

CHINO VALLEY FIRE DISTRICT  
FINANCIAL STATEMENTS  
Year Ended June 30, 2018



CHINO VALLEY FIRE DISTRICT  
TABLE OF CONTENTS

	<u>Page</u>
REPORT ON AUDIT OF FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Board of Directors	4
Management Discussion and Analysis	7
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule General Fund	33
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing         Standards</i>	37



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Chino Valley Fire District, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Chino Valley Fire District, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Chino Valley 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.

### **Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Chino Valley Fire District as of June 30, 2018, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary 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 January 22, 2019 on our consideration of Chino Valley Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chino Valley Fire District's internal control over financial reporting and compliance.

*Henry + Horne LLP*

Casa Grande, Arizona  
January 22, 2019

BOARD OF DIRECTORS

**BOARD OF DIRECTORS**

Cyndy Ducote, Member

Dave Dobbs, Member

Todd League, Member

Julie Pettit, Member

Rick Mayday, Member

**CHIEF OFFICER**

Scott Freitag, Fire Chief



## MANAGEMENT DISCUSSION AND ANALYSIS



## MANAGEMENT DISCUSSION AND ANALYSIS

As management of Chino Valley Fire District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with District's financial statements.

### **Financial Highlights**

- The assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of the most recent fiscal year by \$6,292,494. Of this amount, \$393,181 is restricted for debt service, and \$5,899,313 is unrestricted.
- During the year, the District's total net position decreased by \$1,628,048.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,266,852, a decrease of \$960,586 from prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$152,770 or 3.67% of the 2018 fiscal year's total budgeted operating expenditures.
- The District's debt for bond obligations decreased by \$360,000 during the current fiscal year. The decrease is due to a combination of the satisfaction of regularly scheduled bond debt service payments, and no bond issuance occurred in fiscal year 2018.
- Total revenue received in the General Fund was \$18,638 more than the final budget and expenditures were \$81,273 less than the final budget.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements. This report also contains required 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 District's finances, in a manner similar to a private-sector business. Consequently, the entity-wide presentation utilizes the accrual basis of accounting and consolidates all governmental funds of the District.

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

The *statement of activities* presents information showing how the government'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 vacation leave).

The government-wide financial statements can be found on pages 14-15 of this report.

### **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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Management establishes governmental funds based on the application of generally accepted accounting principles and the evaluation of applicable laws, regulations and reporting objectives.

### ***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 focus on near-term inflows and outflows 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 a government'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 government'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.

The District maintains three (3) individual governmental funds: The General Fund, the Capital Reserve Fund, and the Debt Service Fund (includes bond funds issued and committed). Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for each fund, each of which are considered to be the major funds of the District; the concept and determination of major funds has been established by the Governmental Accounting Standards Board (GASB).

The District adopts an annual appropriated budget to levy taxes and provide for its General 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 and is presented on page 33.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

## Notes to Basic 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 basic financial statements can be found on pages 21-29 of this report.

### ***Other Information***

In addition to the basic financial statements and accompanying notes, this report includes required supplementary information, other than *Management's Discussion and Analysis*, concerning a comparison of the District's budget to actual revenues and expenditures, as described earlier and can be found on page 33 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Chino Valley Fire District, assets exceeded liabilities by \$6,292,494 at the close of the most recent fiscal year.

Of the District's net position, \$393,181 is restricted for scheduled debt service payments. The remaining net position of \$5,899,313 is unrestricted.

The following table contains a comparative analysis between the current and the prior fiscal year for the government-wide statements.

