



Picture Rocks Fire District
Financial Statements
Year Ended June 30, 2018

Picture Rocks Fire District

Financial Statements
Year Ended June 30, 2018

PICTURE ROCKS FIRE DISTRICT

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PICTURE ROCKS FIRE DISTRICT

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**PICTURE ROCKS FIRE DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Picture Rocks Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Picture Rocks Fire District (Fire District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 unmodified and qualified audit opinions.

Basis for Qualified Opinions

We were unable to obtain sufficient appropriate audit evidence for wildland fire receivables (reported as a component of accounts receivable) in the governmental activities and general fund. The possible effects of this matter on the receivables, program revenues, and net position of the governmental activities, as well as the possible effects on the receivables, deferred inflows of resources and fund balance of the general fund have not been determined.

Qualified Opinions

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinions paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and general fund of the Picture Rocks Fire District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the debt service fund of the Picture Rocks Fire District, as of June 30, 2018, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the Fire District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire District's basic financial statements. The Other Supplementary Information, as listed in the table of contents, is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2020, on our consideration of Picture Rocks 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 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 Picture Rocks Fire District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
September 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

As management of the Picture Rocks Fire District (Fire District), we offer readers of the Fire District's financial statements this narrative overview and analysis of the financial activities of the Fire District for the fiscal year ended June 30, 2018. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

NATURE OF OPERATIONS

The Picture Rocks Fire District provides fire, ambulance, and paramedic services to homes, property and persons residing within the Fire District's boundaries, as well as services to locations and persons outside the Fire District through mutual aid agreements and contracts.

A five member Board whose members are elected to their offices in an at-large election governs the Fire District. The Board Members serve staggered terms of four years. The Fire District employs a Fire Chief who serves as the Chief Administrative Officer of the Fire District. The Picture Rocks Fire District provides a wide array of services to the residents and visitors of the Fire District.

Those services include fire suppression and advanced life support ambulance transport service. Other services provided include fire and general safety public education, fire prevention inspectional services, both in-house and civilian training programs, special rescue services, and desert pest relocation. The Fire District maintains both automatic and mutual aid agreements with our regional fire service organizations.

The Fire District operates from one fire station. The Fire District employs 26 career and approximately one part-time personnel.

FINANCIAL HIGHLIGHTS

- The Fire District's total net position of governmental activities decreased \$234,731 which represents a 47 percent decrease from the prior fiscal year due primarily to increased pension expenses.
- General revenues accounted for \$1.6 million in revenue, or 56 percent of all current fiscal year revenues. Program specific revenue in the form of charges for services and grants and contributions accounted for \$1.2 million or 44 percent of total current fiscal year revenues.
- The Fire District had approximately \$3.0 million in expenses related to governmental activities.

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

FINANCIAL HIGHLIGHTS

- The General Fund had \$2.6 million in current fiscal year revenues, which primarily consisted of property taxes, charges for services, and intergovernmental; and \$2.6 million in expenditures. The General Fund's fund balance decreased from \$424,793 at the prior fiscal year end to \$389,835 at the end of the current fiscal year primarily due to an increase in public safety expenditures.
- The Debt Service Fund had \$239,123 in current fiscal year revenues, which primarily consisted of property taxes, and \$236,379 in expenditures. The Debt Service Fund's fund balance increased from \$321,799 at the prior fiscal year end, to \$324,543 at the end of the current fiscal year.

RESULTS OF OPERATIONS

There were a number of significant accomplishments during the 2018 fiscal year. They included:

- Ran a total of 1,111 calls
- Fire calls numbered 186
- Emergency Medical Service calls numbered 925
- Teach CPR to area residents during the year
- Gave away car seats and smoke detectors to area residents
- Continued teaching fire safety at all three public schools located in the Fire District

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Fire District's basic financial statements. The Fire District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other 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 Fire District's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

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

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

OVERVIEW OF FINANCIAL STATEMENTS

The statement of activities presents information showing how the Fire District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported 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 compensated absences).

The government-wide financial statements outline functions of the Fire District that are principally supported by property taxes and charges for services. The governmental activities of the Fire District include public safety, administration, and interest on long-term debt.

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 Fire District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fire District are governmental funds.

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 use the modified accrual basis of accounting and focus on near-term inflows 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 the Fire District'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 Fire District'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.

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 and Debt Service Funds, both of which are considered to be major funds. The Fire District does not have any non-major governmental funds.

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. The notes to the financial statements can be found immediately following the basic financial statements.

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

OVERVIEW OF FINANCIAL STATEMENTS

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Fire District's budget process and pension plans. The Fire District adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund as required supplementary information. Schedules for the pension and other postemployment benefit plans have been provided as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Fire District, assets and deferred outflows exceeded liabilities and deferred inflows by \$261,076 at the current fiscal year end.

A portion of the Fire District's net position reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related outstanding debt used to acquire those assets. The Fire District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the Fire District's investment in its capital assets is reported net of related outstanding 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. In addition, a portion of the Fire District's net position represents resources that are subject to external restrictions on how they may be used.

The following table presents a summary of the Fire District's net position for the fiscal years ended June 30, 2018 and June 30, 2017.

	As of June 30, 2018	As of June 30, 2017
Current and other assets	\$ 1,526,382	\$ 1,289,883
Capital assets, net	2,714,556	2,844,516
Total assets	<u>4,240,938</u>	<u>4,134,399</u>
Deferred outflows	<u>1,185,316</u>	<u>979,642</u>
Current liabilities	319,837	169,203
Long-term liabilities	4,296,686	4,163,265
Total liabilities	<u>4,616,523</u>	<u>4,332,468</u>
Deferred inflows	<u>548,655</u>	<u>299,292</u>
Net position:		
Net investment in capital assets	902,818	800,340
Restricted	334,801	334,126
Unrestricted	(976,543)	(652,185)
Total net position	<u>\$ 261,076</u>	<u>\$ 482,281</u>

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Fire District's financial position is the product of several financial transactions including the net result of activities, the payment of debt, and the addition and depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- The current year principal payment of \$188,000 for bonds and \$53,000 for capital leases.
- The current year capital asset additions of \$86,917.
- The current year depreciation expense of \$124,212.

Changes in net position. The Fire District's total revenues for the current fiscal year were \$2.8 million. The total cost of all programs and services was \$3.0 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

	<u>Fiscal Year Ended June 30, 2018</u>	<u>Fiscal Year Ended June 30, 2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 643,060	\$ 662,436
Operating grants and contributions	606,060	216,884
General revenues:		
Property taxes, levied for general purposes	1,076,421	1,075,062
Property taxes, levied for debt purposes	232,845	259,033
Fire district assistance taxes	215,978	219,917
Investment income	7,131	5,707
Miscellaneous	33,389	39,809
Total revenues	<u>2,814,884</u>	<u>2,478,848</u>
Expenses:		
Public safety	2,866,641	2,209,753
Administration	109,752	93,571
Interest on long-term debt	73,222	80,365
Total expenses	<u>3,049,615</u>	<u>2,383,689</u>
Changes in net position	<u>(234,731)</u>	<u>95,159</u>
Net position, beginning, as restated	<u>495,807</u>	<u>387,122</u>
Net position, ending	<u>\$ 261,076</u>	<u>\$ 482,281</u>

- Property taxes and fire district assistance taxes (county aid) provided funding of \$1.3 million and \$215,978, respectively.
- Ambulance revenues, other charges for services, and operating grants and contributions provided funding of \$1.2 million. The increase in operating grants and contributions was primarily due to the receipt of the Staffing for Adequate Fire & Emergency Response Grant (SAFER).
- The cost of all governmental activities this year was \$3.0 million, an increase of \$665,926 primarily due to expenses associated with the SAFER grant and increased pension expenses.

