To the Board of Directors of
Highlands Fire District
Flagstaff, Arizona

We have audited the financial statements of the governmental activities and each major fund of Highlands Fire District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 11, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Highlands Fire District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during fiscal year 2017.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Highlands Fire District's financial statements were:

> Management's estimate of accumulated depreciation and depreciation expense is based on the estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the estimated lives of the assets to determine that it seems reasonable in relation to the basic financial statements of the District for the year ended June 30, 2017, taken as a whole. The procedures used by management and the amount of depreciation expense seem reasonable at this time, however, there will usually be differences between the allowance and actual results and these differences may be material to the financial statements.
>
> Management's estimate of accrued compensated absences (vacation and sick leave) is based on historical pay rates and the number of eligible employees. We evaluated the key factors and assumptions used to develop the compensated absences accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

> Management’s estimate of other postemployment benefit obligations payable is based on an independent actuarial valuation as of January 1, 2013. The key factors and assumptions used to develop the valuation and the accrual appear reasonable in relation to the financial statements taken as a whole.
>
> For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, management’s estimates have been determined on the same basis as they are reported by the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS).The District’s net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The key factors and assumptions used to develop the valuation and the accrual appear reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. All of the material misstatements detected as a result of audit procedures were corrected by management (accounting personnel have a list of all audit adjustments proposed by us).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors’ report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 9, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, the schedule of the proportionate share of the net pension liability, schedules of contributions, schedule of changes in the net pension liability and related ratios, schedule of agent OPEB plan funding progress, and notes to the pension plan schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the board, management and various state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

HintonBurdick, PLLC

HintonBurdick, PLLC
Flagstaff, Arizona
October 9, 2017

HIGHLANDS FIRE DISTRICT

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2017

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

HIGHLANDS FIRE DISTRICT

TABLE OF CONTENTS

Page

Independent Auditors' Report 1

Board of Directors 3

Management's Discussion and Analysis 4

Basic Financial Statements:

Government-wide Financial Statements:
Statement of Net Position 11

Statement of Activities 12

Fund Financial Statements:

Balance Sheet - Governmental Funds 13

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds 14

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities 15

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual 16

Notes to the Basic Financial Statements 17

Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability - ASRS 46
Schedule of Contributions – ASRS 47
Schedule of Changes in the Net Pension Liability and Related Ratios-PSPRS 48
Schedule of Contributions-PSPRS 49
Schedule of Agent OPEB Plan Funding Progress-PSPRS 50
Notes to the Pension Plan Schedules 51

Other Communications from Independent Auditors:

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 55
Independent Auditors' Report on State Legal Compliance 57

This page intentionally blank

Members:
Chad B. Atkinson, CPA
Kris J. Braunberger, CPA
Robert S. Cox, CPA
Todd B. Feltner, CPA
K. Mark Frost, CPA
Morris J Peacock, CPA
Phillip S. Peine, CPA
Steven D Palmer, CPA
Michael K. Spilker, CPA
Kevin L. Stephens, CPA
Mark E. Tichenor, CPA
Michael J. Torgerson, CPA

Independent Auditors' Report

To the Board of Directors of
Highlands Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of Highlands Fire District, as of and for the year ended June 30, 2017, 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 and each major fund of Highlands Fire District, as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the general fund.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the pension related schedules on pages 4–8 and pages 46-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017, on our consideration of the Highlands 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 Highlands Fire District's internal control over financial reporting and compliance.

HintonBurdick, PLLC

HintonBurdick, PLLC
Flagstaff, Arizona
October 9, 2017

BOARD OF DIRECTORS

Peter Kloeber	**Chair**
Jan Hirsch	**Clerk**
William Murphy	**Member**
Brad Bippus	**Member**
Robyn Martin	**Member**

CHIEF OFFICERS

Dirch Foreman	**Chief**
Eric True	**Battalion Chief**
Todd Miller	**Battalion Chief**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Highlands Fire District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by $3,218,271 at the close of the fiscal year.
- Total net position decreased by $479,361.
- Total revenues from all sources were $4,701,908 and the total cost of all District programs was $5,181,269.
- Total revenue received in the General Fund was $369,700 more than the final budget and expenditures were $1,189,270 more than the final budget.
- Unassigned fund balance decreased $710,631during the fiscal year. The unassigned balance at June 30, 2017 was $2,455,369 compared to $3,166,000 at June 30, 2016.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the District as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government- wide statements. (3) Notes to the financial statements.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the District's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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 for some items that will only result in cash flows in future fiscal periods.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the District's basic services are considered to be governmental activities. Property and fire assistance taxes, intergovernmental revenues and charges for services finance most of this activity.

- Proprietary activities/Business type activities – The District currently does not maintain any proprietary activities; all activities are accounted for as governmental activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. The District's major fund uses the accounting approaches as explained below.

- Governmental funds – All of the District's basic services are reported in governmental funds.
  Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. The District's combined assets exceed liabilities by $3,218,271 as of June 30, 2017 as shown on the following condensed statement of net position.

