

**AMBULANCE REVENUE and COST REPORT
FIRE DISTRICT and SMALL RURAL COMPANY**

**Arizona Department of Health Services
Annual Ambulance Financial Report**

Drexel Heights Fire District
Reporting Ambulance Service

Address: 5030 S Camino Verde

City: Tucson Zip: 85735

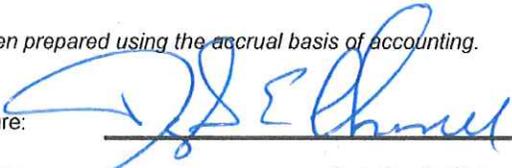
Report Fiscal Year

From: July 1, 2014 To: June 30, 2015
Mo. Day Year Mo. Day Year

I hereby verify that I have directed the preparation of the enclosed annual report in accordance with the reporting requirements of the State of Arizona.

I have read this report and hereby verify that the information provided is true and correct to the best of my knowledge.

This report has been prepared using the accrual basis of accounting.

Authorized Signature:  Date: December 23, 2015

Print Name and Title: Douglas E. Chappell, Fire Chief

Phone: 520-883-4341

Mail to:
Department of Health Services
Bureau of Emergency Medical Services
Certificate of Necessity and Rates Section
150 North 18th Avenue, Suite 540
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AMBULANCE REVENUE AND COST REPORT

FIRE DISTRICT and SMALL RURAL COMPANY

AMBULANCE SERVICE ENTITY: Drexel Heights Fire District

FOR THE PERIOD FROM: July 1, 2014 TO: June 30, 2015

STATISTICAL SUPPORT DATA

Line No.	DESCRIPTION	(1) SUBSCRIPTION SERVICE TRANSPORTS	*(2) TRANSPORTS UNDER CONTRACT	(3) TRANSPORTS NOT UNDER CONTRACT	(4) TOTALS
1	Number of ALS Billable Transports:			2,317	2,317
2	Number of BLS Billable Transports:			1,280	1,280
3	Number of Loaded Billable Miles:			42,840	42,840
4	Waiting Time (Hr. & Min.):				
5	Canceled (Non-Billable) Runs:				

AMBULANCE SERVICE ROUTINE OPERATING REVENUE

6	ALS Base Rate Revenue			\$ 3,359,645
7	BLS Base Rate Revenue			1,856,233
8	Mileage Charge Revenue			883,622
9	Waiting Charge Revenue			
10	Medical Supplies Charge Revenue			
11	Nurses Charge Revenue			
12	Standby Charge Revenue (Attach Schedule)			
13	TOTAL AMBULANCE SERVICE ROUTINE OPERATING REVENUE			\$ 6,099,500

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SALARY AND WAGE EXPENSE DETAIL

GROSS WAGES:		** No. of FTE's
14	Management	\$ 172,899 3.0
15	Paramedics and IEMTs	\$ 1,716,907 29.0
16	Emergency Medical Technician (EMT)	\$ 1,244,644 28.0
17	Other Personnel	\$ 640,632 10.0
18	Payroll Taxes and Fringe Benefits - All Personnel	\$ 1,451,012 70
19	Total Wages, Taxes & Benefits (Sum Lines 14 through 18; Post to Page 3, Line 10)	\$ 5,226,094 70

* This column reports only those runs where a contracted discount rate was applied.

** Full-time equivalents (F.T.E.) is the sum of all hours for which employees wages were paid during the year divided by 2080.

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AMBULANCE REVENUE AND COST REPORT
FIRE DISTRICT and SMALL RURAL COMPANY

AMBULANCE SERVICE ENTITY:

Drexel Heights Fire District

FOR THE PERIOD

FROM: July 1, 2014

TO: June 30, 2015

SCHEDULE OF REVENUES AND EXPENSES

Line No.	<u>DESCRIPTION</u>		
Operating Revenues:			
1	Total Ambulance Service Operating Revenue	(From: Page 2, Line 13)	\$ 6,099,500
<u>Settlement Amounts:</u>			
2	AHCCCS		545,706
3	Medicare		2,021,979
4	Subscription Service		
5	Contractual		
6	Other		450,877
7	Total	(Sum of Lines 2 through 6)	3,018,562
8	Total Operating Revenue	(Line 1 minus Line 7)	\$ 3,080,938
Operating Expenses:			
9	Bad Debt		\$ 144,247
10	Total Salaries, Wages, and Employee-Related Expenses	(From: Page 2, Line 19)	5,226,094
11	Professional Services		412,235
12	Travel and Entertainment		18,036
13	Other General Administrative		22,194
14	Depreciation		385,705
15	Rent / Leasing		17,464
16	Building / Station		88,630
17	Vehicle Expense		179,483
18	Other Operating Expense		79,142
19	Cost of Medical Supplies Charged to Patients		
20	Interest		21,583
21	Subscription Service Sales Expense		
22	Total Operating Expense	(Sum of Lines 9 through 21)	6,594,813
23	Total Operating Income or (Loss)	(Line 8 minus Line 22)	\$ (3,513,875)
24	Subscription Contract Sales		
25	Other Operating Revenue		
26	Local Supportive Funding		3,513,875
27	Other Non-Operating Income (Attach Schedule)		
28	Other Non-Operating Expense (Attach Schedule)		
29	NET INCOME or (LOSS) Before Income Taxes	(Sum of Lines 23 through 27, minus Line 28)	\$ -
Provision for Income Taxes:			
30	Federal Income Tax		
31	State Income Tax		
32	Total Income Tax	(Line 30, plus Line 31)	
33	Ambulance Service Net Income (Loss)	(Line 29, minus Line 32)	-

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Tucson, Arizona 85704
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November 16, 2015

To the Governing Board
Drexel Heights Fire District

We have audited the financial statements of the governmental activities and each major fund of Drexel Heights Fire District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Drexel Heights Fire District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the Fire District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

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The most sensitive estimates affecting the financial statements are:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time management estimates those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on leave rates and Fire District policies regarding payment of unused vested leave.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

In addition, as part of the professional services we provided to the Fire District we assisted with the preparation of the financial statements and notes to financial statements. In providing this service we prepared adjusting journal entries necessary to convert the accounting records to the basis of accounting required by generally accepted accounting principles. Those adjusting journal entries have been provided to management who reviewed and approved those entries and accepted responsibility for them.

