

Daisy Mountain Fire District

Financial Statements

June 30, 2018

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Heidenreich & Heidenreich, CPAs, PLLC

10201 S. 51st Street, Suite #170

Phoenix, AZ 85044

(480)704-6301 fax 785-4619

INDEPENDENT AUDITOR'S REPORT

To the District Board
Daisy Mountain Fire District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Change in Accounting Principle

As described in Note 1 to the financial statements, the District adopted new accounting guidance, 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. 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 on pages 3 through 8, budgetary comparison on pages 47 and 48 and net pension and OPEB information on pages 49 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019, on our consideration of the Daisy Mountain Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Daisy Mountain Fire District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Daisy Mountain Fire District's internal control over financial reporting and compliance.

Heidenreich & Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC
Phoenix, AZ
February 20, 2019

DAISY MOUNTAIN FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Daisy Mountain Fire District (the "District"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District's performance during the fiscal year ending June 30, 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,433,486 (net position). Of this amount, \$ (1,001,379) (*unrestricted net position*) is in a deficit position, primarily due to net pension liability.
- The District's total net position on a full accrual basis increased by \$2,935,824. This increase is available for future operations and major improvements or equipment.
- Combined fund balance on a modified accrual basis increased by \$4,107,171, which resulted primarily from a sale of a bond.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the District. These 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* present the financial picture of the District from the economic measurement resources focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term debt). They are intended to provide a broad overview in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all of the assets and deferred outflows and liabilities and deferred inflows of the District, with the difference between the two being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

DAISY MOUNTAIN FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Fund Financial Statements

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

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

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

The District maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital projects fund, and the debt service fund, which are all considered to be major funds. The District adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget and can be found on pages 47-48 of this report. The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the Financial Statements

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

Other Information

In addition, information on the District's participation in an agent retirement plan can be found on pages 32-44 of this report.

DAISY MOUNTAIN FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Daisy Mountain Fire District, assets exceeded liabilities by \$5,433,486 at the close of the most recent fiscal year. The largest portion of the District's net position (118%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, machinery, vehicles, and equipment); less any related debt still outstanding used to acquire those assets. The District uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

On May 22, 2017 and May 23, 2017, the district boards of the District and Black Canyon Fire District (BCFD) adopted resolutions approving the consolidation of BCFD into the District effective July 1, 2017. In accordance with U.S. generally accepted accounting principles, the District recorded the merger effective as of July 1, 2017 and have included all of BCFD's assets, liabilities, revenues and expenses/expenditures from that date forward

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

Condensed Statement of Net Position

	Governmental Activities	
	2018	2017(as restated, not including BCFD)
Cash and investments	\$ 16,499,561	\$ 10,576,198
Other assets	1,372,134	1,761,702
Capital assets	14,831,130	10,012,472
Total assets	32,702,825	22,350,372
Deferred outflows of resources	5,216,343	6,131,960
Current and other liabilities	2,419,406	3,101,149
Long-term liabilities	28,231,990	22,423,248
Total liabilities	30,651,396	25,524,397
Deferred inflows of resources	1,834,286	748,552
Net investment in		
Capital assets	6,434,865	5,778,743
Unrestricted	(1,001,379)	(3,569,360)
Total net position	\$ 5,433,486	\$ 2,209,383

DAISY MOUNTAIN FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

During 2018, current assets increased primarily because of an increase in cash and cash equivalents of \$5,923,363 from prior year. The primary cause of this increase is due to bond proceeds from the issue of a bond during the fiscal year.

The unrestricted net position of (\$1,001,379) is not available to meet the District's ongoing obligations to citizens and creditors. As previously discussed, the deficit position arises from the actuarially determined unfunded future liability of the Public Safety Personnel Retirement System (PSPRS).

Governmental Activities

Governmental activities net position increased by \$2,935,824. Key elements of this increase are reported below:

	<u>Condensed Statement of Activities</u>	
	2018	2017 (as restated, not including BCFD)
Program Revenues		
Charge for Services	\$ 2,473,983	\$ 1,918,345
Capital grants and contributions	98,497	611,124
General Revenues		
Property Taxes	15,096,235	12,033,875
Fire District Assistance Tax	482,465	406,810
Investment Earnings	132,184	78,194
Miscellaneous	1,083,538	217,425
Total Revenues	19,366,902	15,265,773
Expenses		
Fire protection and emergency services	16,431,078	19,732,108
Total Expenses	16,431,078	19,732,108
Increase (decrease) in net Assets	2,935,824	(4,466,335)
Beginning Net Position (2018 restated)	2,497,662	6,675,718
Ending Net Position	\$ 5,433,486	\$ 2,209,383

Overall revenues increased by \$4,101,129 while expenses decreased by \$3,301,030. The majority of the increase in total revenues resulted from additional property tax revenues from the Black Canyon Fire District consolidation.

Expenses decreased primarily due to a decrease in employee benefits and expenses. This decrease was primarily due to the Parker Hall PSPRS refund expense recorded in 2017 and a decrease in pension expense for GASB 68 in current year of \$1,244,322 and \$2,946,099.

DAISY MOUNTAIN FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Financial Analysis of the Governmental Funds

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

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$16,346,465, an increase of \$4,107,171 in comparison with the prior year's balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, spendable fund balance of the general fund was \$4,013,133. As a measure of the general fund's liquidity, it may be useful to compare spendable fund balance to total fund expenditures. Spendable fund balance represents 19% of total current year general fund expenditures of \$20,793,755.

Budgetary Highlights

During 2018, there was an amendment to the budget that was originally adopted. The budget was amended to add the bond rate for debt service obligations and was approved by the board of directors. Total revenues were \$956,006 more than final budgeted revenues while total expenditures were \$6,443,590 less than final budgeted expenditures. The positive revenue variance resulted primarily from wildland and ambulance revenues that were greater than budget. The expenditure variance was primarily due to capital outlay.

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets as of June 30, 2018, totals \$14,831,130 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, improvements other than buildings, buildings and improvements, vehicles, furniture and equipment.

Capital asset purchases during 2018 were \$5,749,194 which consisted primarily of construction costs for the new Administration building, new Fire Stations 142 & 145, and equipment purchased on behalf of the Regional Wireless Cooperative.

Additional information on the District's capital assets can be found in Note 6 to the financial statements on page 27.

Long-term liabilities – The District entered into a capital lease agreement with Motorola Solutions to lease radio equipment for \$638,872. The lease obligations will be paid in full in October 2019.

DAISY MOUNTAIN FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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

During the current fiscal year, the District issued \$6,620,000 worth of general obligation bonds, project of 2015, Series B (2017). Repayment of the bonds commences July 1, 2018 and ends on July 1, 2037.

The District had compensated absences payable of \$2,487,989 at year-end.

Additional information on the District's long-term liabilities can be found in Note 7 to the financial statements on page 27.

Economic Factors and Next Year's Budgets and Rates

The District will decrease the mil rate to \$3.496 for FY 2019. The decrease is due to the bond rate decreasing from \$.4901 to \$.2460. The bond tax rate is to fulfill debt service obligations and does not affect the operational budget of the district. Net assessed values for Maricopa and Yavapai counties increased 6.00% and .32%.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Daisy Mountain Fire District, 41018 N Daisy Mountain Dr. Anthem, AZ 85086.

