

**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

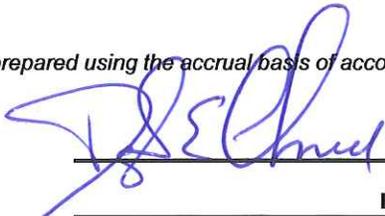
**Report Fiscal Year**

From: July 1, 2012 June 30, 2013  
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: 12/12/2013

Print Name and Title: Douglas E. Chappell

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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, 2012

**TO:** June 30, 2013

**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:			2,281	2,281
2	Number of BLS Billable Transports:			1,243	1,243
3	Number of Loaded Billable Miles:			42,464	42,464
4	Waiting Time (Hr. & Min.):				
5	Canceled (Non-Billable) Runs:				

**AMBULANCE SERVICE ROUTINE OPERATING REVENUE**

6	ALS Base Rate Revenue			\$ 3,167,018
7	BLS Base Rate Revenue			1,726,429
8	Mileage Charge Revenue			838,915
9	Waiting Charge Revenue			
10	Medical Supplies Charge Revenue			
11	Nurses Charge Revenue			
12	Standby Charge Revenue (Attach Schedule)			
13	<b>TOTAL AMBULANCE SERVICE ROUTINE OPERATING REVENUE</b>			<b>\$ 5,732,362</b>

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**SALARY AND WAGE EXPENSE DETAIL**

**GROSS WAGES:**

Line No.	DESCRIPTION	\$	** No. of FTE's
14	Management	193,377	3.0
15	Paramedics and IEMTs	1,916,190	29.0
16	Emergency Medical Technician (EMT)	1,388,798	28.0
17	Other Personnel	720,769	10.0
18	Payroll Taxes and Fringe Benefits - All Personnel	1,375,973	68
19	<b>Total Wages, Taxes &amp; Benefits</b> (Sum Lines 14 through 18; Post to Page 3, Line 10)	<b>5,595,107</b>	<b>68</b>

\* 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.

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

**AMBULANCE SERVICE ENTITY:**

Drexel Heights Fire District

**FOR THE PERIOD**

**FROM:** July 1, 2012

**TO:** June 30, 2013

**SCHEDULE OF REVENUES AND EXPENSES**

Line No.	<u>DESCRIPTION</u>		
<b>Operating Revenues:</b>			
1	Total Ambulance Service Operating Revenue	(From: Page 2, Line 13)	\$ 5,732,362
<b>Settlement Amounts:</b>			
2	AHCCCS .....		506,876
3	Medicare .....		1,851,594
4	Subscription Service .....		
5	Contractual .....		
6	Other .....		676,683
7	Total	(Sum of Lines 2 through 6)	3,035,153
8	Total Operating Revenue	(Line 1 minus Line 7)	\$ 2,697,209
<b>Operating Expenses:</b>			
9	Bad Debt .....		\$ 279,369
10	Total Salaries, Wages, and Employee-Related Expenses .....	(From: Page 2, Line 19)	5,595,107
11	Professional Services .....		406,193
12	Travel and Entertainment .....		38,344
13	Other General Administrative .....		15,047
14	Depreciation .....		169,200
15	Rent / Leasing .....		1,514
16	Building / Station .....		62,301
17	Vehicle Expense .....		243,955
18	Other Operating Expense .....		131,342
19	Cost of Medical Supplies Charged to Patients .....		
20	Interest .....		98,406
21	Subscription Service Sales Expense .....		
22	Total Operating Expense	(Sum of Lines 9 through 21)	7,040,778
23	Total Operating Income or (Loss)	(Line 8 minus Line 22)	\$ (4,343,569)
24	Subscription Contract Sales .....		
25	Other Operating Revenue .....		
26	Local Supportive Funding .....		4,343,569
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)	\$
<b>Provision for Income Taxes:</b>			
30	Federal Income Tax .....		
31	State Income Tax .....		
32	Total Income Tax	(Line 30, plus Line 31)	
33	<b>Ambulance Service Net Income (Loss)</b>	(Line 29, minus Line 32)	

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**DREXEL HEIGHTS FIRE DISTRICT  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND REPORT ON INTERNAL CONTROL  
AND ON COMPLIANCE  
FOR THE YEAR ENDED JUNE 30, 2013**

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# DREXEL HEIGHTS FIRE DISTRICT

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**DREXEL HEIGHTS FIRE DISTRICT  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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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, 2013, 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 Fire District'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 Fire District'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, 2013, and the respective changes in financial position thereof for the year then ended in conformity 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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, 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 on pages 5 through 13 and budgetary comparison information on pages 46 and 47 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 October 23, 2013, 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

October 23, 2013

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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, 2013**

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, 2013.