Disagreements with Management

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

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Drexel Heights Fire District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

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Discussions with Management

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

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Governing Board and management of Drexel Heights Fire District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld, Meech & Co., P.C.

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Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

2. Is an effective fraud reporting mechanism in place?

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

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4. **Is the management climate/tone at the top one of honesty and integrity?**
 - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
 - Are performance goals realistic?
 - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
 - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?
5. **Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**
6. **Are strong anti-fraud controls in place and operating effectively, including the following?**
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations
7. **Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**
8. **Does the hiring policy include the following (where permitted by law)?**
 - Past employment verification
 - Criminal and civil background checks
 - Credit checks
 - Drug screening
 - Education verification
 - References check
9. **Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**
10. **Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**
11. **Are anonymous surveys conducted to assess employee morale?**

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**DREXEL HEIGHTS FIRE DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

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DREXEL HEIGHTS FIRE DISTRICT

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**DREXEL HEIGHTS FIRE DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Drexel Heights Fire District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Drexel Heights Fire District (Fire District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Drexel Heights Fire District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the Fire District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, on our consideration of Drexel Heights 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 the 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 Drexel Heights Fire District's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 9, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

As management of the Drexel Heights Fire District (Fire District), we offer readers of the Fire District's financial statements this narrative overview and analysis of the financial activities of the Fire District for the fiscal year ended June 30, 2015. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

NATURE OF OPERATIONS

The Drexel Heights Fire District is located on the southwest side of the City of Tucson in the area of the beautiful Tucson Mountains. The topography of the area consists of flat lands, rolling desert and beautiful mountain areas. The Fire District is considered primarily a bedroom community with only scattered pockets of commercial and light industry. The Fire District population is approximately 50,058.

A five member Board whose members are elected to their offices in an at-large election governs the Fire District. The Board Members serve staggered terms of four years. The Fire District employs a Fire Chief who serves as the Chief Administrative Officer of the Fire District. The Drexel Heights Fire District provides a wide array of services to the residents and visitors of the Fire District.

Those services include fire suppression and advanced life support ambulance transport service. Other services provided include fire and general safety public education, fire prevention inspectional services, both in-house and civilian training programs, special rescue services, and desert pest relocation. The Fire District maintains both automatic and mutual aid agreements with our regional fire service organizations. The Fire District also operates a full service communications dispatch center for Pima County, Arizona. The Cooperative serves as a secondary 9-1-1 Public Safety Answering Point (PSAP) providing service for the Fire District, Corona de Tucson Fire Department, Rincon Valley Fire District, Arivaca Fire District, Corona de Tucson Fire District, Drexel Heights Fire District, Elephant Head Volunteer Fire Department, Helmet Peak Volunteer Fire Department, Green Valley Fire District, Rincon Valley fire District, and the San Xavier District of the Tohono O'odham Nation Fire Department.

The Fire District operates from five Fire Stations. The Valley Emergency Communications Center operates from a regional communications center owned by Pima County. The Fire District employs 102 career and approximately eleven part-time personnel. The Administration consists of a Fire Chief, Finance/Administrative Manager, Fire Marshal, a part-time Public Information Manager and two clerical employees. The Operations Division includes a Division Chief, three Battalion Chiefs, 12 Captains, 66 career Firefighters, and one Training/Education Coordinator. The Valley Emergency Communications Center consists of a Manager, three shift supervisors, a training supervisor, nine career telecommunicators and approximately ten part-time telecommunicators. The Fire District maintains a Technical Rescue Team and is part of the Countywide Hazardous Materials Team.

**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

FINANCIAL HIGHLIGHTS

- The Fire District's total net position of governmental activities decreased \$424,179 which represents an 11 percent decrease from the prior fiscal year.
- General revenues accounted for \$6.9 million in revenue, or 66 percent of all current fiscal year revenues. Program specific revenue in the form of charges for services and grants and contributions accounted for \$3.6 million or 34 percent of total current fiscal year revenues.
- The Fire District had approximately \$11.0 million in expenses related to governmental activities, an increase of \$1.3 million from the prior fiscal year.
- The General Fund had \$9.3 million in current fiscal year revenues, which primarily consisted of property taxes and charges for services, and \$9.0 million in expenditures. The General Fund's fund balance increased \$82,722.
- The Valley Emergency Communication Center (VECC) Fund had \$1.1 million in current fiscal year revenues, which primarily consisted of charges for services, and \$1.1 million in expenditures. The VECC Fund started operations in the current year and had a deficit fund balance of \$7,076 at year end.
- The Debt Service Fund had \$645,412 in current fiscal year revenues, which primarily consisted of property taxes and \$559,976 in expenditures. The Debt Service Fund's fund balance increased from \$217,769 at the prior fiscal year end, to \$303,205 at the end of the current fiscal year.
- The Capital Projects Fund had \$252,605 in current fiscal year transfers and revenues and \$252,081 in expenditures. The Capital Projects Fund's fund balance increased from \$384,265 at the prior fiscal year end, to \$384,789 at the end.

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**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

RESULTS OF OPERATIONS

There were a number of significant accomplishments during the 2015 fiscal year. They included:

- The purchase of a new Ambulance.
- Maintained essential services in the face of a bad overall economic climate that contributed to decreasing property values and declining reimbursements for emergency medical services.
- Implementation of a regional emergency communications cooperative for fire organizations in conjunction with the Pima County Wireless Integrated Network (PCWIN).
- Maintained the use of volunteers for public education and fire prevention activities.
- The implementation of a new fire records management system and work on setting up an electronic patient care records management system for implementation in early 2016.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Fire District's basic financial statements. The Fire District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The statement of net position presents information on all of the Fire 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 Fire District is improving or deteriorating.

The statement of activities presents information showing how the Fire 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the Fire District that are principally supported by property taxes and charges for services. The governmental activities of the Fire District include public safety and interest on long-term debt.

**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

OVERVIEW OF FINANCIAL STATEMENTS

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fire District are governmental funds.

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, VECC, Debt Service, and Capital Projects Funds, all of which are considered to be major funds. The Fire District does not have any non-major governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Fire District's budget process. The Fire District adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and VECC Fund as required supplementary information.

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**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Fire District, assets and deferred outflows exceeded liabilities and deferred inflows by \$3.4 million at the current fiscal year end.

The largest portion of the Fire District's positive net position reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles and apparatus, equipment and communications), less any related outstanding debt used to acquire those assets. The Fire District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the Fire District's investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Fire District's net position represents resources that are subject to external restriction on how they may be used.

