

RIO RICO FIRE DISTRICT
YEAR ENDED JUNE 30, 2019

RIO RICO FIRE DISTRICT

YEAR ENDED JUNE 30, 2019

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Rio Rico Fire District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Rio Rico Fire District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension plan and other post employment 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 November 26, 2019, on our consideration of Rio Rico Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rio Rico Fire District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rio Rico Fire District's internal control over financial reporting and compliance.

Beach Fleishman PC

Tucson, Arizona
November 26, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED JUNE 30, 2019

INTRODUCTION

As management of the Rio Rico Fire District (the District), we offer readers of these financial statements, this narrative overview, and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. The District understands the importance of transparency in everything we do, and so this discussion and analysis is intended to be an easily readable breakdown of the District's financial activities based on currently known facts, decisions and conditions. Readers are encouraged to consider the information presented here in conjunction with the financial statements following this narrative.

FINANCIAL HIGHLIGHTS FOR THE YEAR

- In the government-wide financial statements, the total assets and deferred outflows of the Rio Rico Fire District were \$9,405,846 at the close of the fiscal year. The total assets and deferred outflows exceeded liabilities and deferred inflows by \$2,442,491. Of this amount \$2,089,217 represents the balance of the unrestricted net position.
- Although the District's net position decreased by \$42,344, the Rio Rico Fire District managed to maintain its expenditures under the budgeted amount.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,826,172, an increase of \$71 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balances for the General Fund was \$1,513,525. The change in fund balance for the general fund was \$(256,057) for the fiscal 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 regards to interfund activity, payables and receivables.

Statement of Net Position - The *Statement of Net Position (page 14)* 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 15)* 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 maintains three individual government funds: the General Fund, the Capital Projects Fund, and the Debt Service Fund. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds, all of which are considered to be major funds of the District; the concept and determination of major funds has been established by the Governmental Accounting Standards Board (GASB). There are no non-major governmental funds.

The District adopts an annual appropriated budget to levy taxes and provide for its General Fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget and is presented on page 46.

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 Rio Rico Fire District, assets and deferred outflows exceeded liabilities and deferred inflows by \$2,442,491 at the close of the 2019 fiscal year.

By far, the largest portion of net position (\$2,089,217 or 86%), reflects the District's unrestricted net assets, that may be used to meet ongoing obligations of the District to citizens and creditors. The unrestricted assets assists the District in funding the first four months of the fiscal year, until tax revenue spikes at the end of October. Utilizing the District unrestricted assets reduces the District's need for a line of credit available via our county's financial institution and therefore, reduced the interest costs to the District and its residents.

The net investment in capital assets (\$316,621 or 13%) reflects the District's investment in capital assets (land, buildings and improvements, fire apparatus, and vehicles), less any related debt still outstanding that was issued to acquire those items. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be liquidated to service these liabilities.

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

The following table reflects the condensed Statement of Net Position:

Rio Rico Fire District
Condensed Statement of Net Position
As of June 30, 2019 and 2018

| | Governmental Activities | | Increase (decrease) |
|----------------------------------|-------------------------|---------------------|------------------------|
| | 2019 | 2018 | |
| Cash and investments | \$ 2,837,733 | \$ 2,686,902 | \$ 150,831 |
| Other assets | 716,122 | 694,128 | 21,994 |
| Capital assets | <u>4,569,255</u> | <u>4,935,890</u> | <u>(366,635)</u> |
| Total assets | <u>8,123,110</u> | <u>8,316,920</u> | <u>(193,810)</u> |
| Total deferred outflows | <u>1,282,736</u> | <u>1,072,980</u> | <u>209,756</u> |
| Other liabilities | 313,704 | 429,416 | (115,712) |
| Long-term liabilities | <u>5,925,032</u> | <u>6,014,433</u> | <u>(89,401)</u> |
| Total liabilities | <u>6,238,736</u> | <u>6,443,849</u> | <u>(205,113)</u> |
| Total deferred inflows | <u>524,619</u> | <u>461,216</u> | <u>63,403</u> |
| Net investment in capital assets | 316,621 | 473,666 | (157,045) |
| Restricted | 36,653 | 41,216 | (4,563) |
| Unrestricted | <u>2,089,217</u> | <u>1,969,953</u> | <u>119,264</u> |
| Total net position | <u>\$ 2,442,491</u> | <u>\$ 2,484,835</u> | <u>\$ (42,344)</u> |

Statement of Activities – The net position of the District from governmental activities decreased 2%, or \$42,344. Key elements of this increase are as follows:

- ◆ Fire District Assistance Tax (FDAT) are part of the District’s property tax revenues. FDAT revenue increased slightly.
- ◆ Charges for Service revenue represented a slight increase of \$185,864, which includes both ambulance revenue and wildland fire revenue.
- ◆ Grant revenue decreased in the current fiscal year. Grant revenue continues to assist the District in maintaining staffing, equipment and services.
- ◆ Expenses for the District decreased \$182,950 from the prior year, due mainly to the actuarially determined pension expense. Pension expense for the year ending June 30, 2019 was \$267,393, compared with \$490,792 in the year ending June 30, 2018.
- ◆ To be fiscally responsible, some of the capital and/or discretionary expenditures considered necessary, but not urgent were postponed until the District could confirm a positive net position in operational funds. The expenses were postponed until the new fiscal year, but management will recommend utilizing unrestricted funds.

- ◆ The District continues to focus on operational staffing needs focused on historical call data. Part-time suppression employees are scheduled based on historical call volume. Part-time training instructors continue to provide the District the flexibility to train employees on shift and therefore reducing overtime costs.

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

Rio Rico Fire District
Condensed Statement of Activities
For the Years Ended June 30, 2019 and 2018

| | Governmental Activities | | Increase (decrease) |
|------------------------------------|-------------------------|---------------------|------------------------|
| | 2019 | 2018 | |
| Program revenues: | | | |
| Charges for services | \$ 2,289,559 | \$ 2,103,695 | \$ 185,864 |
| Operating grants and contributions | 47,069 | 428,811 | (381,742) |
| General revenues: | | | |
| Property taxes | 2,361,772 | 2,274,270 | 87,502 |
| Fire District Assistance Tax | 111,893 | 108,616 | 3,277 |
| Investment earnings | 19,040 | 45,419 | (26,379) |
| Miscellaneous | <u>26,373</u> | <u>15,987</u> | <u>10,386</u> |
| Total revenues | <u>4,855,706</u> | <u>4,976,798</u> | <u>(121,092)</u> |
| Expenses: | | | |
| Public safety | 4,720,345 | 4,891,245 | (170,900) |
| Interest on long-term debt | <u>177,705</u> | <u>189,755</u> | <u>(12,050)</u> |
| Total expenses | <u>4,898,050</u> | <u>5,081,000</u> | <u>(182,950)</u> |
| Change in net position | (42,344) | (104,202) | 61,858 |
| Beginning net position | <u>2,484,835</u> | <u>2,589,037</u> | <u>(104,202)</u> |
| Ending net position | <u>\$ 2,442,491</u> | <u>\$ 2,484,835</u> | <u>\$ (42,344)</u> |

DISTRICT FUNDS FINANCIAL ANALYSIS

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

Governmental Funds – The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balances may serve as a useful measure of the District's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's Governing Board.

