

CHINO VALLEY FIRE DISTRICT
FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2016
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

CHINO VALLEY FIRE DISTRICT

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Independent Auditors' Report

To the Board of Directors of
Chino Valley Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chino Valley Fire District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of the Chino Valley 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 Chino Valley Fire District's internal control over financial reporting and compliance.



HintonBurdick, PLLC
Flagstaff, Arizona
December 14, 2016

BOARD OF DIRECTORS

Cyndy Ducote	Chairman
Dave Dobbs	Clerk
David McConnell	Member
Julie Pettit	Member
Travis Bard	Member

CHIEF OFFICER

Scott Freitag	Fire Chief
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**Chino Valley Fire District
Management's Discussion and Analysis
June 30, 2016**

As management of Chino Valley Fire District (the "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. We encourage readers to consider the information presented here in conjunction with District's financial statements.

Financial Highlights

- The assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of the most recent fiscal year by \$617,077. Of this amount, \$184,642 is invested in capital assets, net of related debt, \$519,759 is restricted for debt service, and a negative \$87,324 is unrestricted.
- During the year, the District's total net position increased by \$25,797.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,111,707, an increase of \$1,604,867 from prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$438,060 or 10.5 percent of the 2016 fiscal year's total budgeted operating expenditures.
- The District's debt for bond obligations increased by \$1,490,000 during the current fiscal year. The increase is due to a combination of the satisfaction of regularly scheduled bond debt service payments, a bond refunding, and a bond issuance that occurred in fiscal year 2016.
- Total revenue received in the General Fund was \$435,410 more than the final budget and expenditures were \$76,457 more than the final budget, mostly the results of greater than anticipated intergovernmental services rendered for wildland firefighting.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. Consequently, the entity-wide presentation utilizes the accrual basis of accounting and consolidates all governmental funds of the District.

Management's Discussion and Analysis - Continued

The *statement of net position* presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows with the difference between them 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 14-15 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Management establishes governmental funds based on the application of generally accepted accounting principles and the evaluation of applicable laws, regulations and reporting objectives.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three (3) individual governmental funds: The General Fund, the Capital Reserve Fund, and the Debt Service Fund (includes bond funds issued and committed). Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for each fund, each of which are considered to be the major funds of the District; the concept and determination of major funds has been established by the Governmental Accounting Standards Board (GASB).

Management's Discussion and Analysis - Continued

The District adopts an annual appropriated budget to levy taxes and provide for its General Fund. A budgetary comparison statement for the general fund has been provided as part of the supplementary information following the basic financial statements to demonstrate compliance with the budget and is presented on page 48.

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20-45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report includes required supplementary information, other than *Management's Discussion and Analysis*, concerning a comparison of the District's budget to actual revenues and expenditures, as described earlier and can be found on page 48 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Chino Valley Fire District, assets exceeded liabilities by \$617,077 at the close of the most recent fiscal year.

Of the District's net position, \$184,642 reflects its investment in capital assets (e.g., land, buildings and improvements, apparatus, operations equipment, communications and administrative equipment); less any related debt still outstanding used to acquire those assets. Net position of \$519,759 is for capital projects commitments (bond funds) and scheduled debt service payments. The remaining net position of negative \$87,324 is unrestricted.

Management's Discussion and Analysis - Continued

The following page contains a comparative analysis between the current and the prior fiscal year for the government-wide statements.

Condensed Statement of Net Position

	Governmental Activities	
	2016	2015
Assets:		
Cash and cash equivalents	\$ 4,930,341	\$ 3,231,654
Other assets	567,684	574,042
Capital assets, net	3,904,642	4,101,508
Total assets	9,402,667	7,907,204
Deferred outflows of resources	1,751,985	1,121,725
Liabilities:		
Accrued expenses	270,241	191,141
Long-term obligations	9,987,059	7,901,685
Total liabilities	10,257,300	8,092,826
Deferred inflows of resources	280,275	344,823
Net position:		
Net investment in capital assets	184,642	111,508
Restricted for debt service	519,759	613,478
Unrestricted	(87,324)	(133,706)
Total net position	\$ 617,077	\$ 591,280

In comparison to 2015, the total net position of the District increased by \$25,797 in 2016. Key elements of this change from the prior year are as follows:

- Total revenues increased from 2015 to 2016 by \$575,938 and was offset by an increase in total expenditures during the same period of \$488,550.
- Expenses for public safety salaries, wages, and benefits increased by \$288,208 and are primarily attributed to increased expenses for employed personnel and increased contribution rates for retirement programs.
- Total revenue received for intergovernmental services was \$389,613 more than the final budget and was offset by related expenditures of services rendered for wildland firefighting.

