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SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2013

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.

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SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.

LIST OF PRINCIPAL OFFICIALS

DECEMBER 31, 2013

BOARD OF DIRECTORS

Berry Parks

Greg Atkins

Michael Summers

FIRE CHIEF

John Callahan

ADMINISTRATIVE ASSISTANT

Connie Massie

BRUCE D. CULLEY, CPA, PC
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Independent Auditor's Report

The Board of Directors
Smithville Area Fire Protection
Smithville, MO 64089

I have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Smithville Area Fire Protection, as of and for the year ended December 31, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

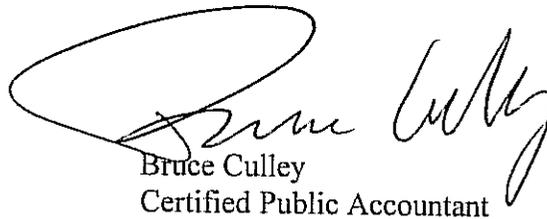
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and aggregate remaining fund information of Smithville Area Fire Protection, as of December 31, 2013, the respective changes in modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.



Bruce Culley
Certified Public Accountant

Gladstone, Missouri
July 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

An objective and easily readable analysis of the District's financial activities. The Management's Discussion and Analysis presents an analytical overview of both short-term and long-term financial information.

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
SMITHVILLE, MISSOURI 64089**

Management's Discussion and Analysis

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2013 within the limitation of the District's modified cash basis of accounting. Please read it in conjunction with the District's financial statements that begin on Page 15.

FINANCIAL HIGHLIGHTS

- The District's revenue exceeded expenses by \$96,325 as shown in the Statement of Activities. This compares unfavorably with an excess of revenues over expenses of \$149,620 in 2012.
- The District's capital assets total \$2,316,323. There was a decrease in capital assets of \$51,811. Capital assets were decreased by \$185,339 for depreciation expense.
- Money for capital expenditures was spent on new radios, a new vehicle and land improvements.
- Sales and property taxes are the major sources of revenue to the District. Property tax increased by \$25,353 and sales tax decreased \$17,417.
- The net position and the overall liquidity improved from the profit and debt liquidation.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board, as applicable to the City's modified cash basis of accounting.

Report Components

This annual report consists of four parts as follows:

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities (on pages 15 through 16) provide information about the activities of the District government-wide statements (or "as a whole") and present a longer-term view of the District's finances.

Fund Financial Statements: Fund financial statements (starting on page 17) focus on the individual parts of the District. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: The General Fund Budgetary Comparison Schedule (page 34) and the Schedule of Funding Progress represent financial information required to be presented by the GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as “the basic financial statements”).

Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the District’s modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Smithville Area Fire Protection District as a Whole

The District’s Reporting Entity Presentation

This annual report includes all activities for which the Smithville Area Fire Protection District is fiscally responsible.

The primary government includes the following legal entities:

- The District

The Government-wide Statement of Net Position and the Statement of Activities

Our financial analysis of the District as a whole begins on page 15. The government-wide financial statements are presented on pages 15 through 16. One of the most important questions about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all of the District's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the District's net position and changes in the net position for the year. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's sales tax base to assess the overall health of the District.

Changes from 2012 in the Statement of Net Position are:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Unrestricted Checking and Savings	\$ 475,469	\$ 421,438	\$ 54,031
Restricted Checking and Savings	707,998	815,643	(107,645)
Other Assets	250	250	-
Fixed Assets	2,316,323	2,368,134	(51,811)
Bond Issue Costs	<u>24,703</u>	<u>27,056</u>	<u>(2,353)</u>
Total Assets	<u>\$3,524,743</u>	<u>\$3,632,521</u>	<u>\$ (107,778)</u>
Deferred Revenue	\$ 56,413	\$ 110,516	\$ (54,103)
Bonds Payable	2,075,000	2,225,000	(150,000)
Net Position	<u>1,393,330</u>	<u>1,297,005</u>	<u>96,325</u>
Total Liabilities and Net Position	<u>\$3,524,743</u>	<u>\$3,632,521</u>	<u>\$ (107,778)</u>

The above analysis of changes in the Statement of Net Position discloses the following significant changes:

- The unencumbered cash balance increased \$54,031.
- Liabilities decreased by \$204,103. Deferred revenue represents 2014 taxes received in 2013.
- The required payment on the general obligation bonds was for interest, principal and fees in the amount of \$227,851.
- Cash reserved for debt service decreased by \$107,645.