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE FIRE DISTRICT'S FUNDS

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

Governmental funds. The focus of the Fire 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 Fire District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Fire District's net resources available for spending at the end of the fiscal year.

The financial performance of the Fire District as a whole is reflected in its governmental funds. As the Fire District completed the year, its governmental funds reported a combined fund balance of \$714,378, a decrease of \$32,214 primarily due to an increase in public safety expenditures for judgments payments.

The General Fund is the principal operating fund of the Fire District. The decrease in fund balance of \$34,958 to \$389,835 as of fiscal year end was a result of an increase in public safety expenditures for judgments payments. General Fund revenues increased \$570,956 as a result of the SAFER grant. General Fund expenditures increased \$355,762 also as a result of the SAFER grant and the judgment payments.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Fire District maintained the original adopted General Fund annual expenditure and revenue budgets. No revisions have been made.

A schedule showing the original and final budget amounts compared to the Fire District's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The favorable variance of \$341,974 in public safety was a result of budgeting for grants that were not received and funding of the SAFER grant.
- The favorable variance of \$114,940 in capital outlay was a result of budgeting for capital assets that were not purchased during the year.

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At year end, the Fire District had invested \$4.8 million in capital assets, including land, buildings, equipment, and vehicles. Total depreciation expense for the current fiscal year was \$124,212.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2018 and June 30, 2017.

	<u>As of June 30, 2018</u>	<u>As of June 30, 2017</u>
Capital assets – non-depreciable	\$ 427,700	\$ 427,700
Capital assets – depreciable, net	2,286,856	2,416,816
Total	<u>\$ 2,714,556</u>	<u>\$ 2,844,516</u>

Additional information on the Fire District's capital assets can be found in Note 4.

Debt Administration. At year end, the Fire District had \$1.9 million in long-term debt outstanding, \$241,798 due within one year.

State statutes currently limit the amount of general obligation debt a Fire District may issue to six percent of the net full cash assessed valuation. The current debt limitation for the Fire District is \$2.1 million.

Additional information on the Fire District's long-term debt can be found in Notes 5 through 7.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the Fire District's administration during the process of developing the fiscal year 2018-19 budget. Among them was declining SAFER revenues.

Beginning in January 2015 state statute limits the ability of a fire district to raise levy limits and/or assessed valuation. We are limited to increasing our budget five percent and assessed valuations can go up only eight percent. These increases would only occur if we had increasing values and/or internal growth in the area, we have neither. There is no new commercial business coming into the area and we are primarily a residential, single-family home community with manufactured homes outnumbering site-built homes. Ambulance revenue has stabilized some with the Affordable Healthcare Act and Arizona allowing more people to get back on Medicaid (AHCCCS). However, we do not see ambulance revenue as being a growing revenue stream that will make up for the loss of tax dollars.

**PICTURE ROCKS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Budgeted expenditures in the General Fund decreased two percent to \$3.0 million in fiscal year 2018-19 primarily due to declining SAFER grant revenues. Property taxes are expected to be the primary funding sources.

CONTACTING THE FIRE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Administration Center, Picture Rocks Fire District, 12121 W. Picture Rocks Road, Tucson, Arizona 85743.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**PICTURE ROCKS FIRE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 882,140
Property taxes receivable	85,838
Accounts receivable	365,776
Due from federal government	60,851
Prepaid items	9,764
Total current assets	1,404,369
Noncurrent assets:	
Net other postemployment benefit assets	122,013
Capital assets, non-depreciable	427,700
Capital assets, depreciable (net)	2,286,856
Total noncurrent assets	2,836,569
Total assets	4,240,938
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension and other postemployment benefit plan items	1,125,381
Deferred charge on refunding	59,935
Total deferred outflows of resources	1,185,316
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	47,489
Accrued payroll and employee benefits	272,348
Compensated absences payable	75,815
Bonds payable	194,000
Lease payable	47,798
Total current liabilities	637,450
Noncurrent liabilities:	
Compensated absences	13,379
Bonds payable	1,316,000
Lease payable	313,875
Net pension liabilities	2,335,667
Net other postemployment benefit liability	152
Total noncurrent liabilities	3,979,073
Total liabilities	4,616,523
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension and other postemployment benefit plan items	548,655
<u>NET POSITION</u>	
Net investment in capital assets	902,818
Restricted for:	
Debt service	334,801
Unrestricted	(976,543)
Total net position	\$ 261,076

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

**PICTURE ROCKS FIRE DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Public safety	\$ 2,866,641	\$ 643,060	\$ 606,060	\$ (1,617,521)
Administration	109,752			(109,752)
Interest on long-term debt	73,222			(73,222)
Total governmental activities	<u>\$ 3,049,615</u>	<u>\$ 643,060</u>	<u>\$ 606,060</u>	<u>(1,800,495)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	1,076,421
Property taxes, levied for debt purposes	232,845
Fire district assistance taxes	215,978
Investment income	7,131
Miscellaneous	33,389
Total general revenues	<u>1,565,764</u>

Changes in net position	(234,731)
Net position, beginning of year, as restated	<u>495,807</u>
Net position, end of year	<u>\$ 261,076</u>

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

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FUND FINANCIAL STATEMENTS

**PICTURE ROCKS FIRE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Debt Service	Total Governmental Funds
<u>ASSETS</u>			
Cash and investments	\$ 561,720	\$ 320,420	\$ 882,140
Property taxes receivable	71,457	14,381	85,838
Accounts receivable	365,776		365,776
Due from federal government	60,851		60,851
Prepaid items	9,764		9,764
Total assets	\$ 1,069,568	\$ 334,801	\$ 1,404,369
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 47,489	\$	\$ 47,489
Accrued payroll and employee benefits	272,348		272,348
Total liabilities	319,837		319,837
Deferred inflows of resources:			
Unavailable revenues - property taxes	50,723	10,258	60,981
Unavailable revenues - intergovernmental	60,851		60,851
Unavailable revenues - charges for services	248,322		248,322
Total deferred inflows of resources	359,896	10,258	370,154
Fund balances:			
Nonspendable	9,764		9,764
Restricted		324,543	324,543
Unassigned	380,071		380,071
Total fund balances	389,835	324,543	714,378
 Total liabilities, deferred inflows of resources and fund balances	 \$ 1,069,568	 \$ 334,801	 \$ 1,404,369

