HIGHLANDS FIRE DISTRICT

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2022

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

HIGHLANDS FIRE DISTRICT

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Independent Auditors' Report

To the Board of Directors of
Highlands Fire District

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund, of Highlands Fire District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Highlands Fire District, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension/ other post-employment benefits (OPEB) related schedules, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 September 28, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

HintonBurdick, PLLC
Gilbert, Arizona
September 28, 2022

BOARD OF DIRECTORS

Tom Haneck	**Chair**
Brad Bippus	**Clerk**
Carl Nelson	**Member**
Dirch Foreman	**Member**
Jay Smith	**Member**

CHIEF OFFICERS

Todd Miller	**Chief**
Eric True	**Battalion Chief**
Mitch Lopez	**Battalion Chief**
Mike Greenwalt	**Battalion Chief**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Highlands Fire District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2022. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceed total liabilities (net position) by $5,395,445 at the close of the fiscal year.
- Total net position increased by $224,922.
- Total revenues from all sources were $6,420,275 and the total cost of all District programs was $6,015,353.
- Total revenue received in the General Fund was $285,269 less than the final budget and expenditures were $934,247 more than the final budget.
- Unassigned fund balance increased $383,971 during the fiscal year. The unassigned balance at June 30, 2022 was $4,357,486 compared to $3,973,515 at June 30, 2021.

USING THIS ANNUAL REPORT

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

Reporting the District as a Whole

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

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

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. The District's combined assets and deferred outflows exceed liabilities and deferred inflows by $5,395,455 as of June 30, 2022 as shown on the following condensed statement of net position.

	Governmental activities	
	6/30/2022	6/30/2021
Current and other assets	$ 5,170,902	$ 4,601,593
Non-current assets	1,100,883	4,561
Capital assets	7,446,591	7,358,942
Total assets	13,718,376	11,965,096
Deferred outflows	8,968,794	2,694,595
Long-term liabilities outstanding	15,042,484	8,758,804
Other liabilities	556,494	358,903
Total liabilities	15,598,978	9,117,707
Deferred inflows	1,692,737	371,450
Net position:		
Invested in capital assets, net of related debt	5,953,121	5,636,267
Unrestricted	(557,666)	(465,733)
Total net position	$ 5,395,455	$ 5,170,534

Governmental Activities

The cost of all Governmental activities this year was $6,015,353. Program revenues totaled $2,259,612 and general revenues, including taxes, investment earnings and other revenues totaled $3,980,663.

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

	Governmental activities	
	6/30/2022	6/30/2021
Revenues:		
Program revenues:		
Charges for services	$ 2,227,061	$ 2,015,814
Operating grants and contributions	500	20,263
Capital grants and contributions	32,051	16,000
General revenues:		
Taxes	3,935,607	3,789,942
Unrestricted interest earnings	21,636	32,172
Other revenues	23,420	26,412
Total revenues	6,240,275	5,900,603
Expenses:		
Public Safety	6,015,353	5,640,161
Total expenses	6,015,353	5,640,161
Increase/(decrease) in net position	224,922	260,442
Net position, beginning	5,170,534	4,910,093
Net position, ending	$ 5,395,455	$ 5,170,534

Total resources available during the year to finance governmental operations were $11,410,809 consisting of net position at July 1, 2021 of $5,170,534, program revenues of $2,259,612 and General Revenues of $3,980,663. Total Governmental Activities expenses during the year were $6,015,353; thus Governmental Net Position increased by $224,922 to $5,395,455.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were $934,247 less than actual expenditures. This was a result of the refunding of the Wells Fargo note payable not being included in the expense budget. Actual revenues were less than the final budget by $285,269.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the District are those assets that are used in performance of District functions. Capital Assets include land, buildings and improvements, emergency vehicles, equipment and furniture and fixtures. At the end of fiscal year 2022, net capital assets of the government activities totaled $7,446,591. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See notes to the financial statements.)

Debt

At year end, the District had $15,511,612 in governmental-type debt. This amount includes compensated absences, notes payable, bonds payable and net pension/OPEB liability. The significant increase in the current year is a result of the one-year reporting lag in the pay down of the PSPRS net pension liability using bond funds (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the District Budget for fiscal year 2023, the District Board and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted so as to contain costs at the same level as fiscal year 2022.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Miller, Chief, 3350 Old Munds Hwy, Flagstaff, AZ 86005 or call (928) 525-1717.

BASIC FINANCIAL STATEMENTS

HIGHLANDS FIRE DISTRICT
Statement of Net Position
June 30, 2022

		Governmental Activities
Assets		
Cash and cash equivalents	$	4,555,004
Receivables		567,055
Prepaid insurance		48,843
Non-current assets		
Restricted cash and cash equivalents		1,000,000
Net OPEB asset		100,883
Capital assets not being depreciated:		
Land		450,000
Capital assets, net of accumulated depreciation:		
Buildings and improvements		5,948,325
Emergency vehicles		696,424
Equipment		348,198
Furniture and fixtures		3,644
Total assets		13,718,376
Deferred Outflows of Resources		
Deferred outflows related to pensions		8,946,443
Deferred outflows related to OPEB		22,351
Total deferred outlows		8,968,794
Liabilities		
Accounts payable and other current liabilities		87,366
Noncurrent liabilities:		
Due within one year		469,128
Due in more than one year		9,681,070
Net pension / OPEB liability		5,361,414
Total liabilities		15,598,978
Deferred Inflows of Resources		
Deferred inflows related to pensions		1,585,476
Deferred inflows related to OPEB		107,261
Total deferred inflows		1,692,737
Net Position		
Net investment in capital assets		5,953,121
Unrestricted		(557,666)
Total net position	$	5,395,455

