

CENTRAL YAVAPAI FIRE DISTRICT

FINANCIAL STATEMENTS

Year Ended June 30, 2019

CENTRAL YAVAPAI FIRE DISTRICT
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Central Yavapai Fire District, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of Central Yavapai Fire District, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Central Yavapai 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 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 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 Central Yavapai Fire District as of June 30, 2019, 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 December 6, 2019 on our consideration of Central Yavapai 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 Central Yavapai Fire District's internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona
December 6, 2019

BOARD OF DIRECTORS

Matt Zurcher, Board Chair

Jeff Wasowicz, Member

Cynthia Gentle, Member

Darlene Packard, Member

Dane Beck, Member

CHIEF OFFICER

Scott Freitag, Fire Chief

**Central Yavapai Fire District
Management's Discussion and Analysis
June 30, 2019**

As management of Central Yavapai 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, 2019. We encourage readers to consider the information presented here in conjunction with District's financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$29,253,117. Of this amount; \$6,206,978 is invested in capital assets, \$280,833 is restricted for debt service, and a balance of \$22,765,306 is unrestricted.
- During the year, the District's total net position decreased by \$4,063,038.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$388,373, a decrease of \$17,011 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$107,540 or 0.01% of the 2019 fiscal year's total budgeted operating expenditures.
- Total revenue received in the General Fund was \$72,252 more than the final budget and expenditures were \$14,153 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 11-12 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 two (2) individual governmental funds: the General Fund and Debt Service Fund. 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 schedule 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 32.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary funds financial statements can be found on pages 17-18 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 19-30 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 the Central Yavapai Fire District, assets exceeded liabilities by \$29,253,117 at the close of the most recent fiscal year.

Of the District's net position, \$6,206,978 reflects its investment in capital assets (e.g. land, and buildings and improvements); less any related debt still outstanding used to acquire those assets; \$280,833 is restricted for scheduled debt service payments. The remaining net position of \$22,765,306 is unrestricted.

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

Condensed Statement of Net Position

	Governmental Activities	
	2019	2018
Assets:		
Current and other assets	\$ 854,183	\$ 782,082
Capital assets	6,206,978	6,309,611
Investment in joint venture	30,202,891	35,310,357
Total assets	<u>37,264,052</u>	<u>42,402,050</u>
Deferred outflows of resources	<u>156,173</u>	<u>199,891</u>
Liabilities:		
Other liabilities	238,407	1,358,719
Long-term liabilities outstanding	7,928,701	7,927,067
Total liabilities	<u>8,167,108</u>	<u>9,285,786</u>
Net position:		
Investment in capital assets	6,206,978	6,309,611
Restricted for debt service	280,833	328,043
Unrestricted	22,765,306	26,678,501
Total net position	<u>\$ 29,253,117</u>	<u>\$ 33,316,155</u>

In comparison to fiscal year 2018, the total net position of the District decreased by \$4,063,038.

Key elements of this change from the prior year are as follows:

- Because of an increase in assessed valuations, property taxes increased by \$1,212,622 in fiscal year 2019 in comparison to fiscal year 2018.
- Expenses for administrative and support services decreased by \$80,052 and are primarily attributed to the decrease in legal expenses.
- Total loss realized from the joint venture in fiscal year 2018 was \$5,107,466.

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

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Income (loss) from joint venture	\$ (5,107,466)	\$ (3,703,637)
Operating grants and contributions	-	-
General revenues:		
Taxes	18,247,838	16,848,497
Interest earnings	59,588	30,828
Other revenues	38,348	39,269
Total revenues	<u>13,238,308</u>	<u>13,214,957</u>
Expenses:		
Public Safety	17,301,346	16,257,067
Total expenses	<u>17,301,346</u>	<u>16,257,067</u>
Increase/ (decrease) in net position	(4,063,038)	(3,042,110)
Net position, beginning	<u>33,316,155</u>	<u>36,358,265</u>
Net position, ending	<u>\$ 29,253,117</u>	<u>\$ 33,316,155</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 \$388,373, a decrease of \$17,011 in comparison with the prior year's balance. The largest components of the decrease are attributed to the funding requirements of the joint venture in 2019; 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 \$388,373, the amount restricted for debt services payments was \$280,833, and the remaining amount of \$107,540 is unassigned, which 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 \$107,540. 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 0.01% of total general fund expenditures of \$16,886,917.

