Sedona Fire District

Basic Financial Statements

Year ended June 30, 2016

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Walker & Armstrong LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Sedona Fire District
Sedona, Arizona

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sedona Fire District as of June 30, 2016, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the budgetary comparison information on pages 37 through 38, the schedule of changes in the District's net pension liability and related ratios on page 39, the schedule of pension contributions on page 40 and the notes to pension plan schedules on page 41, 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.

Compliance with Title 48, Chapter 5, Article 1 Applicable to Debt and Warrant Issuance Limitations

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of Title 48, Chapter 5, Article 1 limiting the amount of certain debt and warrants that can be issued by the District, insofar as such compliance relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with Title 48, Chapter 5, Article 1, insofar as they relate to accounting matters.

The communication related to compliance with the provisions of Title 48, Chapter 5, Article 1 referred to in the preceding paragraph is intended solely for the information and use of members of the Arizona State Legislature, the Board of Directors, management, and other responsible parties within the District and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 17, 2017, on our consideration of Sedona 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 Sedona Fire District's internal control over financial reporting and compliance

Walker & Armstrong, LLP

Phoenix, Arizona
January 17, 2017

Sedona Fire District
Management's Discussion and Analysis
June 30, 2016

As management of Sedona Fire District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with District's financial statements, which begin on page 11.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $5,149,966. Of this amount, $12,260,788 is invested in capital assets, net of related debt, resulting in a deficit net position of $7,110,822. The deficit is largely attributable to reporting the cumulative net pension liability.
- During the year, the District's total net position increased by $1,494,716.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $5,057,870, an increase of $810,636, from prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $2,000,000 or 13 percent of the 2016 fiscal year's total budgeted operating expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

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

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

Government-wide Financial Statements - Continued

The government–wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The District maintains five (5) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital projects fund, and the special projects fund, which are considered to be major funds. Financial information from the other two non-major governmental funds is aggregated and displayed in a single column titled other governmental funds.

The District adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Government-wide Financial Statements - Continued

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-36 of this report.

Other Information

A budgetary comparison schedule for the general fund is presented immediately following the notes to the financial statements. This schedule and notes can be found on pages 37 and 38 of this report.

In addition, funding information related to the District's participation in retirement plans can be found on pages 39 through 41 of this report.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a government's financial position. In the case of Sedona Fire District, assets exceeded liabilities by $5,149,966 at the close of the most recent fiscal year.

The largest portion of the District's net position (238 percent) reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, machinery, vehicles, and furniture and equipment); less any related debt still outstanding used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

After consideration of the net investment in capital assets, there is a remaining deficit in net position of $7,110,822, which is a decrease from the prior year of $759,931.

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

Government-wide Financial Analysis – Continued

Condensed Statement of Net Position

	Governmental Activities	
	2016	**2015**
Assets:		
Current and other assets	$ 5,952,805	$ 5,195,998
Capital assets	12,260,788	11,526,003
Total assets	18,213,593	16,722,001
Deferred outflows of resources related to pensions:	3,656,812	2,697,524
Total assets and deferred outflows of resources related to pensions	21,870,405	19,419,525
Current and other liabilities:		
Current and other liabilities	721,168	558,401
Long-term liabilities	15,109,009	14,405,052
Total liabilities	15,830,177	14,963,453
Deferred inflows of resources related to pensions:	890,262	800,822
Total liabilities and deferred inflows of resources related to pensions	16,720,439	15,764,275
Net position:		
Net investment in capital assets	10,105,768	11,526,003
Deficit	(7,110,822)	(7,870,753)
Total net position	$ 5,149,966	$ 3,655,250

During 2016, current assets increased by $756,807 primarily due to an increase in cash and investments of $481,906 and an increase in accounts receivables of $193,625. Capital assets increased by $734,785 primarily due to capital outlay of $1,541,480 offset by depreciation expense of $809,640. At June 30, 2016 and 2015, the District's unrestricted net deficit is $7,110,822 and $7,870,753, respectively.

Governmental Activities

Governmental activities net position increased by $1,494,716. Key elements of this increase are reported on the following page.

Government-Wide Financial Analysis – Continued

Condensed Statement of Activities

	Governmental Activities	
	2016	2015
Revenues:		
Program revenue:		
Charges for services	$ 3,589,703	$ 3,346,335
General revenues:		
Property taxes	11,795,526	10,195,346
Fire district assistance tax	325,319	343,729
Investment earnings	18,187	14,214
Other	280,843	240,246
Total revenues	16,009,578	14,139,870
Expenses:		
Public safety – fire protection/ emergency medical services (EMS)	14,514,862	14,961,234
Total expenses	14,514,862	14,961,234
Increase (decrease) in net position	1,494,716	(821,364)
Net position, beginning of year	3,655,250	4,476,614
Net position, ending of year	$ 5,149,966	$ 3,655,250

- Overall revenues increased by $1,869,708 while expenses decreased by $446,372. Property tax revenue increased by $1,600,180 due to 29 cent increase in the tax rate along with a 2.2% increase in assessed value.

