



**Forest Lakes Fire District
Financial Statements
June 30, 2018**

**Forest Lakes Fire District
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INDEPENDENT AUDITORS' REPORT

To the Governing Board of the
Forest Lakes Fire District
Forest Lakes, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Forest Lakes 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. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 the major fund of the Forest Lakes Fire District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 9 and the Budgetary Comparison Schedules on pages 28 through 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018 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 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* in considering the District's internal control over financial reporting and compliance.

Atlan CAs & Advisors PLLC

Phoenix, Arizona
February 7, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

(Required Supplementary Information)

Forest Lakes Fire District
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018

As management of the Forest Lakes Fire District (the District), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. This discussion and analysis is designed to focus on the significant financial issues and activities of the District as well as to identify any significant changes in the District's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which follow this narrative. The discussion and analysis that follows will reflect the most recent fiscal year with both current year events and comparisons to the preceding fiscal year.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$1,986,611 (net position). Of this amount, \$311,066 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens, creditors and further the purpose of the District. The remaining balance of \$1,675,545 is invested in capital assets, net of related debt.
- The District's total net position increased by \$70,470.
- As of the close of the current fiscal year, the District's governmental funds reported total ending fund balances of \$288,504, an increase of \$347,436 from the prior year. Of this amount, \$327 or -%, is committed to capital projects and \$448,934 or 71% is available for spending at the government's discretion (unassigned fund balance).
- The District –
 - i) Has one fire station staffed with part-time employees and reserve firefighter/EMT/paramedics and other personnel whom are on-call paid personnel or are volunteers;
 - ii) Received a total of \$21,434 in state and federal grant monies and generated \$181,993 in charges for services.
 - iii) Maintains, and follows, a consistent program to upgrade equipment and facilities.
- During the year the Capital Projects Fund was maintained to set aside financial reserves for significant capital purchases, which includes the building of a new fire station. \$126,621 of community contributions were collected and deposited into this fund. The Capital Projects Fund is considered to be committed to capital asset expenditures, but is available as fund liquidity for District expenditures.
- At the end of the current fiscal year, the committed fund balance for the Capital Projects Fund was \$327.
- During the year, \$1,191,784 was spent to build and furnish a new fire station. Funds to help offset the cost were obtained from community donations as mentioned above and a purchase lease agreement of \$700,000. These capital assets will increase department efficiency and provide benefits to the fire district and community.
- The District strives to provide the best possible service while minimizing tax rates. Property tax revenues reported in the General Fund increased \$23,673 or 4% from the prior year due to slight increases in property valuations.

Forest Lakes Fire District
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual major, government funds, the General Fund and the Capital Projects Fund (as described above). The District's major fund information is presented in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance. There were no non-major governmental funds.

The District adopts an annual appropriated budget for its General Fund and Capital Projects Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget.

**Forest Lakes Fire District
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018**

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information comparing the District's budget to actual revenues and expenditures for the General Fund and Capital Projects Fund.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of the District's financial condition. The assets of the District exceeded liabilities by \$1,986,611 as of June 30, 2018. The District's net position increased by \$70,470 for the fiscal year ended June 30, 2018.

However, the largest portion (\$1,675,545 or 84%) reflects the District's investment in capital assets (e.g. land, construction in process, buildings, vehicles, and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Forest Lakes Fire District's Net Position

	Governmental Activities	
	2018	2017
Cash and cash equivalents	\$ 306,790	\$ 625,464
Other assets	56,816	68,825
Capital assets, net	2,521,818	1,417,914
Total assets	2,885,424	2,112,203
Liabilities	898,813	196,062
Net Position		
Invested in capital assets, net of related debt	1,675,545	1,248,055
Unrestricted	311,066	668,086
Total Net Position	\$ 1,986,611	\$ 1,916,141

**Forest Lakes Fire District
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018**

Governmental Activities – Governmental activities increased the District's net position by \$70,470. Factors which led to this increase of net position, and a summary of the changes in net position, are as follows:

- Property tax revenues increased due to a slight increase in the District's assessment rate.
- County aid increased based on the increase in the District's assessment rate.
- Ambulance revenue increased from the prior year based on the increase in the District's call volume and billing rate.
- Operating grants and contributions decreased from the prior year.