Comparative changes in the Statement of Activities are as follows:

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
County Property Taxes	\$ 904,240	\$ 878,887	\$ 25,353
Sales Taxes	411,866	429,283	(17,417)
Gain (Loss) on Sale of Equipment	-	326	(326)
Other Income	<u>8,608</u>	<u>8,720</u>	<u>(112)</u>
Total Revenue	1,324,714	1,317,216	7,498
Personnel Services	588,639	598,230	(9,591)
Taxes and Benefits	211,628	170,784	40,844
Interest	77,850	82,325	(4,475)
Depreciation and Amortization	187,692	173,022	14,670
Other Expenses	<u>162,580</u>	<u>143,235</u>	<u>19,345</u>
Total Expenses	<u>1,228,389</u>	<u>1,167,596</u>	<u>60,793</u>
Net Income (Loss)	<u>\$ 96,325</u>	<u>\$ 149,620</u>	<u>\$ (53,295)</u>

Significant changes between 2013 and 2012 are as follows:

- Total revenue increased \$7,498.
- Total expenses increased \$60,793.

Reporting the District's Most Significant Funds

The Fund Financial Statements

Our analysis of the District's major funds begins on page 17 and provides detail information about the most significant funds. The District's one fund is the governmental fund.

Governmental funds – All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the acquisition of capital assets as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

Governmental Fund Balance Sheet Comparison

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
Cash – Checking and Savings	\$ 475,469	\$ 421,438	\$ 54,031
Other Assets	250	250	-
Restricted – Checking and Savings	<u>707,998</u>	<u>815,643</u>	<u>(107,645)</u>
Total Assets	<u>\$1,183,717</u>	<u>\$1,237,331</u>	<u>\$ (53,614)</u>
Deferred Revenue	\$ 56,413	\$ 110,516	\$ (54,103)
Fund Balance	<u>1,127,304</u>	<u>1,126,815</u>	<u>489</u>
Total Liabilities and Fund Balance	<u>\$1,183,717</u>	<u>\$1,237,331</u>	<u>\$ (53,614)</u>

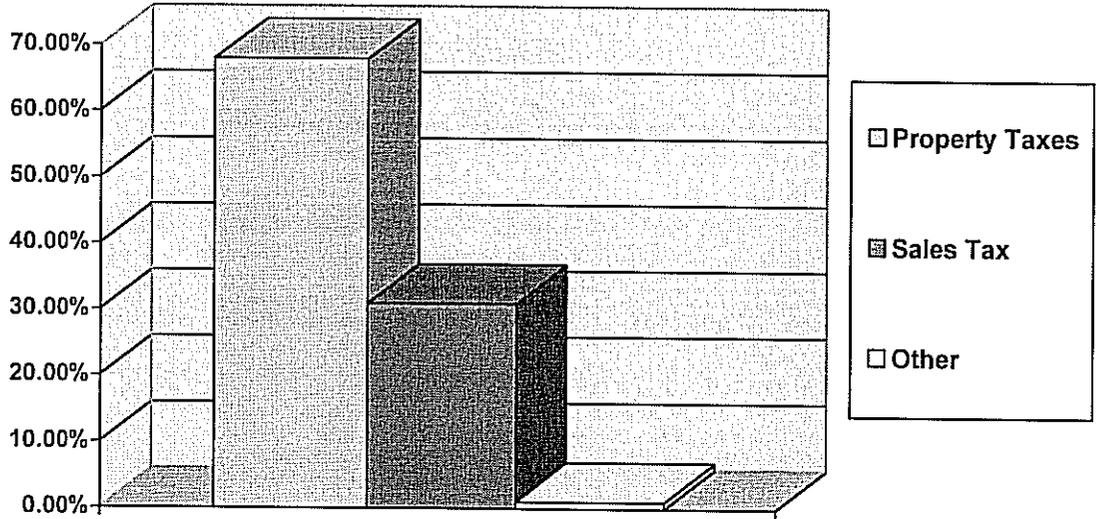
Findings

- The cash available to meet future general fund expenditures increased \$54,031.
- The decrease in the liabilities of \$54,103 was caused by the decrease in property taxes for 2014 that were collected in 2013.
- The fund balance increased \$489.

