

Sonoita-Elgin Fire District
Statement of Cash Receipts,
Disbursements and Changes in Cash
and Investment Balances – Governmental Fund

Year ended June 30, 2015

Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1-2
Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash and Investment Balances – Governmental Fund	3
Notes to Financial Statement	4-12



3838 North Central Avenue
Suite 1700
Phoenix, Arizona 85012
602.230.1040
602.230.1065 (Fax)

Independent Auditor's Report

www.wa-cpas.com

To the Board of Directors and Management
of the Sonoita-Elgin Fire District
Sonoita-Elgin, Arizona

We have audited the accompanying modified cash basis financial statement of cash receipts, disbursements, and changes in cash and investment balances of Sonoita-Elgin Fire District, as of and for the year ended June 30, 2015, and the related notes to the financial statement, which collectively comprise the District's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts, disbursements and changes in cash and investment balances of Sonoita-Elgin Fire District as of and for the year ended June 30, 2015, in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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

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

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

Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015 on our consideration of Sonoita-Elgin Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sonoita-Elgin Fire District's internal control over financial reporting and compliance.

Phoenix, Arizona
November 9, 2015

Walker & Armstrong, LLP

Sonoita-Elgin Fire District
Statement of Cash Receipts, Disbursements,
and Changes in Cash and Investment Balances - Governmental Fund
Year Ended June 30, 2015

	General Fund
Cash Receipts:	
Taxes:	
Property taxes	\$ 795,179
Fire district assistance tax	57,622
Charges for services	286,061
Intergovernmental	53,130
Contributions	13,982
Interest income	744
Other	240
Total cash receipts	1,206,958
Cash Disbursements:	
<i>Public safety-fire protection and emergency medical services:</i>	
Current:	
Salaries and wages	627,218
Employee benefits	141,613
Repairs and maintenance	83,499
Administration expense	60,015
Training and related	43,769
Utilities and communications	34,534
Fuels treatment	22,679
Insurance	25,298
Professional services	16,981
Other	12,937
Capital outlay	5,427
Total cash disbursements	1,073,970
Excess of cash receipts over disbursements	132,988
Cash and investments, beginning of year	497,714
Cash and investments, end of year	\$ 630,702

The accompanying notes are an integral
part of this financial statement.

Sonoita-Elgin Fire District
Notes to Financial Statement
Year ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Sonoita-Elgin Fire District (the “District”), was established in September 2006 pursuant to Arizona Revised Statute Title 48 and is a special-purpose government governed by a separately elected governing body and is legally separate and fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, nor is the District combined with another reporting entity.

For the year ended June 30, 2015, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires, in addition to certain noncash reporting requirements, disclosure of additional information related to pension benefits.

Basis of Presentation

The accounts of the District are organized on the basis of fund accounting, each of which is considered a separate reporting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The *general fund* is the District’s primary operating fund which accounts for all financial resources except those required to be accounted for in another fund. The District reports the general fund as its only major governmental fund.

As required under Arizona Revised Statutes, Title 48 § 251.A(1), the District has prepared this financial statement in a manner sufficient to report beginning and ending fund balance, presented on a modified cash basis.

The financial statement is presented on the modified cash basis of accounting, which is an other comprehensive basis of accounting. Under the modified cash basis, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. In addition, all items including the acquisition of capital assets are expensed as paid and receivables, prepaid expenses, payables and accrued expenses are not reported. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles.

Furthermore, this financial statement does not include government-wide financial statements which are required by accounting principles generally accepted in the United States of America. Additionally, the District has elected not to present management's discussion and analysis or the budgetary comparison schedule of the general fund that accounting principles generally accepted in the United States of America have determined are necessary to supplement, although not required to be part of, the basic financial statements.

Notes to Financial Statement - Continued

Note 1 – Summary of Significant Accounting Policies - Continued

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the acquisition date. Investments are carried at fair value. Changes in fair value and amortization of premiums/discounts relating to investments held by the District are reported as changes in investment balances.

Budgetary accounting

The District is required, under Arizona Revised Statutes, to adopt a budget each fiscal year and to submit it to the Santa Cruz and Pima Counties Arizona's Board of Supervisors no later than the first day of August each year. The adopted budget is on the modified cash basis of accounting, which is a legally acceptable basis for budgetary purposes. All annual appropriations lapse at fiscal year end. The District is subject to expenditure limitations under Arizona Revised Statutes which does not permit the District to incur unsecured debt in excess of property taxes levied and to be collected plus available and unencumbered cash.

Estimates

The preparation of the basic financial statement may require management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities at the date of the basic financial statements. Actual results may differ from those estimates.

Note 2 – Cash and Investments

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

Arizona Revised Statutes authorize special districts to invest public monies in the Arizona State Treasurer's local government investment pool, interest bearing savings accounts, certificates of deposit and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral. All investments are stated at fair value based on market prices. The District does not have its own formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for investments.

Cash on Hand and Deposits – At June 30, 2015, total cash on hand was \$200. The carrying amount of the total cash in bank was \$615,995 and the bank balance was \$635,309. The entire bank balance was covered by federal depository insurance.