Forest Lakes Fire District's Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues:		
Program Revenues:		
Charges for services	\$ 181,993	\$ 164,788
Operating grants and contributions	156,666	181,966
General revenues:		
Property Taxes	554,218	530,545
County aid	94,660	92,345
Investment earnings	8,666	5,650
Total revenues	996,203	975,294
Expenses:		
Public safety - Emergency Services	925,733	822,134
Total expenses	925,733	822,134
Increase (decrease) in net position	70,470	153,160
Net position - beginning	1,916,141	1,762,981
Net position - ending	\$ 1,986,611	\$ 1,916,141

The cost of all governmental activities for the year ended June 30, 2018 was \$925,733. Fire District Assistance Taxes (County Aid) provided funding of \$94,660. Additional revenue was realized from interest in the amount of \$8,666. Ambulance and other program service revenues, and related charges, provided funding of \$181,993, net.

Forest Lakes Fire District
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the District's financing requirements. Specifically, the unreserved fund balance can be a useful measure of a District's net resources available for spending at the end of the fiscal year.

The General Fund is the operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$288,177. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 34% of total General Fund expenditures.

At June 30, 2018, the governmental funds of the District reported a combined fund balance of \$288,504, a decrease over the prior year of \$347,436.

Budgetary Highlights

During the current year, the District approved budgets for both the general fund and the capital projects fund.

Budgetary Comparison - General Fund

Revenues were less than the budgeted amounts primarily because charges for grant revenue and other revenue were about \$175,000 less than the District originally had expected to receive. However, this was offset by expenditures being held in check to compensate for the lack of funding. As actual operation expenditures were \$386,452 less than budgeted expenditures, the District was able to comply with its budgetary objectives.

Capital Asset and Debt Administration

Capital Assets - The District's investment in capital assets for its governmental type activities as of June 30, 2018, totaled \$2,521,818 (net of accumulated depreciation). These assets include buildings and improvements, furniture, apparatus and general equipment.

Debt Administration - In May, 2018 the District amended its \$700,000 lease purchase agreement with a bank for the purpose of construction of a new fire station. The full amount of the \$700,000 had been borrowed as of June 30, 2018. In April, 2018 construction of the new fire station was completed. The first lease payment in the amount of \$60,700 is due November 1, 2018.

**Forest Lakes Fire District
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018**

Long-term Debt

During a prior fiscal year the District acquired a Caterpillar Front Wheel Loader under the provisions of a long-term capital lease-purchase agreement. The terms of the agreement provide for 82 monthly payments of \$1,340, including interest of 3.20% per annum, with a final balloon payment of \$64,340. During the past fiscal year the District acquired a command vehicle and a heart monitor under the provisions of a long-term capital lease-purchase agreement for \$47,000 wherein the District has the right to purchase the equipment for one dollar at the conclusion of the lease. The terms of the agreement provide for 4 annual payments of \$12,539, including interest of 2.65% per annum, beginning in November, 2017. During the fiscal year ended June 30, 2018, the district financed the construction of a new fire station with a lease purchase agreement for \$700,000 with an interest rate of 3.46% per annum. The terms of the agreement provide for a lease payment of \$60,700 due November 1, 2018. Subsequent to the initial payment, annual lease payments in the amount of \$48,922 begin November 1, 2019 and end on November 1, 2037. As of June 30, 2018, all lease obligations were current.

Economic Factors and Next Year's Budgets and Rates

Arizona Revised Statutes limit the amount the District can assess to \$3.25 per \$100 of secondary assessed valuation of properties within the District. The District's assessment rate is \$3.25 for both the current and next fiscal year in order to continue to provide quality public safety services for the Forest Lakes and the surrounding community.

Request for Information

This report is designed to provide an overview of District finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Roxie Allen at (928) 535-4644 or the following address: Forest Lakes Fire District, PO Box 1808, Forest Lakes, Arizona 85931.

