

Daisy Mountain Fire District

Financial Statements

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the District Board
Daisy Mountain Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Daisy Mountain Fire District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation on 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Daisy Mountain Fire District, as of June 30, 2016, and the respective changes in financial position 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 the management's discussion and analysis on pages 3 through 8, budgetary comparison on pages 38 and 39 and net pension liability information on pages 40 through 42 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 January 23, 2017, on our consideration of the Daisy Mountain Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Daisy Mountain Fire District's internal control over financial reporting and compliance.

Heidenreich & Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC
Phoenix, AZ
January 23, 2017

**Daisy Mountain Fire District
Management's Discussion and Analysis
Year ended June 30, 2016**

As management of Daisy Mountain Fire District (the "District"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District's performance for the year ended June 30, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$6,564,773 (net position). Of this amount, \$1,216,319 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens, creditors, and further the purpose of the District.
- The District's total net position on a full accrual basis increased by \$547,083, primarily due to higher ambulance revenues. Expenses increased during the year but not in the same proportion as the increase in revenues.
- Combined fund balance on a modified accrual basis increased by \$9,589,600, which resulted primarily from \$9,055,000 in bond proceeds.
- During the fiscal year, the District also obtained grants to supplement the existing training budget and for the purchase of equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to basic financial statements. This report also contains required supplementary information in addition to the basic 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, in a manner similar to 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 position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide financial statements can be found on pages 9-10 of this report.

**Daisy Mountain Fire District
Management's Discussion and Analysis - Continued**

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 spendable resources, as well as on balances of spendable 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 three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital projects fund, and the debt service fund, which are all considered to be major funds.

The District adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget and can be found on pages 38-39 of this report.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to Basic 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. The notes to the financial statements can be found on pages 15-37 of this report.

Other Information

In addition, funding information related to the District's participation in an agent retirement plan can be found in Note 13 of pages 28-36 of this report.

**Daisy Mountain Fire District
Management's Discussion and Analysis – Continued**

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Daisy Mountain Fire District, assets exceeded liabilities by \$6,564,773 at the close of the most recent fiscal year.

The largest portion of the District's net position (81 percent) reflects its investment in capital assets (e.g., land, construction in progress, buildings, machinery, vehicles, and equipment); less any related debt still outstanding used to acquire those assets. The District uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following page contains a comparative analysis between the current and the prior fiscal year for the government-wide statements.

Condensed Statement of Net Position

	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 15,166,579	\$ 5,413,739
Capital assets	5,348,454	4,257,251
Total assets	20,515,033	9,670,990
Deferred outflows of resources	2,775,276	1,330,502
Current and other liabilities		
Current and other liabilities	771,263	596,290
Long-term liabilities	14,563,542	2,702,733
Total liabilities	15,334,805	3,299,023
Deferred inflows of resources	1,390,731	1,684,779
Net position:		
Net investment in capital assets	5,348,454	4,257,251
Unrestricted	1,216,319	1,760,439
Total net position	\$ 6,564,773	\$ 6,017,690

During 2016, current assets increased primarily because of an increase in cash and cash equivalents of \$9,584,070 from prior year, which was offset by an increase in long term liabilities of \$11,860,809 related to the issuance and proceeds of bonds and a new capital lease. The majority of the increase in capital assets of \$1,091,203 is primarily due to the purchase of two new fire apparatuses and two ambulances for the district.

**Daisy Mountain Fire District
Management's Discussion and Analysis – Continued**

Government-wide Financial Analysis - Continued

The unrestricted net position of \$1,216,319 may be used to meet the District's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the District is able to report a positive balance in all categories of net position.

Governmental Activities

Governmental activities net position increased by \$547,083. Key elements of this increase are reported below:

Condensed Statement of Activities

	Governmental Activities	
	2016	2015
Revenues:		
Program revenue:		
Charges for services	\$ 1,994,972	\$ 1,085,724
Capital grants	228,587	496,685
Total program revenues	2,223,559	1,582,409
General revenues:		
Property taxes	11,429,875	11,322,743
Fire district assistance tax	408,401	406,117
Fire insurance premium tax	111,763	110,606
Interest	29,865	14,044
Other income	87,538	83,236
Loss on disposal of assets	(17,725)	(82,957)
Total general revenues	12,049,717	11,853,789
Total revenues	14,273,276	13,436,198
Expenses:		
Fire protection and emergency services	13,726,193	12,828,984
Total expenses	13,726,193	12,828,984
Change in net position	547,083	607,214
Net position, beginning	6,017,690	5,410,476
Net position, ending	\$ 6,564,773	\$ 6,017,690

**Daisy Mountain Fire District
Management's Discussion and Analysis – Continued**

Government-wide Financial Analysis – Continued

- Overall revenues increased by \$837,078 while expenses increased by \$897,209. The majority of the increase in total revenues resulted from an increase in charges for services (ambulance revenues) of \$980,070 and a decrease in grant revenues of \$268,098. The increase in ambulance revenues resulted from non-emergency medical transportation to Honor Health that the district did not have in the prior year. The decrease in grant revenues was due to the expiration of the SAFER grant award.
- Expenses increased primarily due to an increase in salary and related costs caused from hiring additional personnel as well as expenditures for bond related costs and new computer software.