The following table presents a summary of the Fire District's net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	As of <u>June 30, 2015</u>	As of <u>June 30, 2014</u>
Current assets	\$ 5,167,427	\$ 4,886,167
Capital assets, net	<u>7,614,563</u>	<u>7,947,729</u>
Total assets	<u>12,781,990</u>	<u>12,833,896</u>
Deferred outflows	<u>2,291,123</u>	
Current liabilities	443,750	334,083
Long-term liabilities	9,693,207	2,033,975
Total liabilities	<u>10,136,957</u>	<u>2,368,058</u>
Deferred inflows	<u>1,569,642</u>	
Net position:		
Net investment in capital assets	6,699,563	6,502,729
Restricted	316,306	259,699
Unrestricted	<u>(3,649,355)</u>	<u>3,703,410</u>
Total net position	<u>3,366,514</u>	<u>\$ 10,465,838</u>

The Fire District's financial position is the product of several financial transactions including the net result of activities, the payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following are significant current year transactions that had an impact on the Statement of Net Position.

- The addition of \$241,431 in capital assets through purchases of equipment and vehicles and apparatus and the disposal of capital assets originally costing \$467,603.
- The current year principal payment of \$530,000.
- The addition of \$8.2 million in pension liabilities due to the implementation of new pension reporting standards.

Changes in net position. The Fire District's total revenues for the current fiscal year were \$10.5 million. The total cost of all programs and services was \$11.1 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	Fiscal Year Ended <u>June 30, 2015</u>	Fiscal Year Ended <u>June 30, 2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 3,582,275	\$ 2,657,141
Operating grants and contributions	11,717	43,675
General revenues:		
Property taxes, levied for general purposes	5,868,115	5,772,715
Property taxes, levied for debt purposes	614,063	617,159
Fire district assistance taxes	397,654	392,209
Investment income	13,457	15,492
Miscellaneous	45,418	25,892
Total revenues	<u>10,532,699</u>	<u>9,524,283</u>
Expenses:		
Public safety	10,926,902	9,562,236
Interest on long-term debt	29,976	53,291
Total expenses	<u>10,956,878</u>	<u>9,615,527</u>
Changes in net position	(424,179)	(91,244)
Net position, beginning, as restated	<u>3,790,693</u>	<u>10,557,082</u>
Net position, ending	<u>\$ 3,366,514</u>	<u>\$ 10,465,838</u>

The most significant impact on the change in net position was the \$925,134 increase in charges for services and the \$1.4 million increase in public safety expenses both attributed to the operation of the new Valley Emergency Communications Center.

In addition, the cost of all governmental activities this year was \$11.0 million, property taxes and fire district assistance taxes (county aid) provided funding of \$5.9 million and \$397,654, respectively, and ambulance revenues, communication services revenues and other charges for services provided funding of \$3.6 million.

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**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE FIRE DISTRICT'S FUNDS

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

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

The financial performance of the Fire District as a whole is reflected in its governmental funds. As the Fire District completed the year, its governmental funds reported a combined fund balance of \$4.1 million, an increase of \$161,606 due primarily to an increase in charges for services revenue for the VECC Fund.

The General Fund is the principal operating fund of the Fire District. The fund balance increased \$82,722 to \$3.4 million as of fiscal year end. General Fund revenues increased \$78,670 and General Fund expenditures increased \$106,610.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Fire District made no revisions to the originally adopted General Fund expenditure and revenue budgets.

A schedule showing the original and final budget amounts compared to the Fire District's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The unfavorable variance of \$211,221 in property taxes was a result of lower than anticipated collections during the year.
- The favorable variance of \$269,030 in charges for services was a result of better than anticipated collections from ambulance services.
- The favorable variance of \$68,216 in public safety – emergency services expenditures was a result of lower than expected expenditures for salaries.

**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At year end, the Fire District had invested \$7.6 million in capital assets, including land, buildings and improvements, equipment, communications, vehicles and apparatus. Total depreciation expense for the current fiscal year was \$535,702.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2015 and June 30, 2014.

	As of June 30, 2015	As of June 30, 2014
Capital assets – non-depreciable	\$ 887,703	\$ 887,703
Capital assets – depreciable, net	6,726,860	7,060,026
Total	\$ 7,614,563	\$ 7,947,729

Additional information on the Fire District's capital assets can be found in Note 5.

Debt Administration. At year end, the Fire District had \$915,000 million in long-term debt outstanding, \$455,000 due within one year.

State statutes limit the amount of general obligation debt a Fire District may issue to six percent of the secondary assessed value. The current debt limitation for the Fire District is \$10.9 million. During the current fiscal year 65 percent of the Fire District's actual revenues were derived from real property and fire district assistance taxes.

Additional information on the Fire District's long-term debt can be found in Notes 6 and 7.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the Fire District's administration during the process of developing the fiscal year 2015-16 budget. Among them was assessed value that showed no increase following a dramatic decline in recent years, and the fluctuating reimbursement revenue for emergency medical service transportation due to the changes brought about by the Affordable Healthcare Act as well as changes made by the Arizona legislature.

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

Budgeted expenditures in the General Fund increased one percent to \$9.4 million in fiscal year 2015-16.

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**DREXEL HEIGHTS FIRE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

CONTACTING THE FIRE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Administration Center, Drexel Heights Fire District, 5030 S. Camino Verde, Tucson, Arizona 85735.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**DREXEL HEIGHTS FIRE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 3,847,001
Property taxes receivable	565,421
Accounts receivable	722,276
Prepaid items	32,729
Total current assets	5,167,427
Noncurrent assets:	
Capital assets, non-depreciable	887,703
Capital assets, depreciable (net)	6,726,860
Total noncurrent assets	7,614,563
Total assets	12,781,990
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension plan items	2,291,123
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	165,538
Accrued payroll and employee benefits	278,212
Compensated absences payable	410,000
Bonds payable	455,000
Total current liabilities	1,308,750
Noncurrent liabilities:	
Net pension liability	8,193,722
Compensated absences	174,485
Bonds payable	460,000
Total noncurrent liabilities	8,828,207
Total liabilities	10,136,957
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension plan items	1,569,642
<u>NET POSITION</u>	
Net investment in capital assets	6,699,563
Restricted for:	
Debt service	316,306
Unrestricted	(3,649,355)
Total net position	\$ 3,366,514

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The notes to the basic financial statements are an integral part of this statement.