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

HIGHLANDS FIRE DISTRICT
Statement of Activities
For the Year Ended June 30, 2022

	Governmental Activities
Expenses-Public safety	
Fire protection and emergency services	$ 5,371,666
Depreciation	364,488
Interest	279,199
Total program expenses	6,015,353
Program revenues:	
Charges for services	2,227,061
Operating grants and contributions	500
Capital grants and contributions	32,051
Total program revenues	2,259,612
Net program expenses	3,755,741
General revenues	
Property taxes	3,505,825
Fire District Assistance Tax (FDAT)	429,781
Unrestricted interest earnings	21,636
Gain on sale of capital assets	21,177
Other revenues	2,243
Total general revenues	3,980,662
Change in net position	224,921
Net position - beginning	5,170,534
Net position - ending	$ 5,395,455

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

HIGHLANDS FIRE DISTRICT
Balance Sheet
Governmental Funds
June 30, 2022

	General Fund	Total Governmental Funds
Assets:		
Cash and cash equivalents	$ 4,555,004	$ 4,555,004
Property tax receivables	126,365	126,365
Due from other governments	440,690	440,690
Prepaid insurance	48,843	48,843
Restricted cash and cash equivalents	1,000,000	1,000,000
Total Assets	6,170,902	6,170,902
Liabilities:		
Accounts payable	31,776	31,776
Accrued liabilities	55,590	55,590
Total Liabilities	87,366	87,366
Deferred Inflows of Resources		
Unavailable revenue - property taxes	101,315	101,315
Total deferred inflows of resources	101,315	101,315
Fund Balance:		
Nonspendable	48,843	48,843
Restricted	1,000,000	1,000,000
Assigned	575,892	575,892
Unassigned	4,357,486	4,357,486
Total Fund Balance	5,982,221	5,982,221
Total liabilities, deferred inflows of resources and fund balance	$ 6,170,902	$ 6,170,902

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

HIGHLANDS FIRE DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2022

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances	$	5,982,221
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		7,446,591
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.		101,315
Some liabilities, including notes payable, bonds payable and net pension and OPEB liabilities,are not due and payable in the current period and therefore are not reported in the funds.		(15,410,729)
Deferred inflows and outflows relating to pensions and OPEB do not provide or require current financial resources and are therefore not reported in the funds.		7,276,057
Net position of governmental activities	$	5,395,455

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

HIGHLANDS FIRE DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2022

	General Fund	Total Governmental Funds
Revenues:		
Taxes	$ 3,492,768	$ 3,492,768
Fire district assistance tax	363,896	363,896
Smart and safe Arizona tax	65,885	65,885
Intergovernmental grant revenue	32,551	32,551
Charges for services	2,227,061	2,227,061
Interest income	21,636	21,636
Other revenues	23,743	23,743
Total Revenues	6,227,540	6,227,540
Expenditures:		
Public Safety:		
Salaries	3,193,286	3,193,286
Benefits	8,142,579	8,142,579
Administration	16,211	16,211
Professional services	111,891	111,891
Interagency expenses	250,507	250,507
Education and training	20,587	20,587
Insurance	40,614	40,614
Dues and subscriptions	2,464	2,464
Repairs and maintenance	101,472	101,472
Supplies	125,862	125,862
Utilities	57,665	57,665
Bear Jaw operating	11,103	11,103
Cooperative assignment	27,011	27,011
Miscellaneous	7,870	7,870
Debt service:		
Principal	1,912,805	1,912,805
Interest	294,100	294,100
Capital outlay	452,659	452,659
Total Expenditures	14,768,686	14,768,686
Excess of Revenues Over (Under) Expenditures	(8,541,146)	(8,541,146)
Other financing sources (uses)		
Debt proceeds	10,164,657	10,164,657
Costs of issuance	(109,600)	(109,600)
Premium on bond issuance	38,443	38,443
Total other financing sources (uses):	10,093,500	10,093,500
Net change in fund balance	1,552,354	1,552,354
Fund Balance - Beginning of Year	4,429,867	4,429,867
Fund Balance - End of Year	$ 5,982,221	$ 5,982,221

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

HIGHLANDS FIRE DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2022

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance - total governmental funds	$ 1,552,354
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	87,972
Governmental funds report cash received from the sale of fixed assets as revenue. However, in the statement of activities, the costs of those asset and related accumulated depreciation needs to be written off and any gain/loss recognized. This is the amount of the remaining net book value of the assets disposed.	(323)
Accrued interest for long-term debt is not recorded as an expenditure for the current year while it is recorded in the statement of activities.	11,057
The issuance of long-term liabilities (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(8,286,451)
Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changed in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.	6,837,645
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	13,058
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.	9,609
Change in net position of governmental activities	$ 224,921

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

HIGHLANDS FIRE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund – Budget and Actual
For the Year Ended June 30, 2022

