

**TUBAC FIRE DISTRICT**  
**YEAR ENDED JUNE 30, 2018**

**TUBAC FIRE DISTRICT**  
**YEAR ENDED JUNE 30, 2018**

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## Independent Auditors' Report

Governing Board and Management  
Tubac Fire District  
Tubac, Arizona

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

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation 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 District'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 District'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 Tubac Fire District, as of June 30, 2018, 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.

### **Change in Accounting Principle**

As discussed in note 1, in 2018 the District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by *GASB Statement No. 85, Omnibus 2017*. Our opinion is not modified with respect to this matter.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of Tubac 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 Tubac Fire District's internal control over financial reporting and compliance.



Tucson, Arizona  
December 20, 2018

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **FISCAL YEAR ENDED JUNE 30, 2018**

### **INTRODUCTION**

The Management of the Tubac Fire District (District) presents these financial statements with a narrative overview and analysis of financial activities for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those statements in their understanding of the District's financial position.

### **FINANCIAL HIGHLIGHTS FOR THE YEAR**

1. The total assets and deferred outflows of the Tubac Fire District were \$9,128,734 at the close of the fiscal year. The total assets and deferred outflows exceeded liabilities and deferred inflows by \$1,943,095. Of this amount \$388,375 represents the balance of the unrestricted net position.
2. The District realized a \$363,600 increase in fund balances during the fiscal year. The increase consists of excess revenues over expenditures of \$920,993, before capital expenditures of \$10,349, and debt service payments of \$547,044.
3. The District realized a decrease in its net position under Governmental Activities of \$61,535, however due to the implementation of GASB 75, beginning net position was restated reducing the decrease to \$59,570.
4. At the end of the current fiscal year, unassigned fund balances for the General Fund was \$1,794,308, this represents an increase of \$257,752 over the prior year. The District Board and Administration are working diligently to enhance the financial position of the organization while still providing a high level of service to the community it serves.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## Government-Wide Financial Statements.

The *Government-wide financial statements* present the financial picture of the District from the economic measurement resources focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term debt). They are intended to provide a broad overview in a manner similar to a private sector business. Additionally, certain eliminations have occurred as prescribed by Statement No. 34 in regard to interfund activity, payables and receivables.

**Statement of Net Position** - The *Statement of Net Position (page 11)* presents information of all 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 or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**Statement of Activities** - The *Statement of Activities (page 12)* presents information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

## Fund Financial Statements.

The Fund Financial Statements provide detailed information about the most significant funds not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds to help it control and manage resources for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. All the funds of the District are considered governmental funds.

**Governmental Funds.** Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-wide financial statements. All of the basic services of the District are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations and basic services provided to residents. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance programs of the District. 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 near-term financing decisions of the District. The reconciliation of differences between the governmental fund financial statements and the government-wide financial statements is explained in a section following each governmental fund financial statement.

The District adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the financial position of a government entity. In the case of the Tubac Fire District, assets and deferred outflows exceeded liabilities and deferred inflows by \$1,943,095 at the close of the 2018 fiscal year.

The net investment in capital assets, \$1,354,386, reflects the District's investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to residents; consequently, the assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of net position \$200,334 may be used to pay interest and principal payments on the outstanding bonds.

The unrestricted net position, \$388,375, reflects its cash and current accounts receivable less any current liabilities (e.g. accounts payable, accrued payroll, and compensated absences) and long-term liabilities not associated with capital assets. The District uses the cash balances to pay current and ongoing financial obligations in order to provide services to residents.

At the end of Fiscal Year 2018, the District is able to report positive balances in net investment in capital assets and unrestricted net position.

The following table reflects the condensed Statement of Net Position:

**Tubac Fire District**  
**Condensed Statement of Net Position**  
As of June 30, 2018

	Governmental Activities		Increase/ Decrease
	2018	2017	
Cash and investments	\$ 1,783,936	\$ 1,500,320	\$ 283,616
Cash and investments, restricted	200,334	128,766	71,568
Other assets	527,693	408,099	119,594
Capital assets	5,479,386	5,846,333	(366,947)
<b>Total assets</b>	<b>7,991,349</b>	<b>7,883,518</b>	<b>107,831</b>
Deferred outflows	1,137,385	1,327,433	(190,048)
Other liabilities	134,217	570,799	(436,582)
Long term liabilities	6,613,834	6,184,837	428,997
<b>Total liabilities</b>	<b>6,748,051</b>	<b>6,755,636</b>	<b>(7,585)</b>
Deferred inflows	437,588	452,650	(15,062)
Net investment in capital assets	1,354,386	1,411,333	(56,947)
Restricted	200,334	128,766	71,568
Unrestricted	388,375	462,566	(74,191)
<b>Total net position</b>	<b>\$ 1,943,095</b>	<b>\$ 2,002,665</b>	<b>\$ (59,570)</b>

**Governmental Activities.**

The Net Position of the District from governmental activities decreased from \$2,002,665 to \$1,943,095 a change of 33.63%. The following table reflects the Condensed Statement of Activities:



**Tubac Fire District**  
**Condensed Statement of Activities**  
For the Year Ended June 30, 2018

	2018	2017	Decrease
Program revenues:			
Charge for services	\$ 857,483	\$ 711,880	\$ 145,603
Operating grants and contributions	7,485	-	7,485
General revenues:			
Property taxes	2,811,672	2,793,313	18,359
Fire district assistance tax	126,469	122,643	3,826
Other	243,156	237,151	6,005
Total revenues	<u>4,046,265</u>	<u>3,864,987</u>	<u>181,278</u>
Expenses			
Public safety	3,870,756	3,961,328	(90,572)
Interest on long term debt	237,044	250,218	(13,174)
Total expenses	<u>4,107,800</u>	<u>4,211,546</u>	<u>(103,746)</u>
Extraordinary Item	-	(228,867)	228,867
Increase (decrease) in net position	(61,535)	(575,426)	513,891
Beginning net position, as restated	2,004,630	2,578,091	(573,461)
Ending net position	<u>\$ 1,943,095</u>	<u>\$ 2,002,665</u>	<u>\$ (59,570)</u>

## **DISTRICT FUNDS FINANCIAL ANALYSIS**

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

As of June 30, 2018, the governmental funds of the District reported combined fund balances of \$2,028,922, which is an increase of \$363,600 compared to the prior period.

**General Fund.** The General Fund accounts for all the resources retained by the District not accounted for in any other fund. As of June 30, 2018, the ending fund balance in the General Fund was \$1,828,588.

**Debt Service Fund.** The Debt Service Fund accounts for the property tax levy dedicated to the payment of principal and interest on the general obligation bonds. As of June 30, 2018, the ending fund balance in the Debt Service Fund was \$200,334.

The following statement provides the detail of the District fund balances:

**Tubac Fire District  
Governmental Funds – Fund Balances  
As of June 30, 2018**

Major Funds	Fiscal Year June 30, 2018		Fiscal Year June 30, 2017	
	Amount	%	Amount	%
General fund:				
Nonspendable	\$ 34,280	1.69%	\$ -	0.00%
Unassigned	1,794,308	88.44%	1,536,556	92.27%
Debt Service fund:				
Restricted	200,334	9.87%	128,766	7.73%
Total fund balance	<u>\$ 2,028,922</u>	<u>100.00%</u>	<u>\$ 1,665,322</u>	<u>100.00%</u>

## BUDGETARY HIGHLIGHTS

There were some variances of note for the fiscal year.

- Revenues were over budget by \$41,225, due largely to more ambulance transports than anticipated during the fiscal year.
- Expenditures were under budget by \$250,806 mainly due to the recognition of budgeted pension expenditures as an extraordinary item related to claims and judgment expenditures in fiscal year 2017. The District paid out refunds resulting from the Parker v. Public Safety Retirement System (PSPRS) lawsuit in 2017 and received credits against their 2018 pension contributions from PSPRS.

**Tubac Fire District  
Condensed Budget to Actual  
As of June 30, 2018**

	General Fund		Variance with budget
	Budget	Actual	
Total revenues	\$ 3,349,556	\$ 3,390,781	\$ 41,225
Total expenses	3,349,556	3,098,750	(250,806)
Revenue over (under) expenditures	-	292,031	292,031
Net change in fund balance	<u>\$ -</u>	<u>\$ 292,031</u>	<u>\$ 292,031</u>

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets.

As of June 30, 2018, the investment in capital assets for governmental activities amounts to \$5,479,386 (net of accumulated depreciation). This investment in capital assets includes land, and improvements, buildings and improvements, vehicles, furniture and equipment. The total decrease in capital assets for the current fiscal year was \$366,947 or 6.28%.

Tubac Fire District  
**Capital Assets as of June 30, 2018**  
 (net of depreciation)

	Governmental Activities		Increase/ (Decrease)
	2018	2017	
Land and buildings	\$ 6,572,060	\$ 6,572,060	\$ -
Equipment	1,405,855	1,395,506	10,349
Vehicles	3,237,871	3,237,871	-
Accumulated depreciation	<u>(5,736,400)</u>	<u>(5,359,104)</u>	<u>(377,296)</u>
Net capital assets	<u>\$ 5,479,386</u>	<u>\$ 5,846,333</u>	<u>\$ (366,947)</u>

### Long Term Liabilities.

At the end of the current fiscal year, the District had \$6,613,834 in long-term liabilities outstanding, a net decrease of \$19,454 from the prior year. The decrease is attributed to the decrease in general obligation bonds and claims and judgment payable related to the pension plan.

The District continues to retire and manage debt to fund various capital projects which support program services. As of June 30, 2018, the District had total general obligation bonds outstanding of \$4,125,000. This debt currently requires annual debt service payments that consist of principal and interest of approximately \$547,000. All debt is backed by the full faith and credit of the District.

In accordance with GASB 68 and 75, the District is required to include the net pension/OPEB liability on the financial statements. The net pension/OPEB liability is measured as the total pension/OPEB liability, less the pension/OPEB plan's fiduciary net position. A net pension liability is recorded at June 30, 2018 relating to the District's participation in the Public Safety Personnel Retirement System (PSPRS) of \$2,386,437.

The following table shows the District's Outstanding Debt:

**Tubac Tucson Fire District  
Outstanding Debt  
As of June 30, 2018**

	Governmental Activities		Increase/ (Decrease)
	2018	2017	
Compensated absences	\$ 102,397	\$ 112,451	\$ (10,054)
General obligation bonds	4,125,000	4,435,000	(310,000)
Claims and judgement payable	-	26,000	(26,000)
Net pension liability	2,386,437	2,059,837	326,600
<b>Total noncurrent liabilities</b>	<b>\$ 6,613,834</b>	<b>\$ 6,633,288</b>	<b>\$ (19,454)</b>

Additional information can be found in the notes to the Financial Statements that follow.