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 2019 there were no modifications to the General Fund's originally adopted budget. Total actual revenues were \$72,252 more than budgeted revenues, while total actual expenditures were \$14,153 less than budgeted expenditures. The revenue variance was primarily attributed to greater than anticipated collections and the expenditure variance was primarily attributed to a decrease in costs for support services (legal expenses).

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets as of June 30, 2019, totals \$6,206,978 (net accumulated depreciation). These assets include land and buildings.

For more detailed information, see page 26 in the notes to the financial statements.

Long-term Debt – At the end of the current fiscal year, the District had total outstanding debt of \$7,928,701. Long-term debt consists of the following items:

- General Obligation Bonds - \$7,820,000
- Capital Lease - \$108,701

All of the debt 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 values the Central Yavapai Fire District have increased by 6.63% 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.

The implementation of Proposition 117 enforced a maximal allowed increase in property value of 5% since fiscal year 2017 plus new construction assessment value. While the District has been able to budget through tax levy increases, beginning in fiscal year 2019, 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.

Due to the aforementioned challenges and financial limitations, the District had entered into an Intergovernmental Agreement (IGA) with the Chino Valley Fire District for joint management in fiscal year 2016. 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 has 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 manages 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) 772-771, or visit the District's website at www.cazfire.org.

BASIC FINANCIAL STATEMENTS

CENTRAL YAVAPAI FIRE DISTRICT
STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 548,955
Taxes receivable	305,228
Capital assets:	
Non-depreciable	2,002,670
Depreciable (net)	4,204,308
Investment in joint venture	<u>30,202,891</u>
 Total assets	 <u>37,264,052</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	<u>156,173</u>
 LIABILITIES	
Accounts payable	2,594
Due to other governments	235,813
Noncurrent liabilities	
Due within one year	1,207,662
Due in more than one year	<u>6,721,039</u>
 Total liabilities	 <u>8,167,108</u>
 NET POSITION	
Investment in capital assets	6,206,978
Restricted for debt service	280,833
Unrestricted	<u>22,765,306</u>
 Total net position	 <u>\$ 29,253,117</u>

CENTRAL YAVAPAI FIRE DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	<u>Governmental Activities</u>
EXPENSES	
Public safety fire protection and emergency services	
Fire safety and emergency services	\$ 16,826,287
Administrative and support services	60,960
Depreciation	102,633
Interest	<u>311,466</u>
Total program expenses	<u>17,301,346</u>
PROGRAM REVENUES	
Income (loss) from joint venture	<u>(5,107,466)</u>
Total program revenues	<u>(5,107,466)</u>
Net program expense	<u>(22,408,812)</u>
GENERAL REVENUES	
Property taxes	17,880,887
Fire District Assistance Tax (FDAT)	366,951
Interest earnings	59,588
Other revenues	<u>38,348</u>
Total general revenues	<u>18,345,774</u>
CHANGE IN NET POSITION	(4,063,038)
NET POSITION BEGINNING OF YEAR	<u>33,316,155</u>
NET POSITION END OF YEAR	<u><u>\$ 29,253,117</u></u>

CENTRAL YAVAPAI FIRE DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2019

	Major Funds		Total Governmental Funds
	General	Debt Service	
ASSETS			
Cash and cash equivalents	\$ 273,903	\$ 275,052	\$ 548,955
Property taxes receivables	281,526	23,702	305,228
Total assets	<u>555,429</u>	<u>298,754</u>	<u>854,183</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	2,594	-	2,594
Due from other governments	235,813	-	235,813
Total liabilities	<u>238,407</u>	<u>-</u>	<u>238,407</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	209,482	17,921	227,403
Total deferred inflow of resources	<u>209,482</u>	<u>17,921</u>	<u>227,403</u>
FUND BALANCES			
Restricted - debt service	-	280,833	280,833
Unassigned	107,540	-	107,540
Total fund balances	<u>107,540</u>	<u>280,833</u>	<u>388,373</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 555,429</u>	<u>\$ 298,754</u>	<u>\$ 854,183</u>

See accompanying notes.

CENTRAL YAVAPAI FIRE DISTRICT
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION -
GOVERNMENTAL FUNDS
June 30, 2019

Total fund balances - governmental funds \$ 388,373

Amounts reported for governmental activities in the
statement of net position are different because:

Capital assets used in governmental activities are not current
financial resources and, therefore, are not reported in the
governmental funds balance sheet as follows:

Governmental capital assets	\$ 7,134,333	
Accumulated depreciation	<u>(927,355)</u>	6,206,978

Some liabilities are not due and payable in the current period
and therefore are not reported in the governmental funds balance
sheet as follows:

Bonds payable	(7,820,000)	
Unamortized bond premiums and deferred charges	156,173	
Capital leases	<u>(108,701)</u>	(7,772,528)

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.