Daisy Mountain Fire District
Statement of Net Position - Governmental Activities
June 30, 2018

Assets	
Cash and cash equivalents	\$ 16,499,561
Receivables	
Ambulance, net	362,156
Property taxes	281,075
Due from other governments	199,537
Prepaid expenses	427,270
Investment in joint venture	102,096
Capital assets, net	
Land	480,066
Buildings and equipment, net	<u>14,351,064</u>
Total assets	32,702,825
Deferred outflows of resources	
Deferred outflows of resources related to pensions	5,217,074
Deferred outflows of resources related to OPEB	(731)
Liabilities	
Accounts payable	87,563
Accrued Interest	246,691
Retainage payable	256,536
Accrued salaries and benefits	438,541
Capital lease payable	454,391
Bond payable	736,080
Noncurrent liabilities	
Due within one year - compensated absences	199,604
Due in more than one year:	
Compensated absences	2,288,385
Capital lease payable	799,193
Bond payable	16,121,376
Net pension liability - PSPRS	9,020,459
Net pension liability - OPEB	<u>2,577</u>
Total liabilities	<u>30,651,396</u>
Deferred inflows of resources	
Deferred inflows of resources related to pensions	1,683,992
Deferred inflows of resources related to OPEB	150,294
Net position	
Net investment in capital assets	6,434,865
Unrestricted	<u>(1,001,379)</u>
Total net position	<u><u>\$ 5,433,486</u></u>

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

Daisy Mountain Fire District
Statement of Activities - Governmental Activities
Year Ended June 30, 2018

Expenditures:

Fire protection and emergency services

Personnel	\$ 9,357,866
Employee benefits and expenses	2,346,091
Ambulance Operations	184,232
Depreciation	931,325
Utilities and communication	536,596
Repairs and maintenance	526,924
Administration	385,562
Taxes and Insurance	754,462
Turnout Gear	206,051
Professional Services	396,139
Training	49,290
Interest Expense	574,941
Other operating expenses	181,599
Total expenses	16,431,078

Program revenues:

Charges for services	2,473,983
Capital grants	98,497
Total program revenues	2,572,480

General revenues:

Property taxes	15,096,235
Fire district assistance taxes	482,465
Fire insurance premium tax	113,865
Interest	132,184
Gain on Disposition of Assets	280,000
Vendor Refunds	429,073
Other income	260,600
Total general revenues	16,794,422

Increase (decrease) in net position	2,935,824
Net position - beginning of year, as restated DMFD	2,209,383
Net position - beginning of year, as restated BCFD	288,279
Net position - end of year	\$ 5,433,486

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

**Daisy Mountain Fire District
Balance Sheet - Governmental Funds
June 30, 2018**

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Assets				
Cash and cash equivalents	\$ 5,149,379	\$ 9,270,315	\$ 2,079,867	\$ 16,499,561
Receivables				
Ambulance, net	362,156	-	-	362,156
Property taxes	281,075	-	-	281,075
Due from other governments	199,537	-	-	199,537
Prepaid expenses	427,271	-	-	427,271
Total assets	\$ 6,419,418	\$ 9,270,315	\$ 2,079,867	\$ 17,769,600
Liabilities				
Accounts payable	\$ 87,562	\$ -	\$ -	\$ 87,562
Retainage payable	256,536			256,536
Accrued Interest	246,693			246,693
Accrued salaries and benefits	438,540	-	-	438,540
Total liabilities	1,029,331	-	-	1,029,331
Deferred inflows of resources				
<i>Unavailable revenues</i>				
Ambulance receivables	215,959	-	-	215,959
Property taxes	177,845	-	-	177,845
Total deferred inflows of resources	393,804	-	-	393,804
Fund balances				
Assigned	555,880	9,270,315	2,079,867	11,906,062
Nonspendable	427,270	-	-	427,270
Unassigned	4,013,133	-	-	4,013,133
Total fund balances	4,996,283	9,270,315	2,079,867	16,346,465
Total liabilities, deferred inflows of resources, and fund balances	\$ 6,419,418	\$ 9,270,315	\$ 2,079,867	\$ 17,769,600

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

**Daisy Mountain Fire District
Reconciliation of the Governmental Funds - Balance Sheet
to the Statement of Net Position
June 30, 2018**

Fund balances - Governmental funds	\$ 16,346,465
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds' balance sheet.	14,831,130
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Investment in joint venture is not a current financial resource and therefore is not reported in the governmental funds' balance sheet.	102,096
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Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds' balance sheet as follows:	
Property taxes receivable	177,845
Ambulance receivables	215,959

Some liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds' balance sheet as follows:	
Net pension liability	(9,020,459)
Net OPEB liability	(2,577)
Bond payable	(16,857,457)
Capital lease payable	(1,253,584)
Compensated absences	(2,487,989)

Some deferred outflows and inflows of resources are applicable to future reporting periods and, therefore, are not reported in the funds:	
Deferred inflows and outflows of resources related to pensions	3,533,082
Deferred inflows and outflows of resources related to OPEB	(151,025)

Net position of governmental activities	<u>\$ 5,433,486</u>
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The accompanying notes are an integral part of these financial statements.

Daisy Mountain Fire District
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2018

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
Revenues:				
<i>Taxes</i>				
Property taxes	\$ 13,130,774	\$ -	\$ 1,792,078	\$ 14,922,852
Fire district assistance taxes	482,465	-	-	482,465
Fire insurance premium tax	113,865	-	-	113,865
Charges for services	1,704,061	-	-	1,704,061
Intergovernmental	841,650	-	-	841,650
Interest	32,929	19,337	79,918	132,184
Grants	98,497	-	-	98,497
Other	594,970	-	-	594,970
Total revenues	16,999,211	19,337	1,871,996	18,890,544
Expenditures:				
<i>Fire protection and emergency services</i>				
Personnel	8,975,801	-	-	8,975,801
Employee benefits	2,866,076	-	-	2,866,076
Utilities and communication	536,596	-	-	536,596
Repairs and maintenance	526,924	-	-	526,924
Administration	385,561	-	-	385,561
Ambulance Operations	184,232	-	-	184,232
Grant Expense	50,000	-	-	50,000
Taxes and Insurance	754,462	-	-	754,462
Training	49,290	-	-	49,290
Turnout Gear	206,051	-	-	206,051
Professional Services	240,394	-	-	240,394
Other	880	-	-	880
Capital outlay	5,871,944	-	-	5,871,944
<i>Debt service:</i>				
Principal payments	126,062	-	896,490	1,022,552
Interest payments	19,482	-	554,578	574,060
Total expenditures	20,793,755	-	1,451,068	22,244,823
Excess of revenues over expenditures	(3,794,544)	19,337	420,928	(3,354,279)
Other financing sources (uses):				
Bond proceeds	-	-	6,620,000	6,620,000
Premium on bonds	-	-	717,197	717,197
Debt issuance costs	-	-	(155,747)	(155,747)
Proceeds on Disposal of Equipment	280,000	-	-	280,000
Transfers in (out)	5,799,194	1,612,373	(7,411,567)	-
Total other financing sources and uses	6,079,194	1,612,373	(230,117)	7,461,450
Net changes in fund balances	2,284,650	1,631,710	190,811	4,107,171
Fund balances, beginning of year DMFD	2,358,309	6,963,821	1,879,675	11,201,805
Fund balances, beginning of year BCFD	353,324	674,784	9,381	1,037,489
Fund balances, end of year	<u>\$ 4,996,283</u>	<u>\$ 9,270,315</u>	<u>\$ 2,079,867</u>	<u>\$ 16,346,465</u>