- Expenses decreased by $446,372 primarily due to the closure of the communication center.

Financial Analysis of the Governmental Funds

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

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

Financial Analysis of the Governmental Funds - Continued

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $5,057,870, an increase of $810,636 in comparison with the prior year's balance. The largest components of the increase is from property taxes increasing by $1,700,758 from 2015, non-district fire revenues increasing by $861,218, ambulance fees increasing by $314,608 and offset by a decrease in dispatch fees revenues of $900,291, an increase in employee benefits of $733,030, capital outlay increase of $1,333,744, a decrease in principal payments for debt service in the amount of $103,304, and an increase in proceeds from capital lease of $570,197.

Of the total combined governmental fund balance of $5,057,870, the amount committed by the Board totaled $2,789,008. The remaining amount is comprised of nonspendable fund balance totaling $219,469, non-district fires of $182,599 and unassigned fund balance of $1,866,794 which is available for future spending.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, spendable fund balance of the general fund was $3,567,717. As a measure of the general fund's liquidity, it may be useful to compare spendable fund balance to total fund balance. Spendable fund balance represents 94% of total general fund balance of $3,787,186.

Budgetary Highlights

During the 2016 fiscal year there were no modifications to the originally adopted budget. Total revenues were $842,646 greater than budgeted revenues while total expenditures were $251,610 less than budgeted expenditures. The positive expenditure variance resulted primarily from an overall effort to reduce operating costs.

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets as of June 30, 2016, totals $12,260,788 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, improvements other than buildings, buildings and improvements, vehicles, furniture and equipment. Outlays for capital assets during 2016 was $1,541,480 which consisted primarily of vehicles and furniture and equipment.

Additional information on the District's capital assets can be found in Note 5 to the financial statements on page 23.

Long-term liabilities – At the end of the current fiscal year, the District had total long-term liabilities of $15,109,009, which was comprised of the net pension liability of $11,427,992, various capital lease obligations totaling $2,155,017 and compensated absences payable of $1,526,000.

Additional information on the District's long-term debt can be found in Notes 6 and 7 to the financial statements on page 24.

Economic Factors and Next Year's Budgets and Rates

The District expects assessed values to increase by over 2 percent during 2017 while the mil rate levy will increase from 2.425 in 2016 to 2.499 during 2017 to cover budget expenditures of $15,301,168.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Sedona Fire District, Finance Division, 2860 Southwest Drive, Sedona, AZ 86336.

Sedona Fire District
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 4,813,950
Receivables:	
Property taxes	211,900
Ambulance billings	444,720
Accounts	182,599
Intergovernmental	80,168
Prepaid items	219,469
Capital assets, not being depreciated	2,089,448
Capital assets, being depreciated, net	10,171,340
Total assets	18,213,594
Deferred outflows of resources	
Deferred outflows of resources related to pensions	3,656,812
Total deferred outflows	3,656,812
Total assets and deferred outflows	21,870,406
Liabilities	
Accounts payable	215,858
Accrued payroll and related	505,311
Noncurrent liabilities:	
Due within one year	594,587
Due in more than one year	14,514,422
Total liabilities	15,830,178
Deferred inflows of resources	
Deferred inflows of resources related to pensions	890,262
Total deferred inflows	890,262
Total liabilities and deferred inflows	16,720,440
Net Position	
Net investment in capital assets	12,260,788
Deficit	(7,110,822)
Total net position	$ 5,149,966

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

Sedona Fire District
Statement of Activities
Year Ended June 30, 2016

	Governmental Activities
Program Expenses:	
Public safety-fire protection and emergency medical services:	
Salaries and wages	$ 7,712,323
Employee benefits	3,857,182
Depreciation	809,640
Materials and supplies	559,698
Dispatch fees	348,092
Professional services	380,685
Utilities and communications	229,602
Repairs and maintenance	224,468
Training and related	148,091
Insurance	104,564
Other	86,144
Interest	54,373
Total program expenses	14,514,862
Program revenues:	
Charges for services	3,589,703
Total program revenues	3,589,703
Net program expense	10,925,159
General revenues:	
Taxes:	
Real and personal property taxes	11,795,526
Fire district assistance tax	325,319
Investment earnings	18,187
Other	280,843
Total general revenues	12,419,875
Change in net position	1,494,716
Net position - beginning of year	3,655,250
Net position - end of year	$ 5,149,966