## **ECONOMIC FACTORS AND FY2019 BUDGET/TAX RATE**

The District has continued to pursue every feasible method of reducing operational costs while providing the highest level of service to the community. Despite aggressive management of expenditures, costs continue to rise, such as employee benefits and required pension contribution rates. While the District realized a 1.56% increase in property values, the assessed value of the District remains significantly below (130,131,315) its peak in fiscal year 2010. To maintain the level of service provided, as well as maintain its tax rate of \$2.7500, the District has elected to change the amortization period for the PSPRS pension contributions from 20 years to 30 years. This will allow the District to build its unrestricted reserve balance to meet future financial needs and ensure long term financial stability.

## **FINANCIAL CONTACT**

The financial statements of the District are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the finances of the District and to demonstrate accountability. If you have questions regarding the report or need additional financial information, please contact the Fire Chief of the District at Tubac Fire District at 2227 E. Frontage Rd., Tubac, AZ 85646 or at 520-761-1066.

## **Basic Financial Statements**

**TUBAC FIRE DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	<u>Governmental activities</u>
Assets:	
Cash and investments	\$ 1,783,936
Cash and investments, restricted	200,334
Receivables:	
Property taxes	224,875
Ambulance, net	48,903
Other	156,447
Prepaid items	34,280
Capital assets, not depreciated	257,352
Capital assets, net of accumulated depreciation	5,222,034
Net OPEB assets	<u>63,188</u>
Total assets	<u>7,991,349</u>
Deferred outflows of resources:	
Deferred outflows related to pensions/OPEB	<u>1,137,385</u>
Total deferred outflows of resources	<u>1,137,385</u>
Liabilities:	
Accounts payable	52,459
Accrued payroll and related benefits	81,758
Noncurrent liabilities:	
Due within one year	376,199
Due in more than one year	<u>6,237,635</u>
Total liabilities	<u>6,748,051</u>
Deferred inflows of resources:	
Deferred inflows related to pensions/OPEB	<u>437,588</u>
Total deferred inflows of resources	<u>437,588</u>
Net position:	
Net investment in capital assets	1,354,386
Restricted	200,334
Unrestricted	<u>388,375</u>
Total net position	<u>\$ 1,943,095</u>

See notes to financial statements.

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

	<u>Governmental activities</u>
Program expenses:	
Public safety, fire protection and emergency services:	
Administration	\$ 112,934
Communications	71,889
Depreciation	377,296
Payroll taxes and employee benefits	1,209,924
Salaries and wages	1,672,389
Training and related	45,645
Utilities and station	181,660
Vehicles and equipment	199,019
Interest	<u>237,044</u>
Total program expenses	<u>4,107,800</u>
Program revenues:	
Charges for services	857,483
Operating grants and contributions	<u>7,485</u>
Total program revenues	<u>864,968</u>
Net program expenses	<u>3,242,832</u>
General revenues:	
Property taxes	2,811,672
Fire district assistance tax	126,469
Rental income	187,969
Investment earnings	15,135
Other	<u>40,052</u>
Total general revenues	<u>3,181,297</u>
Change in net position	(61,535)
Net position, beginning of year, as restated	<u>2,004,630</u>
Net position, end of year	<u><u>\$ 1,943,095</u></u>

See notes to financial statements.

TUBAC FIRE DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	General	Debt service	Total governmental funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets:			
Cash and investments	\$ 1,783,936	\$ -	\$ 1,783,936
Cash and investments, restricted	-	200,334	200,334
Receivables:			
Property taxes	224,875	-	224,875
Ambulance, net	48,903	-	48,903
Other	156,447	-	156,447
Prepaid items	<u>34,280</u>	<u>-</u>	<u>34,280</u>
Total assets	<u>\$ 2,248,441</u>	<u>\$ 200,334</u>	<u>\$ 2,448,775</u>
Liabilities:			
Accounts payable	\$ 52,459	\$ -	\$ 52,459
Accrued payroll and related benefits	<u>81,758</u>	<u>-</u>	<u>81,758</u>
Total liabilities	<u>134,217</u>	<u>-</u>	<u>134,217</u>
Deferred inflows of resources:			
Unavailable revenue - property taxes	209,430	-	209,430
Unavailable revenue - ambulance	14,936	-	14,936
Unavailable revenue - wildland	<u>61,270</u>	<u>-</u>	<u>61,270</u>
Total deferred inflows of resources	<u>285,636</u>	<u>-</u>	<u>285,636</u>
Commitments and contingencies			
Fund balances:			
Nonspendable:			
Prepaid items	34,280	-	34,280
Restricted:			
Debt service	-	200,334	200,334
Unassigned	<u>1,794,308</u>	<u>-</u>	<u>1,794,308</u>
Total fund balances	<u>1,828,588</u>	<u>200,334</u>	<u>2,028,922</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,248,441</u>	<u>\$ 200,334</u>	<u>\$ 2,448,775</u>



TUBAC FIRE DISTRICT

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

JUNE 30, 2018

Total fund balances - governmental funds	\$ 2,028,922
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 funds.	5,479,386
Net OPEB assets held in trust for future benefits are not available for District operations and, therefore, are not reported in the funds.	63,188
Some receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.	285,636
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued compensated absences	(102,397)
General obligation bonds	(4,125,000)
Net pension liability	(2,386,437)
Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future reporting periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions/OPEB	1,137,385
Deferred inflows of resources related to pensions/OPEB	<u>(437,588)</u>
Net position of governmental activities	<u>\$ 1,943,095</u>