	Governmental activities	
	6/30/2017	6/30/2016
Current and other assets	$ 4,067,620	$ 3,494,019
Capital assets	6,203,154	6,560,494
Total assets	10,270,774	10,054,513
Deferred outflows related to pensions	1,693,363	1,183,513
Long-term liabilities outstanding	7,892,433	6,786,609
Other liabilities	806,007	604,809
Total liabilities	8,698,440	7,391,418
Deferred inflows related to pensions	47,426	148,976
Net position:		
Invested in capital assets, net of related debt	2,944,207	3,016,572
Unrestricted	274,064	681,060
Total net position	$ 3,218,271	$ 3,697,632

Governmental Activities

The cost of all Governmental activities this year was $5,181,269. Program revenues totaled $1,343,489 and general revenues, including taxes, investment earnings and other revenues totaled $3,358,419.

The District's programs includes: General Government (fire protection services). Each program's revenues and expenses are presented below.

	Governmental activities	
	6/30/2017	6/30/2016
Revenues:		
Program revenues:		
Charges for services	$ 1,272,893	$ 1,364,308
Operating grants and contributions	70,596	19,462
General revenues:		
Taxes	3,223,845	3,158,098
Unrestricted interest earnings	33,500	29,056
Other revenues	101,074	20,661
Total revenues	4,701,908	4,591,585
Expenses:		
Public Safety	5,181,269	4,414,603
Total expenses	5,181,269	4,414,603
Increase/(decrease) in net position	(479,361)	176,982
Net position, beginning	3,697,632	3,520,650
Net position, ending	$ 3,218,271	$ 3,697,632

Total resources available during the year to finance governmental operations were $8,399,540 consisting of net position at July 1, 2016 of $3,697,632, program revenues of $1,343,489 and General Revenues of $3,358,419. Total Governmental Activities expenses during the year were $5,181,269; thus Governmental Net Position decreased by $479,361 to $3,218,271.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were $1,189,270 more than actual expenditures. Actual revenues were more than the final budget by $369,700.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the District are those assets that are used in performance of District functions. Capital Assets include land, buildings and improvements, emergency vehicles, equipment and furniture and fixtures. At the end of fiscal year 2017, net capital assets of the government activities totaled $6,203,154. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

Debt

At year end, the District had $8,274,466 in governmental-type debt. This amount includes compensated absences, capital leases and net pension liability. The capital leases are secured by the land, buildings and equipment of the District. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the District Budget for fiscal year 2018, the District Board and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dirch Foreman, Chief, 2838 Kona Trail, Flagstaff, AZ 86005 or call (928) 525-1717.

This page intentionally left blank

BASIC FINANCIAL STATEMENTS

HIGHLANDS FIRE DISTRICT
Statement of Net Position
June 30, 2017

		Governmental Activities
Assets		
Cash and cash equivalents	$	3,521,947
Receivables		428,413
Prepaid insurance		47,193
Note receivable		70,067
Capital assets not being depreciated:		
Land		495,760
Capital assets, net of accumulated depreciation:		
Buildings and improvements		5,095,959
Emergency vehicles		505,849
Equipment		105,586
Total assets		10,270,774
Deferred Outflows of Resources		
Deferred outflows related to pensions		1,693,363
Liabilities		
Accounts payable and other current liabilities		401,279
Accrued interest payable		22,695
Noncurrent liabilities:		
Due within one year		382,033
Due in more than one year		7,892,433
Total liabilities		8,698,440
Deferred Inflows of Resources		
Deferred inflows related to pensions		47,426
Net Position		
Net investment in capital assets		2,944,207
Unrestricted		274,064
Total net position	$	3,218,271

The accompanying notes are an integral part of the financial statements.

HIGHLANDS FIRE DISTRICT
Statement of Activities
For the Year Ended June 30, 2017

	Governmental Activities
Expenses:	
Public safety - fire protection and emergency services	$ 4,768,921
Depreciation	282,403
Interest	129,945
Total program expenses	5,181,269
Program revenues:	
Charges for services	1,272,893
Operating grants and contributions	70,596
Total program revenues	1,343,489
Net program expenses	3,837,780
General revenues	
Property taxes	2,874,656
Fire District Assistance Tax (FDAT)	349,189
Unrestricted interest earnings	33,500
Gain on sale of capital assets	94,963
Other revenues	6,111
Total general revenues	3,358,419
Change in net position	(479,361)
Net position - beginning	3,697,632
Net position - ending	$ 3,218,271

The accompanying notes are an integral part of the financial statements.

HIGHLANDS FIRE DISTRICT
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Total Governmental Funds
Assets:		
Cash	$ 3,521,947	$ 3,521,947
Property tax receivables	66,399	66,399
Due from other governments	362,014	362,014
Prepaid insurance	47,193	47,193
Note receivable	70,067	70,067
Total Assets	4,067,620	4,067,620
Liabilities:		
Accounts payable	35,849	35,849
Accrued liabilities	114,735	114,735
Total Liabilities	150,584	150,584
Deferred Inflows of Resources		
Unavailable revenue - property taxes	47,709	47,709
Unavailable revenue - sale of assets	70,067	70,067
Total deferred inflows of resources	117,776	47,709
Fund Balance:		
Nonspendable	47,193	47,193
Assigned	1,296,698	1,296,698
Unassigned	2,455,369	2,455,369
Total Fund Balance	3,799,260	3,799,260
Total liabilities, deferred inflows of resources and fund balance	$ 4,067,620	

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,203,154
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	117,776
Some liabilities, including capital leases and net pension liabilities, are not due and payable in the current period and therefore are not reported in the funds.	(8,547,856)
Deferred inflows and outflows relating to pensions Do not provide or require current financial resources and are therefore not reported in the funds.	1,645,937
Net position of governmental activities	$ 3,218,271

The accompanying notes are an integral part of the financial statements.