Management's Discussion and Analysis - Continued

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

Condensed Statement of Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues:		
Program revenue:		
Charges for services	\$ 67,540	\$ 82,707
Operating grants and contributions	539,613	188,331
General revenues:		
Property taxes	3,912,701	3,704,209
Fire District assistance tax	315,396	307,443
Other	61,828	41,210
Investment earnings	14,363	11,603
Total revenues	4,911,441	4,335,503
Expenses:		
Public safety	4,885,644	4,397,094
Total expenses	4,885,644	4,397,094
(Decrease) Increase in net position	25,797	(61,591)
Prior period adjustment	-	(2,735,583)
Net position, beginning, as restated	591,280	3,388,454
Net position, ending	\$ 617,077	\$ 591,280

Financial Analysis of the Governmental Funds

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

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

Management's Discussion and Analysis - Continued

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,111,707. During 2016 fund balance increased by \$1,604,867 in comparison to an increase of fund balance of \$79,365 in 2015. The largest component of the fund balance increase was attributed to the issuance of bonds in 2016; which provided funding resources for meeting future capital asset commitments.

Of the total combined governmental fund balance of \$5,111,707, the amount restricted for debt services payment was \$519,759. The committed fund balance is comprised of \$97,736 committed for pension benefits and \$1,479,634 (bond funds) committed to capital projects. Assigned fund balance is \$2,576,518, all of which is assigned to capital reserves. Unassigned fund balance of \$438,060 is available for spending at the District's discretion.

The **General Fund** accounts for all of the financial resources of the District, which are not accounted for in any other fund. At the end of the current fiscal year, spendable fund balance of the general fund was \$438,060. As a measure of the general fund's liquidity, it may be useful to compare spendable fund balance to total fund expenditures. Spendable fund balance represents 10.3% of total general fund expenditures of \$4,245,610.

The **Capital Reserve Fund** accounts for reserves set aside for significant capital purchases anticipated to be made in future years. It is funded through budgeted transfers from other funds and is available as fund liquidity for District expenditures.

The **Debt Service Fund** accounts for the property tax levy dedicated to the payment of principal and interest on general obligation bonds.

Budgetary Highlights

During fiscal year 2016 there were no modifications to the General Fund's originally adopted budget. Total actual revenues were \$435,410 greater than budgeted revenues while total actual expenditures were \$76,457 greater than budgeted expenditures. The revenue and expenditure variances were primarily attributed to greater than anticipated collections and cost for intergovernmental support services (wildland firefighting).

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets as of June 30, 2016, totals \$3,904,642 (net accumulated depreciation). These assets include land, buildings and improvements, apparatus, operations equipment, communications and administrative equipment.

Major capital asset transactions during the year include the following:

- During 2016 the District made capital purchases for communications and related operating equipment in the amount of \$106,668.

For more detailed information, see page 29 in the notes to the financial statements.

Management's Discussion and Analysis - Continued

Capital Asset and Debt Administration - Continued

Long-term Debt – At the end of the current fiscal year, the District had total outstanding debt of \$9,987,059. All of the debt as follows is backed by the full faith and credit of the District.

- General Obligation Bonds - \$5,480,000
- Net Pension Liabilities - \$4,161,735
- Compensated Absences - \$345,324

Additional information regarding long-term debt of the District can be found in the notes to the financial statements on pages 30-31.

Economic Factors and Next Year's Budgets and Rates

The District is subject to general economic conditions such as increases or declines in property tax value or other types of revenues that vary with economic conditions.

Property assessment values the Chino Valley area have increased only slightly over the past year. Fire Districts are funded largely by property taxes and when values decrease the District must respond in their budgeting process by cutting costs and/or increasing the tax levy.

While assessed property values in the District have dropped over 60% since 2010, in the past fiscal year, the District saw a 2.58% increase in net assessed value. However, the implementation of Proposition 117 will enforce a maximal allowed increase in property value of 5% since fiscal year 2016. While the District has been able to budget through minimal tax levy increases and assessed value increases for the past two years, beginning in fiscal year 2016, property values are forecasted to increase by 2-3% annually. Therefore, the District will be forced to look at all expenses, including personnel expenses and capital replacement, and make decisions based on the new values with a conservative outlook on revenue projections.

Legislation also plays a major role in the development of budgets. With the legislative restrictions of a maximum tax rate of \$3.25, restrictive budget capacity increase of 8% per year (cumulative allowance), and Proposition 117 restriction of assessing property based on the Limited Property Value (LPV) from Full Cash Value (FCV) Assessments - the future trend will not sustain significant M&O budget increases. However, ongoing pension liability increases and contributions will force further budget and expenditure restrictions. Ultimately, without ongoing new construction growth or ever-expanding District boundaries, the organization will be regressively locked in a system of limited revenue and expanding expenses due to increased service demands and personnel costs.