**DREXEL HEIGHTS FIRE DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Public safety - emergency services	\$ 9,945,855	\$ 3,582,275	\$ 11,717	\$ (6,351,863)
Public safety - administration	981,047			(981,047)
Interest on long-term debt	29,976			(29,976)
Total governmental activities	<u>\$ 10,956,878</u>	<u>\$ 3,582,275</u>	<u>\$ 11,717</u>	<u>(7,362,886)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	5,868,115
Property taxes, levied for debt purposes	614,063
Fire district assistance taxes	397,654
Investment income	13,457
Miscellaneous	45,418
Total general revenues	<u>6,938,707</u>

Changes in net position	(424,179)
Net position, beginning of year, as restated	<u>3,790,693</u>
Net position, end of year	<u>\$ 3,366,514</u>

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FUND FINANCIAL STATEMENTS

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**DREXEL HEIGHTS FIRE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>VECC</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and investments	\$ 3,194,944	\$ 6,127	\$ 261,275
Property taxes receivable	510,390		55,031
Accounts receivable	707,715	14,561	
Prepaid items	19,995	11,864	
Total assets	<u>\$ 4,433,044</u>	<u>\$ 32,552</u>	<u>\$ 316,306</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 158,915	\$ 5,887	\$
Accrued payroll and employee benefits	244,471	33,741	
Total liabilities	<u>403,386</u>	<u>39,628</u>	
Deferred inflows of resources:			
Unavailable revenues - property taxes	416,717		13,101
Unavailable revenues - charges for services	214,624		
Total deferred inflows of resources	<u>631,341</u>		<u>13,101</u>
Fund balances (deficits):			
Nonspendable	19,995	11,864	303,205
Restricted			
Committed			
Unassigned	3,378,322	(18,940)	
Total fund balances	<u>3,398,317</u>	<u>(7,076)</u>	<u>303,205</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 4,433,044</u>	 <u>\$ 32,552</u>	 <u>\$ 316,306</u>

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The notes to the basic financial statements are an integral part of this statement.

<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 384,655	\$ 3,847,001
	565,421
	722,276
870	32,729
<u>\$ 385,525</u>	<u>\$ 5,167,427</u>
\$ 736	\$ 165,538
<u>736</u>	<u>278,212</u>
	<u>443,750</u>
	429,818
	<u>214,624</u>
	<u>644,442</u>
870	32,729
	303,205
383,919	383,919
	3,359,382
<u>384,789</u>	<u>4,079,235</u>
<u>\$ 385,525</u>	<u>\$ 5,167,427</u>

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**DREXEL HEIGHTS FIRE DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total governmental fund balances **\$ 4,079,235**

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 12,615,231	
Less accumulated depreciation	<u>(5,000,668)</u>	7,614,563

Some receivables are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.

Property taxes	429,818	
Charges for services	<u>214,624</u>	644,442

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	2,291,123	
Deferred inflows of resources related to pensions	<u>(1,569,642)</u>	721,481

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(584,485)	
Net pension liability	(8,193,722)	
Bonds payable	<u>(915,000)</u>	<u>(9,693,207)</u>

Net position of governmental activities **\$ 3,366,514**

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The notes to the basic financial statements are an integral part of this statement.

**DREXEL HEIGHTS FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>VECC</u>	<u>Debt Service</u>
Revenues:			
Property taxes	\$ 5,836,489	\$	\$ 642,892
Fire district assistance taxes	397,654		
Intergovernmental	11,717		
Charges for services	2,985,559	1,089,504	
Investment income	9,865	234	2,520
Miscellaneous	43,651		
Total revenues	<u>9,284,935</u>	<u>1,089,738</u>	<u>645,412</u>
Expenditures:			
Current -			
Public safety - emergency services	8,109,414	1,081,814	
Public safety - administration	846,402		
Capital outlay	11,397		
Debt service -			
Principal retirement			530,000
Interest and fiscal charges			29,976
Total expenditures	<u>8,967,213</u>	<u>1,081,814</u>	<u>559,976</u>
Excess (deficiency) of revenues over expenditures	<u>317,722</u>	<u>7,924</u>	<u>85,436</u>
Other financing sources (uses):			
Transfer in			
Transfer out	(235,000)	(15,000)	
Total other financing sources (uses):	<u>(235,000)</u>	<u>(15,000)</u>	
Changes in fund balances	<u>82,722</u>	<u>(7,076)</u>	<u>85,436</u>
Fund balances, beginning of year	3,315,595		217,769
Fund balances, end of year	<u>\$ 3,398,317</u>	<u>\$ (7,076)</u>	<u>\$ 303,205</u>

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The notes to the basic financial statements are an integral part of this statement.

<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$	\$ 6,479,381
	397,654
	11,717
	4,075,063
838	13,457
1,767	45,418
<u>2,605</u>	<u>11,022,690</u>
	9,191,228
	846,402
252,081	263,478
	530,000
	29,976
<u>252,081</u>	<u>10,861,084</u>
<u>(249,476)</u>	<u>161,606</u>
250,000	250,000
<u>250,000</u>	<u>(250,000)</u>
524	161,606
384,265	3,917,629
<u>\$ 384,789</u>	<u>\$ 4,079,235</u>

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DREXEL HEIGHTS FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net changes in fund balances - total governmental funds **\$ 161,606**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 241,431	
Less current year depreciation	<u>(535,702)</u>	(294,271)

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	2,797	
Charges for services	<u>7,190</u>	9,987

Repayments of bond principal are expenditures in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. 530,000

Governmental funds report pension contributions as expenditures. However, they are reported as deferred outflows of resources in the Statement of Net Position. The change in the net pension liability, adjusted for deferred pension items, is reported as pension expense in the Statement of Activities.

Current year pension contributions	753,608	
Pension expense	<u>(1,550,704)</u>	(797,096)

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.

Loss on disposal of assets	(38,895)	
Compensated absences	<u>4,490</u>	<u>(34,405)</u>

Changes in net position in governmental activities **\$ (424,179)**

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The notes to the basic financial statements are an integral part of this statement.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Drexel Heights Fire District (Fire District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2015, the Fire District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.

The more significant of the Fire District's accounting policies are described below.