Notes to Financial Statement - Continued

Note 2 – Cash and Investments - Continued

Investments

As of June 30, 2015, the District's investments consisted of amounts held with the Santa Cruz County Treasurer's Local Government Investment Pool totaling \$13,807 and amounts held with the Pima County Treasurer's Local Government Investment Pool was \$699.

Santa Cruz and Pima County Treasurers' investment pools are not registered with the Securities and Exchange Commission and there is no regulatory oversight of their operations. The pools' structures do not provide for shares, and the counties have not provided or obtained any legally binding guarantees to support the value of the participants' investments.

Credit risk - At June 30, 2015, all of the District's investments were invested in the Santa Cruz and Pima County investment pools which are not rated by rating agencies.

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

Interest rate risk – At June 30, 2015, the District's investments can be withdrawn from the pools at will and therefore, are not subject to a significant amount of interest rate risk.

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

Note 3 – Risk Management

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

Note 4 – Retirement Plans

The District contributes to two retirement plans as described below. The plans are component units of the State of Arizona and benefits are established by state statute. The plans generally provide retirement, long-term disability, and health insurance premium benefit, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation.

Notes to Financial Statements - Continued

Note 4 – Retirement Plans - Continued

Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. The health insurance premium benefit is paid as a fixed dollar amount per month toward 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.

Retirement Plan – Arizona State Retirement System

Plan Description – The *Arizona State Retirement System (ASRS)* administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan and a cost sharing multiple-employer defined benefit long-term disability plan that covers general employees of the District. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Articles 2 and 2.1.

Funding Policy – For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.57 percent (9.31 percent retirement, 0.20 percent for health insurance premium benefit, and 0.06 percent long-term disability) of the members' annual covered payroll. The District's contributions to ASRS for the years ended June 30, 2015, 2014, and 2013 were \$6,696, \$4,790 and \$4,819, respectively, which were equal to the required contributions for the year.

The plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report is available on their website at www.azasrs.gov or may be obtained by writing or calling: Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, (602) 240-2000 or 1-800-621-3778.

Retirement Plan – Public Safety Personnel Retirement System (PSPRS)

Plan Description: The District has entered into a Joinder Agreement with the Arizona State Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan, to cover all full-time personnel engaged in fire suppression activities and/or fire support. A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that includes their financial statements and required supplementary information of PSPRS. The reports are available on the PSPRS Web site 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:

Notes to Financial Statements - Continued

Note 4 – Retirement Plans – Continued

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

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

Employees covered by benefit terms: At June 30, 2015, the following employees were covered by the agent pension plan's benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	-
Active employees	9
Total	<u>15</u>

Notes to Financial Statements - Continued

Note 4 – Retirement Plans – Continued

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 costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2015, active PSPRS members were required to contribute 11.05% of the members' annual covered payroll. The District is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2015, was 12.32% for the pension plan, and 0.76% for the health insurance premium benefit.

Annual Pension Cost (APC): The District's annual and required contributions for the year ended June 30, 2015, were \$60,392. The District's most recent actuarial valuation is for the year ended June 30, 2014. Information related to this valuation follows.

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

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	22 years for underfunded liability, 20 years for excess
Asset valuation method	7 year smoothed market value (80%/120% market)
Discount rate	7.85%
Projected salary increases	4.0% - 8.0%
Inflation	4.00%
Permanent benefit increase	2% compounded for members retired before July 31, 2011, 0.5% compounded for members retired thereafter

Actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actual experience study for the 5-year period ended June 30, 2011.

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

Notes to Financial Statements - Continued

Note 4 – Retirement Plans – Continued

PSPRS	Target	Long-Term
Asset Class	Allocation	Expected Real
		Rate of Return
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

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

	1% Decrease	Current	1% Increase
	6.85%	Discount Rate	8.85%
		7.85%	
Net pension liability	\$ 186,291	\$ 92,184	\$ 14,514

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued PSPRS financial report.

Notes to Financial Statements - Continued

Note 4 – Retirement Plans – Continued

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015 were established by the June 30, 2013 actuarial valuations, and those valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plan as the District and plan's members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the District and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

PSPRS—OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market value 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%–8.5%
Wage growth	4.5%

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

PSPRS	Year ending June 30,	Annual OPEB Costs	Percentage Contributed
Health Insurance	2015	\$ 59,901	100%
	2014	64,209	100%
	2013	65,763	100%

Notes to Financial Statements - Continued

Note 4 – Retirement Plans – Continued

The health insurance premium benefit plan's funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions used in those methods follow:

Valuation Ending June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2014	\$ 724,373	\$ 806,513	\$ 82,140	89.8%	\$ 426,782	19.3%
2013	614,348	621,020	6,672	98.9%	456,294	1.5%
2012	486,979	519,355	32,376	93.8%	385,645	8.4%

Note 5 – Subsequent Event

Management has evaluated subsequent events through November 9, 2015, the date the financial statements were available to be issued. No events or transactions occurred after year-end that require additional disclosure or adjustment to the financial statements.