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

**Daisy Mountain Fire District
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2018**

Net change in fund balances - total governmental funds	\$	4,107,171
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those costs over the lives of the assets and losses on the disposal of capital assets as expenditures as follows:		
Capital asset purchases		5,749,194
Depreciation expense		(931,325)
Changes in joint venture equity interest are not capitalized on the governmental fund statements, but are shown in the statement of activities		(8,849)
The issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the Statement of Net Position		
Bond proceeds		(6,620,000)
Bond premiums		(717,197)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds as follows:		
Ambulance services		83,051
Property taxes		19,393
District pension and OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension/OPEB liability is measured a year before the District's report. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities:		
District pension/OPEB contributions		1,535,959
Pension/OPEB expense		(1,015,974)
Bond premiums are amortized over the life of the bond in the statement of activities and are not a current expenditure in the governmental funds		93,915
Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,022,552
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(382,066)
Change in net position of governmental activities	\$	<u>2,935,824</u>

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

Daisy Mountain Fire District
Statement of Fiduciary Net Position - Fiduciary Fund
June 30, 2018

Assets	<u>Firefighters' Relief and Pension Fund</u>
Cash and cash equivalents	<u>\$ 28,680</u>
Net position	
Held in trust for pension benefits	<u>\$ 28,680</u>
Total net position	<u>\$ 28,680</u>

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

Daisy Mountain Fire District
Statement of Changes in Fiduciary Net Position - Fiduciary Fund
Year Ended June 30, 2018

	<u>Firefighters' Relief and Pension Fund</u>
Additions:	
Interest	<u>\$ 298</u>
Change in Net Position	298
Net Position - Beginning	<u>28,382</u>
Net Position - Ending	<u><u>\$ 28,680</u></u>

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies

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

For the year ended June 30, 2018, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. See note 13 for additional discussion of this standard.

Reporting Entity

The District was organized in 1989 pursuant to Title 48 of the Arizona Revised Statutes and is a special purpose local government governed by a separately elected governing body. The District provides fire protection and rescue services to residents of the New River and Black Canyon areas. The District is legally separate and fiscally independent of other state and local governments. As required under generally accepted accounting principles, these financial statements present the activities of the District (a primary government) and its component units. Component units are legally separate entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the District's operations. The District has no discretely presented or blended component units.

On May 22, 2017 and May 23, 2017, the district boards of the District and Black Canyon Fire District (BCFD) adopted resolutions approving the consolidation of BCFD into the District effective July 1, 2017. All assets and liabilities of both districts belong to the newly merged District and taxes for all purposes, including general obligation bond debt service. As a result, property taxes will be levied against all of the taxable property in the new merged District for the bonds issued by Daisy Mountain Fire District and BCFD. The newly added property represents approximately 3.5% of the District's assessed valuation. BCFD consisted of one fire station, four employees and approximately 200 square miles. The District acquired nine vehicles, which included engines, brush trucks, ambulances, a command vehicle, a water tanker and an antique unrestored fire engine. The District also assumed the net pension liability for the Public Safety Personnel Retirement System.

In accordance with U.S. generally accepted accounting principles, the District recorded the merger effective as of July 1, 2017 and have included all of BCFD's assets, liabilities, revenues and expenses/expenditures from that date forward.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies – Continued

Basis of Presentation

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

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

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

Program revenues include:

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

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

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

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

The District reports the following major governmental funds:

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies – Continued

Basis of Accounting

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

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

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

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

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

Fund Balance Classifications

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

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

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies – Continued

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

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

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

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

Assignments of Fund Balance

The District has adopted a policy whereby it will assign unencumbered revenues equivalent to the unexpended budgeted wages and benefits to the Retirement Paid Time Off account within the general fund. This assignment will provide for the funding of previously unfunded liabilities associated with compensated absences. The Retirement Paid Time Off account will be evaluated annually and monies assigned based on the unexpended budget associated with wages and benefits, the fiscal year end compensated absence liability and current balance of the account. Such assignments are not restricted by state statute and can be unassigned upon board approval. As of June 30, 2018, \$555,880 was assigned for this purpose.

The District has adopted a policy whereby it will transfer any unassigned and unencumbered revenues to the capital projects fund to provide for planned future acquisitions of apparatus, vehicles, buildings and improvements. Such transfers are not restricted by statute and can be transferred back to the general fund upon board approved changes to the District's policies. As of June 30, 2018, the District's governing board has assigned \$9,270,315 of the capital projects fund's fund balance for future capital projects.

The District has adopted a policy whereby it will assign amounts for the accumulation of financial resources that are restricted, committed, or assigned to expenditures for the payment of long-term obligation debt principal, interest and related costs. As of June 30, 2018 the debt service fund balance of \$2,079,867 was assigned for this purpose.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies – Continued

Net Position

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

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

Cash and Investments

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

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

Prepaid Items

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

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

Receivables and Payables

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

All program service receivables are shown net of an allowance for uncollectible accounts. The amount of the estimated uncollectible program service receivables at June 30, 2018, was \$220,947, which represents 38% of the current program service receivables balance.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies – Continued

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

Capital Assets

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

Note 1 – Summary of Significant Accounting Policies – Continued

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

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

No depreciation is taken on land or construction in progress.

Pensions

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies – Continued

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and bond issuance costs are expensed when incurred.

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

Estimates

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

Intergovernmental Grants and Aid

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

Compensated Absences

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 1 – Summary of Significant Accounting Policies – Continued

Property Tax Calendar

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

Budgetary Accounting

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

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

Note 2 – Deposits and Investments

Deposits – Amounts classified as deposits on June 30, 2018, are described below:

	Bank Balance	Carrying Amount
<i>General Fund</i>		
Maricopa County Treasurer’s Investment Pool	\$ 3,504,673	\$ 3,397,919
Yavapai County Treasurer’s Investment Pool	272,241	272,241
Deposits with financial institutions	1,094,919	1,479,219
Total General Fund deposits and investments	<u>\$ 4,871,833</u>	<u>\$ 5,149,379</u>
<i>Capital Projects Fund</i>		
Maricopa County Treasurer’s Investment Pool	\$ 1,009,517	\$ 1,009,517
Yavapai County Treasurer’s Investment Pool	681,873	681,873
Maricopa County Treasurer’s Investment Pool - Bond	7,578,925	7,578,925
Total Capital Projects Fund deposits and investments	<u>\$ 9,270,315</u>	<u>\$ 9,270,315</u>
<i>Debt Service Fund</i>		
Maricopa County Treasurer’s Investment Pool	\$ 2,049,453	\$ 2,049,453
Yavapai County Treasurer’s Investment Pool	30,414	30,414
Total Capital Projects Fund deposits and investments	<u>\$ 2,079,867</u>	<u>\$ 2,079,867</u>

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 2 – Deposits and Investments – Continued

The Maricopa County Treasurer invests the cash in a pool under policy guidelines established by the Maricopa County Treasurer's Office (the County). The County accounts for the investment pool in their Fiduciary Investment Trust Fund. Credit risk, concentration of credit risk, and interest rate risk regarding the Maricopa County Treasurer's Investment Pool (MCTIP) is included in the Comprehensive Annual Financial Report of Maricopa County. The fair value of each participant's position in the MCTIP approximates the value of the participant's shares in the pool.