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

Sedona Fire District
Balance Sheets -
Governmental Funds
June 30, 2016

	Major Funds			Other	Total
	General	Capital Projects	Special Projects	Governmental Funds	Governmental Funds
Assets:					
Cash and investments	$ 3,592,659	$ 1,221,291	$ -	$ -	$ 4,813,950
Receivables (net of allowance for uncollectibles):					
Property taxes	211,900	-	-	-	211,900
Ambulance billings	444,720	-	-	-	444,720
Accounts	-	-	-	182,599	182,599
Intergovernmental	80,168	-	-	-	80,168
Due from other funds	52,857	-	-	-	52,857
Prepaid items	219,469	-	-	-	219,469
Total assets	$ 4,601,773	$ 1,221,291	$ -	$ 182,599	$ 6,005,663
Liabilities:					
Accounts payable	$ 215,375	$ -	$ -	$ 483	$ 215,858
Due to other funds	-	-	-	52,857	52,857
Accrued payroll and related	425,445	-	-	79,866	505,311
Total liabilities	640,820	-	-	133,206	774,026
Deferred inflows of resources:					
Unearned revenues	173,767	-	-	-	173,767
Total deferred inflows of resources	173,767	-	-	-	173,767
Fund balances:					
Nonspendable - prepaid items	219,469	-	-	-	219,469
Restricted for:					
Non-district fires	-	-	-	182,599	182,599
Committed	1,567,717	1,221,291	-	-	2,789,008
Unassigned	2,000,000	-	-	(133,206)	1,866,794
Total fund balances	3,787,186	1,221,291	-	49,393	5,057,870
Total liabilities, deferred inflows of resources and fund balances	$ 4,601,773	$ 1,221,291	$ -	$ 182,599	$ 6,005,663

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

Sedona Fire District
Reconciliation of the Governmental Funds Balance Sheets
to the Government-wide Statement of Net Position
Year Ended June 30, 2016

Total fund balances	$ 5,057,870
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 financial statements	12,260,788
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund financial statements	173,767
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements	(15,109,009)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, not reported in the funds	2,766,550
Net position of governmental activities	$ 5,149,966

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

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

	Major Funds			Other	Total
	General	Capital Projects	Special Projects	Governmental Funds	Governmental Funds
Revenues:					
Taxes:					
Property taxes	$ 11,917,014	$ -	$ -	$ -	$ 11,917,014
Fire district assistance tax	325,319	-	-	-	325,319
Grant revenue	83,700	-	-	14,632	98,332
Ambulance fees	2,183,027	-	-	-	2,183,027
Dispatch fees and other projects	-	-	233,455	620	234,075
Non-district fire revenues	249,971	-	-	839,314	1,089,285
Rent	178,422	-	-	-	178,422
Investment earnings	14,853	3,334	-	-	18,187
Other	93,458	-	-	86,109	179,567
Total revenues	15,045,764	3,334	233,455	940,675	16,223,228
Expenditures:					
Public safety-fire protection and emergency medical services:					
Current:					
Salaries and wages	7,201,957	-	85,742	576,613	7,864,312
Employee benefits	3,803,940	-	137,958	175,681	4,117,579
Materials and supplies	547,733	-	174	11,791	559,698
Dispatch fees	348,092	-	-	-	348,092
Professional services	371,246	-	9,158	281	380,685
Utilities and communications	229,602	-	-	-	229,602
Repairs and maintenance	223,599	-	-	869	224,468
Training and related	111,278	-	257	36,556	148,091
Insurance	104,564	-	-	-	104,564
Other	81,794	-	166	4,184	86,144
Capital outlay	1,486,976	-	-	54,504	1,541,480
Debt service:					
Principal	323,698	-	-	-	323,698
Interest	54,376	-	-	-	54,376
Total expenditures	14,888,855	-	233,455	860,479	15,982,789
Excess of revenues over expenditures	156,909	3,334	-	80,196	240,439
Other financing sources (uses):					
Proceeds from capital lease	570,197	-	-	-	570,197
Transfers in	-	1,025,800	-	-	1,025,800
Transfers out	(1,025,800)	-	-	-	(1,025,800)
Total other financing sources (uses)	(455,603)	1,025,800	-	-	570,197
Net change in fund balances	(298,694)	1,029,134	-	80,196	810,636
Fund balances, beginning of year	4,085,880	192,157	-	(30,803)	4,247,234
Fund balances, end of year	$ 3,787,186	$ 1,221,291	$ -	$ 49,393	$ 5,057,870