**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. The Communications Center serves as a secondary 9-1-1 Public Safety Answering Point (PSAP) providing service for the Fire District, Rincon Valley Fire District, Arivaca Fire District, Green Valley Fire District, San Xavier District of the Tohono O'odham Nation Fire Department and Mt. Lemmon Fire District.

The Fire District operates from five Fire Stations and a Communications Center. The Fire District employs 100 career and approximately eight part-time personnel. The Administration consists of a Fire Chief, Finance/Administrative Manager, Public Education/Information Manager/Fire Marshal, 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 Communications Division consists of a Manager, three shift supervisors, seven career telecommunicators and approximately eight 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, 2013**

**FINANCIAL HIGHLIGHTS**

- The Fire District's total net position of governmental activities increased \$923,860 which represents a 10 percent increase from the prior fiscal year due primarily to collections for property taxes levied for general purposes and charges for services.
- General revenues accounted for \$7.8 million in revenue, or 73 percent of all current fiscal year revenues. Program specific revenue in the form of charges for services and grants and contributions accounted for \$2.9 million or 27 percent of total current fiscal year revenues.
- The Fire District had approximately \$9.7 million in expenses related to governmental activities, a decrease of \$23,326 from the prior fiscal year.
- The General Fund had \$9.7 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 increase from \$3.1 million at the prior fiscal year end to \$3.3 million at the end of the current fiscal year.
- The Debt Service Fund had \$763,099 in current fiscal year revenues, which primarily consisted of property taxes, and \$1,039,493 in expenditures. The Debt Service Fund's fund balance decreased from \$431,859 at the prior fiscal year end, to \$155,465 at the end of the current fiscal year primarily due to the effects of a refunding bond issuance.
- The Capital Projects Fund had \$456,423 in current fiscal year transfers and revenues and \$451,648 in expenditures. The Capital Projects Fund's fund balance increased from \$659,451 at the prior fiscal year end, to \$664,226 at the end of the current fiscal year.

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**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**RESULTS OF OPERATIONS**

There were a number of significant accomplishments during the 2013 fiscal year. They included:

- The purchase and rehabilitation of a 1995 Pierce Engine utilizing capital reserve funds.
- 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.
- The scheduled replacement of a 2006 ambulance utilizing the Capital Reserve Fund.
- Work continued on the development of a regional dispatch center for fire organizations in conjunction with the Pima County Wireless Integrated Network (PCWIN).
- Expanded the use of volunteers for public education and fire prevention activities.

**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. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the 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 Fire District adopts an annual appropriated budget for its General Fund and the Capital Projects Fund. A budgetary comparison statement for the General Fund has been provided as part of the supplementary information following the basic financial statements to demonstrate compliance with the budget.

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**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)**

**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, 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 as required supplementary information.

**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**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 exceeded liabilities by \$10.6 million at the current fiscal year end.

A portion of the Fire District's 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.

The following table presents a summary of the Fire District's net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	As of June 30, 2013	As of June 30, 2012 (as restated)
Current assets	\$ 6,071,914	\$ 6,169,147
Capital assets, net	8,003,074	8,081,545
<b>Total assets</b>	<u>14,074,988</u>	<u>14,250,692</u>
Current liabilities	433,691	415,337
Long-term liabilities	3,084,215	3,925,738
<b>Total liabilities</b>	<u>3,517,906</u>	<u>4,341,075</u>
<b>Net position:</b>		
Net investment in capital assets	5,458,371	4,701,545
Restricted	203,514	431,859
Unrestricted	4,895,197	4,499,818
<b>Total net position</b>	<u>\$ 10,557,082</u>	<u>\$ 9,633,222</u>

At the end of the current fiscal year the Fire District reported positive balances in both categories of net position. The same situation held true for the prior fiscal year.