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BASIC FINANCIAL STATEMENTS

Forest Lakes Fire District
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 306,790
Accounts receivable, net	46,214
Taxes receivable	9,031
Prepaid expenses	1,571
Capital assets:	
Non-depreciable	717,362
Depreciable, net	<u>1,804,456</u>
Total assets	<u>2,885,424</u>
LIABILITIES	
Accounts payable	16,160
Accrued payroll and related liabilities	22,920
Long-term liabilities:	
Due within one year	51,708
Due in more than one year	<u>808,025</u>
Total liabilities	<u>898,813</u>
NET POSITION	
Invested in capital assets, net of related debt	1,675,545
Unrestricted	<u>311,066</u>
Total net position	<u>\$ 1,986,611</u>

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

**Forest Lakes Fire District
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018**

	<u>Governmental Activities</u>
EXPENSES	
Public safety, fire protection:	
Emergency services	\$ 629,779
Community services	19,752
Administrative and support services	182,391
Depreciation	87,880
Interest on long-term debt	<u>5,931</u>
Total program expenses	<u>925,733</u>
PROGRAM REVENUES	
Charges for services, net	181,993
Operating grants and contributions	<u>156,666</u>
Total program revenues	<u>338,659</u>
Net program expenses	<u>587,074</u>
GENERAL REVENUES	
Property taxes	554,218
County aid	94,660
Investment earnings	<u>8,666</u>
Total general revenues	<u>657,544</u>
Increase in net position	70,470
Net position - beginning	<u>1,916,141</u>
Net position - ending	<u><u>\$ 1,986,611</u></u>

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

**Forest Lakes Fire District
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 306,463	\$ 327	\$ 306,790
Accounts receivable, net	46,214	-	46,214
Taxes receivable	9,031	-	9,031
Prepaid expenses	<u>1,571</u>	<u>-</u>	<u>1,571</u>
 Total assets	 <u>\$ 363,279</u>	 <u>\$ 327</u>	 <u>\$ 363,606</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 16,160	-	\$ 16,160
Accrued payroll and related liabilities	<u>22,920</u>	<u>-</u>	<u>22,920</u>
 Total liabilities	 <u>39,080</u>	 <u>-</u>	 <u>39,080</u>
Deferred inflows of resources:			
Deferred revenues	30,112		30,112
Deferred taxes	<u>5,910</u>		<u>5,910</u>
 Total deferred inflows	 <u>36,022</u>		 <u>36,022</u>
Fund balances:			
Unassigned:			
General fund	288,177	-	288,177
Committed:			
Capital projects fund	<u>-</u>	<u>327</u>	<u>327</u>
 Total fund balances	 <u>288,177</u>	 <u>327</u>	 <u>288,504</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 363,279</u>	 <u>\$ 327</u>	 <u>\$ 363,606</u>

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

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

Fund balances - total governmental funds	\$ 288,504
Amounts reported for governmental activities in the Statement of Net Assets 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.	2,521,818
Receivables which are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds balance sheet.	36,022
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	<u>(859,733)</u>
Net position of governmental activities	<u>\$ 1,986,611</u>

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

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

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 550,722	\$ -	\$ 550,722
Fire district assistance taxes	94,660	-	94,660
Charges for services	181,613	-	181,613
Intergovernmental	21,434	-	21,434
Other revenue	8,611	-	8,611
Contributions	-	126,621	126,621
Interest income	4,523	4,143	8,666
	<u>861,563</u>	<u>130,764</u>	<u>992,327</u>
Total revenues			
EXPENDITURES			
Current:			
Public safety, fire protection:			
Emergency services	627,482	2,297	629,779
Community services	19,752	-	19,752
Administrative and support services	168,931	-	168,931
Debt service:			
Principal	23,586	-	23,586
Interest	5,931	-	5,931
Capital outlay	<u>-</u>	<u>1,191,784</u>	<u>1,191,784</u>
	<u>845,682</u>	<u>1,194,081</u>	<u>2,039,763</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	<u>15,881</u>	<u>(1,063,317)</u>	<u>(1,047,436)</u>
OTHER FINANCING SOURCES / (USES)			
Transfers in	-	176,638	176,638
Transfers out	(176,638)	-	(176,638)
Proceeds from capital lease	<u>-</u>	<u>700,000</u>	<u>700,000</u>
	<u>(176,638)</u>	<u>876,638</u>	<u>700,000</u>
Total other financing sources / (uses)			
Net changes in fund balances	(160,757)	(186,679)	(347,436)
Fund balances - beginning	<u>448,934</u>	<u>187,006</u>	<u>635,940</u>
Fund balances - ending	<u>\$ 288,177</u>	<u>\$ 327</u>	<u>\$ 288,504</u>

