



**Verde Valley Fire District
Financial Statements
June 30, 2016**

**Verde Valley Fire District
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June 30, 2016**

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ACCOUNTING PROFESSIONALS, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Governing Board of the
Verde Valley Fire District
Cottonwood, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Verde Valley Fire District (the District), as of and for the year ended June 30, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and of each major fund of the Verde Valley Fire District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As disclosed in the notes to the financial statements, for the year ended June 30, 2016 Verde Valley Fire District adopted new accounting pronouncements, Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting, Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, GASB Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinions are not modified with respect to this matter.

Other Matters

As described in the notes to the financial statements, the District has adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments*, GASB Statement No. 27, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2003, as well as GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, GASB Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. However, the Verde Valley Fire District has elected not to present Management's Discussion and Analysis, the Budgetary Comparison Schedule, or other supplementary information that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Accounting Professionals, LLC

Phoenix, Arizona
December 20, 2016



BASIC FINANCIAL STATEMENTS

Verde Valley Fire District
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 4,709,645
Accounts receivable, net	274,867
Taxes receivable	153,719
Prepaid expenses	20,464
Capital assets:	
Non-depreciable	224,018
Depreciable (net)	<u>2,744,494</u>
Total assets	<u>8,127,207</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	<u>1,230,660</u>
Total deferred outflows of resources	<u>1,230,660</u>
LIABILITIES	
Accounts payable	74,910
Payroll withholdings held in trust and related liabilities	47,198
Accrued expenses	115,423
Long-term liabilities:	
Due within one year	-
Due in more than one year	<u>2,713,142</u>
Total liabilities	<u>2,950,673</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>370,694</u>
Total deferred inflows of resources	<u>370,694</u>
NET POSITION	
Invested in capital assets	2,968,512
Unrestricted	<u>3,067,988</u>
Total net position	<u>\$ 6,036,500</u>

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

**Verde Valley Fire District
STATEMENT OF ACTIVITIES
Year ended June 30, 2016**

	<u>Governmental Activities</u>
EXPENSES	
Public safety, fire protection and emergency services:	
Emergency services	\$ 3,901,561
Administrative and support services	246,893
Depreciation	241,189
Interest	<u>-</u>
Total program expenses	<u>4,389,643</u>
PROGRAM REVENUES	
Operating grants and contributions	58,222
Charges for services	<u>1,039,537</u>
Total program revenues	<u>1,097,759</u>
Net program expenses	<u>3,291,884</u>
GENERAL REVENUES	
Property taxes	3,405,423
Centrally assessed taxes	315,396
Net gain on sale of capital assets	8,000
Investment earnings	<u>19,298</u>
Total general revenues	<u>3,748,117</u>
Increase in net position	456,233
Net position – beginning	<u>5,580,267</u>
Net position – ending	<u>\$ 6,036,500</u>

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

**Verde Valley Fire District
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,734,262	\$ 2,975,383	\$ 4,709,645
Accounts receivable, net	274,867	-	274,867
Taxes receivable	153,719	-	153,719
Prepaid expenses	<u>20,464</u>	<u>-</u>	<u>20,464</u>
 Total assets	 <u>\$ 2,183,312</u>	 <u>\$ 2,975,383</u>	 <u>\$ 5,158,695</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 74,910	\$ -	\$ 74,910
Accrued payroll	\$ 115,423	\$ -	\$ 115,423
Payroll withholdings held in trust and related liabilities	<u>47,198</u>	<u>-</u>	<u>47,198</u>
Total liabilities	237,531	-	237,531
 Deferred inflows of resources			
Deferred revenues	19,742	-	19,742
Deferred taxes	<u>117,795</u>	<u>-</u>	<u>117,795</u>
Total deferred inflows	<u>137,537</u>	<u>-</u>	<u>137,537</u>
 Fund balances:			
Committed		2,975,383	2,975,383
Unassigned	<u>1,808,244</u>	<u>-</u>	<u>1,808,244</u>
Total fund balances	<u>1,808,244</u>	<u>2,975,383</u>	<u>4,783,627</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 2,183,312</u>	 <u>\$ 2,975,383</u>	 <u>\$ 5,158,695</u>

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

Verde Valley Fire District
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016

Fund balances - total governmental funds		\$ 4,783,627
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		2,968,512
Receivables and other revenues which are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds balance sheet.		137,537
Deferred outflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental funds balance sheet.		1,230,660
Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental funds balance sheet.		(370,694)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet, specifically:		
Pension liabilities	(2,482,672)	
Compensated absences	<u>(230,470)</u>	
		<u>(2,713,142)</u>
Net position of governmental activities		<u>\$ 6,036,500</u>