**TUBAC FIRE DISTRICT**

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

**YEAR ENDED JUNE 30, 2018**

	General	Debt service	Total governmental funds
Revenues:			
Property taxes	\$ 2,212,853	\$ 609,076	\$ 2,821,929
Fire district assistance tax	126,469	-	126,469
Charges for services	811,105	-	811,105
Grants and contributions	7,485	-	7,485
Rental income	187,969	-	187,969
Investment earnings	4,848	10,287	15,135
Other	40,052	-	40,052
Total revenues	3,390,781	619,363	4,010,144
Expenditures:			
Public safety:			
Fire protection and emergency services	2,497,428	-	2,497,428
Administration and support	590,973	750	591,723
Capital outlay:			
Fire equipment	10,349	-	10,349
Debt service:			
Principal	-	310,000	310,000
Interest	-	237,044	237,044
Total expenditures	3,098,750	547,794	3,646,544
Net change in fund balances	292,031	71,569	363,600
Fund balances, beginning of year	1,536,556	128,766	1,665,322
Fund balances, end of year	\$ 1,828,587	\$ 200,335	\$ 2,028,922

**TUBAC FIRE DISTRICT**

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

**YEAR ENDED JUNE 30, 2018**

Net change in fund balances - governmental funds	\$	363,600
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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:</p>		
Capital outlay		10,349
Depreciation expense		(377,296)
<p>Certain revenues relating to property taxes and charges for services in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		36,121
<p>District pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension/OPEB liability is measured a year before the District's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the statement of activities.</p>		
Pension/OPEB contributions		50,996
Pension/OPEB expense		(491,359)
<p>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:</p>		
Decrease in compensated absences		10,054
Decrease in claims and judgment expense		26,000
<p>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:</p>		
Principal paid		<u>310,000</u>
Change in net position of governmental activities	\$	<u><u>(61,535)</u></u>

See notes to financial statements.

## TUBAC FIRE DISTRICT

### NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

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

For the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

Reporting entity:

The District, established in 1974 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

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

Government-wide and fund financial statements (continued):

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.

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.

TUBAC FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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 *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 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.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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.

Revenue from emergency medical 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 other for services rendered, including estimated retroactive adjustments under reimbursement allowances with third-party payers, provisions for bad debt and uncompensated care. The allowance for doubtful accounts, including contractual adjustments, at June 30, 2018 is approximately \$95,000. Amounts not collected by the District within 60 days subsequent to year-end are recorded as deferred inflows of resources.

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.

Prepaid items:

Payments made to vendors for services that will benefit future accounting periods are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded as the time of purchase and an expenditure/expense is reported in the year in which the services are consumed.

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 acquisition value.

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.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

Capital assets (continued):

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

Land	Not depreciated
Buildings and improvements	15 - 40 years
Fire equipment	5 - 10 years
Vehicles	5 - 10 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. The General Fund has typically been used to liquidate the liability for compensated absences in prior years.

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.

In the fund financial statements, proceeds from debt issued are reported as other financing sources and principal and interest payments are recognized as expenditures in the statement of revenues, expenditures and changes in fund balances.

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.

Postemployment benefits:

For purposes of measuring the net pension and other postemployment benefits (OPEB) liabilities or assets, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the 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.



**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

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 can only be used for the specific purposes imposed by formal action (resolution) of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts
- 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.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

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.

2. Prior period adjustments:

Net position as of June 30, 2018 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*.

	Governmental activities
Net position, as previously reported, June 30, 2017	\$ 2,002,665
Adjustments - implementation of GASB 75	
Net OPEB liability (measurement date as of June 30, 2016)	(2,008)
Deferred outflows - District contributions made during fiscal year 2017	3,973
	1,965
Net position, as restated, June 30, 2017	\$ 2,004,630

3. Cash and investments:

Cash and investments consist of the following:

Deposits:	
Operating accounts	\$ 1,737,349
Investments:	
Santa Cruz County Treasurer's investment pool	46,587
Santa Cruz County Treasurer's investment pool - restricted	200,334
	\$ 1,984,270

TUBAC FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

3. Cash and investments (continued):

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 \$1,737,349 and a bank balance of \$1,774,485. The difference represents deposits in transit, outstanding checks and other reconciling items at June 30, 2018.

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 4.

The District's investments at June 30, 2018 were as follows:

	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
Santa Cruz County Treasurer's investment pool	Unrated	Not applicable	\$ 246,921

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.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

3. Cash and investments (continued):

Investments (continued):

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.
- Specified 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. The weighted average maturity of the County Treasurer's investment varies by type of investment, and averages between 1 and 2 years.

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

4. 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.

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

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

4. Fair value (continued):

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, 2018, 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	\$ 246,921	\$ 246,921	\$ -	\$ -	\$ -

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.