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

Sedona Fire District
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2016

Net change in fund balances - total governmental funds	$	810,636
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 assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlays		1,541,480
Depreciation expense		(809,640)
Gain on disposal of assets		2,944
Property tax revenues and certain charges for services reported in the statement of activities that do not provide current financial resources and therefore, are not reported as revenues in the governmental funds.		(216,593)
Compensated absence expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		151,992
Fire 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 County'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.		
County pension contributions		1,648,946
Pension expense		(1,388,550)
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 long-term liabilities in the statement of net position. In the current year, activity related to debt consisted of principal paid.		
Capital lease proceeds		(570,197)
Principal repayments		323,698
Change in net position of governmental activities	$	1,494,716

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

Note 1 – Summary of Significant Accounting Policies

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

During the year ended June 30, 2016, the County implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements.

A. Reporting Entity

The District provides fire protection and emergency medical services to citizens living within the Sedona, Village of Oak Creek and Oak Creek Canyon, Arizona areas. The District is a special-purpose government governed by a separately elected governing body and is legally separate and fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, nor is the District combined with another reporting entity.

B. Basis of Presentation

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

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

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

Note 1 – Summary of Significant Accounting Policies - Continued

Program revenues include:

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

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

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

The District reports the following major governmental funds:

- The *general* fund is the District's primary operating fund which accounts for all financial resources except those required to be accounted for in another fund.
- The *capital projects* fund is used to account for activities related to the acquisition or construction of significant capital assets.
- The *special projects* fund is used to account for the activity associated with dispatch fees and other government contract fees.

C. Basis of Accounting

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all 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.

Note 1 – Summary of Significant Accounting Policies - Continued

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

Taxes, leases, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measureable and available only when cash is received by the government.

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

The nonspendable fund balance classification includes amounts that cannot be expended because they are either not in spendable form, such as prepaid items, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

The unrestricted fund balance category is comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved by the District's Board of Directors, which is the highest level of decision-making authority within the District. The constraints placed on committed fund balances can only be removed or changed by the Board.

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

The unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned. When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the District's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the District's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

Cash and investments – Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

Note 1 – Summary of Significant Accounting Policies - Continued

Investment earnings are composed of interest and net changes in the fair value of applicable investments.

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

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

Receivables – Receivables outstanding at year-end consist of property tax totaling $211,900, $262,766 for fire suppression and other similar services, and $444,720 in emergency medical services. Management periodically evaluates the collectability of receivables based on their age and collection efforts and an allowance is established for estimated uncollectible accounts. Uncollectible accounts are written off after all efforts for collection have been exhausted. As of June 30, 2016, the allowance for uncollectible accounts was $53,957.

Capital assets – Capital assets are reported in the government-wide financial statements at actual cost or estimated historical cost if historical records are not available. Donated capital assets are reported at estimated fair value when received. Capital assets are assets with an initial, individual cost of $5,000 or more and an estimated useful life exceeding one year.

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

Capital assets are depreciated using the straight-line method as follows:

Capital asset class	Estimated useful life
Land	Non-depreciable
Buildings and improvements	20 to 50 years
Vehicles, furniture and equipment	5 to 20 years

Compensated absences – The District allows employees to accumulate earned but unused paid time off. A liability is reported for paid time off that is payable upon termination or retirement. Accordingly, compensated absences are accrued as a liability only in the government-wide financial statements.

Deferred outflows/inflows of resources – The statement of net position and balance sheet include separate sections, as appropriate, 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 revenue in future periods.

Note 1 – Summary of Significant Accounting Policies - Continued

Estimates – The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the tax calendar reporting period. Actual results may differ from those estimates.

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

Note 2 – Stabilization Arrangements

The District established a reserve by resolution that is maintained in the general fund. The reserved balance is a minimum of $2,000,000. Any changes to the reserve must be approved by the Board of Directors. The reserved fund balance is intended to be used as fiscal stabilization to offset operating revenue shortfalls due to economic downturns, and to serve as operating capital (cash flow) to pay expenses between July 1 and mid-October when first half taxes (primary District revenue source) are received to avoid excessive borrowing and paying interest on borrowed money in order to pay ongoing expenses. Any fund balance over and above this operational requirement may be used to fund one-time supplemental funding, capital improvement projects or retirement of debt service and may be transferred to the capital projects fund. As of June 30, 2016, the general fund committed fund balance was $1,567,717, which will be transferred to the capital projects fund in 2017.

Note 3 – Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurer's investment pools; 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 counties, cities, towns, school districts, and special districts as specified by statute.

The District utilizes Yavapai County as its repository for cash and allows their pool to invest those funds; accordingly, the District does not have its own formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for investments.