Financial Analysis of the Governmental Funds

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

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$14,308,754, an increase of \$9,589,600 in comparison with the prior year's balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, spendable fund balance of the general fund was \$1,727,301. As a measure of the general fund's liquidity, it may be useful to compare spendable fund balance to total fund expenditures. Spendable fund balance represents 11% of total current year general fund expenditures of \$15,258,699.

Budgetary Highlights

During 2016, there were modifications to the originally adopted budget to account for additional lease revenues and the inter-facility transportation revenues for Honor Health. Total revenues were \$1,119,125 more than budgeted revenues while total expenditures were \$1,425,342 more than budgeted expenditures. The positive revenue variance resulted from the unexpected non-emergency medical transportation revenues from Honor Health. The negative expenditure variance is a direct result of increased personnel costs and capital outlays that were not planned during the year.

**Daisy Mountain Fire District
Management's Discussion and Analysis – Continued**

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets as of June 30, 2016, totals \$5,348,454 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, improvements other than buildings, buildings and improvements, vehicles, furniture and equipment.

Outlays for capital assets during 2016 were \$1,822,898 which consisted primarily of the purchase of fire trucks and ambulances during the year.

During the prior fiscal year, the District re-evaluated the expected useful life of Station 145 due to damage sustained to the facility as a result of the foundation sinking. The District will be demolishing the building in March 2017.

Additional information on the District's capital assets can be found in Note 6 to the financial statements on page 24.

Long-term liabilities – During the current fiscal year, the District entered into a capital lease for \$925,000 to be fully paid off in the year 2023.

During the current fiscal year, the District issued \$9,055,000 worth of general obligation bonds, project of 2015, Series A (2016). Repayment of the bonds commences July 1, 2017 and ends on July 1, 2035.

The District had compensated absences payable of \$1,567,118 at year-end.

Additional information on the District's long-term liabilities can be found in Note 7 to the financial statements on pages 25.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Daisy Mountain Fire District, 515 E. Carefree Hwy., PMB #385, Phoenix, AZ 85085.

Basic Financial Statements

Daisy Mountain Fire District
Statement of Net Position - Governmental Activities
June 30, 2016

Assets	
Cash and cash equivalents	\$ 14,207,127
Receivables	
Ambulance, net	245,496
Property taxes	239,420
Due from other governments	53,004
Prepaid expenses	421,532
Capital assets, net	
Land	480,066
Buildings and equipment, net	4,868,388
Total assets	20,515,033
 Deferred outflows of resources	
Deferred outflows of resources related to pensions	2,775,276
 Liabilities	
Accounts payable	314,921
Accrued salaries and benefits	289,463
Capital lease payable	123,618
Noncurrent liabilities	
Due within one year - compensated absences	166,879
Due in more than one year:	
Compensated absences	1,567,118
Capital lease payable	740,774
Bond payable	9,785,705
Net pension liability	2,346,327
Total liabilities	15,334,805
 Deferred inflows of resources	
Deferred inflows of resources related to pensions	1,390,731
 Net position	
Net investment in capital assets	5,348,454
Unrestricted	1,216,319
Total net position	\$ 6,564,773

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

Daisy Mountain Fire District
Statement of Activities - Governmental Activities
Year Ended June 30, 2016

Expenditures:

Fire protection and emergency services

Personnel	\$ 8,007,235
Employee benefits and expenses	2,639,932
Depreciation	713,970
Utilities and communication	510,089
Repairs and maintenance	479,273
Administration	487,332
Other operating Expenses	726,048
Bond issuance costs	162,314
	13,726,193

Program revenues:

Charges for services	1,994,972
Capital grants	228,587
Total program revenues	2,223,559

General revenues:

Property taxes	11,429,875
Fire district assistance taxes	408,401
Fire insurance premium tax	111,763
Interest	29,865
Other income	87,538
Loss on the disposal of assets	(17,725)
	12,049,717
Increase in net position	547,083
Net position - beginning of year, as restated	6,017,690
Net position - end of year	\$ 6,564,773

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

**Daisy Mountain Fire District
Balance Sheet - Governmental Funds
June 30, 2016**

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Assets				
Cash and cash equivalents	\$ 3,260,764	\$ 10,619,378	\$ 326,985	\$ 14,207,127
Receivables				
Ambulance, net	245,496	-	-	245,496
Property taxes	239,420	-	-	239,420
Due from other governments	53,004	-	-	53,004
Prepaid expenses	421,532	-	-	421,532
Total assets	\$ 4,220,216	\$ 10,619,378	\$ 326,985	\$ 15,166,579
Liabilities				
Accounts payable	\$ 314,921	\$ -	\$ -	314,921
Accrued salaries and benefits	289,463	-	-	289,463
Total liabilities	604,384	-	-	604,384
Deferred inflows of resources				
<i>Unavailable revenues</i>				
Ambulance receivables	71,187	-	-	71,187
Property taxes	182,254	-	-	182,254
Total deferred inflows of resources	253,441	-	-	253,441
Fund balances				
Assigned	1,213,558	10,619,378	326,985	12,159,921
Nonspendable	421,532	-	-	421,532
Unassigned	1,727,301	-	-	1,727,301
Total fund balances	3,362,391	10,619,378	326,985	14,308,754
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,220,216	\$ 10,619,378	\$ 326,985	\$ 15,166,579