HIGHLANDS FIRE DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Total Governmental Funds
Revenues:		
Property taxes	$ 2,875,891	$ 2,875,891
Fire district assistance tax	349,189	349,189
Intergovernmental revenue	70,596	70,596
Charges for services	1,272,893	1,272,893
Interest income	33,500	33,500
Miscellaneous income	105,944	105,944
Total Revenues	4,708,013	4,708,013
Expenditures:		
Current:		
Salaries and wages	1,714,052	1,714,052
Wildland reimbursable wages	383,724	383,724
Employee benefits	801,160	801,160
Administration	14,275	14,275
Legal and professional	161,303	161,303
Interagency expenses	219,907	219,907
Education and training	12,542	12,542
Insurance	36,508	36,508
Dues and subscriptions	3,394	3,394
Repairs and maintenance	104,272	104,272
Supplies	95,635	95,635
Utilities	77,757	77,757
Bear Jaw operating	19,927	19,927
Cooperative assignment	18,338	18,338
Miscellaneous	15,419	15,419
Debt service:		
Principal	280,919	280,919
Interest	134,001	134,001
Capital outlay	9,277	9,277
Total Expenditures	4,102,410	4,102,410
Excess of Revenues Over (Under) Expenditures	605,603	605,603
Net change in fund balance	605,603	605,603
Fund Balance - Beginning of Year	3,193,657	3,193,657
Fund Balance - End of Year	$ 3,799,260	$ 3,799,260

The accompanying notes are an integral part of the financial statements.

HIGHLANDS FIRE DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance - total governmental funds	$ 605,603
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(282,403)
Governmental funds report cash received from the sale of fixed assets as revenue. However, in the statement of activities, the costs of those asset and related accumulated depreciation needs to be written off and any gain/loss recognized. This is the amount of the gain/loss recognized on the disposal of assets.	(4,870)
Accrued interest for long-term debt is not recorded as an expenditure for the current year while it is recorded in the statement of activities.	4,056
The issuance of long-term debt (e.g., bonds, leases) 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.	280,919
Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changed in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.	(815,310)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,235)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(266,121)
Change in net position of governmental activities	$ (479,361)

The accompanying notes are an integral part of the financial statements.

HIGHLANDS FIRE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund – Budget and Actual
For the Year Ended June 30, 2017

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Property taxes	$ 2,875,680	$ 2,875,680	$ 2,875,891	$ 211
Fire district assistance tax	375,000	375,000	349,189	(25,811)
Intergovernmental revenue	106,000	106,000	70,596	(35,404)
Charges for services	946,133	946,133	1,272,893	326,760
Interest income	25,000	25,000	33,500	8,500
Miscellaneous income	10,500	10,500	105,944	95,444
Total Revenues	4,338,313	4,338,313	4,708,013	369,700
Expenditures:				
Current:				
Salaries and wages	1,854,931	1,854,931	1,714,052	140,879
Wildland reimbursable wages	260,000	260,000	383,724	(123,724)
Employee benefits	884,391	884,391	801,160	83,231
Administration	12,825	12,825	14,275	(1,450)
Legal and professional	91,385	91,385	161,303	(69,918)
Interagency expenses	200,000	200,000	219,907	(19,907)
Education and training	32,835	32,835	12,542	20,293
Insurance	33,841	33,841	36,508	(2,667)
Dues and subscriptions	3,672	3,672	3,394	278
Repairs and maintenance	133,325	133,325	104,272	29,053
Supplies	108,786	108,786	95,635	13,151
Utilities	71,354	71,354	77,757	(6,403)
Bear Jaw operating	24,500	24,500	19,927	4,573
Cooperative assignment	25,000	25,000	18,338	6,662
Miscellaneous	8,958	8,958	15,419	(6,461)
Debt service:				
Principal	280,919	280,919	280,919	-
Interest	116,916	116,916	134,001	(17,085)
Capital outlay	1,148,042	1,148,042	9,277	1,138,765
Total Expenditures	5,291,680	5,291,680	4,102,410	1,189,270
Excess of Revenues Over/(Under) Expenditures	(953,367)	(953,367)	605,603	1,558,970
Net change in fund balance	(953,367)	(953,367)	605,603	1,558,970
Fund Balance - Beginning of Year	3,193,657	3,193,657	3,193,657	-
Fund Balance - End of Year	$ 2,240,290	$ 2,240,290	$ 3,799,260	$ 1,558,970

The accompanying notes are an integral part of the financial statements.

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial 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 primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities,* which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting entity

Highlands Fire District (the District) was organized as a Special Service District pursuant to the provisions of Chapter 5 of Title 48 of the Arizona Revised Statutes – Special Taxing Districts, which sets forth the legal framework for a fire district. The District provides fire protection, emergency medical services, and public education programs for the communities of Kachina Village, Forest Highlands, Mountainaire, Lower Lake Mary, Pine Del, and Flagstaff Ranch Golf Club subdivision. The District is governed by an elected five member board of directors, which appoints the chairman. The District does not have any component units, meaning entities for which the District is considered to be financially accountable.

Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

Basis of presentation – fund financial statements

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

The District reports the following major governmental funds:

> The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government.

Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, Fire District Assistance Taxes (FDAT), and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, cash equivalents, and investments

Cash includes cash on hand, demand deposits with banks and deposits with the Coconino County Treasurer. The District's policy allows for the investment of funds in time certificates of deposit with federally insured depositories and other investments as allowed by state statutes.

Inventories and prepaid items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the District’s inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government–wide and fund financial statements. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include land, buildings, improvements, vehicles, equipment and furniture and fixtures, are reported in the governmental activities column in the government-wide statement of net position. In accordance with GASB 34, the District has opted not to retroactively report infrastructure assets. Capital assets are defined by the District as assets with an individual cost of more than $5,000 and an estimated useful life in excess of two years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings and improvements	5-39 years
Vehicles and equipment	5-20 years
Furniture and fixtures	5-15 years

Deferred outflows/inflows of resources

In addition to assets, the statement of net 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 that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government currently has one type of item which qualifies for reporting in this category. It is pension related items reported on the government-wide financial statements. See footnote 8 for more information.

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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from only one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is pension related items reported on the government-wide financial statements. See footnote 8 for more information.

Note 1. Summary of Significant Accounting Policies (Continued)

Pensions

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

Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Note 1. Summary of Significant Accounting Policies (Continued)

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board (board) has by resolution authorized the board chairman to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid.

The County levies real property taxes on or before the third Monday in August, which 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 County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter. A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation, which are eligible for payment upon separation from government service. For governmental funds, amounts of vested or accumulated vacation that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and government-wide statement of net position:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. The differences primarily result from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

When capital assets (property, plant and equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the District as a whole.

Cost of capital assets	$ 9,991,279
Accumulated depreciation	(3,788,125)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$ 6,203,154

Note 2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital outlay	$ -
Depreciation expense	(282,403)
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position - governmental activities	$ (282,403)

Note 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with GAAP for all governmental funds. Budgeted amounts are as originally adopted, or as amended by the Board.

Budgetary Process: State law requires that on or before the third Monday in July of each fiscal year, the Board must adopt a tentative budget. Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption, however, they may be decreased.

Final Budget Adoption: State law specifies that exactly seven days prior to the day the property tax levy is adopted, the Board must adopt the final budget for the fiscal year. The date in State law for adoption of the tax levy is on or before the third Monday in August. The adopted budget then becomes the amount proposed for expenditure in the upcoming fiscal year. The adoption of the final budget may take place through a simple motion approved by the Board.

For management purposes, the District adopts a budget for departments within the General Fund. The Fire Chief is authorized to transfer budgeted amounts within departments; however, any revisions that alter total expenditures must be approved by the Board. Budget amendments are required to increase expenditure budgets. Expenditures may not legally exceed budgeted appropriations at the local activity level.

Note 3. Stewardship, Compliance and Accountability (Continued)

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the fund level. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual report as listed in the table of contents present expenditures/expenses over appropriations for the year ended June 30, 2017, if any.

Note 4. Deposits and Investments

Deposits as of the District at June 30, 2016 consist of the following:

Deposits:		
Cash on hand	$	200
Cash in bank		1,684
Cash on deposit with the Coconino County Treasurer		3,520,063
Total deposits	$	3,521,947

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of June 30, 2017, none of the District's bank balance of $3,591,445 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The District maintains a small bank account at a local bank to facilitate electronic funds transfers of payroll liabilities to the Internal Revenue Service and employee withholdings to the Arizona State Retirement System.

Investments

The District's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the county treasurer's pool, and other investments as allowed by state statutes. Eligible Arizona depositories as defined by state statutes are any commercial bank or savings and loan association with its principal place of business in the state of Arizona, which are insured by the federal deposit insurance corporation, or any other insuring instrumentality of the United States. The District had no investments as of June 30, 2017.

Note 4. Deposits and Investments (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had no assets measured at fair value as of June 30, 2017.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the state statutes which define allowable investments.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing exposure to credit risk is to comply with the state statutes which define allowable investments.

Note 5. Note Receivable

In October 2016 the District sold two lots on Kona Trail to a third party. The District accepted a promissory note secured by a deed of trust in the amount of $70,900. The note calls for monthly payments of $505 and has an interest rate of 6%. The entire principal balance and any unpaid interest becomes due and payable on November 1, 2018. The principal balance of the note is $70,067 as of June 30, 2017.