A. Reporting Entity

The Governing Board is organized under Statute Title 48 of the Arizona Revised Statutes (A.R.S.). Management of the Fire District is independent of other state or local governments. The County Treasurer collects taxes for the Fire District, but exercises no control over its expenditures/expenses.

The power and authority given to the Fire District is vested in a Governing Board, each member being elected for a four-year term. The Governing Board has the statutory authority to adopt and modify the budget; levy taxes; control all assets, including facilities and properties; authorize borrowing, or long-term debt issuances; sign contracts, and develop the programs to be provided. The responsibility and accountability over all funds and fiscal matters are vested in the Governing Board. The Fire District is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit from nor imposes a financial burden on the Fire District.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Fire District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Fire District for financial statement presentation purposes, and the Fire District is not included in any other governmental reporting entity.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Fire District as a whole. The reported information includes all of the nonfiduciary activities of the Fire District. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Fire District. Governmental activities normally are supported by taxes and charges for services, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Fire District does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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. Taxes and other items not included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – 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 Fire District considers

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Property taxes, charges for services, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Unearned revenues arise when resources are received by the Fire District before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes and other receivables that will not be collected within the available period have been reported as unavailable revenues on the governmental fund financial statements.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Fire District currently only has major funds.

The Fire District reports the following major governmental funds:

General Fund – The General Fund is the Fire District’s primary operating fund. It accounts for all resources used to finance Fire District maintenance and operation except those required to be accounted for in other funds.

Valley Emergency Communication Center (VECC) Fund – The VECC Fund accounts for the resources received from the Fire District and other districts that are restricted for the operations of the Valley Emergency Communications Center.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. In the Fire District’s budget, this fund is referred to as “Bond Projects.”

Capital Projects Fund – The Capital Projects Fund accounts for funds received and expended for the construction of buildings and improvements as well as for the acquisition of apparatus and major equipment for use by the Fire District. In the Fire District’s budget, this fund is referred to as “Capital Reserve.”

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Cash and Investments

A.R.S. require the Fire District to deposit certain cash with the Pima County Treasurer's Investment Pool. Interest earned from investments purchased with pooled monies is allocated to each of the Fire District's funds based on their average balances. Fair value of the investments in the pool is the same as the value of the pool shares. All investments are stated at fair value.

A.R.S. authorize the Fire District to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Fire District's investments.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

E. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Property Tax Calendar

The County Treasurer is responsible for collecting property taxes for all governmental entities within the county. The county levies real and personal 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.

Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

G. Prepaid Items

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. Prepaid items are recorded as expenses when consumed in the government-wide financial statements and as expenditures when purchased in the fund financial statements.

H. Capital Assets

Capital assets, which include land; buildings and improvements; equipment; communications; and vehicles and apparatus, are reported in the government-wide financial statements.

Capital assets are defined by the Fire District as assets with an initial, individual cost in excess of \$2,500 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Improvements, other than building	5 – 20 years
Buildings	25 – 40 years
Equipment, communications, vehicles and apparatus	3 – 20 years

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Compensated Absences

All full-time employees of the Fire District accrue paid time off (PTO) to use for vacation or sick leave. PTO is earned monthly beginning with the first month of employment. The amount of time earned each month is established in policy. Employees are limited in the amount of hours they may carryover from one fiscal year to another. This limit is defined in policy. Upon termination, employees are eligible to receive payment for a percentage of the outstanding PTO balance at a predetermined ratio set in policy. Compensated absences are accrued and reported as liabilities in the government-wide financial statements. Governmental funds report only the current portion of compensated absences payable as a result of employee termination, resignation or retirement. Generally, resources from the General Fund are used to pay for compensated absences.

J. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts, as well as, the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds.

M. Net Position Flow Assumption

In the government-wide financial statements the Fire District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

N. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position may 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 and so will not be recognized as an inflow of resources (revenue) until that time.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications. All of the classifications are described below.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Fire District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board or a management official delegated that authority by the formal Governing Board action. The Fire District does not have a formal policy or procedures for the utilization of assigned fund balance, accordingly, no assigned fund balance amounts are reported.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. 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.

The Fire District applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balance – At year end, the VECC Fund, a major governmental fund, reported a deficit of \$7,076 in fund balance. The deficit arose because of operations during the year. Additional revenues received in fiscal year 2015-16 are expected to eliminate the deficit.

Excess Expenditures Over Budget – At year end, the Fire District had expenditures in the VECC Fund that exceeded the budget, however, this does not constitute a violation of any legal provisions.

NOTE 4 – CASH AND INVESTMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Fire District’s deposits may not be returned to the Fire District. The Fire District does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the Fire District’s deposits was \$2,035,376 and the bank balance was \$2,296,409. At year end, \$2,296,409 of the Fire District’s deposits were insured or covered by collateral held by the pledging financial institution in the Fire District’s name. In addition, at year end the Fire District had \$300 cash on hand.

The County Treasurer’s pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The fair value of each participant’s position in the County Treasurer investment pool approximates the value of the participant’s shares in the pool and the participants’ shares are not identified with specific investments.

At year end, the Fire District’s investments consisted of the following:

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer’s investment pool	223 days	<u>\$ 1,811,625</u>

Interest Rate Risk. The Fire 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.

Credit Risk. The Fire District has no investment policy that would further limit its investment choices. As year end, the Fire District’s investment in the County Treasurer’s investment pool did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk – Investments. The Fire District’s investment in the County Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the Fire District’s portion is not identified with specific investments and is not subject to custodial credit risk.

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity for the current fiscal year follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 887,703	\$	\$	\$ 887,703
Total capital assets, not being depreciated	<u>887,703</u>			<u>887,703</u>
Capital assets, being depreciated:				
Buildings and improvements	6,534,615			6,534,615
Equipment	1,119,613	71,686	309,255	882,044
Communications	558,742	18,858	4,595	573,005
Vehicles and apparatus	3,740,730	150,887	153,753	3,737,864
Total assets, being depreciated	<u>11,953,700</u>	<u>241,431</u>	<u>467,603</u>	<u>11,727,528</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,482,138)	(163,544)		(1,645,682)
Equipment	(1,013,134)	(69,492)	(270,360)	(812,266)
Communications	(148,653)	(40,384)	(4,595)	(184,442)
Vehicles and apparatus	(2,249,749)	(262,282)	(153,753)	(2,358,278)
Total accumulated depreciation	<u>(4,893,674)</u>	<u>(535,702)</u>	<u>(428,708)</u>	<u>(5,000,668)</u>
Total capital assets, being depreciated, net	7,060,026	(294,271)	38,895	6,726,860
Governmental activities capital assets, net	<u>\$ 7,947,729</u>	<u>\$(294,271)</u>	<u>\$ 38,895</u>	<u>\$ 7,614,563</u>

Depreciation expense of \$313,437 and \$222,265 were charged to the emergency services and administration governmental functions, respectively.