5. Receivables:

	General	Debt service	Total
Property taxes	\$ 224,875	\$ -	\$ 224,875
Ambulance receivables	143,831	-	143,831
Other	156,447	-	156,447
	525,153	-	525,153
Less allowance for doubtful accounts and contractual adjustments	94,928	-	94,928
	\$ 430,225	\$ -	\$ 430,225

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

6. Capital assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, not depreciated:				
Land	\$ 257,352	\$ -	\$ -	\$ 257,352
Total capital assets, not depreciated	<u>257,352</u>	<u>-</u>	<u>-</u>	<u>257,352</u>
Capital assets, depreciated:				
Buildings and improvements	6,314,708	-	-	6,314,708
Fire equipment	1,395,506	10,349	-	1,405,855
Vehicles	<u>3,237,871</u>	<u>-</u>	<u>-</u>	<u>3,237,871</u>
Total capital assets, depreciated	<u>10,948,085</u>	<u>10,349</u>	<u>-</u>	<u>10,958,434</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,508,919)	(152,875)	-	(1,661,794)
Fire equipment	(1,102,464)	(84,121)	-	(1,186,585)
Vehicles	<u>(2,747,721)</u>	<u>(140,300)</u>	<u>-</u>	<u>(2,888,021)</u>
Total accumulated depreciation	<u>(5,359,104)</u>	<u>(377,296)</u>	<u>-</u>	<u>(5,736,400)</u>
Total capital assets, depreciated, net	<u>5,588,981</u>	<u>(366,947)</u>	<u>-</u>	<u>5,222,034</u>
Total capital assets, net	<u>\$ 5,846,333</u>	<u>\$ (366,947)</u>	<u>\$ -</u>	<u>\$ 5,479,386</u>

7. General obligation bonds:

Series A (2009):

The District, pursuant to a special bond election, received voter approval to issue up to \$15,000,000 in general obligation debt to finance various capital improvements. The Project of 2008, Series A (2009) General Obligation Bonds were issued by the District in the aggregate amount of \$6,795,000. The interest rate ranges from 3% to 5.5% and the bonds mature July 1, 2028.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

7. General obligation bonds (continued):

Future principal and interest payments are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 325,000	\$ 221,544	\$ 546,544
2020	340,000	205,294	545,294
2021	360,000	187,444	547,444
2022	375,000	168,544	543,544
2023	395,000	148,856	543,856
2024 - 2028	<u>2,330,000</u>	<u>397,125</u>	<u>2,727,125</u>
	<u>\$ 4,125,000</u>	<u>\$ 1,328,807</u>	<u>\$ 5,453,807</u>

Bond payments are due semi-annually on January 1 and July 1. Prior to June 30, 2018, management had released the July 1, 2018 principal and interest payment of \$428,522, which is held in escrow.

8. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2018 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	\$ 112,451	\$ 75,869	\$ (85,923)	\$ 102,397	\$ 51,199
General obligation bonds - Series A (2009)	4,435,000	-	(310,000)	4,125,000	325,000
Claims and judgment payable	26,000	-	(26,000)	-	-
Net pension liability	<u>2,059,837</u>	<u>326,600</u>	<u>-</u>	<u>2,386,437</u>	<u>-</u>
	<u>\$ 6,633,288</u>	<u>\$ 402,469</u>	<u>\$ (421,923)</u>	<u>\$ 6,613,834</u>	<u>\$ 376,199</u>

The General Fund has typically been used to liquidate the liability for pensions and OPEB in prior years.

TUBAC FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

9. 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.

10. Rental receipts:

The District entered into a joint use agreement with a phone company for a tower on the grounds of one of the District's fire stations. The District also entered into an agreement to lease the helipad and crew quarters at one of the stations. Rent received under these agreements during 2018 was \$187,969.

The future minimum rents to be received are as follows:

Year ending <u>June 30,</u>	
2019	\$ 165,900
2020	165,900
2021	<u>165,900</u>
	<u>\$ 497,700</u>

11. Commitments and contingencies:

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.



**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

12. Public Safety Personnel Retirement System (PSPRS):

The District contributes to the Public Safety Personnel Retirement System (PSPRS). This plan is a component unit of the State of Arizona.

At June 30, 2018, the District reported on the Statement Net Position and Statement of Activities the following aggregate amounts related to PSPRS:

	<u>Governmental Activities</u>
Net OPEB assets	\$ 63,188
Net pension liabilities	2,386,437
Deferred outflows of resources related to pensions and OPEB	1,137,385
Deferred inflows of resources related to pensions and OPEB	437,588
Pension and OPEB expense	491,359

The District's accrued payroll and related benefits includes \$31,005 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2018.

The District reported \$50,996 of pension and OPEB contributions as expenditures in the governmental funds related to all plans in which it contributes.

Plan descriptions - 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. 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](http://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:

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
	-----	-----
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
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%	1.5% to 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 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 inflation. In addition, 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.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

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

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

	<u>Pension</u>	<u>Health</u>
Inactive employees or beneficiaries currently receiving benefits	6	6
Inactive employees entitled to but not yet receiving benefits	4	2
Active employees	21	21
	31	29

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, 2018, active PSPRS members with an initial membership date on or before July 19, 2011 (Tier 1 employees) were required to contribute 7.65%, members with an initial membership date after July 19, 2011 and before July 1, 2017 (Tier 2 employees) were required to contribute 11.65%, and members with an initial membership date after July 1, 2017 (Tier 3 employees) were required to contribute 9.94%. The District was required to contribute 25.33% for pension and 0.44% for health for Tier 1 and 2 employees, and the District was required to contribute 19.09% for pension and 0.26% for the health for Tier 3 employees. Rates are a percentage of active members' annual covered payroll.

In addition, the District is required to contribute at the actuarially determined rate of 9.41% of annual covered payroll of retired members who worked for the District in positions that an employee who contributes to the PSPRS would typically fill.

