

RIO RICO FIRE DISTRICT
YEAR ENDED JUNE 30, 2017

RIO RICO FIRE DISTRICT
YEAR ENDED JUNE 30, 2017

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Independent Auditors' Report

Governing Board and Management
Rio Rico Fire District
Rio Rico, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of Rio Rico Fire District as of and for the year ended June 30, 2017, 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 of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 and each major fund of Rio Rico Fire District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability - cost sharing plans, schedule of changes in the net pension liability (asset) and related ratios - agent retirement plan, schedule of pension contributions, schedule of funding progress - post-retirement health insurance subsidy - agent retirement plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of Rio Rico Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rio Rico Fire District's internal control over financial reporting and compliance.

Beach Fleishman PC

Tucson, Arizona
November 28, 2017

RIO RICO FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2017

As management of the Rio Rico Fire District (the District), we offer readers of these financial statements, this narrative overview, and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. The District understands the importance of transparency in everything we do, and so this discussion and analysis is intended to be an easily readable breakdown of the District's financial activities based on currently known facts, decisions and conditions. Readers are encouraged to consider the information presented here in conjunction with the financial statements following this narrative.

FINANCIAL HIGHLIGHTS

The following are the financial highlights of the District for the fiscal year:

- In the government-wide financial statements, the assets and deferred outflows of Rio Rico Fire District exceeded its liabilities and deferred inflows at the close of the fiscal year by \$2.56 million (net position). Of this amount, \$2.4 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens, creditors and to further the purpose of the District. The District also reported \$65,337 in restricted net position to be used for debt service.
- The District's total net position decreased by \$1,001,373, primarily due to pension costs and judgement expenses. The District's salaries represented a slight increase of \$51,662 over the previous fiscal year, due to the District reinstating the step-scale increase previously on hold due to budget cuts and due to increased responses to wildland assignments. Although the District's health insurance costs increased, the overall employee benefits, including District-sponsored insurance coverage, represented a slight reduction. The most significant impact in net position was due to pension costs, including a court settlement retroactive to FY 2012. The court settlement resulted in expenses of \$209,396, additional information regarding the settlement is provided on page 7. Further, the pension expense recorded in the statement of activities is based on actuarially determined amounts, and does not equal actual contributions to the plan. The District recorded pension expense of \$933,600, an increase of \$630,881 from the prior year. Footnote 13 provides more detailed information on the pension plan and the actuary calculations.
- Although the District's net position decreased by \$1M, the Rio Rico Fire District managed to maintain its expenditures under the budgeted amount.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2.7 million, an increase of \$227,493 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.8 million, or 43% of total General Fund expenditures, which totaled \$4.12 million for the fiscal year.
- The District issued new debt to advance refund existing debt with higher interest rates. The advance refunding will reduce total debt service payments over the life of the debt by \$672,295.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The **statement of net position** (page 13) presents information on all of the District's assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The **statement of activities** (page 14) presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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. Management establishes governmental funds based on the application of generally accepted accounting principles and the evaluation of applicable laws, regulations and reporting objectives.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term acquisition and use of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financial requirements. Thus, the emphasis is placed on measurable and available financial resources rather than on the net changes in assets. 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 financial 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 individual government funds: the General Fund, the Capital Projects Fund, and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds, all of which are considered to be major funds of the District; the concept and determination of

major funds has been established by the Governmental Accounting Standards Board (GASB). There are no non-major governmental funds.

The District adopts an annual appropriated budget to levy taxes and provide for its General Fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget and is presented on page 47.

The basic governmental fund financial statements and reconciliations can be found on pages 15 - 18 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 - 46 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as one useful indicator of the District's financial condition. The assets of the District exceeded liabilities by \$2.56 million (net position) as of June 30, 2017. The District's net position decreased by \$1,001,373 for the fiscal year ended June 30, 2017.

By far, the largest portion of net position (\$2,404,217 or 94%), reflects the District's unrestricted net assets, that may be used to meet ongoing obligations of the District to citizens and creditors. Of the \$2.4 unrestricted assets, management will propose the reimbursement to the Capital Reserve of \$142,121 to increase the fund to previous balance. After the previously mentioned expenditures, the unrestricted assets assist the District in funding the first four months of the fiscal year, until tax revenue spikes at the end of October. Utilizing the District unrestricted assets reduces the District's need for a line of credit available via our county's financial institution and therefore, reduced the interest costs to the District and its residents.

The net investment in capital assets (\$97,189 or 3.3%) reflects the District's investment in capital assets (land, buildings and improvements, fire apparatus, and vehicles), less any related debt still outstanding that was issued to acquire those items. 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 capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be liquidated to service these liabilities.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net position.

The following table reflects the condensed Statement of Net Position.

Rio Rico Fire District
Condensed Statement of Net Position
As of June 30, 2017

	<u>Governmental Activities</u>		Increase/ (Decrease)
	2017	2016	
Cash and investments	\$ 2,747,975	\$ 2,263,653	\$ 484,322
Receivables	715,132	773,420	(58,288)
Capital assets, net	5,307,337	5,699,618	(392,281)
Other assets	-	452,209	(452,209)
Deferred outflows	1,500,041	494,531	1,005,510
Total assets and deferred outflows	10,270,485	9,683,431	587,054
Current liabilities	871,087	407,193	463,894
Long term liabilities	6,487,222	5,426,807	1,060,415
Deferred inflows	345,433	281,315	64,118
Total liabilities and deferred inflows	7,703,742	6,115,315	1,588,427
Net Investment in capital assets	97,189	872,938	(775,749)
Restricted for debt service	65,337	47,764	17,573
Unrestricted	2,404,217	2,647,414	(243,197)
Total net position	\$ 2,566,743	\$ 3,568,116	\$ (1,001,373)

Statement of Activities – The net position of the District from governmental activities decreased 28%, or \$1,001,373. Key elements of this increase are as follows:

- Fire District Assistance Tax (FDAT) are part of the District’s property tax revenues. FDAT revenue decreased slightly mainly due to FDAT allocation being prorated based on District’s fire tax rate. Since the District’s tax rate remained the same, but other Districts fire tax rates increasing, FDAT revenue represented a slight decrease.
- Charges for Service revenue represented a slight increase of about \$49,462. State and federal programs such as Medicaid (AHCCCS) and Trailblazer Program are still lacking funding for reimbursement of services. As a public entity, the District provides services without regard to a patient’s insurance coverage or ability to pay. As a Medicaid and Medicare provider, our District must accept rates at the pre-determined level. The District is unable to implement billing or collection practices for individuals that reside outside the U.S., and therefore, all accounts previously covered by the Trailblazer Federal Program were written off as bad debt. To offset some of the reduced ambulance revenue, the District requested to Arizona Department of Health Services (AZDHS). The automatic rate increase of 3.3% would not begin until fiscal year 2018 once reviewed and approved by AZDHS.