Condensed Statement of Net Position	Governmental Activities	
	2018	2017
Assets		
Cash and cash equivalents	\$ 933,172	\$ 1,824,912
Other assets	519,001	583,120
Investment in joint venture	9,625,570	10,618,235
Total assets	<u>11,077,743</u>	<u>13,026,267</u>
Deferred outflows of resources	<u>158,229</u>	<u>175,810</u>
Liabilities		
Accrued expenses	93,478	71,535
Long-term obligations	4,850,000	5,210,000
Total liabilities	<u>4,943,478</u>	<u>5,281,535</u>
Net position		
Restricted for debt services	393,181	586,275
Unrestricted	<u>5,899,313</u>	<u>7,334,267</u>
Total net position	<u>\$ 6,292,494</u>	<u>\$ 7,920,542</u>

In comparison to fiscal year 2017, the total net position of the District decreased by \$1,628,048 in 2018. Key elements of this change from the prior year are as follows:

- Because of an increase in assessed valuations, property taxes increased by \$177,208 in fiscal year 2018 in comparison to fiscal year 2017.
- Expenses for administrative and support services decreased by \$9,289 and are primarily attributed to the transfer of personnel under the management of the joint venture.
- The change in equity realized from the joint venture in 2018 was a loss of \$992,665.

The following table presents a comparative summary of the District's revenues and expenditures for the current and preceding fiscal years.

Condensed Statement of Changes in Net Position	Governmental Activities	
	2018	2017
Revenues:		
Program revenue:		
Income (loss) for joint venture	\$ (992,665)	\$ 7,007,752
General revenues:		
Property taxes	4,127,958	3,962,328
Fire District assistance tax	332,613	321,035
Interest earnings	26,916	25,543
Total revenues	<u>3,494,822</u>	<u>11,316,658</u>
Expenses:		
Fund transfer to joint venture	4,065,709	3,871,827
Public safety	165,213	141,366
Total expenses	<u>4,230,922</u>	<u>4,013,193</u>
Special items:		
Assets transferred to joint venture	(891,948)	(7,109,464)
Pension related deferred outflows transferred to joint venture	-	(1,558,594)
Liabilities transferred to joint venture	-	615,565
Pension related liabilities and deferred inflow transferred to joint venture	-	4,442,010
Equity interest realized from joint venture	-	3,610,483
Total special items	<u>(891,948)</u>	<u>-</u>
(Decrease) Increase in net position	(1,628,048)	7,303,465
Net position, beginning	<u>7,920,542</u>	<u>617,077</u>
Net position, ending	<u>\$ 6,292,494</u>	<u>\$ 7,920,542</u>

## **Financial Analysis of the Governmental Funds**

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

The focus of the 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 District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,266,852. During 2018 fund balance decreased by \$960,586 in comparison to an decrease of fund balance of \$2,884,269 in 2017. The largest component of the fund balances decrease was attributed to the transfer of assets to the joint venture in 2018; which provided funding resources for meeting the Authority's ongoing obligations to provide fire services to citizens.

Of the total combined governmental fund balance of \$1,266,852, the amount restricted for debt services payment was \$393,181; and the committed fund balance was \$720,901. No fund was assigned to capital reserves in 2018. Unassigned fund balance of \$152,770 is available for spending at the District's discretion.

The **General Fund** accounts for all of the financial resources of the District, which are not accounted for in any other fund. At the end of the current fiscal year, spendable fund balance of the general fund was \$152,770. As a measure of the general fund's liquidity, it may be useful to compare spendable fund balance to total fund expenditures. Spendable fund balance represents 3.75% of total general fund expenditures of \$4,079,013.

The **Capital Reserve Fund** accounts for reserves set aside for significant capital purchases anticipated to be made in future years. It is funded through budgeted transfers from other funds and is available as fund liquidity for District expenditures.

The **Debt Service Fund** accounts for the property tax levy dedicated to the payment of principal and interest on general obligation bonds.

## **Budgetary Highlights**

During fiscal year 2018 there were no modifications to the General Fund's originally adopted budget. Total actual revenues were \$18,638 greater than budgeted revenues while total actual expenditures were \$81,273 lesser than budgeted expenditures. The revenue variance was primarily attributed to greater than anticipated collections and the expenditure variance was primarily attributed to less than anticipated fire authority funding and cost for support services (legal expenses).