At June 30, 2019, the governmental funds of the District reported a combined fund balance of \$2,826,172, an increase from last year of \$71. The increase includes various alternate sources of revenue established by management, higher fees for service collection rates and reduction of overall expenditures to offset reduction of tax revenue and wildland reimbursements. The District also continued to receive funding for health grants to promote its Community Healthcare Integrated Paramedicine Program (CHIPP). Further, collections are projected to improve on the ambulance services as well as revenue from the state Medicaid program, due to the requested increase in base and mileage rates.

General Fund – The General fund accounts for all of the financial resources of the District, which are not accounted for in any other fund. As of June 30, 2019, total fund balance was \$1,513,525, which was all unassigned. As a measure of the General fund’s liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 36% of total general fund expenditures.

Capital Projects Fund – The Capital Projects fund accounts for the accumulation of resources for future construction costs for new and existing facilities and for the purchase of large fire apparatus. As of June 30, 2019, the ending fund balance in the Capital Projects fund was \$1,273,690.

Debt Service Fund – The debt service fund accounts for the property tax levy dedicated to the payment of principal and interest on general obligation bonds. As of June 30, 2019, the ending fund balance in the Debt Service fund was \$38,957.

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

| Rio Rico Fire District Governmental Funds – Fund Balances As of June 30, 2019 and 2018 | | | | |
|--|---------------------|----------------|---------------------|----------------|
| Major funds | June 30, 2019 | | June 30, 2018 | |
| | Amount | % | Amount | % |
| General | \$ 1,513,525 | 53.6 % | \$ 1,769,582 | 62.6 % |
| Capital | 1,273,690 | 45.1 % | 1,013,166 | 35.9 % |
| Debt services | 38,957 | 1.4 % | 43,353 | 1.5 % |
| Total fund balance | <u>\$ 2,826,172</u> | <u>100.0 %</u> | <u>\$ 2,826,101</u> | <u>100.0 %</u> |

BUDGETARY HIGHLIGHTS

There were some variances of note for the fiscal year.

- Revenues were under budget by \$464,686, primarily due lower than expected collections for ambulance response and medical billing.

- As in prior fiscal years, the District strives to continue fiscally responsible practices by projecting discretionary expenditures once funding is confirmed and available in the fiscal year. In addition, our District continues to promote cost-reduction practices including review of operational costs and employee related expenditures, such as workers compensation coverage. Due to proactive management of expenditures financials reflect a decrease of \$607,595 from budget expenditures.

Rio Rico Fire District
Condensed Budget to Actual - General Fund
As of June 30, 2019

| | <u>Budget</u> | <u>Actual</u> | <u>Variance with budget</u> |
|-----------------------------------|------------------|---------------------|---------------------------------|
| Total revenues | \$ 4,838,531 | \$ 4,373,845 | \$ (464,686) |
| Total expenditures | <u>4,838,531</u> | <u>4,230,936</u> | <u>(607,595)</u> |
| Revenue over (under) expenditures | <u>-</u> | <u>142,909</u> | <u>142,909</u> |
| Total other financing sources | <u>-</u> | <u>(398,966)</u> | <u>(398,966)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ (256,057)</u> | <u>\$ (256,057)</u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental type activities as of June 30, 2019 totaled \$4,569,255 (net of accumulated depreciation). These assets include land, buildings and improvements, fire apparatus and vehicles, and general fire suppression and emergency medical equipment, as well as information technology and communications equipment.

During the year, the District purchased capital assets of \$119,438, which included land located adjacent to Station #1 to build new Station #1, Cargo Trailer to transport UTV required for Wildland, and Thermal Image Camera V-07. Our district strives to improve and enhance safety standards for the firefighters and the Community by replacing old and aging equipment.

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

Rio Rico Fire District
 Capital Assets (net of depreciation)
 As of June 30, 2019 and 2018

| | Governmental Activities | | Increase (decrease) |
|--------------------------|-------------------------|---------------------|------------------------|
| | 2019 | 2018 | |
| Land and buildings | \$ 5,065,690 | \$ 4,961,740 | \$ 103,950 |
| Fire equipment | 1,643,273 | 1,661,349 | (18,076) |
| Vehicles | 3,915,748 | 3,909,284 | 6,464 |
| Accumulated depreciation | <u>(6,055,456)</u> | <u>(5,596,483)</u> | <u>(458,973)</u> |
| | <u>\$ 4,569,255</u> | <u>\$ 4,935,890</u> | <u>\$ (366,635)</u> |

Long Term Liabilities

At the end of the current fiscal year, the District had \$6 million in long-term liabilities outstanding, a net decrease of \$84,401, or 1.4% from the prior year. The decrease is attributed to bond liability payment and ASRS higher return on investment.

The District continues to retire and manage debt to fund various capital projects which support program services. As of June 30, 2019, the District had total long-term debt (bonds) outstanding of \$3,990,000. This debt currently requires annual debt service payments that consist of principal and interest of approximately \$382,000. All debt is backed by the full faith and credit of the District.

In accordance with GASB Statements No. 68 and 75, the District is required to include the net pension/OPEB liability (asset) on the financial statements. The net pension/OPEB liability is measured as the total pension/OPEB liability, less the plan's fiduciary net position. Relating to the District's participation in the Public Safety Personnel Retirement System (PSPRS), a net pension liability is recorded at June 30, 2019 of \$769,373 and a net OPEB asset of \$41,188. Relating to the District's participation in the Arizona State Retirement System (ASRS), a net pension liability is recorded at June 30, 2019 of \$489,521 and a net OPEB asset for health insurance premium OPEB plan of \$1,286 and a net OPEB liability for the long-term disability OPEB plan of \$1,839.

The following table shows the District’s Long-term Liabilities:

Rio Rico Fire District
Long-term Liabilities
As of June 30, 2019 and 2018

| | Governmental Activities | | Increase (decrease) |
|--|-------------------------|---------------------|------------------------|
| | 2019 | 2018 | |
| Compensated absences | \$ 200,695 | \$ 156,382 | \$ 44,313 |
| General obligation bonds - Series 2011 B | 155,000 | 230,000 | (75,000) |
| General obligation bonds - Series 2016 | 3,835,000 | 3,955,000 | (120,000) |
| Unamortized premium | 673,604 | 711,026 | (37,422) |
| Net pension/OPEB liability | <u>1,260,733</u> | <u>1,157,025</u> | <u>103,708</u> |
| Total noncurrent liabilities | <u>\$ 6,125,032</u> | <u>\$ 6,209,433</u> | <u>\$ (84,401)</u> |

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

ECONOMIC FACTORS AND FY 2020 BUDGET/TAX RATE

Property values reflected in this report included a 3.2% increase in assessed property valuation. An increase of 7.2% is projected for the upcoming fiscal year. Although the increase is small, we consider this a positive outlook after years of decreases and over 30% loss in assessed property valuation. Management will remain consistent with a positive, but conservative management of District funding and strives to strengthen its Capital Fund based on capital investments determined necessary in the short to medium term. Proactive capital asset investments are necessary to reduce operational efficiencies and cost reduction. Due to the slow and delayed recovery of property valuation, management will need to proactively plan for capital investments since bond issuance capacity is unlikely in the short term.