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

**Daisy Mountain Fire District
Reconciliation of the Governmental Funds - Balance Sheet
to the Statement of Net Position
June 30, 2016**

Fund balances - Governmental funds	\$ 14,308,754
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds' balance sheet.	5,348,454
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Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds' balance sheet as follows:	
Property taxes receivable	182,254
Ambulance receivables	71,187

Some liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds' balance sheet as follows:	
Net pension liability	(2,346,327)
Bond payable	(9,785,705)
Capital lease payable	(864,392)
Compensated absences	(1,733,997)

Some deferred outflows and inflows of resources are applicable to future reporting periods and, therefore, are not reported in the funds: periods and, therefore, are not reported in the funds.	
Deferred inflows of resources related to pensions	1,384,545

Net position of governmental activities	\$ <u>6,564,773</u>
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The accompanying notes are an integral
part of these financial statements.

Daisy Mountain Fire District
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Revenues:				
<i>Taxes</i>				
Property taxes	\$ 11,389,748	\$ -	\$ -	\$ 11,389,748
Fire district assistance taxes	408,401	-	-	408,401
Fire insurance premium tax	111,763	-	-	111,763
Charges for services	2,044,006	-	-	2,044,006
Intergovernmental	228,587	-	-	228,587
Interest	12,180	9,091	8,594	29,865
Other	87,538	-	-	87,538
Total revenues	14,282,223	9,091	8,594	14,299,908
Expenditures:				
<i>Fire protection and emergency services</i>				
Personnel	8,174,114	-	-	8,174,114
Employee benefits	2,998,337	-	-	2,998,337
Utilities and communication	510,089	-	-	510,089
Repairs and maintenance	479,273	-	-	479,273
Administration	487,332	-	-	487,332
Operating expenses	713,884	-	-	713,884
Capital outlay	1,822,898	-	-	1,822,898
<i>Debt service:</i>				
Principal payments	60,608	-	-	60,608
Interest payments	12,164	-	-	12,164
Total expenditures	15,258,699	-	-	15,258,699
Excess of revenues over expenditures	(976,476)	9,091	8,594	(958,791)
Other financing sources (uses):				
Bond proceeds	-	-	9,055,000	9,055,000
Capital lease proceeds	925,000	-	-	925,000
Premium on bonds	-	-	730,705	730,705
Debt issuance costs	-	-	(162,314)	(162,314)
Transfers in	736,923	8,568,077	-	9,305,000
Transfers in (out)	-	-	(9,305,000)	(9,305,000)
Total other financing sources and uses	1,661,923	8,568,077	318,391	10,548,391
Net changes in fund balances	685,447	8,577,168	326,985	9,589,600
Fund balances, beginning of year	2,676,944	2,042,210	-	4,719,154
Fund balances, end of year	<u>\$ 3,362,391</u>	<u>\$ 10,619,378</u>	<u>\$ 326,985</u>	<u>\$ 14,308,754</u>

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

**Daisy Mountain 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, 2016**

Net change in fund balances - total governmental funds \$ 9,589,600

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 to allocate those costs over the lives of the assets and losses on the disposal of capital assets as expenditures as follows:

Capital asset purchases	1,822,898
Depreciation expense	(713,970)
Loss on disposal of assets	(17,725)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds as follows:

Bond proceeds	(9,055,000)
Bond premiums	(730,705)
Capital lease proceeds	(925,000)
Ambulance services	(49,034)
Property taxes	40,127

District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities:

District pension contributions	1,005,470
Pension expense	(647,065)

Repayment 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 position. 60,608

Compensated absences 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. 166,879

Change in net position of governmental activities \$ 547,083

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2016**

Note 1 – Summary of Significant Accounting Policies

The accounting policies of The Daisy Mountain Fire District (the “District”) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB)..

Reporting Entity

The District was organized in 1989 pursuant to Title 48 of the Arizona Revised Statutes and is a special purpose local government governed by a separately elected governing body. The District provides fire protection and rescue services to residents of the New River area. The District is legally separate and 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.

Basis of Presentation

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

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

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

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 1 – Summary of Significant Accounting Policies - Continued

Program revenues include:

- Charges to customers for services provided;
- Operating grants and contributions, and
- Capital grants and contributions.

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

The effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities.

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

The District reports the following major governmental funds:

- The *general fund* is the District’s primary operating fund which accounts for all financial resources except those required to be accounted for in another fund.
- The *capital projects fund* is used to account for activities related to the acquisition or construction of significant capital assets. The capital projects fund was authorized by the board to provide funds from each year’s general fund budget for the replacement, acquisition or construction of major equipment of facilities. It should provide for the replacement of major equipment without the need for assessing large tax increases in any one year.
- The *debt service fund* is used for the payment of long-term obligation debt principal, interest and related costs.

Basis of Accounting

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

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 1 – Summary of Significant Accounting Policies – Continued

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

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

Taxes, leases, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

All other revenue items are considered to be measurable and available only when cash is received by the government.

Fund Balance Classifications

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

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the District's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the District's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

Nonspendable fund balance - amounts that cannot be expended because they are either not spendable form such as prepaid items, or are legally or contractually required to be maintained intact.