## **Capital Asset and Debt Administration**

**Capital assets** – Total assets transferred was \$891,948 (net accumulated depreciation). These assets include buildings and improvements, apparatus, operations equipment, communications and administrative equipment.

**Long-term Debt** – At the end of the current fiscal year, the District had total outstanding debt of \$4,850,000. All of the debt is General Obligation Bonds and is backed by the full faith and credit of the District.

Additional information regarding long-term debt of the District can be found in the notes to the financial statements on pages 26-28.

### **Economic Factors and Next Year's Budgets and Rates**

The District is subject to general economic conditions such as increases or declines in property tax value or other types of revenues that vary with economic conditions.

Property assessment values the Chino Valley area have increased only slightly over the past year. Fire Districts are funded largely by property taxes and when values decrease the District must respond in their budgeting process by cutting costs and/or increasing the tax levy.

While assessed property values in the District have dropped over 60% since 2010, in the past fiscal year, the District saw a 2.58% increase in net assessed value. However, the implementation of Proposition 117 will enforce a maximal allowed increase in property value of 5% since fiscal year 2017 plus new growth. While the District has been able to budget through minimal tax levy increases and assessed value increases for the past two years, beginning in fiscal year 2017, property values are forecasted to increase by 4-5% annually. Therefore, the District will be forced to look at all expenses, including fire authority funding, and make decisions based on the new values with a conservative outlook on revenue projections.

Legislation also plays a major role in the development of budgets. With the legislative restrictions of a maximum tax rate of \$3.25, restrictive budget capacity increase of 8% per year (cumulative allowance), and Proposition 117 restriction of assessing property based on the Limited Property Value (LPV) from Full Cash Value (FCV) Assessments - the future trend will not sustain significant M&O budget increases. However, ongoing pension liability increases, and contributions will force further budget and expenditure restrictions. Ultimately, without ongoing new construction growth or ever-expanding District boundaries, the organization will be regressively locked in a system of limited revenue and expanding expenses due to increased service demands and personnel costs.

Due to the aforementioned challenges and financial limitations, the District had entered into an Intergovernmental Agreement (IGA) with the Central Yavapai Fire District for joint management. This agreement allowed the sharing of resources through administrative and upper management, providing an opportunity for financial review and decreased costs for services, supplies and personnel for the district. The Joint Management Agreement for fiscal year 2016 led to a new IGA to create a Joint Powers Authority (JPA) under A.R.S § 48-805.01 for fiscal year 2017. This created an organization that will manage all assets, operations and personnel of both the Central Yavapai and Chino Valley Fire Districts.

### **Request for Information**

The District's financial statements are designed to present users (citizens, taxpayers, government entities and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about this report or need additional financial information, please contact the District's administrative office at 8603 E. Eastridge Drive, Prescott Valley 86314, call (928) 772-7711, or visit the District's website at [www.cazfire.org](http://www.cazfire.org).



## BASIC FINANCIAL STATEMENTS

CHINO VALLEY FIRE DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2018

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 933,172
Cash held with paying agent	389,330
Property taxes receivables	129,671
Investment in joint venture	<u>9,625,570</u>
Total assets	<u>11,077,743</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	158,229
<b>LIABILITIES</b>	
Accounts payable	2,642
Due to other governments	90,836
Due within one year	315,000
Due in more than one year	<u>4,535,000</u>
Total liabilities	<u>4,943,478</u>
<b>NET POSITION</b>	
Restricted for debt service	393,181
Unrestricted	<u>5,899,313</u>
Total net position	<u><u>\$ 6,292,494</u></u>