Note 3 – Cash and Investments - Continued

Cash on Hand and Deposits – At June 30, 2016, total cash on hand was $0. The carrying amount of the total cash in bank was $403,917 and the bank balance was $562,854, of which all are insured or collateralized.

Investments – The District's investments at June 30, 2016, categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

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

The District's investments at June 30, 2016, were as follows:

Investment Type	Amount
Yavapai County Treasurer's investment pool	$ 4,329,694
Coconino County Treasurer's investment pool	80,339
	$ 4,410,033

Yavapai and Coconino County Treasurers' investment pools are not registered with the Securities and Exchange Commission and there is no regulatory oversight of their operations. However, the majority of Yavapai County's investment pool is invested in the State of Arizona's local government investment pool which is regulated by the State Board of Investment. The pools' structure does not provide for shares, and the counties have not provided or obtained any legally binding guarantees to support the value of the participants' investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

Credit risk - At June 30, 2016, all of the District's investments were invested in the Yavapai and Coconino County investment pools which are not rated by rating agencies.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. External investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Interest rate risk – At June 30, 2016, the District's investments can be withdrawn from the pools at will and therefore, are not subject to a significant amount of interest rate risk.

Foreign currency risk – The District does not have a formal investment policy with respect to foreign currency risk because state statutes do not allow foreign investments.

Note 4 – Interfund Receivables, Payables and Transfers

The following summarizes interfund receivables and payables at year-end:

Receivable Fund	Payable Fund	Amount
General	Other Governmental	$ 52,857
		$ 52,857

Interfund balances resulted from cash being pooled in the general fund on behalf of other funds. The Interfund transfer $1,963,147 between the capital projects fund and the general fund were made to supplement the general fund's budget.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance, June 30, 2015	Increases	Decreases	Balance, June 30, 2016
Capital assets not being depreciated:				
Land and improvements	$ 2,054,579	$ -	$ -	$ 2,054,579
Construction in progress	98,811	34,869	(98,811)	34,869
Total capital assets not being depreciated	2,153,390	34,869	(98,811)	2,089,448
Capital assets being depreciated:				
Buildings and improvements	8,506,086	62,036	-	8,568,122
Furniture and equipment	5,164,437	1,169,925	(828,430)	5,505,932
Vehicles	5,423,570	420,763	-	5,844,333
Total capital assets being depreciated	19,094,093	1,652,724	(828,430)	19,918,387
Less: accumulated depreciation for:				
Buildings and improvements	(2,662,730)	(209,679)	-	(2,872,409)
Furniture and equipment	(3,671,817)	(286,776)	784,073	(3,213,790)
Vehicles	(3,386,933)	(313,185)	-	(3,705,454)
Total accumulated depreciation	(9,721,480)	(809,640)	784,073	(9,747,047)
Total capital assets being depreciated, net	9,372,613	843,084	(44,357)	10,171,340
Total capital assets, net	$ 11,526,003	$ 877,953	$ (143,168)	$ 12,260,788

Note 6 – Changes in Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2016 follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within 1 Year
Compensated absences	$ 1,677,990	$ -	$ 151,993	$ 1,525,997	$ 195,816
Obligations under capital leases	1,908,521	570,197	323,698	2,155,020	398,771
Net pension liability	10,818,541	609,451	-	11,427,992	-
Total	$14,405,052	$ 1,179,648	$ 475,691	$15,109,009	$ 594,587

Note 7 – Capital Leases

The District has acquired facilities and equipment under the provisions of various long-term lease agreements classified as capital leases. At June 30, 2016, the assets acquired through capital leases are as follows:

Facilities and equipment	$ 4,710,207
Less: accumulated depreciation	(793,217)
Carrying value	$ 3,916,990

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2016 were as follows:

Year ended June 30,	
2017	$ 461,704
2018	461,704
2019	406,264
2020	259,344
2021	259,344
2022-2023	518,846
Total minimum lease payments	2,367,206
Less: amount representing interest	(212,186)
Present value of minimum lease payments	$ 2,155,020

Note 8 – 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.

Note 9 – Line of Credit

The District has an available line of credit totaling $1,500,000 with the Yavapai County Treasurer which is secured by the District's property taxes. At June 30, 2016, the outstanding balance on this line was $0. During the fiscal year ended 2016, the District did not utilize the line of credit.

Note 10 – Retirement Plans

The District and employees contribute to four retirement plans. These plans are a 457(b) defined contribution pension plan, 501(c)(9) Post-Employment Health Plan, Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS). Benefits for non-public safety personnel are established based on contributions to the plan. For public safety personnel, state statute regulates retirement, death, long-term disability, and survivor insurance premium benefits.