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

Forest Lakes 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 \$ (347,436)

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense and allocate those costs over the lives of the assets and losses on the disposal of capital assets as expenditures. This is the amount by which capital outlays recorded exceeded losses on disposals in the current period. 1,191,784

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. (87,880)

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. 3,876

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. 23,586

Proceeds from purchase/capital leases are reported as another financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. (700,000)

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. (13,460)

Change in net position of governmental activities \$ 70,470

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

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Forest Lakes 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:

A. Reporting Entity

The District, established in 1976, 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 primary government) and its component units. Component units are legally separate entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the District's operations. The District has no discretely presented or blended 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 non-fiduciary 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. 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.

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.

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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.

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, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for funds received and expended for the construction of buildings and improvements as well as for the acquisition of apparatus and major equipment for use by the District.

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.

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.

It is the District's policy to invest all temporary cash surpluses. As of June 30, 2018 the District was holding \$306,790 on deposit with the Coconino County Treasurer's investment pool. The investment pool is considered a cash equivalent. For additional information regarding cash and cash equivalents see Financial Note 2 - Cash and Cash Equivalents.

E. Receivables and payables

All program service receivables are shown net of an allowance for uncollectibles. The amount of the estimated uncollectible program service receivables at June 30, 2018, was \$30,809, which represents 40% of the current program service receivables balance.

The District levies real property taxes on or before the third Monday in August. Such levies 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. Prepaid items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

G. Capital assets

The District's capital assets, which include land, buildings and related improvements, furniture, vehicles, equipment, construction in progress and infrastructure assets (e.g., radio equipment), are reported in the government-wide financial statements. Capital assets, other than infrastructure, 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.

Interest incurred during the construction phase of capital assets of governmental activities is included as part of the capitalized value of the assets constructed.

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	20 - 40
Furniture, vehicles and equipment	\$5,000	3 - 20

H. Compensated absences

It is the District's policy to permit employees to accumulate earned but unused personal leave and vacation. 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.

I. Deferred outflows and inflows of resources

Pursuant to GASB Statements No. 63 and 65, the District recognized deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of fund balance or net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of fund balance or net position by the government that is applicable to a future reporting period.

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 position and the balance sheet.

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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 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' *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.

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 spend more than the budgeted revenues plus the prior year's carry-over of unrestricted cash. The limitation is applied to the total of the combined funds.

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - CASH AND CASH EQUIVALENTS

As of June 30, 2018 the District had \$306,790 on deposit with the Coconino County Treasurer's investment pool (CCTIP) in its governmental fund. The Coconino 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 CCTIP is included in the Comprehensive Annual Financial Report of Coconino County. The fair value of each participant's position in the CCTIP approximates the value of the participant's shares in the pool.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an insurer or other counterparty to an investment in a debt security will not fulfill its obligations. State law limits deposits and investments to the Arizona State Treasurer's local government investment pool (LGIP); interest bearing savings accounts, certificates of deposit; United States Treasury Bills, notes or bonds which have a maturity date of not more than one year 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. The Coconino County Treasurer's investment pool is an external investment pool with no regulatory oversight. The CCTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2018 the CCTIP had not received a credit quality rating from a national rating agency.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the City will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The District does not have a formal policy for custodial credit. However, all investments are held in safekeeping by Coconino County in the District's name.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal policy for concentration of credit risk. As of June 30, 2018 the District held all monies in the Coconino County Treasurer's investment pool.