Restricted fund balances - amounts that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

Committed fund balances - amounts with self-imposed limitations approved by the District's board of directors, which is the highest level of decision-making authority within the District. The constraints placed on committed fund balances can only be removed or changed by the board.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 1 – Summary of Significant Accounting Policies – Continued

Assigned fund balances - amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance - the residual classification for the general fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

Assignments of Fund Balance

The District has adopted a policy whereby it will assign unencumbered revenues equivalent to the unexpended budgeted wages and benefits to the Retirement Paid Time Off account within the general fund. This assignment will provide for the funding of previously unfunded liabilities associated with compensated absences. The Retirement Paid Time Off account will be evaluated annually and monies assigned based on the unexpended budget associated with wages and benefits, the fiscal year end compensated absence liability and current balance of the account. Such assignments are not restricted by state statute and can be unassigned upon board approval. As of June 30, 2016, \$1,213,558 was assigned for this purpose.

The District has adopted a policy whereby it will transfer any unassigned and unencumbered revenues 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. As of June 30, 2016, the District's governing board has assigned \$10,619,378 of the capital projects fund's fund balance for future capital projects.

The District has adopted a policy whereby it will assign amounts for the accumulation of financial resources that are restricted, committed, or assigned to expenditures for the payment of long-term obligation debt principal, interest and related costs. As of June 30, 2016 the debt service fund balance of \$326,985 was assigned for this purpose.

Net Position

In the government-wide financial statements, net position is the difference between assets and liabilities. Net assets invested in capital assets are capital assets less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors or grantors. None of the District's net assets are restricted.

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

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 1 – Summary of Significant Accounting Policies – Continued

Cash and Investments

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.

Prepaid Items

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

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All program service receivables are shown net of an allowance for uncollectible accounts. The amount of the estimated uncollectible program service receivables at June 30, 2016, was \$137,899, which represents 36% of the current program service receivables balance.

The District levies real property taxes on or before the third Monday in August. Such levies, collected by Maricopa 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 uncollectible accounts on taxes receivables as the District has a subordinated lien on all properties subject to the tax.

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 1 – Summary of Significant Accounting Policies – Continued

Capital Assets

Capital assets, which include property, equipment and vehicles, are reported in the general fund in the government-wide financial statements. Purchased assets are recorded at cost, except those assets for which historical costs were not available and estimated costs were used. Donated capital assets are recorded at fair market value on the date received. The threshold for capital assets is equipment that has a useful life greater than a year and costs more than \$5,000. The costs of normal repair and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Property, equipment and vehicles of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	5 to 30 years
Equipment	3 to 10 years
Vehicles	10 years

No depreciation is taken on land or construction in progress.

Pensions

For purposes of measuring the net pension asset and liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position 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.

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. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 1 – Summary of Significant Accounting Policies – Continued

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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.

Compensated Absences

The District's policy regarding compensatory times permits employees to accumulate and roll over time with no maximum limit. Upon retirement, the policy regarding sick leave allows an employee to be paid for 50% of the employee's unused sick leave at the employee's current rate of pay. An employee is deemed eligible to retire by having been employed with the District for at least ten full years or by having been employed in the PSPRS system for at least ten full years and employed by the District for at least five full years. The vacation policy allows any unused vacation to be paid upon termination at 100% of the employee's current rate of pay. The liability for compensated absences is reported in the government-wide statements as a noncurrent liability.

Property Tax Calendar

The District levies real and personal property taxes on or before the third Monday in August, that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. A lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

Budgetary Accounting

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

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 1 – Summary of Significant Accounting Policies - Continued

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

Note 2 – Deposits and Investments

Deposits – Amounts classified as deposits on June 30, 2016, are described below:

	Bank Balance	Carrying Amount
<i>General Fund</i>		
Maricopa County Treasurer’s Investment Pool	\$ 3,031,415	\$ 2,597,294
Deposits with financial institutions	674,526	663,470
Total General Fund deposits and investments	<u>\$ 3,705,941</u>	<u>\$ 3,260,764</u>
<i>Capital Projects Fund</i>		
Maricopa County Treasurer’s Investment Pool	\$ 1,314,378	\$ 1,314,378
Maricopa County Treasurer’s Investment Pool - Bond	9,305,000	9,305,000
Total Capital Projects Fund deposits and investments	<u>\$ 10,619,378</u>	<u>\$ 10,619,378</u>
<i>Debt Service Fund</i>		
Maricopa County Treasurer’s Investment Pool	\$ 326,985	\$ 326,985

The Maricopa County Treasurer invests the cash in a pool under policy guidelines established by the Maricopa County Treasurer’s Office (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 Maricopa County Treasurer’s Investment Pool (MCTIP) is included in the Comprehensive Annual Financial Report of Maricopa County. The fair value of each participant’s position in the MCTIP approximates the value of the participant’s shares in the pool.

Credit risk—Credit risk is the risk that an issuer or other counterparty to an investment in a debt security will not fulfill its obligations. The District has no investment policy that would further limit its investment choices other than what is in the Arizona Revised Statutes. The MCTIP is an external investment pool with no regulatory oversight. The MCTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2016, the MCTIP had not received a credit quality rating from a national rating agency.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 2 – Deposits and Investments – Continued

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits (in excess of FDIC insurance) may not be returned to the District. State statutes require that deposits with financial institutions be insured by the Federal Deposit Insurance Corporation (FDIC). FDIC insures deposits up to \$250,000 for all interest-bearing accounts and another \$250,000 for all demand deposit accounts in a given financial institution. Deposits in excess of insured amounts shall be collateralized by approved securities. The District participates in the Arizona State Treasurer’s Pooled Collateral Program, and does not have any cash that is uninsured or uncollateralized.