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

Net pension liability	$ 11,427,992
Deferred outflows of resources	3,656,812
Deferred inflows of resources	890,262
Pension expense	1,388,550

Retirement Plan – 457(b)

The District has a 457(b) defined contribution pension plan covering all of its eligible employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees may contribute up to 100% of their eligible salary up to the allowed IRS maximums. In June 2016, the District terminated this plan and transferred the net assets to ASRS. In addition, the District purchased 10% of the service time for all eligible employees. For the year ended June 30, 2016, the employees' contributions were $628,437 during the year.

Voluntary Employee Beneficiary Association – 501(c)(9)

The District has a Post-Employment Health Plan (PEHP) which is an employee benefit plan (Internal Revenue Code sections 501(c)(9)) designed to allow the employer and employees to invest money for the payment of post-employment qualified medical expenses for employees.

Note 10 – Retirement Plans – Continued

All full-time employees begin participation in the PEHP plan after one year of service and contribute 1% of income into a mandatory group that is matched by the District. If an employee is eligible, they may enroll into one of the three optional groups ("Sunset", "Retirement" or "Tenured") in place of one of the mandatory groups. The District's match is 1% for all groups.

For the year ended June 30, 2016, the District's contributions to the plan were $76,121 and the employees' contributions were $106,638 during the year.

A. Arizona State Retirement System (ASRS)

Plan description—Effective June 2016, District employees not covered by PSPRS 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:

ASRS	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 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.

The plan participants are not eligible for cost-of-living adjustments because they began participation after September 13, 2013. 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.

Note 10 – Retirement Plans – Continued

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, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. The District's contribution to the pension plan for the year ended June 30, 2016 was $244,984. The District's OPEB contributions for the current year, all of which were equal to the required contributions, were as follows:

Health benefit supplement fund	Long-term disability fund
$ 10,679	$ 2,563

During fiscal year 2016, the District paid for ASRS pension and OPEB contributions from the general fund.

Pension liability—At June 30, 2016, the District recognized no pension liability for ASRS because the District joined ASRS during 2016. The net pension liability reported by ASRS was measured as of June 30, 3015, at which time the District was not participating. 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, 2015.

Pension expense and deferred outflows of resources—For the year ended June 30, 2016, the District recognized no pension expense for ASRS. At June 30, 2016, the District reported deferred outflows of resources related to pensions due to District contributions subsequent to the measurement date.

The $244,984 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, 2017.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment 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.

Note 10 – Retirement Plans – Continued

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

ASRS

Asset class	Target allocation	Long-term expected arithmetic real rate of return
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	100%	

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

B. Public Safety Personnel Retirement System (PSPRS)

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

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS plan. 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:

PSPRS	**Initial membership date:**	
	Before January 1, 2012	**On or after January 1, 2012**
Retirement and Disability		
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

Note 10 – Retirement Plans – Continued

Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired members pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the Plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

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

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	3
Active employees	74
Total	97

***Contributions*:** State statues 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.

Note 10 – Retirement Plans - Continued

The combined active member and employer contribution rates are expected to finance costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active PSPRS members were required to contribute 7.65% of the members' annual covered payroll. The District is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2016, was 23.55% for the pension plan, and 0.52% for the health insurance premium benefit.

For the agent plans, the District's contributions to the pension plan and annual OPEB costs and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	PSPRS
Pension	
Contributions made	$ 1,373,632
Health insurance premium benefit	
Annual OPEB cost	30,331
Contributions made	30,331

During fiscal year 2016, the county paid for PSPRS pension and OPEB contributions from the general fund.

Pension Liability – At June 30, 2016, the District reported $11,427,992 as a net pension liability related to PSPRS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future 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 change in the District's net pension liability as a result of the statutory adjustments is not known.

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

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

Note 10 – Retirement Plans - Continued

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

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

PSPRS Asset Class	Target Allocation	Long-Term Expected Geometric Rate of Return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

Pension Discount Rates – The discount rate used to measure the PSPRS total pension liability was 7.85 percent. The projection of cash flows used to determine the 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.

Note 10 – Retirement Plans – Continued

Changes in the Net Pension Liability

PSPRS	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability(Asset) (a) – (b)
Balances at June 30, 2015	$ 27,960,111	$ 17,141,570	$ 10,818,541
Changes for the current year:			
Service cost	1,093,148	-	1,093,148
Interest on the total pension liability	2,196,227	-	2,196,227
Differences between expected and actual experience in the measurement of the pension liability	(292,230)	-	(292,230)
Contributions – Employer	-	1,135,765	(1,135,765)
Contributions – Employee	-	642,980	(642,980)
Net investment income	-	638,219	(638,219)
Benefit payments, including refunds of employee contributions	(1,058,531)	(1,058,531)	-
Administrative expense	-	(15,962)	15,962
Other changes	-	(13,308)	13,308
Net changes	1,938,614	1,329,163	609,451
Balances at June 30, 2016	$ 29,898,725	$ 18,470,733	$ 11,427,992

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

	1% Decrease 6.85%	Current Discount Rate 7.85%	1% Increase 8.85%
Net pension liability	$ 15,652,215	$ 11,427,992	$ 7,945,780

Note 10 – Retirement Plans – 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.

