

DESERT HILLS FIRE DISTRICT

FINANCIAL STATEMENTS

June 30, 2015

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**DESERT HILLS FIRE DISTRICT
LAKE HAVASU CITY, ARIZONA
FINANCIAL STATEMENTS
JUNE 30, 2015**

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**DESERT HILLS FIRE DISTRICT
LAKE HAVASU CITY, ARIZONA
FINANCIAL STATEMENTS
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SAUNDERS COMPANY, LTD

**JAMES H. SAUNDERS, CPA, CFE, CFF, CGFM, CGMA, PI.
TRICIA E. SAUNDERS, PI.**

CERTIFIED PUBLIC ACCOUNTANT
CERTIFIED FRAUD EXAMINER
CERTIFIED GOVERNMENT FINANCIAL MANAGER
LICENSED PRIVATE INVESTIGATOR S #01534603, # 1003706
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AICPA Government Audit Quality Center

International Association of Certified Fraud Examiners
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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Desert Hills Fire District
Lake Havasu City, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Desert Hills Fire District, Lake Havasu City, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Desert Hills Fire District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Implementation of New Accounting Standards

As disclosed in the footnotes to the financial statements, the District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, And GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, during the fiscal year 2015.

Other Legal and Regulatory Requirements

Arizona Revised Statutes require disclosure of certain additional supplementary information required to comply with section 48-251 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by statute as 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 January 18, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Saunders Company, Ltd.

Glendale, Arizona
January 18, 2016

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Desert Hills Fire District

Management's Discussion and Analysis of Basic Financial Statements June 30, 2015

The following discussion and analysis of the Desert Hills Fire District's (District) financial performance presents management's overview of the District's financial activities for the year ended June 30, 2015. Please read it in conjunction with the District's basic financial statements which begin immediately following this analysis. This annual financial report consists of two parts, Management's Discussion and Analysis (this section) and the Basic Financial Statements.

Nature of Operations

The District provides fire, EMS and other public services to homes, property and persons residing or traveling through the fire district boundaries as well as services to locations and persons outside the fire district through mutual aid agreements.

The fire district promotes and encourages safety through public education, fire prevention, fire code enforcement and community involvement. The District continues to be involved in promoting fire safety and community enrichment through a variety of programs. Some of these programs include home safety inspections, the Residential Knox Box program, smoke alarm installations, hearing impaired smoke alarm program as well as tours, public demonstrations and school field trips.

Results of Operations

During the 2014-2015 fiscal year, the District responded to 666 calls for service. These calls included 86 responses to reports of fire, 491 responses to medical emergencies and auto accidents and 89 responses to other emergencies.

In addition to fulltime staffing, the fire district employed 7 Reserve Firefighters to ensure adequate staffing. These Reserves supplement fulltime staffing during the daytime, backfill personnel during periods of absence such as illness or vacations and respond to large scale emergencies.

The District was awarded a Staffing for Adequate Fire and Emergency Response (SAFER) grant totaling \$741,042 to hire 6 new positions for fiscal years 2015-2016 and 2016-2107, which will increase safety and coverage.

The District was able to replace Self-Contained Breathing Apparatus and compressor through a grant from the Assistance to Firefighters Grant Program (AFG) totaling \$170,000. The new units replaced existing units that were over 20 years old. Having reliable SCBA are extremely important for firefighter safety.

Financial Highlights

- District investment in capital assets increased by \$141,059 or 56.85%.
- The District's net position decreased \$448,851 or 100.25% from the previous fiscal year.
- Total revenues increased \$65,632 or 3.11% over the previous fiscal year.
- At the end of the current fiscal year, unrestricted net position for the General activities was \$(371,456).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's 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.

The main purpose of these statements is to provide the reader with sufficient information to assess whether or not the District's overall financial position has improved or deteriorated.

Government - Wide Financial Statements

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

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

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

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

Net Position June 30, 2015

	BALANCE <u>JUNE 30, 2014</u>	BALANCE <u>JUNE 30, 2015</u>
Invested in Capital Assets, Net of related Debt	\$ 248,115	\$ 370,319
Unrestricted	<u>199,599</u>	<u>(371,456)</u>
Total Net Position	<u>\$ 447,714</u>	<u>\$ (1,137)</u>

Governmental Activities

Most of the revenues for the District were derived from assessed property taxes (\$1,427,439) and Fire District Assistance Tax (\$136,561) from the County. The District also received over \$327,469 in FEMA grant funding through a SAFER grant. This grant funding enabled the District to retain 3 employees, re-hire 3 laid off employees and hire 3 more employees. This grant was closed during fiscal year 2014-2015 and the District was able to retain 3 employees that were funded through this grant.

The District also received grant funds from various Volunteer Fire Assistance Program (VFA) grants for radios, fire shelters and gear totaling \$2,244 and chainsaws totaling \$3,710. Additional funding to the District includes Auxiliary donations of over \$10,156, community donations of \$7,443 and customer response billings totaling \$14,625 this fiscal year.

General Fund Budgetary Highlights

During the 2014-2015 Fiscal Year the District stayed within budget. Revenues came in higher than anticipated due to receipt of AFG grant funding in the amount of \$161,500, additional property tax collections of \$118,894 due to remittance of past year taxes and insurance proceeds to replace a damaged control vehicle.

Expenditures were under budget as well, even after absorbing the cost of a replacement vehicle and operations and personnel costs that exceeded budget. These additional expenditures were offset by savings throughout other line item budgets, such as employee benefits, firefighting equipment and supplies.