The Fire District's financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)**

- The addition of \$483,657 in capital assets through purchases of equipment and vehicles and apparatus in addition to the disposal of capital assets originally costing \$219,815.
- The retirement and refunding of \$1.8 million of bonds payable.

**Changes in net position.** The Fire District's total revenues for the current fiscal year were \$10.7 million. The total cost of all programs and services was \$9.8 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	Fiscal Year Ended <u>June 30, 2013</u>	Fiscal Year Ended June 30, 2012 (as restated)
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 2,846,314	\$ 3,623,563
Operating grants and contributions	43,123	70,162
General revenues:		
Property taxes, levied for general purposes	6,547,072	6,192,534
Property taxes, levied for debt purposes	751,077	760,483
Fire district assistance taxes	396,606	355,275
Investment income	31,394	11,349
Miscellaneous	66,277	17,984
<b>Total revenues</b>	<u>10,681,863</u>	<u>11,031,350</u>
<b>Expenses:</b>		
Public safety	9,583,510	9,577,946
Interest on long-term debt	174,493	156,731
<b>Total expenses</b>	<u>9,758,003</u>	<u>9,734,677</u>
<b>Changes in net position</b>	923,860	1,296,673
<b>Net position, beginning</b>	<u>9,633,222</u>	<u>8,336,549</u>
<b>Net position, ending</b>	<u>\$ 10,557,082</u>	<u>\$ 9,633,222</u>

- The cost of all governmental activities this year was \$9.8 million.
- Property taxes and fire district assistance taxes (county aid) provided funding of \$7.3 and \$396,606, respectively.
- Ambulance revenues and other charges for services provided funding of \$2.8 million.

**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**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, a decrease of \$80,413 due primarily to a decrease in charges for services revenue.

The General Fund is the principal operating fund of the Fire District. The General Fund's fund balance decreased from \$3.1 million to \$3.3 million as of fiscal year end. General Fund revenues decreased \$339,605 and General Fund expenditures increased \$41,028.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the Fire District maintained the original adopted General Fund annual expenditure and revenue budgets. No revisions have been made.

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 favorable variance of \$301,367 in property taxes was a result of better than anticipated collections in an economic downturn period.
- The unfavorable variance of \$505,489 in charges for services was a result of lower than anticipated collections from ambulance services.
- The unfavorable variance of \$604,662 in intergovernmental revenues was a result of not receiving capital grant funded programs as anticipated.
- The favorable variance of \$807,607 in capital outlay expenditures was a result of not receiving capital grant funded programs as anticipated.

**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** At year end, the Fire District had invested \$8.0 million in capital assets, including land, buildings and improvements, equipment, communications, vehicles and apparatus. Total depreciation expense for the current fiscal year was \$562,128.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2013 and June 30, 2012.

	<u>As of</u> <u>June 30, 2013</u>	<u>As of</u> <u>June 30, 2012</u>
Capital assets – non-depreciable	\$ 887,703	\$ 887,703
Capital assets – depreciable, net	7,115,371	7,193,842
<b>Total</b>	<u>\$ 8,003,074</u>	<u>\$ 8,081,545</u>

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

**Debt Administration.** At year end, the Fire District had \$2.5 million in long-term debt outstanding, \$590,000 due within one year.

State statutes currently limit the amount of general obligation debt a Fire District may issue to \$3.25 per \$100 of secondary assessed valuation for \$11.6 million. During the current fiscal year 72 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 2013-14 budget. Among them was declining assessed values which continued for the third straight year, and the declining reimbursement revenue for emergency medical service transportation.

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

Budgeted expenditures in the General Fund decreased 7 percent to \$9.7 million in fiscal year 2013-14. Reduced spending in grant related projects is the primary reason for the decrease. Property taxes are expected to be the primary funding sources. No new programs were added to the 2013-14 budget.