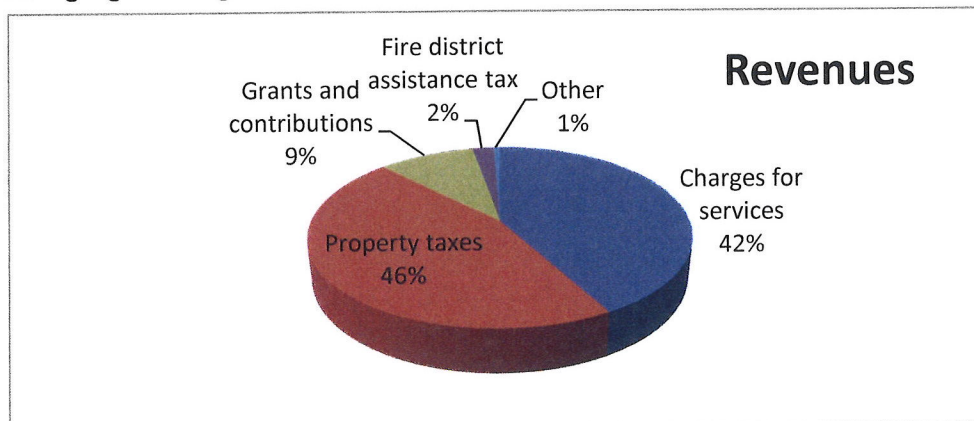
- Grant revenue decreased in the current fiscal year, although the current revenue represents a considerable increase from years' past, with the exception of FY 2016, when the District received a pass-through capital grant for over \$400,000. Even without the capital grant, grant revenue continues to assist the District in maintaining staffing, equipment and services.
- Expenditures for the District remained consistent with prior years, not considering grant expenditures. To be fiscally responsible, some of the capital and/or discretionary expenditures considered necessary, but not urgent were postponed until the District could confirm a positive net position in operational funds. The expenses were postponed until the new fiscal year, but management will recommend utilizing unrestricted funds.
- The District's revenue from Wildfire Response remained high and in line with the prior fiscal year, representing over \$214,000 in revenue, three times the revenue from two years prior, but this also increased personnel wages by over \$116,755.
- The District continues to focus on operational staffing needs focused on historical call data. Part-time suppression employees are scheduled based on historical call volume. Part-time training instructors continue to provide the District the flexibility to train employees on shift and therefore reducing overtime costs.
- During 2017, as a result of the Parker v. Public Safety Personnel Retirement System plan lawsuit, the courts found that recent increases in employee contribution rates for members hired prior to July 2011 were unconstitutional. Therefore, those members of the Plan are entitled to refunds of the excess employee contributions, plus interest. The District is required to provide the refunds to the employees, as IRS regulations prevent PSPRS from issuing the refunds from the Plan's trusts. The excess employee contributions to be refunded to the employees plus estimated interest totaled \$209,396 and was recorded as an extraordinary item on the statement of activities.

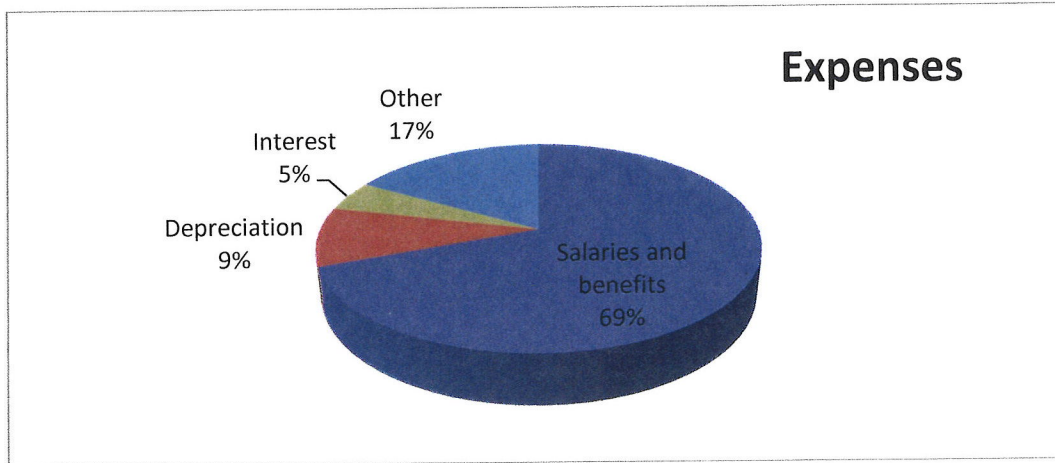
The following table presents a comparative summary of the District's revenues and expenses for the current and preceding fiscal years.

Rio Rico Fire District
Condensed Statement of Activities
 For the Year Ended June 30, 2017

	Governmental Activities 2017	2016	Increase/ (Decrease)
Revenues			
Property taxes	\$ 2,234,428	\$ 2,229,302	\$ 5,126
Fire district assistance tax	104,659	108,500	(3,841)
Charges for services	2,057,916	1,867,667	190,249
Operating grants and contributions	467,405	317,226	150,179
Capital grants and contributions	0	366,248	(366,248)
Other	29,652	24,809	4,843
Total Revenues	4,894,060	4,913,752	(19,692)
Expenses			
Salaries and wages	2,533,765	2,486,400	47,365
Payroll taxes and employee benefits	1,408,917	815,917	593,000
Depreciation	522,715	518,912	3,803
Interest	258,062	265,718	(7,656)
Other	962,578	950,230	12,348
Total Expenses	5,686,037	5,037,177	648,860
Extraordinary item – claims and judgement	(209,396)	-	209,396
Change in net position	(1,001,373)	(123,425)	(877,948)
Beginning Net Position	3,568,116	3,691,541	(123,425)
Ending Net Position	<u>\$ 2,566,743</u>	<u>\$ 3,568,116</u>	<u>\$ (1,001,373)</u>

The following charts highlight the significant sources and uses of revenues and expenses.





FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental Funds - The focus of the District's *governmental 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, unassigned fund balances may serve as a useful measure of the District's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's Governing Board.

At June 30, 2017, the governmental funds of the District reported a combined fund balance of \$2.7 million, an increase from last year of \$227,493 or 9.2%. The increase includes various alternate sources of revenue established by management, higher fees for service collection rates and reduction of overall expenditures to offset reduction of tax revenue and wildland reimbursements. The District also received funding for health grants to promote its Community Healthcare Integrated Paramedicine Program (CHIPP). Further, collections are projected to improve on the ambulance services as well as revenue from the state Medicaid program, due to the requested increase in base and mileage rates.

General Fund - The General fund accounts for all of the financial resources of the District, which are not accounted for in any other fund. As of June 30, 2017, total fund balance was \$1,769,296, which was all unassigned. As a measure of the General fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 43% of total general fund expenditures.

Capital Projects Fund - The Capital Projects fund accounts for the accumulation of resources for future construction costs for new and existing facilities and for the purchase of large fire apparatus. As of June 30, 2017, the ending fund balance in the Capital Projects fund was \$877,768.

Debt Service Fund - The debt service fund accounts for the property tax levy dedicated to the payment of principal and interest on general obligation bonds. As of June 30, 2017, the ending fund balance in the Debt Service fund was \$47,054.

BUDGETARY HIGHLIGHTS

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

- Revenues were less than the budgeted amounts (by \$284,145 or 6.0%) primarily due charges for services including ambulance response and medical billing that our agency was performing for another fire agency. The slight increase in ambulance revenue was less than budgeted and the medical billing for Salt River Fire Department was determined to be very labor intensive, therefore not profitable. The agreement for services was ended in December 2016. Under budget revenue in the fee-for-service area was offset by the increased wildland revenue.
- As in prior fiscal years, the District strives to continue fiscally responsible practices by projecting discretionary expenditures once funding is confirmed and available in the fiscal year. In addition, our District continues to promote cost-reduction practices including review of operational costs and employee related expenditures, such as workers compensation coverage. By promoting and incentivizing safety practices amongst employees, reduction in industrial claims yielded over \$39,000 reduction in costs in the current fiscal year. Due to proactive management of expenditures financials reflect a decrease of \$636,836 or 13% from budget expenditures.