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Taxes	$ 3,535,449	$ 3,535,449	$ 3,492,768	$ (42,681)
Fire district assistance tax	358,000	358,000	363,896	5,896
Smart and safe Arizona tax	-	-	65,885	65,885
Intergovernmental grant revenue	181,350	181,350	32,551	(148,799)
Charges for services	2,379,710	2,379,710	2,227,061	(152,649)
Interest income	27,000	27,000	21,636	(5,364)
Other revenues	31,300	31,300	23,743	(7,557)
Total Revenues	6,512,809	6,512,809	6,227,540	(285,269)
Expenditures:				
Public Safety:				
Salaries	3,109,643	3,109,643	3,193,285	(83,642)
Benefits	8,387,165	8,387,165	8,142,579	244,586
Administration	16,405	16,405	16,211	194
Professional services	459,322	459,322	111,891	347,431
Interagency expenses	308,000	308,000	250,507	57,493
Education and training	37,950	37,950	20,587	17,363
Insurance	42,500	42,500	40,614	1,886
Dues and subscriptions	2,995	2,995	2,464	531
Repairs and maintenance	93,110	93,110	101,472	(8,362)
Supplies	128,763	128,763	125,862	2,901
Utilities	55,850	55,850	57,665	(1,815)
Bear Jaw operating	26,000	26,000	11,103	14,897
Cooperative assignment	105,000	105,000	27,011	77,989
Miscellaneous	9,920	9,920	7,870	2,050
Debt service:				
Principal	204,000	204,000	1,912,805	(1,708,805)
Interest	-	-	294,100	(294,100)
Capital outlay	847,816	847,816	452,659	395,157
Total Expenditures	13,834,439	13,834,439	14,768,686	(934,247)
Excess of Revenues Over/(Under) Expenditures	(7,321,630)	(7,321,630)	(8,541,146)	(1,219,516)
Other Financing Sources (Uses):				
Debt proceeds	8,535,000	8,535,000	10,164,657	1,629,657
Costs of issuance	-	-	(109,600)	(109,600)
Premium on bond issuance	-	-	38,443	38,443
Total other financing sources (uses):	8,535,000	8,535,000	10,093,500	1,558,500
Net change in fund balance	1,213,370	1,213,370	1,552,354	338,984
Fund Balance - Beginning of Year	4,429,867	4,429,867	4,429,867	-
Fund Balance - End of Year	$ 5,643,237	$ 5,643,237	$ 5,982,221	$ 338,984

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

Note 1. Summary of Significant Accounting Policies

Description of government-wide financial statements

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

Reporting entity

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

Basis of presentation – government-wide financial statements

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

Basis of presentation – fund financial statements

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

The District reports the following major governmental funds:

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

Measurement focus and basis of accounting

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Cash, cash equivalents, and investments

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

Inventories and prepaid items

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government currently has two types of items which qualify for reporting in this category. They are pension and OPEB related items reported on the government-wide financial statements. See footnote 7 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 three types of items that qualify for reporting in this category. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from only one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items are pension and OPEB related items reported on the government-wide financial statements. See footnote 7 for more information.

Note 1. Summary of Significant Accounting Policies (Continued)

Postemployment benefits

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

Net position flow assumption

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

Leases

Lessee: The District is a lessee for a noncancellable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of $5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

Note 1. Summary of Significant Accounting Policies (Continued)

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Fund balance flow assumptions

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

Fund balance policies

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

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Revenues and expenditures/expenses

Program revenues

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

Property taxes

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

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter. A lien against real and personal property assessed attaches on the first day of January preceding the assessment and levy thereof.

Compensated Absences

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

Cost of capital assets	$ 11,756,535
Accumulated depreciation	(4,309,944)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$ 7,446,591

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

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

Capital outlay	$ 452,460
Depreciation expense	(364,488)
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position - governmental activities	$ 87,972

Note 3. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

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

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

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

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

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, 2022, if any.

Note 4. Deposits and Investments

Deposits as of the District at June 30, 2022 consist of the following:

	Fair Value	Quality Rating	Weighted Average Maturity
Deposits:			
Cash on hand	$ 200	N/A	N/A
Restricted cash on deposit with the Coconino County Treasurer	1,000,000	N/A	N/A
Cash on deposit with the Coconino County Treasurer	4,554,804	N/A	N/A
Total deposits	$ 5,555,004		

Note 4. Deposits and Investments (Continued)

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of June 30, 2022, none of the District's bank balance of $5,685,558 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The District's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the county treasurer's pool, and other investments as allowed by state statutes. Eligible Arizona depositories as defined by state statutes are any commercial bank or savings and loan association with its principal place of business in the state of Arizona, which are insured by the federal deposit insurance corporation, or any other insuring instrumentality of the United States. The District had no investments as of June 30, 2022.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had no assets measured at fair value as of June 30, 2022.

Interest rate risk

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

Credit risk

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

Note 5. Capital Assets

The following table summarizes changes to capital assets for the year ended June 30, 2022:

Governmental Activities:	Balance 6/30/2021	Additions	Deletions	Transfers	Balance 6/30/2022
Capital assets, not being depreciated:					
Land and land improvements	$ 450,000	$ -	$ -	$ -	$ 450,000
Construction in progress	236,072	264,987	-	(501,059)	-
Total capital assets, not being depreciated	686,072	264,987	-	(501,059)	450,000
Capital assets, being depreciated:					
Buildings and improvements	8,005,720	45,765	-	58,401	8,109,886
Emergency vehicles	1,696,545	-	(56,104)	442,658	2,083,099
Equipment	955,646	141,708	-	-	1,097,354
Furniture and fixtures	16,196	-	-	-	16,196
Total capital assets, being depreciated	10,674,107	187,473	(56,104)	501,059	11,306,535
Less accumulated depreciation for:					
Buildings and improvements	(1,953,366)	(208,195)	-	-	(2,161,561)
Emergency vehicles	(1,347,138)	(95,318)	55,781	-	(1,386,675)
Equipment	(690,611)	(58,545)	-	-	(749,156)
Furniture and fixtures	(10,122)	(2,430)	-	-	(12,552)
Total accumulated depreciation	(4,001,237)	(364,488)	55,781	-	(4,309,944)
Total capital assets, being depreciated, net	6,672,870	(177,015)	(323)	501,059	6,996,591
Governmental activities capital assets, net	$ 7,358,942	$ 87,972	$ (323)	$ 501,059	$ 7,446,591

Depreciation expense of $364,488 was charged to the public safety function of the District.

