

Daisy Mountain Fire District

Financial Statements

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the District Board
Daisy Mountain Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Daisy Mountain Fire District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Daisy Mountain Fire District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of the Daisy Mountain Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Daisy Mountain Fire District's internal control over financial reporting and compliance.

Heidenreich : Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC
Phoenix, AZ
January 24, 2014

DAISY MOUNTAIN FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Daisy Mountain Fire District, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District's performance during the fiscal year ending June 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the Daisy Mountain Fire District exceeded its liabilities at the close of the most recent fiscal year by \$7,380,700. Of this amount, \$2,310,105 may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$43,003. This increase was due to the difference between net operating revenues/expenses and net non-operating revenues.
- The District participated in the Public Safety Personnel Retirement System (PSPRS).
- During the fiscal year, the District also obtained grants to supplement the existing budget; and continued upgrading the equipment and facilities.
- During the fiscal year, the District provided training for employees and continued to implement various education and community service programs.
- During the fiscal year, the District co-manned the Ladder 142 crew to address staffing and budgetary constraints by providing roving coverage while reducing overtime costs.
- The District strives to provide the best possible service while minimizing the tax rate.

Overview of the Financial Statements

This annual report includes the management's discussion and analysis report, the accountant's audit report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The balance sheet and statement of net assets present information on all of the District's assets and liabilities. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets, without a corresponding increase to liabilities, result in increased net assets, which indicates an improved financial position.

The governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are also presented together in the same financial statements. This statement presents information showing how a government's net assets changed during the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its ad valorem taxes, ambulance revenues and mutual-aid agreements.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District's activities in a way that will help answer this question. These two statements report the net financial position of the District and the changes in position. One can think of the District's net position – the difference between assets and liabilities – as one measure of financial health. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

To begin our analysis, we present a summary of the District's Statement of Net Position:

	June 30, 2013	June 30, 2012
Current and other assets	\$ 4,012,197	\$ 3,371,421
Capital assets	5,623,146	6,262,131
Total assets	<u>9,635,343</u>	<u>9,633,552</u>
Current and other liabilities	476,515	524,837
Long-term liabilities	1,778,128	1,771,018
Total liabilities	<u>2,254,643</u>	<u>2,295,855</u>
Net position:		
Invested in capital assets (net of related debt)	5,070,595	5,525,456
Unrestricted	<u>2,310,105</u>	<u>1,812,241</u>
Net Position of the District	<u>\$ 7,380,700</u>	<u>\$ 7,337,697</u>

In the past, the largest portion of the District's net assets reflects its investment in capital assets (e.g. vehicles, equipment, buildings, etc.). The District uses these capital assets to provide services and, consequently, these assets are not available to liquidate liabilities or other spending. Due to budget constraints, there were no large capital purchases during the fiscal year resulting in an overall decrease in net position – Invested in capital assets. There are no restricted net assets and the unrestricted net assets are available for future operations.

As noted in the following table, the operating expenses and revenues and non-operating revenues all increased over the prior year. Most of the increase in operating expenses is for personnel and benefits. The cost of health benefits for the District have increased, as well as the premiums for Workers' Compensation coverage.

A substantial amount of the increase in net non-operating revenue was due to the increase in ad valorem taxes as the assessed values in the District continue to rise. In addition, there was an increase in grant revenues in this fiscal year to pay for equipment.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Operating revenues	\$ 1,270,015	\$ 1,265,098
Operating expenses	<u>11,980,692</u>	<u>10,931,924</u>
Loss from operations	(10,710,677)	(9,666,826)
 Net non-operating revenues		
Ad valorem taxes & FDAT	10,586,383	10,189,285
Fire insurance premium tax	91,348	100,100
Interest earnings	9,910	13,361
Miscellaneous	<u>66,039</u>	<u>4,669</u>
Net non-operating revenue	10,753,680	10,307,415
 Changes in net assets	43,003	640,589
 Net position, beginning of year	<u>7,337,697</u>	<u>6,697,108</u>
 Net position, end of year	<u>\$ 7,380,700</u>	<u>\$ 7,337,697</u>

The expenditure budget adopted prior to the beginning of the fiscal year was not amended during the year. Over the years, the District has expended less than budgeted, resulting in a carryover of funds available for current and future expenditures. The District minimizes the tax rate by utilizing monies collected in prior years while reserving a portion of the funds for major purchases.