NOTE 6 – GENERAL OBLIGATION BONDS PAYABLE

Bonds payable at year end consisted of the following outstanding general obligation bonds. Property taxes from the Debt Service Fund are used to pay bonded debt.

<u>Purpose</u>	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2015</u>	<u>Due Within One Year</u>
Governmental activities:					
Series B, 2006	\$1,350,000	4.25-5.00%	8/1/16	\$ 165,000	\$ 165,000
GO Refunding 2012	1,000,000	0.95%	7/1/16-17	750,000	290,000
Total				<u>\$ 915,000</u>	<u>\$ 455,000</u>

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 – GENERAL OBLIGATION BONDS PAYABLE

Annual debt service requirements to maturity on general obligation bonds at year end are summarized as follows:

Year ending June 30:	Governmental Activities	
	Principal	Interest
2016	\$ 455,000	\$ 9,254
2017	460,000	2,185
Total	\$ 915,000	\$ 11,439

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,445,000	\$	\$ 530,000	\$ 915,000	\$ 455,000
Net pension liability	6,675,145	1,518,577		8,193,722	
Compensated absences payable	588,975	72,941	77,431	584,485	410,000
Governmental activity long-term liabilities	\$ 8,709,120	\$ 1,591,518	\$ 607,431	\$ 9,693,207	\$ 865,000

NOTE 8 – INTERFUND TRANSFERS

During the fiscal year, the Fire District transferred \$235,000 from the General Fund and \$15,000 from the VECC Fund, both major governmental funds, to the Capital Projects Fund.

The Fire District, as a matter of practice, transfers tax revenues specifically budgeted, or unencumbered cash available at the end of the fiscal year from the General Fund, to the Capital Projects Fund to provide for planned future acquisitions of apparatus, vehicles, buildings and improvements. Such transfers are not restricted by statute and can be transferred back to the General Fund upon Board approval.

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 9 – RISK MANAGEMENT

The Fire 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 natural disasters. The Fire District carries commercial insurance for all risks of loss, including property and liability, workers' compensation, and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 – JOINTLY GOVERNED ORGANIZATION

The Fire District is a participant in the Valley Emergency Communications Center (VECC). The VECC is an association of the Drexel Heights Fire District and the Green Valley Fire District formed through an intergovernmental agreement between these entities. The VECC was formed to promote efficiencies realized by the coordination and sharing of the emergency communications center between these two entities, as well as other regional fire districts who participate based upon established fees. The Drexel Heights Fire District is the service provider and fiscal agent for the VECC. The VECC received \$1.1 million from other governments for emergency communications services provided during the year.

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

The Fire District reported \$753,608 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description. Fire District employees not covered by the other pension plans described after this section participate 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 the ASRS website at www.azasrs.gov.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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:

	Retirement Initial Membership Date:	
	Before July 1, 2011	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 months of last 120 months	Highest 60 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 earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions. In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the Fire District was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the members' annual covered payroll. The Fire District's contributions to the pension plan for the year ended June 30, 2015 were \$82,891.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The Fire District's contributions for the current and two preceding years for the Arizona State Retirement System OPEB, all of which were equal to the required contributions, were as follows:

		Health Benefit Supplement Fund		Long-Term Disability Fund
Year ending June 30:				
2015	\$	4,491	\$	913
2014		4,743		1,897
2013		5,309		960

Pension Liability. At June 30, 2015, the Fire District reported a liability of \$1.4 million for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The Fire District's proportion of the net pension liability was based on a projection of the Fire District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Fire District's proportion was 0.009 percent, which was an increase of .0003 from its proportion measured as of June 30, 2013.

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Expense and Deferred Outflows/Inflows of Resources. For the year ended June 30, 2015, the Fire District recognized pension expense for ASRS of \$102,950 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 68,727	\$
Changes of assumptions or other inputs		
Net difference between projected and actual earnings on pension plan investments		236,471
Changes in proportion and differences between contributions and proportionate share of contributions	32,117	
Contributions subsequent to the measurement date	82,891	
Total	<u>\$ 183,735</u>	<u>\$ 236,471</u>

The deferred outflows of resources related to ASRS pensions resulting from contributions subsequent to the measurement date as reported in the table above will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30:			
2016	\$	(15,273)	
2017		(15,273)	
2018		(45,964)	
2019		(59,117)	

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8.0%
Projected salary increases	3.0-6.75%
Inflation	3.0%
Permanent base increases	Included
Mortality rates	1994 GAM Scale BB

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class of ASRS are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	63%	7.03%
Fixed income	25	3.20
Real estate	8	4.75
Commodities	4	4.50
Total	<u>100%</u>	

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Discount Rate. The discount rate used to measure the ASRS total pension liability was 8.0 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Fire District’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Proportionate share of the net pension liability	\$1,709,206	\$1,352,275	\$1,158,622

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

B. Public Safety Personnel Retirement System

Plan Descriptions. Fire District public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan. A seven-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.

The PSPRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided. The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement and disability benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

Public Safety Personnel Retirement System:

	Retirement Initial Membership Date:	
	Before January 1, 2012	On or After January 1, 2012
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Normal retirement	50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Survivor benefit: Retired members	80% of retired member's pension benefit	
Active members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees Covered by Benefit Terms. At June 30, 2015, the following employees were covered by the agent pension plan's benefit terms:

	<u>PSPRS – Fire</u>
Retirees and beneficiaries	15
Inactive, non-retired members	16
Active members	76
Total	107

Contributions and Annual OPEB Cost. State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS 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. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS – Fire</u>
Active members – pension	11.05%
Fire District:	
Pension	16.18
Health insurance	1.20

For the agent plans, the contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended were:

	<u>PSPRS – Fire</u>
Pension:	
Contributions made	\$ 670,717
Health insurance premium benefit:	
Annual OPEB cost	49,744
Contributions made	49,744

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Liability. At June 30, 2015, the Fire District reported a net pension liability of \$6,841,447. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2014, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption.