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

**PICTURE ROCKS FIRE DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total governmental fund balances	\$	714,378
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 4,834,531	
Less accumulated depreciation	<u>(2,119,975)</u>	2,714,556
<p>Some receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.</p>		
Property taxes	60,981	
Intergovernmental	60,851	
Charges for services	<u>248,322</u>	370,154
<p>Deferred items related to the net cost of issuance of bonds are amortized over the life of the associated bond issue in the government-wide statements but not reported in the funds.</p>		
		59,935
<p>Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future periods and, therefore, are not reported in the funds.</p>		
Deferred outflows of resources related to pensions/OPEB	1,125,381	
Deferred inflows of resources related to pensions/OPEB	<u>(548,655)</u>	576,726
<p>The Net OPEB asset is not a current financial resource and, therefore, is not reported in the funds.</p>		
		122,013
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Compensated absences payable	(89,194)	
Obligations under capital leases	(361,673)	
Net OPEB liability	(152)	
Net pension liability	(2,335,667)	
Bonds payable	<u>(1,510,000)</u>	<u>(4,296,686)</u>
Net position of governmental activities	\$	<u>261,076</u>

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

PICTURE ROCKS FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 1,081,519	\$ 234,914	\$ 1,316,433
Fire district assistance taxes	215,978		215,978
Intergovernmental	545,209		545,209
Charges for services	700,678		700,678
Investment income	2,922	4,209	7,131
Miscellaneous	33,389		33,389
Total revenues	<u>2,579,695</u>	<u>239,123</u>	<u>2,818,818</u>
Expenditures:			
Current -			
Public safety	2,355,199		2,355,199
Administration	103,620		103,620
Capital outlay	86,917		86,917
Debt service -			
Principal retirement	53,000	188,000	241,000
Interest and fiscal charges	16,281	48,379	64,660
Total expenditures	<u>2,615,017</u>	<u>236,379</u>	<u>2,851,396</u>
Changes in fund balances	<u>(35,322)</u>	<u>2,744</u>	<u>(32,578)</u>
Fund balances, beginning of year	424,793	321,799	746,592
Increase (decrease) in reserve for prepaid items	364		364
Fund balances, end of year	<u>\$ 389,835</u>	<u>\$ 324,543</u>	<u>\$ 714,378</u>

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

**PICTURE ROCKS FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Changes in fund balances - total governmental funds **\$ (32,578)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 86,917	
Less current year depreciation	<u>(124,212)</u>	(37,295)

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	(7,167)	
Intergovernmental	60,851	
Charges for services	<u>(57,618)</u>	(3,934)

Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Capital lease principal retirement	53,000	
Bond principal retirement	<u>188,000</u>	241,000

Governmental funds report pension/OPEB contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension/OPEB liability, adjusted for deferred items, is reported as pension/OPEB expense in the Statement of Activities.

Current year pension/OPEB contributions	300,660	
Pension/OPEB expense	<u>(736,652)</u>	(435,992)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Prepaid items	364	
Judgments	55,965	
Deferred charges on issuance of debt	(8,562)	
Compensated absences	<u>(13,699)</u>	<u>34,068</u>

Changes in net position in governmental activities **\$ (234,731)**

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

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Picture Rocks Fire District (Fire District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2018, the Fire District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement requires governments providing defined benefit postemployment benefits other than pensions to recognize the long-term obligation for those benefits as a liability, and to more comprehensively and comparably measure the annual costs of those benefits. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information. The more significant of the Fire District's accounting policies are described below.

A. Reporting Entity

The Governing Board is organized under Statute Title 48 of the Arizona Revised Statutes (A.R.S.). Management of the Fire District is independent of other state or local governments. The County Treasurer collects taxes for the Fire District, but exercises no control over its expenditures/expenses.

The power and authority given to the Fire District is vested in a Governing Board, each member being elected for a four-year term. The Governing Board has the statutory authority to adopt and modify the budget; levy taxes; control all assets, including facilities and properties; authorize borrowing, or long-term debt issuances; sign contracts, and develop the programs to be provided. The responsibility and accountability over all funds and fiscal matters are vested in the Governing Board. The Fire District is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit from nor imposes a financial burden on the Fire District.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Fire District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Fire District for financial statement presentation purposes, and the Fire District is not included in any other governmental reporting entity.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Fire District as a whole. The reported information includes all of the nonfiduciary activities of the Fire District. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Fire District. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Fire District does not have any business-type activities.

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. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – 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.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For this purpose, the Fire 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 payable, are recorded only when payment is due.

Property taxes, charges for services, fees and interest 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. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Unearned revenues arise when resources are received by the Fire District before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as unavailable revenues on the governmental fund financial statements.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Fire District currently only has major funds.

The Fire District reports the following major governmental funds:

General Fund – The General Fund is the Fire District’s primary operating fund. It accounts for all resources used to finance Fire District maintenance and operation except those required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

D. Cash and Investments

A.R.S. require the Fire District to deposit cash with the Pima County Treasurer’s Investment Pool. Interest earned from investments purchased with pooled monies is allocated to each of the Fire District’s funds based on their average balances. All investments are stated at fair value.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statute does not include any requirements for credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

G. Property Tax Calendar

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal 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.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenses when consumed in the government-wide financial statements and as expenditures when purchased in the fund financial statements.

I. Capital Assets

Capital assets, which include land; buildings and improvements; equipment; communications; and vehicles and apparatus, are reported in the government-wide financial statements.

The Fire District changed its capitalization threshold from \$2,500 to \$7,500 during the fiscal year. Capital assets are defined by the Fire District as assets with an initial, individual cost in excess of \$7,500 and an estimated useful life of more than one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	28 – 40 years
Equipment	5 – 7 years
Fire trucks	10 years
Automobiles	5 years
Office equipment	5 years

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Compensated Absences

The Fire District's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements. The liability for vacation and sick leave is reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

L. Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit (OPEB) assets and liabilities, related deferred outflows of resources and deferred inflows of resources, and related pension expenses, information about the pension and OPEB plans' fiduciary net position and additions to/deductions from the plans' 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.

M. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. Net Position Flow Assumption

In the government-wide financial statements the Fire District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

P. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – 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.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Fire District does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no committed fund balance amounts are reported.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Fire District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by the formal Governing Board action. The Fire District does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Fire District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

	General Fund	Debt Service Fund
Fund Balances:		
Nonspendable:		
Prepaid items	\$ 9,764	\$
Restricted:		
Debt service		324,543
Unassigned	380,071	
Total fund balances	\$ 389,835	\$ 324,543

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Fire District’s deposits may not be returned to the Fire District. The Fire District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the Fire District’s deposits was \$347,152 and the bank balance was \$381,800. At year end, \$59,487 of the Fire District’s deposits were covered by collateral held by the pledging financial institution’s trust department or agent but not in the Fire District’s name.