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

Based on Santa Cruz County (SCC) preliminary assessment and based on the reduced debt service from bond issuance, management projects a slight reduction in property tax rate, as well as a reduced bond debt liability, reflecting a slightly lower tax rate for our residents. The reduction in bond debt service will represent a more substantial decrease in future fiscal years. For next fiscal year, the District adopted a rate of \$2.99 per \$100 of secondary assessed valuation, keeping the same rate for the fiscal year. Under current statute, the tax rate is limited to \$3.25. With that said, the District maintains a positive outlook for the short-term and long-term goals and financial health.

FINANCIAL CONTACT

The 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 District's administrative office at (520) 281-8421, located at 822 Pendleton Drive, Rio Rico Arizona, 85648.

Basic Financial Statements

RIO RICO FIRE DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2019

| | <u>Governmental activities</u> |
|--|------------------------------------|
| Assets: | |
| Cash and investments | \$ 2,801,080 |
| Cash and investments, restricted | 36,653 |
| Receivables: | |
| Property taxes | 231,917 |
| Ambulance, net | 427,998 |
| Other | 13,733 |
| Capital assets, not depreciated | 286,340 |
| Capital assets, depreciated, net | 4,282,915 |
| Net OPEB assets | <u>42,474</u> |
| Total assets | <u>8,123,110</u> |
| Deferred outflows of resources: | |
| Deferred outflows related to pensions/OPEB | 871,766 |
| Deferred charge on refunding of debt | <u>410,970</u> |
| Total deferred outflows of resources | <u>1,282,736</u> |
| Liabilities: | |
| Accounts payable | 48,891 |
| Accrued payroll and related benefits | 264,813 |
| Noncurrent liabilities: | |
| Due within one year | 200,000 |
| Due in more than one year | <u>5,925,032</u> |
| Total liabilities | <u>6,438,736</u> |
| Deferred inflows of resources: | |
| Deferred inflows related to pensions/OPEB | <u>524,619</u> |
| Total deferred inflows of resources | <u>524,619</u> |
| Net position: | |
| Net investment in capital assets | 316,621 |
| Restricted | 36,653 |
| Unrestricted | <u>2,089,217</u> |
| Total net position | <u>\$ 2,442,491</u> |

See notes to financial statements.

RIO RICO FIRE DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

| | <u>Governmental activities</u> |
|--|------------------------------------|
| Program expenses: | |
| Public safety, fire protection and emergency services: | |
| Administration | \$ 39,353 |
| Communications | 68,891 |
| Depreciation | 485,506 |
| Insurance | 54,797 |
| Other | 89,253 |
| Payroll taxes and employee benefits | 814,913 |
| Professional services | 88,955 |
| Repairs and maintenance | 59,418 |
| Salaries and wages | 2,579,961 |
| Supplies | 37,941 |
| Training and related | 35,651 |
| Utilities and station | 59,894 |
| Vehicles and equipment | 305,812 |
| Interest | <u>177,705</u> |
| Total program expenses | <u>4,898,050</u> |
| Program revenues: | |
| Charges for services | 2,289,559 |
| Operating grants and contributions | <u>47,069</u> |
| Total program revenues | <u>2,336,628</u> |
| Net program expenses | <u>2,561,422</u> |
| General revenues: | |
| Property taxes | 2,361,772 |
| Fire district assistance tax | 111,893 |
| Investment earnings | 19,040 |
| Gain on sale of capital assets | 467 |
| Other | <u>25,906</u> |
| Total general revenues | <u>2,519,078</u> |
| Change in net position | (42,344) |
| Net position, beginning of year | <u>2,484,835</u> |
| Net position, end of year | <u>\$ 2,442,491</u> |

See notes to financial statements.

RIO RICO FIRE DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2019

| | General | Capital projects | Debt service | Total governmental funds |
|--|---------------------|---------------------|------------------|--------------------------|
| Assets: | | | | |
| Cash and investments | \$ 1,527,390 | \$ 1,273,690 | \$ - | \$ 2,801,080 |
| Cash and investments, restricted | - | - | 36,653 | 36,653 |
| Receivables: | | | | |
| Property taxes | 208,721 | - | 23,196 | 231,917 |
| Ambulance, net | 427,998 | - | - | 427,998 |
| Other | 13,733 | - | - | 13,733 |
| Total assets | <u>\$ 2,177,842</u> | <u>\$ 1,273,690</u> | <u>\$ 59,849</u> | <u>\$ 3,511,381</u> |
| | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 48,891 | \$ - | \$ - | \$ 48,891 |
| Accrued payroll and related benefits | 264,813 | - | - | 264,813 |
| Total liabilities | 313,704 | - | - | 313,704 |
| | | | | |
| Deferred inflows of resources: | | | | |
| Unavailable revenue - property taxes | 196,648 | - | 20,892 | 217,540 |
| Unavailable revenue - ambulance | 153,965 | - | - | 153,965 |
| Total deferred inflows of resources | 350,613 | - | 20,892 | 371,505 |
| | | | | |
| Commitments and contingencies | | | | |
| | | | | |
| Fund balances: | | | | |
| Restricted: | | | | |
| Debt service | - | - | 38,957 | 38,957 |
| Committed: | | | | |
| Capital projects | - | 1,273,690 | - | 1,273,690 |
| Unassigned | 1,513,525 | - | - | 1,513,525 |
| Total fund balances | 1,513,525 | 1,273,690 | 38,957 | 2,826,172 |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 2,177,842</u> | <u>\$ 1,273,690</u> | <u>\$ 59,849</u> | <u>\$ 3,511,381</u> |

See notes to financial statements.

RIO RICO FIRE DISTRICT

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

JUNE 30, 2019

| | | |
|--|----|------------------|
| Total fund balances - governmental funds | \$ | 2,826,172 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. | | 4,569,255 |
| Some receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds. | | 371,505 |
| Net OPEB assets held in trust for future benefits are not available for District operations and, therefore, are not reported in the funds. | | 42,474 |
| Deferred charges related to the issuance of refunding bonds are amortized over the life of the associated bond issue in the government-wide financial statements, but are not reported in the funds. | | 410,970 |
| Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Accrued compensated absences | | (200,695) |
| General obligation bonds | | (3,990,000) |
| Unamortized premium | | (673,604) |
| Net pension/OPEB liability | | (1,260,733) |
| 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 | | 871,766 |
| Deferred inflows of resources related to pensions/OPEB | | <u>(524,619)</u> |
| Net position of governmental activities | \$ | <u>2,442,491</u> |