Due to the aforementioned challenges and financial limitations, the District had entered into an Intergovernmental Agreement (IGA) with the Central Yavapai Fire District for joint management. This agreement allowed the sharing of resources through administrative and upper management, providing an opportunity for financial review and decreased costs for services, supplies and personnel for the district. The Joint Management Agreement for fiscal year 2016 has led to a new IGA to create a Joint Powers Authority (JPA) under A.R.S § 48-805.01. This will create an organization that will manage all operations and personnel of both the Central

Management's Discussion and Analysis - Continued

Yavapai and Chino Valley Fire Districts. Additionally, all assets, liabilities and personnel will be transferred to the new organization – the Central Arizona Fire and Medical Authority – effective July 1, 2016.

Request for Information

The District's financial statements are designed to present users (citizens, taxpayers, government entities and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about this report or need additional financial information, please contact the District's administrative office at 8555 E. Yavapai Road, Prescott Valley 86314, call (928) 772-771, or visit the District's website at www.cazfire.org.

BASIC FINANCIAL STATEMENTS

**Chino Valley Fire District
Statement of Net Position
June 30, 2016**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,930,341
Cash held with paying agent	288,587
Receivables:	
Property taxes	151,102
Service contracts	3,598
Wildland	123,387
Other receivables	1,010
Capital assets, not being depreciated	386,335
Capital assets, being depreciated, net	3,518,307
Total assets	9,402,667
Deferred outflows of resources	
Pension plan items	1,558,594
Deferred charge on refunding	193,391
Total deferred outflows of resources	1,751,985
Liabilities	
Accounts payable	61,907
Accrued payroll and related	208,334
<i>Noncurrent liabilities:</i>	
Due within one year	400,999
Due in more than one year	9,586,060
Total liabilities	10,257,300
Deferred inflows of resources	
Pension plan items	280,275
Total deferred inflows of resources	280,275
Net position	
Net investment in capital assets	184,642
Restricted for debt service	519,759
Unrestricted	(87,324)
Total net position	\$ 617,077

The accompanying notes are an
integral part of these basic financial statements.

**Chino Valley Fire District
Statement of Activities
Year Ended June 30, 2016**

	Governmental Activities
Expenses:	
<i>Public safety-fire protection:</i>	
Salaries and wages	\$ 2,806,351
Employee benefits	906,538
Administrative and support services	302,845
Training and prevention	24,063
Communications	20,572
Station utilities and maintenance	67,066
Emergency medical supplies	6,871
Protective equipment and uniforms	54,732
Fleet fuel and maintenance	92,423
Outside services	115,624
Depreciation	303,534
Interest	185,025
Total program expenses	4,885,644
Program revenues:	
Charges for services	67,540
Operating grants and contributions	539,613
Total program revenues	607,153
Net program expense	4,278,491
General revenues:	
Real and personal property taxes	3,912,701
Fire district assistance tax	315,396
Other	61,828
Interest earnings	14,363
Total general revenue	4,304,288
Change in net position	25,797
Net position - beginning of year	591,280
Net position - end of year	\$ 617,077

The accompanying notes are an
integral part of these basic financial statements.

**Chino Valley Fire District
Balance Sheets -
Governmental Funds
June 30, 2016**

	Major Funds			Total Governmental Funds
	General	Capital Reserve	Debt Service	
Assets:				
Cash and cash equivalents	\$ 647,045	\$ 2,576,518	\$ 1,706,778	\$ 4,930,341
Cash held with paying agent	-	-	288,587	288,587
Receivables:				
Property taxes	133,724	-	17,378	151,102
Service contracts	3,598	-	-	3,598
Wildland	123,387	-	-	123,387
Other	1,010	-	-	1,010
Total assets	<u>\$ 908,764</u>	<u>\$ 2,576,518</u>	<u>\$ 2,012,743</u>	<u>\$ 5,498,025</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 61,907	\$ -	\$ -	\$ 61,907
Accrued payroll and related	208,334	-	-	208,334
Total liabilities	270,241	-	-	270,241
Deferred Inflows of Resources				
Unavailable revenue - property taxes	102,727	-	13,350	116,077
Total deferred inflows of resources	102,727	-	13,350	116,077
Fund balances:				
Restricted	-	-	519,759	519,759
Committed	97,736	-	1,479,634	1,577,370
Assigned	-	2,576,518	-	2,576,518
Unassigned	438,060	-	-	438,060
Total fund balances	<u>535,796</u>	<u>2,576,518</u>	<u>1,999,393</u>	<u>5,111,707</u>
Total liabilities and fund balances	<u>\$ 908,764</u>	<u>\$ 2,576,518</u>	<u>\$ 2,012,743</u>	<u>\$ 5,498,025</u>

The accompanying notes are an
integral part of these basic financial statements.