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 investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk – Arizona Revised Statutes do not include any requirements for concentration of credit risk.

Foreign currency risk – Arizona Revised Statutes do not allow foreign investments.

Investment policy – The District does not have a formal policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Note 3 – Ambulance Receivable

The District considers ambulance revenue as available if collected within sixty days after year-end. The ambulance receivable represents the calls invoiced by June 30, 2016. The receivable balance as of June 30, 2016 is \$383,395. The allowance for doubtful accounts as of June 30, 2016 is \$137,899. The portion of the receivable that is not collected within sixty days after the end of the fiscal year is recorded as deferred revenue.

Note 4 – Property Taxes

Taxes are levied and collected by the Maricopa County Treasurer. Property taxes attach an enforceable lien on the first day of the levy year. Taxes are levied in August and may be paid in two equal installments. The first installment is due in October and the second installment is due in March of the following year.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 4 – Property Taxes - Continued

Taxes receivable represents the delinquent tax levied against the property taxes within the District. No reserve is made in the financial statements for doubtful accounts because in the event the taxes are not paid, a lien is placed on the property, which can be subsequently sold to collect the delinquent taxes. The taxes receivable at June 30, 2016 is \$239,420, which represents property taxes outstanding. The portion of taxes receivable that is not collected within sixty days after the end of the fiscal year is recorded as deferred revenue.

Note 5 – Due From Other Governments

Due from other governments consists mainly of receivables related to state land fires. The balance of this receivable as of June 30, 2016 is \$53,004. Currently, there is no provision for an allowance for doubtful accounts as management considers all amounts collectible.

Note 6 – Capital Assets

The summary of changes in capital assets is as follows:

	Balance 6/30/15	Additions	Deletions	Balance 6/30/16
<i>Governmental Activities:</i>				
Land	\$ 480,066	\$ -	\$ -	\$ 480,066
Construction in progress	15,000	-	-	15,000
Buildings	4,099,761	9,825	27,597	4,081,989
Equipment	5,938,351	1,813,073	273,814	7,477,610
Total capital assets	10,533,178	1,822,898	301,411	12,054,665
Accumulated depreciation				
Buildings	(1,501,372)	(174,548)	(24,020)	(1,651,900)
Equipment	(4,774,555)	(539,422)	(259,666)	(5,054,311)
Total accumulated depreciation	(6,275,927)	(713,970)	(283,686)	(6,706,211)
Capital assets, net	\$ 4,257,251	\$ 1,108,928	\$ 17,725	\$ 5,348,454

One of the District's fire stations has an unstable building foundation. The District expects the building will only be useable for a very short time. The building as well as any affixed capital assets have been fully depreciated. The District anticipates constructing a new fire station on the site for approximately \$3.6 million dollars, which will be paid for by general obligation bonds that have been issued. Demolition of the old building is scheduled for March of 2017 and construction on the new fire station will begin shortly thereafter.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 7 – Long-Term Debt

Long-term obligations are generally paid out of the general fund. Changes in long-term obligations for the year ended June 30, 2016, are as follows:

	<u>Balance 6/30/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2016</u>	<u>Due in One Year</u>
<i>Governmental Activities:</i>					
Capital leases	\$ -	\$ 925,000	\$ 60,608	\$ 864,392	\$ 123,618
General obligation bonds	-	9,785,705	-	9,785,705	-
Net pension liability	965,910	1,380,417	-	2,346,327	-
Compensated absences	1,900,876	-	166,879	1,733,997	166,879
Total long-term debt	<u>\$2,866,786</u>	<u>\$12,091,122</u>	<u>\$ 227,487</u>	<u>\$ 14,730,421</u>	<u>\$ 290,497</u>

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 charges for services. 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, and provisions for bad debt.

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 – Operating Leases

The District has a cancelable computer aided dispatching service agreement with the City of Phoenix. The current agreement is effective for a period of one year ending June 30, 2017. Rents are paid on a quarterly basis for dispatch and technical services at a cost of \$74,271. Total rent for the year ended June 30, 2016, was \$297,085.

The District has an agreement for the use of a communications tower. The agreement is in effect until May 1, 2017. The term may extend for four renewal periods of five years each. Rents are paid on a monthly basis at a cost of \$196 through April 1, 2015, after which it is \$202. With each renewal period, the payment increases by 3%. Total rent for the year ended June 30, 2016, was \$2,424.

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 9 – Operating Leases - Continued

The District has two agreements with a financial institution for the use of computers. The agreements are in effect until January 1, 2018 and October 1, 2019. Rents are paid on a monthly basis at a base cost of \$913 and \$307, respectively. Total rent for the year ended June 30, 2016, was \$10,956 and \$3,688, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ending June 30	
2017	\$ 14,644
2018	9,166
2019	3,688
2020	922
2021	-
	<u>\$ 28,420</u>

Note 10 – Capital Leases

The District acquired two fire engines by granting leasehold interests in the underlying assets to the creditors (the Bank). The Bank, 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 Bank, subject to receiving Board appropriations, until the obligation to the Bank is satisfied. Once the obligations to the Bank are satisfied, all rights, title, and interest in the engines 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 agreements.