Fair Value Measurements. The Fire District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

The County Treasurer’s pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The fair value of each participant’s position in the County Treasurer investment pool approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

At year end, the Fire District’s investments consisted of the following:

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer’s investment pool	270 days	<u>\$ 534,988</u>

Interest Rate Risk. The Fire 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. The Fire District has no investment policy that would further limit its investment choices. As of year end, the Fire District’s investment in the County Treasurer’s investment pool did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk – Investments. The Fire District’s investment in the County Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the Fire District’s portion is not identified with specific investments and is not subject to custodial credit risk.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the current fiscal year follows:

<u>Governmental Activities</u>	<u>Beginning Balance (As Restated)</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 427,700	\$	\$	\$ 427,700
Total capital assets, not being depreciated	<u>427,700</u>	<u></u>	<u></u>	<u>427,700</u>
Capital assets, being depreciated:				
Buildings and improvements	2,687,237	44,616		2,731,853
Equipment – administrative	61,058			61,058
Equipment – fire	303,797			303,797
Vehicles	1,267,822	42,301		1,310,123
Total assets, being depreciated	<u>4,319,914</u>	<u>86,917</u>	<u></u>	<u>4,406,831</u>
Less accumulated depreciation for:				
Buildings and improvements	(668,018)	(69,274)		(737,292)
Equipment – administrative	(61,058)			(61,058)
Equipment – fire	(247,883)	(25,757)		(273,640)
Vehicles	(1,018,804)	(29,181)		(1,047,985)
Total accumulated depreciation	<u>(1,995,763)</u>	<u>(124,212)</u>	<u></u>	<u>(2,119,975)</u>
Total capital assets, being depreciated, net	<u>2,324,151</u>	<u>(37,295)</u>		<u>2,286,856</u>
Governmental activities capital assets, net	<u>\$ 2,751,851</u>	<u>\$ (37,295)</u>	<u>\$</u>	<u>\$ 2,714,556</u>

Depreciation expense of \$118,092 and \$6,120 were charged to the public safety and administration governmental functions, respectively.

NOTE 5 – GENERAL OBLIGATION BONDS PAYABLE

Bonds payable at year end consisted of the following outstanding general obligation bonds. Property taxes from the Debt Service Fund are used to pay bonded debt.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities:					
Refunding Bond Series 2015	\$ 1,995,000	2.85%	7/1/19-25	\$ 1,510,000	\$ 194,000

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 – GENERAL OBLIGATION BONDS PAYABLE

Annual debt service requirements to maturity on general obligation bonds at year end are summarized as follows:

Year ending June 30:	Governmental Activities	
	Principal	Interest
2019	\$ 194,000	\$ 43,036
2020	199,000	37,506
2021	205,000	31,834
2022	217,000	25,992
2023	226,000	19,808
2024-25	469,000	20,120
Total	\$ 1,510,000	\$ 178,296

NOTE 6 – OBLIGATIONS UNDER LEASES

Capital Leases – The Fire District has acquired land, equipment, and vehicles under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Revenues from the General Fund are used to pay the capital lease obligations. Amortization of assets recorded under capital leases is included with depreciation expense.

The assets acquired through capital leases that meet the Fire District’s capitalization threshold are as follows:

	Governmental Activities
Asset:	
Land	\$ 419,700
Equipment	3,500
Vehicles	214,922
Less: accumulated depreciation	(42,728)
Total	\$ 595,394

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 – OBLIGATIONS UNDER LEASES

The future minimum lease obligations and the net present value of these minimum lease payments at year end were as follows:

Year Ending June 30:	Governmental Activities
2019	\$ 62,066
2020	54,859
2021	54,859
2022	54,859
2023	54,859
2024-27	147,484
Total minimum lease payments	428,986
Less: amount representing interest	67,313
Present value of minimum lease payments	\$ 361,673
Due within one year	\$ 47,798

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,698,000	\$	\$ 188,000	\$ 1,510,000	\$ 194,000
Obligations under capital leases	414,673		53,000	361,673	47,798
Judgments payable	55,965		55,965		
Net OPEB liability	151	1		152	
Net pension liability	1,919,132	416,535		2,335,667	
Compensated absences payable	75,495	107,344	93,645	89,194	75,815
Governmental activity long-term liabilities	\$ 4,163,416	\$ 523,880	\$ 390,610	\$ 4,296,686	\$ 317,613

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the Fire District expects such amounts, if any, to be immaterial.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

The July 1, 2017, government-wide net position does not agree to the prior year financial statements due to the adoption of a full-year depreciation methodology and due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, represents a change in accounting principle.

	Statement of Activities
Net position, June 30, 2017, as previously reported	\$ 482,281
Full-year depreciation method	(92,665)
Net OPEB asset	106,285
Net OPEB liability	(94)
Net position, July 1, 2017, as restated	\$ 495,807

NOTE 10 – RISK MANAGEMENT

The Fire District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fire District carries commercial insurance for all risks of loss, including property and liability, workers' compensation, and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Fire District contributes to the plans described below. The plans are component units of the State of Arizona.

Aggregate Amounts. At June 30, 2018, the Fire District reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes.

	Governmental Activities
Net pension and OPEB assets	\$ 122,013
Net pension and OPEB liability	2,335,819
Deferred outflows of resources	1,125,381
Deferred inflows of resources	548,655
Pension and OPEB expense	736,652

The Fire District reported \$300,660 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

A. Arizona State Retirement System

Plan Description. Fire District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the ASRS website at www.azasrs.gov.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

*With actuarially reduced benefits

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

Retired and disabled members, with at least five years of credited service, are eligible to receive health insurance premium benefits. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with five to nine years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Active members are eligible for a long-term disability benefit in the event they become unable to perform their work. The monthly benefit is equal to two-thirds of their monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999 are limited to 30 years of service or the service on record as of the effective disability date, if their service is greater than 30 years.

Contributions. In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and the Fire District was required by statute to contribute at the actuarially determined rate of 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. The Fire District’s contributions for the year ended June 30, 2018 were as follows:

	<u>Contributions</u>
Pension	\$ 6,120
Health Insurance Premium	247
Long-Term Disability	90

The Fire District’s pension and OPEB contributions are paid by the same funds as the employee’s salary, with the largest component coming from the General Fund.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension and OPEB Assets/Liability. The net pension and OPEB assets/liability were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The Fire District’s proportion of the net asset/liability was based on the Fire District’s actual contributions to the applicable plan relative to the total of all participating employers’ contributions to the plan for the year ended June 30, 2017.