Capital Asset and Debt Administration

Capital Assets

In order to continue to provide the best service possible, the District spends a portion of the budget on fixed asset acquisition and capital projects. For fiscal year ended June 30, 2015 the District purchased, had contributed, or constructed the following assets:

- λ Self-Contained Breathing Apparatus (SCBA) totaling \$126,906
- λ 2015 Chevy Command Vehicle totaling \$39,981
- λ Compressor for the SCBAs totaling \$41,707

Capital Assets, Net of Depreciation June 30, 2015

	<u>BALANCE</u> <u>06/30/2014</u>	<u>BALANCE</u> <u>06/30/2015</u>
<u>Depreciable Assets</u>		
Vehicles	\$ 844,459	\$ 824,440
Buildings	276,785	276,785
Equipment, Admin	21,000	21,000
Equipment, Fire	<u>229,819</u>	<u>398,432</u>
Total Historical Costs	<u>1,372,063</u>	<u>1,520,657</u>
Less Accum Depreciation		
Vehicles	820,243	786,458
Buildings	108,021	115,018
Equipment, Admin	21,000	21,000
Equipment, Fire	<u>199,684</u>	<u>234,007</u>
Less: Total Accumulated Depreciation	<u>1,148,948</u>	<u>1,156,483</u>
Depreciable Capital Assets, Net	223,115	364,174
<u>Non-Depreciable Assets</u>		
Land	<u>25,000</u>	<u>25,000</u>
Capital Assets, Net	<u>\$ 248,115</u>	<u>\$ 389,174</u>

Long Term Debt

At the end of the current fiscal year, the District had debt outstanding of \$82,738. All of the debt is backed by the full faith and credit of the District.

Outstanding Debt

	Balance <u>June 30, 2014</u>	Balance <u>June 30, 2015</u>
2015 Chevy Command	\$ <u>0</u>	\$ <u>18,855</u>
Total Lease Obligations	0	18,855
Compensated Absences	<u>52,111</u>	<u>63,883</u>
Totals	<u>\$ 52,111</u>	<u>\$ 82,738</u>

Factors Affecting Future Results

The District is subject to general economic conditions such as increases or declines in property tax value or other types of revenues that vary with economic conditions. Because assessed property values decreased significantly in 2008 the revenue for the district was reduced enough to necessitate an increase in the tax rate to offset the decline. The District increased the tax rate in the 2012-2013 fiscal year to make up for the reduction of tax revenue. The District is at the maximum tax rate of 3.25%, thus was not able to increase the rate in the 2014-2015 fiscal year. Despite the decreased values, the fire district was able to create a budget by reducing expenditures across the board.

With the residual downturn of the economy and the expiration of a SAFER Grant received in 2012, the District suffered layoffs but was able to secure a new SAFER Grant beginning in fiscal year 2014-2015 to keep staffing levels at optimal coverage by hiring back six firefighting positions lost with the expiration of the 2012 grant. A reduction in the district's command staff was created in fiscal year 2013-2014 with the elimination of the battalion chief position, leaving one administrative position instead of two.

Plans for an entire housing subdivision have commenced within the district. The district should realize this additional funding source within 3 years.

Contacting the District

This financial report is designed to provide an overview of the District's finances for anyone with an interest in the government's finances. Any questions regarding this report or requests for additional information may be directed to the Desert Hills Fire District at 3983 London Bridge Road, Lake Havasu City, AZ 86404.

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BASIC FINANCIAL STATEMENTS

**DESERT HILLS FIRE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015**

Exhibit A

	Governmental Activities
ASSETS	
Cash & Cash Equivalents (Note 3)	\$ 537,936
Receivables:	
Wildland Receivable (Note 5)	39,407
Property Taxes (Note 6)	74,062
Total Capital Assets, Net (Note 7)	389,174
 Total Assets	 1,040,579
DEFERRED OUTFLOW OF RESOURCES	
Deferred Pension	161,138
Total Deferred Outflow of Resources	161,138
LIABILITIES	
Accounts Payable	5,626
Payroll Taxes Payable	14,684
Wages Payable	21,953
Net Pension Liability	800,571
Compensated Absences (Note 11)	
Portion due within one year	15,971
Portion due after one year	63,883
Lease/Purchase Payable (Note 12)	
Portion due within one year	4,729
Portion due after one year	14,126
Total Liabilities	941,543
DEFERRED INFLOW OF RESOURCES	
Deferred Pension	222,139
Deferred Property Taxes	39,172
Total Deferred Inflow of Resources	261,311
NET POSITION	
Invested in Capital Assets, Net of related Debt	370,319
Unrestricted (Note 14)	(371,456)
 Total Net Position	 \$ (1,137)

-The Notes to the Financial Statements are an Integral Part of This Statement-

**DESERT HILLS FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Exhibit B

**Governmental
Activities**

EXPENSES

Public Safety - Fire/EMS Protection	
Personnel Services	\$ 1,531,026
Materials & Services	185,501
Depreciation	<u>67,535</u>
Total Program Expenses	<u>1,784,062</u>

PROGRAM REVENUES

Charges for Service	51,373
Operating and Capital Grants	<u>475,329</u>
Total Program Revenues	<u>526,702</u>
Net Program Expense	<u>1,257,360</u>

GENERAL REVENUES

Property Taxes	1,446,911
Fire District Assistance	136,561
Investment Earnings	1,818
Miscellaneous	<u>46,530</u>
Total General Revenues	<u>1,631,820</u>

Increase (Decrease) in Net Position	374,460
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NET POSITION-BEGINNING OF THE YEAR	<u>(375,597)</u>
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NET POSITION-END OF THE YEAR	<u><u>\$ (1,137)</u></u>
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-The Notes to the Financial Statements are an Integral Part of This Statement-

**DESERT HILLS FIRE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

Exhibit C

General

ASSETS

Cash and Cash Equivalents (Note 3)	\$	537,936
Receivables:		
Property Taxes (Note 6)		74,062
Wildland Receivable (Note 5)		<u>39,407</u>
 Total Assets		 <u><u>\$ 651,405</u></u>

LIABILITIES

Accounts Payable	\$	5,626
Payroll Taxes Payable		14,684
Wages Payable		21,953
Compensated Absences (Note 11)		<u>15,971</u>
 Total Liabilities		 <u>58,234</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable Property Tax Revenue		<u>39,172</u>
 Total Deferred Inflow of Resources		 <u>39,172</u>

FUND BALANCES

Unassigned (Note 14)		<u>553,999</u>
 Total Fund Balances		 <u>553,999</u>
 Total Liabilities & Fund Balances		 <u><u>\$ 651,405</u></u>