The Yavapai County Treasurer invests the cash in a pool under policy guidelines established by the Yavapai County Treasurers' Office (the County). The County accounts for the investment pool in their Fiduciary Investment Trust Fund. Credit risk, concentration of credit risk, and interest rate risk regarding the Yavapai County Treasurer's Investment Pool (YCTIP) is included in the Comprehensive Annual Financial Report of Yavapai County. The fair value of each participant's position in the YCTIP approximates the value of the participant's shares in the pool.

Credit risk—Credit risk is the risk that an issuer or other counterparty to an investment in a debt security will not fulfill its obligations. The District has no investment policy that would further limit its investment choices other than what is in the Arizona Revised Statutes. The MCTIP and YCTIP are external investment pools with no regulatory oversight. The MCTIP and YCTIP are not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2018, the MCTIP and YCTIP had not received a credit quality rating from a national rating agency.

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

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

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 2 – Deposits and Investments – Continued

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

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

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

Note 3 – Ambulance Receivable

The District considers ambulance revenue as available if collected within sixty days after year-end. The ambulance receivable represents the calls invoiced by June 30, 2018. The receivable balance as of June 30, 2018 is \$583,103. The allowance for doubtful accounts as of June 30, 2018 is \$220,947. The portion of the receivable that is not collected within sixty days after the end of the fiscal year is recorded as deferred revenue on the fund financial statements.

Note 4 – Property Taxes

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

Taxes receivable represents the delinquent tax levied against the property taxes within the District. No reserve is made in the financial statements for doubtful accounts because in the event the taxes are not paid, a lien is placed on the property, which can be subsequently sold to collect the delinquent taxes. The taxes receivable at June 30, 2018 is \$281,075, which represents property taxes outstanding. The portion of taxes receivable that is not collected within sixty days after the end of the fiscal year is recorded as deferred revenue on the fund financial statements.

Note 5 – Due From Other Governments

Due from other governments consists mainly of receivables related to state land fires. The balance of this receivable as of June 30, 2018 is \$199,537. Currently, there is no provision for an allowance for doubtful accounts as management considers all amounts collectible.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 6 – Capital Assets

The summary of changes in capital assets is as follows:

	Balance 6/30/17 (as Restated)	Additions	Deletions	Balance 6/30/18
<i>Governmental Activities:</i>				
Land	\$ 480,066	\$ -	\$ -	\$ 480,066
Construction in progress	4,142,274	274,105	(4,142,274)	274,105
Buildings	3,728,426	6,910,591	-	10,639,017
Equipment	8,723,681	2,707,561	(265,478)	11,165,764
Total capital assets	<u>17,074,447</u>	<u>9,892,257</u>	<u>(4,407,752)</u>	<u>22,558,952</u>
Accumulated depreciation				
Buildings	(1,374,880)	(249,066)	-	(1,623,946)
Equipment	(5,687,095)	(682,259)	265,478	(6,103,876)
Total accumulated depreciation	<u>(7,061,975)</u>	<u>(931,325)</u>	<u>265,478</u>	<u>(7,727,822)</u>
Capital assets, net	<u>\$ 10,012,472</u>	<u>\$ 8,960,932</u>	<u>\$ (4,142,274)</u>	<u>\$ 14,831,130</u>

One of the District's fire stations had an unstable building foundation. The District demolished the building in March 2017. The District constructed a new fire station on the site for approximately \$3.6 million dollars with completion in November 2017. The District also constructed new administrative offices for approximately \$2 million dollars with completion in November 2017. The District used general obligation bonds issued in May 2016 to pay for both the new fire station and administrative office building. Other major additions for the current fiscal year include acquisition of equipment on behalf of the Regional Wireless Cooperative, radios, and three water tenders.

Note 7 – Long-Term Debt

Long-term obligations are generally paid out of the general fund. Changes in long-term obligations for the year ended June 30, 2018, are as follows:

	Balance 6/30/17 (As Restated)	Increases	Decreases	Balance 6/30/2018	Due in One Year
<i>Governmental Activities:</i>					
Capital leases	\$ 1,379,646	\$ -	\$ 126,062	\$ 1,253,584	\$454,391
General obligation bonds	10,510,665	7,337,197	990,406	16,857,456	736,080
Net pension liability	10,248,097	-	1,227,638	9,020,459	-
Net OPEB liability	187,061	-	184,484	2,577	-
Compensated absences	2,105,923	382,066	-	2,487,989	199,604
Total long-term debt	<u>\$24,431,392</u>	<u>\$7,719,263</u>	<u>\$ 2,528,590</u>	<u>\$ 29,622,065</u>	<u>\$ 1,390,075</u>

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 8 – Net Revenue

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

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

Note 9 – Operating Leases

The District has a cancelable computer aided dispatching service agreement with the City of Phoenix. The current agreement is effective for a period of one year ending June 30, 2019. Rents are paid on a quarterly basis for dispatch and technical services. Total rent for the year ended June 30, 2018, was \$271,830.

Note 10 – Capital Leases

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

In October of 2016 the District entered into a capital lease for radio equipment, with two annual payments due on October 15th of 2018 and 2019.

The District's obligations are accounted for in the Statement of Net Position. Assets under capital lease totaled \$1,561,138 less accumulated depreciation of \$413,341 at June 30, 2018.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 10 – Capital Leases - Continued

The description of the capital leases are as follows:

Description	Interest Rate	Lease Term	Balance 6/30/2018
E-One Max Typhoon Fire Engine	2.63%	9/1/2022	\$ 307,356
E-One Max Typhoon Fire Engine	2.63%	9/1/2022	\$ 307,356
Various Radio Equipment	0% first 2 years, 2.99% remaining term	10/15/2019	\$638,872

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2018:

Year Ended June 30	
2019	\$ 469,685
2020	469,685
2021	145,544
2022	145,544
Thereafter	<u>72,773</u>
	1,303,231
Less: Amount Representing Interest	<u>(49,647)</u>
	<u>\$ 1,253,584</u>

Note 11 – General Obligation Bonds

General Obligation(GO) bonds have been issued, after approval by voters at an authorized bond election to finance construction of new administrative offices, a new fire station, upgrade radio infrastructure, purchase three new fire engines, and pay costs incurred in connection with delivery of the bonds.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 11 – General Obligation Bonds - Continued

As of June 30, 2018 bonds payable consisted of the following:

2015 General Obligation Bonds (issued 5/18/16) due in annual installments of \$587,100 to \$1,196,225 through 7/1/2035; interest at 2% to 4%. Original issue amount \$9,055,000 principal with a premium of \$730,705.	\$ 8,816,790
2015 General Obligation Bonds (issued 11/16/17) due in annual installments of \$359,050 to \$1,505,600 through 7/1/2037; interest at 2% to 4%. Original issue amount \$6,620,000 principal with a premium of \$717,197.	7,337,196
2009 General Obligation Bonds (issued 4/1/09) due in annual installments through 1/1/2039; Interest at 4.125%. Original issue amount \$861,000.	703,470
	\$ 16,857,456

The following is a summary of debt service requirements to maturity for GO bonds at June 30, 2018:

Fiscal Year	Principal	Interest	Net Premium (Discount)	Total
2019	\$ 736,080	\$ 445,844	\$82,243	\$ 1,264,167
2020	462,850	535,037	144,384	1,142,271
2021	523,805	525,284	140,129	1,189,218
2022	604,795	512,792	134,402	1,251,989
2023	640,825	494,539	125,056	1,260,420
2024-2028	3,706,210	2,119,523	469,640	6,295,373
2029-2033	4,519,325	1,347,960	203,788	6,071,073
2034-2038	4,259,945	434,945	54,344	4,749,234
2039	49,635	1,500	-	51,135
	\$ 15,503,470	\$ 6,417,424	\$ 1,353,986	\$ 23,274,880

Note 12 – Commitments

The District has a line of credit with a financial institution totaling \$10,000,000. The District did not have a balance outstanding on this line of credit as of June 30, 2018.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans

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

The cost of postemployment healthcare benefits, from an accrual accounting perspective, should be associated with the periods in which the future costs are earned rather than in the future years when they will be paid (similar to the cost of pension benefits). GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the District to recognize the entire OPEB liability and a comprehensive measure of OPEB expense. The comprehensive measure of OPEB expense includes immediate recognition in OPEB expense of the effects of changes of benefit terms, as well as the incorporation of the amortization of deferred inflows of resources and deferred outflows of resources related to OPEB over a defined, closed period.

At June 30, 2018 the District reported the following aggregate amounts related to pensions and other post-employment benefits (OPEB) for which it contributes:

	PSPRS	OPEB
Net pension liability	\$ 9,020,459	\$ 2,577
Deferred outflows of resources	5,217,074	(731)
Deferred inflows of resources	1,683,992	150,294
Pension expense	995,958	(35,218)

Deferred Compensation Plan

The District has a deferred compensation plan for all personnel. In this plan, employees can designate a percentage of their salary or a specific amount to be deducted from their paychecks. This plan is designed to provide benefits for retirement for any employee who chooses to participate in the plan. The District makes the following contributions: support staff receives 6% of their salary, management receives 10% of their salary and operations personnel receive a \$50 match per pay period. District contributions for the year ended June 30, 2018 totaled \$156,653.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Public Safety Personnel Retirement System

Plan Description - The District contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan, a defined contribution pension plan, and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The defined contribution plan is only available to members who became a member on or after January 1, 2012. The PSPRS, acting as a common investment administrative agent, is governed by a board, known as the Fund Manager, and the participating local boards to the provision of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, Arizona 85016 or by calling (602) 255-5575 or by visiting <http://www.psprs.com/investments--financials/>.

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

The calculation of retirement benefits for employees who became a member on or before December 31, 2011 (Tier 1 members) commence the first day of the month following termination of employment and are based upon the following:

1. 20 years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service.
2. Age 62 with 15 years of service, or 20 years of service with less than 20 years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service. The pension is reduced by 4 percent per year for each year of credited service under 20 years.
3. 20 to 24.99 years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service plus 2 percent of the average monthly benefit compensation for each year of credited service between 20 and 24.99.
4. 25 or more years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service plus 2.5 percent of the average monthly benefit compensation for each year of credited service above 20 years – up to a maximum of 80 percent of the average monthly benefit compensation.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans - Continued

Benefits Provided - Continued

The calculation of retirement benefits for employees who became a member on or after January 1, 2012, and on or before June 30, 2017 (Tier 2 members) commence the first day of the month following termination of employment and are based upon the following:

1. Age 52.5 with 15 years of credited service but less than 25 years: average monthly benefit compensation times a multiplier that varies by years of service, from 1.5 percent to 2.5 percent per year of service, times the number of years of service.
2. Age 52.5 with 25 years of credited service: 62.5 percent of the average monthly benefit compensation. Benefits will be reduced by 4 percent for each year of credited service under 25 years.
3. 25 or more years of credited service: 62.5 percent of the average monthly benefit compensation for the first 25 years of credited service plus 2.5 percent of the average monthly benefit compensation for each year of credited service above 25 years – up to a maximum of 80 percent of the average monthly benefit compensation. The pension is reduced by 4 percent for each year of credited service under 25 years with a pro-rata reduction for any fractional years.

The calculation of retirement benefits for employees who became a member on or after July 1, 2017, (Tier 3 members) are included in a new tier of benefits that was established by legislation passed in 2016. This group of members will enroll in a hybrid plan, which has elements of both a defined benefit and defined contribution plan. Employees who are part of this group may also elect to participate in a defined contribution plan in lieu of the hybrid plan. If enrolling in the hybrid plan, benefits (defined benefit portion only) commence the first day of the month following termination of employment and are based upon the following:

1. Age 55 with 15 or more years of credited service: average monthly benefit compensation times a multiplier that varies by years of service, from 1.5 percent to 2.5 percent per year of service, times the number of years of service – up to a maximum of 80 percent of the average monthly benefit compensation.
2. An individual who became a member on or after July 1, 2017, and reaches age 52.5 with at least 15 years of credited service may take an early retirement; however, the amount of his or her retirement benefit is actuarially reduced.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Benefits Provided - Continued

The phrase “average monthly benefit compensation,” as it is used in the above discussion, is defined as following:

<u>Membership Tier</u>	<u>Average Monthly Compensation</u>
Tier 1	36 consecutive months of highest compensation within the last 20 years of service
Tier 2	60 consecutive months of highest compensation within the last 20 years of service
Tier 3	60 consecutive months of highest compensation within the last 15 years of service

Disability benefits are calculated as follows:

Accidental Disability Retirement:	50% of average monthly compensation, Or normal pension amount, whichever is Greater.
Catastrophic Disability Retirement:	90% of average monthly compensation For the first 60 months. Thereafter, the Benefit is the greater of 62.5% of Average monthly compensation or the Member’s accrued normal pension.
Ordinary Disability Retirement:	A percentage of normal pension on Employee’s credited service (maximum 20 years divided by 20).

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Benefits Provided - Continued

Survivor benefits are paid on behalf of an active member in the amount of 80 percent of the pension based on the calculation for an accidental disability retirement. If the member was killed in the line of duty, the benefit is 100 percent of the member's average compensation. The benefit amount is allocated to the surviving spouse and, if applicable, eligible children. If there is no surviving spouse, and there is at least one eligible child, the guardian of the eligible child(ren) and the eligible child(ren) are the recipients of the benefit. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive the member's accumulated contributions. Benefits are paid on behalf of inactive, non-retired member to the member's named beneficiary in the amount of member's accumulated contributions. Death benefits are paid on behalf of a retired member in a manner similar to an active member. The surviving spouse (if married for at least two consecutive years at the time of the member's death) will receive 80 percent of the member's pension benefit for lifetime. The surviving children and guardian provisions are the same as those regarding active members, with the exception that the percentages received are based upon the pension amount as opposed to the amounts referenced above for active members. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive the member's accumulated contributions less the pension payments made to the member.

A retired member or survivor of a retired member may receive a Cost of Living Adjustment (COLA) from the System if monies are available. COLA eligibility and calculation is contingent upon the member's hire date.

Members, or survivors of retired members, who were hired before July 1, 2017, are eligible to receive a compounding COLA in the base benefit of up to 2 percent per year. The COLA will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. The first payment will be made on July 1, 2018, and every July 1 thereafter.