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**DREXEL HEIGHTS FIRE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**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, 2013**

	Governmental Activities
<b><u>ASSETS</u></b>	
Current assets:	
Cash and investments	\$ 3,910,386
Cash held by paying agents	812,709
Property taxes receivable	482,933
Accounts receivable	820,208
Prepaid items	45,678
Total current assets	6,071,914
Noncurrent assets:	
Capital assets, non-depreciable	887,703
Capital assets, depreciable (net)	7,115,371
Total noncurrent assets	8,003,074
<b>Total assets</b>	<b>14,074,988</b>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	115,233
Accrued payroll and employee benefits	248,769
Accrued interest payable	69,689
Compensated absences payable	205,000
Bonds payable	590,000
Total current liabilities	1,228,691
Noncurrent liabilities:	
Compensated absences	334,215
Bonds payable	1,955,000
Total noncurrent liabilities	2,289,215
<b>Total liabilities</b>	<b>3,517,906</b>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	5,458,371
Restricted for:	
Debt service	203,514
Unrestricted	4,895,197
<b>Total net position</b>	<b>\$ 10,557,082</b>

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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, 2013**

<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>	
<b>Governmental activities:</b>				
Public safety - emergency services	\$ 7,912,406	\$ 2,846,314	\$ 43,123	\$ (5,022,969)
Public safety - administration	1,671,104			(1,671,104)
Interest on long-term debt	174,493			(174,493)
<b>Total governmental activities</b>	<b>\$ 9,758,003</b>	<b>\$ 2,846,314</b>	<b>\$ 43,123</b>	<b>(6,868,566)</b>

**General revenues:**

Taxes:

Property taxes, levied for general purposes	6,547,072
Property taxes, levied for debt purposes	751,077
Fire district assistance taxes	396,606
Investment income	31,394
Miscellaneous	66,277
<b>Total general revenues</b>	<b>7,792,426</b>

<b>Changes in net position</b>	<b>923,860</b>
<b>Net position, beginning of year, as restated</b>	<b>9,633,222</b>
<b>Net position, end of year</b>	<b>\$ 10,557,082</b>

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**DREXEL HEIGHTS FIRE DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 3,466,160	\$	\$ 444,226
Cash held by paying agents		812,709	
Property taxes receivable	432,439	50,494	
Accounts receivable	820,208		
Due from other funds			220,000
Prepaid items	45,678		
<b>Total assets</b>	<u>\$ 4,764,485</u>	<u>\$ 863,203</u>	<u>\$ 664,226</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 115,233	\$	\$
Due to other funds	220,000		
Accrued payroll and employee benefits	248,769		
Deferred revenue	895,550	48,049	
Bonds payable		590,000	
Bond interest payable		69,689	
<b>Total liabilities</b>	<u>1,479,552</u>	<u>707,738</u>	
Fund balances:			
Nonspendable	45,678		
Restricted		155,465	
Committed			664,226
Unassigned	3,239,255		
<b>Total fund balances</b>	<u>3,284,933</u>	<u>155,465</u>	<u>664,226</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,764,485</u>	<u>\$ 863,203</u>	<u>\$ 664,226</u>

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

Total  
Governmental  
Funds

\$ 3,910,386  
812,709  
482,933  
820,208  
220,000  
45,678  
\$ 6,291,914

\$ 115,233  
220,000  
248,769  
943,599  
590,000  
69,689  
2,187,290

45,678  
155,465  
664,226  
3,239,255  
4,104,624  
\$ 6,291,914

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**DREXEL HEIGHTS FIRE DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013**

**Total governmental fund balances** **\$ 4,104,624**

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	\$ 12,549,613	
Less accumulated depreciation	<u>(4,546,539)</u>	8,003,074

Some revenues will not be available to pay for current period expenditures and therefore, are deferred in the funds.

Property taxes	459,595	
Charges for services	<u>484,004</u>	943,599

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

Compensated absences payable	(539,215)	
Bonds payable	<u>(1,955,000)</u>	<u>(2,494,215)</u>