-The Notes to the Financial Statements are an Integral Part of This Statement-

**DESERT HILLS FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED
JUNE 30, 2015**

Exhibit D

	General
REVENUE	
Property Taxes	\$ 1,446,911
Fire District Assistance Tax	136,561
Fees for Service	51,373
Interest	1,818
Grants	475,329
Miscellaneous	66,501
Total Revenues	2,178,493
EXPENDITURES	
Current:	
Public Safety	1,644,310
Capital Outlay	214,166
Administration	33,145
Total Expenditures	1,891,621
Excess (Deficiency) of Revenues over Expenditures	286,872
Net Change in Fund Balances	286,872
Fund Balances-Beginning of Year	267,127
Fund Balances-End of Year	\$ 553,999

-The Notes to the Financial Statements are an Integral Part of This Statement-

**DESERT HILLS FIRE DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Exhibit E

**Reconciliation of Governmental Fund Balance to Net Position
(Exhibit A) of governmental activities:**

Fund Balances - Total Governmental Funds (Exhibit C)	\$	553,999
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital Assets used in governmental activities are not financial resources and, therefore are not reported in the other funds.</p>		
Governmental Capital Assets		1,545,657
Less: Accumulated Depreciation		<u>(1,156,483)</u>
		389,174
Deferred Outflows of Resources		161,138
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		(82,738)
Net Pension Liability Restated per GASB #68		(800,571)
Deferred Inflows of Resources		<u>(222,139)</u>
Net Position of Governmental Activities (Exhibit A)	\$	<u><u>(1,137)</u></u>

-The Notes to the Financial Statements are an Integral Part of This Statement-

**DESERT HILLS FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2015**

Exhibit F

**Reconciliation of the change in fund balance-total governmental funds
to the change in net position of governmental activities:**

Net Change in Fund Balances -		
Total Governmental Funds (Exhibit D)	\$	286,872

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		141,059
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Net Change in Deferred Outflows and Inflows of Resources		(84,098)
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The issuance of long-term debt (e.g., bonds, leases, leave) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		30,627
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Change in Net Position of Governmental Activities (Exhibit B)	\$	374,460
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-The Notes to the Financial Statements are an Integral Part of This Statement-

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**DESERT HILLS FIRE DISTRICT
LAKE HAVASU CITY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The District is a local governmental unit formed as a political subdivision of the local county which is a political subdivision of the State of Arizona. The District was formed under the provisions of Title 48 of Arizona Revised Statutes. The District operates under the guidance of an elected board, which is the policy making body of the District. The purpose of the District is to provide fire protection, emergency medical and related services to the residents and guests of the District and the surrounding area. The day to day operations are supervised by a fire chief and his staff.

The District has the power to issue bonds, levy taxes, bill for services and raise revenues with the power of the County government. The District has the power to expend public funds for any legitimate purpose required to further its needs. The District operates as an independent governmental agency directly responsible to the local taxpayers and voters.

Introduction

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable, and other organizations which by nature and significance of their relationship with the primary government would cause the financial statements to be incomplete or misleading if excluded. Blended component units, although legally separate entities, are, in substance, part of the government's operations; therefore, data from these units are combined with data of the primary government. Based on these criteria, there are no component units requiring inclusion in these financial statements.

Basic Financial Statements

The accounting policies for the District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

Government -wide Statements

The government -wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business -type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to users of the services provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government -wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available as net current assets. All sources of revenue except interest become measurable when the District has rendered a service. Interest revenue is measurable when its rate becomes known. Revenues are considered available if they are received within 60 days of the end of any accounting period. Expenditures are generally recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

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

Financial Statements Amounts

Cash & Cash Equivalents

All savings, checking and money market accounts with an original maturity of less than 60 days are considered to be cash equivalents.

Prepaid Items

Payments to vendors that benefit future accounting periods are classified as prepaid items until charged to expenditures in the period benefited.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	27.5 to 40 years
Equipment	5 to 7 years
Fire Trucks	10 years
Automobiles	5 years
Office Equipment	5 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

Accumulated unpaid vacation and leave time is normally accrued when incurred. The anticipated current portion of employee leave is accrued in the governmental fund, while the long term portion is recorded only in the long term group of accounts.

Long-Term Obligations

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or business-type activities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. 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.

Net Position/ Fund Equity

Net Position on Government Wide Financial Statements – Exhibit A

Fund Equity, as defined in GASB Statement No. 34, “Basic Financial Statements for State and Local Governments” is defined as net position and is classified in the following categories:

- λ Restricted—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- λ Unrestricted – this balance is the amount of equity which is not included in the Restricted fund balance and the Investments in Capital Assets balances.
- λ Investment in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Fund Balances on Government Fund Financial Statements – Exhibit C

Beginning with fiscal year ended June 30, 2010, the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- λ Nonspendable fund balance—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- λ Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- λ Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., District Board). To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the same highest level action to remove or change the constraint.
- λ Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board or by an official or body to which the District Board delegates the authority.
- λ Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by District Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amount and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A fire district shall prepare an annual budget that contains detailed estimated expenditures for each fiscal year and that clearly shows salaries payable to employees of the district. The budget summary shall be posted in three public places and a complete copy of the budget shall be published on the district's official website for twenty days before a public hearing at a meeting called by the board to adopt the budget. Copies of the budget shall also be available to members of the public on written request to the district. Following the public hearing, the district board shall adopt a budget. A complete copy of the adopted budget shall be posted in a prominent location on the district's official website within seven business days after final adoption and shall be retained on the website for at least sixty months. For any fire district that does not maintain an official website, the fire district may comply with this subsection by posting on a website of an association of fire districts in this state. ARS 48-805.2(a)

Pursuant to ARS 48.805.2(d), all fire district are required to submit certain information accompanying the budget which has been certified to by the chairman and clerk of the District Board. The budget and the accompanying certification are required to be submitted to the County Board of Supervisors no later than August 1st of each year.

Budgets are adopted by the District on basis consistent with Arizona Revised Statutes.

Encumbrance accounting is not employed by the District. All appropriations lapse at year-end.