30,202,891

Receivables which are not available to pay for current period
expenditures are deferred in the governmental funds balance sheet.

227,403

Net position of governmental activities - statement of net position

\$ 29,253,117

CENTRAL YAVAPAI FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	Major Funds		Total Governmental Funds
	General	Debt Service	
REVENUES			
Property taxes	\$ 16,527,908	\$ 1,314,530	\$ 17,842,438
Fire district assistance tax	366,951	-	366,951
Fire contracts	38,348	-	38,348
Interest income	40,115	19,473	59,588
Total revenues	<u>16,973,322</u>	<u>1,334,003</u>	<u>18,307,325</u>
EXPENDITURES			
Current			
Fire Authority funding	16,826,287	-	16,826,287
Administrative and support services	60,630	330	60,960
Debt Service			
Principal	-	1,169,341	1,169,341
Interest	-	267,748	267,748
Total expenditures	<u>16,886,917</u>	<u>1,437,419</u>	<u>18,324,336</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	86,405	(103,416)	(17,011)
Other financing sources (uses)			
Transfers from other funds	-	56,206	56,206
Transfers to other funds	(56,206)	-	(56,206)
Total other financing sources (uses)	<u>(56,206)</u>	<u>56,206</u>	<u>-</u>
Net change in fund balances	30,199	(47,210)	(17,011)
Fund balances - beginning of year	<u>77,341</u>	<u>328,043</u>	<u>405,384</u>
Fund balances - end of year	<u>\$ 107,540</u>	<u>\$ 280,833</u>	<u>\$ 388,373</u>

See accompanying notes.

CENTRAL YAVAPAI FIRE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Net change in fund balances - total governmental funds \$ (17,011)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation expense on capital assets is reported in the statement of activities but it does not require the use of current financial resources. (102,633)

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	\$ 1,169,341	
Amortization of bond premiums and deferred charges (net)	<u>(43,718)</u>	1,125,623

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 (5,107,466)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the change in unavailable revenue property taxes.

38,449

Change in net position of governmental activities \$ (4,063,038)

CENTRAL YAVAPAI FIRE DISTRICT
STATEMENT OF NET POSITION- PENSION TRUST FIDUCIARY FUND
June 30, 2019

	Pension Trust Fund
ASSETS	
Cash	\$ 21,073
Investments	308,918
Other assets	100
	<hr/>
Total Assets	330,091
	<hr/>
LIABILITIES	-
	<hr/>
NET POSITION	330,091
	<hr/>
Held in trust for pension benefits	\$ 330,091
	<hr/> <hr/>

CENTRAL YAVAPAI FIRE DISTRICT
STATEMENT OF ACTIVITIES - PENSION TRUST FIDUCIARY FUND
Year Ended June 30, 2019

	<u>Pension Trust Fund</u>
ADDITIONS	
Investment earnings	<u>\$ 14,125</u>
Total Additions	<u>14,125</u>
DEDUCTIONS	
Payments to plan participants	<u>24,498</u>
Total deductions	<u>24,498</u>
CHANGE IN NET POSITION	(10,373)
NET POSITION - BEGINNING	<u>340,464</u>
NET POSITION - ENDING	<u><u>\$ 330,091</u></u>

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and procedures of the Central Yavapai 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 Central Yavapai 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, emergency medical services, and public education programs for areas in and surrounding the City of Prescott, Arizona. 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 the Central Arizona Fire and Medical Authority (CAFMA).

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.

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (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.

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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.

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.

Additionally, the District reports the following fund type:

Pension Trust Fund – This fund is a Fiduciary Fund and is used to account for assets held on behalf of others, namely the Volunteer Firefighter Pension Trust Fund.

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.

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. Inventory and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Also, the District's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

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. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased.

G. Capital Assets

Capital assets, which include land, buildings and related improvements, equipment, vehicles, furniture and construction in progress, are reported in the government-wide financial statements. In accordance with GASB 34, the District has opted not to retroactively report infrastructure assets. Capital assets are defined by the District as assets with an initial individual cost of \$5,000 or more and an estimated useful life equal to or exceeding two years. Interest incurred during the construction phase of capital assets for governmental activities is included as part of the capitalized value of the assets constructed. Major outlays for capital assets and improvements are capitalized as projects are completed. Donated capital assets are recorded at 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 assets' lives are not capitalized.