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	\$ 9,031
Program services	77,023
Gross receivables	86,054
Less: allowance for uncollectibles	(30,809)
Net total receivables	\$ 55,245

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - DEFERRED REVENUE

Governmental funds report *deferred revenues* in connection with receivables that are not collected within 60 days as these revenues are not considered to be available to liquidate liabilities of the current period. Governmental unavailable deferred revenues are reported as revenues for government-wide presentation as they are considered earned and measurable. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned deferred revenues remain deferred for purposes of government-wide reporting. As of June 30, 2018, deferred revenue consisted of the following:

	<u>Unavailable</u>
General Fund	
Deferred ambulance revenues	\$ 30,112
Deferred tax revenues	<u>5,910</u>
Total deferred revenue	<u>\$ 36,022</u>

NOTE 5 - TRANSFERS AND DESIGNATIONS OF FUND BALANCE

The District has adopted a policy whereby it will transfer budgeted and/or unused appropriations to the capital projects fund to provide for planned future acquisitions of apparatus, vehicles, buildings and improvements. Such transfers are not restricted by statute and can be transferred back to the general fund upon board approved changes to the District's policies. There were transfers to the capital projects fund from the general fund totaling \$176,638 during this fiscal year.

NOTE 6 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Land, not depreciated	\$ 717,362	\$ -	\$ -	\$ 717,362
Construction in progress, not depreciated	103,344	-	(103,344)	--
Buildings and improvements	200,000	1,255,180	-	1,455,180
Vehicles	712,710	12,500	-	725,210
Equipment	<u>677,706</u>	<u>39,948</u>	<u>(12,500)</u>	<u>705,154</u>
Total capital assets	2,411,122	1,307,628	(115,844)	3,602,906
Less accumulated depreciation	<u>(993,208)</u>	<u>(87,880)</u>	<u>-</u>	<u>(1,081,088)</u>
Total capital assets, net	<u>\$ 1,417,914</u>	<u>\$ 1,219,748</u>	<u>\$ (115,844)</u>	<u>\$ 2,521,818</u>

Depreciation expense for the period was \$87,880; all depreciation was expensed to the public safety function.

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital lease purchase agreements-equipment	\$ 169,859	\$ -	\$ (23,586)	\$ 146,273	\$ 24,019
Capital lease purchase agreements-building	-	700,000	-	700,000	27,689
Compensated absences	-	13,460	-	13,460	\$ -
	<u>\$ 169,859</u>	<u>\$ 713,460</u>	<u>\$ (23,586)</u>	<u>\$ 859,733</u>	<u>\$ 51,708</u>
Total governmental liabilities	<u>\$ 169,859</u>	<u>\$ 713,460</u>	<u>\$ (23,586)</u>	<u>\$ 859,733</u>	<u>\$ 51,708</u>

A. Capital leases

Purchase Leases: The District has entered into various lease purchase agreements for the purchase of vehicles and equipment with interest rates ranging from 2.65% to 3.46% per annum. 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 long-term agreements. Under these agreements, 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.

Future minimum payments under the purchase lease agreements are as follows:

Year ended June 30,	<u>Payment</u>
2019	\$ 89,316
2020	77,538
2021	77,538
2022	113,262
2023	48,922
Thereafter	<u>733,826</u>
Total future minimum payments	1,140,402
Less amount representing interest	<u>(294,129)</u>
Present value of purchase lease agreements	<u>\$ 846,273</u>

The assets capitalized and acquired through the capital lease are as follows:

Assets acquired under capital lease	\$ 1,469,811
Less accumulated depreciation	<u>(99,456)</u>
Net book value	<u>\$ 1,370,355</u>

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - NET REVENUE

The District provides emergency medical and transportation services within the same geographic region as it provides fire prevention and suppression services. Charges for such emergency medical and transportation services are recognized as service revenues. Net revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement allowances with third-party payers, provisions for bad debt and uncompensated care.