RIO RICO FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2019

| | General | Capital projects | Debt service | Total governmental funds |
|--|--------------|------------------|--------------|--------------------------|
| Revenues: | | | | |
| Property taxes | \$ 1,971,867 | \$ - | \$ 381,358 | \$ 2,353,225 |
| Fire district assistance tax | 111,893 | - | - | 111,893 |
| Charges for services | 2,210,880 | - | - | 2,210,880 |
| Grants and contributions | 47,069 | - | - | 47,069 |
| Investment earnings | 6,230 | 11,268 | 1,541 | 19,039 |
| Other | 25,906 | - | - | 25,906 |
| Total revenues | 4,373,845 | 11,268 | 382,899 | 4,768,012 |
| Expenditures: | | | | |
| Public safety: | | | | |
| Fire protection and emergency services | 3,847,266 | - | - | 3,847,266 |
| Administration and support | 383,670 | - | - | 383,670 |
| Capital outlay: | | | | |
| Land | - | 103,950 | - | 103,950 |
| Furniture and equipment | - | 31,306 | - | 31,306 |
| Fire equipment | - | 9,024 | - | 9,024 |
| Vehicles | - | 6,464 | - | 6,464 |
| Debt service: | | | | |
| Principal | - | - | 195,000 | 195,000 |
| Interest | - | - | 192,295 | 192,295 |
| Total expenditures | 4,230,936 | 150,744 | 387,295 | 4,768,975 |
| Revenues over (under) expenditures | 142,909 | (139,476) | (4,396) | (963) |
| Other financing uses (sources): | | | | |
| Transfers in (out) | (400,000) | 400,000 | - | - |
| Proceeds from sale of capital assets | 1,034 | - | - | 1,034 |
| Total other financing sources | (398,966) | 400,000 | - | 1,034 |
| Net change in fund balances | (256,057) | 260,524 | (4,396) | 71 |
| Fund balances, beginning of year | 1,769,582 | 1,013,166 | 43,353 | 2,826,101 |
| Fund balances, end of year | \$ 1,513,525 | \$ 1,273,690 | \$ 38,957 | \$ 2,826,172 |

See notes to financial statements.

RIO RICO FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2019

| | | |
|--|-----------|-----------------|
| Net change in fund balances - governmental funds | \$ | 71 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are: | | |
| Capital outlay | | 119,438 |
| Depreciation expense | | (485,506) |
| In the statement of activities, only the gain/loss on the sale of capital assets is reported, whereas, in the governmental funds, the proceeds from the sale increase financial resources. | | |
| Gain on sale of capital assets | | 467 |
| Proceeds from sale of capital assets | | (1,034) |
| Certain revenues relating to property taxes, ambulance services, and wildland services in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| | | 87,226 |
| 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. | | |
| Pension/OPEB contributions | | 339,110 |
| Pension/OPEB expense | | (267,393) |
| Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: | | |
| Increase in compensated absences | | (44,313) |
| 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: | | |
| Principal paid | | 195,000 |
| Some revenues and expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures or revenues in governmental funds. | | |
| Amortization of premium | | 37,422 |
| Amortization of deferred charge on refunding of debt | | (22,832) |
| Change in net position of governmental activities | <u>\$</u> | <u>(42,344)</u> |

See notes to financial statements.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

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

Reporting entity:

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

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

Government-wide and fund financial statements:

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

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

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

- charges to customers for services provided
- grants and contributions

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

Fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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

Measurement focus, basis of accounting and financial statement presentation:

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

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

Real and personal property taxes are levied on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy. All property taxes are billed and collected by Santa Cruz County and remitted to the District. In the governmental fund financial statements, property taxes are reflected as revenues in the fiscal period for which they were levied, provided they are due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). Otherwise, they are reported as deferred inflows of resources.

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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

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

The District reports the following major governmental funds:

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

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

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

Estimates:

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, investments in the County Treasurer's local government investment pool and highly liquid investments with a maturity of three months or less when purchased. Investments are stated at fair value.

Investment earnings are comprised primarily of interest earnings.

Cash and investments, restricted:

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

Fair value measurements:

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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 doubtful 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 in the fund financial statements.

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

Capital assets:

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

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

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

Compensated absences:

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities in the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its requisition price, and are amortized over the shorter of the life of the refunded or refunding debt.

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

Deferred outflows and inflows of resources:

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

Postemployment benefits:

For purposes of measuring the net pensions 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.

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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

Fund balance (continued):

- 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 accounts
- 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 fund balances within the general fund, which have not been classified within the above mentioned categories. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

Net position:

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

Budgetary information:

The District is required, under Arizona Revised Statutes, to adopt a budget each fiscal year and to submit it to the County Treasurer and the County Board of Supervisors no later than the first day of August each year; under statute only the General Fund must legally adopt an annual budget. The adopted budget is on the modified accrual basis of accounting, which is a legally allowable basis for budgetary purposes. All annual appropriations lapse at fiscal year-end.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

2. Cash and investments:

Deposits:

| | |
|--------------------|------------|
| Operating accounts | \$ 612,867 |
|--------------------|------------|

Investments:

| | |
|--|---------------------|
| Santa Cruz County Treasurer investment pool | 2,188,213 |
| Santa Cruz County Treasurer investment pool - restricted | <u>36,653</u> |
| | <u>\$ 2,837,733</u> |

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

Deposits:

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

At year-end, deposits with financial institutions have a carrying value of \$612,867 and a bank balance of \$625,941. The difference represents deposits in transit, outstanding checks and other reconciling items at June 30, 2019.

Investments:

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

The District's investments at June 30, 2019 were as follows:

| | Rating | Rating Agency | Amount |
|---|---------|----------------|--------------|
| Santa Cruz County Treasurer's investment pool | Unrated | Not applicable | \$ 2,224,866 |

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

2. Cash and investments (continued):

Investments (continued):

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

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

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

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

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

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

Foreign currency risk - The Arizona Revised Statutes do not allow foreign investments unless the investment is denominated in the United States dollars.

3. Fair value:

The District measures and categorizes its investments using fair value measurement guidelines established by GAAP. 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.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

3. Fair value (continued):

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.

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, 2019, the fair value of investments measured on a recurring basis is as follows:

| | <u>Fair value</u> | <u>Other investments at fair value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------|-------------------|--|----------------|----------------|----------------|
| External investment pools: | | | | | |
| Santa Cruz County | | | | | |
| Treasurer | \$ 2,224,866 | \$ 2,224,866 | \$ - | \$ - | \$ - |

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, U. S. Treasury notes, and agency bonds.