At June 30, 2018, the Fire District reported the following amounts for its proportionate share of the ASRS plans net assets/liability. In addition, at June 30, 2017, the Fire District’s percentage proportion for each plan and the related change from its proportion measured as of June 30, 2016 was:

	Net (Assets) Liability	Fire District % Proportion	Increase (Decrease)
Pension	\$ 65,428	0.0004	0.00
Health Insurance Premium	(234)	0.0004	
Long-Term Disability	152	0.0004	

Pension/OPEB Expense and Deferred Outflows/Inflows of Resources. The Fire District has deferred outflows and inflows of resources related to the net pension and OPEB assets/liability. Certain changes in the net pension and OPEB assets/liability are recognized as pension and OPEB expense over a period of time rather than the year of occurrence. For the year ended June 30, 2018, the Fire District recognized pension and OPEB expense as follows:

	Expense
Pension	\$ (6,695)
Health Insurance Premium	136
Long-Term Disability	81

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Fire District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources		
	Pension	Health Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$	\$	\$
Changes of assumptions or other inputs	2,842		
Net difference between projected and actual earnings on pension investments	470		
Changes in proportion and differences between contributions and proportionate share of contributions	4,120		
Contributions subsequent to the measurement date	6,120	247	90
Total	\$ 13,552	\$ 247	\$ 90

	Deferred Inflows of Resources		
	Pension	Health Insurance Premium	Long-Term Disability
Differences between expected and actual experience	\$ 1,962	\$	\$
Changes of assumptions or other inputs	1,956		
Net difference between projected and actual earnings on pension investments		264	23
Changes in proportion and differences between contributions and proportionate share of contributions	2,391	1	
Total	\$ 6,309	\$ 265	\$ 23

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension and OPEB assets/liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension and OPEB expense as follows:

Year Ending June 30:	Pension	Health Insurance Premium	Long-Term Disability
2019	\$ (1,578)	\$ (67)	\$ (6)
2020	3,404	(66)	(6)
2021	802	(66)	(6)
2022	(1,505)	(66)	(6)

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

	Pension	OPEB
Actuarial valuation date	June 30, 2016	June 30, 2016
Actuarial roll forward date	June 30, 2017	June 30, 2017
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	8.0%	8.0%
Projected salary increases	3.0-6.75%	Not applicable
Inflation	3.0%	3.0%
Permanent base increases	Included	Not applicable
Mortality rates	1994 GAM Scale BB	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable	Not applicable

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The long-term expected rate of return on ASRS plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The target allocation and best estimates of arithmetic real rates of return for each major asset class for all ASRS plans are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25	3.70
Real estate	10	4.25
Multi-asset	5	3.41
Commodities	2	3.84
Total	<u>100%</u>	

Discount Rate. The discount rate used to measure the ASRS total pension and OPEB liability was 8.0 percent, which is less than the long-term expected rate of return of 8.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

Sensitivity of the Proportionate Share of the Net Pension and OPEB Assets/Liability to Changes in the Discount Rate. The following presents the Fire District’s proportionate share of the net pension and OPEB assets/liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension and OPEB assets/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:

	<u>Proportionate share of the net (assets) liability</u>		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Rate	7.0%	8.0%	9.0%
Pension	\$ 83,978	\$ 65,428	\$ 49,928
Health Insurance Premium	389	(234)	(763)
Long-Term Disability	182	152	127

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension and OPEB Plan Fiduciary Net Position. Detailed information about the pension and OPEB plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

B. Public Safety Personnel Retirement System

Plan Descriptions. Fire District public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided. The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

	Retirement Initial Membership Date:	
	Tier 1	Tier 2
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Normal retirement	50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5 % to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Survivor benefit:		
Retired members	80% to 100% of retired member’s pension benefit	
Active members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

Employees Covered by Benefit Terms. At June 30, 2018, the following employees were covered by the agent plan's benefit terms:

	PSPRS - Fire	
	Pension	Health Insurance
	Retirees and beneficiaries	11
Inactive, non-retired members	8	0
Active members	25	25
Total	44	36

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 the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS - Fire
Active members – pension	7.65%
Fire District:	
Pension	28.98%
Health insurance	0.00%

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The contributions to the pension and OPEB plans for the year ended were:

	Contributions
	PSPRS - Fire
Pension	\$ 294,203
Health insurance	0

The Fire District’s pension and OPEB contributions are paid by the General Fund.

Pension and OPEB Assets/Liability. At June 30, 2018, the Fire District reported the following assets and liabilities.

	Net (Assets) Liability
	PSPRS - Fire
Pension	\$ 2,270,239
Health insurance	(121,779)

The net pension and OPEB assets/liability were measured as of June 30, 2017. The total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liability as of June 30, 2017, reflects changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4.0 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

	Pension	OPEB
Actuarial valuation date	June 30, 2017	June 30, 2017
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.4%	7.4%
Projected salary increases	3.5%	Not applicable
Inflation	2.5%	Not applicable
Permanent benefit increase	Included	Not applicable
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable	Not applicable

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

The long-term expected rate of return on PSPRS plan investments was determined to be 7.40 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short-term investments	2%	0.25%
Absolute return	2	3.75
Risk parity	4	5.00
Fixed income	5	1.25
Real assets	9	4.52
GTAA	10	3.96
Private credit	12	6.75
Real estate	10	3.75
Credit opportunities	16	5.83
Non-U.S. equity	14	8.70
U.S. equity	16	7.60
Total	<u>100%</u>	

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Changes in Net (Assets)/Liability

	Pension			Health Insurance		
	Increase (Decrease)			Increase (Decrease)		
	Total (Assets) Liability	Plan Fiduciary Net Position	Net (Assets) Liability	Total (Assets) Liability	Plan Fiduciary Net Position	Net (Assets) Liability
PSPRS - Fire						
Balances at June 30, 2017	\$ 5,104,950	\$ 3,253,610	\$ 1,851,340	\$ 76,014	\$ 182,194	\$ (106,180)
Changes for the year:						
Service cost	254,790		254,790	3,065		3,065
Interest on the total liability	382,051		382,051	5,613		5,613
Changes of benefit terms	57,274		57,274	89		89
Differences between expected and actual experience in the measurement of the liability	(382,509)		(382,509)	(1,843)		(1,843)
Changes of assumptions or other inputs	519,242		519,242	(1,539)		(1,539)
Contributions – employer		192,966	(192,966)			
Contributions – employee		101,064	(101,064)			
Net investment income		373,787	(373,787)		21,172	(21,172)
Benefit payments, including refunds of employee contributions	(276,659)	(276,659)		(5,400)	(5,400)	
Administrative expense		(3,707)	3,707		(188)	188
Other changes		(252,161)	252,161			
Net changes	<u>554,189</u>	<u>135,290</u>	<u>418,899</u>	<u>(15)</u>	<u>15,584</u>	<u>(15,599)</u>
Balances at June 30, 2018	<u>5,659,139</u>	<u>3,388,900</u>	<u>2,270,239</u>	<u>75,999</u>	<u>197,778</u>	<u>(121,779)</u>

Discount Rate. At June 30, 2017, the discount rate used to measure the total pension and OPEB liability was 7.4 percent, which was a decrease of 0.1 percent from the discount rate used as of June 30, 2016.

The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments for these plans to determine the total pension and OPEB liability.

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Sensitivity of the Net Pension and OPEB Assets (Liability) to Changes in the Discount Rate. The following presents the Fire District’s net pension and OPEB assets (liability) calculated using the discount rates noted above, as well as what the net assets (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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS - Fire			
Rate	6.4%	7.4%	8.4%
Net pension (assets) liability	\$ 3,079,328	\$ 2,270,239	\$ 1,621,068
Net OPEB (assets) liability	(112,480)	(121,779)	(129,437)

Plan Fiduciary Net Position. Detailed information about the plans’ fiduciary net position is available in the separately issued PSPRS financial report. The report is available on the PSPRS website at www.psprs.com.