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2022:

Governmental Activities:	Balance 6/30/2021	Additions	Retirements	Balance 6/30/2022	Current Portion
Direct borrowings:					
Notes payable	$ 1,711,618	$ 109,657	$(1,747,805)	$ 73,470	$ 36,187
Compensated absences	161,738	127,344	(136,953)	152,129	114,097
Net pension/OPEB liabilities	7,149,825	-	(1,788,411)	5,361,414	-
Direct placement bonds:					
Tax-exempt refunding series 2021	-	1,545,000	(125,000)	1,420,000	180,000
Taxable series 2021	-	8,510,000	(40,000)	8,470,000	135,000
Bond premium	-	38,443	(3,844)	34,599	3,844
Total	$ 9,023,181	$ 10,330,444	$(3,842,013)	$ 15,511,612	$ 469,128

Notes Payable

In May 2011, the District entered into a Note payable agreement with Wells Fargo Bank, N.A. to refinance the construction of a fire station facility in Mountainaire. The note from Wells Fargo Bank, N.A. totaled $2,883,225. Under the terms of the agreement, semi-annual payments of $104,745 shall be made including interest at an effective rate of 3.95 percent. During the fiscal year ended June 30, 2022, the District paid off the note payable using the Tax-exempt refunding series 2021 bond proceeds.

In August 2021, the District entered into a payment agreement with Zoll Medical Corporation in the amount of $109,657 to finance the purchase of three heart monitors. No interest was charged. The agreement calls for three annual payments of $36,187, $36,187 and $37,283 during fiscal years 2022, 2023 and 2024, respectively.

Note 6. Long-Term Liabilities (Continued)

Bonds Payable

In July 2021, the District issued the Tax-exempt refunding series 2021 and Taxable series 2021 bonds to pay down the Districts unfunded PSPRS pension liability and refund the Wells Fargo note payable. $7,251,008 of the debt proceeds were remitted to PSPRS during the year ended June 30, 2022. Due to the one-year reporting delay by PSPRS, this will not be reflected in the District's pension/OPEB liability until fiscal year 2023. The $7,251,008 is included in the deferred outflows on the statement of net position as of June 30, 2022. $1,000,000 of the proceeds are on deposit with Coconino County and are restricted as a contingency reserve. Details of the bonds are provided below.

Bonds from direct placements:

Certificates of participation Tax-Exempt Refunding Series 2021due in annual principal and semiannual interest stallments, bearing interest at 4%, maturing July 1, 2031. Used to refund the Wells Fargo station 23 note payable.	$ 1,420,000
Ceriticates of participation Taxable Series 2021 due in annual principal and semiannual interest installments, bearing interest at 0.5% to 3.3%, maturing July 1, 2046. Used to fund the unfunded net pension liability through PSPRS.	8,470,000
Total bonds payable	9,890,000
Less current portion	(315,000)
Total bonds payable net of current portion	$ 9,575,000

Bonds payable from direct placement debt service maturities are as follows:

Year ended	Bonds payable		
June 30,	Principal	Interest	Total
2023	315,000	286,420	601,420
2024	385,000	279,850	664,850
2025	425,000	271,923	696,923
2026	435,000	262,483	697,483
2027	445,000	252,208	697,208
2028-2032	2,235,000	1,072,160	3,307,160
2033-2037	1,750,000	789,525	2,539,525
2038-2042	2,030,000	507,548	2,537,548
2043-2046	1,870,000	156,750	2,026,750
Totals	$ 9,890,000	$ 3,878,867	$ 13,768,867

Note 7. Pensions and Other Postemployment Benefits

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

At June 30, 2022, the District reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension and OPEB asset	$ 100,883
Net pension and OPEB liability	5,361,414
Deferred outflows of resources	8,968,794
Deferred inflows of resources	1,692,737
Pension/OPEB expense	823,947

The District's accounts payable and other current liabilities includes $10,654 of outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2022. Also, the District reported $7,668,014 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes. Of this amount, $7,251,008 is related to the pay down of the unfunded liability using the bond proceeds discussed in note 6.

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:

Note 7. Pensions and Other Postemployment Benefits (Continued)

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

* With actuarially reduced benefits.

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from $150 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

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, 2022, statute required active ASRS members to contribute at the actuarially determined rate of 12.41 percent (12.22 percent for retirement and 0.19 percent for long-term disability) of the members' annual covered payroll, and statute required the District to contribute at the actuarially determined rate of 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 percent for long-term disability) of the active members' annual covered payroll.

Note 7. Pensions and Other Postemployment Benefits (Continued)

The District's contributions to the pension, health insurance premium benefit, and long term disability plans for the year ended June 30, 2022, were $52,356, $915, and $828, respectively.

Liability – At June 30, 2022, the District reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net pension/OPEB (asset) liability
Pension	$ 377,105
Health insurance premium benefit	(14,324)
Long-term disability	607

The net asset and liabilities were measured as of June 30, 2021. The total liability used to calculate the net asset or liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2020, to the measurement date of June 30, 2021. The total liabilities as of June 30, 2021, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2020, including decreasing the discount rate from 7.5 percent to 7.0 percent and changing the projected salary increases from 2.7–7.2 percent to 2.9–8.4 percent.