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

	<u>PSPRS</u>
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0 - 8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table, adjusted by 105% for both males and females

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The target allocation and best estimates of geometric real rates of return for each major asset class for all agent pension plans are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Short-term investments	2%	3.25%
Absolute return	4	6.75
Risk parity	4	6.04
Fixed income	7	4.75
Real assets	8	5.96
GTAA	10	5.73
Private equity	11	9.50
Real estate	11	6.50
Credit opportunities	13	8.00
Non-U.S. equity	14	8.63
U.S. equity	16	7.60
Total	<u>100%</u>	

Pension Discount Rates. The discount rate of 7.85 percent was used to measure the total pension liability.

The projection of cash flows used to determine the PSPRS 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 the actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Changes in the Agent Plans Net Pension Liability: PSPRS – Fire

	Increase/Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2014	\$ 21,027,991	\$ 15,072,829	\$ 5,955,162
Changes for the year:			
Service cost	857,929		857,929
Interest on the total pension liability	1,658,941		1,658,941
Changes of benefit terms	248,541		248,541
Differences between expected and actual experience in the measurement of the pension liability	(739,410)		(739,410)
Changes of assumptions or other inputs	1,621,464		1,621,464
Contributions – employer		664,969	(664,969)
Contributions – employee		456,315	(456,315)
Net investment income		2,072,911	(2,072,911)
Benefit payments, including refunds of employee contributions	(647,906)	(647,906)	
Administrative expense		(16,695)	16,695
Other changes		(416,320)	416,320
Net changes	<u>2,999,559</u>	<u>2,113,274</u>	<u>886,285</u>
Balances at June 30, 2015	<u>\$ 24,027,550</u>	<u>\$ 17,186,103</u>	<u>\$ 6,841,447</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the Fire District's net pension liabilities calculated using the discount rates noted above, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS – Fire:			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$10,051,954	\$6,841,447	\$4,184,026

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued PSPRS financial report. The report is available on the PSPRS website at www.psprs.com.

Pension Expense. For the year ended June 30, 2015, the Fire District recognized \$1,447,754 as pension expense.

Pension Deferred Outflows/Inflows of Resources. At June 30, 2015, the Fire District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSPRS – Fire:		
Differences between expected and actual experience	\$	\$ 655,142
Changes of assumptions or other inputs	1,436,671	
Net difference between projected and actual earnings on pension plan investments		678,029
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	670,717	
Total	<u>\$ 2,107,388</u>	<u>\$ 1,333,171</u>

The amounts reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	<u>PSPRS – Fire</u>
2016	\$ (68,982)
2017	(68,982)
2018	(68,982)
2019	(68,982)
2020	100,525
Thereafter	278,903

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11- PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Agent Plan OPEB Trend Information. The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS – Fire:			
June 30, 2015	\$ 58,628	100%	\$ - 0 -
June 30, 2014	55,999	100%	- 0 -
June 30, 2013	60,648	100%	- 0 -

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

Projections of benefits are based on (1) the plan as understood by the Fire District and plan's members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the Fire District and plan's members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4.5%-8.5% 4.5%

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2014, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4%-8% 4%

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**DREXEL HEIGHTS FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Agent Plan OPEB Funded Status. The following table presents the funded status of the health insurance premium benefit plan as of the most recent valuation date, June 30, 2014.

	PSPRS – Fire
Actuarial value of assets	\$ 715,613
Actuarial accrued liability	699,261
Unfunded actuarial accrued liability (funding excess)	(16,352)
Funded ratio	102.34%
Annual covered payroll	4,473,922
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	(0.37)%

C. Beginning Net Position Restatement

The implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, represents a change in accounting principle. Net position as of July 1, 2014, has been restated as follows for this change in accounting principle:

	Statement of Activities
Net position, June 30, 2014, as previously reported	\$ 10,465,838
Net pension liability	(6,675,145)
Net position, July 1, 2014, as restated	\$ 3,790,693

REQUIRED SUPPLEMENTARY INFORMATION

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**DREXEL HEIGHTS FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Property taxes	\$ 6,047,710	\$ 5,836,489	\$ (211,221)
Fire district assistance taxes	400,000	397,654	(2,346)
Intergovernmental	42,000	11,717	(30,283)
Charges for services	2,716,529	2,985,559	269,030
Investment income	12,493	9,865	(2,628)
Miscellaneous	29,945	43,651	13,706
Total revenues	<u>9,248,677</u>	<u>9,284,935</u>	<u>36,258</u>
Expenditures:			
Current -			
Public safety - emergency services	8,177,630	8,109,414	68,216
Public safety - administration	848,947	846,402	2,545
Capital outlay	7,100	11,397	(4,297)
Total expenditures	<u>9,033,677</u>	<u>8,967,213</u>	<u>66,464</u>
Excess (deficiency) of revenues over expenditures	<u>215,000</u>	<u>317,722</u>	<u>102,722</u>
Other financing sources (uses):			
Transfer out	(215,000)	(235,000)	(20,000)
Total other financing sources (uses):	<u>(215,000)</u>	<u>(235,000)</u>	<u>(20,000)</u>
Changes in fund balances		<u>82,722</u>	<u>82,722</u>
Fund balances, beginning of year		3,315,595	3,315,595
Fund balances, end of year	<u>\$</u>	<u>\$ 3,398,317</u>	<u>\$ 3,398,317</u>

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See accompanying notes to this schedule.

**DREXEL HEIGHTS FIRE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
VECC
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Charges for services	\$ 1,082,700	\$ 1,089,504	\$ 6,804
Investment income	100	234	134
Total revenues	<u>1,082,800</u>	<u>1,089,738</u>	<u>6,938</u>
Expenditures:			
Current -			
Public safety - emergency services	1,028,858	1,081,814	(52,956)
Total expenditures	<u>1,028,858</u>	<u>1,081,814</u>	<u>(52,956)</u>
Excess (deficiency) of revenues over expenditures	<u>53,942</u>	<u>7,924</u>	<u>(46,018)</u>
Other financing sources (uses):			
Transfer out	(15,000)	(15,000)	
Total other financing sources (uses):	<u>(15,000)</u>	<u>(15,000)</u>	
Changes in fund balances	<u>38,942</u>	<u>(7,076)</u>	<u>(46,018)</u>
Fund balances, beginning of year			
Fund balances (deficits), end of year	<u>\$ 38,942</u>	<u>\$ (7,076)</u>	<u>\$ (46,018)</u>

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See accompanying notes to this schedule.