**Chino Valley Fire District
Reconciliation of the Governmental Funds - Balance Sheet
to the Statement of Net Position
June 30, 2016**

Fund balances - governmental funds	\$	5,111,707
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets are not current financial resources in governmental funds, but are reported in the Statement of Net Position at their net depreciable value.		3,904,642
The Statement of Net Position reports receivables at their net realizable value. However, receivables not available to pay for current-period expenditures are deferred in governmental funds.		116,077
Pension contributions subsequent to the measurement date, assumption changes, and differences between expected and actual experience are not available resources, and therefore, are not reported in the funds.		1,278,319
Long-term liabilities are not due and payable in the current period and therefore are not reported as governmental fund liabilities. These liabilities consist of the following:		
Bonds payable		(5,480,000)
Deferred charge on refunding		193,391
Compensated absences		(345,324)
Net pension liability		(4,161,735)
Net position of governmental activities	\$	617,077

The accompanying notes are an integral part of these basic financial statements.

Chino Valley Fire District
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2016

	Major Funds			Total Governmental Funds
	General	Capital Reserve	Debt Service	
Revenues:				
<i>Taxes:</i>				
Property taxes	\$ 3,467,660	\$ -	\$ 436,679	\$ 3,904,339
Fire district assistance tax	315,396	-	-	315,396
Charges for services	67,540	-	-	67,540
Intergovernmental	539,613	-	-	539,613
Interest earnings	12,525	-	1,838	14,363
Other	61,828	-	-	61,828
Total revenues	4,464,562	-	438,517	4,903,079
Expenditures:				
<i>Public safety - fire protection:</i>				
Emergency services	3,926,399	-	-	3,926,399
Administrative and support services	302,845	-	-	302,845
Capital outlay	16,366	-	91,791	108,157
<i>Debt service:</i>				
Principal	-	-	255,000	255,000
Interest	-	-	185,025	185,025
Total expenditures	4,245,610	-	531,816	4,777,426
Excess of revenues over (under) expenditures	218,952	-	(93,299)	125,653
<i>Other financing sources (uses):</i>				
Refunding bonds issued	-	-	4,640,000	4,640,000
Payment to refunded bond escrow agent	-	-	(3,088,391)	(3,088,391)
Refunding bond issuance costs	-	-	(72,395)	(72,395)
Transfers in	-	1,587,320	-	1,587,320
Transfers out	(1,587,320)	-	-	(1,587,320)
Total other financing sources (uses)	(1,587,320)	1,587,320	1,479,214	1,479,214
Net change in fund balances	(1,368,368)	1,587,320	1,385,915	1,604,867
Fund balances, beginning of year	1,904,164	989,198	613,478	3,506,840
Fund balances, end of year	\$ 535,796	\$ 2,576,518	\$ 1,999,393	\$ 5,111,707

The accompanying notes are an
integral part of these basic financial statements.

Chino Valley Fire District
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances - Governmental Funds
to the Statement of Activities
Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$	1,604,867
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Capital outlays are reported in governmental funds as expenditures. However, the statement of activities allocates the cost of capital outlay over their estimated useful lives as depreciation expense.		
Capital outlay		106,668
Depreciation expense		(303,534)
Governmental funds defer revenues that do not provide current financial resources. However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received.		
		8,362
District 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. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.		
		(63,906)
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, including payments to escrow for bond refundings consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal paid on long-term debt		3,150,000
Proceeds from the issuance of long-term debt		(4,640,000)
Deferred charge on refunding		193,391
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. This amount represents the change in accrued compensated absences.		
		(30,051)
Change in net position of governmental activities	\$	25,797

The accompanying notes are an
integral part of these basic financial statements.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies

Reporting entity

Chino Valley 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 and emergency medical related services to the residents and guests of the District and surrounding area. 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.

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 non-fiduciary 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 non-exchange 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. The District currently does not have any component units.

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 two funds, the General Fund and the Debt Service 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 that are not accounted for in another fund.

The **Capital Project Fund** is used to account for board designated monies transferred from the General Fund and expended for the construction of buildings and improvements as well as for the acquisition of major equipment for use by the District.

The **Debt Service Fund** is used to account for legally restricted tax levies of the District which are used to meet ongoing debt service requirements.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 Yavapai 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.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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. 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 one year. 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	35-40 years
Vehicles, furniture and equipment	3-10 years

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.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position 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 two types of items which qualifies for reporting in this category. One is a deferred outflow related to the partial refunding of the Series 2007A bonds. The other item is a pension related item reported on the government-wide financial statements. See note 6 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, which qualify for reporting under this category. One item which arises only under a modified accrual basis of accounting, *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 6 for more information.