The District's proportion of the net asset or 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, 2021. The District's proportions measured as of June 30, 2021, and the change from its proportions measured as of June 30, 2020 were:

	Proportion June 30, 2020	Proportion June 30, 2021	Increase (decrease) from June 30, 2020
Pension	0.00252%	0.00287%	0.00035%
Health insurance premium benefit	0.00259%	0.00294%	0.00035%
Long-term disability	0.00252%	0.00294%	0.00042%

Expense—For the year ended June 30, 2022, the District recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	$ 96,983
Health insurance premium benefit	(1,683)
Long-term disability	544

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Note 7. Pensions and Other Postemployment Benefits (Continued)

Deferred outflows/inflows of resources –At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit		Long-term disability	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,749	$ -	$ -	$ 4,968	$ 175	$ 49
Changes of assumptions or other inputs	49,083	-	710	579	194	765
Net difference between projected and actual earnings on pension plan investments	-	119,480	-	5,313	-	420
Changes in proportion and differences between contributions and proportionate share of contributions	42,511	-	3	140	521	-
Contributions subsequent to the measurement date	52,356	-	915	-	828	-
Total	$ 149,699	$ 119,480	$ 1,628	$ 11,000	$ 1,718	$ 1,234

Note 7. Pensions and Other Postemployment Benefits (Continued)

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions and OPEB will be recognized as expense as follows:

Year Ended June 30	Pension	Health Insurance Premium Benefit	Long-term disability
2023	$ 27,220	$ (2,413)	$ (24)
2024	18,156	(2,315)	(18)
2025	(26,339)	(2,535)	(33)
2026	(41,174)	(2,793)	(97)
2027	-	(231)	8
Thereafter	-	-	(180)

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

Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.0%
Projected salary increases	2.9-8.4% for pensions/not applicable for OPEB
Inflation	2.3% for pensions/not applicable for OPEB
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

Note 7. Pensions and Other Postemployment Benefits (Continued)

The long-term expected rate of return on ASRS plan investments was determined to be 7.0 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term expected geometric real rate of return
Equity	50%	4.90%
Fixed income-credit	20%	5.20%
Fixed income-interest rate sensitive	10%	0.70%
Real Estate	20%	5.70%
Totals	100%	

Discount Rate – At June 30, 2021, the discount rate used to measure the ASRS total pension/OPEB liability was 7.0 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2020. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the proportionate share of the net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the District's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.0 percent, as well as what the District's proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

Proportionate share of the	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	$ 593,155	$ 377,105	$ 196,980
Net insurance premium benefit liability (asset)	(9,484)	(14,324)	(18,440)
Net long-term disability liability	790	607	429

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

Note 7. Pensions and Other Postemployment Benefits (Continued)

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 (OPEB) plans that covers public safety personnel who are A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. The report is available on the PSPRS website at www.psprs.com.

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Note 7. Pensions and Other Postemployment Benefits (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 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years months
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 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. The adjustments are based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase’s effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member’s compensation for up to 12 months.

Note 7. Pensions and Other Postemployment Benefits (Continued)

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from $100 per month to $260 per month depending on the age of the member and dependents

Employees covered by benefit terms – At June 30, 2022, the following employees were covered by the agent plans' benefit terms:

	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	10	10
Inactive employees entitled to but not yet receiving benefits	5	1
Active employees	19	19
Total	34	30

Contributions– State statutes establish the pension contribution requirements for active PSPRS employees. 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. Contribution rates for the year ended June 30, 2022, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active member - Pension	District - Pension	District-Health insurance premium
PSPRS	7.65%	32.95%	0.28%
PSPRS Tier 3 risk pool	9.94%	9.68%	0.26%

Also, statute required the District to contribute at the actuarially determined rate of 28.20 percent (28.07 percent for pension and 0.13 percent for health insurance premium benefit) of the annual covered payroll of District employees who were PSPRS Tier 3 Risk Pool and PSPDCRP members, in addition to the District's required contributions to the PSPRS Tier 3 Risk Pool and PSPDCRP for these District employees.

The District's contributions to the plans for the year ended June 30, 2022 were:

	Pension	Health insurance premium benefit
PSPRS	7,552,850	5,476
PSPRS Tier 3 risk pool	49,130	36

Note 7. Pensions and Other Postemployment Benefits (Continued)

Liability – At June 30, 2022, the District reported a net pension liability of $4,983,702 and a net OPEB asset of $86,559. The net assets and net liabilities were measured as of June 30, 2021, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2021
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.5% for pensions/not applicable for OPEB
Inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	1.75% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rates	Not applicable

Actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.3 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
U.S. public equity	24%	4.08%
International public equity	16%	5.20%
Global private equity	20%	7.67%
Other assets (capital appreciation)	7%	5.43%
Core bonds	2%	0.42%
Private credit	20%	5.74%
Diversifying strategies	10%	3.99%
Cash - Mellon	1%	-0.31%
Total	100.00%	

Note 7. Pensions and Other Postemployment Benefits (Continued)

Discount Rate – At June 30, 2021, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.30 percent.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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

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Note 7. Pensions and Other Postemployment Benefits (Continued)

Changes in the Net Pension/OPEB Liability

	Pension Increase (decrease)			Health insurance premium benefit Increase (decrease)		
	Total Pension Liablity (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total OPEB Liablity (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2021	$ 14,468,869	$ 7,757,584	$ 6,711,285	$ 204,139	$ 206,866	$ (2,727)
Changes for the year:						
Service cost	424,859	-	424,859	7,283	-	7,283
Interest on total pension/OPEB liability	1,065,782	-	1,065,782	15,267	-	15,267
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience in the measurement of the pension/OPEB liability	(275,740)	-	(275,740)	(44,139)	-	(44,139)
Changes of assumptions	-	-	-	-	-	-
Contributions - employer	-	607,090	(607,090)	-	5,911	(5,911)
Contributions - employee	-	155,367	(155,367)	-	-	-
Net investment income	-	2,190,275	(2,190,275)	-	56,565	(56,565)
Benefit payments, including refunds of employee contributions	(587,950)	(587,950)	-	(4,580)	(4,580)	-
Plan administrative expenses	-	(10,248)	10,248	-	(233)	233
Other changes	-	-	-	-	-	-
Net changes	626,951	2,354,534	(1,727,583)	(26,169)	57,663	(83,832)
Balances at June 30, 2022	$ 15,095,820	$ 10,112,118	$ 4,983,702	$ 177,970	$ 264,529	$ (86,559)

Note 7. Pensions and Other Postemployment Benefits (Continued)