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, provision for bad debts and uncompensated services for the year ended June 30, 2018 are as follows:

	Governmental Activities
Gross program charges for services	\$ 289,207
Contractual adjustments, uncompensated services and bad debt	<u>(107,214)</u>
Net program service revenues	<u>\$ 181,993</u>

The District relies on payments from third-party payers, such as Medicare and commercial insurance carriers, to support the emergency medical services provided. Should these third-party payers not cover the entire amount of the services rendered, any remaining amounts are adjusted as uncompensated services with the remaining amounts necessary to support the program funded through tax revenues.

NOTE 9 - 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. Settled claims, if any, resulting from these risks have not exceeded commercial insurance in any of the last three years. No provision has been made in the financial statements for possible losses of this nature.

Forest Lakes Fire District
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS

The District contributes to the following plan as described below.

Deferred compensation plan

The District has established an eligible deferred compensation plan, as defined in Code Section 457 (b) of the Internal Revenue Code, for all paid employees in order to provide for retirement benefits. Contributions to the plan are administered by a third-party, The Innes Associates, Ltd. The minimum salary reduction contribution provided under the plan is 7.5% of all wages paid to a firefighter or employee. The District was not required to and did not make any contributions to the plan for the year ended June 30, 2018. In accordance with GASB Statement No. 32, the District provides neither administrative services nor investment advice. Consequently, no fiduciary relationship exists between the District and the compensation plan. Therefore, plan assets are not included as a fund of the District.

NOTE 11 - SUBSEQUENT EVENTS

The District has evaluated subsequent events from June 30, 2018 through February 7, 2019, the date the financial statements were available to be issued.



REQUIRED SUPPLEMENTARY INFORMATION

(Other than Management's Discussion and Analysis)

Forest Lakes Fire District
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts Amended and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Final</u>	<u>Amounts</u>	<u>(Negative)</u>
REVENUES			
Property taxes	\$ 554,000	\$ 550,722	\$ (3,278)
Fire district assistance taxes	94,000	94,660	660
Charges for services	150,000	181,613	31,613
Intergovernmental	180,000	21,434	(158,566)
Contributions	5,000	-	(5,000)
Other revenue	245,634	8,611	(237,023)
Interest income	<u>3,500</u>	<u>4,523</u>	<u>1,023</u>
 Total revenues	 <u>1,232,134</u>	 <u>861,563</u>	 <u>(370,571)</u>
EXPENDITURES			
Current:			
Wages and benefits	522,405	567,951	(45,546)
Operations	371,617	248,214	123,403
Debt service:			
Principal	23,586	23,586	-
Interest expense	5,892	5,931	(39)
Capital outlay	<u>308,634</u>	<u>-</u>	<u>308,634</u>
 Total expenditures	 <u>1,232,134</u>	 <u>845,682</u>	 <u>386,452</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>15,881</u>	<u>15,881</u>
OTHER FINANCING SOURCES/(USES)			
Transfers in (out)	-	(176,638)	(176,638)
Proceeds from capital lease	<u>-</u>	<u>-</u>	<u>-</u>
 Total other financing sources/(uses)	 <u>-</u>	 <u>(176,638)</u>	 <u>(176,638)</u>
 Net change in fund balances	 -	 (160,757)	 (160,757)
Fund balance - beginning	<u>448,934</u>	<u>448,934</u>	<u>-</u>
Fund balance - ending	<u>\$ 448,934</u>	<u>\$ 288,177</u>	<u>\$ (160,757)</u>

Forest Lakes Fire District
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended June 30, 2018

	Budgeted Amounts Amended and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental	40,000	-	(40,000)
Contributions	\$ 300,000	\$ 126,621	\$ (173,379)
Interest income	-	4,143	4,143
	<u>340,000</u>	<u>130,764</u>	<u>(209,236)</u>
EXPENDITURES			
Current:			
Wages and benefits	-	-	-
Operations	60,000	2,297	57,703
Debt service:			
Principal	-	-	-
Interest expense	-	-	-
Capital outlay	<u>1,040,000</u>	<u>1,191,784</u>	<u>(151,784)</u>
	<u>1,100,000</u>	<u>1,194,081</u>	<u>(94,081)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(760,000)</u>	<u>(1,063,317)</u>	<u>(303,317)</u>
OTHER FINANCING SOURCES/(USES)			
Transfers in (out)	160,000	176,638	16,638
Proceeds from capital lease	<u>600,000</u>	<u>700,000</u>	<u>100,000</u>
	<u>760,000</u>	<u>876,638</u>	<u>116,638</u>
Net change in fund balances	-	(186,679)	(186,679)
Fund balance - beginning	<u>187,006</u>	<u>187,006</u>	-
Fund balance - ending	<u>\$ 187,006</u>	<u>\$ 327</u>	<u>\$ (186,679)</u>