CHINO VALLEY FIRE DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2018

	<u>Governmental Activities</u>
EXPENSES	
Fund transfer to:	
Fire authority funding	\$ 4,065,709
Public safety fire protection:	
Administrative and support services	13,304
Interest	<u>151,909</u>
Total Program expenses	4,230,922
PROGRAM REVENUES	
Income (loss) from joint venture	<u>(992,665)</u>
Net program revenue (expenses)	<u>(5,223,587)</u>
GENERAL REVENUES	
Real and personal property taxes	4,127,958
Fire district assistance tax	332,613
Interest earnings	<u>26,916</u>
Total general revenue	4,487,487
SPECIAL ITEMS	
Asset transferred to joint venture	<u>(891,948)</u>
Total special items	<u>(891,948)</u>
CHANGE IN NET POSITION	(1,628,048)
NET POSITION BEGINNING OF YEAR	<u>7,920,542</u>
NET POSITION END OF YEAR	<u><u>\$ 6,292,494</u></u>

CHINO VALLEY FIRE DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

	Major Funds		Total Governmental Funds
	General	Debt Service	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 212,271	\$ 720,901	\$ 933,172
Cash held with paying agent	-	389,330	389,330
Property taxes receivable	116,469	13,202	129,671
<b>Total assets</b>	<b>\$ 328,740</b>	<b>\$ 1,123,433</b>	<b>\$ 1,452,173</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,642	\$ -	\$ 2,642
Due to other governments	90,836	-	90,836
<b>Total liabilities</b>	<b>93,478</b>	<b>-</b>	<b>93,478</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	82,492	9,351	91,843
<b>FUND BALANCES</b>			
Restricted	-	393,181	393,181
Committed	-	720,901	720,901
Unassigned	152,770	-	152,770
<b>Total fund balances</b>	<b>152,770</b>	<b>1,114,082</b>	<b>1,266,852</b>
<b>Total liabilities and fund balances</b>	<b>\$ 328,740</b>	<b>\$ 1,123,433</b>	<b>\$ 1,452,173</b>

CHINO VALLEY FIRE DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
 GOVERNMENTAL FUNDS  
 June 30, 2018

Fund balances - governmental funds			\$ 1,266,852
Amounts reported for governmental activities in the statement of net assets are different because:			
The Statement of Net Position reports receivables at their net realizable value. However, receivables not available to pay for current-period expenditures are deferred in governmental funds.			
			91,843
The District has an equity interest in a joint venture. The investment is not a current financial resource and therefore is not reported in the funds.			
			9,625,570
Long-term liabilities are not due and payable in the current period and therefore are not reported as governmental fund liabilities. These liabilities consist of the following:			
Bonds payable		\$ (4,850,000)	
Deferred charge in refunding		<u>158,229</u>	<u>(4,691,771)</u>
Net position of governmental activities			<u><u>\$ 6,292,494</u></u>

CHINO VALLEY FIRE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2018

	Major Funds		Total Governmental Funds
	General	Debt Service	
<b>REVENUES</b>			
Property taxes	\$ 3,722,866	\$ 422,308	\$ 4,145,174
Fire district assistance tax	332,613	-	332,613
Interest earnings	6,445	20,471	26,916
Total revenues	<u>4,061,924</u>	<u>442,779</u>	<u>4,504,703</u>
<b>EXPENDITURES</b>			
Current			
Fund transfer to:			
Fire Authority funding	4,065,709	-	4,065,709
Public safety - fire protection:			
Administrative and support services	13,304	-	13,304
Capital outlay	-	891,948	891,948
Debt Service			
Principal	-	360,000	360,000
Interest	-	134,328	134,328
Total expenditures	<u>4,079,013</u>	<u>1,386,276</u>	<u>5,465,289</u>
Excess (deficiency) of revenues over expenditures	(17,089)	(943,497)	(960,586)
Fund balances - beginning of year	<u>169,859</u>	<u>2,057,579</u>	<u>2,227,438</u>
Fund balances - end of year	<u>\$ 152,770</u>	<u>\$ 1,114,082</u>	<u>\$ 1,266,852</u>

CHINO VALLEY FIRE DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL  
 FUNDS TO THE STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2018