4. Interfund transfers:

Interfund transfers are typically to transfer from the general fund to the capital projects fund to be used for current and future capital purchases. During the year ended June 30, 2019, the general fund transferred \$400,000 to the capital projects fund.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

5. Receivables:

| | General | Debt service | Total |
|--|------------|--------------|------------|
| Property taxes | \$ 208,721 | \$ 23,196 | \$ 231,917 |
| Ambulance receivables | 775,921 | - | 775,921 |
| Other | 13,733 | - | 13,733 |
| | 998,375 | 23,196 | 1,021,571 |
| Less allowance for doubtful accounts and contractual adjustments | 347,923 | - | 347,923 |
| | \$ 650,452 | \$ 23,196 | \$ 673,648 |

6. Capital assets:

Capital asset activity for the year ended June 30, 2019 was as follows:

| | Beginning balance | Increases | Decreases | Ending balance |
|--|----------------------|--------------|-----------|-------------------|
| Capital assets, not depreciated: | | | | |
| Land | \$ 182,390 | \$ 103,950 | \$ - | \$ 286,340 |
| Total capital assets, not depreciated | 182,390 | 103,950 | - | 286,340 |
| Capital assets, depreciated: | | | | |
| Buildings and improvements | 4,779,350 | - | - | 4,779,350 |
| Fire equipment | 1,661,349 | 9,024 | (27,100) | 1,643,273 |
| Vehicles | 3,909,284 | 6,464 | - | 3,915,748 |
| Total capital assets, depreciated | 10,349,983 | 15,488 | (27,100) | 10,338,371 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,402,742) | (131,064) | - | (1,533,806) |
| Fire equipment | (1,298,673) | (100,546) | 26,533 | (1,372,686) |
| Vehicles | (2,895,068) | (253,896) | - | (3,148,964) |
| Total accumulated depreciation | (5,596,483) | (485,506) | 26,533 | (6,055,456) |
| Total capital assets, depreciated, net | 4,753,500 | (470,018) | (567) | 4,282,915 |
| Total capital assets, net | \$ 4,935,890 | \$ (366,068) | \$ (567) | \$ 4,569,255 |

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

7. General obligation bonds:

Series 2011B:

The Series 2011B General Obligation Bonds were issued by the District in the aggregate amount of \$1,695,000. The interest rate ranges from 5% to 7% and the bonds mature July 1, 2030. During the fiscal year ended June 30, 2017, the District advance refunded a portion of the outstanding bonds. At June 30, 2019, the outstanding balance on the unrefunded portion of the bonds is \$155,000.

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

| Year ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|-------------------|------------------|-------------------|
| 2020 | \$ 75,000 | \$ 10,100 | \$ 85,100 |
| 2021 | <u>80,000</u> | <u>5,600</u> | <u>85,600</u> |
| | <u>\$ 155,000</u> | <u>\$ 15,700</u> | <u>\$ 170,700</u> |

Series 2016:

In November 2016, the District issued \$4,065,000 in Series 2016 General Obligation Refunding Bonds with an interest rate ranging from 2% to 5% to advance refund \$3,060,000 of outstanding Series 2008A bonds and \$1,050,000 of the outstanding Series 2011B bonds. Principal and interest on the Series 2016 bonds is payable semiannually on July 1 and January 1 each year through July 2037. The Series 2016 bonds were issued with a premium of \$770,278 that is being amortized over the life of the debt.

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

| Year ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|---------------------|---------------------|
| 2020 | \$ 125,000 | \$ 172,000 | \$ 297,000 |
| 2021 | 125,000 | 167,000 | 292,000 |
| 2022 | 220,000 | 162,000 | 382,000 |
| 2023 | 225,000 | 153,200 | 378,200 |
| 2024 | 240,000 | 144,200 | 384,200 |
| 2025 - 2029 | 1,330,000 | 571,000 | 1,901,000 |
| 2030 - 2034 | 970,000 | 284,250 | 1,254,250 |
| 2035 - 2039 | <u>600,000</u> | <u>61,000</u> | <u>661,000</u> |
| | <u>\$ 3,835,000</u> | <u>\$ 1,714,650</u> | <u>\$ 5,549,650</u> |

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

7. General obligation bonds (continued):

Prior year defeasance of debt:

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As of June 30, 2019, \$1,050,000 of the bonds outstanding are considered defeased.

8. Line of credit:

On behalf of the District, the Board of Supervisors of Santa Cruz County established a line of credit with JPMorgan Chase Bank, which covers all the Districts in Santa Cruz County. In accordance with the Arizona Revised Statutes, the line of credit can only be drawn on by the County Treasurer in order to pay warrants issued by the District to fund operations prior to the collection of the property tax levy in the current year. Borrowings are limited to 45% of the direct property tax levy. At June 30 of each year, the aggregate obligations outstanding under the line of credit are required to be \$0. The balance on the line at June 30, 2019 was \$0.

9. Changes in noncurrent liabilities:

A summary of the changes in noncurrent liabilities for the year ended June 30, 2019 was as follows:

| | Beginning balance | Additions | Reductions | Ending balance | Due within one year |
|--|----------------------|-------------------|---------------------|---------------------|------------------------|
| Compensated absences | \$ 156,382 | \$ 44,313 | \$ - | \$ 200,695 | \$ - |
| General obligation bonds - Series 2011 B | 230,000 | - | (75,000) | 155,000 | 75,000 |
| General obligation refunding bonds - Series 2016 | 3,955,000 | - | (120,000) | 3,835,000 | 125,000 |
| Unamortized premium | 711,026 | - | (37,422) | 673,604 | - |
| Net pension liability | 1,155,390 | 103,504 | - | 1,258,894 | - |
| Net OPEB liability | <u>1,635</u> | <u>204</u> | <u>-</u> | <u>1,839</u> | <u>-</u> |
| | <u>\$ 6,209,433</u> | <u>\$ 148,021</u> | <u>\$ (232,422)</u> | <u>\$ 6,125,032</u> | <u>\$ 200,000</u> |

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

10. Ambulance service revenue:

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

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, provision for bad debts and uncompensated services for the year ended June 30, 2019 are as follows in the fund financial statements:

| | |
|--|---------------------|
| Ambulance service revenues | \$ 3,776,058 |
| Less contractual adjustments, provision for bad debts and uncompensated services | <u>1,852,068</u> |
| | <u>\$ 1,923,990</u> |

11. Risk management:

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

12. 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.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits:

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

At June 30, 2019, the District reported on the Statement of Net Position and Statement of Activities the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Net OPEB assets | \$ 42,474 |
| Net pension/OPEB liabilities | 1,260,733 |
| Deferred outflows of resources | 871,766 |
| Deferred inflows of resources | 524,619 |
| Pension/OPEB expense | 267,393 |

The District's accrued payroll and related benefits includes \$54,227 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2019.

The District reported \$339,110 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

Arizona State Retirement System (ASRS):

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

Although an ASRS net OPEB asset/liability has been recorded at June 30, 2019, the ASRS OPEB plans have not been further disclosed due to the relative insignificance to the District's financial statements.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

Arizona State Retirement System (ASRS) (continued):

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

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

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

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.80% (11.64% for retirement and 0.16% for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.80% (11.18% for retirement, 0.46% for health insurance premium benefit, and 0.16% for long-term disability) of the active members' annual covered payroll.