The District's contributions to the pension plan for the year ended June 30, 2018 were \$50,125, and contributions to the OPEB plan were \$871. During fiscal year 2018, the District paid for the pension and OPEB contributions from the General Fund.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

Liability - At June 30, 2018, the District reported net pension liability of \$2,386,437 and a net OPEB asset of \$63,188. The net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5% to 7.4%, decreasing the wage inflation from 4% to 3.5%, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the District's net pension liabilities as a result of the refunds is not known.

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5% for pension/not applicable for OPEB
Price inflation	2.5% for pension/not applicable for OPEB
Permanent benefit increase	Included for pension/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable

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

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

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

12. 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 geometric real rate of return</u>
U.S. equity	16 %	7.60 %
Non-U.S. equity	14 %	8.70 %
Credit opportunities	16 %	5.83 %
Private credit	12 %	6.75 %
Real estate	10 %	3.75 %
GTAA	10 %	3.96 %
Real assets	9 %	4.52 %
Fixed income	5 %	1.25 %
Absolute return	2 %	3.75 %
Risk parity	4 %	5.00 %
Short-term investments	2 %	0.25 %
	<u>100 %</u>	

Discount rate - At June 30, 2017, the discount rate used to measure the total pension/OPEB liability was 7.50%, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. 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 plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

Changes in the net pension liability -

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) - (b)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balances at June 30, 2017	\$ 7,362,144	\$ 5,302,307	\$ 2,059,837
Changes for the year:			
Service cost	292,872	-	292,872
Interest on the total pension liability	556,027	-	556,027
Changes of benefit terms	76,713	-	76,713
Differences between expected and actual experience in the measurement of the pension liability	146,756	-	146,756
Changes of assumptions or other inputs	245,429	-	245,429
Contributions - employer	-	197,996	(197,996)
Contributions - employee	-	180,772	(180,772)
Net investment income	-	637,304	(637,304)
Benefit payments, including refunds of employee contributions	(189,768)	(189,768)	-
Administrative expense	-	(6,039)	6,039
Other changes	-	(18,836)	18,836
Net changes	<u>1,128,029</u>	<u>801,429</u>	<u>326,600</u>
Balances at June 30, 2018	<u>\$ 8,490,173</u>	<u>\$ 6,103,736</u>	<u>\$ 2,386,437</u>

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

Changes in the net OPEB liability -

	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (asset) (a) - (b)
	<u>          </u>	<u>          </u>	<u>          </u>
Balances at June 30, 2017	\$ 203,619	\$ 201,611	\$ 2,008
Changes for the year:			
Service cost	5,467	-	5,467
Interest on the total OPEB liability	15,476	-	15,476
Changes of benefit terms	92	-	92
Differences between expected and actual experience in the measurement of the OPEB liability	(48,339)	-	(48,339)
Changes of assumptions or other inputs	(10,171)	-	(10,171)
Contributions - employer	-	3,973	(3,973)
Contributions - employee	-	23,959	(23,959)
Administrative expense	-	(211)	211
Net changes	<u>(37,475)</u>	<u>27,721</u>	<u>(65,196)</u>
Balances at June 30, 2018	<u>\$ 166,144</u>	<u>\$ 229,332</u>	<u>\$ (63,188)</u>

Sensitivity of the District's net pension/OPEB (asset) liability to changes in the discount rate - The following table presents the District's net pension/OPEB (assets) liability calculated using the discount rate noted above, as well as what the District's net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.40%) or 1 percentage point higher (8.40%) than the current rate:

	1% decrease (6.40%)	Current discount rate (7.40%)	1% increase (8.40%)
	<u>          </u>	<u>          </u>	<u>          </u>
District's net pension liability	\$ 3,696,135	\$ 2,386,437	\$ 1,332,677
District's net OPEB asset	\$ (38,061)	\$ (63,188)	\$ (83,814)

Plan fiduciary net position - Detailed information about the plans' fiduciary net position is available in the separately issued PSPRS financial report.

**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

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

Expense - For the year ended June 30, 2018, the District recognized pension expense for PSPRS of \$493,998, and OPEB expense (income) of \$(2,639).

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

	Pension		Health	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 381,348	\$ 385,962	\$ -	\$ 42,652
Changes in assumptions	642,153	-	-	8,974
Net difference between projected and actual earnings on plan investments	69,846	-	(6,958)	-
Contributions subsequent to the measurement date	50,125	-	871	-
	<u>\$ 1,143,472</u>	<u>\$ 385,962</u>	<u>\$ (6,087)</u>	<u>\$ 51,626</u>

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ending <u>June 30,</u>	Pension	Health
2019	\$ 116,932	\$ (8,623)
2020	159,747	(8,623)
2021	121,131	(8,623)
2022	47,060	(8,625)
2023	93,756	(6,884)
Thereafter	168,759	(17,206)
	<u>\$ 707,385</u>	<u>\$ (58,584)</u>



**TUBAC FIRE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

13. Deferred compensation plan:

The District sponsors two 457(b) deferred compensation plans for all full-time employees that elect to participate in a plan. The District can make discretionary contributions to the plans. Employees are immediately vested in employer contributions to the plan. During the year ended June 30, 2018, the District did not make any contributions to the plans.