**Net position of governmental activities** **\$ 10,557,082**

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**The notes to the 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, 2013**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Revenues:</b>			
Property taxes	\$ 6,285,130	\$ 756,301	\$
Fire district assistance taxes	396,606		
Intergovernmental	43,123		
Charges for services	2,891,811		
Investment income	23,173	6,798	1,423
Miscellaneous	66,277		
<b>Total revenues</b>	<u>9,706,120</u>	<u>763,099</u>	<u>1,423</u>
<b>Expenditures:</b>			
Current -			
Public safety - emergency services	7,330,653		
Public safety - administration	1,696,762		
Capital outlay	55,381		451,648
Debt service -			
Principal retirement		590,000	
Interest and fiscal charges		137,526	
Payment to refunded bond escrow agent		275,000	
Bond issuance costs		36,967	
<b>Total expenditures</b>	<u>9,082,796</u>	<u>1,039,493</u>	<u>451,648</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>623,324</u>	<u>(276,394)</u>	<u>(450,225)</u>
<b>Other financing sources (uses):</b>			
Transfer in			455,000
Transfer out	(455,000)		
Issuance of refunding bonds		1,000,000	
Payment to refunded bond escrow agent		(1,000,000)	
<b>Total other financing sources (uses):</b>	<u>(455,000)</u>	<u></u>	<u>455,000</u>
<b>Changes in fund balances</b>	<u>168,324</u>	<u>(276,394)</u>	<u>4,775</u>
<b>Fund balances, beginning of year, as restated</b>	3,093,727	431,859	659,451
Increase (decrease) in reserve for prepaid items	22,882		
<b>Fund balances, end of year</b>	<u>\$ 3,284,933</u>	<u>\$ 155,465</u>	<u>\$ 664,226</u>

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

Total  
Governmental  
Funds

\$ 7,041,431  
396,606  
43,123  
2,891,811  
31,394  
66,277  
10,470,642

7,330,653  
1,696,762  
507,029

590,000  
137,526  
275,000  
36,967  
10,573,937

(103,295)

455,000  
(455,000)  
1,000,000  
(1,000,000)

(103,295)

4,185,037

22,882

\$ 4,104,624

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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, 2013**

**Net changes in fund balances - total governmental funds** **\$ (80,413)**

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	\$ 483,657	
Less current year depreciation	<u>(562,128)</u>	(78,471)

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

Property taxes	256,718	
Charges for services	<u>(45,497)</u>	211,221

Issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Position.

(1,000,000)

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

Bond principal retirement	590,000	
Refunding bonds	<u>1,275,000</u>	1,865,000

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

6,523

**Change in net position in governmental activities** **\$ 923,860**

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

**DREXEL HEIGHTS FIRE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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, 2013, the Fire District implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from assets and liabilities.

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.

**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.

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Governmental activities normally are supported by taxes and intergovernmental revenues, 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 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 resources are provided during the current year for payment of long-term debt principal and interest due early in the following year (not to exceed one month) and, therefore, the expenditures and related liabilities have been recognized. Compensated absences are recorded only when payment is due.

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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. Deferred 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 deferred revenue 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.

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 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.”

**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.

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**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**E. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is included in other local revenue in the fund financial statements.

**F. 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.

**G. Property Tax Calendar**

Property tax levies are obtained by applying tax rates against either the primary assessed valuation or the secondary assessed valuation. Primary and secondary valuation categories are composed of the exact same properties. However, the primary category limits the increase in property values to 10% from the previous year, while there is no limit to the increase in property values for secondary valuation. Override and debt service tax rates are applied to the secondary assessed valuation and all other tax rates are applied to the primary assessed valuation.

The County levies real property taxes on or before the third Monday in August, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice, and become delinquent 30 days thereafter.

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.

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**H. 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.

**I. Capital Assets**

Capital assets, 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

**J. Compensated Absences**

All fulltime employees of the Fire District accrue Paid Time Off (PTO) time 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.

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)**

**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 issuance costs and 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.

**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 and fund 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.

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**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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. Currently, the Fire District only reports restricted and unassigned; however, 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, 2013**

**NOTE 3 – CASH AND INVESTMENTS**

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.

*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 \$1,979,796 and the bank balance was \$1,125,577. In addition, at year end the Fire District had \$812,709 of cash held with a paying agent. At year end, \$351,204 of the District’s deposits were covered by collateral held by the pledging financial institution in the District’s name, and \$774,373 was uninsured and uncollateralized.