NOTE 3 - DEPOSITS, INVESTMENT RISK & CASH MANAGEMENT

Deposits and Investments

The deposit of public funds is regulated by Arizona Revised Statutes (ARS). ARS 48-807 allows the District to establish bank accounts with any financial institution that is authorized to do business in the State of Arizona for the purpose of operating a payroll account, holding special revenues, ambulance revenues or both as necessary to fulfill the District's fiduciary responsibilities. The District may also establish, through the County Treasurer, accounts for monies from property taxes, grants, contributions and donations. The County Treasurer is required to establish a fund known as the "fire district general fund" for the receipt of all taxes levied on behalf of the District.

The District may register warrants only if separate accounts are maintained by the County Treasurer for each governmental fund of the District. Warrants may only be registered on the maintenance and operation account, the unrestricted capital outlay account and the special revenue accounts, and only if the total cash balance of all three accounts is insufficient to pay the warrants and only after any revolving line of credit has been expended. Registered warrants may not exceed ninety per cent of the taxes levied by the County for the District's current fiscal year. Registered warrants bear interest as prescribed by statute and are redeemed as provided for by law for County warrants.

Unless monies are legally restricted by contract, agreement or law, those monies may be transferred between fund accounts according to the original or amended budget of the Fire District.

Any surplus remaining the fire district general fund at the end of the fiscal year shall be credited to the fire district general fund of the district for the succeeding fiscal year and after subtraction of accounts payable and encumbrances, shall be used to reduce the tax levy for the following year.

The District accounts with the County Treasurer are part of an investment pool operated by the County Treasurer which is in turn invested in the Local Government Investment Pool (LGIP) operated by the Arizona State Treasurer. The risk category (defined below) cannot be determined, as the District does not own identifiable securities, but only as a shareholder in the statewide pool.

Financial institutions accepting governmental monies in the State of Arizona are required to collateralize at 102% all government deposits which exceed the FDIC insurance limit. The current FDIC limit is \$250,000.00 for the total of all interest bearing accounts and \$250,000 for the total of all demand deposit accounts. The collateralization is required to be separately identifiable securities and be held by a third party financial institution or trust agency. ARS (Title 35) requires this to be monitored by the State Treasurer's Office.

The District may also place monies in investments which are subject to the risks identified below.

The following is a summary of the Cash and Cash Equivalents held by financial institutions at June 30, 2015:

<u>DEPOSITORY ACCOUNTS:</u>	<u>General Fund</u>
Insured Deposits (FDIC)	\$ 218,024
Uninsured & Uncollateralized	<u>326,338</u>
Total Deposits	544,362
In Transit Items	<u>(6,526)</u>
Total Depository Accounts	537,836
 <u>NON DEPOSITORY ACCOUNTS</u>	
CASH ON HAND	<u>100</u>
Total Non Depository Accounts	<u>100</u>
Total Cash & Cash Equivalents	<u>\$ 537,936</u>

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

The District does not invest in any identifiable securities. District investments are limited to open-end mutual funds.

<u>Custodial Credit Risk For:</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
County Treasurer Pool	Unrated	Not Applicable	\$326,338

Credit Risk Statutes authorize the District to invest in obligations of the U.S. Treasury and federal agency securities, along with certain public obligations, such as bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state in which the District invests, that are rated in the highest rating category of nationally recognized statistical rating organizations.

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

The District normally invests only in FDIC insured bank accounts, accounts collateralized above FDIC insurance limits in commercial banks, the County Treasurer's investment pool, which is reinvested in the Arizona State Treasurer Local Government Investment Pool (LGIP), and open-end mutual stock funds of commercial brokerage firms.

No ratings were available for any of the District's investments and those investments are considered unrated.

Concentration of Credit Risk Concentration of credit risk is associated with investments in any one issuer that represent 5 percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are considered as excluded from this requirement.

The District invests only in FDIC banking institutions, mutual funds and government investment pools. The District does not have a policy relating to concentration of credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest rate risk factors and information are not available for the mutual fund investments of the District.

The weighted average maturity of the LGIP-GOV pool at June 30, 2015:

For Pool 5	40 days
For Pool 7	47 days
For Pool 500	1.54 years
For Pool 700	1.73 years

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 the public; and natural or manmade disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have never exceeded commercial insurance coverage for the District.

In addition, as the owner and operator of emergency response vehicles, the District is exposed to a high risk of loss related to these activities. The District carries commercial insurance on all vehicles and requires insurance coverage on all privately owned vehicles used for District activities.

Custodial risk of deposit and investment accounts is the risk that in the event of a failure, the District's deposits may not be returned to it. The District does not have a policy for custodial risk, concentration of risk, concentration of credit risk, interest rate risk, or foreign currency risk for deposits or investments.

NOTE 4 - INVENTORIES

The costs of governmental fund-type inventories are recorded as expenditures when purchased. All inventories of the District are considered immaterial.

NOTE 5 - RECEIVABLES

General and governmental fund receivables are recorded as received except for those funds collected and held by other governments on behalf of the Fire District. These amounts are recorded as soon as they are measurable and available in accordance with governmental accounting standards.

Wildland receivables were \$39,407 with an allowance for bad debt of \$0.00 at June 30, 2015. This gave a net of \$39,407 which was expected to be collectable.

NOTE 6 – PROPERTY TAX REVENUE RECEIVABLE

Property Taxes Receivables arise when property taxes are levied but not currently collected. The collectible portion (taxes levied less estimated uncollectible) are recorded as deferred inflow of resources in the period when an enforceable legal claim to the assets arises.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended.