The District's obligations are accounted for in the Statement of Net Assets. Assets under capital lease totaled \$922,266 less accumulated depreciation of \$69,170 at June 30, 2016.

The description of the capital leases are as follows:

Description	Interest Rate	Lease Term	Balance 6/30/2016
E-One Max Typhoon Fire Engine	2.63%	9/1/2022	\$ 432,196
E-One Max Typhoon Fire Engine	2.63%	9/1/2022	\$ 432,196

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 10 – Capital Leases - Continued

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2016:

Year Ended June 30	
2017	\$ 145,544
2018	145,544
2019	145,544
2020	145,544
2021	145,544
Thereafter	218,316
	<u>946,036</u>
Less: Amount Representing Interest	<u>(81,644)</u>
	<u>\$ 864,392</u>

Note 11 – General Obligation Bonds

General Obligation(GO) bonds have been issued, after approval by voters at an authorized bond election to finance construction of new administrative offices, a new fire station, upgrade radio infrastructure, purchase three new fire engines, and pay costs incurred in connection with delivery of the bonds. At June 30, 2016 the District had \$6,980,000 of unissued GO bonds, which were authorized in November 2015.

As of June 30, 2016 bonds payable consisted of the following:

2015 General Obligation Bonds (issued 5/18/16) due in annual installments of \$587,100 to \$1,196,225 through 7/1/2035; interest at 2% to 4%. Original issue amount \$9,055,000 principal with a premium of \$730,705.	\$9,785,705
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**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 11 – General Obligation Bonds - Continued

The following is a summary of debt service requirements to maturity for GO bonds at June 30, 2016:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Premium (Discount)</u>	<u>Total</u>
2017	\$ -	\$ -	\$ -	\$ -
2018	875,000	321,225	11,673	1,207,898
2019	725,000	269,450	30,791	1,025,241
2020	340,000	247,700	9,353	597,053
2021	350,000	240,900	10,504	601,404
2022-2026	1,875,000	1,067,500	165,769	3,108,269
2027-2031	2,220,000	722,800	303,971	3,246,771
2031-2035	1,545,000	226,450	216,408	1,987,858
2036	1,125,000	50,850	(17,764)	1,158,086
Total	<u>\$ 9,055,000</u>	<u>\$ 3,146,875</u>	<u>\$ 730,705</u>	<u>\$ 12,932,580</u>

Note 12 – Commitments

The District has a line of credit with a financial institution totaling \$10,000,000. The District did not have a balance outstanding on this line of credit as of June 30, 2016.

Note 13 – Retirement Plans

The District and employees contribute to two retirement plans. These plans are a deferred compensation plan and the Public Safety Personnel Retirement System (PSPRS). Benefits for non-public safety personnel are established based on contributions to the plan. For public safety personnel, state statute regulates retirement, death, long-term disability, and survivor insurance premium benefits.

At June 30, 2016 the District reported the following aggregate amounts related to pensions for which it contributes:

	<u>PSPRS</u>
Net pension liability	\$ 2,346,327
Deferred outflows of resources	2,775,276
Deferred inflows of resources	1,390,731
Pension expense	647,065

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 13 – Retirement Plans - Continued

Deferred Compensation Plan

The District has a deferred compensation plan for all personnel. In this plan, employees can designate a percentage of their salary or a specific amount to be deducted from their paychecks. This plan is designed to provide benefits for retirement for any employee who chooses to participate in the plan. The District makes the following contributions: support staff receives 6% of their salary, management receives 10% of their salary and operations personnel receive a \$50 match per pay period. District contributions for the year ended June 30, 2016 totaled \$112,364.

Public Safety Personnel Retirement System

Plan Description -The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information of PSPRS. The reports are available on the PSPRS Web site at www.psprs.com.

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

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 13 – Retirement Plans – Continued

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

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 13 – Retirement Plans – Continued

Employees covered by benefit terms - At June 30, 2016, the following employees were covered by the agent pension plan’s benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	3
DROP	2
Active employees	83
Total	93

Contributions - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance 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, 2016, active PSPRS members were required to contribute 11.65% of the members’ annual covered payroll. The District is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2016, was 12.73% for the pension plan, and 0.42% for the health insurance premium benefit.

Pension Liability – The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2015, reflect the following changes of benefit terms and actuarial assumptions:

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.