**DREXEL HEIGHTS FIRE DISTRICT
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 ARIZONA STATE RETIREMENT SYSTEM
 YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.91%
District's proportionate share of the net pension liability (asset)	\$ 1,352,275
District's covered-employee payroll	\$ 758,802
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	178.21%
Plan fiduciary net position as a percentage of the total pension liability	69.49%

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DREXEL HEIGHTS FIRE DISTRICT
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM - FIRE
YEAR ENDED JUNE 30, 2015

	2015
Total pension liability	
Service cost	\$ 857,929
Interest	1,658,941
Changes of benefit terms	248,541
Differences between expected and actual	(739,410)
Changes of assumptions	1,621,464
Benefit payments, including refunds	(647,906)
Net change in total pension liability	2,999,559
Total pension liability—beginning	21,027,991
Total pension liability—ending	\$ 24,027,550
 Plan fiduciary net position	
Contributions—employer	\$ 664,969
Contributions—employee	456,315
Net investment income	2,072,911
Benefit payments, including refunds	(647,906)
Administrative expense	(16,695)
Other	(416,320)
Net change in plan fiduciary net position	2,113,274
Plan fiduciary net position—beginning	15,072,829
Plan fiduciary net position—ending	\$ 17,186,103
 Net pension liability—ending	\$ 6,841,447
 Plan fiduciary net position as a percentage of the total pension liability	71.53%
 Covered-employee payroll	\$ 4,407,698
 Net pension liability as a percentage of covered- employee payroll	155.22%

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**DREXEL HEIGHTS FIRE DISTRICT
 SCHEDULE OF CONTRIBUTIONS
 ALL PENSION PLANS
 YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
Arizona State Retirement System:	
Actuarially determined contribution	\$ 82,891
Contributions in relation to the actuarially determined contribution	<u>82,891</u>
Contribution deficiency (excess)	<u>\$</u>
District's covered-employee payroll	\$ 801,476
Contributions as a percentage of covered-employee payroll	10.34%
Public Safety Personnel Retirement System - Fire:	
Actuarially determined contribution	\$ 670,717
Contributions in relation to the actuarially determined contribution	<u>670,717</u>
Contribution deficiency (excess)	<u>\$</u>
District's covered-employee payroll	\$ 4,407,698
Contributions as a percentage of covered-employee payroll	15.22%

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**DREXEL HEIGHTS FIRE DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 OTHER POSTEMPLOYMENT BENEFITS
 LAST THREE ACTUARIAL VALUATIONS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Valuation of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of Covered Payroll</u>
Public Safety Personnel Retirement System - Fire:						
2014	\$ 715,613	\$ 699,261	\$ 16,352	102.34	\$ 4,300,717	(0.38)
2013		647,215	(647,215)	-	4,473,922	14.47
2012		661,102	(661,102)	-	4,746,991	13.93

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DREXEL HEIGHTS FIRE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The Fire District budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget – At year end, the District had expenditures of \$52,956 in the VECC Fund, a major governmental fund, that exceeded the budget, however, this does not constitute a violation of any legal provisions.

NOTE 3 – PENSION PLAN SCHEDULES

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Factors that Affect Trends. The actuarial assumptions used in the June 30, 2013, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2012. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2013, actuarial valuation. The study did not include an analysis of the assumed investment rate of return.

The actuarial assumptions used in the June 30, 2014, valuation for PSPRS were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011. The total pension liability used to calculate the net pension liability for PSPRS was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2014, reflects changes of benefit terms and actuarial assumptions for a court ruling for funding permanent benefit increases and a decrease in the wage growth assumption from 4.5% to 4.0%.

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**REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE**

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**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**

Independent Auditor's Report

Governing Board
Drexel Heights 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 Drexel Heights Fire District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Drexel Heights Fire District's basic financial statements, and have issued our report thereon dated November 9, 2015. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 68, as amended Statement No. 71.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Drexel Heights Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Drexel Heights Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Drexel Heights 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item FS-2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Drexel Heights 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*.

Compliance with Regulatory Requirements

In connection with our audit, nothing came to our attention that caused us to believe that Drexel Heights Fire District 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 Fire District's General Fund, except for those liabilities as prescribed in A.R.S. section 48-805, subsection B, paragraph 2 and sections 48-806 and 48-807, or that the Fire District failed to comply with A.R.S. section 48-805.02, subsection F. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Drexel Heights Fire District's Response to Findings

Drexel Heights Fire District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Drexel Heights Fire District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 9, 2015

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**DREXEL HEIGHTS FIRE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Reference Number: FS-2015-001

Type of Finding: Significant Deficiency

Description: Controls over Accounts Receivable and Revenues

CRITERIA

The Fire District is responsible for implementing and maintaining a system of internal controls over accounts receivable and revenues for the dispatch services provided by the Valley Emergency Communications Center (VECC).

CONDITION/CONTEXT

We noted the following during our audit of revenues and receivables related to the VECC:

1. The Fire District erroneously billed one VECC member entity at a per call rate instead of the flat rate dictated in the member's subscriber agreement.
2. The Fire District did not bill two member entities all quarters applicable in the members' subscriber agreements. One member entity was not billed for one quarter amounting to \$9,000, and one member entity was not billed for two quarters amounting to a total of \$800.

CAUSE

The transition from Drexel Heights Fire District to the new VECC created inefficiencies in internal controls and invoice processing.

EFFECT/POTENTIAL EFFECT

Continued billing errors or incomplete billings could occur without the enforcement of established internal controls and monitoring of the VECC billing function.

RECOMMENDATION

The Fire District should strengthen internal controls and monitoring of the VECC billing function.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The procedures and controls used to bill contracting agencies for dispatch services have been in place for at least 14 years. They have proven to be reliable and effective. This past year, as the new company (Valley Emergency Communication Center) was established and contract requirements were modified, the transition was challenging. At that time, errors occurred in the billing. Upon discovery of the errors, immediate steps were taken to analyze and correct the billings and rectify that situation. All billings since that time have been timely and payments received as required by the Subscriber Agreements.

The original procedures for tracking of invoices and receipts has been reviewed and reestablished. Current procedures and controls include using QuickBooks to track and monitor receivables according to Subscriber Agreements.

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