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	248 days	<u>\$ 1,930,590</u>
Total		<u>\$ 1,930,590</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, 2013**

**NOTE 4 – RECEIVABLES**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows.

	<u>Unavailable</u>
Delinquent property taxes receivable (General Fund)	\$ 411,546
Delinquent property taxes receivable (Debt Service Fund)	48,049
Ambulance service charges receivable (General Fund)	484,004
Total deferred revenue for governmental funds	\$ 943,599

**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	887,703			887,703
Capital assets, being depreciated:				
Buildings and improvements	6,534,615			6,534,615
Equipment	1,134,752	15,314	32,094	1,117,972
Communications	612,016			612,016
Vehicles and apparatus	3,116,685	468,343	187,721	3,397,307
Total assets, being depreciated	11,398,068	483,657	219,815	11,661,910
Less accumulated depreciation for:				
Buildings and improvements	(1,155,050)	(163,544)		(1,318,594)
Equipment	(940,513)	(63,793)	(32,094)	(972,212)
Communications	(247,647)	(38,560)		(286,207)
Vehicles and apparatus	(1,861,016)	(296,231)	(187,721)	(1,969,526)
Total accumulated depreciation	(4,204,226)	(562,128)	(219,815)	(4,546,539)
Total capital assets, being depreciated, net	7,193,842	(78,471)		7,115,371
Governmental activities capital assets, net	\$ 8,081,545	\$ (78,471)	\$	\$ 8,003,074

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2013	Due Within One Year
<b>Governmental activities:</b>					
Series A, 2003	\$ 2,110,000	3.00-5.00%	7/1/23	\$ 100,000	\$ 100,000
Series B, 2004	1,460,000	2.00-4.10%	8/1/14	335,000	165,000
Series B, 2005	1,560,000	3.00-5.00%	8/1/15	495,000	180,000
Series B, 2006	1,350,000	4.00-5.00%	8/1/16	615,000	145,000
GO Refunding 2012	1,000,000	0.95%	7/1/17	1,000,000	
Total				<u>\$ 2,545,000</u>	<u>\$ 590,000</u>

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
2014	\$ 590,000	\$ 100,415
2015	510,000	40,529
2016	530,000	21,622
2017	455,000	9,254
2018	460,000	2,185
Total	<u>\$ 2,545,000</u>	<u>\$ 174,005</u>

During the year ended June 30, 2013, the Fire District issued \$1,000,000 in refunding bonds, with an effective interest rate of 0.95 percent, to advance refund \$1,275,000 of outstanding general obligation bonds, with an average interest rate of 4.85 percent. The net proceeds of \$1,000,000 and a Fire District cash contribution of \$275,000 were deposited in an irrevocable trust with the Pima County Treasurer, to provide for all future debt service payments of the refunded general obligation bonds. As a result, the refunded general obligation bonds are considered to be defeased, and the liability for those bonds has been removed from the government-wide financial statements. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$663,048 and resulted in an economic gain of \$235,180.

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**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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
<b>Governmental activities:</b>					
Bonds payable	\$ 3,380,000	\$ 1,000,000	\$ 1,835,000	\$ 2,545,000	\$ 590,000
Compensated absences payable	545,738	79,639	86,162	539,215	205,000
Governmental activity long-term liabilities	<u>\$ 3,925,738</u>	<u>\$ 1,079,639</u>	<u>\$ 1,921,162</u>	<u>\$ 3,084,215</u>	<u>\$ 795,000</u>

**NOTE 8 – INTERFUND TRANSFERS**

**Due to/from other funds** – At year end, the General fund owed the Capital Projects fund \$220,000 related to a Board approved transfer that was not conducted until the subsequent fiscal year.

**Interfund transfers** – During the fiscal year, the Fire District transferred \$455,000 from the General Fund to the Capital Projects Fund.

The Fire District has, as a matter of practice, transferred any tax revenues as specifically budgeted, or unencumbered cash available at the end of the fiscal year, 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.

**NOTE 9 – PRIOR PERIOD ADJUSTMENT**

The July 1, 2012, government-wide net position and the fund balance of the General Fund do not agree to the prior year financial statements due to a correction of an error in the calculation of deferred revenue related to charges for services.

	Statement of Activities	Governmental Funds General Fund
Net position/fund balance, June 30, 2012, as previously reported	\$ 9,909,617	\$ 3,370,122
Correction of deferred revenue calculation error	(276,395)	(276,395)
Net position/fund balance, July 1, 2012, as restated	<u>\$ 9,633,222</u>	<u>\$3,093,727</u>

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 10 – 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 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS**

**Plan Descriptions** – The Fire District contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* administers agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a seven-member Board of Trustees and local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan. The reports are also available on their websites at [www.azasrs.gov](http://www.azasrs.gov) and [www.psprs.com](http://www.psprs.com).