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 district'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.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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 a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Long-term obligations

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

Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick benefits, which are eligible for payment upon separation from government service. For governmental funds, amounts of vested or accumulated vacation and sick leave 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.

Receivables and payables

All program service receivables are shown net of an allowance for uncollectible amounts. However, at year end, no allowance was made for uncollectible accounts as management expects all receivables to be fully collectible.

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" on the governmental fund financial statements. The effect these interfund transactions between governmental funds are eliminated on the statement of net position.

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.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

NOTE 2. 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.

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, 2015, if any.

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 3. Deposits and Investments

Deposits as of the District at June 30, 2015 consist of the following:

	Fair Value	Credit Rating	Weighted Average Maturity (2)
Deposits:			
Cash on hand	\$ 12	N/A	N/A
Cash in bank	6,895	N/A	N/A
Cash with paying agent	288,587	N/A	N/A
Cash on deposit with the Yavapai County Treasurer	4,923,434	N/A	N/A
Total cash and investments	\$ 5,218,928		

(1) Ratings are unknown.

(2) Interest rate risk is estimated using the weighted average days to maturity, when applicable.

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. The deposits, consisting of the bank balance of \$5,026,439 as of June 30, 2016, with the Yavapai County Treasurer's investment pool represent a proportionate interest in the pool's portfolio. However, the District's allocation is not identified with any specific investments and is not subject to custodial credit risk.

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.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 3. Deposits and Investments (Continued)

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.

Fair value measurements

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. As of June 30, 2016 the District held no investments that were measured at fair value.

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Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 4. Capital Assets

The following table summarizes changes to capital assets for the year ended June 30, 2016:

Governmental Activities:	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Capital assets, not being depreciated:				
Land	\$ 386,335	\$ -	\$ -	\$ 386,335
Total capital assets, not being depreciated	<u>386,335</u>	<u>-</u>	<u>-</u>	<u>386,335</u>
Capital assets, being depreciated:				
Buildings and improvements	3,862,993	-	-	3,862,993
Vehicles	2,678,564	-	-	2,678,564
Operations and communications equipment	1,208,222	106,668	-	1,314,890
Total capital assets, being depreciated	<u>7,749,779</u>	<u>106,668</u>	<u>-</u>	<u>7,856,447</u>
Less accumulated depreciation for:				
Buildings and improvements	(806,088)	(96,570)	-	(902,658)
Vehicles	(2,138,339)	(139,756)	-	(2,278,095)
Operations and communications equipment	(1,090,179)	(67,208)	-	(1,157,387)
Total accumulated depreciation	<u>(4,034,606)</u>	<u>(303,534)</u>	<u>-</u>	<u>(4,338,140)</u>
Total capital assets, being depreciated, net	<u>3,715,173</u>	<u>(196,866)</u>	<u>-</u>	<u>3,518,307</u>
Governmental activities capital assets, net	<u>\$ 4,101,508</u>	<u>\$ (196,866)</u>	<u>\$ -</u>	<u>\$ 3,904,642</u>

Depreciation expense of \$303,534 was charged to the public safety function of the District.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 5. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

Governmental Activities:	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016	Current Portion
General Obligation Bonds:					
GADA, Series 2007 A	\$ 3,990,000	\$ -	\$ (3,150,000)	\$ 840,000	\$ 270,000
Refunding, Series 2016	-	3,140,000	-	3,140,000	-
Series 2016 B	-	1,500,000	-	1,500,000	-
Net pension liability	3,596,412	565,323	-	4,161,735	-
Compensated Absences	315,273	130,999	(100,948)	345,324	130,999
Total Governmental Activities	\$ 7,901,685	\$ 5,336,322	\$ (3,250,948)	\$ 9,987,059	\$ 400,999

Long-term debt of the District at June 30, 2016 is comprised of the following issues:

General Obligation Bonds:

Governmental Activities:

Series 2007A General Obligation Bonds, payable to the Greater Arizona Development Authority, due in annual principal installments ranging from \$200,000 to \$425,000, bearing interest semi-annually at 4.00% to 5.0%, maturing July 1 ,2026. A partial refunding was completed on June 8, 2016. The new maturity of the remaining balance is July 1, 2018 with principal installments ranging from \$270,000 to \$270,000.

\$ 840,000

Series 2016 General Obligation Refunding Bonds, due in annual principal installments ranging from \$25,000 to \$390,000, bearing interest semi-annually at 2.65%, maturing July 1 ,2027.

3,140,000

Series 2016B General Obligation Bonds, due in annual principal installments ranging from \$225,000 to \$330,000, bearing interest semi-annually at 2.65%, maturing July 1 ,2031.