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

Verde Valley Fire District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	General Fund	Capital Reserve Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 3,374,719	\$ -	\$ 3,374,719
Fire district assistance taxes	315,396	-	315,396
Intergovernmental/grants	38,129	-	38,129
Charges for services	1,084,828	-	1,084,828
Contributions	194	-	194
Interest income	5,373	13,925	19,298
Other revenue	<u>27,899</u>	<u>-</u>	<u>27,899</u>
Total revenues	<u>4,846,538</u>	<u>13,925</u>	<u>4,860,463</u>
EXPENDITURES			
Current:			
Public safety, fire protection:			
Emergency services	3,923,829	-	3,923,829
Administrative and support services	246,893	-	246,893
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	<u>399,522</u>	<u>-</u>	<u>399,522</u>
Total expenditures	<u>4,570,244</u>	<u>-</u>	<u>4,570,244</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>276,294</u>	<u>13,925</u>	<u>290,219</u>
OTHER FINANCING SOURCES/(USES)			
Transfers in/(out)	592,346	(592,346)	-
Sale of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	868,640	(578,421)	290,219
Fund balances – beginning	<u>939,604</u>	<u>3,553,804</u>	<u>4,493,408</u>
Fund balances – ending	<u>\$ 1,808,244</u>	<u>\$ 2,975,383</u>	<u>\$ 4,783,627</u>

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

Verde Valley Fire District
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$	290,219
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense and allocate those costs over the lives of the assets and losses on the disposal of capital assets as expenditures. This is the amount by which capital outlays recorded exceeded losses on disposals in the current period.</p>		399,522
<p>Depreciation and amortization expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources.</p>		(241,189)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This is the amount by which revenues reported in the statement of activities were less than those amounts received and reported as current financial resources in the governmental funds.</p>		(14,587)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		<u>22,268</u>
Change in net position of governmental activities	<u>\$</u>	<u>456,233</u>

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

Verde Valley Fire District
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Clarkdale Fire District Fiduciary Fund
ASSETS	
Cash - general fund	\$ 85,614
Cash - capital projects fund	387,395
Total assets	\$ 473,009
 NET POSITION	
Held in trust	\$ 473,009

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

Verde Valley Fire District
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2016

	Clarkdale Fire District Fiduciary Fund <hr/>
ADDITIONS	
Contributions:	
District	<u>\$ 473,009</u>
Total additions	<u>473,009</u>
DEDUCTIONS	
Administration costs	<u>-</u>
Total deductions	<u>-</u>
Change in net position	473,009
Net position - beginning	<u>-</u>
Net position - ending	<u><u>\$ 473,009</u></u>

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

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Verde Valley Fire District (the District) conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the District's more significant accounting policies follows.

For the year ended June 30, 2016, the District implemented the initial presentation of government-wide financial statements (see part B of Note 1 and Note 12).

For the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, GASB Statement No. 68 requires disclosure of information related to pension benefits.

For the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local government entities in conformity with generally accepted accounting principles.

A. Reporting entity

The District, established pursuant to Arizona Revised Statute Title 48, is a special purpose local government that is governed by an elected governing body, a legally separate entity, and is fiscally independent of other state and local governments. As required under generally accepted accounting principles, these financial statements present the activities of the District (a primary government) and its component units. Component units are legally separate entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the District's operations. The District has no discretely presented or blended component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report the information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from the business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment (e.g. special assessments). Taxes and other revenues not included among program revenues are reported instead as general revenues.

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Special assessments are recognized as revenues in the year for which the related capital projects are substantially complete. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

User fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and thus, have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for funds received and expended for the construction of buildings and improvements as well as for the acquisition of apparatus and major equipment for use by the District.

The *Clarkdale Fire District Fiduciary Fund* is a fiduciary fund which is used to account for the cash from Clarkdale Fire District held by Yavapai County in the name of Verde Valley Fire District; such monies are to be held in trust until the consolidation of Clarkdale Fire District and Verde Valley Fire District is completed, subsequent to June 30, 2016.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Cash and investments

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

Arizona Revised Statutes authorize special districts to invest public monies in the Yavapai County and Arizona State Treasurer's local government investment pools, interest bearing savings accounts, certificates of deposit which have a maturity date of not more than one year, and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral.

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

E. Receivables and payables

All program service receivables are shown net of an allowances for uncollectible amounts.