Rio Rico Fire District
Condensed Budget to Actual
 As of June 30, 2017

	General Fund		Variance with budget
	Budget	Actual	
Total Revenues	\$ 4,757,734	\$ 4,473,589	\$ (284,145)
Total Expenses	4,757,734	4,120,898	(636,836)
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 352,691</u>	<u>\$ 352,691</u>

CAPTIAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The District’s investment in capital assets for its governmental type activities as of June 30, 2017 totaled \$5.3 million (net of accumulated depreciation). These assets include land, buildings and improvements, fire apparatus and vehicles, and general fire suppression and emergency medical equipment, as well as information technology and communications equipment.

During the year, the District purchased capital assets of \$130,434, which included a new ambulance and other small equipment.

The District depreciates capital assets, except for land and construction in progress, consistent with generally accepted accounting principles, utilizing the straight-line depreciation method. The cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. Major outlays for capital assets and improvements are capitalized as projects are completed and placed into service. Additional information on the District's capital assets can be found in the notes to the basic financial statements.

Changes in Capital Assets

	2017	2016
Beginning balance	\$ 5,699,618	\$ 5,863,949
Additions	130,434	356,212
Loss on sale of asset	-	(1,631)
Depreciation	(522,715)	(518,912)
Ending balance	\$5,307,337	\$ 5,699,618

Long-term Liabilities – At June 30, 2017, the District had \$6.9 million in long-term liabilities outstanding, a net increase of \$1,291,384, or 23% from the prior year. The increase is due to a \$695,000 increase in the net pension liability, \$290,000 claims and judgment payable, \$770,000 premium on bonds issued to advance refund existing debt, offset by principal reductions in capital leases and general obligation bonds.

The District continues to retire and manage debt to fund various capital projects which support program services. As of June 30, 2017, the District had total long-term debt (bonds and capital leases) outstanding of \$4,461,700. This debt currently requires annual debt service payments that consist of principal and interest of approximately \$420,000. All debt is backed by the full faith and credit of the District.

In accordance with GASB 68 - Accounting and Financial Reporting for Pensions, which was implemented in FY 2015, the District is required to include the net pension liability (asset) on the financial statements. The net pension liability is measured as the total pension liability, less the pension plan’s fiduciary net position. A net pension liability is recorded at June 30, 2017 relating to the District’s participation in the Public Safety Personnel Retirement System (PSPRS) of \$512,652, and a net pension liability is recorded at June 30, 2017 relating to the District’s participation in the Arizona State Retirement System (ASRS) of \$795,752.

Additional information regarding the long-term debt of the District can be found in the notes to the financial statements on pages 28 - 31 of this report, and information regarding the pension plans can be found on pages 34 – 46.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND TAX RATES

Property values reflected in this report included a minimal, almost budget neutral 0.49% increase in assessed property valuation. A slight increase of 3.59% is projected for the upcoming fiscal year. Although the increase is small, we consider this a positive outlook after six years of decreases and over 30% loss in assessed property valuation. Management will remain consistent with a positive, but conservative management of District funding and strives to strengthen its Capital Fund based on capital investments determined necessary in the short to medium term. Proactive capital asset investments are necessary to reduce operational efficiencies and cost reduction. Due to the slow and delayed recovery of property valuation, management will need to proactively plan for capital investments since bond issuance capacity is unlikely in the short term.

Employee wages and related expenses have been reinstated as funding is secured, although not fully. Employee benefits are reinstated based on funding available, not only for the current fiscal year, but also based on the projection of costs for upcoming years. Fiscally responsible management practices continue to be reviewed and pursued, with the goal of ensuring a continued level of service to our community and long-term planning.

Based on Santa Cruz County (SCC) preliminary assessment and based on the reduced debt service from bond issuance, management projects a slight reduction in property tax rate, as well as a reduced bond debt liability, reflecting a slightly lower tax rate for our residents. The reduction in bond debt service will represent a more substantial decrease in future fiscal years. For next fiscal year, the District adopted a rate 3.106 per \$100 of secondary assessed valuation, keeping the same rate for the fiscal year. Under current statute, the tax rate is limited to \$3.25. With that said, the District maintains a positive outlook for the short-term and long-term goals and financial health.

FINANCIAL CONTACT

The District's financial statements are designed to present users (citizens, taxpayers, government entities and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions regarding the report or need additional financial information, please contact the District's administrative office at (520) 281-8421, located at 822 Pendleton Drive, Rio Rico Arizona, 85648.

Basic Financial Statements

RIO RICO FIRE DISTRICT
STATEMENT OF NET POSITION

JUNE 30, 2017

	<u>Governmental activities</u>
Assets:	
Cash and investments	\$ 2,499,941
Cash and investments, restricted	248,034
Receivables:	
Property taxes	215,101
Ambulance, net	375,781
Other	124,250
Land	182,390
Other capital assets, net of accumulated depreciation	<u>5,124,947</u>
Total assets	<u>8,770,444</u>
Deferred outflows of resources:	
Deferred outflows related to pensions	1,043,407
Deferred charge on refunding of debt	<u>456,634</u>
Total deferred outflows of resources	<u>1,500,041</u>
Liabilities:	
Accounts payable	34,018
Accrued payroll and related benefits	183,389
Payable from restricted assets	204,211
Noncurrent liabilities:	
Due within one year	449,469
Due in more than one year	<u>6,487,222</u>
Total liabilities	<u>7,358,309</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	<u>345,433</u>
Total deferred inflows of resources	<u>345,433</u>
Net position:	
Net investment in capital assets	553,823
Restricted	65,337
Unrestricted	<u>1,947,583</u>
Total net position	<u>\$ 2,566,743</u>

See notes to financial statements.

RIO RICO FIRE DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	<u>Governmental activities</u>
Program expenses:	
Public safety, fire protection and emergency services:	
Administration	\$ 39,862
Communications	87,580
Depreciation	522,715
Insurance	51,659
Other	167,477
Payroll taxes and employee benefits	1,408,917
Professional services	219,919
Repairs and maintenance	26,263
Salaries and wages	2,533,765
Supplies	51,808
Training and related	27,197
Utilities and station	68,257
Vehicles and equipment	222,556
Interest	<u>258,062</u>
Total program expenses	<u>5,686,037</u>
Program revenues:	
Charges for services	2,057,916
Operating grants and contributions	<u>467,405</u>
Total program revenues	<u>2,525,321</u>
Net program expenses	<u>3,160,716</u>
General revenues:	
Property taxes	2,234,428
Fire district assistance tax	104,659
Investment earnings	1,672
Other	<u>27,980</u>
Total general revenues	<u>2,368,739</u>
Change in net position before extraordinary item	(791,977)
Extraordinary item - claims and judgment expense	<u>(209,396)</u>
Change in net position	(1,001,373)
Net position, beginning of year	<u>3,568,116</u>
Net position, end of year	<u>\$ 2,566,743</u>

See notes to financial statements.