Capital Assets and Debt Administration

The District's investment in capital assets amounts to \$5,070,595, net of accumulated depreciation, as of June 30, 2013, which is a decrease of \$454,861 over the prior year. Capital assets include emergency vehicles, buildings, improvements other than buildings, equipment and furniture. During the current fiscal year additions to capital assets included twenty computers, a Hazmaster ID Ranger Identifier, and various other equipment and furniture.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Daisy Mountain Fire District, 515 E. Carefree Hwy., PMB #385, Phoenix, AZ 85085.

**DAISY MOUNTAIN FIRE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2013**

	<u>Total Governmental Activities</u>
 ASSETS	
Cash & Cash Equivalents	\$ 3,121,927
Receivables:	
Ambulance, Net	286,629
Property Taxes	300,402
General	430
Due from Other Governments	97,723
Prepaid Expense	205,086
Capital Assets, Net	
Land	480,066
Property & Equipment, net	<u>5,143,080</u>
 Total Assets	 <u>9,635,343</u>
 LIABILITIES	
Accounts Payable	61,692
Accrued Salaries and Benefits	223,118
Noncurrent Liabilities	
Due within one year	
Capital Leases	191,705
Due in more than one year	
Compensated Absences	1,417,282
Capital Leases	<u>360,846</u>
 Total Liabilities	 <u>2,254,643</u>
 NET POSITION	
Invested in Capital Assets, Net of related Debt	5,070,595
Unrestricted	<u>2,310,105</u>
 Total Net Assets	 <u><u>\$ 7,380,700</u></u>

**DAISY MOUNTAIN FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Total Governmental Activities</u>
EXPENDITURES	
Fire Protection and Emergency Services:	
Personnel	\$ 7,172,386
Employee Benefits	1,876,269
Taxes and Insurance	534,561
Administration	321,766
Professional Services	46,313
Utilities and Communication	449,462
Grant Expense	62,682
Insurance	90,267
Repairs & Maintenance	366,555
Small Tools & Equipment	18,547
Ambulance Operations	173,589
Supplies	2,535
Training	30,380
Turnout Gear	40,196
Interest	8,390
Depreciation	759,110
Interest Payments	27,684
Total Expenditures	<u>11,980,692</u>
PROGRAM REVENUES	
Charges for Services	1,135,590
Capital Grants	134,425
Total Program Revenues	<u>1,270,015</u>
GENERAL REVENUES	
Property Taxes	10,183,138
Fire District Assistance Tax	403,245
Fire Insurance Premium Tax	91,348
Interest	9,910
Other Income	67,346
Loss on Disposal of Assets	(1,307)
Total General Revenues	<u>10,753,680</u>
Change in Net Assets	43,003
Net Assets-Beginning of the Year	<u>7,337,697</u>
Net Assets-End of the Year	<u><u>\$ 7,380,700</u></u>

**DAISY MOUNTAIN FIRE DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,730,265	\$ 1,391,662	\$ 3,121,927
Receivables:			
Ambulance, Net	286,629		286,629
Property Taxes	300,402		300,402
General	430		430
Due from Other Governments	97,723		97,723
Prepaid Expenses	205,086		205,086
Total Assets	\$ 2,620,535	\$ 1,391,662	\$ 4,012,197
 LIABILITIES			
Accounts Payable	\$ 61,692	\$ -	\$ 61,692
Wages Payable and Benefits	223,118		223,118
Deferred Revenue			
Ambulance Receivables	189,049		189,049
Property Taxes	173,987		173,987
Total Liabilities	647,846	-	647,846
 FUND BALANCES			
Assigned to Capital Expenditures		1,391,662	1,391,662
Non Spendable	205,086		205,086
Unassigned	1,767,603		1,767,603
Total Fund Balances	1,972,689	1,391,662	3,364,351
Total Liabilities & Fund Balances	\$ 2,620,535	\$ 1,391,662	\$ 4,012,197

