

Mescal-J6 Fire District

Financial Statements

Year ended June 30, 2025

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Independent Auditor's Report

To the Governing Board
and Management
Mescal-J6 Fire District
Benson, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying statement of cash receipts, disbursements and changes in cash and investment balances – governmental funds of Mescal-J6 Fire District (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statement, which collectively comprise the District's modified cash basis financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the cash receipts, disbursements and changes in cash and investment balances of the governmental funds of the District as of and for the year ended June 30, 2025, in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances.

Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinion. 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 generally accepted auditing standards and *Government Auditing Standards* 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 reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2026, 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 the District's 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.

Walker & Armstrong, LLP

Tucson, Arizona
February 23, 2026

Mescal-J6 Fire District
Statement of Cash Receipts, Disbursements
and Changes in Cash and Investment Balances - Governmental Funds
Year Ended June 30, 2025

	General Fund	Capital Projects Fund	Total Governmental Funds
Cash Receipts:			
Taxes:			
Property taxes	\$ 433,067	\$ -	\$ 433,067
Fire district assistance tax	76,371	-	76,371
Charges for services	24,040	-	24,040
Interest income	4,582	7,854	12,436
Other	858	-	858
Total cash receipts	538,918	7,854	546,772
Cash Disbursements:			
<i>Public safety-fire protection and emergency medical services:</i>			
Current:			
Salaries and wages	366,983	-	366,983
Taxes and employee benefits	46,186	-	46,186
Professional services	56,056	-	56,056
Utilities and communications	22,844	-	22,844
Repairs and maintenance	76,995	-	76,995
Administration	19,147	-	19,147
Insurance	15,429	-	15,429
Equipment and supplies	16,316	-	16,316
Fuel	6,465	-	6,465
Training and related	5,456	-	5,456
Travel	7,487	-	7,487
Capital outlay	-	11,844	11,844
Debt service:			
Principal	4,488	-	4,488
Interest	1,527	-	1,527
Total cash disbursements	645,379	11,844	657,223
Other financing sources (uses):			
Transfers in, net	7,117	-	7,117
Transfers out, net	-	(7,117)	(7,117)
Total other financing sources (uses)	7,117	(7,117)	-
Change in cash and investment balances	(99,344)	(11,107)	(110,451)
Cash and investments, beginning of year	180,741	264,913	445,654
Cash and investments, end of year	\$ 81,397	\$ 253,806	\$ 335,203

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

Mescal-J6 Fire District
Notes to Financial Statement
Year Ended June 30, 2025

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Mescal-J6 Fire District (the District) is a local governmental unit formed as a political subdivision of Cochise County, Arizona (the County) which is a political subdivision of the State of Arizona. The District was formed under the provisions of Title 48 of Arizona Revised Statutes. The District operates under the guidance of an elected board, made up of five members, which is the policy making body of the District. The purpose of the District is to provide protection, emergency medical and related services to the residents and guests of the District and surrounding area. The day-to-day operations are supervised by a fire chief and the chief's staff and volunteers.

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

Basis of Presentation

The accounts of the District are organized on the basis of fund accounting, each of which is considered a separate reporting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent. The *general fund* is the District's primary operating fund which accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *capital projects fund* is used to account for monies received, assigned or committed for construction or purchase of buildings, apparatus and major equipment.

As required under Arizona Revised Statute, Title 48 §251.A(1), the District has prepared these financial statements in a manner sufficient to report beginning and ending fund balance and all revenue and expenditures for the year ended June 30, 2025, presented on a modified cash basis. Fund balance is equal to the cash and investment balances as reported on the statement of cash receipts, disbursements and changes in cash and investment balances – governmental funds.

The financial statements are presented on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. In addition, all items including the acquisition of capital assets are expended as paid and receivables, prepaid expenses, payables, accrued expenses and long-term liabilities are not reported. Accordingly, the financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Notes to Financial Statement – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

For the year ended June 30, 2025, the District implemented the provisions of GASB Statement No. 102, *Certain Risk Disclosures*, which requires governments to disclose certain risks that could affect the provision of services or the ability to meet obligations as they come due, including vulnerabilities due to concentrations or constraints. The implementation of this standard did not have a material impact on the District's financial statement or related note disclosures.

Cash and Investments

Cash and investments consist of amounts on hand, in demand deposits and on deposit with the Cochise and Pima County Treasurers. Amounts designated by the board for capital reserves are held in a separate account with the Cochise County Treasurer and requires board authorization for transfer or use of the designated funds.

Subscription-Based Information Technology Arrangements

The District uses its estimated incremental borrowing rate to measure subscription liabilities unless it can readily determine the interest rate implicit in the arrangement. The District's estimated incremental borrowing rate is 5.00% based on the average interest rate for its industry. Payments on subscription liabilities are included in debt service principal and interest on the financial statement.