The District's contributions to the pension plan for the year ended June 30, 2019, were \$44,736. During fiscal year 2019, the District paid for the ASRS pension contributions from the General Fund.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

Arizona State Retirement System (ASRS) (continued):

Pension liability - At June 30, 2019, the District reported a liability of \$489,521 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total pension liability as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8% to 7.5%, changing the projected salary increases from 3% - 6.75% to 2.7% - 7.2%, decreasing the inflation rate from 3% to 2.3%, and changing the mortality rates. 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, 2018. The District's proportion measured as of June 30, 2018 was 0.003510%, which was a decrease of 0.009800% from its proportion measured as of June 30, 2017.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2019, the District recognized pension expense for ASRS of \$1,023. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 13,486 | \$ 2,699 |
| Net difference between projected and actual earnings on pension plan investments | - | 11,772 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 10,227 | 129,618 |
| Changes in assumptions | 12,954 | 43,403 |
| Contributions subsequent to the measurement date | <u>44,736</u> | <u>-</u> |
| | <u>\$ 81,403</u> | <u>\$ 187,492</u> |

The \$44,736 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

Arizona State Retirement System (ASRS) (continued):

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

| Year ending <u>June 30,</u> | |
|--------------------------------|---------------------|
| 2020 | \$ (59,657) |
| 2021 | (68,032) |
| 2022 | (17,857) |
| 2023 | <u>(5,279)</u> |
| | <u>\$ (150,825)</u> |

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

| | |
|-----------------------------|---------------------|
| Actuarial valuation date | June 30, 2017 |
| Actuarial roll forward date | June 30, 2018 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.5% |
| Projected salary increases | 2.7% - 7.2% |
| Inflation | 2.3% |
| Permanent benefit increase | Included |
| Mortality rates | 2017 SRA Scale U-MP |

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 ASRS pension plan investments was determined to be 7.5% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

Arizona State Retirement System (ASRS) (continued):

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

| Asset Class | Target Allocation | Long-term expected geometric real rate of return |
|--------------|-------------------|---|
| Equity | 50 % | 5.50 % |
| Fixed Income | 30 % | 3.83 % |
| Real estate | 20 % | 5.85 % |
| | 100 % | |

Discount rate - At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 7.5%, which is a decrease of 0.5% from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

| | 1% decrease (6.5%) | Current discount rate (7.5%) | 1% increase (8.5%) |
|---|-----------------------|------------------------------------|-----------------------|
| District's proportionate share of the net pension liability | \$ 697,824 | \$ 489,521 | \$ 315,488 |

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

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

Public Safety Personnel Retirement System (PSPRS):

Plan description - District employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers an agent and cost-sharing multiple-employer defined benefit pension plans and an agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool), which are not further disclosed because of their relative insignificance to the District's financial statements. The PSPRS issues a publicly available financial report that include financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

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

| | Initial membership date: | | |
|--|--|---|---|
| | Before January 1, 2012 | On or after January 1, 2012 and before July 1, 2017 | On or after 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 | 15 years of credited service, age 52.5 15 or more years of service, age 55 |
| Final average salary is based on | Highest 36 consecutive months of last 20 years | Highest 60 consecutive months of last 20 years | Highest 60 consecutive months of last 15 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% | 1.5% to 2.5% per year of credited service, not to exceed 80% | |

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

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 | On or after July 1, 2017 |
| 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. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

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 \$100 per month to \$260 per month depending on the age of the member and dependents.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

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

Employees covered by benefit terms - At June 30, 2019, the following employees were covered by the agent plans' benefit terms:

| | Pension | Health |
|--|---------|--------|
| Inactive employees or beneficiaries currently receiving benefits | 2 | 2 |
| Inactive employees entitled to but not yet receiving benefits | 11 | - |
| Active employees | 27 | 27 |
| | 40 | 29 |

Contributions - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The 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. Contribution rates are a percentage of active members' annual covered payroll.

For the year ended June 30, 2019, 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 16% for pension and 0.25% for health for Tier 1 and 2 employees, and the District was required to contribute 12.14% 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 8% 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, 2019, were \$287,402, and contributions to the OPEB plan were \$4,491. During fiscal year 2019, the District paid for the pension and OPEB contributions from the General Fund.

Liability - At June 30, 2019, the District reported a net pension liability of \$769,373 and a net OPEB asset of \$41,188. The net asset and net liability were measured as of June 30, 2018, and the total liability used to calculate the net asset or net liability was determined by an actuarial valuation as of that date.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

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

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

| | |
|----------------------------|--|
| Actuarial valuation date | June 30, 2018 |
| 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 |
| Cost-of-living adjustment | 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, 2018 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 pension plan investment expenses and inflation) are developed for each major asset class.

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

| Asset class | Target allocation | Long-term expected geometric real rate of return |
|------------------------|-------------------|--|
| U.S. equity | 16 % | 7.60 % |
| Private credit | 16 % | 6.75 % |
| Non-U.S. equity | 14 % | 8.70 % |
| Private equity | 12 % | 5.83 % |
| GTS | 12 % | 3.96 % |
| Real estate | 10 % | 3.75 % |
| Real assets | 9 % | 4.52 % |
| Fixed income | 5 % | 1.25 % |
| Risk parity | 4 % | 5.00 % |
| Short-term investments | 2 % | 0.25 % |
| | 100 % | |

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

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

Discount rate - At June 30, 2018, the discount rate used to measure the total pension/OPEB liability was 7.40%, which was the same as the discount rate used as of June 30, 2017. 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.

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, 2018 | \$ 5,306,765 | \$ 4,850,829 | \$ 455,936 |
| Changes for the year: | | | |
| Service cost | 384,572 | - | 384,572 |
| Interest on the total pension liability | 404,634 | - | 404,634 |
| Differences between expected and actual experience in the measurement of the pension liability | 154,540 | - | 154,540 |
| Contributions - employer | - | 329,351 | (329,351) |
| Contributions - employee | - | 175,508 | (175,508) |
| Net investment income | - | 343,848 | (343,848) |
| Benefit payments, including refunds of employee contributions | (62,041) | (62,041) | - |
| Hall/Parker settlement | - | (212,520) | 212,520 |
| Administrative expense | - | (5,933) | 5,933 |
| Other changes | - | 55 | (55) |
| Net changes | <u>881,705</u> | <u>568,268</u> | <u>313,437</u> |
| Balances at June 30, 2019 | <u>\$ 6,188,470</u> | <u>\$ 5,419,097</u> | <u>\$ 769,373</u> |

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

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

Changes in the net OPEB liability (asset) -

| | 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, 2018 | \$ 136,067 | \$ 169,819 | \$ (33,752) |
| Changes for the year: | | | |
| Service cost | 7,259 | - | 7,259 |
| Interest on the total OPEB liability | 10,338 | - | 10,338 |
| Differences between expected and actual experience in the measurement of the OPEB liability | (7,849) | - | (7,849) |
| Contributions - employer | - | 5,344 | (5,344) |
| Net investment income | - | 12,024 | (12,024) |
| Administrative expense | - | (183) | 183 |
| Other changes | <u>-</u> | <u>(1)</u> | <u>1</u> |
| Net changes | <u>9,748</u> | <u>17,184</u> | <u>(7,436)</u> |
| Balances at June 30, 2019 | <u>\$ 145,815</u> | <u>\$ 187,003</u> | <u>\$ (41,188)</u> |

Sensitivity of the District's net pension/OPEB liability (asset) to changes in the discount rate - The following table presents the District's net pension/OPEB liabilities (assets) calculated using the discount rate noted above, as well as what the District's net pension/OPEB liability (asset) 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 (asset) | \$ 1,930,146 | \$ 769,373 | \$ (148,757) |
| District's net OPEB liability (asset) | \$ (15,436) | \$ (41,188) | \$ (62,048) |

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

Expense - For the year ended June 30, 2019, the District recognized pension expense for PSPRS of \$268,010, and OPEB expense of \$1,393.