Annual Pension Cost (APC) - The District's annual and required contributions for the year ended June 30, 2016 is \$1,005,470. The District's actuarial valuation is for the year ended June 30, 2015. Information related to this valuation follows.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 13 – Retirement Plans – Continued

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Discount Rate	7.85%
Projected salary increases	4 - 8%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actual experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

Pension Discount Rates - The projection of cash flows used to determine the PSPRS discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the 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.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 13 – Retirement Plans – Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at June 30, 2015	\$ 20,167,102	\$ 19,201,192	\$ 965,910
Changes for the current year:			
Service cost	1,271,270	-	1,271,270
Interest on the total pension liability	1,627,227	-	1,627,227
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	824,429	-	824,429
Change of assumptions or other inputs	-	-	-
Contributions – Employer	-	877,149	(877,149)
Contributions – Employee	-	763,225	(763,225)
Net investment income	-	726,689	(726,689)
Benefit payments, including refunds of employee contributions	(147,467)	(147,467)	-
Pension Plan Administrative Expense	-	(18,120)	18,120
Other changes	-	(6,434)	6,434
Net changes	3,575,459	2,195,042	1,380,417
Balances at June 30, 2016	\$ 23,742,561	\$ 21,396,234	\$ 2,346,327

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

	1% Decrease	Current Discount Rate	1% Increase
	6.85%	7.85%	8.85%
Net pension liability (asset)	\$ 6,184,149	\$ 2,346,327	\$ (792,583)

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

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 13 – Retirement Plans – Continued

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the District recognized pension expense for PSPRS of \$647,065. At June 30, 2016, the District reported deferred inflows of resources related to pensions from the following sources:

PSPRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 743,076	\$ 847,123
Changes of assumptions or other inputs	356,140	-
Net difference between projected and actual earnings on pension plan investments	670,590	543,608
District contributions subsequent to the measurement date	<u>1,005,470</u>	<u>-</u>
Total	<u><u>\$ 2,775,276</u></u>	<u><u>\$ 1,390,731</u></u>

The amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2017	\$10,668
2018	10,668
2019	10,666
2020	191,872
2021	24,223
Thereafter	<u>130,978</u>
	<u><u>\$379,075</u></u>

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015 were established by the June 30, 2013 actuarial valuations, and those valuations were based on the following actuarial methods and assumptions.

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 13 – Retirement Plans – Continued

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

Projections of benefits are based on (1) the plan as the District and plan's members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the District and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2016 contribution requirements:

PSPRS—OPEB Contribution Requirements

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% Market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4%–8%
Wage growth	4%

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

<u>PSPRS</u>	<u>Year ending June 30,</u>	<u>Annual OPEB Costs</u>	<u>Percentage Contributed</u>
Health Insurance	2016	\$29,783	100%
	2015	54,372	100%
	2014	48,209	100%

**Daisy Mountain Fire District
Notes to Financial Statements - Continued**

Note 13 – Retirement Plans – Continued

Agent Plan OPEB Funding Status (Required Supplementary Information) – The health insurance premium benefit plan’s funded status as of June 30, 2016 along with the actuarial assumptions used in those methods follow:

Valuation Ending June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2016	\$ 608,085	\$ 733,020	\$ 124,935	83.0%	\$7,242,871	1.72%
2015	537,771	641,491	103,720	83.8%	6,612,440	1.57%
2014	462,277	604,706	142,429	76.45%	6,556,127	2.17%

The actuarial methods and assumptions used are the same or all the PSPRS health insurance premium benefit plans (unless noted), and the most recent valuation date are as follows:

OPEB Funded Status

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% Market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4%–8%
Wage growth	4%

Note 14 - Interfund Activity

Interfund transfers for the year ended June 30, 2016 consisted of a transfer from the debt service fund to the general fund of \$736,923 and a transfer from the debt service fund to the capital projects fund totaling \$8,568,077. These transfers were from bond proceeds received. The transfer to the capital projects fund is to fund planned capital projects and the transfer to the general fund is for the purchase of ambulances and EMS items.

Daisy Mountain Fire District
Notes to Financial Statements - Continued

Note 15 – Risk Management

The District is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. The District maintains commercial liability insurance to cover losses. Any settled claims resulting from these risks have not exceeded commercial insurance in any of the last three years. 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. Consequently, no provision has been made in the financial statements for possible losses of this nature.

Note 16 – Subsequent Events

Management has evaluated subsequent events through January 23, 2017, the date of the financial statements were available to be issued noting the following:

On October 24, 2016, the District Board approved a radio infrastructure upgrade project. The expected cost of this project is \$1,006,658.

Required Supplementary Information

Daisy Mountain Fire District
Required Supplementary Information
General Fund - Budgetary Comparison Schedule
Year Ended June 30, 2016

	Amended and Final Budget	Actual Amounts	Variance with Final Budget- Favorable (Unfavorable)
Revenues			
<i>Taxes:</i>			
Property taxes	\$ 11,439,263	\$ 11,389,748	\$ (49,515)
Fire district assistance tax	400,000	408,401	8,401
Fire insurance premium tax	106,635	111,763	5,128
Charges for services	1,753,836	2,044,006	290,170
Capital grants	329,000	228,587	(100,413)
Interest	3,500	12,180	8,680
Other income	75,200	87,538	12,338
Total revenues	14,107,434	14,282,223	174,789
Expenditures			
<i>Fire protection and emergency services</i>			
Personnel	7,854,875	8,174,114	(319,239)
Employee benefits and expenses	3,575,680	2,998,337	577,343
Utilities and communication	678,585	510,089	168,496
Repairs and maintenance	297,000	479,273	(182,273)
Administration	453,924	487,332	(33,408)
Operating expenses	521,237	713,884	(192,647)
Contingency/carryforward	344,744	-	344,744
Capital outlay	1,857,745	1,822,898	34,847
<i>Debt service:</i>			
Principal payments	160,525	60,608	99,917
Interest payments	10,000	12,164	(2,164)
Total expenditures	15,754,315	15,258,699	495,616
Excess of revenues over expenditures	(1,646,881)	(976,476)	670,405
Capital lease	926,622	925,000	(1,622)
Transfers in	720,259	736,923	16,664
Changes in fund balance	-	685,447	685,447
Fund balance, beginning of year	-	2,676,944	2,676,944
Fund balance, end of year	\$ -	\$ 3,362,391	\$ 3,362,391

See accompanying notes to the budgetary comparison schedule.