## **Required Supplementary Information**

**TUBAC FIRE DISTRICT**

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

**YEAR ENDED JUNE 30, 2018**

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 2,248,321	\$ 2,248,321	\$ 2,212,853	\$ (35,468)
Fire district assistance tax	126,469	126,469	126,469	-
Charges for services	685,104	685,104	811,105	126,001
Grants and contributions	-	-	7,485	7,485
Rental income	210,662	210,662	187,969	(22,693)
Investment earnings	-	-	4,848	4,848
Other	<u>79,000</u>	<u>79,000</u>	<u>40,052</u>	<u>(38,948)</u>
Total revenues	<u>3,349,556</u>	<u>3,349,556</u>	<u>3,390,781</u>	<u>41,225</u>
Expenditures:				
Public safety:				
Fire protection and emergency services	2,662,528	2,662,528	2,497,428	(165,100)
Administration and support	632,028	632,028	590,973	(41,055)
Capital outlay	<u>55,000</u>	<u>55,000</u>	<u>10,349</u>	<u>(44,651)</u>
Total expenditures	<u>3,349,556</u>	<u>3,349,556</u>	<u>3,098,750</u>	<u>(250,806)</u>
Net change in fund balance	-	-	292,031	292,031
Fund balance, beginning of year	<u>1,536,556</u>	<u>1,536,556</u>	<u>1,536,556</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,536,556</u>	<u>\$ 1,536,556</u>	<u>\$ 1,828,587</u>	<u>\$ 292,031</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.

**TUBAC FIRE DISTRICT**

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

**YEAR ENDED JUNE 30, 2018**

**(schedule to be built prospectively from 2015; 2014 - 2009 information not available)**

Reporting date (Measurement date)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)
<b>Total pension liability</b>										
Service cost	\$ 292,872	\$ 254,855	\$ 311,700	\$ 322,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	556,027	448,526	422,807	373,252	-	-	-	-	-	-
Benefit changes	76,713	481,586	-	43,868	-	-	-	-	-	-
Difference between expected and actual experience	146,756	330,885	(276,472)	(345,760)	-	-	-	-	-	-
Assumption changes	245,429	300,650	-	340,993	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(189,768)	(81,270)	(122,710)	(73,459)	-	-	-	-	-	-
<b>Net change in total pension liability</b>	<u>1,128,029</u>	<u>1,735,232</u>	<u>335,325</u>	<u>661,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total pension liability, beginning</b>	<u>7,362,144</u>	<u>5,626,912</u>	<u>5,291,587</u>	<u>4,630,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total pension liability, ending (a)</b>	<u>\$ 8,490,173</u>	<u>\$ 7,362,144</u>	<u>\$ 5,626,912</u>	<u>\$ 5,291,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 197,996	\$ 240,121	\$ 216,319	\$ 229,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - employee	180,772	205,184	163,261	159,842	-	-	-	-	-	-
Pension plan net investment income	637,304	29,535	169,662	519,359	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(189,678)	(81,270)	(122,710)	(73,459)	-	-	-	-	-	-
Administrative expense	(6,039)	(4,650)	(4,524)	-	-	-	-	-	-	-
Other	(18,836)	(1,797)	(3,402)	(139,272)	-	-	-	-	-	-
<b>Net change in fiduciary net position</b>	<u>801,519</u>	<u>387,123</u>	<u>418,606</u>	<u>695,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Plan fiduciary net position, beginning</b>	<u>5,302,307</u>	<u>4,915,184</u>	<u>4,496,578</u>	<u>3,800,827</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Plan fiduciary net position, ending (b)</b>	<u>\$ 6,103,826</u>	<u>\$ 5,302,307</u>	<u>\$ 4,915,184</u>	<u>\$ 4,496,578</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Net pension liability (asset), ending (a) - (b)</b>	<u>\$ 2,386,347</u>	<u>\$ 2,059,837</u>	<u>\$ 711,728</u>	<u>\$ 795,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	71.89 %	72.02 %	87.35 %	84.98 %	- %	- %	- %	- %	- %	- %
<b>Covered valuation payroll</b>	\$ 1,242,562	\$ 1,304,272	\$ 1,403,883	\$ 1,607,612	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net pension liability as a percentage of covered valuation payroll</b>	192.05 %	157.93 %	50.70 %	49.45 %	- %	- %	- %	- %	- %	- %

TUBAC FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2018

(schedule to be built prospectively from 2018; 2017 - 2009 information not available)

Reporting date (Measurement date)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 (2013)	2013 (2012)	2012 (2011)	2011 (2010)	2010 (2009)	2009 (2008)
<b>Total OPEB liability</b>										
Service cost	\$ 5,467	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	15,476	-	-	-	-	-	-	-	-	-
Benefit changes	92	-	-	-	-	-	-	-	-	-
Difference between expected and actual experience	(48,339)	-	-	-	-	-	-	-	-	-
Assumption changes	(10,171)	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-	-	-	-	-	-
<b>Net change in total OPEB liability</b>	<b>(37,475)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total OPEB liability, beginning</b>	<b>203,619</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total OPEB liability, ending (a)</b>	<b>\$ 166,144</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 3,973	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - employee	-	-	-	-	-	-	-	-	-	-
OPEB plan net investment income	23,959	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	-	-	-	-	-	-	-	-	-	-
Administrative expense	(211)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Net change in fiduciary net position</b>	<b>27,721</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan fiduciary net position, beginning</b>	<b>201,611</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan fiduciary net position, ending (b)</b>	<b>\$ 229,332</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net OPEB liability (asset), ending (a) - (b)</b>	<b>\$ (63,188)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	<b>138.03 %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>
<b>Covered valuation payroll</b>	<b>\$ 1,242,562</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net OPEB liability as a percentage of covered valuation payroll</b>	<b>(5.09)%</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>