**DAISY MOUNTAIN FIRE DISTRICT
RECONCILIATION OF BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2013**

Total Governmental Funds Balances	\$	3,364,351
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		5,623,146
Receivables that are not considered available to pay for current period expenditures are reported as deferred revenue in the funds.		
Taxes Receivable		173,987
Ambulance Receivables		189,049
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Capital Leases		(552,551)
Compensated Absences		(1,417,282)
		(1,869,833)
Net Assets of Governmental Activities	\$	7,380,700

**DAISY MOUNTAIN FIRE DISTRICT
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
EXPENDITURES			
Fire Protection and Emergency services:			
Personnel	\$ 7,001,254	\$ -	\$ 7,001,254
Employee Benefits	1,876,269		1,876,269
Taxes and Insurance	534,561		534,561
Administration	321,764		321,764
Professional Services	46,313		46,313
Utilities and Communication	449,462		449,462
Grant Expense	62,682		62,682
Insurance	90,267		90,267
Repairs & Maintenance	366,555		366,555
Small Tools & Equipment	18,547		18,547
Ambulance Operations	173,589		173,589
Supplies	2,535		2,535
Training	30,380		30,380
Turnout Gear	40,196		40,196
Interest	8,390		8,390
Capital Outlay	122,683		122,683
Debt Service:			
Principal Payments	184,124		184,124
Interest Payments	27,684		27,684
	<u>11,357,255</u>	<u>-</u>	<u>11,357,255</u>
PROGRAM REVENUES			
Charges for Services	1,131,177		1,131,177
Capital Grants	134,425		134,425
	<u>1,265,602</u>	<u>-</u>	<u>1,265,602</u>
GENERAL REVENUES			
Property Taxes	10,267,139		10,267,139
Fire District Assistance Tax	403,245		403,245
Fire Insurance Premium Tax	91,348		91,348
Interest	4,876	5,034	9,910
Other Income	67,346		67,346
Sale of Assets	1,250		1,250
	<u>10,835,204</u>	<u>5,034</u>	<u>10,840,238</u>
Excess (Deficiency) of Revenues over Expenditures	743,551	5,034	748,585
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	(240,000)	240,000	-
Total Other Financing Sources and Uses	(240,000)	240,000	-
Fund Balances-Beginning of Year	<u>1,469,138</u>	<u>1,146,628</u>	<u>2,615,766</u>
Fund Balances-End of Year	<u>\$ 1,972,689</u>	<u>\$ 1,391,662</u>	<u>\$ 3,364,351</u>

DAISY MOUNTAIN FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds	\$	748,585
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenses over the life of the assets.</p>		
Capital Assets Purchases		122,683
Depreciation Expense		(759,110)
Loss on Sale of Assets		(2,557)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Ambulance Services		4,413
Property Taxes		(84,001)
<p>Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		184,124
<p>Compensated absences 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.</p>		
		(171,134)
Change in Net Assets of Governmental Activities	\$	43,003