RIO RICO FIRE DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	General	Capital projects	Debt service	Total governmental funds
Assets:				
Cash and investments	\$ 1,622,173	\$ 877,768	\$ -	\$ 2,499,941
Cash and investments, restricted	-	-	248,034	248,034
Receivables:				
Property taxes	193,587	-	21,514	215,101
Ambulance, net	375,781	-	-	375,781
Other	124,250	-	-	124,250
Total assets	<u>\$ 2,315,791</u>	<u>\$ 877,768</u>	<u>\$ 269,548</u>	<u>\$ 3,463,107</u>
Liabilities:				
Accounts payable	\$ 34,018	\$ -	\$ -	\$ 34,018
Accrued payroll and related benefits	183,389	-	-	183,389
Payable from restricted assets	-	-	204,211	204,211
Total liabilities	217,407	-	204,211	421,618
Deferred inflows of resources:				
Unavailable revenue - property taxes	179,379	-	18,283	197,662
Unavailable revenue - ambulance	149,709	-	-	149,709
Total deferred inflows of resources	329,088	-	18,283	347,371
Commitments and contingencies				
Fund balances:				
Restricted:				
Debt service	-	-	47,054	47,054
Committed:				
Capital projects	-	877,768	-	877,768
Unassigned	1,769,296	-	-	1,769,296
Total fund balances	1,769,296	877,768	47,054	2,694,118
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,315,791</u>	<u>\$ 877,768</u>	<u>\$ 269,548</u>	<u>\$ 3,463,107</u>

RIO RICO FIRE DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total fund balances - governmental funds	\$ 2,694,118
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	5,307,337
Some receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.	347,371
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued compensated absences	(208,743)
General obligation bonds	(4,365,000)
Obligations under capital leases	(96,700)
Unamortized premium	(748,448)
Net pension liability	(1,308,404)
Claims and judgment payable	(209,396)
Deferred charges related to the issuance of refunding bonds are amortized over the life of the associated bond issue in the government-wide, but are not reported in the funds.	456,634
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	1,043,407
Deferred inflows of resources related to pensions	<u>(345,433)</u>
Net position of governmental activities	<u>\$ 2,566,743</u>

RIO RICO FIRE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2017

	General	Capital projects	Debt service	Total governmental funds
Revenues:				
Property taxes	\$ 1,828,098	\$ -	\$ 453,936	\$ 2,282,034
Fire district assistance tax	104,659	-	-	104,659
Charges for services	2,044,694	-	-	2,044,694
Grants and contributions	467,405	-	-	467,405
Investment earnings	753	765	154	1,672
Other	27,980	-	-	27,980
Total revenues	4,473,589	765	454,090	4,928,444
Expenditures:				
Public safety:				
Fire protection and emergency services	3,706,457	-	-	3,706,457
Administration and support	305,121	-	-	305,121
Capital outlay:				
Buildings and improvements	12,721	-	-	12,721
Fire equipment	29,333	38,063	-	67,396
Vehicles	3,500	109,641	-	113,141
Debt service:				
Principal	59,980	-	260,000	319,980
Interest	3,786	-	262,788	266,574
Bond issuance costs	-	-	164,885	164,885
Total expenditures	4,120,898	147,704	687,673	4,956,275
Revenues over (under) expenditures	352,691	(146,939)	(233,583)	(27,831)
Other financing uses (sources):				
Payment to refunded bond escrow account	-	-	(4,579,954)	(4,579,954)
Refunding bond issued	-	-	4,065,000	4,065,000
Premium on bond issued	-	-	770,278	770,278
Total other financing sources	-	-	255,324	255,324
Net change in fund balances	352,691	(146,939)	21,741	227,493
Fund balances, beginning of year	1,416,605	1,024,707	25,313	2,466,625
Fund balances, end of year	\$ 1,769,296	\$ 877,768	\$ 47,054	\$ 2,694,118

RIO RICO FIRE DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

Net change in fund balances - governmental funds	\$	227,493
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay		130,434
Depreciation expense		(522,715)
Certain revenues relating to property taxes and ambulance services in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(34,384)
District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.		
Pension contributions		270,845
Pension expense		(933,600)
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Increase in compensated absences		(3,218)
Increase in claims and judgment expense		(209,396)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position. In the current year, the amount consists of:		
Refunding bond proceeds		(4,065,000)
Premium on issuance of debt		(770,278)
Payment to refunded bond escrow account		4,579,954
Principal paid		319,980
Some revenues and expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures or revenues in governmental funds.		
Amortization of premium		21,830
Amortization of deferred charge on refunding of debt		(13,318)
		(1,001,373)
Change in net position of governmental activities	\$	(1,001,373)

See notes to financial statements.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

1. Description of organization and summary of significant accounting policies:

The accounting policies of Rio Rico Fire District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB).

Reporting entity:

The District, established in 1976 pursuant to Arizona Revised Statute Title 48, is a special-purpose local government organized to provide fire protection and other emergency services to residents within the District's boundaries.

In accordance with the GASB Statement No. 14, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes and it is not included in any other governmental reporting entity.

Government-wide and fund financial statements:

The basic financial statements include both government-wide financial statements and fund financial statements. The government-wide financial 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.

The government-wide financial 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
- grants and contributions

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

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.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Description of organization and summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation:

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 for which they are levied. Grants are recognized as revenue as soon as all eligibility requirements the provider imposed 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 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.

Real and personal property taxes are levied 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 assessed against real and personal property attaches on the first day of January preceding assessment and levy. All property taxes are billed and collected by Santa Cruz County and remitted to the District. In the governmental fund financial statements, property taxes are reflected as revenues in the fiscal period for which they were levied, provided they are due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). Otherwise, they are reported as deferred inflows of resources.

Leases and investment earnings 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.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Description of organization and summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation (continued):

The District reports the following major governmental funds:

The *general fund* accounts for all financial resources except those required to be accounted for in another fund.

The *capital projects fund* is used to account for financial resources that are restricted, committed or assigned for the acquisition or construction of major capital assets.

The *debt service fund* is used to account for legally restricted tax levies of the District which are used to meet the ongoing debt service requirements.

Estimates:

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and investments:

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, and highly liquid investments. Investments are stated at fair value.

Investment earnings are comprised primarily of interest earnings only.

Cash and investments, restricted:

Certain proceeds of the District's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants in an orderly exchange in the principal or most advantageous market for that asset or liability. Mutual funds are valued at quoted market prices. The fair value for the commingled funds and qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Description of organization and summary of significant accounting policies (continued):

Receivables, unearned revenue and deferred inflows of resources:

All accounts and property tax receivables are shown net of any allowance for uncollectible accounts. Accounts and property taxes receivables, which have been remitted within 60 days subsequent to year-end, are considered measurable and available and recognized as revenues in the fund financial statements. All other receivables are offset by unavailable revenues and, accordingly, have not been recorded as revenue. Real and personal property taxes are levied upon all taxable property within the District and become liens against the property on the first day of January preceding assessment and levy.

Federal and state grants and contracts are recorded as receivables and revenues when the related expenditures are incurred. The portion of reimbursement in excess of expenditures are recorded as unearned revenues and amounts not remitted within 60 days subsequent to year-end are recorded as deferred inflows of resources in the fund financial statements.