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

F. Capital assets

The District's capital assets, which include land, buildings and related improvements, furniture, vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost greater than the established threshold and an estimated useful life in excess of three years.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Type of asset</u>	<u>Threshold</u>	<u>Years</u>
Buildings & Improvements	\$5,000	7 - 40
Machinery & equipment; furniture & fixtures	\$5,000	5 - 7
Vehicles	\$5,000	7

G. 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.

H. Pensions

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

I. Compensated absences

Compensated absences (for employee sick and vacation time) are accrued and reported as long-term liabilities in the government-wide financial statements. Governmental funds recognize and report these expenditures when they are actually paid to employees.

J. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets and balance sheet.

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

K. Fund equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes determined by formal action of the District's decision making authority (the governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance - amounts that are constrained by the District's *intent* to be used for specific purposes. The intent can be established at either the highest level of decision making, or an official designated for that purpose.

Unassigned fund balance - the residual classification for the District's General Fund that includes amounts not contained in other classifications.

L. Deferred revenue

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period; the period of availability for the District is 60 days. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

M. Intergovernmental grants and aid

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

N. Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual amounts may differ from such estimates.

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

O. Budgetary accounting

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

All annual appropriations lapse at fiscal year end. The District is subject to expenditure limitations under Arizona Revised Statutes. This law does not permit the District to incur unsecured debt in excess of property taxes levied and to be collected plus available and unencumbered cash. The limitation is applied to the total of the combined funds.

NOTE 2 – CASH AND INVESTMENTS

Arizona Revised Statutes require all monies levied by the District to be collected and held by the Yavapai County Treasurer's Office and pooled with other local governments for investment. Monies received by the District as part of services, contributions or from the issuance of long-term debt are also deposited with the Yavapai County Treasurer or a local financial institution.

Credit Risk: State law generally limits local government deposits and investments to the Yavapai County Treasurer's Local Government Investment Pool (LGIP); interest bearing savings accounts, certificates of deposit; United States Treasury Bills, notes or bonds which have a maturity date of not more than one year and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral.

Custodial Credit Risk: Deposits. The District's investment in the Yavapai County Treasurer's LGIP represents a proportionate interest in the pool's portfolio; however, the District's allocation is not identified with any specific investments and is not subject to custodial credit risk.

Cash and Cash Equivalents: As of June 30, 2016, most of the District's cash and cash equivalents were deposited in the Yavapai County Treasurer's LGIP; the carrying amount of cash in their governmental funds with the County Treasurer was \$4,558,852. Additional cash and cash equivalents were deposited with local financial institutions; the carrying amount of the District's cash with local financial institution was \$150,653. The first \$250,000 is insured by the Federal Depository Insurance Corporation (FDIC) at each individual institution.

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2016 for the District's general fund, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
Property taxes	\$ 153,719
Ambulance billing	377,484
Other receivables and charges for services	116,324
Gross receivables	647,527
Less: allowance for uncollectibles	(218,941)
Net total receivables	\$ 428,586

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – DEFERRED INFLOWS OF RESOURCES

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2016, *deferred inflows of resources* consisted of the following:

	General Fund
Deferred inflows of resources (not received within 60 days)	\$ 137,537
Unearned revenue	-
	\$ 137,537

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Land, not depreciated	\$ 229,666	\$ -	\$ (15,467)	\$ 214,199
Buildings and improvements	2,535,334	64,949	-	2,600,283
Construction in progress	-	9,819	-	9,819
Vehicles and equipment	2,982,347	324,754	(156,130)	3,150,971
Total capital assets	5,747,347	399,522	(171,597)	5,975,272
Less accumulated depreciation for:				
Buildings and improvements	(809,261)	(54,074)	-	(863,335)
Vehicles and equipment	(2,112,440)	(187,115)	156,130	(2,143,425)
Total accumulated depreciation	(2,921,701)	(241,189)	156,130	(3,006,760)
Total capital assets, net	\$ 2,825,646	\$ 158,333	\$ (15,467)	\$ 2,968,512

Depreciation expense for the period was \$241,189; all depreciation was expensed to the public safety function.

NOTE 6 – LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Compensated absences	\$ 240,017	\$ -	\$ (9,547)	\$ 230,470
ASRS pension obligation	161,880	426,049	(57,896)	530,033
PSPRS Pension obligation	1,673,713	591,724	(312,798)	1,952,639
Total long-term liabilities	\$ 2,075,610	\$ 1,017,773	\$ (380,241)	\$ 2,713,142

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Compensated absences

All full-time employees of the District are allotted personal time off (PTO) leave on their anniversary date based on the amount stated in policy determined by their years of service. PTO leave can be accumulated and carried over to subsequent years, subject to a maximum number of hours as established by District policy. Upon separation from the District, accrued PTO is paid out.