	<u>BALANCE</u> <u>06/30/2014</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>06/30/2015</u>
<u>Depreciable Assets</u>				
Vehicles	\$ 844,459	\$ 39,981	\$ 60,000	\$ 824,440
Buildings	276,785	0	0	276,785
Equipment, Admin	21,000	0	0	21,000
Equipment, Fire	<u>229,819</u>	<u>168,613</u>	<u>0</u>	<u>398,432</u>
Total Historical Costs	<u>1,372,063</u>	<u>208,594</u>	<u>60,000</u>	<u>1,520,657</u>
Less Accum Depreciation				
Vehicles	820,243	26,215	60,000	786,458
Buildings	108,021	6,997	0	115,018
Equipment, Admin	21,000	0	0	21,000
Equipment, Fire	<u>199,684</u>	<u>34,323</u>	<u>0</u>	<u>234,007</u>
Less: Total Accumulated Depreciation	<u>1,148,948</u>	<u>67,535</u>	<u>60,000</u>	<u>1,156,483</u>
Depreciable Capital Assets, Net	223,115	141,059	0	364,174
<u>Non-Depreciable Assets</u>				
Land	<u>25,000</u>	<u>0</u>	<u>0</u>	<u>25,000</u>
Capital Assets, Net	<u>\$ 248,115</u>	<u>\$ 141,059</u>	<u>\$ 0</u>	<u>\$ 389,174</u>

NOTE 8 - DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*,” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*,” the District recognized deferred outflows of resources in the governmentwide statements. These items are a consumption of net position by the District that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The District has two items that are reportable on the Governmentwide Statement of Net Position: the first item relates to outflows from changes in the net pension liability and the second item relates to property taxes.

Deferred outflows of resources balances for the year ended June 30, 2015 were as follows:

Governmentwide Deferred Outflows	
	Government <u>Activities</u>
Pensions	<u>\$ 161,138</u>
Total Governmental Activities	<u>\$ 161,138</u>

Deferred Inflows of Resource balances for the year ended June 30, 2015 were as follows:

Governmentwide Deferred Inflows	
	Government <u>Activities</u>
Property Taxes	\$ 39,172
Pensions	<u>222,139</u>
Total Governmental Activities	<u>\$ 261,311</u>

NOTE 9 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 10 – SHORT-TERM INDEBTEDNESS

The District utilizes a credit line. As of June 30, 2015, the balance outstanding was approximately \$ 0. The interest rate, at year end, was approximately prime rate. The District routinely pays the balance in full when funds are available.

Changes in Short-Term Indebtedness:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Line of Credit	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Totals	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

NOTE 11 – ACCUMULATED COMPENSATED ABSENCES

Accumulated unpaid vacation and leave time is accrued when incurred. The current portion of such amounts has been accrued in the governmental fund (using the modified accrual basis of accounting).

The District combines its vacation compensatory and sick time into one personal leave amount. Leave accrued by the fiscal year end of June 30, 2015 was \$79,854.

NOTE 12 – LONG-TERM INDEBTEDNESS

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or business-type activities in the statement of net assets.

General Obligation Bonds

The District does not currently have any general obligation bonds.

Operating Leases

The District does not currently have any operating leases.

Note Payable

2015 Chevy Command Vehicle: The District entered a contract for the purchase of a 2015 Chevy Command Vehicle with Ally Bank. The contract was dated March 1st, 2015 in the amount of \$39,972 with an interest rate of 4.39% with monthly payments of \$455 due the 15th of each month for 4 years with a final payment due March 15th, 2019. The District made a one time payment of \$20,000 on March 1st, 2015.

Changes in Long-Term Indebtedness :

	Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2015</u>
2015 Chevy Command	\$ 0	\$ 39,972	\$ 21,117	\$ 18,855
Total Lease Obligations	0	39,972	21,117	18,855
Compensated Absences	52,111	11,772	0	63,883
Totals	<u>\$ 52,111</u>	<u>\$ 51,744</u>	<u>\$ 21,117</u>	<u>\$ 82,738</u>

NOTE 13 - FUTURE MINIMUM LEASE/PURCHASE OBLIGATIONS

The future minimum lease/purchase obligations and the net present value of these minimum lease/purchase payments as of June 30, 2015, were as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 4,729	\$ 733	\$ 5,462
2017	4,941	521	5,462
2018	5,162	300	5,462
2019	4,023	74	4,097
Total Obligation	18,855	<u>\$ 1,628</u>	<u>\$ 20,483</u>
Less Amount Due in 1 Year	<u>4,729</u>		
Amount Due After 1 Year	<u>\$ 14,126</u>		

NOTE 14 – NET POSITION/FUND BALANCE

The District’s Net Position balances consist of restricted, unrestricted, non spendable, and net investment in capital assets amounts.

The District’s Governmental Funds fund balances consist of restricted, committed, assigned, non spendable and unassigned amounts.

Restricted balances are amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed balance is amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., District Board). To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the same highest level action to remove or change the constraint.

Assigned fund balance is amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board or by an official or body to which the District Board delegates the authority.

Unassigned fund balance is amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Non Spendable balances are amounts that are not in a spendable form such as inventories or pre-paid expenses.

Net Position :

Invested in Capital Assets, Net of Related Debt	\$ 370,319
Unrestricted	<u>(371,456)</u>
Total Net Position	<u>\$ (1,137)</u>

Governmental Fund Balances :

Unassigned Fund Balances	<u>\$ 553,999</u>
Total Fund Balance	<u>\$ 553,999</u>

NOTE 15 - PROPERTY TAXES

The District is authorized to levy property taxes in an amount sufficient to operate the District. This levy cannot exceed three dollars and twenty-five cents per one hundred dollars of assessed valuation. It also cannot exceed the amount of the levy in the preceding tax year multiplied by 1.08.

The District levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

The District also levies various personal property taxes during the year, which are due at the same time as real property taxes.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

The taxpayers may, by vote of the electorate, authorize either a five year budget override or a permanent override, depending upon certain criteria being met. The taxpayers also may authorize the issuance of bonds for capital acquisitions in addition to the operating taxes referred to above.

The County collects a County-Wide Fire District Assistance Tax (FDAT) and distributes the funds to all Fire Districts in the County, according to a formula established by state law. The maximum awarded to a District cannot exceed \$400,000 per year.