Net change in fund balances - total governmental funds		\$ (960,586)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, the statement of activities allocates the cost of capital outlay over their estimated useful lives as depreciation expense.		
Capital outlay		891,948
Governmental funds defer revenues that do not provide current financial resources. However, the Statement of Activities recognizes such revenues at their net realizable value when earned, regardless of when received.		
		(17,216)
Special items - assets transfer		(891,948)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on the net position. Also, governmental funds report premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal paid on long-term debt	\$ 360,000	
Amortization of bond premiums and deferred charges (net)	<u>(17,581)</u>	342,419
The District has a share in the revenues of the investment in a joint venture. This revenue is not a current financial resource and therefore is not reported in the funds.		
Current year change in investment		<u>(992,665)</u>
Change in net position of governmental activities		<u><u>\$ (1,628,048)</u></u>





CHINO VALLEY FIRE DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and procedures of the Chino Valley Fire District conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Chino Valley Fire District (the District) was organized as a Special Service District pursuant to the provisions of Chapter 5 of Title 48 of the Arizona Revised Statutes – Special Taxing Districts, which sets forth the legal framework for a fire district. The District provides fire protection and emergency medical related services to the residents and guests of the District and surrounding area. The District is governed by an elected five member board of directors, which appoints the chairman. The District does not have any component units, meaning entities for which the District is considered to be financially accountable. Effective July 1, 2016, the District transferred the majority of its assets, liabilities, equity and operations to Central Arizona Fire and Medical Authority.

Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

CHINO VALLEY FIRE DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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, state shared revenues, investment income and other items not included among program revenues are reported as general revenues.

C. Measurement Focus, Basis of Accounting and Basis of 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. Member contributions are recognized in the period they are billed. Grants and similar items are recognized as revenues as soon as eligibility requirements imposed by the grantor or provider have been met. The exception is any interfund activity between governmental and business type activities, such as transfers.

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 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 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 expenditures, claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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.

CHINO VALLEY FIRE DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following major governmental funds:

General Fund – This fund is the District’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in other funds.

Debt Service Fund – This fund is used to account for legally restricted tax levies of the District which are used to meet ongoing debt service requirements.

D. Budgeting and Budgetary Control

The District Board formally adopts an annual budget for all operating funds which is submitted to the county treasurer and county board of supervisors. The budgets are adopted by the District on a basis consistent with ARS 48-807. This basis allows the District Board or Fire Chief to alter the budget within the total expenditure allocation as needed during the year. The District management generally cannot exceed the total expenditure budget.

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

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

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

Budget amendments are required to increase expenditure budgets. Expenditures may not legally exceed budgeted appropriations at the local activity level.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the District upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

CHINO VALLEY FIRE DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balances – Governmental Funds

Fund Balances

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable – Amounts that cannot be spent either because they are in Nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the District Board. The Board is the highest level of decision-making District for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the District Board.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Board or any official or body to which the District Board delegates District may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

G. 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 statements are reported as other financing sources/uses in governmental funds.

H. Long-term obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the statement of net position.

CHINO VALLEY FIRE DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Receivables and payables

All program service receivables are shown net of an allowance for uncollectible amounts. However, at year end, no allowance was made for uncollectible accounts as management expects all receivables to be fully collectible.

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" on the governmental fund financial statements. The effect these interfund transactions between governmental funds are eliminated on the statement of net position.

J. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Property taxes

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

M. Funding requirement contributions

Amounts reported as funding requirement contributions include contributions of funds to the Central Arizona Fire and Medical Authority for public safety and administrative services provided to the District. In addition, for the year ended June 30, 2018 the transfer of the member districts' assets are included as current year special items. See Note 8 for further information.

CHINO VALLEY FIRE DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2018, the carrying amount of the District's deposits totaled \$933,172 and the amount on deposit with the Yavapai County Treasurer's Office was \$936,020. These deposits are covered by Federal Depository Insurance or collateralized by securities, as required by law.

Investments

The District's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the county treasurer's pool, and other investments as allowed by state statutes. Eligible Arizona depositories as defined by state statutes are any commercial bank or savings and loan association with its principal place of business in the state of Arizona, which are insured by the federal deposit insurance corporation, or any other insuring instrumentality of the United States.