NOTE 7 – DESIGNATIONS OF FUND BALANCE

The District has adopted a policy whereby it will transfer general taxes received, as appropriated and unencumbered at year end, to the capital projects fund to provide for future planned acquisitions of apparatus, vehicles, buildings and improvements. Such transfers are not restricted by statute and can be transferred back to the general fund if needed.

NOTE 8 – INTERFUND TRANSFERS

	General Fund	Capital Projects Reserve Fund	Total
Transfers out	\$ -	\$ (592,346)	\$ (592,346)
Transfers in	592,346	-	592,346
	\$ 592,346	\$ (592,346)	\$ -

NOTE 9 - NET REVENUE

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

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, provision for bad debts and uncompensated services for the year ended June 30, 2016 are as follows:

	Governmental Activities
Gross program service revenues/charges	\$ 2,121,387
Contractual adjustments and uncompensated services	(1,081,850)
Net program service revenues (all)	\$ 1,039,537

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

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. Inter-governmental agreements and indemnifications

The District is party to a variety of inter-governmental 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.

B. Risk management

The District is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the District's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. Claims have not exceed the limits of insurance in any of the last three years. No provision has been made in the financial statements for possible losses of this nature.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS

The District contributes to multiple plans as described below. Benefits for non-public safety personnel and for public safety personnel are established by state statutes which regulate retirement, death, long-term disability, and survivor insurance premium benefits.

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

	<u>ASRS</u>	<u>PSPRS</u>	<u>Total</u>
Net pension liability	\$ 530,033	\$ 1,952,639	\$ 2,482,672
Deferred outflows of resources	422,173	808,487	1,230,660
Deferred inflows of resources	57,896	312,798	370,694
Pension expense	140,824	247,293	388,117

A. Arizona State Retirement System (ASRS)

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

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

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

*With actuarially reduced benefits

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

Contributions: In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and health insurance premium benefit and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and health insurance premium benefit and 0.12 percent for long-term disability) of the members' annual covered payroll.

The District's contributions to ASRS for the years ended June 30, 2016, 2015 and 2014 were \$143,755, \$36,515 and, \$10,947 respectively, which were equal to the required contributions for the years then ended. Of the \$143,755 paid for the year ended June 30, 2016, \$114,601 represents employer contributions paid on behalf of two employees for a one-time buyback of prior years of service. During fiscal year 2016 100% of all contributions were paid from the General Fund.

Pension Liability: At June 30, 2016 the District reported a liability of \$530,033 for its proportionate share of the ASRS net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015 was 0.003400%.

Pension Expense and Deferred Outflows/Inflows of Resources: For the year ended June 30, 2016 the District recognized pension expense for ASRS of \$140,824. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to ASRS from the following sources:

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,463	\$ 27,774
Net difference between projected and actual investment earnings	-	16,986
Changes in proportion and differences between contributions and proportionate share of contributions	263,955	13,136
District contributions subsequent to measurement date	143,755	-
Total	\$ 422,173	\$ 57,896

The \$422,173 reported as deferred outflows of resources relates to ASRS pensions resulting from the District's contributions subsequent to the measurement recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ 98,626
2018	97,912
2019	11,721
2020	12,263

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3% - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012. The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future and real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	58 %	6.79 %
Fixed income	25 %	3.70 %
Real estate	10 %	4.25 %
Multi-asset	5 %	3.41 %
Commodities	<u>2 %</u>	3.93 %
Total	<u>100 %</u>	

Discount Rate: The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79%. The projection of cash flows used to determine the discount rate assumed that the contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the ASRS Net Pension Liability in the Discount Rate: The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate.

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
The District's proportionate share of the net pension liability	\$ 694,524	\$ 530,033	\$ 417,303

Pension Fiduciary Plan Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System

Plan Description: The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a seven member board, known as the Board of Trustees and the participating local boards govern the PSPRS, according to the provisions of ARS Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The reports are available on the PSPRS website at www.psprs.com.

Contributions from Other Entities: Proceeds from the annual tax collected by the State of Arizona on fire insurance premiums are contributed to PSPRS and reallocated to participants based on actuarial estimates. For the year ended June 30, 2016, the amount credited to the District's plan and included in the pension cost as described below, totaled \$30,785.

Benefits Provided: The *Public Safety Personnel Retirement System* 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.