Note 6. Capital Assets

The following table summarizes changes to capital assets for the year ended June 30, 2017:

Governmental Activities:	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Capital assets, not being depreciated:				
Land and land improvements	$ 530,741	$ -	$ (34,981)	$ 495,760
Total capital assets, not being depreciated	530,741	-	(34,981)	495,760
Capital assets, being depreciated:				
Buildings and improvements	6,970,599	-	-	6,970,599
Emergency vehicles	1,746,177	-	(131,362)	1,614,815
Equipment	888,494	-	-	888,494
Furniture and fixtures	21,611	-	-	21,611
Total capital assets, being depreciated	9,626,881	-	(131,362)	9,495,519
Less accumulated depreciation for:				
Buildings and improvements	(1,698,734)	(175,906)	-	(1,874,640)
Emergency vehicles	(1,127,479)	(72,893)	91,406	(1,108,966)
Equipment	(749,304)	(33,604)	-	(782,908)
Furniture and fixtures	(21,611)	-	-	(21,611)
Total accumulated depreciation	(3,597,128)	(282,403)	91,406	(3,788,125)
Total capital assets, being depreciated, net	6,560,494	(282,403)	(74,937)	6,203,154
Governmental activities capital assets, net	$ 6,560,494	$ (282,403)	$ (74,937)	$ 6,203,154

Depreciation expense of $282,403 was charged to the public safety function of the District.

Note 7. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

Governmental Activities:	Balance 6/30/2016	Additions	Retirements	Balance 6/30/2017	Current Portion
Capital leases	$ 3,517,171	$ -	$ (280,919)	$ 3,236,252	$ 274,646
Compensated absences	127,756	111,220	(95,794)	143,182	107,387
Net pension liabilities	3,468,322	1,426,710	-	4,895,032	-
Total	$ 7,113,249	$ 1,537,930	$ (376,713)	$ 8,274,466	$ 382,033

Capital Leases

In May 2011, the District entered into a capital lease agreement with Wells Fargo Bank, N.A. as lessor to refinance the construction of a fire station facility in Forest Highlands. The new loan to Wells Fargo Bank, N.A. totaled $1,811,850. Under the terms of the lease, semi-annual payments of $94,173 shall be made including interest at an effective rate of 3.73 percent.

In May 2011, the District entered into a capital lease agreement with Wells Fargo Bank, N.A. as lessor to refinance the construction of a fire station facility in Mountainaire. The capital lease payable to Wells Fargo Bank, N.A. totaled $2,883,225. Under the terms of the lease, semi-annual payments of $104,745 shall be made including interest at an effective rate of 3.95 percent.

In May 2013, the District entered into a capital lease agreement with Kansas State Bank of Manhattan as lessor to finance the purchase of three heart monitors/defibrillators. The capital lease payable to Kansas State Bank of Manhattan totaled $62,518. Under the terms of the lease, the first payment of $17,085 was applied to principal; thereafter, annual payments of $17,085 shall be made including interest at an effective rate of 6.11 percent. The capital lease was paid off during fiscal year 2017.

A summary of the assets financed through capital leases is as follows:

	Cost	Depreciation Expense	Accumulated Depreciation
Buildings and Improvements	$ 6,002,429	$ 153,908	$ 1,173,365
Equipment	62,518	8,931	35,724
Total	$ 6,064,947	$ 162,839	$ 1,209,089

Note 7. Long-Term Debt (Continued)

The following is an annual schedule of future minimum lease payments with the present value of the net minimum lease payments for the years ended June 30th:

Year	Wells Fargo Forest Highlands	Wells Fargo Mountainaire	Total
2018	$ 188,345	$ 209,490	$ 397,835
2019	188,345	209,490	397,835
2020	188,345	209,490	397,835
2021	188,345	209,490	397,835
2022	188,345	209,490	397,835
2023-2027	186,655	1,047,449	1,234,104
2028-2031	-	835,344	835,344
Total remaining lease payments	1,128,380	2,930,243	4,058,623
Less: amount representing interest	(125,854)	(696,517)	(822,371)
Present value of net remaining minimum lease payments	$ 1,002,526	$ 2,233,726	$ 3,236,252

Per the lease agreements with Wells Fargo Bank, N.A., the debt of $1,811,850 and $2,883,225 are subject to a covenant relating to debt service. Under this covenant, the District is required to maintain a debt-coverage ratio of 1.25 on the aggregate annual debt service owed on this Credit Facility plus any other existing or future long-term obligations of the District. This ratio is measured on an annual basis and is determined by adding net excess funds, depreciation and amortization expense, and interest expense, producing an amount equivalent to Earnings Before Taxes, Depreciation, Amortization and Interest (EBITA), which is then divided by the current maturities of long-term debt plus estimated interest expense for the coming fiscal year. In addition, the non-cash pension expense that is a result of GASB 68 was added back to the earnings. See the calculation below. At June 30, 2017, the District's combined debt-coverage ratio as defined in the lease agreements was 1.46, which is in compliance with the debt covenant.

Interest payable on capital leases as of June 30, 2015 is $26,751 as reported on the Statement of Net Position.

Note 8. Retirement and Pension Plans

The District contributes to the plans described below. The plans are component units of the State of Arizona.

At June 30, 2017, the District reported the following aggregate amounts related to pensions for all to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension liabilities	$ 4,895,032
Deferred outflows of resources	1,693,363
Deferred inflows of resources	47,426
Pension expense	1,262,299

The District's accounts payable and other current liabilities includes $30,621 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2017. Also, the District reported $446,989 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan description – The District participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Note 8. Retirement and Pension Plans (Continued)

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

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

* With actuarially reduced benefits.

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members' annual covered payroll.