1,500,000

Total Governmental Activities

5,480,000

Net Pension Liability

4,161,735

Accrued Compensated Absences

345,324

Total Long-Term Debt

9,987,059

Less Current portion:

Governmental Activities

(400,999)

Net Long-Term Debt

\$ 9,586,060

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 5. Long-Term Debt (Continued)

The annual requirements to amortize bonds payable at June 30, 2016 are as follows:

General Obligation Bonds

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2017	\$ 270,000	\$ 100,773
2018	360,000	142,000
2019	315,000	127,759
2020	330,000	115,805
2021	335,000	106,994
2022-2026	1,805,000	395,579
2027-2031	1,735,000	152,971
2032	330,000	4,373
Totals	\$ 5,480,000	\$ 1,146,254

During the year ended June 30, 2016 the District issued \$4,640,000 of general obligation bonds (Series 2016) and refunding bonds (Series 2016 B) for new capital project money of \$1,500,000 and for resources placed in an escrow account to cover all future debt service payments of \$2,895,000 of general obligation bonds (Series 2007 A). As a result, the refunded bonds are considered to be defeased. However, as disclosed above, not all of the Series 2007 A general obligation bonds were refunded and defeased. The reacquisition price exceeded the net carrying amount of the old debt by \$193,391. This amount is being amortized over the refunded debt's life and is recorded as a deferred outflow on the government-wide statement of net position. The transaction resulted in an economic gain of \$219,358 and a reduction of \$224,700 in future debt service payments. The advance refunding defeased debt still outstanding at June 30, 2016 was \$2,895,000.

Note 6. Interfund Transfers

Interfund transfers for the year ended June 30, 2016 are as follows:

	Transfers in:
Transfers out:	Capital Project Fund
General Fund	\$ 1,587,320
Total	\$ 1,587,320

Transfers were made to move unrestricted general fund revenue to the capital projects fund.

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. 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, 2016, 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	\$ 4,161,735
Deferred outflows of resources	1,558,594
Deferred inflows of resources	280,275
Pension expense	515,727

The District's accounts payable and other current liabilities includes \$46,335 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the District reported \$451,821 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.

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:

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. 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 survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

The District's contributions for the current and two preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2014	\$ 12,037	\$ 675	\$ 270
2015	9,973	540	110
2016	6,870	317	76

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 7. Retirement and Pension Plans (Continued)

Pension liability – At June 30, 2016, the District reported a liability of \$138,103 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was 0.000890 percent, which was a decrease of 0.000299 percent from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the District recognized pension expense for ASRS of (\$10,364). At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,769	\$ 7,237
Net difference between projected and actual earnings on pension plan investments	-	4,426
Changes in proportion and differences between contributions and proportional share of contributions	-	39,210
Contributions subsequent to the measurement date	<u>6,870</u>	<u>-</u>
Total	<u>\$ 10,639</u>	<u>\$ 50,873</u>

The \$10,639 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, 2017. 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:

<u>Year Ended June 30</u>		<u>Deferred Outflows (Inflows) of Resources</u>
2017	\$	(22,210)
2018		(21,747)
2019		(6,342)
2020		3,195
2021		-
Thereafter		-

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

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

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

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined 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	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	58%	6.79%	3.94%
Fixed income	25%	3.70%	0.93%
Commodities	2%	3.93%	0.08%
Real Estate	10%	4.25 %	0.42%
Multi-asset	5%	3.41%	0.17%
Totals	100%		5.54%
		Inflation	3.25%
		Expected arithmetic nominal return	8.79%

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8.00 percent, which is less than the long-term expected rate of return of 8.79 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	\$ 180,962	\$ 138,103	\$ 108,730

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 five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. 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
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, from and after December 31, 2015, 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.

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

Employees covered by benefit terms – At June 30, 2016, 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	5
Active employees	31
Total	43

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, 2016, active PSPRS 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 22.18 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.49 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, 2016, were:

Pension

Contributions made	\$	434,009
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Health Insurance Premium Benefit

Annual OPEB cost	\$	10,549
Contributions made		10,549

Pension liability – At June 30, 2016, the District reported a net pension liability of \$23,201,436. The net pension liability was measured as of June 30, 2015, 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, 2015, 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 District’s net pension liability as a result of the statutory adjustments is not known.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 7. Retirement and Pension Plans (Continued)

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.85%
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, 2015, 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 7.85 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 geometrical real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.00%</u>	

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 7. Retirement and Pension Plans (Continued)