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Retirement and Disability	Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years.
Benefit Percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5 % per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months, then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with of 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 Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

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

Employees Covered by Benefit Terms: At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

Active employees	32
Retirees & Beneficiaries	5
DROP	3
Inactive/Vested	<u>3</u>
Total	43

Contributions: State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2016 are indicated below. Rates are a percentage of active members' annual covered payroll:

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Contribution Rates

Active members - Pension	11.65 %
District - Pension	17.40%
District - Health insurance premium benefit included in District Pension percentage included above	00.11 %

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

Pension

Contributions made	\$ 272,550
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Health Insurance Premium Benefit

Annual OPEB cost Contributions made	\$ 2,580
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During the year ended June 30, 2016 the District paid all PSPRS pension and OPEB contributions from the General Fund.

Pension Liability/(Asset): At June 30, 2016, the District had a net pension liability/(asset) of \$1,952,639. The net pension liabilities/(asset) were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date.

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Payroll growth	4.0%
Inflation	3.0; No explicit price inflation assumption
Salary increases	4.0% to 8.0% including inflation
Investment rate of return	7.85%, net of investment and administrative expenses
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 rates	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).
Assumed future permanent benefit increases	Members retired on or before July 1, 2011:2% of overall average benefit compounded annually. All members receive the same dollar amount of increase. Members retired on or after August 1, 2011:0.5% of overall average benefit compounded annually. All members receive the same dollar amount of increase.

A detailed description of the actuarial assumptions and methods can be found in the June 30, 2015 Arizona Public Safety Personnel Retirement System annual actuarial valuation report.

The long-term expected rate of return on PSPRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. For each major asset class that is included in the pension plan's target allocation as of June 30, 2015, these best estimates are summarized in the following table:

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Short term investments	2 %	0.75%
Absolute return	5 %	4.11%
Risk parity	4 %	5.13%
Fixed income	7 %	2.92%
Real assets	8 %	4.77%
GTAA	10 %	4.38%
Private equity	11 %	9.50%
Real estate	11 %	6.50%
Credit opportunities	13 %	7.08%
Non U.S. equity	14 %	8.25%
U.S. equity	<u>16 %</u>	6.23%
Total	<u>100 %</u>	

Pension Discount Rate: The District's PSPRS plan utilized a discount rate of 7.85%

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

Changes in the Net Pension Liability:

	Increase Total Pension Liability (a)	(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 7,895,381	\$ 6,221,668	\$ 1,673,713
Changes for the current year:			
Service cost	354,623	-	354,623
Interest on the total pension liability	625,667	-	625,667
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the pension liability	33,659	-	33,659
Changes of assumptions or other inputs	-	-	-
Contributions - Employer	-	263,023	(263,023)
Contributions - Employee	-	250,363	(250,363)
Net investment income	-	232,682	(232,682)
Benefit payments, including refunds of employee contributions	(204,825)	(204,825)	-
Other changes	-	(11,045)	11,045
Net Changes	<u>809,124</u>	<u>530,198</u>	<u>278,926</u>
Balances at June 30, 2016	<u>\$ 8,704,505</u>	<u>\$ 6,751,866</u>	<u>\$ 1,952,639</u>

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

	1% Decrease (6.85%)	Current Discount Rate (7.85 %)	1% Increase (8.85%)
The District's net pension liability	\$ 3,030,821	\$ 1,952,639	\$ 1,062,636

Pension Plan Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense and Deferred Outflows/Inflows of Resources: For the year ended June 30, 2016 the District recognized pension expense for PSPRS of \$247,293. At June 30, 2016 the district reported deferred outflows of resources and deferred inflows of resources related to PSPRS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 29,764	\$ 131,575
Changes of assumptions or other inputs	292,256	-
Net difference between projected and actual earnings on pension plan investments	213,917	181,223
District contributions subsequent to measurement date	<u>272,550</u>	<u>-</u>
Total	<u>\$ 808,487</u>	<u>\$ 312,798</u>

The \$808,487 reported as deferred outflows of resources relates to PSPRS pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,		
2017	\$	19,890
2018		19,890
2019		19,891
2020		80,299
2021		26,819
Thereafter		56,350

Agent Plan OPEB Actuarial Assumptions: The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions:

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

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for overfunded
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0% - 8.0%
Payroll growth	4.0%
Permanent Benefit Increases	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

Agent Plan OPEB Trend Information: The table below present the annual OPEB costs information for health insurance premium benefit for the current and two preceding years:

Year Ended June 30,	Annual OPEB Cost	Percent of Annual Cost Contributed	Net OPEB Obligation
2016	\$ 3,227	100 %	\$ -
2015	2,127	100 %	-
2014	2,285	100 %	-