Pension expense - For the year ended June 30, 2016; the District recognized pension expense for PSPRS of $1,388,550.

Pension deferred outflows/inflows of resources - At June 30, 2016, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

PSPRS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 397,923
Changes of assumptions or other inputs	1,420,254	-
Net difference between projected and actual earnings on pension plan investments	587,611	492,339
District contributions subsequent to the measurement date	1,403,963	-
Total	$ 3,411,828	$ 890,262

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

Year Ending June 30,	
2017	$ 127,742
2018	127,742
2019	127,742
2020	291,854
2021	144,952
Thereafter	297,571
	$ 1,117,603

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016 were established by the June 30, 2014 actuarial valuations, and those valuations were based on the following actuarial methods and assumptions.

Note 10 – Retirement Plans - Continued

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

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

PSPRS—OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4% – 8%
Wage growth	4%

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

Year ending June 30,	Annual OPEB Costs	Percentage Contributed
PSPRS		
2016	$ 30,331	100%
2015	49,574	100%
2014	48,209	100%

Note 10 – Retirement Plans – Continued

Agent Plan OPEB Funding Status (Required Supplementary Information) **–** The health insurance premium benefit plan's funded status as of the most recent valuation date, June 30, 2015; along with the actuarial assumptions used in those methods follow:

Valuation Ending June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a)/c)
2015	$ 459,075	$ 702,782	$ 243,707	65.32%	$5,827,104	4.18%
2014	403,388	641,587	238,199	62.87%	5,694,542	4.18%
2013	-	634,686	634,686	0.0%	5,460,156	11.62%

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

OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8%
Wage growth	4%

Note 11 – Subsequent Events

On October 27, 2016, a District fire station was damaged resulting in the incurrence cleanup costs. Currently the total estimated costs are unknown, however, the District expects to be fully reimbursed from the insurance company.

In July 2016, the District purchased a fire engine for $584,637. The engine is currently being modified and is secured with a performance bond. The District expects to take delivery of the engine during the fall of 2017.

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

	Original and Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
Taxes:			
Property taxes	$ 11,917,143	$ 11,917,014	$ (129)
Fire district assistance tax	323,033	325,319	2,286
Grant revenue	-	83,700	83,700
Ambulance fees	1,600,000	2,183,027	583,027
Non-district fire revenues	55,000	249,971	194,971
Rent	178,127	178,422	295
Investment earnings	3,000	14,853	11,853
Other	126,815	93,458	(33,357)
Total revenues	14,203,118	15,045,764	842,646
Expenditures:			
Department:			
Current:			
Fire Chief	247,310	227,402	19,908
Fire Board	65,400	56,311	9,089
Pension	2,200	6,600	(4,400)
Community risk management	343,418	208,176	135,242
Fleet	324,255	322,413	1,842
Human resources	218,533	389,073	(170,540)
Administration	227,383	229,708	(2,325)
Finance	440,086	450,603	(10,517)
Division Chief/support	241,958	-	241,958
Ambulance billing	132,516	159,773	(27,257)
Ambulance Fleet	76,425	97,193	(20,768)
Regional communications center	629,768	348,092	281,676
Telecommunications	930,206	856,670	73,536
Division Chief/operations	258,909	270,008	(11,099)
Operations, wages and benefits and emergency medical service	8,561,806	8,596,687	(34,881)
Emergency Operations Center	3,414	461	2,953
Helicopter Operations	7,928	3,560	4,368
Training	222,847	214,508	8,339
Facilities	337,254	318,125	19,129
Wildland Fire Program	49,879	47,124	2,755
Logistics	79,607	72,477	7,130
CISM	10,016	10,130	(114)
Hazardous materials	13,337	2,824	10,513
Swiftwater rescue	29,020	18,688	10,332
Technical rescue	63,912	58,210	5,702
GIS	100,750	98,589	2,161
Wellness	8,311	12,903	(4,592)
Capital outlays and debt service	1,514,017	1,812,547	(298,530)
Total expenditures	15,140,465	14,888,855	251,610
Excess of revenues over (under) expenditures	(937,347)	156,909	1,094,256
Other financing sources (uses):			
Proceeds from capital lease	-	570,197	570,197
Transfers in (out)	937,347	(1,025,800)	(1,963,147)
Total other financing sources (uses)	937,347	(455,603)	(1,392,950)
Changes in fund balance	-	(298,694)	(298,694)
Fund balances, beginning of year,	-	4,085,880	4,085,880
Fund balances, end of year	$ -	$ 3,787,186	$ 3,787,186

The accompanying notes are an integral part of this schedule.