Discount Rate –A Single Discount Rate of 7.85% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.85%. 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.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 11,322,290	\$ 7,901,803	\$ 3,420,487
Changes for the year:		-	
Service cost	378,074	-	378,074
Interest on total pension liability	887,543	-	887,543
Changes of benefit terms	-	-	-
Difference between expected and actual experience in the measurement of the pension liability	192,162	-	192,162
Changes of assumptions	-	-	-
Contributions - employer	-	336,747	(336,747)
Contributions - employee	-	240,325	(240,325)
Net investment income	-	291,423	(291,423)
Benefit payments, including refunds of employee contributions	(410,089)	(410,089)	-
Other changes*	-	(13,861)	13,861
Net changes	1,047,690	444,545	603,145
Balances at June 30, 2016	\$ 12,369,980	\$ 8,346,348	\$ 4,023,632

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

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

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 (6.85%)	Discount Rate (7.85%)	1% Increase (8.85%)
Proportionate share of Net pension (asset) / liability	\$ 5,634,141	\$ 4,023,632	\$ 2,688,382

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

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2016, the District recognized pension expense for PSPRS of \$526,091. At June 30, 2016, 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	\$ 444,936	\$ -
Changes in assumptions	401,107	-
Net difference between projected and actual earnings on	267,903	229,402
Contributions subsequent to the measurement date	434,009	-
Total	\$ 1,547,955	\$ 229,402

The \$1,547,955 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, 2016.

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

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:

<u>Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2017	\$ 99,618
2018	99,618
2019	99,620
2020	176,085
2021	109,110
Thereafter	300,493

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

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

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 2016 contribution requirements:

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.50%

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Health Insurance	2014	\$ 23,000	100%	-
	2015	25,774	100%	-
	2016	10,549	100%	-

Agent plan OPEB funded status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	<u>Insurance Subsidy</u>
Actuarial accrued liability (AAL)	\$ 377,313
Actuarial value of plan assets	<u>291,768</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 85,545</u>
Funded ratio (actuarial value of plan assets/AAL)	77.33%
Covered payroll (active plan members)	\$ 1,979,496
UAAL as a percentage of covered payroll	4.32%

**Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016**

Note 7. Retirement and Pension Plans (Continued)

The actuarial methods and assumptions used for the most recent valuation date are as follows:

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; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Note 8. 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 9. Intergovernmental Agreements

The Chino Valley and Central Yavapai Fire Districts entered into a Joint Management Agreement for the purpose of utilizing Administrative and Senior Management Personnel more effectively for fulfilling the essential and redundant requirements of both organizations. While both organizations have existing IT, Purchasing, Fleet Maintenance, Fire Prevention and Firefighting Operations IGAs, to jointly use the Fire Chief, Finance, HR and Senior Management Staff was an experimental concept for fire districts. This was approved and in effect June 2014.

Chino Valley Fire District
Notes to the Financial Statements
June 30, 2016

Note 10. Subsequent Events

Per A.R.S. 48 §805.01, the Chino Valley Fire District and Central Yavapai Fire District Boards of Directors unanimously voted and approved to create a Joint Powers Authority (JPA) on October 15th, 2015 for an effective date of July 1, 2016. While Chino Valley and Central Yavapai will still be in existence for the purpose of collecting taxes and bonding authority, the operations and employee management will be through the Central Arizona Fire and Medical Authority. The purpose of creating the Central Arizona Fire and Medical Authority (CAFMA) is to facilitate the efficient operation of both organizations through combined resources while reducing costs through combining purchasing, providing services and vendor accounts. Individual organizational future costs are also deferred due to reassignment of resources and personnel management. As per the Intergovernmental Agreement (IGA), both organizations transferred all assets, liabilities and personnel to CAFMA effective July 1, 2016. This transfer included all cash, titles of real property and vehicles, receivables, long and short term liabilities (bond debt excluded) and personnel costs (including retirement obligations).

The Central Yavapai and Chino Valley Fire Districts continue to exist as taxing authorities and transfer most receivables to fund the operational expenses of CAFMA as approved in the budgets of each organization. CAFMA is unable to bond for capital asset purchases and that statutory authority (including the bond debt obligation of repayment) is held with each Fire District. A copy of the Resolutions and IGA to create the Joint Powers Authority are available upon request.