Estimated useful lives for capital assets were determined based upon lives commonly used by other Arizona governmental agencies and various industry standards. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	35 - 40
Vehicles and equipment	3 - 25

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

I. 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.

J. 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.

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. 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.

M. 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.

N. Property taxes

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

O. 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, 2019 the transfer of the member districts' assets and liabilities are included as current year special items. See Note 9 for further information.

CENTRAL YAVAPAI FIRE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

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, 2019, the carrying amount of the District's deposits totaled \$548,955 and the amount on deposit with the Yavapai County Treasurer's Office was \$631,355. These deposits are covered by Federal Depository Insurance or collateralized by securities, as required by law.

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Cash on deposit with			
Yavapai County Treasurer (Governmental)	\$ 631,355	N/A	N/A
Yavapai County Treasurer (Fiduciary Fund)	14,110	N/A	N/A
AssetMark Trust Company (Fiduciary Fund)	6,963	N/A	N/A
Investments			
AssetMark - Equities	109,562	Unknown	N/A
AssetMark - Mutual Funds	38,446	Unknown	N/A
AssetMark - ETF/Fixed Income	<u>160,910</u>	Unknown	N/A
	<u>\$ 961,346</u>		

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. The investments listed above are valued using quoted prices that are observable for the assets (Level 2 inputs).

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets for governmental activities is as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases / Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,002,670	\$ -	\$ -	\$ 2,002,670
Total capital assets not being depreciated	<u>2,002,670</u>	<u>-</u>	<u>-</u>	<u>2,002,670</u>
Capital assets, being depreciated:				
Buildings, infrastructure and improvements	5,131,663	-	-	5,131,663
Total capital assets being depreciated	<u>5,131,663</u>	<u>-</u>	<u>-</u>	<u>5,131,663</u>
Less accumulated depreciation for:				
Buildings and improvements	(824,722)	(102,633)	-	(927,355)
Total accumulated depreciation	<u>(824,722)</u>	<u>(102,633)</u>	<u>-</u>	<u>(927,355)</u>
Total capital assets, being depreciated, net	<u>4,306,941</u>	<u>(102,633)</u>	<u>-</u>	<u>4,204,308</u>
Governmental activities capital assets, net	<u>\$ 6,309,611</u>	<u>\$ (102,633)</u>	<u>\$ -</u>	<u>\$ 6,206,978</u>

* Depreciation expense of \$102,634 was charged to the public safety function of the District.

NOTE 4 LONG TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2019:

Governmental activities:	Balance 6/20/2018	Additions	Retirements	Balance 6/30/2019	Current Portion
General Obligation Bonds:					
Series 2013	\$ 5,040,000	\$ -	\$ (785,000)	\$ 4,255,000	\$ 805,000
Series 2018	3,900,000	-	(335,000)	3,565,000	350,000
Capital Lease	158,042	-	(49,341)	108,701	52,662
Governmental activities long-term liabilities	<u>\$ 9,098,042</u>	<u>\$ -</u>	<u>\$ (1,169,341)</u>	<u>\$ 7,928,701</u>	<u>\$ 1,207,662</u>

CENTRAL YAVAPAI FIRE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 4 LONG TERM DEBT (Continued)

The annual requirements to amortize bonds payable at June 30, 2019 are as follows:

Year Ended June 30,	General Obligation Bonds	
	Principal	Interest
2020	\$ 1,155,000	\$ 223,549
2021	1,195,000	191,184
2022	1,225,000	157,688
2023	1,255,000	123,348
2024	1,265,000	88,183
2025-2028	1,725,000	132,038
Totals	<u>\$ 7,820,000</u>	<u>\$ 915,990</u>

In prior years, the District defeased general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements.

In June 2018, the District issued \$3,900,000 of GO Refunding Bond Series 2018 and for the purpose of advance refunding the GO Bond Series 2008B. Under the terms of the refunding issue, sufficient assets to pay all principal and interest in the refunded bonds issues had been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The amount of the defeased bonds still outstanding as of June 30, 2019 was \$3,565,000.

In June 2016, the District entered into a capital lease agreement with Motorola Solutions, Inc. as lessor to finance the purchase of radio equipment. The capital lease payable totaled \$255,144. Under the terms of the lease, annual payments of \$56,206 shall be made including interest at an effective rate of 3.31 percent. The final payment is scheduled to be made in May 2021. The balance outstanding at June 30, 2019 was \$108,701. The radio equipment was transferred to Central Arizona Fire and Medical effective July 1, 2016.