Sensitivity of the proportionate share of the net pension/OPEB (asset) liability to changes in the discount rate – The following table presents the District's net pension/OPEB (asset) liability calculated using the discount rate of 7.3 percent, as well as what the District's net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	1% Decrease (6.30%)	Discount Rate (7.30%)	1% Increase (8.30%)
Proportionate share of			
Net pension (asset) / liability	$ 7,293,180	$ 4,983,702	$ 3,114,863
Net OPEB (asset)/ liability	(63,136)	(86,559)	(106,217)

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

Expense and deferred outflows/inflows of resources – For the year ended June 30, 2022, the District recognized pension income for PSPRS of $6,867,228 and OPEB income of $11,922. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 693,721	$ 502,676	$ 12,239	$ 68,763
Changes in assumptions	501,043	-	1,254	2,245
Net difference between projected and actual earnings on pension/OPEB plan investments	-	963,320	-	24,019
Contributions subsequent to the measurement date	7,601,980	-	5,512	-
Total	$ 8,796,744	$ 1,465,996	$ 19,005	$ 95,027

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30	Pension	Health Insurance Premium Benefit
2022	$ 5,792	$ (14,576)
2023	(66,267)	(14,728)
2024	(107,273)	(15,494)
2025	(228,922)	(17,973)
2026	29,706	(6,446)
Thereafter	95,732	(12,317)

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

On April 25, 2012, the District entered into an agreement with Flagstaff Ranch Fire District (Flagstaff Ranch) for around the clock fire and emergency medical services provided by the District for the residents and property owners of the Flagstaff Ranch Golf Club subdivision beginning on July 1, 2012. The agreement calls for an annual fee of $110,000 (base contract amount), which is receivable in twelve monthly installments and expired on June 30, 2015 with the option to renew for two additional years. This agreement was renewed for the fiscal year ending June 30, 2022. The base contract amount will increase on an annual basis by the amount equal to the Consumer Price Index for all Urban Consumers using the US city average (CPI-U) for the term of the contract. For the fiscal year ended June 30, 2022, the base contract amount plus CPI-U was $130,680. Flagstaff Ranch further agrees to pay the District at the rate of $1,000 per hour for any emergency incident which exceeds three hours in duration retroactive to the time the initial call for service was received.

On August 23, 2010, the District entered into an agreement with Pinewood Fire District (Pinewood) and Summit Fire District (Summit) for the purpose of establishing, operating and managing the interagency fire crew known as the Bear Jaw Fire and Fuels Module (Module). The purpose of the Module is to perform all aspects of hazard fuel mitigation, primarily thinning and burning, public education and wildfire suppression across the partner agency's jurisdictions. Per the agreement, the District is assigned with the tasks of maintaining the annual budget, performing needed invoicing, collecting funds, reporting grant reimbursements and distributing funds to Pinewood and Summit. The District, Pinewood and Summit shall equally share the cost of operating supplies in the event that insufficient revenue is generated to cover these costs. The agreement may be terminated by any party upon thirty days written notice to the other parties. In December 2019, Summit Fire District terminated its participation in the agreement. The District and Pinewood continue to operate within the agreement.

Required Supplementary Information

HIGHLANDS FIRE DISTRICT
Schedule of the Proportionate Share of the Net Pension/OPEB Liability
June 30, 2022

ASRS - Pension

	Reporting Fiscal Year (Measurement Date)							
	2022 (2021)	**2021 (2020)**	**2020 (2019)**	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**
Proportion of the net pension liability (asset)	0.002870%	0.002520%	0.002370%	0.001590%	0.001330%	0.001300%	0.001490%	0.001245%
Proportionate share of the net pension liability (asset)	$ 377,105	$ 436,638	$ 344,863	$ 221,749	$ 207,118	$ 209,833	$ 232,583	$ 184,220
Covered payroll	$ 377,226	$ 268,437	$ 251,284	$ 146,703	$ 124,301	$ 121,456	$ 127,328	$ 120,346
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	99.97%	162.66%	137.24%	151.16%	166.63%	172.76%	182.66%	153.08%
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

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

HIGHLANDS FIRE DISTRICT
Schedule of the Proportionate Share of the Net Pension/OPEB Liability
June 30, 2022

ASRS - Health insurance premium benefit

	Reporting Fiscal Year (Measurement Date)				
	2022 (2021)	**2021 (2020)**	**2020 (2019)**	**2019 (2018)**	**2018 (2017)**
Proportion of the net OPEB (asset)	0.00294%	0.002590%	0.002430%	0.00162%	0.001350%
Proportionate share of the net OPEB (asset)	$ (14,324)	$ (1,834)	$ (672)	$ (583)	$ (735)
Covered payroll	$ 377,226	$ 268,437	$ 251,284	$ 146,703	$ 124,301
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-3.80%	-0.68%	-0.27%	-0.40%	-0.59%
Plan fiduciary net position as a percentage of the total OPEB liability	130.24%	104.33%	101.62%	102.20%	103.57%

Note: The District implemented GASB 75 in fiscal year 2018. Prior year information is not available.

ASRS - Long-term disability

	Reporting Fiscal Year (Measurement Date)				
	2022 (2021)	**2021 (2020)**	**2020 (2019)**	**2019 (2018)**	**2018 (2017)**
Proportion of the net OPEB (asset)	0.00294%	0.00252%	0.00241%	0.00159%	0.001340%
Proportionate share of the net OPEB (asset)	$ 607	$ 1,912	$ 1,570	$ 831	$ 486
Covered payroll	$ 377,226	$ 268,437	$ 251,284	$ 146,703	$ 124,301
Proportionate share of the net OPEB (asset) as a percentage of its covered payroll	0.16%	0.71%	0.62%	0.57%	0.39%
Plan fiduciary net position as a percentage of the total OPEB liability	90.38%	68.01%	72.85%	77.83%	84.44%

Note: The District implemented GASB 75 in fiscal year 2018. Prior year information is not available.