**DAISY MOUNTAIN FIRE DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Positive (Negative)
Beginning Budgetary Fund Balance	\$ 1,469,138	\$ 1,469,138	\$ 1,469,138	\$ -
Resources (Inflows):				
Property Taxes	10,236,977	10,236,977	10,267,139	30,162
Fire District Assistance Tax	400,000	400,000	403,245	3,245
Fire Insurance Premium Tax	90,000	90,000	91,348	1,348
Charges for Services	844,700	844,700	1,131,177	286,477
Capital Grants	-	-	134,425	134,425
Interest	5,000	5,000	4,876	(124)
Other Income	14,850	14,850	67,346	52,496
Sale of Assets	-	-	1,250	1,250
Transfers - Internal Activities	-	-	(240,000)	(240,000)
Amounts Available for Appropriation	<u>11,591,527</u>	<u>11,591,527</u>	<u>11,860,806</u>	<u>269,279</u>
Charges to Appropriations (Outflows):				
Fire Protection and Emergency Services:				
Personnel	7,130,503	7,130,503	\$ 7,001,254	(129,249)
Employee Benefits	1,985,664	1,985,664	1,876,269	(109,395)
Taxes and Insurance	494,139	494,139	534,561	40,422
Administration	335,674	335,674	323,385	(12,289)
Professional Services	77,900	77,900	44,692	(33,208)
Utilities and Communication	464,107	464,107	449,462	(14,645)
Grant Expense	-	-	62,682	62,682
Insurance	95,000	95,000	90,267	(4,733)
Repairs & Maintenance	354,050	354,050	366,555	12,505
Small Tools & Equipment	44,000	44,000	18,547	(25,453)
Ambulance Operations	212,637	212,637	173,589	(39,048)
Supplies	9,220	9,220	2,535	(6,685)
Training	52,560	52,560	30,380	(22,180)
Turnout Gear	44,400	44,400	40,196	(4,204)
Interest	16,900	16,900	8,390	(8,510)
Contingency	50,965	50,965	-	(50,965)
Capital Outlay	12,000	12,000	122,683	110,683
Debt Service:				
Principal Payments	177,779	177,779	184,124	6,345
Interest Payments	34,029	34,029	27,684	(6,345)
Total Charges to Appropriations	<u>11,591,527</u>	<u>11,591,527</u>	<u>11,357,255</u>	<u>(234,272)</u>
Ending Budgetary Fund Balance	<u>\$ 1,469,138</u>	<u>\$ 1,469,138</u>	<u>\$ 1,972,689</u>	<u>\$ 503,551</u>

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Daisy Mountain Fire District (District) was organized in 1989 pursuant to Title 48 of the Arizona Revised Statutes. The District provides fire protection and rescue services for residents of the New River area.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles as applicable to local governments. The more significant of the District's accounting policies are described below.

Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The basic, but not only, criterion for including potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The District does not currently have any potential component units.

Basis of Presentation

The accounts of the District are organized on the basis of funds, 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 that are comprised of assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent. The District's funds, which are included in this report, are as follows:

1. General Fund – This fund is established to account for all financial resources except those required to be accounted for in another fund.
2. Capital Projects Fund – This fund is established to account for the purchase of major capital additions which are not financed by other funds.

Basis of Accounting

Government-wide Financial Statements: The statement of net assets and statement of activities display information about the reporting government as a whole. It includes all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. They are also financed by program revenue such as charges for services.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting - Continued

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements: The fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for using a separate set of self-balancing accounts. Funds are organized into three major categories: governmental, proprietary and fiduciary. The governmental fund includes the general fund and capital projects fund. The general fund is the primary operating fund of the District and is always classified as a major fund. The only other governmental fund is the capital projects fund and it is also classified as a major fund.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded when the liability is incurred, except for lease purchase principal and interest which are reported when due, and revenues are recognized when they become measurable and available. Measurable means the amount of the transaction that can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes revenue as available if they are collected within sixty days after year end.

Budgetary Data

In accordance with the Arizona Revised Statutes, the District is required to adopt an annual operating budget for the general fund. The District is required to approve and submit their budget no later than August 1st. The budget is adopted on a basis consistent with generally accepted accounting principles and appropriations lapse at year end.

Interfund Transactions

Interfund receivables and payables arise from interfund transactions and are recorded in the period in which the transactions were executed.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the District.

State statutes authorize the District 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 association insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral. Investments are carried at cost, which approximates fair value. Investments in these pools are classified as a cash equivalent. The District has not adopted deposit and investment policies that limit the government's allowable deposits or investments and address the specific types of risk to which the government is exposed other than what is in the Arizona Revised Statutes. See Note 3 for more information.

Taxes and Other Receivables

In the government-wide financial statements, receivables consist of all revenues earned at year end and not yet received. Taxes receivable represents delinquent real and personal property taxes levied within the District. Ambulance receivables are for charges for ambulance transports that are still outstanding at year end.

