569,864	\$ 1,086,411

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
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Deferred outflows/inflows of resources: For the year ended June 30, 2020 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	\$ 284,695	\$ 184,313
Changes of assumptions or other inputs	200,347	1,585
Net difference between projected and actual earnings on pension plan investments	36,039	-
District contributions subsequent to measurement date	166,670	-
 Total	 \$ 687,751	 \$ 185,898

The \$166,670 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2021	\$ 112,914
2022	83,196
2023	78,139
2024	44,764
2025	10,272
Thereafter	5,898
Total	335,183

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Pension funding status: The information for the analysis of funding progress was obtained from the three most recent actuarial valuations.

Valuation date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (Excess)	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
2020	\$ 2,394,521	\$ 3,949,701	\$ 1,555,180	61 %	\$ 441,795	352 %
2019	2,169,343	3,650,202	1,480,859	59 %	461,853	321 %
2018	2,036,355	3,492,513	1,456,158	58 %	455,110	320 %

Agent plan OPEB funded status: The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2020, are as follows:

Valuation date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (AL)	Funded Ratio	Annual Covered Payroll	AL as % of Covered Payroll
2020	\$ 72,716	\$ 87,400	\$ 14,684	83 %	\$ 441,795	3 %
2019	68,668	76,066	7,398	90 %	461,853	2 %
2018	65,376	69,931	4,555	93 %	455,110	1 %

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, 2020 totaled \$13,130. The District provides neither administrative services nor investment advice. Accordingly, no fiduciary relationship exists between the District and the compensation plan.

NOTE 9 – SUBSEQUENT EVENTS

In preparing the financial statements, the District has evaluated events and transactions for potential disclosure from July 1, 2020 through February 10, 2021; the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2020 that would require disclosure except as noted below.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. The District may be adversely affected through governmental and business closures resulting in a reduction of labor demand. The District continues to monitor the situation surrounding COVID-19. Management will continue to evaluate the impact it will have on future operations.

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, 2020

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Northwest Phoenix
16841 N 31st Ave, Suite 102
Phoenix, AZ 85053

It's about time.

**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 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, 2020, and the related notes, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2021.

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.

ATLAS CPAs & Advisors PLLC

Phoenix, Arizona
February 10, 2021

Hellsgate Fire District

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

June 30, 2020

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Northwest Phoenix
16841 N 31st Ave, Suite 102
Phoenix, AZ 85053

It's about time.

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, 2020, and have issued our report thereon dated February 10, 2021. 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 1, 2020, 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 February 10, 2021 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 February 10, 2021.

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, 2020. 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, 2019, 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 2020 is for adjusting journal entries and schedule GW 2020 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 February 10, 2021.

Management's Consultations with Other Accountants

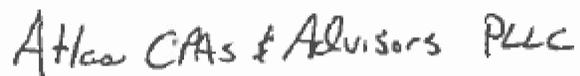
In some cases, management may decide to consult with other accountants about auditing, accounting and financial reporting matters. Based on management's representations, and consistent with our understanding of the District's activities, there were no consultations with other accountants regarding auditing,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

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

Phoenix, Arizona
February 10, 2021

Hellsgate Fire District
Year End: June 30, 2020
Adjusting Journal Entries
Date: 7/1/2019 To 6/30/2020