Expense. For the year ended June 30, 2018, the Fire District recognized the following as pension and OPEB expense:

	<u>Expense</u>
	<u>PSPRS - Fire</u>
Pension	\$ 749,536
Health insurance	(6,406)

Deferred Outflows/Inflows of Resources. At June 30, 2018, the Fire District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSPRS - Fire				
Differences between expected and actual experience	\$	\$ 532,865	\$	\$ 1,645
Changes of assumptions or other inputs	758,581			1,374
Net difference between projected and actual earnings on plan investments	58,708			6,174
Contributions subsequent to the measurement date	294,203			
Total	<u>\$ 1,111,492</u>	<u>\$ 532,865</u>	<u>\$</u>	<u>\$ 9,193</u>

**PICTURE ROCKS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The amounts of deferred outflows of resources resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as an adjustment of the net pension and OPEB assets/liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in pension and OPEB expense as follows:

Year Ending June 30:	PSPRS - Fire	
	Pension	Health Insurance
	2019	\$ 123,425
2020	112,301	(1,906)
2021	27,274	(1,906)
2022	(8,399)	(1,908)
2023	21,382	(363)
Thereafter	8,441	(1,204)

NOTE 12 – DEFERRED COMPENSATION PLAN

The Fire District has a deferred compensation plan that qualifies under Section 457 of the Internal Revenue Code. The plan, available to all full-time Fire District employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by a nongovernmental third party, and the Fire District does not report the assets and associated liabilities within their financial statements. The Fire District contributes a prescribed amount based on years of service (from \$37.50-\$100 per pay period) to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses were \$22,228 for the fiscal year.

NOTE 13 – SUBSEQUENT EVENTS

In December 2018, the Fire District sold the old fire station (No. 120) for \$270,000.

REQUIRED SUPPLEMENTARY INFORMATION

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Property taxes	\$ 1,080,964	\$ 1,081,519	\$ 555
Fire district assistance taxes	216,192	215,978	(214)
Intergovernmental	740,000	545,209	(194,791)
Charges for services	625,550	700,678	75,128
Investment income	1,050	2,922	1,872
Miscellaneous		33,389	33,389
Total revenues	<u>2,663,756</u>	<u>2,579,695</u>	<u>(84,061)</u>
Expenditures:			
Current -			
Public safety	2,697,173	2,355,199	341,974
Administration	91,226	103,620	(12,394)
Capital outlay	201,857	86,917	114,940
Debt service -			
Principal retirement	53,000	53,000	
Interest and fiscal charges	20,500	16,281	4,219
Total expenditures	<u>3,063,756</u>	<u>2,615,017</u>	<u>448,739</u>
Changes in fund balances	<u>(400,000)</u>	<u>(35,322)</u>	<u>364,678</u>
Fund balances, beginning of year		424,793	424,793
Increase (decrease) in reserve for prepaid items		364	364
Fund balances (deficits), end of year	<u>\$ (400,000)</u>	<u>\$ 389,835</u>	<u>\$ 789,835</u>

See accompanying notes to this schedule.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension (assets) liability	0.0004%	0.0004%	0.0004%	0.0006%
District's proportionate share of the net pension (assets) liability	\$ 65,428	\$ 67,792	\$ 55,021	\$ 86,202
District's covered payroll	\$ 40,909	\$ 34,645	\$ 32,746	\$ 54,701
District's proportionate share of the net pension (assets) liability as a percentage of its covered payroll	159.94%	195.68%	168.02%	157.59%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - FIRE
LAST FOUR FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total pension liability				
Service cost	\$ 254,790	\$ 126,251	\$ 146,591	\$ 174,131
Interest	382,051	396,482	398,103	330,162
Changes of benefit terms	57,274	(143,956)		128,629
Differences between expected and actual experience	(382,509)	(211,585)	(101,215)	(73,861)
Changes of assumptions or other inputs	519,242	199,211		669,694
Benefit payments, including refunds of employee contributions	(276,659)	(498,101)	(409,819)	(289,182)
Net change in total pension liability	<u>554,189</u>	<u>(131,698)</u>	<u>33,660</u>	<u>939,573</u>
Total pension liability—beginning	<u>5,104,950</u>	<u>5,236,648</u>	<u>5,202,988</u>	<u>4,263,415</u>
Total pension liability—ending	<u>\$ 5,659,139</u>	<u>\$ 5,104,950</u>	<u>\$ 5,236,648</u>	<u>\$ 5,202,988</u>
Plan fiduciary net position				
Contributions—employer	\$ 192,966	\$ 212,245	\$ 89,286	\$ 120,390
Contributions—employee	101,064	87,023	70,364	79,415
Net investment income	373,787	19,720	128,941	440,441
Benefit payments, including refunds of employee contributions	(276,659)	(498,101)	(409,819)	(289,182)
Administrative expense	(3,707)	(3,238)	(3,527)	(3,547)
Other	(252,161)	(98,734)	77,953	(10,375)
Net change in plan fiduciary net position	<u>135,290</u>	<u>(281,085)</u>	<u>(46,802)</u>	<u>337,142</u>
Plan fiduciary net position—beginning	<u>3,253,610</u>	<u>3,534,695</u>	<u>3,581,497</u>	<u>3,244,355</u>
Plan fiduciary net position—ending	<u>\$ 3,388,900</u>	<u>\$ 3,253,610</u>	<u>\$ 3,534,695</u>	<u>\$ 3,581,497</u>
Net pension (assets) liability—ending	<u>\$ 2,270,239</u>	<u>\$ 1,851,340</u>	<u>\$ 1,701,953</u>	<u>\$ 1,621,491</u>
Plan fiduciary net position as a percentage of the total pension liability	59.88%	63.73%	67.50%	68.84%
Covered payroll	\$ 834,967	\$ 746,978	\$ 561,907	\$ 1,190,766
Net pension (assets) liability as a percentage of covered payroll	271.90%	247.84%	302.89%	136.17%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
ALL PENSION PLANS
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Arizona State Retirement System:				
Actuarially determined contribution	\$ 6,120	\$ 4,410	\$ 3,759	\$ 3,566
Contributions in relation to the actuarially determined contribution	<u>6,120</u>	<u>4,410</u>	<u>3,759</u>	<u>3,566</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 56,147	\$ 40,909	\$ 34,645	\$ 32,746
Contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	10.89%
 Public Safety Personnel Retirement System - Fire:				
Actuarially determined contribution	\$ 341,438	\$ 205,235	\$ 199,966	\$ 89,287
Contributions in relation to the actuarially determined contribution	<u>294,203</u>	<u>205,235</u>	<u>199,966</u>	<u>89,287</u>
Contribution deficiency (excess)	<u>\$ 47,235</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 1,178,185	\$ 834,967	\$ 746,978	\$ 561,907
Contributions as a percentage of covered payroll	24.97%	24.58%	26.77%	15.89%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
ARIZONA STATE RETIREMENT SYSTEM - HEALTH INSURANCE PREMIUM
JUNE 30, 2018

2018

Measurement date	June 30, 2017
District's proportion of the net OPEB (assets) liability	0.0004%
District's proportionate share of the net OPEB (assets) liability	\$ (234)
District's covered payroll	\$ 40,909
District's proportionate share of the net OPEB (assets) liability as a percentage of its covered payroll	-0.57%
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
ARIZONA STATE RETIREMENT SYSTEM - LONG-TERM DISABILITY
JUNE 30, 2018