Members, or survivors of retired members, who were hired on or after July 1, 2017, are eligible to receive a compounding COLA in the base benefit, beginning at the earlier of the first calendar year after the seventh anniversary of the retired member's retirement or when the retired member is or would have been sixty years of age. The COLA will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. COLA adjustments will be received for this group if the following conditions are met:

<u>Ratio of Actuarial Value of Assets to Liabilities</u>	<u>Maximum Increase</u>
70-80%	1.00%
80-90%	1.50%
90-100%	2.00%

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Benefits Provided - Continued

Health insurance premium benefits are available to retired or disabled members with five years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits provided are as follows:

Single		Family		
Not Medicare Eligible	Medicare Eligible	All Not Medicare Eligible	All Medicare Eligible	One With Medicare
\$150	\$100	\$260	\$170	\$215

Employees covered by benefit terms – At June 30, 2018, the following employees were covered by the agent pension plans' benefit terms:

	Pension	OPEB
Inactive employees or beneficiaries currently receiving benefits	8	8
Inactive employees entitled to but not yet receiving benefits	8	2
Active employees	84	84
Total	100	94

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 contribution rates for employees are prescribed by the ARS Title 38, Chapter 5, Article 4, Section 38-843. For Tier 1 and Tier 2 employees, the actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year by these employees, with an additional amount to finance any unfunded accrued liability. The unfunded accrued liability portion of the rate is paid by the City as a percentage of the pay of all of the City's active PSPRS members, regardless of start date. For Tier 3 employees, each employer shall make contributions sufficient to pay fifty percent of both the normal cost plus the actuarially determined amount required to amortize the total unfunded accrued liability attributable only to those members hired on or after July 1, 2017. As noted above, the District will also pay an amount to finance any unfunded accrued liability relating to employees hired before July 1, 2017. The District's contributions to the pension plan and OPEB were \$1,736,368 and \$20,016 respectively. The District's contribution rates for the year ended June 30, 2018 were:

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Tier 1 & 2 Members		
Pension	OPEB	Total
24.10%	.40%	24.50%

Tier 3 Members	
Employer contribution for Tier 3	7.14%
Employer contribution for Tier 1&2 unfunded liability	8.51%
Total as a % of Tier 3 payroll	15.65%

Pension/OPEB Liability (asset) – at June 30, 2018, the District reported a net pension liability of \$9,020,459 and a net OPEB liability of \$2,577. The net pension and OPEB liabilities were measured as of June 30, 2017, and the total pension/OPEB liabilities used to calculate the net pension/OPEB liabilities were determined by an actuarial valuation as of that date. The total liabilities as of the measurement date of June 30, 2017 reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including a decrease in the investment rate of return from 7.5 percent to 7.4 percent, a decrease in wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions.

Pension Actuarial Assumptions - The significant actuarial assumptions used to measure the total pension and OPEB liabilities are as follows:

Actuarial valuation date:	6/30/2017
Actuarial cost method:	Entry Age Normal
Asset Valuation Method:	Fair Value of Assets
Payroll Growth:	3.50%
Price Inflation:	2.50%
Salary increases:	3.50% - 7.50%, including inflation
Investment rate of return:	7.40%, net of investment and administrative expenses
Mortality rates:	RP-2014 mortality tables projected backwards 1 year to 2013 with MP-2014 (110% of female healthy annuitant mortality table). Future mortality improvements are assumed each year using 75% of scale MP-2016

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Pension Actuarial Assumptions – Continued

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

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.40 percent using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These real rates of return 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.70%
Private Equity	12.00%	6.75%
Fixed Income	5.00%	1.25%
Private Credit	16.00%	5.83%
Absolute Return	2.00%	3.75%
GTAA	10.00%	3.96%
Real Assets	9.00%	4.52%
Real Estate	10.00%	3.75%
Risk Parity	4.00%	5.00%
Short Term Inv	2.00%	0.25%
<i>Total</i>	<u>100.00%</u>	

- Geometric Real Rate of Return. Based on inflation assumption of 2.75%

Discount Rates – The discount rate used to measure the total pension and OPEB liabilities was 7.4 percent, which was a decrease of 0.1 percent from the discount rate used as for the prior year. The projection of cash flows used to determine the PSPRS discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2017	\$ 34,230,285	\$ 23,982,188	\$ 10,248,097
Changes for the current year:			
Service cost	1,673,090	-	1,673,090
Interest on the total pension liability	2,606,330	-	2,606,330
Changes of benefit terms	205,530	-	205,530
Differences between expected and actual experience in the measurement of the pension liability	(1,021,030)	-	(1,021,030)
Change of assumptions or other inputs	(1,002)	-	(1,002)
Contributions – Employer	-	1,027,836	(1,027,836)
Contributions – Employee	-	838,054	(838,054)
Net investment income	-	2,890,896	(2,890,896)
Benefit payments, including refunds of employee contributions	(631,536)	(631,536)	-
Pension Plan Administrative Expense	-	(26,379)	26,379
Other changes	-	(39,851)	39,851
Net changes	2,831,382	4,059,020	(1,227,638)
Balances at June 30, 2018	\$ 37,061,667	\$ 28,041,208	\$ 9,020,459

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at June 30, 2017	\$ 786,723	\$ 599,662	\$ 187,061
Changes for the current year:			
Service cost	21,207	-	21,207
Interest on the total pension liability	59,683	-	59,683
Changes of benefit terms	213	-	213
Differences between expected and actual experience in the measurement of the pension liability	(72,138)	-	(72,138)
Change of assumptions or other inputs	(94,458)	-	(94,458)
Contributions – Employer	-	27,815	(27,815)
Contributions – Employee	-	-	-
Net investment income	-	71,811	(71,811)
Benefit payments, including refunds of employee contributions	(3,120)	(3,120)	-
OPEB Plan Administrative Expense	-	(635)	635
Other changes	-	-	-
Net changes	(88,613)	95,871	(184,484)
Balances at June 30, 2018	\$ 698,110	\$ 695,533	\$ 2,577

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

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

	1% Decrease 6.40%	Current Discount Rate 7.40%	1% Increase 8.40%
Net pension liability (asset)	\$ 15,593,624	\$ 9,020,459	\$ 3,766,926
Net OPEB liability (asset)	\$ 116,678	\$ 2,577	\$ (90,306)

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

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2018, the District recognized pension expense for PSPRS and OBEP of \$1,015,974. At June 30, 2018, the District reported deferred inflows of resources related to pensions from the following sources:

PSPRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,873,720	\$ 1,653,659
Changes of assumptions or other inputs	1,501,122	30,333
Net difference between projected and actual earnings on pension plan investments	326,289	-
District contributions subsequent to the measurement date	1,515,943	-
Total	\$ 5,217,074	\$ 1,683,992

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	\$ 336,252
2020	524,788
2021	350,506
2022	15,507
2023	227,984
Thereafter	562,102
	<u>\$ 2,017,139</u>

OPEB	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 65,498
Changes of assumptions or other inputs	-	84,796
Net difference between projected and actual earnings on pension plan investments	(20,747)	-
District contributions subsequent to the measurement date	20,016	-
Total	<u>\$ (731)</u>	<u>\$ 150,294</u>

The amounts reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	\$ 21,489
2020	21,489
2021	21,489
2022	21,488
2023	16,302
Thereafter	68,784
	<u>\$ 171,041</u>