Note 1 - Budgetary Basis of Accounting

The District prepares its annual budget on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. Budgetary comparison schedules for the General Fund and Capital Projects Fund are included as required supplementary information to provide meaningful comparison of actual results to the budget on a budgetary basis.

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**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
Forest Lakes Fire District
Forest Lakes, 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 February 7, 2019, that Forest Lakes 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, Forest Lakes 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, Coconino 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 7, 2019

Forest Lakes 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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**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
Forest Lakes Fire District
Forest Lakes, 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 Forest Lakes 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 February 7, 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 Forest Lakes 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.

Atlan CAs & Advisors PLLC

Phoenix, Arizona
February 7, 2019

Forest Lakes Fire District

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

June 30, 2018

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INDEPENDENT AUDITORS' COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

To the Governing Board of
Forest Lakes Fire District
Forest Lakes, Arizona

We have audited the basic financial statements of Forest Lakes Fire District (the District) as of and for the year ended June 30, 2018, and have issued our report thereon dated February 7, 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 7, 2017, 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 our assistance, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and *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.

Furthermore, in accordance with *Government Auditing Standards*, we have issued our report dated February 7, 2019 on the District's internal control over financial reporting and on compliance and other matters.

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.

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.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm, as appropriate, our firm, and any related firms have complied with all relevant ethical requirements regarding independence. As part of or nonattest services related to preparing the financial statements, management was responsible for validating the completeness and accuracy of the financial statements, and all entries to present the financial statements in conformity with generally accepted accounting principles. Management performed their responsibility accordingly and approved the financial statements on February 7, 2019.

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 2 to the financial statements. There have been no initial selection of accounting policies and no changes in the significant accounting policies or their application 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 markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- 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.

We evaluated the key factors and assumptions used to develop the aforementioned estimates and determined that they are reasonable in relation to the basic financial statements as a whole.

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:

- 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;
- 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.

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 (CJE 2018) of journal entries summarizes misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by management. Attached 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).

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 dated February 7, 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 such consultations with Angela Bertram, CPA 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, Coconino County and the State of Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Atlan CPAs & Advisors PLLC