**Daisy Mountain Fire District
Required Supplementary Information
Notes to Budgetary Comparison Schedule
Year Ended June 30, 2016**

Note 1 – Budgetary Requirements and Basis of Accounting

In accordance with the Arizona Revised Statutes, the District is required to adopt an annual operating budget no later than August 1st. The budget is adopted on a basis consistent with generally accepted accounting principles and appropriations lapse at year-end.

Note 2– Expenditures in Excess of Appropriations

For the year ended June 30, 2016, expenditures and transfers that exceeded final budget amounts were as follows:

<u>Category</u>	<u>Excess</u>
Personnel	\$319,239
Repairs and Maintenance	182,273
Administration	33,408
Operating Expenses	192,647
Interest payment	2,164

The excesses in other expenditures were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenues, or both. Despite the unfavorable line item variances, the total budget variance of \$685,447 was positive during the year.

**Daisy Mountain Fire District
Required Supplementary Information
Schedule of Changes in the District's
Net Pension Liability and Related Ratios
Year Ended June 30, 2016**

	Fiscal Year		
	2016 (2015)	2015 (2014)	
Total pension liability			
Service cost	\$ 1,271,270	\$ 1,289,372	Information not available
Interest on total pension liability	1,627,227	1,473,556	
Changes of benefit terms	-	(54,793)	
Difference between expected and actual experience in the measurement of the pension liability	824,429	(1,044,263)	
Changes of assumptions or other inputs	-	439,020	
Benefit payments, including refunds of employee contributions	(147,467)	(125,047)	
Net change in pension liability	\$ 3,575,459	\$ 1,977,845	
Total pension liability - beginning	20,167,102	18,189,257	
Total pension liability - ending (a)	<u>\$ 23,742,561</u>	<u>\$ 20,167,102</u>	
Plan fiduciary net position			
Contributions - employer	\$ 877,149	\$ 865,118	
Contributions - employee	763,225	739,872	
Net investment income	726,689	2,198,085	
Benefit payments, including refunds of employee contributions	(147,467)	(125,047)	
Pension plan administrative expense	(18,120)		
Other changes	(6,434)	(30,118)	
Net change in plan fiduciary net position	2,195,042	3,647,910	
Plan fiduciary net position - beginning	19,201,192	15,553,282	
Plan fiduciary net position - ending (b)	<u>\$ 21,396,234</u>	<u>\$ 19,201,192</u>	
District's net pension liability - ending (a) - (b)	<u>\$ 2,346,327</u>	<u>\$ 965,910</u>	
Plan fiduciary net position as a percentage of the total pension liability	90%	95%	
Covered-employee payroll	\$ 6,612,440	\$ 6,556,127	
District's net pension liability as a percentage of covered-employee payroll	35%	15%	

See accompanying notes to the Pension Schedules

**Daisy Mountain Fire District
Required Supplementary Information
Schedule of District Pension Contributions
Year Ended June 30, 2016**

PSPRS	2016 Measurement Date (2015)	2015 Measurement Date (2014)	2006 through 2014
Actuarially determined contribution	\$ 877,149	\$ 865,118	Information not available
District's contributions in relation to the actuarially determined contribution	877,149	865,118	
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
District's covered-employee payroll	<u>\$ 6,612,440</u>	<u>\$ 6,556,127</u>	
District's contributions as a percentage of covered-employee payroll	<u>13.27%</u>	<u>13.20%</u>	

See accompanying notes to the Pension Schedules

**Daisy Mountain Fire District
Required Supplementary Information
Notes to Pension Plan Schedules
Year Ended June 30, 2016**

Note 1 – Actuarially Determined Contribution Rates

Actuarial determined contribution rates for PSPRS are calculated as of June 30 each year, which are 12 months prior to the beginning of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%–8%
Wage growth	4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

INDEPENDENT AUDITOR'S 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 District Board
Daisy Mountain Fire District

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Daisy Mountain Fire District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Daisy Mountain Fire District's basic financial statements, and have issued our report thereon dated January 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Daisy Mountain Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Daisy Mountain Fire 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, 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 Daisy Mountain Fire District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance with Regulatory Requirements

In connection with our audit, nothing came to our attention that caused us to believe that Daisy Mountain Fire District incurred any debt or liability in excess of taxes levied and to be collected and the monies actually available and unencumbered at that time in the District's General Fund, except for those liabilities as prescribed in A.R.S. section 48-805, subsection B, paragraph 2 and sections 48-806 and 48-807, or that the District failed to comply with A.R.S. section 48-805.02 subsection F. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. This is supplemental reporting for state compliance purposes only.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Heidenreich & Heidenreich CPAs PLLC".

Heidenreich & Heidenreich, CPAs, PLLC

Phoenix, AZ
January 23, 2017