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS

(SEE ALSO THE REQUIRED SUPPLEMENTAL INFORMATION)

Plan Descriptions

The District contributes to the plan described below. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' annual compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health Insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

Normal retirement is on completion of 20 years of service or 15 years of service and attainment of age 62. Retirement benefits after 20 years are 50% of average monthly compensation plus an additional 2% for each year of service from 20 to 25 years. Upon attainment of 25 years of service the additional percentage is increased to 2 ½ % for each year beyond 20. Maximum pension is 80% of average compensation. All participants are fully vested upon 10 years of service with deferred retirement possible at reduced benefits. Disability, survivor's benefits and medical care are also integrated into the plan. Each multiple employer plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

PSPRS
3010 E. Camelback Road, Suite 200
Phoenix, AZ 85016-4416
Phone (602) 255-5575

NOTE 17 – PENSIONS – Liabilities, Expenses and Deferred Cash Flows

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized no pension expenses. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2015, 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	\$ 0	\$ 160,118
Changes in assumptions	161,138	0
Net difference between projected and actual earning on retirement plan investments	0	62,021
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>0</u>	<u>0</u>
	<u>\$ 161,138</u>	<u>\$ 222,139</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ (15,420)
2017	(15,420)
2018	(15,420)
2019	(15,420)
2020	85
Thereafter	<u>594</u>
Total	<u>\$ (61,001)</u>

NOTE 18 – PENSION

Actuarial Assumptions - PSPRS

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

Methods and Assumptions Used to Determine Total Pension Liability:

Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value of Assets
Inflation	4.00%
Price Inflation	3.0% - 4.0% - approximate; No explicit price inflation assumption is used in this valuation.
Salary Increases	4.00% to 8.00% including inflation
Investment Rate of Return	7.85%, net of investment and administrative expenses
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 – June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

Other Information:

Assumed Future Permanent Benefit Increases	Members retired on or before July 1, 2011: 2% compounded on average. Members Retired on or after August 1, 2011: 0.5% compounded on average. Since all current retirees receive the same dollar increase amount, approximation techniques were used to develop the assumed PBI for each member.
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A detailed description of the actuarial assumptions and methods can be found in the June 30, 2014 Arizona Public Safety Personnel Retirement System annual actuarial valuation report.

NOTE 19 - POST EMPLOYMENT BENEFITS

The government provides certain health care and life insurance benefits for recently separated employees as required by the Federal law under COBRA. Any cost of health care and life insurance benefits would be short term and recognized as an expenditure as claims are paid. The District currently has no such claims.

NOTE 20 - NEW ACCOUNTING PRONOUNCEMENTS

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

Statement No. 68	<i>“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”</i>	The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.
Statement No. 69	<i>“Government Combinations And Disposals of Government Operations”</i>	The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013.
Statement No. 71	<i>“Pension Transition for Contributions Made Subsequent to the fiscal Measurement Date – an Amendment of GASB Statement No. 27”</i>	The provisions of this statement are effective for financial statements for years beginning after June 15, 2014.

NOTE 21 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment was made to adjust the governmental activities beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of the net pension liability, to comply with GASB Statement #68.

The restatement of beginning net position of the governmental activities is summarized as follows:

	Governmental <u>Activities</u>
Net position at July 1, 2014	\$ 447,714
Net pension liability adjustment	(838,728)
Net property tax adjustment	<u>15,417</u>
Net restated position at July 1, 2014	<u>\$ (375,597)</u>

NOTE 22 - SUBSEQUENT EVENTS

Management has evaluated subsequent events and does not know of any additional comments or disclosures that should be made thru the date of this report.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

DESERT HILLS FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2015

Exhibit G

	Budgeted Amounts		Actual	Variance with Final
	Original	Final		Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,327,554	\$ 1,327,554	\$ 1,446,911	\$ 119,357
Fire District Assistance	130,000	130,000	136,561	6,561
Fees for Service	6,000	6,000	51,373	45,373
Interest	500	500	1,818	1,318
Grants	279,000	279,000	475,329	196,329
Misc	18,700	18,700	66,501	47,801
Total Revenues	<u>1,761,754</u>	<u>1,761,754</u>	<u>2,178,493</u>	<u>416,739</u>
Expenditures:				
Current:				
Public Safety	1,762,639	1,762,639	1,644,310	118,329
Administration	7,750	7,750	33,145	(25,395)
Capital Outlay	341,365	341,365	214,166	127,199
Total Expenditures	<u>2,111,754</u>	<u>2,111,754</u>	<u>1,891,621</u>	<u>220,133</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(350,000)</u>	<u>(350,000)</u>	<u>286,872</u>	<u>636,872</u>
Net Change in Fund Balances	(350,000)	(350,000)	286,872	636,872
Fund Balances at Beginning of Year	<u>350,000</u>	<u>350,000</u>	<u>267,127</u>	<u>(82,873)</u>
Fund Balances at End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 553,999</u>	<u>\$ 553,999</u>

DESERT HILLS FIRE DISTRICT

GASB STATEMENT NO 27 SUPPLEMENTARY PENSION INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Excluding Health Insurance Subsidy Beginning June 30, 2008)

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % Of Covered Payroll (b)-(a)/(c)
2003	\$0	\$0	\$0	0.0%	\$0	0.0%
2004	0	0	0	0.0%	0	0.0%
2005	0	0	0	0.0%	0	0.0%
2006	0	0	0	0.0%	0	0.0%
2007	0	0	0	0.0%	0	0.0%
2008	136,630	116,439	(20,191)	117.3%	723,854	0.0%
2009	384,276	719,894	335,618	53.4%	983,977	34.1%
2010	549,773	1,253,587	703,814	43.9%	970,417	72.5%
2011	802,623	1,674,136	871,513	47.9%	1,017,356	85.7%
2012	1,168,256	2,025,202	856,946	57.7%	1,034,385	82.9%
2013	1,482,193	2,119,743	637,550	69.9%	1,182,621	53.9%
2014	1,701,906	2,478,878	776,972	68.7%	1,172,801	66.3%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution
2003	\$ 0
2004	0
2005	0
2006	0
2007	0
2008	85,957
2009	175,361
2010	72,712
2011	(est) 115,554
2012	(est) 148,298
2013	(est)183,387
2014	(est)196,949
2015	(est)188,294
2016*	(est)202,326

*This is the estimated Annual Required Contribution before the phase-in plan.