2018

Measurement date	June 30, 2017
District's proportion of the net OPEB (assets) liability	0.0004%
District's proportionate share of the net OPEB (assets) liability	\$ 152
District's covered payroll	\$ 40,909
District's proportionate share of the net OPEB (assets) liability as a percentage of its covered payroll	0.37%
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - FIRE - HEALTH INSURANCE PREMIUM
JUNE 30, 2018

2018

Measurement date	June 30, 2017
Total OPEB liability	
Service cost	\$ 3,065
Interest	5,613
Changes of benefit terms	89
Differences between expected and actual experience	(1,843)
Changes of assumptions or other inputs	(1,539)
Benefit payments	(5,400)
Net change in total OPEB liability	(15)
Total OPEB liability—beginning	76,014
Total OPEB liability—ending	\$ 75,999
Plan fiduciary net position	
Contributions—employer	\$
Contributions—employee	
Net investment income	21,172
Benefit payments	(5,400)
Administrative expense	(188)
Other	
Net change in plan fiduciary net position	15,584
Plan fiduciary net position—beginning	182,194
Plan fiduciary net position—ending	\$ 197,778
Net OPEB (assets) liability—ending	\$ (121,779)
Plan fiduciary net position as a percentage of the total OPEB liability	260.24%
Covered payroll	\$ 834,967
Net OPEB (assets) liability as a percentage of covered payroll	-14.58%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
ALL OPEB PLANS
JUNE 30, 2018**

2018

Arizona State Retirement System - Health Insurance Premium:

Actuarially determined contribution	\$ 247
Contributions in relation to the actuarially determined contribution	<u>247</u>
Contribution deficiency (excess)	<u><u>\$</u></u>
District's covered payroll	\$ 56,147
Contributions as a percentage of covered payroll	0.44%

Arizona State Retirement System - Long-Term Disability:

Actuarially determined contribution	\$ 90
Contributions in relation to the actuarially determined contribution	<u>90</u>
Contribution deficiency (excess)	<u><u>\$</u></u>
District's covered payroll	\$ 56,147
Contributions as a percentage of covered payroll	0.16%

Public Safety Personnel Retirement System - Fire - Health Insurance Premium:

Actuarially determined contribution	\$
Contributions in relation to the actuarially determined contribution	<u></u>
Contribution deficiency (excess)	<u><u>\$</u></u>
District's covered payroll	\$ 1,178,185
Contributions as a percentage of covered payroll	0.00%

NOTE: The pension and OPEB schedules in the required supplementary information are intended to show information for ten years, and additional information will be displayed as it becomes available.

See accompanying notes to this schedule.

PICTURE ROCKS FIRE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Fire District is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

NOTE 2 – PENSION AND OPEB PLAN SCHEDULES

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2016, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The actuarial assumptions used in the June 30, 2017, valuation for PSPRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The total pension liability used to calculate the net pension liability for PSPRS was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2016, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption from 4.5% to 4.0%.

The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employers who became members on or after January 1, 2012 and before July 1, 2017, and a court decision that decreased the contribution rates for employers who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds for excess contributions. PSPRS allowed the Fire District to reduce its employer contributions for the refund amounts; as a result, the Fire District's pension contributions were less than the actuarially determined contributions for the current fiscal year. The change in the Fire District's PSPRS net pension liabilities as a result of the refunds is not known.

OTHER SUPPLEMENTARY INFORMATION

**PICTURE ROCKS FIRE DISTRICT
ANNUAL REPORT INFORMATION
JUNE 30, 2018**

Regular Fire Board Meetings:

Date	Time	Location
July 27, 2017	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
August 17, 2017	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
September 21, 2017	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
November 30, 2017	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
December 21, 2017	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
January 18, 2018	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
February 15, 2018	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
March 15, 2018	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
April 12, 2018	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
May 17, 2018	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743
June 22, 2018	6:30 pm	12121 W Picture Rocks Road, Tucson, AZ 85743

2017-2018 Board Members:

<u>Name</u>	<u>Phone Number</u>	<u>Occupation</u>
Peggy McCool	520-682-7878	Retired
David Seese	520-682-7878	Construction Foreman
Ernie Robles	520-682-7878	Retired
Sandy Watson	520-682-7878	Office Manager
David Putnam	520-682-7878	Retired

Location of Posting of Meeting Notices (all meetings):

Picture Rocks Fire District Admin Offices	12121 W. Picture Rocks Road	Tucson, AZ
Picture Rocks Fire Station 121	7341 N. Sandario Road	Tucson, AZ
Picture Rocks Hardware Store	6315 N. Sandario Road	Tucson, AZ

Legal Description of Boundary Changes:

None

**REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE**

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**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***

Independent Auditor's Report

Governing Board
Picture Rocks Fire District

We have audited, 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, the financial statements of the governmental activities and each major fund of Picture Rocks Fire District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Picture Rocks Fire District's basic financial statements, and have issued our report thereon dated September 11, 2020. Our report was modified as we were unable to obtain sufficient appropriate audit evidence for the Fire District's wildland fire receivables. Our report also included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 75.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and another we consider to be a significant deficiency.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS-2018-001 and FS-2018-002, to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item FS-2018-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Picture Rocks 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*.

Report on Compliance with State of Arizona Regulatory Requirements

In connection with our audit, nothing came to our attention that caused us to believe that Picture Rocks 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 Fire 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 Fire 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 report is supplemental reporting as required by Arizona statutes intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Picture Rocks Fire District's Response to Findings

Picture Rocks Fire District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Picture Rocks Fire District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
September 11, 2020

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2018-001

Repeat Finding: Yes, FS-2017-001

Type of Finding: Material Weakness

Description: Internal Controls for Billable Services and Financial Reporting

CRITERIA

The Fire District is responsible for maintaining a system of internal control over financial operations and financial reporting. This includes the development and implementation of formal, written policies and desk procedures over all types of billings and collections (e.g. ambulance and wildland fire activities), as well as the general ledger recognition and financial reporting of these services.

CONDITION

The Fire District currently operates under an ambulance billing policy that does not include all applicable information. Additionally, the Fire District has no formal policies that address other types of non-ambulance billable services performed (e.g. wildland fire activities). The Fire District also has not fully developed or implemented written desk procedures related to all types of billable service activities, to include the accurate recognition of these activities in the Fire District's general ledger and financial statements.

CAUSE

The Fire District's small size and limited resources contribute to difficulties in establishing updated and effective internal controls over billings, collections, general ledger recognition and financial reporting of billable services performed by the Fire District.