See accompanying notes to pension/OPEB plan schedules

**TUBAC FIRE DISTRICT**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2018**

**PSPRS - pension (schedule to be built prospectively from 2015; 2014 - 2009 information not available)**

Reporting fiscal year	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 330,704	\$ 240,121	\$ 216,319	\$ 229,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	50,996	240,121	216,319	229,281	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ 279,708</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	1,597,615	1,242,562	1,304,272	1,403,883	-	-	-	-	-	-
Contributions as a percentage of covered payroll	20.70 %	18.41 %	15.41 %	14.26 %	- %	- %	- %	- %	- %	- %

**PSPRS - health (schedule to be built prospectively from 2018; 2017 - 2009 information not available)**

Reporting fiscal year	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 871	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	871	-	-	-	-	-	-	-	-	-
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 payroll	1,597,615	-	-	-	-	-	-	-	-	-
Contributions as a percentage of covered payroll	0.05 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

**TUBAC FIRE DISTRICT**

**NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS**

**YEAR ENDED JUNE 30, 2018**

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
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2016 actuarial valuation	20 years for unfunded, 20 years for overfunded
Asset valuation method	7 year smoothed market; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. 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).

**TUBAC FIRE DISTRICT**

**NOTES TO SCHEDULE OF PENSION/OPEB CONTRIBUTIONS (CONTINUED)**

**YEAR ENDED JUNE 30, 2018**

2. Factors than affect trends:

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. Also, the District refunded excess employee contributions to PSPRS members. PSPRS allowed the District to reduce its actual employer contributions for the refund amounts. As a result, the District's pension contributions were less than the actuarially or statutorily determined contributions for 2018.



## **Report of 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  
Tubac Fire District  
Tubac, 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 Tubac Fire District, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2018.

**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 and therefore, material weaknesses and significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2018-001 and 2018-002).

## **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*.

## **Report on Compliance with State of Arizona Regulatory Requirements**

In connection with our audit, nothing contrary came to our attention that caused us to believe that Tubac Fire District incurred any debt or liability in excess of taxes levied and to be collected and the monies actually available and unencumbered at that time in the District's general fund, except for those liabilities as prescribed in Arizona Revised Statutes section 48-805, subsection B, paragraph 2 and sections 48-806 and 48-807, or that the District failed to comply with Arizona Revised Statutes section 48-805.02, subsection F. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. This report is supplemental reporting as required by Arizona statutes intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

## **The District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



Tucson, Arizona  
December 20, 2018

**TUBAC FIRE DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES**

**YEAR ENDED JUNE 30, 2018**

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

2018-001

*Criteria:*

The District is responsible for establishing and maintaining a system of internal control and procedures over the payroll process.

*Condition / Context:*

- Fire suppression employees have unique FLSA overtime rules, and the payroll system appeared to be compensating employees for overtime on their normal shift schedule; however, that overtime pay was not appropriately reflected on individual pay stubs. Contributing to this was inadequate documentation of hourly rates for non-exempt employees in personnel files during the first half of the year.

*Recommendation:*

We recommend all personnel files contain hourly pay rate documentation signed by the Fire Chief for non-exempt employees. Further, these personnel files should contain documentation that the employee is considered non-exempt. We recommend payroll be processed based on these approved hourly rates, rather than predetermined annual amounts.

This is a repeat finding.

*View of responsible officials:*

Management has made significant improvements in the payroll process during the year. Starting January 2018, the District changed its payroll procedures to appropriately reflect overtime pay on pay stubs. The District engaged the James Vincent Group (JVG) in February 2018, and as a result, certain other payroll changes were initiated. These changes include preparing a Personnel Action Form (PAF) for each employee's personnel file. The PAF includes hourly rates for each employee, supervisor signature, and pay rates/reasons for each payroll change. During this process, it was discovered that when converting annual salaries to hourly wages the calculation was done incorrectly resulting in hourly rates that were higher than previously approved. As a result, JVG notified the board and a new pay scale with these hourly rates was adopted.

**TUBAC FIRE DISTRICT**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2018**

2018-002

*Criteria:*

The District is responsible for establishing and maintaining a system of internal control and procedures over the cash disbursements process.

*Condition / Context:*

- During our review of cash disbursement transactions, we noted there is not a clear policy on when purchase orders are required. Purchase orders are prepared when requested by vendors and for certain expenses, but are not functioning as a consistent pre-approval process.
- The individual responsible for preparing bank reconciliations also prepares the checks, and has ability to enter or modify expenses in the general ledger.

*Recommendation:*

We recommend the District evaluate and create a policy for which type of disbursements should require pre-approval. The policy should set parameters of which level of employees have approval authority, which can vary based on the type and dollar amount of requested items. All employees should be educated on the correct purchase order policy. Further, we recommend the bank reconciliation process be done by an individual not involved in the recording of expenses or preparing of checks to ensure adequate segregation of duties.

This is a repeat finding.

*View of responsible officials:*

The District engaged the James Vincent Group (JVG) in February 2018. JVG helped the District create a purchase order policy so that purchase orders function as a pre-approval process. This policy was implemented in June 2018. Further, JVG started preparing the bank reconciliation in February 2018, to segregate the duties, so the individual preparing checks and recording expenses is no longer preparing the bank reconciliations.