-See Accountant's Report-

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	June 30, 2014
Actuarial cost method:	Entry Age Normal
Amortization Method:	Level percent -of-pay closed
Remaining amortization period:	23 years for underfunded 20 years for overfunded
Asset valuation method:	7-year smoothed market 80%/120% market
Actuarial Assumptions:	
Investment Rate of Return:	7.85%
Projected Salary increases*	4.5% - 8.5%
Payroll Growth	4.5%
Permanent Benefit Increases	Members Retired on or before July 1, 2011: 2% compounded on average. Members Retired on or after August 1, 2011: 0.5% compounded on average. Since all current retirees receive the same dollar increase amount, approximation techniques were used to develop the assumed PBI for each member.

GASB STATEMENT NO. 45 SUPPLEMENTARY INFORMATION

The following information is presented concerning the post-retirement health insurance subsidy. The liabilities and computed contribution for the post-retirement health insurance subsidy were based on the same assumptions and actuarial cost methods as indicated for GASB Statement No. 27.

SCHEDULE OF FUNDING PROGRESS

Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % Of Covered Payroll ((b-a)/c)
2006	\$0	\$0	\$0	0.00%	\$0	0.00%
2007	\$0	\$0	\$0	0.00%	\$0	0.00%
2008	\$0	\$3,456	\$3,456	0.00%	\$723,854	0.48%
2009	\$0	\$27,050	\$27,050	0.00%	\$983,977	2.75%
2010	\$0	\$37,425	\$37,425	0.00%	\$970,417	3.86%
2011	\$0	\$67,445	\$67,445	0.00%	\$1,017,356	6.63%
2012	\$0	\$75,296	\$75,296	0.00%	\$1,034,385	7.28%
2013	\$0	\$79,535	\$79,535	0.00%	\$1,182,621	6.73%
2014	\$52,894	\$89,287	\$36,393	59.24%	\$1,172,801	3.10%

-See Accountant's Report-

ANNUAL REQUIRED CONTRIBUTION

Valuation Date June 30	Fiscal Year Ended June 30	Normal Cost (a)	Actuarial Accrued Liability (b)	Total (a+b)	Dollar Amount
2006	2008	0.00%	0.00%	0.00%	\$0
2007	2009	0.00%	0.00%	0.00%	\$0
2008	2010	0.00%	0.03%	0.03%	\$217
2009	2011	0.51%	0.14%	0.65%	\$7,119
2010	2012	0.59%	0.20%	0.79%	\$8,533
2011	2013	0.47%	0.36%	0.83%	\$9,310
2012	2014	0.43%	0.39%	0.82%	\$9,351
2013	2014	0.43%	0.38%	0.81%	\$10,461
2014	2016	0.45%	0.18%	0.63%	\$7,992

Health Insurance Subsidy Payments Reported for FY 2014: \$0

BENEFITS

Normal retirement is the first day of the month following completion of 20 years of service or following the 62nd birthday after 15 years of service. Normal pension after 25 years of credited service is 50% of average monthly compensation for the first 20 years of credited service plus 2½% of average monthly compensation for each year of credited service above 20 years. Retirement at other lengths of service vary according to the plan. The maximum compensation is 80% of the average monthly compensation. Employees are fully vested after 10 years of service.

The plan provides for disability retirement, survivors benefits, temporary disability, child's benefits, health insurance and other post employment benefits.

The plan is a multiple employer defined benefit pension plan operated by the State of Arizona for the benefit of all public safety employees in the state.

The plan issues a separate report for the entire system and annually issues an actuarial study for each participating governmental agency. These reports are available through the Arizona State Retirement System, 3030 E. Camelback Road, Phoenix, AZ 85016, 602-225-5575.

The figures and information used in this report were obtained from the actuarial report issued by Gabriel Roeder Smith & Company. A complete copy of the actuarial valuation as of June 30, 2014 is available from the Arizona State Retirement System, Phoenix, Arizona or from Gabriel Roeder Smith & Company, One Towne Square, Suite 800, Southfield, MI 48076-3723.

Date of Information

The information above reflects the most currently available information about this pension plan as of the published actuarial study for June 30, 2014 issued October 27th 2014.

-See Accountant's Report-

DESERT HILLS FIRE DISTRICT

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION FISCAL YEAR ENDED JUNE 30, 2015

1. BUDGETARY BASIS OF PRESENTATION

The budget included in these financial statements represents the original budget and amendments approved by the Board of Directors. The budgetary basis is the modified accrual basis of accounting with encumbrances included as actual. Accordingly, for the purpose of comparing budgeted expenditures to actual amounts, prior and current year encumbrances have been integrated with the amounts shown on the *Statement of Revenues, Expenditures, and Changes in Fund Balances*.

Various reclassifications have been made to the actual amounts to conform to classifications included in the budget approved by the Board of Directors.

The legal level of budgetary control attributed to the Board of Directors is considered at the objective or natural classification level, presented as subtotals in the schedule of budget to actual (e.g., total revenue, total salaries and benefits, total services and supplies, etc.).

2. PUBLIC SAFETY PENSION DISCLOSURE

All Public Safety Pension disclosure information has been furnished by the actuary for the Districts' Public Safety Pension Fund. This information has been excerpted directly from the actuarial report and is the responsibility of the actuary.

OTHER SUPPLEMENTARY INFORMATION

**DESERT HILLS FIRE DISTRICT
ANNUAL REPORT INFORMATION
FISCAL YEAR ENDED JUNE 30, 2015**

AZ Revised Statutes (ARS) requires certain additional information be attached to the audit report to comply with ARS 48-251 & 48-253 as required to meet the requirements of the AZ "Annual Report" of Special Districts. This information is included as other supplementary information.