EFFECT

Outdated policies, or the lack of fully-developed written desk procedures over significant accounting and finance areas, may lead to inconsistencies in business office operations from period to period, and can increase the likelihood of undetected general ledger and financial statement errors. Our audit detected several general ledger errors that resulted in adjustments to correctly recognize accounts receivable, allowance for doubtful accounts and charges for services revenues. The time required by management to research and correct the errors also resulted in the untimely issuance of the financial statements. The uncertainty about the accuracy of the wildland fire receivables contributed to the modified opinion on the financial statements.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2018-001

CONTEXT

During our review of billable services we noted the following:

- The Fire District could not provide sufficient support to demonstrate the accuracy of approximately \$121,000 of wildland fire receivables presented as accounts receivable at fiscal year end.
- The Fire District's initial general ledger erroneously omitted approximately \$20,000 of intergovernmental receivables and approximately \$10,000 of wildland fire receivables.
- The Fire District maintains outdated billable service policies and minimal desk procedures.
- The ambulance receivable on the general ledger did not agree to the receivable balance reported by the billing provider by approximately \$10,500, and the Fire District has not yet determined which balance is more accurate.
- For two of 10 ambulance bank account deposits reviewed, the Fire District could not locate supporting documentation to demonstrate the accuracy or propriety of the deposits.

RECOMMENDATION

The Fire District should allocate the necessary resources toward updating the existing policies, and the full development and implementation of new policies and desk procedures related to all billable service activities. The updated policies and desk procedures should also address the proper monthly, and year end general ledger adjustments necessary to accurately record the relevant accounts and billable service activities (e.g. accounts receivable, allowance for doubtful accounts and charges for services revenues). Timely and accurate postings of activity throughout the fiscal year would likely reduce the amount of time management needs to devote towards the preparation of the year-end financial statements.

VIEWS OF RESPONSIBLE OFFICIALS

In February 2015, the Fire District entered into a contract with a professional service firm to perform the invoicing and collections of the medical services provided by the Fire District. At the beginning of the next fiscal year the Fire District updated its existing policies, procedures, and controls to document, receive, and apply medical service transactions in coordination with the contractor. Further, in the time after fiscal year 2018 the Fire District has worked with the contractor in order to ensure the proper correlation between the Fire District and the contractor's ambulance receivable balance. The Fire District is able to provide billing documents supporting the wildland receivable balance but at the issuance of this report has not received confirmation from the state of this balance. In the following time period the Fire District will work with the state to resolve this outstanding receivable and confirm its validity and receive payment.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2018-002

Repeat Finding: Yes, FS-2017-002

Type of Finding: Material Weakness

Description: Internal Controls over Payroll Accounts and Financial Reporting

CRITERIA

The Fire District is responsible for maintaining a system of internal control over financial operations and financial reporting. This includes the development and implementation of formal, written policies and desk procedures over payroll processing and record-keeping.

CONDITION

The Fire District has not fully developed and implemented written desk procedures related to payroll processing and recordkeeping.

CAUSE

The Fire District's small size and limited resources contribute to difficulties in establishing updated and effective internal controls over payroll processing and record-keeping.

EFFECT

The lack of fully-developed written desk procedures over significant accounting and finance areas may lead to inconsistencies in business office operations from period to period, and can increase the likelihood of undetected general ledger and financial statement errors. Our audit detected general ledger errors related to accrued payroll liabilities and payroll expenditures. The time required by management to research and correct the errors also resulted in the untimely issuance of the financial statements.

CONTEXT

During our review of payroll transactions and related accounts we noted the following:

- The year-end accrued payroll liability includes approximately \$45,000 of payroll withholdings and contributions for the deferred compensation plan which were not credited to employee accounts until August 2019. Approximately \$20,000 of this amount is related to fiscal year 2015-16 pay periods, and the remaining \$25,000 is associated with fiscal year 2017-18 pay periods that occurred prior to January 2018.
- The Fire District's initial general ledger erroneously omitted approximately \$48,000 of payroll expenditures related to a January 2018 pay period that was not recorded.
- The Fire District maintains minimal desk procedures that do not address many critical steps in processing payroll or proper recognition of payroll activity in the general ledger.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2018-002

RECOMMENDATION

The Fire District should allocate the necessary resources toward fully developing and implementing written desk procedures related to all critical payroll processing steps and record-keeping. The updated desk procedures should specifically address the bi-weekly journal entries required each pay period to ensure the general ledger is accurate. Timely and accurate postings of activity throughout the fiscal year would likely reduce the amount of time management needs to devote towards the preparation of the year-end financial statements.

VIEWS OF RESPONSIBLE OFFICIALS

During the fiscal year 2020-21 the Fire District will prioritize a thorough review of all current policies and procedures related to internal controls over payroll accounts and will update all policies, procedures, and personnel handbooks as necessary to reflect the changes that have occurred since the 2009 version in an effort to more adequately account for and administer the above items as well as any other matters that have or may arise. Since the issuance of this report the District has also hired another office position to help distribute the work load required to properly prepare and maintain these controls.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2018-003

Repeat Finding: No

Type of Finding: Significant Deficiency

Description: Internal Controls Over Expenditures and Financial Reporting

CRITERIA

The Fire District is responsible for maintaining a system of internal control over financial operations and financial reporting. This includes the enforcement and monitoring of procedures related to expenditure processing and record-keeping.

CONDITION

The Fire District does not consistently enforce or monitor established internal control practices related to expenditure processing and general ledger recognition of expenditures.

CAUSE

The Fire District's small size and limited resources may contribute to difficulties in the enforcement of effective internal controls over expenditure balances, activity, and financial reporting.

EFFECT

The lack of consistently enforced or monitored expenditure practices may lead to inconsistencies in business office operations from period to period, and can increase the likelihood of undetected general ledger and financial statement errors. Our audit detected general ledger errors related to accounts payable liabilities and related expenditures. The time required by management to research and correct the errors also resulted in the untimely issuance of the financial statements.

CONTEXT

During our review of expenditures and payables we noted the following:

- The Fire District's general ledger omitted approximately \$9,000 of expenditures related to roofing repairs that were incorrectly recognized in fiscal year 2019.
- For two of 25 disbursements reviewed, the Fire District did not maintain documentation that the approval occurred prior to purchase of the goods or services.
- For five of 25 disbursements reviewed, the Fire District did not maintain a purchase order in accordance with Fire District policies.
- For seven of 25 disbursements reviewed, the Fire District did not stamp the invoice as paid to show cancellation of supporting documentation.
- One disbursement reviewed was for an employee meal reimbursement, however, the Fire District could not locate supporting documentation for the expense.

**PICTURE ROCKS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2018-003

RECOMMENDATION

The Fire District should consistently enforce and monitor internal control practices related to expenditure processing and general ledger recognition of expenditures. Additionally, the Fire District should ensure proper document retention to support all general ledger activity and balances. Timely and accurate postings of activity throughout the fiscal year would likely reduce the amount of time management needs to devote towards the preparation of the year-end financial statements.

VIEWS OF RESPONSIBLE OFFICIALS

During the fiscal year 2020-21 the Fire District will prioritize a thorough review of all current policies and procedures related to internal controls expenditures and financial reporting and will update all policies, procedures, and personnel handbooks as necessary to reflect the changes that have occurred since the 2009 version in an effort to more adequately account for and administer the above items as well as any other matters that have arisen or may arise. Since the issuance of this report, the Fire District has also hired another office position to help distribute the workload required to properly prepare and maintain these controls.