**ASRS**

P. O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2200 or (800) 621-3778

**PSPRS**

3010 E. Camelback Road Suite 200  
Phoenix, AZ 85016  
(602) 255-5575

**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)**

**Funding policy** – The Arizona State Legislature establishes and may amend active plan members' and the Fire District's contribution rates.

*Cost-sharing plan* – The Arizona State Legislature establishes and may amend active plan members' and the Fire District's contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent for retirement and 0.24 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 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

		Retirement Fund		Health Benefit Supplement Fund		Long-Term Disability Fund
Year ending June 30:						
	2013	\$ 83,724	\$	5,309	\$	1,960
	2012	75,085		4,792		1,826
	2011	69,101		4,525		1,917

*Agent plan* – For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members' annual covered payroll, and the Fire District was required to contribute at the actuarially determined rate of 16.18 percent.

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**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)**

**Actuarial methods and assumptions** – The contribution requirements for the year ended June 30, 2013 were established by the June 30, 2011 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The required schedule of funding programs which follows provides multi-year trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0% - 8.0%
Payroll growth	5.0%
Amortization method	Level percent-of-pay closed
Remaining amortization period	25 years for underfunded
Asset valuation method	7-year smoothed market

**Trend Information** – Information for the agent plan as of most recent actuarial valuations follows.

***Pension***

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2013	\$737,139	\$737,139	100%	-0-
2012	669,042	669,042	100%	-0-
2011	701,801	701,801	100%	-0-

***Health***

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2013	\$ 60,648	\$ 60,648	100%	-0-
2012	60,269	60,269	100%	-0-
2011	59,668	59,668	100%	-0-

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**DREXEL HEIGHTS FIRE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Concl'd)**

**Funding Progress** – An analysis of funding progress for each of the agent plans as of June 30, 2012 follows.

***Pension***

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
2012	\$16,251,960	\$19,730,453	\$3,478,493	82.4%	\$4,746,991	73.3%
2011	14,437,816	17,510,715	3,072,899	82.5%	4,472,284	68.7%
2010	13,362,257	14,874,648	1,512,391	89.8%	4,967,788	30.4%

***Health***

Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funded Liability (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
2012	- 0 -	\$ 661,102	\$ 661,102	0.0%	\$4,746,991	13.93%
2011	- 0 -	700,065	700,065	0.0%	4,472,284	15.65%
2010	- 0 -	511,185	511,185	0.0%	4,967,788	10.29%

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**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL  
(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, 2013**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
<b>Revenues:</b>			
Property taxes	\$ 5,983,763	\$ 6,285,130	\$ 301,367
Fire district assistance taxes	400,000	396,606	(3,394)
Intergovernmental	647,785	43,123	(604,662)
Charges for services	3,397,300	2,891,811	(505,489)
Investment income	8,000	23,173	15,173
Rents	1,000		(1,000)
Miscellaneous	52,430	66,277	13,847
<b>Total revenues</b>	<u>10,490,278</u>	<u>9,706,120</u>	<u>(784,158)</u>
<b>Expenditures:</b>			
Current -			
Public safety - emergency services	7,677,891	7,330,653	347,238
Public safety - administration	1,949,399	1,696,762	252,637
Capital outlay	862,988	55,381	807,607
<b>Total expenditures</b>	<u>10,490,278</u>	<u>9,082,796</u>	<u>1,407,482</u>
<b>Excess (deficiency) of revenues over expenditures</b>		<u>623,324</u>	<u>623,324</u>
<b>Other financing sources (uses):</b>			
Transfer out		(455,000)	(455,000)
<b>Total other financing sources (uses):</b>		<u>(455,000)</u>	<u>(455,000)</u>
<b>Changes in fund balances</b>		<u>168,324</u>	<u>168,324</u>
<b>Fund balances, beginning of year, as restated</b>		3,093,727	3,093,727
Increase (decrease) in reserve for prepaid items		22,882	22,882
<b>Fund balances, end of year</b>	<u>\$</u>	<u>\$ 3,284,933</u>	<u>\$ 3,284,933</u>

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See accompanying notes to this schedule.



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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, 2013, 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 October 23, 2013. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 63.

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 Fire District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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*.

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 Fire District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District'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

October 23, 2013

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