REGULAR FIRE BOARD MEETINGS:

<u>Date</u>	<u>Time</u>	<u>Location</u>
July 9, 2014	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
August 13, 2014	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
Sept 10, 2014	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
October 15, 2014	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
November 19, 2014	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
December 3, 2014	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
January 14, 2015	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
February 11, 2015	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
March 18, 2015	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
April 15, 2015	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
May 13, 2015	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ
June 3, 2015	5:00 pm	Station #1 - 3983 London Bridge Road, Lake Havasu City, AZ

BOARD MEMBERS:

<u>Name</u>	<u>Business Phone Number</u>	<u>Position</u>
John Hayes	928-764-3333	Chairman
Char Beltron	928-764-3333	Member
Mathew Espinosa	928-764-3333	Member
Judy Moore	928-764-3333	Member
Brad Shelton	928-764-3333	Member

LOCATION OF POSTING OF MEETING NOTICES (all meetings):

Desert Hills Fire Station #1	3983 London Bridge Road	Lake Havasu City, AZ
Sheriff's Office	3500 N Hwy 95	Lake Havasu City, AZ
Post Office	3577 London Bridge Road	Lake Havasu City, AZ
Desert Hill Fire Station #2	4311 Heights Blvd	Lake Havasu City, AZ

LEGAL DESCRIPTION OF BOUNDARY CHANGES:

None

DESERT HILLS FIRE DISTRICT
GOVERNMENT AUDIT STANDARDS SECTION
June 30, 2015

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**DESERT HILLS FIRE DISTRICT
LAKE HAVASU CITY, ARIZONA
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SAUNDERS COMPANY, LTD

**JAMES H. SAUNDERS, CPA, CFE, CFF, CGFM, CGMA, PI.
TRICIA E. SAUNDERS, PI.**

CERTIFIED PUBLIC ACCOUNTANT
CERTIFIED FRAUD EXAMINER
CERTIFIED GOVERNMENT FINANCIAL MANAGER
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Arizona Association of Licensed Private Investigators
AICPA Government Audit Quality Center

International Association of Certified Fraud Examiners
Arizona Association of Certified Fraud Examiners

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Governing Board
Desert Hills Fire District
Lake Havasu City, 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, each major fund, and the aggregate remaining fund information of Desert Hills Fire District, Lake Havasu City, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 18, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as findings 2015-02 and 2015-03.

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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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-01 and 2015-03.

Desert Hills Fire District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Saunders Company, Ltd.

Glendale, Arizona
January 18, 2016

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DESERT HILLS FIRE DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Finding 2015-01

Compliance Finding – Borrowed Funds

Condition: The District entered into a retail installment purchase with Ally Bank on April 14, 2015 for the purchase of a vehicle. We found no evidence of approval for this loan by the governing board nor any approval of the form of the loan by legal council.

Criteria: **ARS 48-805.B(3)** only authorizes districts to “...construct, purchase, lease, lease-purchase or otherwise acquire ...apparatus, water and rescue equipment, including ambulances and equipment”.

Internal Revenue Code **IRC 149(e)** contains specific instructions for issuance of lease/purchase debt by governmental entities. Form **8038-CG** should have been used in this matter.

Cause: Administrative personnel of the District failed to follow proper legal requirements in the purchase of a vehicle as related to debt issues. Proper internal control was not followed as it relates to authorization of debt issues.

Effect: The District issued debt without legal authority for that debt. The interest rate charged to the District exceeded average rates for tax-exempt debt issued by governments.

Questioned Costs: **\$ 19,971.77**

Recommendations: The District should pay off this debt as soon as possible. Policies and procedures should be implemented to assure that this does not occur in the future.

District Response: The District will review its policies and procedures. The matter will be referred to the governing board for review and action.

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DESERT HILLS FIRE DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Finding 2015-02

Internal Control Finding – Prior Period Activities

Condition: Numerous unexplained adjustments and changes were made to the Quick Books accounting software during March and April 2015. These changes were made to entries dating back to 2007. This resulted in changes to the balance sheet for the current date.

Criteria: Prior period changes should be made only when necessary and properly approved. The prior periods had been audited and should have been considered closed to all changes.

Cause: Unknown

Effect: The current balance sheet reflected inaccurate information. Other effects were undetermined.

Questioned Costs: Unknown

Recommendations: All personnel having access to the Quick Books software should have their own unique password. Individual passwords should not be shared with other personnel. Adjustments (especially for prior periods) should have clear reasons noted in the software for the adjustment.

District Response: The District will review its policies and procedures to assure proper compliance with Internal Control is followed.

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DESERT HILLS FIRE DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Finding 2015-03

Internal Control Finding – Compliance Finding – Over Personnel Files

Condition: We reviewed personnel files during our 2014 audit of the District. We again reviewed the same files and found the issues uncovered last year were still uncorrected.

Criteria: US Public Law 104-193 requires the State of Arizona to obtain new hire information from each employer in the state. The District has not supplied this information on the required Arizona forms.

Arizona state law requires all employers to use the federal E-Verify system for all new employees. The District has not complied with this requirement.

Cause: The District administrative staff failed to follow through with findings noted in the prior year audit and take corrective action to comply with legal requirements.

Effect: Non-compliance with laws could subject the District to fines and penalties from regulatory agencies.

Questioned Costs: Undetermined

Recommendations: The District should immediately comply with the various payroll legal requirements. The District should review its policies and procedures to assure future compliance with these regulations.

District Response: The District will implement a full review of all current employee files for compliance and prepare policies and procedures to assure future compliance.

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SAUNDERS COMPANY, LTD

**JAMES H. SAUNDERS, CPA, CFE, CFF, CGFM, CGMA, PI.
TRICIA E. SAUNDERS, PI.**

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AICPA Government Audit Quality Center

International Association of Certified Fraud Examiners
Arizona Association of Certified Fraud Examiners

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH ARS 48-805.02

To the Governing Board
Desert Hills Fire District
Lake Havasu City, Arizona

We have examined management's assertion that the Desert Hills Fire District has complied with Arizona Revised Statutes (ARS) 48-805.02(F) for the year ended June 30, 2015. This statute requires the District to comply with ARS 48-805 (B)(2), 48-806 and 48-807. These requirements relate to debt and liabilities incurred by the District. The District's management is responsible for the assertion and compliance with the provisions of these statutes. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination as conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the District's compliance with the statutes referred to above and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In connection with our examination, nothing came to our attention that caused us to believe that the District's assertion of compliance with these statutes was inaccurate or that the District failed to comply with the provisions of ARS sections 48-805 (B)(2), 48-806, 48-807 and 48-805.02(F) as required, insofar as it relates to accounting matters. However, our examination was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced conditions of the statute, insofar as they relate to accounting matters.

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

Saunders Company, Ltd.

Glendale, Arizona
January 18, 2016

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