Capital assets:

Capital assets, which include land, buildings and improvements, fire equipment and vehicles, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Land	Not depreciated
Buildings and improvements	40 years
Fire equipment	3 - 10 years
Vehicles	10 - 15 years

Compensated absences:

It is the District's policy to permit employees to accumulate earned but unused paid time off. A liability is reported for paid time off that the District will pay upon termination or retirement. None of the liability for compensated absences is expected to be liquidated with expendable available financial resources. Accordingly, compensated absences are accrued as a liability only in the government-wide financial statements.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Description of organization and 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 noncurrent liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its requisition price, and are amortized over the shorter of the life of the refunded or refunding debt.

In the fund financial statements, proceeds from debt issued are reported as other financing sources and principal and interest payments are recognized as debt service expenditures in the statement of revenues, expenditures and changes in fund balances. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred outflows and inflows of resources:

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

Pensions:

For purposes of measuring the net pension liability or asset, 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 plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The plan's investments are reported at fair value.

Fund balance:

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources. The classifications are as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints
- Restricted – includes fund balance amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- Committed – includes fund balance amounts that are constrained for specific purposes that are

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

1. Description of organization and summary of significant accounting policies (continued):

Fund balance (continued):

internally imposed by the government through formal action of the highest level of decision making authority, the Governing Board

- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Governing Board or District officials delegated the authority by the Governing Board
- Unassigned – includes positive fund balance within the general fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds

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

Net position:

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Budgetary information:

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.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

2. Cash and investments:

Cash and investments consist of the following:

Deposits:	
Operating accounts	\$ 354,896
Investments:	
Santa Cruz County Treasurer investment pool	2,145,045
Santa Cruz County Treasurer investment pool - restricted	<u>248,034</u>
	<u>\$ 2,747,975</u>

The Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurer's investment pool; interest-bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; and bonds of the State of Arizona's counties, cities, towns, school districts and special districts as specified by statute.

Deposits:

Custodial credit risk - Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned. The Arizona Revised Statutes require collateral for demand deposits, certificates of deposit and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

At year-end, deposits with financial institutions have a carrying value of \$354,896 and a bank balance of \$381,778. The difference represents deposits in transit, outstanding checks and other reconciling items at June 30, 2017.

Investments:

Monies levied by the District are invested with the Santa Cruz County Treasurer's Office and pooled with other local governments for investment. The District's investment in the County's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments. No oversight is provided for the Santa Cruz County investment pool, nor does the structure of the pool provide for shares. Participation in the pool is involuntary. The fair value of the investment pool is discussed in note 3.

The District's investments at June 30, 2017 were as follows:

	Rating	Rating Agency	Amount
Santa Cruz County Treasurer's investment pool	Unrated	Not applicable	\$ 2,393,079

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

2. Cash and investments (continued):

Investments (continued):

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

Credit risk - The Arizona Revised Statutes have the following requirements for credit risk:

- Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
- Corporate bonds, debentures and notes must be rated A or better by at least two nationally recognized rating agencies at the time of purchase.
- Fixed income securities must carry one of the two highest ratings by Moody's Investors Service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk - the District's investment in the County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

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

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The Arizona Revised Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

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

3. Fair value:

The District measures and categorizes its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines establish a three-tier hierarchy of inputs to valuation techniques used to measure fair value, as follows:

Level 1 - Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 - Inputs, other than quoted market prices included within Level 1, are observable, either directly or indirectly.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

3. Fair value (continued):

Level 3 - Inputs are unobservable and significant to the fair value measurement.

Other investments at fair value - Investments for which fair value is measured at net asset value per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

At June 30, 2017, the fair value of investments measured on a recurring basis is as follows:

	Fair value	Other investments at fair value	Level 1	Level 2	Level 3
External investment pools:					
Santa Cruz County					
Treasurer	<u>\$ 2,393,079</u>	<u>\$ 2,393,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of a participant's portion in the Santa Cruz County Treasurer's investment pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments. The investment pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. There are no unfunded commitments or redemption restrictions related to these investments.

The Santa Cruz County Treasurer's investment pool invests primarily in the State Treasurer's Local Government Investment Pool, corporate bonds, US Treasury notes, and agency bonds.

4. Receivables:

	General	Debt service	Total
Property taxes	\$ 193,587	\$ 21,514	\$ 215,101
Ambulance receivables	959,388	-	959,388
Other	<u>124,250</u>	<u>-</u>	<u>124,250</u>
	1,277,225	21,514	1,298,739
Less allowance for doubtful accounts and contractual adjustments	<u>583,607</u>	<u>-</u>	<u>583,607</u>
	<u>\$ 693,618</u>	<u>\$ 21,514</u>	<u>\$ 715,132</u>

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

5. Capital assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not depreciated:				
Land	\$ 182,390	\$ -	\$ -	\$ 182,390
Total capital assets, not depreciated	<u>182,390</u>	<u>-</u>	<u>-</u>	<u>182,390</u>
Capital assets, depreciated:				
Buildings and improvements	4,779,350	-	-	4,779,350
Fire equipment	1,618,217	20,793	-	1,639,010
Vehicles	3,701,435	109,641	-	3,811,076
Total capital assets, depreciated	<u>10,099,002</u>	<u>130,434</u>	<u>-</u>	<u>10,229,436</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,140,614)	(131,064)	-	(1,271,678)
Fire equipment	(1,096,984)	(118,660)	-	(1,215,644)
Vehicles	(2,344,176)	(272,991)	-	(2,617,167)
Total accumulated depreciation	<u>(4,581,774)</u>	<u>(522,715)</u>	<u>-</u>	<u>(5,104,489)</u>
Total capital assets, depreciated, net	<u>5,517,228</u>	<u>(392,281)</u>	<u>-</u>	<u>5,124,947</u>
Total capital assets, net	<u>\$ 5,699,618</u>	<u>\$ (392,281)</u>	<u>\$ -</u>	<u>\$ 5,307,337</u>

6. General obligation bonds:

Series 2008A:

The District, pursuant to a special bond election, received voter approval to issue up to \$8,000,000 in general obligation debt to construct a training facility, construct and improve fire stations and purchase apparatus. The Series 2008A General Obligation Bonds were issued by the District in the aggregate amount of \$3,835,000. The interest rate ranges from 2.25% to 4.30% and the bonds mature July 1, 2037. During the year, the District advance refunded a portion of the outstanding bonds. At June 30, 2017, the outstanding balance on the unrefunded portion of the bonds is \$100,000.

During the fiscal year ending June 30, 2018, the District is scheduled to pay principal of \$100,000 and interest of \$5,000 on the unrefunded portion of the Series 2008 bonds.

RIO RICO FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

6. General obligation bonds (continued):

Series 2011B:

The Series 2011B General Obligation Bonds were issued by the District in the aggregate amount of \$1,695,000. The interest rate ranges from 5% to 7% and the bonds mature July 1, 2030. During the year, the District advance refunded a portion of the outstanding bonds. At June 30, 2017, the outstanding balance on the unrefunded portion of the bonds is \$300,000.