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

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

Projections of benefits are based on (1) the plan as the District and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the District and plans' members to that point. Actuarial calculations reflect a long-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

The actuarial methods and assumptions used to establish the fiscal year 2018 contribution requirements are as follows:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed for Tier 1 & 2 Level dollar closed for Tier 3
Remaining Amortization Period	28 years for underfunded/ 20 years for overfunded For Tier 1 & 2 10 years for Tier 3
Asset valuation method	7-year smoothed market; 80%/120% Market for Tier 1&2 5-year smoothed market; 80%/120% Market for Tier 3
Actuarial assumptions:	
Investment rate of return	7.40% for Tier 1&2, 7.00% for Tier 3
Projected salary increases	3.50%-7.50%
Payroll growth	3.50%
Assumed future permanent benefit increases	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

Trend Information – Information for the three most recent actuarial valuations follows:

Year Ended June 30	Contributions Required	
	Annual Required Contribution	Percent Contributed
2018	\$ 1,887,967 (est)	100%
2017	\$ 1,016,301 (est)	100%
2016	\$ 902,698 (est)	100%

Schedule of funding progress – Excluding Health Insurance Subsidy.

Valuation Ending June 30	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll* (c)	UAAL as a percent of covered payroll ((b-a)/c)	AAL as a Percent of Covered Payroll (b)/(c)
2018	31,568,118	42,749,561	11,181,443	73.8%	7,413,211	150.8%	576.7%
2017	27,906,433	35,926,391	8,019,958	77.7%	7,009,252	114.4%	512.6%
2016	25,056,608	33,193,981	8,137,373	75.5%	7,242,871	112.4%	458.3%

- Tier 1 & 2 defined benefit plan payroll only

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

PSPRS	Year ending June 30,	Annual OPEB Costs	Percentage Contributed
Health Insurance	2018	\$ 31,336	100%
	2017	\$ 27,893	100%
	2016	\$ 29,783	100%

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 13 – Retirement Plans – Continued

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

Valuation Ending June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2018	\$ 782,497	\$ 712,107	\$ (70,390)	109.9%	\$7,413,211	0%
2017	678,406	678,057	(349)	100.1%	7,009,252	0%
2016	608,085	733,020	124,935	83.0%	7,242,871	1.72%

- Tier 1 & 2 defined benefit plan payroll only

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

OPEB Funded Status

Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed for Tier 1 & 2 Level dollar closed for Tier 3
Remaining Amortization Period	28 years for underfunded/ 20 years for overfunded For Tier 1 & 2 10 years for Tier 3
Asset valuation method	7-year smoothed market; 80%/120% Market for Tier 1&2 5-year smoothed market; 80%/120% Market for Tier 3
Actuarial assumptions:	
Investment rate of return	7.40% for Tier 1&2, 7.00% for Tier 3
Projected salary increases	3.50%-7.50%
Payroll growth	3.50%
Assumed future permanent benefit increases	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 14 - Interfund Activity

Interfund transfers for the year ended June 30, 2018 consisted of transfers from the debt service fund to the general fund of \$5,799,194 and transfers from the debt service fund to the capital projects fund totaling \$1,612,373. The transfers from the debt service fund to the capital projects fund and the general fund were to transfer bond proceeds used to pay for planned capital outlay.

Note 15 – Risk Management

The District is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. The District maintains commercial liability insurance to cover losses. Any settled claims resulting from these risks have not exceeded commercial insurance in any of the last three years. In the opinion of the District’s management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. Consequently, no provision has been made in the financial statements for possible losses of this nature.

Note 16 – Beginning Balance Restated

Beginning net position is being restated due to the following:

Prior period correction: The District previously entered into a capital lease agreement for acquisition of radio equipment on October 15, 2016 with the first lease payment due October 15, 2018. A prior period adjustment was made to recognize the acquisition of equipment and depreciation expense as well as the corresponding capital lease.

Change in Accounting Principle: For the year ended June 30, 2018 the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Net position as previously reported at June 30, 2017	\$ 2,774,949
Prior period adjustment – implementation of GASB 75	(208,836)
Prior period adjustment - restatement due to error	<u>(68,451)</u>
Net position as restated, July 1, 2017	<u>\$ 2,497,662</u>

**Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2018**

Note 17 – Subsequent Events

Management has evaluated subsequent events through February 20, 2019, the date the financial statements were available to be issued noting the following:

From July 1, 2018 to the date of issuance approximately \$1.8 million was spent on bond projects including the remodeling of fire stations. In the same time period approximately \$300,000 was spent on a radio project in Black Canyon City.

**Daisy Mountain Fire District
Required Supplementary Information
General Fund - Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Amended and Final Budget	Actual Amounts	Variance with Final Budget- Favorable (Unfavorable)
Revenues			
<i>Taxes:</i>			
Property taxes	\$ 13,148,100	\$ 13,130,774	\$ (17,326)
Fire district assistance tax	472,149	482,465	10,316
Fire insurance premium tax	134,000	113,865	(20,135)
Charges for services	1,352,000	1,704,061	352,061
Intergovernmental	185,000	841,650	656,650
Grants	317,674	98,497	(219,177)
Interest	15,000	32,929	17,929
Other income	419,282	594,970	175,688
Total revenues	<u>16,043,205</u>	<u>16,999,211</u>	<u>956,006</u>
Expenditures			
<i>Fire protection and emergency services</i>			
Personnel	8,552,557	8,975,801	(423,244)
Employee benefits and expenses	5,343,197	3,496,432	1,846,765
Utilities and communication	581,521	536,596	44,925
Repairs and maintenance	474,950	526,924	(51,974)
Administration	673,113	750,059	(76,946)
Operating expenses	453,631	234,404	219,227
Contingency/carryforward	125,000	-	125,000
Turnout Gear	126,400	206,051	(79,651)
Grant Expenditures	347,000	50,000	297,000
Capital outlay	10,419,432	5,871,944	4,547,488
<i>Debt service:</i>			
Principal payments	123,618	126,062	(2,444)
Interest payments	16,926	19,482	(2,556)
Total expenditures	<u>27,237,345</u>	<u>20,793,755</u>	<u>6,443,590</u>
Excess of revenues over expenditures	(11,194,140)	(3,794,544)	7,399,596
<i>Other financing sources (uses):</i>			
Proceeds on Disposal of Equipment	-	280,000	280,000
Transfers in	10,494,140	5,799,194	(4,694,946)
Carryover	700,000	-	(700,000)
Changes in fund balance	-	2,284,650	2,284,650
Fund balance, beginning of year	-	2,711,633	2,711,633
Fund balance, end of year	<u>\$ -</u>	<u>\$ 4,996,283</u>	<u>\$ 4,996,283</u>

See accompanying notes to the budgetary comparison schedule.