Budgetary Accounting

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

Property Taxes

The District levies property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March and becomes delinquent after the first business day of May. A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Notes to Financial Statement – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that may affect certain disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 – Cash and Investments

Arizona Revised Statutes allow special districts to invest public monies in the Arizona State Treasurer's local government investment pool, interest bearing savings accounts, certificates of deposit and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral.

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

The District may register warrants only if separate accounts are maintained by the County Treasurer for each governmental fund of the District. Warrants may only be registered on the maintenance and operation account and the special revenue accounts, and only after any revolving line of credit has been expended. Registered warrants may not exceed ninety percent of the taxes levied by the County for the District's current fiscal year. Registered warrants bear interest as prescribed by statute and are redeemed as provided for by law for County warrants.

Unless monies are legally restricted by contract, agreement or law, those monies may be transferred between fund accounts according to the original or amended budget of the District. Any surplus remaining in the District's general fund for the succeeding fiscal year and after subtraction of accounts payable and encumbrances, shall be used to reduce the tax levy for the following year.

Cash on hand and deposits – As of June 30, 2025, the District had cash on hand of \$285 and the carrying amount of deposits held with the Pima County Treasurer and a financial institution were \$1,869 and \$45,207, respectively. Deposits held with the financial institution were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2025, all balances were federally insured.

Investments – As of June 30, 2025, the District's investments consisted of amounts held with the Cochise County Local Government Investment Pool totaling \$287,842.

Notes to Financial Statement – Continued

Note 2 – Cash and Investments – Continued

The Cochise County Treasurer's investment pool is not required to register (and is not registered) with the Securities and Exchange Commission and there is no regulatory oversight of its operations.

The fair value of each participant's position in the Treasurer's investment pool approximates the value of the participant's share in the pool and the participant's shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

Credit risk – All of the District's investments were invested in the Cochise County investment pool which is not rated by rating agencies.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. External investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Interest rate risk – Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days. The District's investments can be withdrawn from the pool at anytime at will and therefore, are not subject to a significant amount of interest rate risk.

Foreign currency risk – Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

A reconciliation of cash and investments to amounts shown on the statements of cash receipts, disbursements and change in cash and investment balances is as follows:

	General Fund	Capital Projects Fund	Total
Cash on hand	\$ 285	\$ -	\$ 285
Financial institution deposits	45,207	-	45,207
Pima County Treasurer	1,869	-	1,869
Cochise County Treasurer	34,036	253,806	287,842
Total	<u>\$ 81,397</u>	<u>\$ 253,806</u>	<u>\$ 335,203</u>

Notes to Financial Statement – Continued

Note 3 – Interfund Transfers

During the year ended June 30, 2025, the District transferred \$18,961 from the capital projects fund to the general fund to pay for repairs and maintenance. In addition, the District transferred \$11,844 from the general fund to the capital projects fund pursuant to Board approval for capital outlays. Net interfund transfers for the year totaled \$7,117, as presented in the financial statement.

Note 4 – Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2025, are as follows:

	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025	Due Within One Year
Subscription liability	\$ 30,530	\$ -	\$ (4,488)	\$ 26,042	\$ 4,713

Subscription-Based Information Technology Arrangement – The District entered into a subscription-based information technology arrangement for emergency reporting software through January 2030.

The following schedule details minimum subscription payments to maturity for the District's subscription liability as of June 30, 2025:

Year Ending June 30,	Principal	Interest	Total
2026	\$ 4,713	\$ 1,302	\$ 6,015
2027	4,949	1,066	6,015
2028	5,196	819	6,015
2029	5,456	559	6,015
2030	5,728	287	6,015
	<u>\$ 26,042</u>	<u>\$ 4,033</u>	<u>\$ 30,075</u>

Note 5 – Commitment

In November 2024, the District entered into an agreement with a physician's group for centralized medical direction, administrative medical control and online medical supervision to assist the District in expanding its services. The agreement extends through July 2027 and automatically renews for additional 12-month terms thereafter, unless sixty days' written notice is provided by either party. The terms of the agreement require monthly payments of \$500. For the year ended June 30, 2025, the District paid \$5,000 under the terms of the agreement, which is reported as professional services on the financial statement.

Notes to Financial Statement – Continued

Note 6 – Related-Party Transactions

During the year ended June 30, 2025, the District purchased supplies from a retail business owned by a member of the District's Board of Directors totaling \$1,145. No amounts were payable to the related party at year-end.

Note 7 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and the public; and natural or manmade disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 – Subsequent Events

The District's management evaluated events occurring after year-end and through February 23, 2026, the date the financial statements were available to be issued, noting that the District received an American Rescue Plan Act reimbursement of costs related to Covid for \$32,725 and donations totaling \$25,000 from Southline Transmission and J-6 Church of Christ.