Future principal and interest payments on the unrefunded portion of the Series 2011B revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 70,000	\$ 18,800	\$ 88,800
2019	75,000	14,600	89,600
2020	75,000	10,100	85,100
2021	<u>80,000</u>	<u>5,600</u>	<u>85,600</u>
	<u>\$ 300,000</u>	<u>\$ 49,100</u>	<u>\$ 349,100</u>

Series 2016:

On November 30, 2016, the District issued \$4,065,000 in Series 2016 revenue bonds with an interest rate ranging from 2% to 5% to advance refund \$3,060,000 of outstanding Series 2008A bonds and \$1,050,000 of the outstanding Series 2011B bonds. The Series 2008A and 2011B bonds have interest rates ranging from 2.25% to 7%. The net proceeds of \$4,671,187 (after payment of \$164,885 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the applicable portion of the Series 2008A and 2011B bonds. As a result, a portion of the Series 2008A and 2011B bonds are considered to be defeased and the applicable portion of the liability for those bonds has been removed from the statement of net position.

The District advance refunded the Series 2008A and 2011B bonds to reduce its total debt service payments by \$672,295 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$515,388. The advance refunding also resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$469,952. This difference, reported as a deferred outflow of resources, is being amortized to interest expense on a straight line basis through fiscal year 2037 in the government-wide financial statements.

The Series 2016 bonds were issued with a premium of \$770,278 that is being amortized over the life of the debt.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

6. General obligation bonds (continued):

Future principal and interest payments on the Series 2016 revenue bonds are as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,000	\$ 175,800	\$ 185,800
2019	120,000	175,600	295,600
2020	125,000	172,000	297,000
2021	125,000	167,000	292,000
2022	220,000	162,000	382,000
2023 - 2027	1,230,000	671,400	1,901,400
2028 - 2032	1,185,000	394,750	1,579,750
2033 - 2037	<u>950,000</u>	<u>147,500</u>	<u>1,097,500</u>
	<u>\$ 3,965,000</u>	<u>\$ 2,066,050</u>	<u>\$ 6,031,050</u>

Bond payments are due semi-annually on January 1 and July 1. Prior to June 30, 2017, management had released the July 1, 2017 principal and interest payments on the unrefunded portion of the Series 2008 and 2011 bonds. The principal and interest payment due on July 1, 2017 on the Series 2016 bonds was not released prior to June 30, 2017, and is recorded as liabilities payable from restricted assets. The amount due on the Series 2016 bonds will be paid from restricted cash and investments.

7. Capital leases:

The assets acquired through capital leases are as follows:

Buildings and improvements	\$ 1,000,740
Less accumulated depreciation	<u>327,325</u>
	<u>\$ 673,415</u>

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

7. Capital leases (continued):

The future minimum lease payments under the capital leases and the net present value of these minimum lease payments as of June 30, 2017 were as follows:

Year ending <u>June 30,</u>	
2018	\$ 63,765
2019	<u>39,817</u>
Total minimum lease payments	103,582
Less amount representing interest	<u>6,882</u>
Net present value of minimum lease payments	96,700
Less current portion	<u>60,073</u>
	<u><u>\$ 36,627</u></u>

8. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2017 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Compensated absences	\$ 205,527	\$ 3,216	\$ -	\$ 208,743	\$ -
General obligation bonds - Series 2008 A	3,255,000	-	(3,155,000)	100,000	100,000
General obligation bonds - Series 2011 B	1,415,000	-	(1,115,000)	300,000	70,000
General obligation refunding bonds - Series 2016	-	4,065,000	(100,000)	3,965,000	10,000
Unamortized premium	-	770,278	(21,830)	748,448	-
Capital leases	156,680	-	(59,980)	96,700	60,073
Net pension liability	613,100	695,304	-	1,308,404	-
Claims and judgment payable	<u>-</u>	<u>209,396</u>	<u>-</u>	<u>209,396</u>	<u>209,396</u>
	<u><u>\$ 5,645,307</u></u>	<u><u>\$ 5,743,194</u></u>	<u><u>\$ (4,451,810)</u></u>	<u><u>\$ 6,936,691</u></u>	<u><u>\$ 449,469</u></u>

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

9. Line of credit:

On behalf of the District, the Board of Supervisors of Santa Cruz County established a line of credit with JPMorgan Chase Bank, which covers all the Districts in Santa Cruz County. In accordance with the Arizona Revised Statutes, the line of credit can only be drawn on by the County Treasurer in order to pay warrants issued by the District to fund operations prior to the collection of the property tax levy in the current year. Borrowings are limited to 45% of the direct property tax levy. At June 30 of each year, the aggregate obligations outstanding under the line of credit are required to be \$0. The balance on the line at June 30, 2017 was \$0.

10. Ambulance service revenue:

The District provides emergency medical services within the same geographic region as it provides fire prevention and suppression services and interfacility transportation services originating within the Nogales city limits. Revenue from such emergency medical and transportation services are recognized as charges for services. These charges for services are reported at their estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement allowances with third-party payers, provisions for bad debt and uncompensated care.

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, provision for bad debts and uncompensated services for the year ended June 30, 2017 are as follows in the fund financial statements:

Ambulance service revenues	\$ 3,593,169
Less contractual adjustments, provision for bad debts and uncompensated services	<u>1,785,807</u>
	<u>\$ 1,807,362</u>

11. Risk management:

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

12. Commitments and contingencies:

Claims and judgment payable:

During 2017, as a result of the Parker v. Public Safety Personnel Retirement System plan (PSPRS or the Plan) lawsuit, the courts found that recent increases in employee contribution rates for members hired prior to July 2011 were unconstitutional. Therefore, those members of the Plan are entitled to refunds of the excess employee contributions, plus interest. The District is required to provide the refunds to the employees, as IRS regulations prevent PSPRS from issuing the refunds from the Plan's trusts. The excess employee contributions to be refunded to the employees totaled \$187,696 which the District paid to employees in July 2017. The estimated interest due to employees is \$21,700. At June 30, 2017, the District recorded a claims and judgment payable of \$209,396.

The District has classified the estimated pay back to employees and related interest as an extraordinary item on the statement of activities. Management of the District believes the transaction is both unusual in nature and infrequent in occurrence. No expenditure was recorded in the governmental funds at June 30, 2017 as the amounts were not due and payable as of that date.

The District expects to recover the full amount of excess contribution paid, and interest, through credits provided by the Plan that will offset future employer contributions to the Plan. The credits are expected to be fully utilized during the fiscal year ending June 30, 2018.

Intergovernmental agreements:

The District is party to a variety of intergovernmental agreements entered into in the ordinary course of business pursuant to which it may be obligated to provide services outside of its geographic boundaries and/or receive assistance from other parties. As part of these agreements, the District is obligated to indemnify other parties for certain liabilities that arise out of, or relate to, the subject matter of the agreements.

Legal proceedings:

From time to time, the District may be party to certain pending or threatened lawsuits arising out of or incident to the ordinary course of business for which it carries general liability and other insurance coverages. In the opinion of management and based upon consultation with legal counsel, resolution of any pending or threatened lawsuits will not have a material adverse effect on the District's financial statements.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans:

The District contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS). These plans are component units of the State of Arizona.

At June 30, 2017, the District reported on the Statement Net Position and Statement of Activities the following aggregate amounts related to pensions for all plans to which it contributes:

	Governmental Activities
Net pension liabilities	\$ 1,308,404
Deferred outflows of resources	1,043,407
Deferred inflows of resources	345,433
Pension expense	933,600

The District reported \$270,845 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS):

Plan description - District employees not covered by the other pension plan described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

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

	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Arizona State Retirement System (ASRS) (continued):

	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%
* with actuarially reduced benefits		

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

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48% (11.34% for retirement and 0.14% for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.48% (10.78% for retirement, 0.56% for health insurance premium benefit, and 0.14% for long-term disability) of the active members' annual covered payroll.