**Daisy Mountain Fire District
Required Supplementary Information
Notes to Budgetary Comparison Schedule
Year Ended June 30, 2018**

Note 1 – Budgetary Requirements and Basis of Accounting

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

**Daisy Mountain Fire District
Required Supplementary Information
Schedule of Changes in the District's
Net Pension Liability and Related Ratios
Year Ended June 30, 2018**

	Fiscal Year				2007 through 2014
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability					
Service cost	\$ 1,673,090	\$ 1,403,668	\$ 1,271,270	\$ 1,289,372	Information not available
Interest on total pension liability	2,606,330	1,900,290	1,627,227	1,473,556	
Changes of benefit terms	205,530	3,646,888	-	(54,793)	
Difference between expected and actual experience in the measurement of the pension liability	(1,021,030)	1,512,320	824,429	(1,044,263)	
Changes of assumptions or other inputs	(1,002)	1,462,010	-	439,020	
Benefit payments, including refunds of employee contributions	(631,536)	(473,756)	(147,467)	(125,047)	
Net change in pension liability	\$ 2,831,382	\$ 9,451,420	\$ 3,575,459	\$ 1,977,845	
Total pension liability - beginning	34,230,285	23,742,561	20,167,102	18,189,257	
Total pension liability - ending (a)	<u>\$ 37,061,667</u>	<u>\$ 33,193,981</u>	<u>\$ 23,742,561</u>	<u>\$ 20,167,102</u>	
Plan fiduciary net position					
Contributions - employer	\$ 1,027,836	\$ 997,389	\$ 877,149	\$ 865,118	
Contributions - employee	838,054	1,089,704	763,225	739,872	
Net investment income	2,890,896	128,074	726,689	2,198,085	
Benefit payments, including refunds of employee contributions	(631,536)	(473,756)	(147,467)	(125,047)	
Pension plan administrative expense	(26,379)	(18,829)	(18,120)	(18,120)	
Other changes	(39,851)	(17,469)	(6,434)	(30,118)	
Net change in plan fiduciary net position	4,059,020	1,705,113	2,195,042	3,647,910	
Plan fiduciary net position - beginning	23,982,188	21,396,234	19,201,192	15,553,282	
Plan fiduciary net position - ending (b)	<u>\$ 28,041,208</u>	<u>\$ 23,101,347</u>	<u>\$ 21,396,234</u>	<u>\$ 19,201,192</u>	
District's net pension liability - ending (a) - (b)	<u>\$ 9,020,459</u>	<u>\$ 10,092,634</u>	<u>\$ 2,346,327</u>	<u>\$ 965,910</u>	
Plan fiduciary net position as a percentage of the total pension liability	76%	70%	90%	95%	
Covered-employee payroll	\$ 7,218,742	\$ 7,242,871	\$ 6,612,440	\$ 6,556,127	
District's net pension liability as a percentage of covered-employee payroll	125%	139%	35%	15%	

The District Implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the fiscal year ended June 30, 2015. Information prior to 2014 is not available.

Black Canyon Fire District merged with Daisy Mountain Fire District as of July 1, 2017. Information for the Black Canyon Fire District prior to that date is not included in this schedule.

**Daisy Mountain Fire District
Required Supplementary Information
Schedule of District Pension Contributions
Year Ended June 30, 2018**

PSPRS	2018 Measurement Date (2017)	2017 Measurement Date (2016)	2016 Measurement Date (2015)	2015 Measurement Date (2014)	2007 through 2014
Actuarially determined contribution	\$ 1,027,836	\$ 997,389	\$ 877,149	\$ 865,118	Information not available
District's contributions in relation to the actuarially determined contribution	<u>1,027,836</u>	<u>997,389</u>	<u>877,149</u>	<u>865,118</u>	
District's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
District's covered-employee payroll	<u>\$ 7,218,742</u>	<u>\$ 7,242,874</u>	<u>\$ 6,612,440</u>	<u>\$ 6,556,127</u>	
District's contributions as a percentage of covered-employee payroll	<u>14.24%</u>	<u>13.77%</u>	<u>13.27%</u>	<u>13.20%</u>	

The District Implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the fiscal year ended June 30, 2015. Information prior to 2014 is not available.

Black Canyon Fire District merged with Daisy Mountain Fire District as of July 1, 2017. Information for the Black Canyon Fire District prior to that date is not included in this schedule.

**Daisy Mountain Fire District
Required Supplementary Information
Schedule of Changes in the District's
Net OPEB Liability and Related Ratios
Year Ended June 30, 2018**

	<u>2018</u> <u>(2017)</u>	<u>2007</u> <u>through</u> <u>2016</u>
Total pension liability		
Service cost	\$ 21,207	Information not available
Interest on total pension liability	59,683	
Changes of benefit terms	213	
Difference between expected and actual experience in the measurement of the pension liability	(72,138)	
Changes of assumptions or other inputs	(94,458)	
Benefit payments, including refunds of employee contributions	(3,120)	
Net change in pension liability	\$ (88,613)	
Total pension liability - beginning	<u>786,723</u>	
Total pension liability - ending (a)	<u>\$ 698,110</u>	
Plan fiduciary net position		
Contributions - employer	\$ 27,815	
Contributions - employee	-	
Net investment income	71,811	
Benefit payments, including refunds of employee contributions	(3,120)	
OPEB plan administrative expense	(635)	
Other changes	-	
Net change in plan fiduciary net position	<u>95,871</u>	
Plan fiduciary net position - beginning	<u>599,662</u>	
Plan fiduciary net position - ending (b)	<u>\$ 695,533</u>	
District's net pension liability - ending (a) - (b)	<u>\$ 2,577</u>	
Plan fiduciary net position as a percentage of the total pension liability	99.63%	
Covered-employee payroll	\$ 7,218,742	
District's net pension liability as a percentage of covered-employee payroll	0.04%	

The District Implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ended June 30, 2018. Information prior to 2017 is not available.

Black Canyon Fire District merged with Daisy Mountain Fire District as of July 1, 2017. Information for the Black Canyon Fire District prior to that date is not included in this schedule.

**Daisy Mountain Fire District
Required Supplementary Information
Schedule of District OPEB Contributions
Year Ended June 30, 2018**

PSPRS	<u>2018 Measurement Date (2017)</u>	<u>2007 through 2014</u>
Actuarially determined contribution	\$ 27,815	Information not available
District's contributions in relation to the actuarially determined contribution	<u>27,815</u>	
District's contribution deficiency (excess)	<u>\$ -</u>	
 District's covered-employee payroll	 <u>\$ 7,218,742</u>	
District's contributions as a percentage of covered-employee payroll	 <u>0.39%</u>	

The District Implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the fiscal year ended June 30, 2018. Information prior to 2017 is not available.

Black Canyon Fire District merged with Daisy Mountain Fire District as of July 1, 2017. Information for the Black Canyon Fire District prior to that date is not included in this schedule.

**Daisy Mountain Fire District
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
Year Ended June 30, 2018**

Note 1 – Actuarially Determined Contribution Rates

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	21 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Price Inflation:	3.0%; No explicit price inflation assumption is used in this valuation.
Projected salary increases	4%–8%
Wage growth	4.0%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)
Assumed future permanent benefit Increases:	Members retired on or before July 1, 2011: 2% of overall average benefit compounded annually. All members receive the same dollar amount of increase. Members retired on or after August 1, 2011: 0.5% of overall average benefit compounded annually. All members receive the same dollar amount of increase.



Heidenreich & Heidenreich, CPAs, PLLC

10201 S. 51st Street, Suite #170

Phoenix, AZ 85044

(480)704-6301 fax 785-4619

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the District Board
Daisy Mountain Fire District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Daisy Mountain Fire District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Daisy Mountain Fire District's basic financial statements, and have issued our report thereon dated February 20, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Daisy Mountain Fire District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Compliance with Regulatory Requirements

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

Purpose of this Report

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

Heidenreich & Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC
Phoenix, AZ
February 20, 2019