Capital Assets

Capital assets, which include property, equipment and vehicles, are reported in the general fund in the government-wide financial statements. Purchased assets are recorded at cost, except those assets for which historical costs were not available and estimated costs were used. Donated capital assets are recorded at fair market value on the date received. The threshold for capital assets is equipment that has a useful life greater than a year and costs more than \$500.

The costs of normal repair and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Property, equipment and vehicles of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	5 to 30 years
Equipment	3 to 10 years
Vehicles	10 years

No depreciation is taken on land or construction in progress.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity and Other Credits

In the government-wide financial statements, net assets are the difference between assets and liabilities. Net assets invested in capital assets are capital assets less accumulated depreciation and any outstanding debt related to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by other governments, creditors or grantors. None of the District's net assets are restricted.

When both restricted and unrestricted resources are available for use, it is the policy of the District to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, governmental fund equity is classified in the following five categories:

Nonspendable – The nonspendable fund balance category include amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – The restricted fund balance category is amounts that can be used only for specific purposes because of constitutional provisions, enabling legislation or externally imposed constraints. (External constraints might be imposed by creditors, grantors, contributors, or even the laws or regulations of other governments.)

Committed – The committed fund balance category is amounts that can be only used for specific purposes because of a formal action (resolution) of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those accounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity and Other Credits – Continued

Assigned – The assigned fund balance category is amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee), or by an official to whom that authority has been given. This is the residual fund balance classification for all governmental funds except the general fund.

Unassigned – The unassigned fund balance category is the residual classification for the general fund. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted committed, or assigned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Compensated Absences

The District's policy regarding compensatory times permits employees to accumulate and roll over time with no maximum limit. Upon retirement, the policy regarding sick leave allows an employee to be paid for 50% of the employee's unused sick leave at the employee's current rate of pay. An employee is deemed eligible to retire by having been employed with the District for at least 10 full years or by having been employed in the PSPRS system for at least 10 full years and employed by the District for at least 5 full years. Contract employees will be paid out according to the terms of their contracts. The sick leave policy does not allow payment for voluntary or involuntary termination. The vacation policy allows any unused vacation to be paid upon termination at 100% of the employee's current rate of pay. The liability for compensated absences is reported in the government-wide statements as a long-term liability.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 2 – CAPITAL PROJECTS FUND

The Capital Projects Fund was authorized by the board to provide funds from each year’s General Fund budget for the replacement, acquisition or construction of major equipment or facilities. It should provide for the replacement of major equipment without the need for assessing large tax increases in any one year.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits – Amounts classified as deposits on June 30, 2013, are described below:

	Bank Balance	Carrying Amount
General Fund		
Maricopa County Treasurer’s Investment Pool	\$ 1,273,745	\$ 1,100,365
Deposits with financial institutions	<u>629,948</u>	<u>629,900</u>
	<u>\$ 1,903,693</u>	<u>\$ 1,730,265</u>
Capital Projects Fund		
Maricopa County Treasurer’s Investment Pool	<u>\$ 1,391,662</u>	<u>\$ 1,391,662</u>

The Maricopa County Treasurer invests the cash in a pool under policy guidelines established by the Maricopa County Treasurers' Office (the County). The County accounts for the investment pool in their Fiduciary Investment Trust Fund. Credit risk, concentration of credit risk, and interest rate risk regarding the MCTIP is included in the Comprehensive Annual Financial Report of Maricopa County. The fair value of each participant's position in the MCTIP approximates the value of the participant's shares in the pool.

Credit risk - Credit risk is the risk that an insurer or other counterparty to an investment in a debt security will not fulfill its obligations. The District has no investment policy that would further limit its investment choices other than what is in the Arizona Revised Statutes. The Maricopa County Treasurer's Investment Pool is an external investment pool with no regulatory oversight. The MCTIP is not required to register (and is not registered) with the Securities and Exchange Commission. As of June 30, 2013, the MCTIP had not received a credit quality rating from a national rating agency.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits (in excess of FDIC insurance) may not be returned to us. State statutes require that deposits with financial institutions be insured by the Federal Deposit Insurance Corporation (FDIC). FDIC insures deposits up to \$250,000 for all interest-bearing accounts and another \$250,000 for all demand deposit accounts in a given financial institution. Deposits in excess of insured amounts shall be collateralized by approved securities. The District has a formal agreement with BNY Mellon to cover their custodial credit risk. The District's custodial credit risk coverage as of June 30, 2013 was \$474,200.