The District's contributions to the pension plan for the year ended June 30, 2017, were \$51,287, which included the required contributions for the health insurance premium benefit and long-term disability. During fiscal year 2017, the District paid for the ASRS pension and OPEB contributions from the General Fund.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Arizona State Retirement System (ASRS) (continued):

Pension liability - At June 30, 2017, the District reported a liability of \$795,752 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The District's proportion measured as of June 30, 2016, was 0.004930%, which was an increase of 0.000990% from its proportion measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the District recognized pension expense for ASRS of \$165,393. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 4,836	\$ 54,742
Net difference between projected and actual earnings on pension plan investments	86,233	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	208,129	-
Changes in assumptions	-	42,102
Contributions subsequent to the measurement date	51,287	-
	\$ 350,485	\$ 96,844

The \$51,287 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Arizona State Retirement System (ASRS) (continued):

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending <u>June 30,</u>	
2018	\$ 93,461
2019	39,350
2020	45,393
2021	<u>24,180</u>
	<u>\$ 202,384</u>

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3% - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Arizona State Retirement System (ASRS) (continued):

The target allocation and best estimates of arithmetic 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 arithmetic real rate of return</u>
Equity	58 %	6.73 %
Fixed Income	25 %	3.70 %
Real estate	10 %	4.25 %
Commodities	2 %	3.84 %
Multi-asset class	5 %	3.41 %
	<u>100 %</u>	

Discount rate - The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate:

	<u>1% decrease (7%)</u>	<u>Current discount rate (8%)</u>	<u>1% increase (9%)</u>
District's proportionate share of the net pension liability	\$ 1,014,644	\$ 795,752	\$ 620,648

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS):

Plan description - District employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS website at www.psprs.com.

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

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent per year of service:		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Survivor benefit:		
Retired members	80% to 100% of retired member's pension benefit	
Active member	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

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

Employees covered by benefit terms - At June 30, 2017, the following employees were covered by the agent pension plan benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	6
Active employees	32
	40

Contributions and annual OPEB cost - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Rates are a percentage of active members' annual covered payroll.

For the year ended June 30, 2017, active PSPRS members with an initial membership date on or before July 19, 2011 were required to contribute 11.65% for the period July 2016 through March 2017, and 7.65% for the period April 2017 through June 2017. PSPRS members with an initial membership date after July 19, 2011 were required to contribute 11.65% throughout the entire year. The District was required to contribute 12.08%. The health insurance premium portion of the contribution rate was actuarially set at 0.34% of covered payroll.

The District's contributions to the pension plan for the year ended June 30, 2017, were \$219,558, which included the required contributions for the health insurance premium benefit. During fiscal year 2017, the District paid for the PSPRS pension and OPEB contributions from the General Fund.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

Pension liability (asset) - At June 30, 2017, the District reported a net pension liability of \$512,652. The net pension liability (asset) was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The total pension assets as of June 30, 2016, reflects the following changes of benefit terms and actuarial assumptions:

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments changed the basis for cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent.

The net pension liability (asset) measured as of June 30, 2017 will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the District's net pension liability as a result of these changes is not known.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2017, the District recognized pension expense for PSPRS of \$768,207. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ -	\$ 248,589
Changes in assumptions or other inputs	219,858	-
Net difference between projected and actual earnings on pension plan investments	253,506	-
Contributions subsequent to the measurement date	219,558	-
	\$ 692,922	\$ 248,589

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

The \$219,558 reported as deferred outflows of resources related to PSPRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

Year ending <u>June 30,</u>		
2018	\$	50,004
2019		50,002
2020		81,852
2021		51,980
2022		(4,917)
Thereafter		<u>(4,146)</u>
	<u>\$</u>	<u>224,775</u>

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4% - 8%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

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>
U.S. equity	16 %	6.23 %
Non-U.S. equity	14 %	8.25 %
Credit opportunities	11 %	9.50 %
Private equity	7 %	2.92 %
Real estate	13 %	7.08 %
GTAA	5 %	4.11 %
Real assets	10 %	4.38 %
Fixed income	8 %	4.77 %
Absolute return	10 %	4.48 %
Risk parity	4 %	5.13 %
Short-term investments	2 %	0.75 %
	<u>100 %</u>	

Discount rate - At June 30 2016, the discount rate used to measure the total pension liability was 7.50% which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the PSPRS discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

Changes in the net pension liability (asset) -

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) - (b)
	<u> </u>	<u> </u>	<u> </u>
Balances at June 30, 2016	\$ 3,369,844	\$ 3,822,053	\$ (452,209)
Changes for the year:			
Service cost	349,189	-	349,189
Interest on the total pension liability	274,473	-	274,473
Changes of benefit terms	478,652	-	478,652
Differences between expected and actual experience in the measurement of the pension liability	(48,921)	-	(48,921)
Changes of assumptions or other inputs	213,090	-	213,090
Contributions - employer	-	201,179	(201,179)
Contributions - employee	-	207,054	(207,054)
Net investment income	-	22,724	(22,724)
Benefit payments, including refunds of employee contributions	(95,924)	(95,924)	-
Administrative expense	-	(3,670)	3,670
Other changes	<u> </u>	<u>(125,665)</u>	<u>125,665</u>
Net changes	<u>1,170,559</u>	<u>205,698</u>	<u>964,861</u>
Balances at June 30, 2017	<u>\$ 4,540,403</u>	<u>\$ 4,027,751</u>	<u>\$ 512,652</u>

Sensitivity of the District's net pension liability to changes in the discount rate - The following table presents the District's net pension liability (asset) calculated using the discount rate noted above, as well as what the District's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% decrease (6.50%)	Current discount rate (7.50%)	1% increase (8.50%)
	<u> </u>	<u> </u>	<u> </u>
District's net pension liability (asset)	\$ 1,352,917	\$ 512,652	\$ (160,991)

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

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

Agent plan OPEB actuarial assumptions - The health insurance premium benefit contribution requirements for the year ended June 30, 2017 were established by the June 30, 2015 actuarial valuations.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' 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 plans' 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 it 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 perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2017 contribution requirements are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	21 years for unfunded 20 years for overfunded
Asset valuation method	7-year smoothed market value 80%/120% market
Investment rate of return	7.85%
Projected salary increases	4.0% - 8.0%
Wage growth	4.0%

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

13. Pension plans (continued):

Public Safety Personnel Retirement System (PSPRS) (continued):

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

Year ending June 30	Annual OPEB cost	Percentage of annual cost contributed	Net OPEB obligation
2016	\$ 5,914	100%	\$ -
2015	5,485	100%	-
2014	6,346	100%	-

Agent plan OPEB funded status - The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, follow.