Agent Plan OPEB Funded Status: The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, are as follows:

Valuation date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (AL)	Funded Ratio	Annual Covered Payroll	AL as % of Covered Payroll
2016	\$ 324,779	\$ 250,290	\$ (74,489)	130 %	\$ 2,131,136	(3) %
2015	271,615	208,777	\$ (62,838)	130 %	1,638,964	(4) %
2014	246,408	193,707	(52,701)	127 %	1,920,310	(3) %

Verde Valley Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - CHANGE IN NET POSITION

The District's net position, as previously reported at June 30, 2015 has been adjusted as follows for the initial presentation of government-wide financial statements:

Total governmental fund balances previously reported at June 30, 2015	\$ 4,493,408
Beginning balances for government-wide financial statements as of July 1, 2015:	
Capital Assets - net of prior accumulated depreciation	2,825,646
Net pension liability for ASRS	(161,880)
Net pension liability for PSPRS	(1,673,713)
Deferred outflows of resources - pension related	628,226
Deferred inflows of resources - pension related	(443,527)
Deferred revenue	152,124
Compensated absences	<u>(240,017)</u>
Total prior period adjustments	<u>1,086,859</u>
Total beginning net position as of July 1, 2015	<u>\$ 5,580,267</u>

NOTE 13 – SUBSEQUENT EVENT

Effective July 1, 2016, Clarkdale Fire District and Verde Valley Fire District completed a consolidation, wherein Clarkdale Fire District ceased to exist and its operations were absorbed into, and provided by Verde Valley Fire District. All assets, liabilities and written contracts of Clarkdale Fire District were transferred to Verde Valley Fire District. Employees of Clarkdale Fire District became employees of Verde Valley Fire District. Both Districts completed all requirements for the consolidation of fire districts under Arizona Revised Statutes Title 48 § 822. Except for the cash held by Trustee in the fiduciary fund, there is no affect from the consolidation reflected in these financial statements.



ACCOUNTING PROFESSIONALS, LLC
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT ACCOUNTANTS' REPORT
ON COMPLIANCE WITH SPECIFIED REQUIREMENTS
APPLICABLE TO ARIZONA FIRE DISTRICTS AS REQUIRED
UNDER ARIZONA REVISED STATUTE TITLE 48 § 805.02(G)**

To the Governing Board of the
Verde Valley Fire District
Cottonwood, Arizona

Arizona Revised Statute, Title 48 § 805.02 relates to the budgetary and financial requirements for fire districts. This statute concerns the specific compliance requirements regarding budget adoption, issuance of warrants, expenditure limitation, line of credit, and debt and liability limits. The governing board and management are responsible for the District's compliance with such requirements.

Our responsibility, under A.R.S. § 805.02(G), is to attest to the District's compliance based on our examination. Accordingly, we have examined management's assertions included in its representation letter dated December 20, 2016, that Verde Valley Fire District (the District) complied with those requirements. The following is our opinion, based on the relevant attestation standards, as to the Districts' compliance.

Opinion, Compliance and Other Matters

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States of America, attestation standards established by the American Institute of Certified Public Accountants, and Arizona Revised Statute, Title 48 § 805.02(G)(1)-(3). Our examination of evidence relating to the compliance of the District with the statutory provisions, cited below, was based on the aforementioned standards and was conducted on a test basis. We have performed such actions, using such procedures as we considered necessary under the circumstances so that our examination provides a reasonable basis for our opinion. We hereby attest as follows:

1. That, based on the information obtained during our engagement, and to extent that we have information relating to such matters, we are not aware of anything to indicate that the District has not incurred any debts or liability in excess of taxes levied and to be collected and that the monies were actually available and unencumbered at the time in the district general fund except for those liabilities as prescribed in A.R.S. § 48-805(B)(2), and A.R.S. §§ 48-806 & 48-807.
2. That, based on the information obtained during our engagement, and to extent that we have information relating to such matters, we are not aware of anything to indicate that the District has failed to comply with A.R.S. § 48-805.02(F).
3. And that, based on the information obtained during our engagement, and to extent that we have information relating to such matters, that there is no information to contradict the certification made by the Chairman and Clerk, under A.R.S. § 48-805.02(D)(1).

Our opinion is not based on a thorough or exhaustive investigation, and to the extent that we may have formed an opinion on these matters, our opinion does not constitute a legal determination of the District's compliance with the specified requirements.

Our opinion is based only on the evidence that was obtained during the course of our audit engagement; and, in our opinion, Verde Valley Fire District has complied, in all material aspects, with the aforementioned requirements for the year ended June 30, 2016.