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Required Supplementary Information

Chino Valley Fire District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues:			
<i>Taxes:</i>			
Property taxes	\$ 3,481,052	\$ 3,467,660	\$ (13,392)
Fire district assistance tax	313,900	315,396	1,496
Charges for services	59,000	67,540	8,540
Intergovernmental	150,000	539,613	389,613
Interest earnings	6,000	12,525	6,525
Other	19,200	61,828	42,628
Total revenues	<u>4,029,152</u>	<u>4,464,562</u>	<u>435,410</u>
<i>Public safety - fire protection:</i>			
Emergency services	3,976,094	3,926,399	49,695
Administrative and support services	164,559	302,845	(138,286)
Capital outlay	28,500	16,366	12,134
Total expenditures	<u>4,169,153</u>	<u>4,245,610</u>	<u>(76,457)</u>
Excess of revenues over expenditures	(140,001)	218,952	358,953
<i>Other financing sources (uses):</i>			
Transfers out	<u>(1,587,320)</u>	<u>(1,587,320)</u>	<u>-</u>
Total other financing uses	<u>(1,587,320)</u>	<u>(1,587,320)</u>	<u>-</u>
Changes in fund balance	(1,727,321)	(1,368,368)	358,953
Fund balance, beginning of year	<u>1,727,321</u>	<u>1,904,164</u>	<u>176,843</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 535,796</u>	<u>\$ 535,796</u>

The accompanying notes are an integral part of this schedule.

**Chino Valley Fire District
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2016**

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Proportion of the net pension liability (asset)	0.000890%	0.001189%
Proportionate share of the net pension liability (asset)	\$ 138,103	\$ 175,925
Covered employee payroll	\$ 65,929	\$ 100,456
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	209.47%	175.13%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

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

**Chino Valley Fire District
Required Supplementary Information
Schedule of Contributions
June 30, 2016**

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Contractually required contribution	\$ 9,973	\$ 12,037
Contributions in relation to the contractually required contribution	\$ (9,973)	\$ (12,037)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 65,929	\$ 100,456
Contributions as a percentage of covered-employee payroll	15.13%	11.98%

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

**Chino Valley Fire District
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2016**

	Public Safety Personnel Retirement System	
	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Total pension liability		
Service cost	\$ 378,074	\$ 381,587
Interest on total pension liability	887,543	754,782
Changes of benefit terms*	-	39,928
Difference between expected and actual experience of the total net pension liability	192,162	345,250
Changes of assumptions	-	505,881
Benefit payments, including refunds of employee contributions	(410,089)	(258,812)
Net change in total pension liability	1,047,690	1,768,616
Total pension liability - beginning	11,322,290	9,553,674
Total pension liability - ending (a)	\$ 12,369,980	\$ 11,322,290
Plan fiduciary net position		
Contributions - employer	\$ 336,747	\$ 319,912
Contributions - employee	240,325	217,009
Net investment income	291,423	935,127
Benefit payments, including refunds of employee contributions	(410,089)	(258,812)
Other (net transfer)	(13,861)	(7,532)
Net change in plan fiduciary net position	444,545	1,205,704
Plan fiduciary net position - beginning	7,901,803	6,696,099
Plan fiduciary net position - ending (b)	\$ 8,346,348	\$ 7,901,803
Net pension liability - ending (a) - (b)	\$ 4,023,632	\$ 3,420,487
Plan fiduciary net position as a percentage of the total pension liability	67.47%	69.79%
Covered employee payroll	\$ 2,058,918	\$ 1,990,513
Net pension liability as a percentage of covered- employee payroll	195.42%	171.84%

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

**Chino Valley Fire District
Required Supplementary Information
Schedule of Contributions
June 30, 2016**

Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
Actuarially determined contribution	\$ 336,747	\$ 319,912
Contributions in relation to the actuarially determined contribution	\$ (336,747)	\$ (319,912)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,058,918	\$ 1,990,513
Contributions as a percentage of covered-employee payroll	16.36%	16.07%

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

**Chino Valley Fire District
 Required Supplementary Information
 Schedule of Agent OPEB Plan Funding Progress
 June 30, 2016**

**Public Safety Personnel Retirement System
 Health Insurance Premium Benefit**

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
2013	-	286,252	286,252	0.0%	2,000,148	14.31%
2014	268,479	328,071	59,592	81.84%	1,990,512	2.99%
2015	291,768	377,313	85,545	77.33%	1,979,496	4.32%
2016	**	**	**	**	**	**

**Chino Valley Fire District
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2016**

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	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 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)

Chino Valley Fire District
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2016

NOTE 2. Factors that Affect the Identification of Trends

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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
Chino Valley 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, each major fund, and the aggregate remaining fund information of Chino Valley Fire District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Chino Valley Fire District's basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

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



HintonBurdick, PLLC
Flagstaff, Arizona
December 14, 2016



December 14, 2016

To the Board of Directors of
Chino Valley Fire District
Prescott Valley, Arizona

We have audited the financial statements of the governmental activities and each major fund of Chino Valley Fire District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and 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 June 11, 2015. 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 Chino Valley Fire District are described in Note 1 to the financial statements.

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 Chino Valley 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, 2016, 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, 2015, 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 December 14, 2016.

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

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,

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC". The signature is written in black ink and is positioned above the typed name.

HintonBurdick, PLLC
Flagstaff, Arizona
December 14, 2016