Note 8. Retirement and Pension Plans (Continued)

The District's contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	$ 14,977	$ 811	$ 165
2016	13,178	607	146
2017	13,400	696	174

Pension liability – At June 30, 2017, the District reported a liability of $209,833 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The District's proportion measured as of June 30, 2016, was 0.001300 percent, which was a decrease of 0.000190 percent from its proportion measured as of June 30, 2015.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the District recognized pension expense for ASRS of $15,624. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,275	$ 14,435
Changes in assumptions	-	11,102
Net difference between projected and actual earnings on pension plan investments	22,739	-
Changes in proportion and differences between contributions and proportional share of contributions	15,864	21,889
Contributions subsequent to the measurement date	13,400	-
Total	$ 53,278	$ 47,426

Note 8. Retirement and Pension Plans (Continued)

The $13,400 reported as deferred outflows of resources related to ASRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ended June 30		Deferred Outflows (Inflows) of Resources
2018	$	(6,539)
2019		(14,661)
2020		7,276
2021		6,376
2022		-
Thereafter		-

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

Note 8. Retirement and Pension Plans (Continued)

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 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 expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Asset Allocation**	**Long-term expected arithmetic real rate of return**
Equity	58%	6.73%
Fixed income	25%	3.70%
Commodities	2%	3.84%
Real Estate	10%	4.25%
Multi-asset	5%	3.41%
Totals	100%	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	$ 267,553	$ 209,833	$ 163,554

Note 8. Retirement and Pension Plans (Continued)

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

Public Safety Personnel Retirement System (PSPRS)

Plan description – The District contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a nine-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. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The report is available on the PSPRS website at www.psprs.com.

This section intentionally left blank

Note 8. Retirement and Pension Plans (Continued)

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

	Initial Membership Date Before January 1, 2012	**Initial Membership Date On or After January 1, 2012**
Retirement and Disability		
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 months
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	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase’s effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member’s compensation for up to 12 months.

Note 8. Retirement and Pension Plans (Continued)

Employees covered by benefit terms – At June 30, 2017, the following employees were covered by the agent pension plans' benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	2
Active employees	23
Total	32

Contributions and annual OPEB cost – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements for pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active PSPSR members were required by statute to contribute 11.65 percent of their annual covered salary to the PSPRS and the District was required to contribute 25.60 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statue. The health insurance premium portion of the contribution rate was actuarially set at 0.22 percent.

For the agent plans, the District's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2017, were:

Pension	
Contributions made	429,857
Health Insurance Premium Benefit	
Annual OPEB cost	3,634
Contributions made	3,634

Pension liability – At June 30, 2017, the District reported a net pension liability of $4,685,199. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the County's net pension liability as a result of the statutory adjustments is not known.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS and CORP plans.

Note 8. Retirement and Pension Plans (Continued)

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the County's net pension liabilities as a result of these changes is not known.

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Investment rate of return	7.50%
Projected salary increases	4.0% to 8.0% including inflation
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial 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 7.50 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 8. Retirement and Pension Plans (Continued)

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
U.S. Equity	16.00%	6.23%
Non-U.S. Equity	14.00%	8.25%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	2.92%
Credit Opportunities	13.00%	7.08%
Absolute Return	5.00%	4.11%
GTAA	10.00%	4.38%
Real Assets	8.00%	4.77%
Real Estate	10.00%	4.48%
Risk Parity	4.00%	5.13%
Short Term Inv	2.00%	0.75%
Total	100.00%	

Discount Rate – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015 The projection of cash flows used to determine this Single 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 actuarially determined contribution rates and the member rate. Based on these 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.

Note 8. Retirement and Pension Plans (Continued)

Changes in the Net Pension Liability

	Total Pension Liablity (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	$ 8,180,322	$ 4,944,583	$ 3,235,739
Changes for the year:		-	
Service cost	312,968	-	312,968
Interest on total pension liability	642,018	-	642,018
Changes of benefit terms	710,209	-	710,209
Difference between expected and actual experience in the measurement of the pension liability	17,067	-	17,067
Changes of assumptions	395,135	-	395,135
Contributions - employer	-	402,273	(402,273)
Contributions - employee	-	200,751	(200,751)
Net investment income	-	29,530	(29,530)
Benefit payments, including refunds of employee contributions	(316,476)	(316,476)	-
Other changes*	-	(4,617)	4,617
Net changes	1,760,921	311,461	1,449,460
Balances at June 30, 2017	$ 9,941,243	$ 5,256,044	$ 4,685,199

* Other changes include adjustments for prior year GASB 68 and reserve transfer to/from employer and employee reserves.