Leased equipment under capital leases in capital assets at June 30, 2019, included the following:

Communication Radio Equipment	\$ 281,030
Less: Accumulated Depreciation	<u>175,835</u>
	<u>\$ 224,722</u>

CENTRAL YAVAPAI FIRE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 4 LONG TERM DEBT (Continued)

The future minimum lease obligation and the net present value of these lease payments as of June 30, 2019 were as follows:

	Year Ended June 30,	Governmental Activities
	2020	\$ 56,206
	2021	56,206
	2022	-
	2023	-
	2024	-
Total remaining minimum lease payments:		112,412
Less: amount representing interest:		(3,711)
Present value of remaining minimum lease payments:		<u>\$ 108,701</u>

NOTE 5 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of June 30, 2019, the interfund transfers were as follows:

Fund	Transfers Out	Transfers In
General Fund	\$ 56,206	\$ -
Debt Service	-	56,206
Total	<u>\$ 56,206</u>	<u>\$ 56,206</u>

As of June 30, 2019, there were no interfund receivables or payables.

CENTRAL YAVAPAI FIRE DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 6 PENSION PLANS

Volunteer Firefighters' Relief and Pension Fund

Description of Plan – Central Yavapai Fire District, under Arizona Revised Statutes (ARS) 9-981, has established the Volunteer Firefighters' Relief and Pension Fund, a defined benefit plan. All reserve firefighters of the District participate in the plan. Participants are required to contribute 10% of compensation and not less than \$75 annually. The District matches the contributions of each participant. During fiscal year 2019 plan participants and the District made no contributions into the plan. Distributions are made to plan participants based on the following criteria:

- Partial retirement pension payments will be made with a minimum of 10 years of credited service. Payments are not made until the participant reaches age 55. The payment is \$150 per month with a \$20 increase per month for every additional year of credited service.
- Full retirement pension payments will be made with 25 years of credited service. Payments are not made until the participant reaches age 55. The payment is \$350 per month.
- Death benefits will be paid to beneficiaries, whether in active service or if vested. The benefit will be the member's contributions plus interest. If the vested amount has not been paid out, the balance, plus interest will be paid to the beneficiary.
- Severance of employment of a reserve in good standing (prior to 10 year vested status) will result in a lump sum payment of employee contributions plus interest of 1% above passbook savings rate.
- Severance of employment of a reserve not in good standing will result in lump sum payment for accumulated employee contributions plus interest determined by the pension board.

NOTE 7 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 8 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.

CENTRAL YAVAPAI FIRE DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 9 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, 2019, Central Yavapai Fire District made member contributions to CAFMA totaling \$16,826,287. 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, 2019 the District's equity interest in CAFMA was \$30,202,891. 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, 2018		\$ 35,310,357
Total assests and (liabilities) transferred to CAFMA		-
Funding contribution		16,826,287
Allocation of revenues from CAFMA	\$ 2,094,994	
Allocation of costs from CAFMA	<u>(24,028,747)</u>	
Change in net position of CAFMA		<u>(21,933,753)</u>
Investment in CAFMA as of June 30, 2019		<u><u>\$ 30,202,891</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL YAVAPAI FIRE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year Ended June 30, 2019

	Original and Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Property taxes	\$ 16,529,780	\$ 16,527,908	\$ (1,872)
Fire district assistance tax	333,290	366,951	33,661
Fire contracts	38,000	38,348	348
Interest Income	-	40,115	40,115
Total Revenues	<u>16,901,070</u>	<u>16,973,322</u>	<u>72,252</u>
EXPENDITURES			
Current			
Fire Authority funding	16,792,070	16,826,287	(34,217)
Administration and support services	89,000	60,630	28,370
Contingency	20,000	-	20,000
Total expenditures	<u>16,901,070</u>	<u>16,886,917</u>	<u>14,153</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>86,405</u>	<u>86,405</u>
Other Financing Sources (Uses):			
Transfers to other funds	-	(56,206)	(56,206)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(56,206)</u>	<u>(56,206)</u>
Net change in fund balance	-	30,199	30,199
Fund Balance - Beginning of Year	<u>77,341</u>	<u>77,341</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ 77,341</u></u>	<u><u>\$ 107,540</u></u>	<u><u>\$ 30,199</u></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
Central Yavapai 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 Central Yavapai Fire District, Arizona, (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Central Yavapai Fire District's basic financial statements and have issued our report thereon dated December 6, 2019.

Internal Control over Financial Reporting

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

Tempe, Arizona
December 6, 2019