Phoenix, Arizona
February 7, 2019

Forest Lakes Fire District

Year End: June 30, 2018

Adjusting Journal Entries

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

Prepared	1st Review	2nd Review	Non-Tech

CJE 18

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
CJE-001	6/30/2018	2900 Net Assets	2900 CP			2,213.00			
CJE-001	6/30/2018	3000 Revenues:3004 Investment Interest	3004 CP				2,213.00		
		To adjust beginning CP Fund balance to PY Audit							
CJE-002	6/30/2018	Depr and Amortization	6281 CP				1,551.00		
CJE-002	6/30/2018	8000 Capital:8008 Facilities & Equipment	8008 CP			1,551.00			
		To reclass deprec. to facilities							
CJE-003	6/30/2018	3000 Revenues:3004 Investment Interest	3004 CP			49.00			
CJE-003	6/30/2018	Purchase Lease Proceeds	3080 CP				700,000.00		
CJE-003	6/30/2018	Misc. Revenue	4640 CP			876,589.00			
CJE-003	6/30/2018	9002 Transfers In	9002 CP				176,638.00		
		To reclass misc. revenue							
CJE-004	6/30/2018	Contract Services	6215 CP				1,146,208.00		
CJE-004	6/30/2018	8000 Capital:8003 Land & Buildings	8003 CP			1,146,208.00			
		Reclass contract costs to Capital outlay -building							
CJE-005	6/30/2018	Additional Building Costs	6284 CP				407.00		
CJE-005	6/30/2018	Other costs and expenses	6510 CP			407.00			
CJE-005	6/30/2018	Other costs and expenses	6510 CP				13,812.00		
CJE-005	6/30/2018	8000 Capital:8003 Land & Buildings	8003 CP			5,628.00			
CJE-005	6/30/2018	8000 Capital:8008 Facilities & Equipment	8008 CP			5,830.00			
CJE-005	6/30/2018	8000 Capital:8008 Facilities & Equipment	8008 CP			1,555.00			
CJE-005	6/30/2018	8000 Capital:8008 Facilities & Equipment	8008 CP			799.00			
		Reclass other costs related to building and furnishings to capital outlay							
CJE-006	6/30/2018	1221 Allowance for doubtful acct.	1221 GF	3050			4,867.00		
CJE-006	6/30/2018	2211 Deferred Revenue - Ambulance	2211 GF	3050		4,867.00			
		To adjust ambulance A/R allowance and deferred revenue							
CJE-007	6/30/2018	Non-capital equipment	5220 GF			3,000.00			
CJE-007	6/30/2018	Capital - Vehicles	8008 GF				3,000.00		
		To reclass vehicle purchase under \$5K capitalization policy							
						2,048,696.00	2,048,696.00		
		Net Income (Loss)	70,470.00						

Forest Lakes Fire District

Year End: June 30, 2018

Government-Wide Entries

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

Prepared	1st Review	2nd Review	Non-Tech
KG 2/7/2019			

GW18

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
GW-001	6/30/2018	Vehicles	GW-1721 GW	3520		12,500.00			
GW-001	6/30/2018	Equipment	GW-1722 GW	3520			12,500.00		
		Transfer to balance to capital assets schedule							
GW-002	6/30/2018	Construction in progress	GW-1715 GW	3520			103,344.00		
GW-002	6/30/2018	Buildings and improvements	GW-1720 GW	3520		103,344.00			
		Transfer CIP to Buildings							
GW-003	6/30/2018	Buildings and improvements	GW-1720 GW	3520		1,151,836.00			
GW-003	6/30/2018	Equipment	GW-1722 GW	3520		39,948.00			
GW-003	6/30/2018	Capital outlay	GW-8000 GW	3520			1,191,784.00		
		To record CY additions to capital assets							
GW-004	6/30/2018	Accumulated depreciation	GW-1728 GW	3520			87,880.00		
GW-004	6/30/2018	Depreciation	GW-8050 GW	3520		87,880.00			
		To record CY Depreciation							
GW-005	6/30/2018	Deferred revenue	GW-2310 GW	3020		380.00			
GW-005	6/30/2018	Deferred taxes	GW-2410 GW	3020		3,496.00			
GW-005	6/30/2018	GW Property taxes	GW-4110 GW	3020			3,496.00		
GW-005	6/30/2018	GW-Ambulance service	GW-4210 GW	3020			380.00		
		To eliminate deferred revenue at the GW level							
GW-006	6/30/2018	Capital leases - more than 1 year	GW-2722 GW	4030		23,586.00			
GW-006	6/30/2018	Capital leases - more than 1 year	GW-2722 GW	4030			700,000.00		
GW-006	6/30/2018	Principal	GW-7011 GW	4030			23,586.00		
GW-006	6/30/2018	Proceeds from capital leases	GW-9021 GW	4030		700,000.00			
		To record principle payments amd new debt for capital leases							
GW-007	6/30/2018	Reclass of current LTD	GW-2719 GW	4030			28,090.00		
GW-007	6/30/2018	Reclass of LTD to current	GW-2729 GW	4030		28,090.00			
		To adjust current portion of long term debt							
GW-008	6/30/2018	Compensated absences - more than 1 year	GW-2720 GW	4130			13,460.00		
GW-008	6/30/2018	Administration expenses	GW-5200 GW	4130		13,460.00			
		To record compensated absences							
						2,164,520.00	2,164,520.00		
Net Income (Loss)			70,470.00						