Purpose of this Report

This report is intended solely for the information of and use of management, the Governing Board, Yavapai County and the State of Arizona, and is not intended to be and should not be used by anyone other than these specified parties.

Accounting Professionals, LLC

Phoenix, Arizona
December 20, 2016

Verde Valley Fire District

**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***

June 30, 2016

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ACCOUNTING PROFESSIONALS, LLC
CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Governing Board of the
Verde Valley Fire District
Cottonwood, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities and each major fund of the Verde Valley Fire District (the District) as of, and for the year ended, June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Verde Valley Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization'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 to those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

This report is intended 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 of the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting Professionals, LLC

Phoenix, Arizona
December 20, 2016

Verde Valley Fire District

**INDEPENDENT AUDITORS' COMMUNICATION TO
THOSE CHARGED WITH GOVERNANCE**

June 30, 2016

**Verde Valley Fire District
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ACCOUNTING PROFESSIONALS, LLC
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' COMMUNICATION TO
THOSE CHARGED WITH GOVERNANCE**

To the Governing Board of
Verde Valley Fire District
Cottonwood, Arizona

We have audited the basic financial statements of Verde Valley Fire District (the District) as of and for the year ended June 30, 2016, and have issued our report thereon dated December 20, 2016. Professional standards require that we advise you of the following matters relating to our audit.

OUR RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS

As communicated in our engagement letter dated July 18, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management, with our assistance, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and *Government Auditing Standards*. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Furthermore, in accordance with *Government Auditing Standards*, we have issued our report dated December 20, 2016 on the District's internal control over financial reporting and on compliance and other matters.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, as we are not aware of any other documents containing the District's audited financial statements, we have not performed any additional procedures in accordance with such standards.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our engagement letter.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm, as appropriate, our firm, and any related firms have complied with all relevant ethical requirements regarding independence. As part of or nonattest services related to preparing the financial statements, management was responsible for validating the completeness and accuracy of the financial statements, and all entries to present the financial statements in conformity with generally accepted accounting principles. Management performed their responsibility accordingly and approved the financial statements on December 20, 2016.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. The District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, GASB Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. See *Significant Accounting Estimates* below. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
- Management implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which among other accounting and reporting criteria, requires the District to recognize its share of the Net Pension Liability (and related inflow/outflow accounts), as of the beginning of the District's The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability for the plan was determined by an actuarial valuation as of that date. We evaluated the key factors and assumptions used to develop these pension estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to:

- Capital Assets – The District's investment in capital assets is not just material to the financial statements, but is key to demonstrating the District's commitment to provide quality services to the community;
- Pension Liability (and related inflow/outflow accounts), represent a long-term commitment. Such long-term commitments have a ongoing impact to the District's budget, planned cash flows and ability to incur debt.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule (AJE 2016) of journal entries summarize misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by management; schedule RJE 2016 is for reclassifying journal entries for financial presentation purposes, and schedule GW 2016 is for government-wide journal entries (prepared by us, and approved by management, as part of converting the financial statements from the modified accrual basis to the full accrual government-wide presentation).

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which were included in the letter from management dated December 20, 2016.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing, accounting and financial reporting matters. Based on management's representations, and consistent with our understanding of the District's activities, there were consultations with Angela Bertram, CPA regarding auditing, accounting and financial reporting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the District, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Restriction on Use

This report is intended solely for the information and use of the Governing Board, Management, Yavapai County and the State of Arizona and is not intended to be and should not be used by anyone other than these specified parties.

Accounting Professionals, LLC

Phoenix, Arizona
December 20, 2016

Verde Valley Fire District

Year End: June 30, 2016

Adjusting Journal Entries

Date: 7/1/2015 To 6/30/2016

Prepared	1st Review	2nd Review	Non- Tech

AJE 2016

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
CJE 001	6/30/2016	Deferred Taxes	2501 GF	3020			91,946.00		
CJE 001	6/30/2016	4010 Real Est/Personal Prprty Taxes	4010 GF	3020		91,946.00			
To adjust deferred tax revenue									
CJE 002	6/30/2016	Deferred Ambulance Revenue	2511 GF	3050		106,607.00			
CJE 002	6/30/2016	4110 Ambulance Revenue	4110 GF	3050			106,607.00		
To adjust deferred ambo revenue									
						198,553.00	198,553.00		
Net Income (Loss)			456,233.00						