Note 1 – Budgetary Requirements and Basis of Accounting

Arizona Revised Statutes requires certain fire districts to prepare and submit annual budgets to the applicable county board of supervisors and treasurer. The district budget must be prepared in a manner consistent with the annual financial statements. Accordingly, the District's budget is prepared on a basis of accounting consistent with U.S. generally accepted accounting principles.

The budgetary comparison schedule on page 37 reports budgeted expenditures in excess of revenues of $937,347 which was offset by a budgeted transfer in from the capital projects fund.

Note 2 – Expenditures in Excess of Appropriations

For the year ended June 30, 2016, expenditures that exceeded final budget amounts at the department level (the legal level of budgetary controls) were as follows:

Department	Excess
Pension	$ 4,400
Human resources	170,540
Administration	2,325
Finance	10,517
Ambulance billing	27,257
Ambulance Fleet	20,768
Assistant Chief/operations	11,099
Operations, wages and benefits and Emergency medical services	34,881
CISM	114
Wellness	4,592
Capital outlay	298,530

The excesses for the departments listed above were primarily the result of unexpected expenditures incurred. As unexpected expenditures become known, and if a department will exceed their overall budget, a request is made to transfer budget dollars from another department to cover the needed funds. This is done by prioritizing projects not yet completed to ensure that the overall budget is not exceeded.

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

	Reporting fiscal year (measurement date)		
	2016 (2015)	**2015 (2014)**	**2014 through 2007**
Total pension liability			
Service cost	$ 1,093,148	$ 1,059,059	Information
Interest on total pension liability	2,196,227	1,891,123	not available
Changes of benefit terms	-	257,095	
Difference between expected and actual experience in the measurement of the pension liability	(292,230)	(176,426)	
Changes of assumptions or other inputs	-	1,813,376	
Benefit payments, including refunds of employee contributions	(1,058,531)	(890,653)	
Net change in pension liability	$ 1,938,614	$ 3,953,574	
Total pension liability - beginning	27,960,111	24,006,537	
Total pension liability - ending (a)	$ 29,898,725	$ 27,960,111	
Plan fiduciary net position			
Contributions - employer	$ 1,135,765	$ 1,099,300	
Contributions - employee	642,980	592,699	
Net investment income	638,219	1,990,781	
Benefit payments, including refunds of employee contributions	(1,058,531)	(890,653)	
Adminstrative expenses	(15,962)	-	
Other changes	(13,308)	4,823	
Net change in plan fiduciary net position	1,329,163	2,796,950	
Plan fiduciary net position - beginning	17,141,570	14,344,620	
Plan fiduciary net position - ending (b)	$ 18,470,733	$ 17,141,570	
District's net pension liability - ending (a) - (b)	$ 11,427,992	$ 10,818,541	
Plan fiduciary net position as a percentage of the total pension liability	62%	61%	
Covered-employee payroll	$ 5,827,104	$ 5,694,542	
District's net pension liability as a percentage of covered-employee payroll	196%	190%	

See accompanying notes to pension plan schedules.

Sedona Fire District
Required Supplementary Information
Schedule of Pension Contributions
Year Ended June 30, 2016

ASRS	**Reporting Fiscal Year**			
	2016	**2015**	**2014**	**2007 through 2013**
Statutorily required contribution	$ 244,984	Information not available	Information not available	Information not available
District's contributions in relation to the statutorily required contribution	244,984			
District's contribution deficiency	$ -			
District's covered payroll	$ 2,257,917			
District's contributions as a percentage of covered payroll	10.85%			

PSPRS	**Reporting Fiscal Year**			
	2016	**2015**	**2014**	**2007 through 2013**
Actuarially determined contribution	$ 1,403,963	$ 1,135,765	$ 1,099,300	Information not available
District's contributions in relation to the actuarially determined contribution	1,403,963	1,135,765	1,099,300	
District's contribution deficiency	$ -	$ -	$ -	
District's covered payroll	$ 5,961,626	$ 5,827,104	$ 5,694,542	
District's contributions as a percentage of covered payroll	23.55%	19.49%	19.30%	

See accompanying notes to pension plan schedules.

Note 1 – Change in accounting principle

For the year ended June 30, 2016, the County implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

Note 2 – 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 valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 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%
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5% – 8.5% to 4% – 8%
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4%
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)