RIO RICO FIRE DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

13. Pension and other postemployment benefits (continued):

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

Deferred outflows/inflows of resources - At June 30, 2019, 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 | \$ 137,400 | \$ 311,148 | \$ - | \$ 12,005 |
| Changes in assumptions | 301,395 | - | - | 6,389 |
| Net difference between projected and actual earnings on plan investments | 54,270 | - | - | 3,231 |
| Contributions subsequent to the measurement date | 287,402 | - | 4,491 | - |
| | <u>\$ 780,467</u> | <u>\$ 311,148</u> | <u>\$ 4,491</u> | <u>\$ 21,625</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, 2020. 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 |
|--------------------------------|-------------------|--------------------|
| 2020 | \$ 68,660 | \$ (2,861) |
| 2021 | 38,788 | (2,861) |
| 2022 | (18,107) | (2,863) |
| 2023 | 17,937 | (1,590) |
| 2024 | 13,252 | (1,736) |
| Thereafter | 61,387 | (9,714) |
| | <u>\$ 181,917</u> | <u>\$ (21,625)</u> |

Required Supplementary Information

RIO RICO FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2019

| | <u>Budgeted amounts</u> | | <u>Actual</u> | <u>Variance with final budget</u> |
|---|-------------------------|---------------------|---------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Property taxes | \$ 1,993,948 | \$ 1,993,948 | \$ 1,971,867 | \$ (22,081) |
| Fire district assistance tax | 111,893 | 111,893 | 111,893 | - |
| Charges for services | 2,215,000 | 2,215,000 | 2,210,880 | (4,120) |
| Grants and contributions | 150,000 | 150,000 | 47,069 | (102,931) |
| Investment earnings | 1,600 | 1,600 | 6,230 | 4,630 |
| Other | <u>366,090</u> | <u>366,090</u> | <u>25,906</u> | <u>(340,184)</u> |
| Total revenues | <u>4,838,531</u> | <u>4,838,531</u> | <u>4,373,845</u> | <u>(464,686)</u> |
| Expenditures: | | | | |
| Public safety: | | | | |
| Fire protection and emergency services | 4,453,531 | 4,453,531 | 3,847,266 | (606,265) |
| Administration and support | <u>385,000</u> | <u>385,000</u> | <u>383,670</u> | <u>(1,330)</u> |
| Total expenditures | <u>4,838,531</u> | <u>4,838,531</u> | <u>4,230,936</u> | <u>(607,595)</u> |
| Revenues over expenditures | - | - | 142,909 | 142,909 |
| Other financing sources (uses): | | | | |
| Transfers out | - | - | (400,000) | (400,000) |
| Proceeds from sale of capital assets | <u>-</u> | <u>-</u> | <u>1,034</u> | <u>1,034</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(398,966)</u> | <u>(398,966)</u> |
| Net change in fund balance | - | - | (256,057) | (256,057) |
| Fund balance, beginning of year | <u>1,769,582</u> | <u>1,769,582</u> | <u>1,769,582</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,769,582</u> | <u>\$ 1,769,582</u> | <u>\$ 1,513,525</u> | <u>\$ (256,057)</u> |

RIO RICO FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2019

(schedule to be built prospectively from 2015; 2014 - 2010 information not available)

| Reporting date (Measurement date) | 2019 (2018) | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 (2013) | 2013 (2012) | 2012 (2011) | 2011 (2010) | 2010 (2009) |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| District's proportion of the net pension liability | 0.003510 % | 0.004490 % | 0.004930 % | 0.003940 % | 0.002411 % | - % | - % | - % | - % | - % |
| District's proportionate share of the net pension liability | \$ 489,521 | \$ 699,454 | \$ 795,752 | \$ 613,100 | \$ 356,753 | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's covered employee payroll | \$ 400,480 | \$ 433,211 | \$ 464,657 | \$ 359,956 | \$ 156,243 | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 122 % | 161 % | 171 % | 170 % | 228 % | - % | - % | - % | - % | - % |
| Plan fiduciary net position as a percentage of total pension liability | 73 % | 70 % | 67 % | 68 % | 69 % | - % | - % | - % | - % | - % |

See accompanying notes to required supplementary information

RIO RICO FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2019

(schedule to be built prospectively from 2015; 2014 - 2010 information not available)

| Reporting date (Measurement date) | 2019 (2018) | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 (2013) | 2013 (2012) | 2012 (2011) | 2011 (2010) | 2010 (2009) |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|----------------|----------------|----------------|----------------|----------------|
| Total pension liability | | | | | | | | | | |
| Service cost | \$ 384,572 | \$ 397,840 | \$ 349,189 | \$ 294,444 | \$ 300,723 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 404,634 | 353,182 | 274,473 | 244,462 | 218,299 | - | - | - | - | - |
| Benefit changes | - | 64,590 | 478,652 | - | (8,846) | - | - | - | - | - |
| Difference between expected and actual experience | 154,540 | (149,811) | (48,921) | (99,820) | (170,110) | - | - | - | - | - |
| Assumption changes | - | 161,013 | 213,090 | - | 38,759 | - | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (62,041) | (60,452) | (95,924) | (72,369) | (12,442) | - | - | - | - | - |
| Net change in total pension liability | 881,705 | 766,362 | 1,170,559 | 366,717 | 366,383 | - | - | - | - | - |
| Total pension liability, beginning | 5,306,765 | 4,540,403 | 3,369,844 | 3,003,127 | 2,636,744 | - | - | - | - | - |
| Total pension liability, ending (a) | \$ 6,188,470 | \$ 5,306,765 | \$ 4,540,403 | \$ 3,369,844 | \$ 3,003,127 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Plan fiduciary net position | | | | | | | | | | |
| Contributions - employer | \$ 329,351 | \$ 224,968 | \$ 201,179 | \$ 178,675 | \$ 210,245 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions - employee | 175,508 | 200,393 | 207,054 | 176,557 | 154,550 | - | - | - | - | - |
| Pension plan net investment income | 343,848 | 494,617 | 22,724 | 129,350 | 386,327 | - | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (62,041) | (60,452) | (95,924) | (72,369) | (12,442) | - | - | - | - | - |
| Hall/Parker settlement | (212,520) | - | - | - | - | - | - | - | - | - |
| Administrative expense | (5,933) | (4,777) | (3,670) | (3,542) | - | - | - | - | - | - |
| Other | 55 | (31,671) | (125,665) | 5,422 | - | - | - | - | - | - |
| Net change in fiduciary net position | 568,268 | 823,078 | 205,698 | 414,093 | 738,680 | - | - | - | - | - |
| Plan fiduciary net position, beginning | 4,850,829 | 4,027,751 | 3,822,053 | 3,407,960 | 2,669,280 | - | - | - | - | - |
| Plan fiduciary net position, ending (b) | \$ 5,419,097 | \$ 4,850,829 | \$ 4,027,751 | \$ 3,822,053 | \$ 3,407,960 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net pension liability (asset), ending (a) - (b) | \$ 769,373 | \$ 455,936 | \$ 512,652 | \$ (452,209) | \$ (404,833) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Plan fiduciary net position as a percentage of total pension liability | 87.57 % | 91.41 % | 88.71 % | 113.42 % | 113.48 % | - % | - % | - % | - % | - % |
| Covered valuation payroll | \$ 1,938,889 | \$ 1,789,652 | \$ 1,822,490 | \$ 1,491,487 | \$ 1,544,058 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net pension liability (asset) as a percentage of covered valuation payroll | 39.68 % | 25.48 % | 28.13 % | (30.32)% | (26.22)% | - % | - % | - % | - % | - % |