HIGHLANDS FIRE DISTRICT
Schedule of Changes in the Net Pension/OPEB Liability and Related Ratios
June 30, 2022

PSPRS - Pension	Reporting Fiscal Year (Measurement Date)							
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability								
Service cost	$ 424,859	$ 440,883	$ 421,321	$ 400,686	$ 418,880	$ 312,968	$ 314,198	$ 328,448
Interest on total pension liability	1,065,782	946,551	901,310	831,205	743,367	642,018	583,499	481,542
Changes of benefit terms*	-	-	-	-	103,189	710,209	-	70,500
Difference between expected and actual experience of the total net pension liability	(275,740)	765,853	(365,407)	(84,659)	150,687	17,067	145,243	121,018
Changes of assumptions	-	-	235,379	-	358,271	395,135	-	526,588
Benefit payments, including refunds of employee contributions	(587,950)	(419,970)	(431,202)	(410,476)	(478,242)	(316,476)	(277,260)	(167,054)
Net change in total pension liability	626,951	1,733,317	761,401	736,756	1,296,152	1,760,921	765,680	1,361,042
Total pension liability - beginning	14,468,869	12,735,552	11,974,151	11,237,395	9,941,243	8,180,322	7,414,642	6,053,600
Total pension liability - ending (a)	$ 15,095,820	$ 14,468,869	$ 12,735,552	$ 11,974,151	$ 11,237,395	$ 9,941,243	$ 8,180,322	$ 7,414,642
Plan fiduciary net position								
Contributions - employer	$ 607,090	$ 640,933	$ 619,266	$ 600,020	$ 475,456	$ 402,273	$ 321,219	$ 334,388
Contributions - employee	155,367	166,232	161,078	161,396	197,023	200,751	181,869	180,991
Net investment income	2,190,275	95,098	363,642	419,927	627,952	29,530	171,340	522,968
Benefit payments, including refunds of employee contributions	(587,950)	(419,970)	(431,202)	(410,476)	(478,242)	(316,476)	(277,260)	(167,054)
Other (net transfer)	(10,248)	(7,755)	(7,317)	(244,949)	(23,226)	(4,617)	(8,118)	(115,292)
Net change in plan fiduciary net position	2,354,534	474,538	705,467	525,918	798,963	311,461	389,050	756,001
Plan fiduciary net position - beginning	7,757,584	7,283,045	6,580,925	6,055,007	5,256,044	4,944,583	4,555,533	3,799,532
Adjustment to beginning of year	-	1	(3,347)					
Plan fiduciary net position - ending (b)	$ 10,112,118	$ 7,757,584	$ 7,283,045	$ 6,580,925	$ 6,055,007	$ 5,256,044	$ 4,944,583	$ 4,555,533
Net pension liability - ending (a) - (b)	$ 4,983,702	$ 6,711,285	$ 5,452,507	$ 5,393,226	$ 5,182,388	$ 4,685,199	$ 3,235,739	$ 2,859,109
Plan fiduciary net position as a percentage of the total pension liability	66.99%	53.62%	57.19%	54.96%	53.88%	52.87%	60.44%	61.44%
Covered employee payroll	$ 1,736,510	$ 1,817,368	$ 1,903,334	$ 1,843,084	$ 1,826,776	$ 1,695,389	$ 1,769,169	$ 1,800,163
Net pension liability as a percentage of covered-employee payroll	287.00%	369.29%	286.47%	292.62%	283.69%	276.35%	182.90%	158.83%

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

HIGHLANDS FIRE DISTRICT
Schedule of Changes in the Net Pension/OPEB Liability and Related Ratios
June 30, 2022

PSPRS-Health Insurance Premium Benefit	Reporting Fiscal Year (Measurement Date)				
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
Total OPEB liability					
Service cost	$ 7,283	$ 7,855	$ 5,345	$ 5,529	$ 6,211
Interest on total OPEB liability	15,267	14,166	14,177	11,696	14,099
Changes of benefit terms*	-	-	-	-	61
Difference between expected and actual experience of the total net OPEB liability	(44,139)	1,902	(17,222)	19,490	(40,350)
Changes of assumptions or other inputs	-	-	1,881	-	(4,850)
Benefit payments	(4,580)	(6,715)	(6,960)	(4,595)	(4,920)
Net change in total OPEB liability	(26,169)	17,208	(2,779)	32,120	(29,749)
Total OPEB liability - beginning	204,139	186,931	189,710	157,590	187,339
Total OPEB liability - ending (a)	$ 177,970	$ 204,139	$ 186,931	$ 189,710	$ 157,590
Plan fiduciary net position					
Contributions - employer	$ 5,911	$ 5,693	$ 3,270	$ 3,300	$ 4,121
Net investment income	-	-	-	-	19,476
Benefit payments	56,565	2,566	10,498	12,825	(4,920)
Administrative expense	(4,580)	(6,715)	(6,960)	(4,595)	(172)
Other changes	(233)	(209)	(181)	(195)	-
Net change in plan fiduciary net position	57,663	1,335	6,627	11,335	18,505
Plan fiduciary net position - beginning	206,866	205,531	195,557	184,222	165,717
Adjustment to beginning of year	-	-	3,347		
Plan fiduciary net position - ending (b)	$ 264,529	$ 206,866	$ 205,531	$ 195,557	$ 184,222
Net OPEB liability - ending (a) - (b)	$ (86,559)	$ (2,727)	$ (18,600)	$ (5,847)	$ (26,632)
Plan fiduciary net position as a percentage of the total OPEB liability	148.64%	101.34%	109.95%	103.08%	116.90%
Covered employee payroll	$ 1,736,510	$ 1,817,368	$ 1,903,334	$ 1,826,776	$ 1,695,389
Net OPEB liability as a percentage of covered-employee payroll	-4.98%	-0.15%	-0.98%	-0.32%	-1.57%

Note: The District implemented GASB 75 in fiscal year 2018. Information prior to 2018 is not available.