Fair value measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018 the District held no investments that were measured at fair value.

NOTE 3 LONG TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

<b>Governmental activities:</b>	Balance 6/30/2017	Additions	Retirements	Balance 6/30/2018	Current Portion
General Obligation Bonds:					
GADA, Series 2007 A	\$ 570,000	\$ -	\$ (280,000)	\$ 290,000	\$ 290,000
Refunding, Series 2016	3,140,000	-	(80,000)	3,060,000	25,000
Series 2016 B	1,500,000	-	-	1,500,000	-
Total Governmental Activities	<u>\$ 5,210,000</u>	<u>\$ -</u>	<u>\$ (360,000)</u>	<u>\$ 4,850,000</u>	<u>\$ 315,000</u>

CHINO VALLEY FIRE DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 3 LONG TERM DEBT (Continued)

Long-term debt of the District at June 30, 2018 is comprised of the following issues:

**General Obligation Bonds:**

**Governmental Activities:**

Series 2007A General Obligation Bonds, payable to the Greater Arizona Development Authority, due in annual principal installments ranging from \$200,000 to \$425,000, bearing interest semi-annually at 4.00% to 5.0%, maturing July 1, 2026. A partial refunding was completed on June 8, 2016. The new maturity of the remaining balance is July 1, 2018 with principal installments ranging from \$270,000 to \$290,000.	\$ 290,000
Series 2016 General Obligation Refunding Bonds, due in annual principal installments ranging from \$25,000 to \$390,000, bearing interest semi-annually at 2.65%, maturing July 1, 2027.	3,060,000
Series 2016B General Obligation Bonds, due in annual principal installments ranging from \$225,000 to \$330,000, bearing interest semi-annually at 2.65% maturing July 1, 2031.	<u>1,500,000</u>
Total Governmental Activities	<u>\$ 4,850,000</u>
Total Long-Term Debt	\$ 4,850,000
Less Current portion:	
Governmental Activities	<u>(315,000)</u>
Net Long-Term Debt	<u>\$ 4,535,000</u>

The annual requirements to amortize bonds payable at June 30, 2018 are as follows:

**General Obligation Bonds**

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2019	\$ 315,000	\$ 120,840
2020	330,000	120,178
2021	335,000	111,433
2022	345,000	102,555
2023	350,000	93,413
2024-2028	1,900,000	322,638
2029-2031	<u>1,275,000</u>	<u>85,595</u>
Totals	<u>\$ 4,850,000</u>	<u>\$ 956,652</u>

CHINO VALLEY FIRE DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

NOTE 3 LONG TERM DEBT (Continued)

During the year ended June 30, 2016 the District issued \$4,640,000 of general obligation bonds (Series 2016) and refunding bonds (Series 2016 B) for new capital project money of \$1,500,000 and for resources placed in an escrow account to cover all future debt service payments of \$2,895,000 of general obligation bonds (Series 2007 A). As a result, the refunded bonds are considered to be defeased. However, as disclosed above, not all of the Series 2007 A general obligation bonds were refunded and defeased. The reacquisition price exceeded the net carrying amount of the old debt by \$193,391. This amount is being amortized over the refunded debt's life and is recorded as a deferred outflow on the government-wide statement of net position. The transaction resulted in an economic gain of \$219,358 and a reduction of \$224,700 in future debt service payments. There is no advance refunding defeased debt still outstanding at June 30, 2018.

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of June 30, 2018, there were no interfund transfers, receivables or payables.

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and natural disasters. The District has insurance protection and the limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

NOTE 6 INTERGOVERNMENTAL AGREEMENTS

The District is party to a variety of inter-governmental agreements entered into in the ordinary course of business pursuant to which it may be obligated to provide services outside of its geographic boundaries and/or receive assistance from other parties. As part of these agreements, the District is obligated to indemnify other parties for certain liabilities that arise out of, or relate to, the subject matter of the agreements.