Interest rate risk – Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk – Arizona Revised Statutes do not include any requirements for concentration of credit risk.

Foreign currency risk – Arizona Revised Statutes do not allow foreign investments.

Investments – The District does not have a formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

NOTE 4 – AMBULANCE RECEIVABLE

The District considers ambulance revenue as available if collected within ninety days after year end. The ambulance receivable represents the calls invoiced by June 30, 2013. The receivable balance as of June 30, 2013 is \$380,973. The allowance for doubtful accounts as of June 30, 2013 is \$94,344. The portion of the receivable that is not collected within ninety days after the end of the fiscal year is recorded as deferred revenue.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consists of user charges. The receivable balance as of June 30, 2013 is \$430. Currently, there is no provision for an allowance for doubtful accounts as management considers all amounts collectible.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 6 – PROPERTY TAXES

Taxes are levied and collected by the Maricopa County Treasurer. Property taxes attach an enforceable lien on the first day of the levy year. Taxes are levied in August and may be paid in two equal installments. The first installment is due in October and the second is due in March of the following year.

Taxes receivable represents the delinquent tax levied against the property taxes within the District. No reserve is made in the financial statements for doubtful accounts because in the event the taxes are not paid, a lien is placed on the property which can be subsequently sold to collect the delinquent taxes. The taxes receivable at June 30, 2013 is \$300,402 which represents property taxes outstanding. The portion of taxes receivable that is not collected within sixty days after the end of the fiscal year is recorded as deferred revenue.

NOTE 7 – DUE FROM OTHER GOVERNMENTS

Due from other governments consist mainly of receivables related to state land fires. The balance of this receivable as of June 30, 2013 is \$97,723. Currently, there is no provision for an allowance for doubtful accounts as management considers all amounts collectible.

NOTE 8 – CAPITAL ASSETS

The summary of changes in the capital assets is as follows:

	<u>Balance</u> <u>06/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/13</u>
<i>Governmental Activities:</i>				
Land	\$ 480,066	\$ 0	\$ 0	\$ 480,066
Buildings	4,002,032	4,341	0	4,006,373
Equipment	<u>6,300,077</u>	<u>118,342</u>	<u>(70,491)</u>	<u>6,347,927</u>
	10,782,175	122,683	(70,491)	10,834,366
Accumulated Depreciation				
Buildings	(876,662)	(136,835)	0	(1,013,497)
Equipment	<u>(3,643,382)</u>	<u>(622,275)</u>	<u>67,934</u>	<u>(4,197,724)</u>
	<u>(4,520,044)</u>	<u>(759,110)</u>	<u>67,934</u>	<u>(5,211,220)</u>
Capital Assets, net	<u>\$6,262,131</u>	<u>\$(636,427)</u>	<u>\$ (2,557)</u>	<u>\$5,623,146</u>

Depreciation expense is charged to the general government.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 9 – LONG TERM DEBT

Capital Leases

The District acquired buildings, vehicles and equipment by granting leasehold interests in the underlying assets to the creditors (the Bank). The Bank, in turn, leased the property to the District under long-term agreements. Under these agreements, the District is obligated to make lease payments to the Bank, subject to receiving Board appropriations, until the obligation to the Bank is satisfied. Once the obligations to the Bank are satisfied, all rights, title, and interest in the buildings, vehicles and equipment are transferred to the District. However, if the Board appropriations are not received, the District is relieved of any subsequent obligation and the obligations are considered in default. If the default is not cured, the District has agreed that the Bank may terminate the leases, take possession of, and liquidate, the assets pledged under the agreements.

The District's obligations are accounted for in the Statement of Net Assets. Assets under capital leases totaled \$1,173,584 less accumulated depreciation of \$726,930 at June 30, 2013.