HIGHLANDS FIRE DISTRICT
Schedule of Contributions
June 30, 2022

ASRS - Pension

	Reporting Fiscal Year								
	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually required contribution	$ 52,356	$ 37,532	$ 31,599	$ 27,940	$ 17,192	$ 13,178	$ 14,977	$ 12,009	$ 11,085
Contributions in relation to the contractually required contribution	(52,356)	(37,532)	(31,599)	(27,940)	(17,192)	(13,178)	(14,977)	(12,009)	(11,085)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 590,172	$ 377,226	$ 268,437	$ 251,284	$ 146,703	$ 124,301	$ 121,456	$ 127,328	$ 120,346
Contributions as a percentage of covered payroll	8.87%	9.95%	11.77%	11.12%	11.72%	10.60%	12.33%	9.43%	9.21%

PSPRS-Pension

	Reporting Fiscal Year								
	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Actuarially determined contribution	$ 7,601,980	$ 607,090	$ 640,933	$ 619,266	$ 600,020	$ 475,456	$ 402,273	$ 321,219	$ 334,388
Contributions in relation to the actuarially determined contribution	$ (14,852,988)	$ (607,090)	$ (640,933)	$ (619,266)	$ (600,020)	$ (475,456)	$ (402,273)	$ (321,219)	$ (334,388)
Contribution deficiency (excess)	$ (7,251,008)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 1,943,860	$ 1,736,510	$ 1,817,368	$ 1,903,334	$ 1,843,084	$ 1,826,776	$ 1,695,389	$ 1,769,169	$ 1,800,163
Contributions as a percentage of covered-employee payroll	764.10%	34.96%	35.27%	32.54%	32.56%	26.03%	23.73%	18.16%	18.58%

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

HIGHLANDS FIRE DISTRICT
Schedule of Contributions
June 30, 2022

ASRS - Health insurance premium benefit	Reporting Fiscal Year 2022	2021	2020	2019	2018	2017
Contractually required contribution	$ 915	$ 1,256	$ 1,352	$ 1,150	$ 727	$ 696
Contributions in relation to the contractually required contribution	(915)	(1,256)	(1,352)	(1,150)	(727)	(696)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 590,172	$ 377,226	$ 268,437	$ 251,284	$ 146,703	$ 124,301
Contributions as a percentage of covered payroll	0.16%	0.33%	0.50%	0.46%	0.50%	0.56%

ASRS - Long-term disability	Reporting Fiscal Year 2022	2021	2020	2019	2018	2017
Contractually required contribution	$ 828	$ 587	$ 462	$ 400	$ 182	$ 174
Contributions in relation to the contractually required contribution	(828)	(587)	(462)	(400)	(182)	(174)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 590,172	$ 377,226	$ 268,437	$ 251,284	$ 146,703	$ 124,301
Contributions as a percentage of covered payroll	0.14%	0.16%	0.17%	0.16%	0.12%	0.14%

PSPRS-Health Insurance Premium Benefit	Reporting Fiscal Year 2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 5,512	$ 5,911	$ 5,693	$ 3,270	$ 3,300	$ 4,121
Contributions in relation to the actuarially determined contribution	$ (5,512)	$ (5,911)	$ (5,693)	$ (3,270)	$ (3,300)	$ (4,121)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 1,943,860	$ 1,736,510	$ 1,817,368	$ 1,903,334	$ 1,843,084	$ 1,826,776
Contributions as a percentage of covered-employee payroll	0.28%	0.34%	0.31%	0.17%	0.18%	0.23%

Note: The District implemented GASB 75 in fiscal year 2018. Information prior to 2018 is not available.

Note 1. Actuarially Determined Contribution Rates

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

Actuarial cost method	Entry age normal
Amortization Method	Level percent –of-pay, closed
Remaining Amortization Period as of the 2020 actuarial valuation	18 years
Asset valuation method	7-Year smoothed market; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2019 actuarial valuation, the investment rate of return was decreased from 7.4% to 7.3%. In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5%. In the 2014 actuarial valuation, the projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5%. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%.

Note 1. Actuarially Determined Contribution Rates (Continued)

Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2019 actuarial valuation, changed to PubS-2010 tables. In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales.

Note 2. Factors that Affect the Identification of Trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS -required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date*:* Also, the District refunded excess employee contributions to PSPRS members. PSPRS allowed the District to reduce its actual employer contributions for the refund amounts. As a result, the District's pension contributions were less than the actuarially or statutorily determined contributions for 2019.

Other Communications from Independent Auditors

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HINTON BURDICK
CPAs & ADVISORS

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

To the Board of Directors of
Highlands Fire District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Highlands Fire District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Highlands Fire District's basic financial statements, and have issued our report thereon dated September 28, 2022.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Hinton Burdick, PLLC

HintonBurdick, PLLC
Gilbert, Arizona
September 28, 2022

HINTONBURDICK
CPAs & ADVISORS

**Independent Auditors' Report on
State Legal Compliance**

Highlands Fire District
Flagstaff, Arizona

We have audited the basic financial statements of Highlands Fire District (the District) for the year ended June 30, 2022, and have issued our report thereon dated September 28, 2022. Our audit also included test work on the District's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 48, Chapter 5, Article 1.

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

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Highlands Fire District complied, in all material respects, with the requirements identified above for the year ended June 30, 2022.

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

Sincerely,

HintonBurdick, PLLC

HintonBurdick, PLLC
Gilbert, Arizona
September 28, 2022