Number	Date	Name	Account No	Debit	Credit
1	6/30/2020	Property Tax Receivable	1200 GF	29,027.00	
1	6/30/2020	Grant & Wildland Receivable	1300 GF	13,903.00	
1	6/30/2020	Accounts Payable	2000 GF		7,346.00
1	6/30/2020	Wages Payable	2101 GF		34,735.00
1	6/30/2020	Deferred Revenue	2210 GF		24,733.00
1	6/30/2020	Opening Balance Equity	3000 GF	721,735.00	
1	6/30/2020	Retained Earnings	3001 GF		721,735.00
1	6/30/2020	Retained Earnings	3001 GF	23,884.00	
1	6/30/2020	Retained Earnings	3001 GF	6,145.00	
1	6/30/2020	Retained Earnings	3001 GF	53,725.00	
1	6/30/2020	Unrestricted Net Assets	3004 GF		6,145.00
1	6/30/2020	Other Income, Non Tax	4300 GF		53,725.00
To tie out beginning fund balance in the General Fund.					
2	6/30/2020	Accounts Payable	2000 GF	7,346.00	
2	6/30/2020	Emergency Services (PY AP Expense)	5999 GF		7,346.00
Reversal of prior year AP balance we put on to tie out beginning net assets.					
3	6/30/2020	Property Tax Receivable	1200 GF	1,022.00	
3	6/30/2020	Deferred Revenue	2210 GF	2,166.00	
3	6/30/2020	TAXES:Property Taxation:Current Levy	4023 GF		3,188.00
To record changes in property tax receivable and deferral in current year.					

4	6/30/2020	Wages Payable	2101 GF	12,919.00	
4	6/30/2020	Payroll Expenses	5000 GF		12,919.00

Entry to record accrued payroll

5	6/30/2020	Accounts Payable	2000 GF		16,848.00
5	6/30/2020	Emergency Services (PY AP Expense)	5999 GF	16,848.00	

To record A/P per Doc 3130
Subsequent Disbursements

6	6/30/2020	Interest Expense	8009 GF	3,794.00	
6	6/30/2020	Interest Expense	8009 GF	21,411.00	
6	6/30/2020	EXPENDITURES:CAPITAL:Land/Buildings:Station 22	8010 GF		21,411.00
6	6/30/2020	EXPENDITURES:CAPITAL:Vehicles:12 Spartan & 08 F550	8011 GF		3,794.00

To true up principle and interest
on lease payments

7	6/30/2020	Grant & Wildland Receivable	1300 GF		13,903.00
7	6/30/2020	ENTERPRISE ACCOUNT, Non Tax:Wildland Division Fund	4250 GF	13,903.00	

To reverse prior year wildland
receivable amounts.

8	6/30/2020	Grant & Wildland Receivable	1300 GF	157,085.00	
8	6/30/2020	ENTERPRISE ACCOUNT, Non Tax:Wildland Division Fund	4250 GF		157,085.00

To record current year
receivable/deferred revenue for wildland amounts.

Hellsgate Fire District
Year End: June 30, 2020
Government-wide entries
Date: 7/1/2019 To 6/30/2020

Number	Date	Name	Account No	Debit	Credit
1	6/30/2020	Accum depreciation	GW-1729 GW		74,113.00
1	6/30/2020	Depreciation	GW-8050 GW	74,113.00	
		To record depreciation			
2	6/30/2020	Deferred revenue	GW-2310 GW		2,166.00
2	6/30/2020	GW Property taxes	GW-4110 GW	2,166.00	
		To eliminate change in deferred revenue			
3	6/30/2020	Deferred outflows of resources related to pension	GW-1800 GW		199,149.00
3	6/30/2020	Emergency services	GW-5300 GW	199,149.00	
		To reverse prior year pension payments			
4	6/30/2020	Deferred outflows of resources related to pension	GW-1800 GW	175,656.00	
4	6/30/2020	Deferred outflows of resources related to pension	GW-1800 GW		89,229.00
4	6/30/2020	Deferred inflows of resources related to pensions	GW-2500 GW	43,353.00	
4	6/30/2020	Public Safety Retirement Net Pension Obligation	GW-2520 GW		85,079.00
4	6/30/2020	Arizona State Retirement Net Pension Obligation	GW-2540 GW		270.00
4	6/30/2020	Emergency services	GW-5300 GW		44,431.00
		To true up pension liabilities and related deferrals.			
5	6/30/2020	Capital leases - more than 1 year	GW-2722 GW	84,590.00	
5	6/30/2020	Principal	GW-7011 GW		84,590.00
		To record principle payments on capital leases			
6	6/30/2020	Capital leases - within 1 year	GW-2711 GW	14,245.00	
6	6/30/2020	Capital leases - more than 1 year	GW-2722 GW		14,245.00
		To adjust current portion of long term debt			