The description of the capital leases are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Lease Term</u>	<u>Balance 06/30/2013</u>
Station 146	5.27%	01/2016	\$ 142,571
Ambulance	3.88%	05/2016	67,996
Ambulance	3.88%	05/2016	65,020
Pumper	3.38%	06/2016	138,482
Pumper	3.38%	06/2016	138,482
			<u>\$ 552,551</u>

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2013.

Year Ending <u>June 30</u>	
2014	\$ 211,807
2015	211,807
2016	<u>165,525</u>
Minimum lease payments for all capital leases	589,139
Less: Amount representing interest	<u>(36,588)</u>
Present value of minimum lease payments	<u>\$ 552,551</u>

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 9 – LONG TERM DEBT (Continued)

Long-term obligations are generally paid out of the general fund. Changes in long-term obligations for the year ended June 30, 2013, are as follows:

	Balance <u>6/30/2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/2013</u>
<i>Governmental activities:</i>				
Capital leases	\$ 736,675	\$ 0	\$(184,124)	\$ 552,551
Compensated absences	<u>1,246,150</u>	<u>171,132</u>	<u>0</u>	<u>1,417,282</u>
	<u>\$1,982,825</u>	<u>\$171,132</u>	<u>\$(184,124)</u>	<u>\$1,969,833</u>

NOTE 10 – NET REVENUE

The District provides emergency medical and transportation services within the same geographic region as it provides fire prevention and suppression services. Charges for such emergency medical and transportation services are recognized as charges for services. Net revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement allowances with third-party payers, and provisions for bad debt.

The District relies on payments from third-party payers, such as Medicare and commercial insurance carriers, to support the emergency medical services provided. Should these third-party payers not cover the entire amount of the services rendered, any remaining amounts are adjusted as uncompensated services with the remaining amounts necessary to support the program funded through tax revenues.

NOTE 11 – OPERATING LEASES

The District has a cancelable computer aided dispatching service agreement with the City of Phoenix. The current agreement is effective for a period of one year ending June 30, 2013. Rents are paid on a quarterly basis for dispatch and technical services at a cost of \$74,055. Total rent for the year ended June 30, 2013, was \$296,220.

The District has an agreement with Crown Castle for the use of the tower. The agreement is in effect until May 1, 2016. The term may extend for four renewal periods of 5 years each. Rents are paid on a monthly basis at a cost of \$185 through April 2013 and \$190 thereafter. With each renewal period, the payment increases by 3%. Total rent for the year ended June 30, 2013, was \$2,235.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 11 – OPERATING LEASES (Continued)

The District has an agreement with LCA Bank for the use of the computers. The agreement is in effect until January 1, 2018. Rents are paid on a monthly basis at a base cost of \$843. Total rent for the year ended June 30, 2013, was \$9,270.

NOTE 12 – COMMITMENTS

The District has a line of credit with Bank of America for \$3,500,000. The District did not have a balance as of June 30, 2013.

NOTE 13 – RETIREMENT PLANS

Deferred Compensation Plan

The District has a deferred compensation plan for all personnel. In this plan, employees can designate a percentage of their salary or a specific amount to be deducted from their paychecks. This plan is designed to provide benefits for retirement for any employee who chooses to participate in the plan. The District makes the following contributions: support staff receives 6% of their salary, management receives 10% of their salary and operations personnel receive a \$30 match per pay period. District contributions for the year ended June 30, 2013 totaled \$93,538.

Public Safety Personnel Retirement System

Plan description - In November, 1990, the District entered into a Joinder Agreement with the Arizona State Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan, to cover all full-time personnel engaged in fire suppression activities and/or fire support. Under provisions of the Public Safety Retirement System, employee's coverage begins immediately upon commencement of covered employment.

PSPRS issues a publicly available financial report that includes the applicable financial statements and required supplementary information for PSPRS. The report may be obtained by writing to PSPRS, 1020 East Missouri Avenue, Phoenix, Arizona 85014.

Funding policy - For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55% of the members' annual covered payroll. The District is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2013, was 13.55% of annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates.