See accompanying notes to required supplementary information

RIO RICO FIRE DISTRICT

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

YEAR ENDED JUNE 30, 2019

(schedule to be built prospectively from 2018; 2017 - 2010 information not available)

| Reporting date (Measurement date) | 2019 (2018) | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 (2013) | 2013 (2012) | 2012 (2011) | 2011 (2010) | 2010 (2009) |
|--|--------------------------|--------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total OPEB liability | | | | | | | | | | |
| Service cost | \$ 7,259 | \$ 7,159 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest on total OPEB liability | 10,338 | 10,037 | - | - | - | - | - | - | - | - |
| Benefit changes | - | 1,943 | - | - | - | - | - | - | - | - |
| Difference between expected and actual experience | (7,849) | (5,750) | - | - | - | - | - | - | - | - |
| Assumption changes | - | (7,571) | - | - | - | - | - | - | - | - |
| Benefit payments | - | - | - | - | - | - | - | - | - | - |
| Net change in total OPEB liability | <u>9,748</u> | <u>5,818</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total OPEB liability, beginning | <u>136,067</u> | <u>130,249</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total OPEB liability, ending (a) | <u><u>\$ 145,815</u></u> | <u><u>\$ 136,067</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Plan fiduciary net position | | | | | | | | | | |
| Contributions - employer | \$ 5,344 | \$ 6,153 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions - employee | - | - | - | - | - | - | - | - | - | - |
| Net investment income | 12,024 | 17,557 | - | - | - | - | - | - | - | - |
| Benefit payments | - | - | - | - | - | - | - | - | - | - |
| Administrative expenses | (183) | (155) | - | - | - | - | - | - | - | - |
| Other | (1) | - | - | - | - | - | - | - | - | - |
| Net change in fiduciary net position | <u>17,184</u> | <u>23,555</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Plan fiduciary net position, beginning | <u>169,819</u> | <u>146,264</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Plan fiduciary net position, ending (b) | <u><u>\$ 187,003</u></u> | <u><u>\$ 169,819</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Net OPEB liability (asset), ending (a) - (b) | <u>\$ (41,188)</u> | <u>\$ (33,752)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 128.25 % | 124.81 % | - % | - % | - % | - % | - % | - % | - % | - % |
| Covered valuation payroll | \$ 1,938,889 | \$ 1,789,652 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Net OPEB liability (asset) as a percentage of covered valuation payroll | (2.12)% | (1.89)% | - % | - % | - % | - % | - % | - % | - % | - % |

See accompanying notes to required supplementary information

RIO RICO FIRE DISTRICT

SCHEDULE OF PENSION/OPEB CONTRIBUTIONS

YEAR ENDED JUNE 30, 2019

(schedule to be built prospectively from 2015; 2014 - 2010 information not available)

| Reporting fiscal year | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|--|----------------|-------------------|----------------|----------------|----------------|-------------|-------------|-------------|-------------|-------------|
| ASRS - Pension | | | | | | | | | | |
| Statutorily required contribution | \$ 44,736 | \$ 47,220 | \$ 50,090 | \$ 39,480 | \$ 23,255 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>44,736</u> | <u>47,220</u> | <u>50,090</u> | <u>39,480</u> | <u>23,255</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 400,480 | \$ 433,211 | \$ 464,657 | \$ 359,954 | \$ 156,243 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered employee payroll | 11.17 % | 10.90 % | 10.78 % | 10.97 % | 14.88 % | - % | - % | - % | - % | - % |
| PSPRS - Pension | | | | | | | | | | |
| Actuarially determined contribution | \$ 287,402 | \$ 308,240 | \$ 201,179 | \$ 178,675 | \$ 210,245 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | <u>287,402</u> | <u>95,720</u> | <u>201,179</u> | <u>178,675</u> | <u>210,245</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ 212,520</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 1,849,410 | \$ 1,938,889 | \$ 1,789,652 | \$ 1,822,490 | \$ 1,491,487 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered employee payroll | 15.54 % | 4.94 % | 11.04 % | 11.98 % | 13.62 % | - % | - % | - % | - % | - % |

See accompanying notes to required supplementary information

RIO RICO FIRE DISTRICT

SCHEDULE OF PENSION/OPEB CONTRIBUTIONS (CONTINUED)

YEAR ENDED JUNE 30, 2019

(schedule to be built prospectively from 2018; 2017 - 2010 information not available)

| Reporting fiscal year | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| PSPRS - Health | | | | | | | | | | |
| Actuarially determined contribution | \$ 4,491 | \$ 1,789 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | <u>4,491</u> | <u>1,789</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| District's covered employee payroll | \$ 1,849,410 | \$ 1,938,889 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered employee payroll | 0.24 % | 0.09 % | - % | - % | - % | - % | - % | - % | - % | - % |

See accompanying notes to required supplementary information

RIO RICO FIRE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2019

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.

2. Pension and OPEB plan schedules:

Actuarially determined contribution rates:

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

| | |
|--|--|
| Actuarial cost method | Entry age normal |
| Remaining amortization period as of the 2017 actuarial valuation | 19 years for unfunded, 20 years for overfunded |
| Asset valuation method | 7 year smoothed market; 80%/120% corridor |

Actuarial assumptions:

| | |
|---------------------------|--|
| Investment rate of return | PSPRS members with initial membership date before July 1, 2017: In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. 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% to 7.85%. PSPRS members with initial membership on or after July 1, 2017: 7% |
|---------------------------|--|

| | |
|-----------------|---|
| Salary increase | In the 2017 actuarial valuation, projected salary increases were decreased from 4% - 8% to 3.5% - 7.5%. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4% - 8%. In the 2013 actuarial valuation, projected salary increases were decreased from 5% - 9% to 4.5% - 8.5%. |
|-----------------|---|

| | |
|-------------|---|
| Wage growth | In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5%. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4%. In the 2013 actuarial valuation, wage growth was decreased from 5% to 4.5%. |
|-------------|---|

RIO RICO FIRE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

YEAR ENDED JUNE 30, 2019

2. Pension and OPEB plan schedules (continued):

Actuarially determined contribution rates (continued):

| | |
|----------------|--|
| 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 | In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females). |

Factors that 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 increased 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 on Internal Control and on Compliance

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Rio Rico Fire District, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 26, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 Rio Rico 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.

Purpose of this Report

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

Beach Fleischman PC

Tucson, Arizona
November 26, 2019