Verde Valley Fire District: Government Type Activities

Year End: June 30, 2016

Reclassifying Journal Entries

Date: 7/1/2015 To 6/30/2016

8822

Prepared	1st Review	2nd Review	Non- Tech
KG 12/7/2016			

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
RJE 001	6/30/2016	Cash - employee liability account	1040 GF	1203		250,109.00			
RJE 001	6/30/2016	4030 Interest - General Fund	4030 GF	1203			1,006.00		
RJE 001	6/30/2016	Transfer to Emp Benefit Liability Fund	7920 GF	1203			249,103.00		
		To reclassify Employee Liability Fund as part of GF.							
RJE 002	6/30/2016	3100 Unreserved For General Fund	3100 GF	4711		6,186.00			
RJE 002	6/30/2016	4060 Other Revenue - General Fund	4060 GF	4711			6,186.00		
		To reclass equity adjustments to tie to PY audit.							
RJE 003	6/30/2016	5580 Other Admin Expenditures	5580 GF				2,955.00		
RJE 003	6/30/2016	5590 Office - Fixtures/Maintenance	5590 GF				17,239.00		
RJE 003	6/30/2016	5940 Communications Parts/Equipment	5940 GF				7,112.00		
RJE 003	6/30/2016	7270 Office Equipment	7270 GF			27,306.00			
		To reclassify Capital Outlay to tie to GW FS							
						283,601.00	283,601.00		
			Net Income (Loss)	456,233.00					

Verde Valley Fire District

Year End: June 30, 2016

GW Adjusting journal entries

Date: 7/1/2015 To 6/30/2016

Prepared	1st Review	2nd Review	Non- Tech
KG 12/29/2016			

GW 2016

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
GW 001	6/30/2016	Buildings and improvements	GW-150 GW			64,949.00			
GW 001	6/30/2016	Construction in progress	GW-151 GW			9,819.00			
GW 001	6/30/2016	Vehicles and equipment	GW-154 GW			324,754.00			
GW 001	6/30/2016	Capital outlay	GW-801 GW				399,522.00		
		To record capital assets purchased							
GW 002	6/30/2016	Land	GW-160 GW				15,467.00		
GW 002	6/30/2016	Emergency services	GW-530 GW			15,467.00			
		To record land adjustment							
GW 003	6/30/2016	Vehicles and equipment	GW-154 GW				8,130.00		
GW 003	6/30/2016	Accum Dep - Vehicles and equipment	GW-169 GW			8,130.00			
		To record disposal of 2008 Kyocera Copier							
GW 004	6/30/2016	Vehicles and equipment	GW-154 GW				148,000.00		
GW 004	6/30/2016	Accum Dep - Vehicles and equipment	GW-169 GW			148,000.00			
		To record sale (disposal) of 1993 Pierce Pumper							
GW 005	6/30/2016	Accum Dep - Buildings	GW-166 GW				54,074.00		
GW 005	6/30/2016	Accum Dep - Vehicles and equipment	GW-169 GW				187,115.00		
GW 005	6/30/2016	Depreciation	GW-650 GW			54,074.00			
GW 005	6/30/2016	Depreciation	GW-650 GW			187,115.00			
		To record depreciation for the year.							
GW 006	6/30/2016	Deferred revenue	GW-246 GW			30,704.00			
GW 006	6/30/2016	Ad valorem taxes	GW-402 GW				30,704.00		
		To adjust deferred revenue for property taxes.							
GW 007	6/30/2016	Deferred revenue	GW-246 GW				45,291.00		
GW 007	6/30/2016	Ambulance services	GW-406 GW			45,291.00			
		To adjust deferred revenue for ambulance							
GW 008	6/30/2016	Compensated absences - more than 1 year	GW-202 GW			9,547.00			
GW 008	6/30/2016	Vacation/sick leave	GW-505 GW				9,547.00		
		To adjust compensated absences - more than one year.							
GW 009	6/30/2016	Deferred outflows of resources related to pensi	GW-180 GW			186,129.00			
GW 009	6/30/2016	Deferred outflows of resources related to pensi	GW-180 GW			416,305.00			
GW 009	6/30/2016	Deferred inflows of resources related to pensio	GW-250 GW			72,833.00			
GW 009	6/30/2016	Public Safety Retirement Net Pension Obligator	GW-252 GW				278,926.00		
GW 009	6/30/2016	Arizona State Retirement Net Pension Obligator	GW-254 GW				368,153.00		
GW 009	6/30/2016	Emergency services	GW-530 GW				28,188.00		
		To true up pension liabilities.							
						1,573,117.00	1,573,117.00		
Net Income (Loss)			456,233.00						