	Health insurance
Actuarial value of assets (a)	\$ 158,617
Actuarial accrued liability (b)	\$ 130,249
Unfunded actuarial accrued liability (b) - (a)	\$ (28,368)
Funded ratio (a) / (b)	122%
Covered payroll (c)	\$ 1,822,490
Unfunded actuarial accrued liability as a percentage of covered payroll ((b) - (a) / (c))	0%

The actuarial methods and assumptions used for the PSPRS health insurance premium benefit plan and for the most recent valuation date are as follows:

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

Required Supplementary Information

RIO RICO FIRE DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET TO ACTUAL - GENERAL FUND**

YEAR ENDED JUNE 30, 2017

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 1,864,445	\$ 1,864,445	\$ 1,828,098	\$ (36,347)
Fire district assistance tax	104,659	104,659	104,659	-
Charges for services	2,290,000	2,290,000	2,044,694	(245,306)
Grants and contributions	494,480	494,480	467,405	(27,075)
Investment earnings	250	250	753	503
Other	<u>3,900</u>	<u>3,900</u>	<u>27,980</u>	<u>24,080</u>
Total revenues	<u>4,757,734</u>	<u>4,757,734</u>	<u>4,473,589</u>	<u>(284,145)</u>
Expenditures:				
Public safety:				
Emergency operations	4,386,334	4,386,334	3,706,457	(679,877)
Administration	306,400	306,400	305,121	(1,279)
Capital outlay	-	-	45,554	45,554
Debt service	<u>65,000</u>	<u>65,000</u>	<u>63,766</u>	<u>(1,234)</u>
Total expenditures	<u>4,757,734</u>	<u>4,757,734</u>	<u>4,120,898</u>	<u>(636,836)</u>
Net change in fund balance	-	-	352,691	352,691
Fund balance, beginning of year	<u>1,416,605</u>	<u>1,416,605</u>	<u>1,416,605</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,416,605</u>	<u>\$ 1,416,605</u>	<u>\$ 1,769,296</u>	<u>\$ 352,691</u>

NOTE TO BUDGETARY COMPARISON SCHEDULE

1. Budgetary basis of accounting:

The District prepares its annual budget on the modified accrual basis of accounting. A budgetary comparison schedule for the general fund is included as required supplementary information to provide meaningful comparison of actual results to budget on a budget basis.

RIO RICO FIRE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COST SHARING PLAN (ASRS)

YEAR ENDED JUNE 30, 2017

(schedule to be built prospectively from 2014; 2013 - 2007 information not available)

Reporting date (Measurement date)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)
District's proportion of the net pension liability	0.004930 %	0.003940 %	0.002411 %	- %	- %	- %	- %	- %	- %	- %
District's proportionate share of the net pension liability	795,752	613,100	356,753	-	-	-	-	-	-	-
District's covered employee payroll	464,657	359,956	156,243	-	-	-	-	-	-	-
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	171 %	170 %	228 %	- %	- %	- %	- %	- %	- %	- %
Plan fiduciary net position as a percentage of total pension liability	67 %	68 %	69 %	- %	- %	- %	- %	- %	- %	- %

RIO RICO FIRE DISTRICT

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS - AGENT RETIREMENT PLAN (PSPRS)

YEAR ENDED JUNE 30, 2017

(schedule to be built prospectively from 2014; 2013 - 2007 information not available)

Reporting date (Measurement date)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)
Total pension liability										
Service cost	\$ 349,189	\$ 294,444	\$ 300,723	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	274,473	244,462	218,299	-	-	-	-	-	-	-
Benefit changes	478,652	-	(8,846)	-	-	-	-	-	-	-
Difference between expected and actual experience	(48,921)	(99,820)	(170,110)	-	-	-	-	-	-	-
Assumption changes	213,090	-	38,759	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(95,924)	(72,369)	(12,442)	-	-	-	-	-	-	-
Net change in total pension liability	1,170,559	366,717	366,383	-	-	-	-	-	-	-
Total pension liability, beginning	3,369,844	3,003,127	2,636,744	-	-	-	-	-	-	-
Total pension liability, ending (a)	\$ 4,540,403	\$ 3,369,844	\$ 3,003,127	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan fiduciary net position										
Contributions - employer	\$ 201,179	\$ 178,675	\$ 210,245	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - employee	207,054	176,557	154,550	-	-	-	-	-	-	-
Pension plan net investment income	22,724	129,350	386,327	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(95,924)	(72,369)	(12,442)	-	-	-	-	-	-	-
Administrative expense	(3,670)	(3,542)	-	-	-	-	-	-	-	-
Other	(125,665)	5,422	-	-	-	-	-	-	-	-
Net change in fiduciary net position	205,698	414,093	738,680	-	-	-	-	-	-	-
Plan fiduciary net position, beginning	3,822,053	3,407,960	2,669,280	-	-	-	-	-	-	-
Plan fiduciary net position, ending (b)	\$ 4,027,751	\$ 3,822,053	\$ 3,407,960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability (asset), ending (a) - (b)	\$ 512,652	\$ (452,209)	\$ (404,833)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan fiduciary net position as a percentage of total pension liability	88.71 %	113.42 %	113.48 %	- %	- %	- %	- %	- %	- %	- %
Covered valuation payroll	\$ 1,822,490	\$ 1,491,487	\$ 1,544,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered valuation payroll	28.13 %	(30.32)%	(26.22)%	- %	- %	- %	- %	- %	- %	- %

RIO RICO FIRE DISTRICT

SCHEDULE OF PENSION CONTRIBUTIONS

YEAR ENDED JUNE 30, 2017

(schedule to be built prospectively from 2014; 2013 - 2007 information not available)

Reporting date (Measurement date)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)	2008 (2007)
Arizona State Retirement System (ASRS)										
Statutorily required contribution	\$ 50,090	\$ 39,480	\$ 23,255	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>50,090</u>	<u>39,480</u>	<u>23,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 464,657	\$ 359,954	\$ 156,243	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll	10.78 %	10.97 %	14.88 %	- %	- %	- %	- %	- %	- %	- %
Public Safety Personnel Retirement System (PSPRS)										
Actuarially determined contribution	\$ 201,179	\$ 178,675	\$ 210,245	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>201,179</u>	<u>178,675</u>	<u>210,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	1,822,490	1,491,487	1,544,058	-	-	-	-	-	-	-
Contributions as a percentage of covered employee payroll	11.04 %	11.98 %	13.62 %	- %	- %	- %	- %	- %	- %	- %

RIO RICO FIRE DISTRICT

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS

YEAR ENDED JUNE 30, 2017

1. Actuarially determined contribution rates:

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end 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
Remaining amortization period as of the 2015 actuarial valuation	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Salary increase	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5% – 8.5% to 4.0% – 8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0% – 9.0% to 4.5% – 8.5%.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females).

RIO RICO FIRE DISTRICT

**SCHEDULE OF FUNDING PROGRESS - POST-RETIREMENT HEALTH INSURANCE SUBSIDY - AGENT RETIREMENT PLAN
(PSPRS)**

YEAR ENDED JUNE 30, 2017

Health Insurance Subsidy:

Valuation date June 30	Actuarial value of assets	Actuarial accrued liability	Funding liability	Funded ratio	Annual covered payroll	Unfunded liability as % of covered payroll
2016	\$ 158,617	\$ 130,249	\$ (28,368)	122 %	\$ 1,822,490	0.0 %
2015	141,802	126,719	(15,083)	112 %	1,491,487	0.0 %
2014	121,603	117,192	(4,411)	104 %	1,554,058	0.0 %

Report on Internal Control and on Compliance

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Governing Board and Management
Rio Rico Fire District
Rio Rico, Arizona

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 and each major fund of Rio Rico Fire District, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 entity'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 the 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*.

Purpose of this Report

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

Beach Fleischman PC

Tucson, Arizona
November 28, 2017