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 13 – RETIREMENT PLANS (Continued)

Public Safety Personnel Retirement System - Continued

Annual Pension Cost – The District’s annual and required contributions for the year ended June 30, 2013, were \$908,200. The District’s actuarial valuation is for the year ended June 30, 2013. Information related to this valuation follows.

	<u>PSPRS</u>
Actuarial valuation date	6/30/13
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5% - 8.5%
Payroll growth	4.5%
Cost of living adjustments	None
Amortization method	Level percent-of-pay closed
Remaining amortization method	23 years for underfunded 20 years for overfunded
Asset valuation methods	7-year smoothed market 80%/120% market

Trend Information - Information for the three most recent actuarial valuations follows.

<u>PSPRS</u>	<u>Year</u> <u>Ending</u> <u>June 30</u>	<u>Annual</u> <u>Pension/</u> <u>OPEB Cost</u>	<u>Percent</u> <u>Contributed</u>
<i>Pension</i>	2013	995,995	100%
	2012	823,010	100%
	2011	724,454	100%
<i>Health Insurance</i>	2013	48,566	100%
	2012	45,086	100%
	2011	40,713	100%

Daisy Mountain Fire District
Notes to Financial Statements
June 30, 2013

NOTE 13 – RETIREMENT PLANS (Continued)

Schedule of funding progress - Excluding Health Insurance Subsidy Beginning June 30, 2008

Pension - Excluding Health Insurance Subsidy Beginning June 30, 2008

Valuation Ending June 30	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2013	\$ 17,794,387	\$ 18,189,257	\$ 394,870	97.8%	\$ 6,551,303	6.0%
2012	\$ 15,925,566	\$ 16,808,161	\$ 882,595	94.7%	\$ 6,526,447	13.5%
2011	\$ 12,766,762	\$ 14,912,963	\$ 2,146,201	85.6%	\$ 6,992,237	30.7%

Health Insurance Subsidy

Valuation Ending June 30	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2013	\$ -	\$ 540,286	\$ 540,286	0.0%	\$ 6,551,303	8.25%
2012	\$ -	\$ 485,218	\$ 485,218	0.0%	\$ 6,526,447	7.43%
2011	\$ -	\$ 451,398	\$ 451,398	0.0%	\$ 6,992,237	6.46%

NOTE 14 – RISK MANAGEMENT

The District is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. The District maintains commercial liability insurance to cover losses. Any settled claims resulting from these risks have not exceeded commercial insurance in any of the last three years. In the opinion of the District's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. Consequently, no provision has been made in the financial statements for possible losses of this nature.

NOTE 15- SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of issuance, January 24, 2014 and does not know of any additional comments or disclosures that should be made through the date of this report, other than the property tax initiative and internal control changes listed below.

NOTE 15- SUBSEQUENT EVENTS (Continued)

Voter Approved Property Tax Restriction:

On November 6, 2012 the voters of the State of Arizona approved a Property Tax Initiative limiting the annual increase in property tax valuation to a maximum of 5% per year and established a single limited property value as the basis for determining property taxes on real property beginning in 2014. The impact of this restriction on future revenue of the District is not currently known.

Statutory Internal Control Changes:

On September 13, 2013 House Bill #2572, passed by the Arizona State Legislature, becomes effective. This new statute mandates certain new internal control measures for Fire Districts. Among these statutory requirements are time limits on the preparation of reconciliations, presentation on a monthly basis, to governing boards, of financial statements, reconciliations & documents and timely review by the governing board. The governing board is also required to review cash flow projections and notify the County Treasurer and County Board of Supervisors, by certified mail, of any adverse impact found in the cash flow projections. Additional certifications are now required by auditors and reviewers as to the Districts compliance with these new statutory requirements. Auditors and reviewers are now required to appear in person before the governing board to explain and report on the audit or review's results. The impact on the District from these changes is not fully known at this time.

INDEPENDENT AUDITOR'S 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 District Board
Daisy Mountain Fire District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Daisy Mountain Fire District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Daisy Mountain Fire District's basic financial statements, and have issued our report thereon dated January 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Daisy Mountain Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Daisy Mountain Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District'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, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heidenreich & Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC

Phoenix, AZ
January 24, 2014