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of Net pension (asset) / liability	$ 6,168,165	$ 4,685,199	$ 3,477,188

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

Note 8. Retirement and Pension Plans (Continued)

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the District recognized pension expense for PSPRS of $433,491. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 208,907	$ -
Changes in assumptions	701,932	-
Net difference between projected and actual earnings on	326,415	-
Contributions subsequent to the measurement date	429,857	-
Total	$ 1,667,111	$ -

The $429,857 reported as deferred outflows of resources related to PSPRS pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

Year Ended December 31	Deferred Outflows (Inflows) of Resources
2018	$ 202,605
2019	202,607
2020	245,716
2021	206,755
2022	132,817
Thereafter	246,754

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Note 8. Retirement and Pension Plans (Continued)

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

Projections of benefits are based on (1) the plan as the District and plans' 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 plans' 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 2017 contribution requirements:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/20% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.50%

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

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2015	$ 15,088	100%	-
	2016	5,742	100%	-
	2017	3,634	100%	-

Note 8. Retirement and Pension Plans (Continued)

Agent plan OPEB funded status – The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

	Insurance Subsidy
Actuarial accrued liability (AAL)	$ 187,339
Actuarial value of plan assets	179,712
Unfunded acturarial accrued liability (UAAL)	$ 7,627
Funded ratio (acturarial value of plan assets/AAL)	95.93%
Covered payroll (active plan members)	$ 1,631,739
UAAL as a percentage of covered payroll	0.47%

Actuarial valuation date	June 30, 2016
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	20 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Note 9. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and natural disasters. The District has insurance protection and the limit for basic coverage is for $1,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

Note 10. Intergovernmental Agreements

On December 20, 2016, the District entered into an agreement with Mormon Lake Fire District (Mormon Lake) for administrative support services provided by the District to Mormon Lake beginning December 21, 2016. The agreement calls for an annual fee of $10,000 plus actual expenses, which is receivable quarterly and expires on December 21, 2018.

On April 25, 2012, the District entered into an agreement with Flagstaff Ranch Fire District (Flagstaff Ranch) for around the clock fire and emergency medical services provided by the District for the residents and property owners of the Flagstaff Ranch Golf Club subdivision beginning on July 1, 2012. The agreement calls for an annual fee of $110,000 (base contract amount), which is receivable in twelve monthly installments and expired on June 30, 2015 with the option to renew for two additional years. This agreement was renewed for the fiscal year ending June 30, 2017. The base contract amount will increase on an annual basis by the amount equal to the Consumer Price Index for all Urban Consumers using the US city average (CPI-U) for the term of the contract. For the fiscal year ended June 30, 2017, the base contract amount plus CPI-U was $115,433. Flagstaff Ranch further agrees to pay the District at the rate of $1,000 per hour for any emergency incident which exceeds three hours in duration retroactive to the time the initial call for service was received.

On August 23, 2010, the District entered into an agreement with Pinewood Fire District (Pinewood) and Summit Fire District (Summit) for the purpose of establishing, operating and managing the interagency fire crew known as the Bear Jaw Fire and Fuels Module (Module). The purpose of the Module is to perform all aspects of hazard fuel mitigation, primarily thinning and burning, public education and wildfire suppression across the partner agency's jurisdictions. Per the agreement, the District is assigned with the tasks of maintaining the annual budget, performing needed invoicing, collecting funds, reporting grant reimbursements and distributing funds to Pinewood and Summit. The District, Pinewood and Summit shall equally share the cost of operating supplies in the event that insufficient revenue is generated to cover these costs. The agreement may be terminated by any party upon thirty days written notice to the other parties.

Note 11. Commitments

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—*Hall* for EORP and *Parker* for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in *Hall* that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the *Parker* case was stayed pending the final outcome of *Hall*. Nevertheless, the facts and circumstances are essentially the same where both parties to *Parker* agreed, at the time of stay, to appropriately apply the remedies of *Hall* when finalized.

Note 11. Commitments (Continued)

After seeking further clarification from the Supreme Court on their ruling, the PSPRS Board of Trustees in April directed employers in both EORP and PSPRS plans to revert the rates back to pre-SB1609 levels for affected members. As a result, members who were hired prior to July 20, 2011 are also entitled to receive a return of those excess contributions with interest. Therefore, at its May 31, 2017 meeting, the PSPRS Board of Trustees authorized local boards who have stopped withholding at the higher rate to begin working with their employer in returning those contributions as soon as practicable. However, while the *Hall* case has been remanded to the Superior Court, the ruling on the interest amount from ahearing on June 6, 2017 has yet to be decided and released. As such, the *Hall* case is not finalized yet, but the excess contributions should be returned as soon as possible to stop interest from accruing.

Because the plans administered by PSPRS are 401(a) qualified plans, the IRS dictates the method used to return the excess contributions to members. PSPRS is not allowed to return the contributions directly to members or employers. Instead, employers are required to return the excess contributions to members, and then may take advantage of credit memos set up by PSPRS to offset future employer contributions. PSPRS will prepare credit memos equal to the contributions plus pre-judgment interest. Employers that want to take advantage of those credit memos may use those credit memos in lieu of sending PSPRS future employer contributions until the credit memos are used up. As of June 30, 2017 the District owed refunds totaling $250,695 to current and former employees, excluding interest. The payable and related claims and judgement expense are reported on the government-wide statement of net position and the statement of activities.

Required Supplementary Information

HIGHLANDS FIRE DISTRICT
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.001300%	0.001490%	0.001245%
Proportionate share of the net pension liability (asset)	$ 209,833	$ 232,583	$ 184,220
Covered payroll	$ 124,301	$ 121,456	$ 127,328
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	168.81%	191.50%	144.68%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

HIGHLANDS FIRE DISTRICT
Schedule of Contributions
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	2016 (2015)	2015 (2014)
Contractually required contribution	$ 13,178	$ 14,977	$ 12,009
Contributions in relation to the contractually required contribution	$ (13,178)	$ (14,977)	$ (12,009)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 124,301	$ 121,456	$ 127,328
Contributions as a percentage of covered-employee payroll	10.60%	12.33%	9.43%

Note: The District implemented GASB 68 in fiscal year 2015. Prior year information is not available.