CHINO VALLEY FIRE DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2018

NOTE 7 JOINT POWER DISTRICT AGREEMENT

Effective July 1, 2016, Chino Valley Fire District and Central Yavapai Fire District completed a Joint Power Authority agreement (JPA). The JPA agreement created a new legal entity under authority provided in ARS 48-805.01. Pursuant to the JPA, both Districts transferred and combined their personnel, equipment, fire stations, all other assets and liabilities (excluding bond debt), and services into the new entity, Central Arizona Fire and Medical Authority (CAFMA). CAFMA will provide the administrative and public safety functions of the Districts. The Districts will provide funding for these activities pursuant to budgets. The purpose of creating CAFMA is to facilitate the efficient operation of both organizations through combined resources while reducing costs through combining purchasing, providing services and vendor accounts. Both Chino Valley Fire District and Central Yavapai Fire District will continue to exist as legal entities for the purpose of collecting taxes and bonding authority.

During the fiscal year ended June 30, 2018, Chino Valley Fire District made member contributions to CAFMA totaling \$4,065,709. For financial reporting purposes, CAFMA is treated as a joint venture. As such, an equity interest is reported on the government-wide financial statements as an asset on the statement of net position, and the change in the equity interest is reported as program income in the statement of activities. At June 30, 2018 the District's equity interest in CAFMA was \$9,625,570. CAFMA is considered a related party and separate financial statements are available. A reconciliation of the investment in CAFMA is as follows:

Investment in CAFMA as of June 30, 2017		\$ 10,618,235
Total assests and (liabilities) transferred to CAFMA		891,948
Funding contribution		4,065,709
Allocation of revenues from CAFMA	\$ 530,006	
Allocation of costs from CAFMA	<u>(6,480,328)</u>	
Change in net position of CAFMA		<u>(5,950,322)</u>
Investment in CAFMA as of June 30, 2018		<u><u>\$ 9,625,570</u></u>



REQUIRED SUPPLEMENTARY INFORMATION



CHINO VALLEY FIRE DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 Year Ended June 30, 2018

	Original and Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>REVENUES</b>			
Taxes:			
Property taxes	\$ 3,707,996	\$ 3,722,866	\$ 14,870
Fire district assistance tax	333,290	332,613	(677)
Interest earnings	-	6,445	6,445
Other	2,000	-	(2,000)
Total revenues	<u>4,043,286</u>	<u>4,061,924</u>	<u>18,638</u>
<b>EXPENDITURES</b>			
Fund transfer to:			
Fire Authority funding	4,132,286	4,065,709	66,577
Public safety - fire protection:			
Administrative and support services	8,000	13,304	(5,304)
Contingency	20,000	-	20,000
Total expenditures	<u>4,160,286</u>	<u>4,079,013</u>	<u>81,273</u>
<b>EXCESS OF REVENUES OVER (UNDER)</b>			
<b>EXPENDITURES</b>	(117,000)	(17,089)	99,911
Fund balance, beginning of year	<u>-</u>	<u>169,859</u>	<u>169,859</u>
Fund balance, end of year	<u>\$ (117,000)</u>	<u>\$ 152,770</u>	<u>\$ 269,770</u>



REPORT ON INTERNAL CONTROL AND COMPLIANCE







INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Chino Valley Fire District  
Chino Valley, Arizona

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 Chino Valley Fire District, Arizona, (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Chino Valley Fire District's basic financial statements and have issued our report thereon dated January 22, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Chino Valley 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 Chino Valley Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Chino Valley Fire District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 considered 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 Chino Valley 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*.

## **Report on Compliance with State of Arizona Regulatory Requirements**

In connection with our audit, nothing came to our attention that caused us to believe that Chino Valley 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 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 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. This report is supplemental reporting as required by Arizona statutes intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

## **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.

*Henry & Horne LLP*

Casa Grande, Arizona  
January 22, 2019