HIGHLANDS FIRE DISTRICT
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2017

Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability			
Service cost	$ 312,968	$ 314,198	$ 328,448
Interest on total pension liability	642,018	583,499	481,542
Changes of benefit terms*	710,209	-	70,500
Difference between expected and actual experience of the total net pension liability	17,067	145,243	121,018
Changes of assumptions	395,135	-	526,588
Benefit payments, including refunds of employee contributions	(316,476)	(277,260)	(167,054)
Net change in total pension liability	1,760,921	765,680	1,361,042
Total pension liability - beginning	8,180,322	7,414,642	6,053,600
Total pension liability - ending (a)	$ 9,941,243	$ 8,180,322	$ 7,414,642
Plan fiduciary net position			
Contributions - employer	$ 402,273	$ 321,219	$ 334,388
Contributions - employee	200,751	181,869	180,991
Net investment income	29,530	171,340	522,968
Benefit payments, including refunds of employee contributions	(316,476)	(277,260)	(167,054)
Other (net transfer)	(4,617)	(8,118)	(115,292)
Net change in plan fiduciary net position	311,461	389,050	756,001
Plan fiduciary net position - beginning	4,944,583	4,555,533	3,799,532
Plan fiduciary net position - ending (b)	$ 5,256,044	$ 4,944,583	$ 4,555,533
Net pension liability - ending (a) - (b)	$ 4,685,199	$ 3,235,739	$ 2,859,109
Plan fiduciary net position as a percentage of the total pension liability	52.87%	60.44%	61.44%
Covered employee payroll	$ 1,695,389	$ 1,769,169	$ 1,800,163
Net pension liability as a percentage of covered-employee payroll	276.35%	182.90%	158.83%

Note: The District implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

HIGHLANDS FIRE DISTRICT
Schedule of Contributions
June 30, 2017

Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	2016 (2015)	2015 (2014)
Actuarially determined contribution	$ 402,273	$ 321,219	$ 334,388
Contributions in relation to the actuarially determined contribution	$ (402,273)	$ (321,219)	$ (334,388)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 1,695,389	$ 1,769,169	$ 1,800,163
Contributions as a percentage of covered-employee payroll	23.73%	18.16%	18.58%

Note: The District implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

HIGHLANDS FIRE DISTRICT
Schedule of Agent OPEB Plan Funding Progress
June 30, 2017

Public Safety Personnel Retirement System
Health Insurance Premium Benefit

Valuation Date June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
2013	-	150,179	150,179	0.0%	1,664,640	9.02%
2014	146,045	153,585	7,540	95.1%	1,658,989	0.45%
2015	165,900	138,785	(27,115)	119.54%	1,527,053	0.00%
2016	179,712	187,339	7,627	95.93%	1,631,739	0.47%
2017	**	**	**	**	**	**

HIGHLANDS FIRE DISTRICT
Notes to Pension Plan Schedules
June 30, 2017

NOTE 1. Actuarially Determined Contribution Rates

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

Actuarial cost method	Entry age normal
Amortization Method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period as of the 2015 actuarial valuation	21 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5%.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females)

NOTE 2. Factors that Affect the Identification of Trends

In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS' changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the District's net pension liability and related ratios. These changes also increased the PSPRS' required contributions beginning in fiscal year 2016 in the schedule of district pension contributions.

This page intentionally blank

Other Communications from Independent Auditors

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Highlands Fire District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Highlands Fire District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Highlands Fire District's basic financial statements, and have issued our report thereon dated October 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Highland 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 Highland Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Highland Fire District's internal control.

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

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

Compliance and Other Matters

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

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.

Hinton Burdick, PLLC

HintonBurdick, PLLC
Flagstaff, Arizona
October 9, 2017

Independent Auditors' Report on
State Legal Compliance

Highlands Fire District
Flagstaff, Arizona

We have audited the basic financial statements of Highlands Fire District (the District) for the year ended June 30, 2017, and have issued our report thereon dated October 9, 2017. Our audit also included test work on the District's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 48, Chapter 5, Article 1.

The management of Highlands Fire District is responsible for the District's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

ARS 48-805.02 requires the audit or report to include an attestation by the auditor of the District as to the following:

1. That the District has not incurred any debt or liability in excess of taxes levied and to be collected and the monies actually available and unencumbered at that time in the District general fund except for those liabilities as prescribed in section 48-805, subsection B, paragraph 2 and sections 48-806 and 48-807.
2. That the District complies with subsection F of section 48-805.
3. Whether the audit or report disclosed any information contrary to the certification made as prescribed by subsection D, paragraph 1 of section 48-805.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Highlands Fire District complied, in all material respects, with the requirements identified above for the year ended June 30, 2017.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.

Sincerely,

HintonBurdick, PLLC

HintonBurdick, PLLC
Flagstaff, Arizona
October 9, 2017