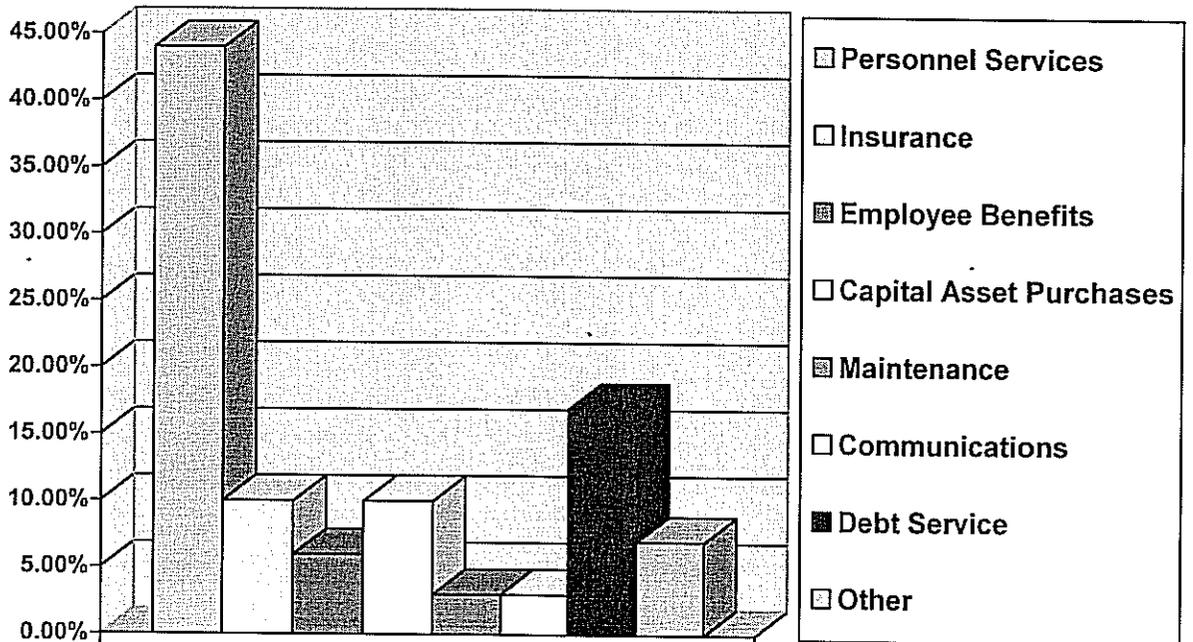
Governmental Activities

For the year ended December 31, 2013, the District's governmental activities were funded as follows:

Sources of Funds for Governmental Activities



Use of Funds in Governmental Activities



Use of Funds in Governmental Activities – Continued

The following schedule shows a comparison of General Government Fund expenditures for 2013 and 2012.

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Operating Costs			
Personnel Services	\$ 588,639	\$ 598,230	\$ (9,591)
Insurance	131,246	98,272	32,974
Employee Benefits – Retirement	66,893	72,512	(5,619)
Office	1,335	4,292	(2,957)
Petroleum Products	22,539	24,056	(1,517)
Professional Services	7,335	7,878	(543)
Communications	40,351	26,915	13,436
Personnel Development	20,072	17,785	2,287
Public Utilities	17,711	16,833	878
Maintenance	37,806	28,449	9,357
Other Expenditures	<u>28,920</u>	<u>17,029</u>	<u>11,891</u>
Total Operating Costs	962,847	912,251	50,596
Debt Service and Capital Asset Purchases			
Principal	150,000	150,000	-
Interest	77,851	82,325	(4,474)
Capital Asset Purchases	<u>133,527</u>	<u>95,670</u>	<u>37,857</u>
Total Debt Service and Capital Asset Purchases	<u>361,378</u>	<u>327,995</u>	<u>33,383</u>
Total Expenditures	<u>\$1,324,225</u>	<u>\$1,240,246</u>	<u>\$ 83,979</u>

- Total operating expenses increased \$50,596. This represented 5.5% increase in operating costs over 2012.
- Capital asset purchases increased \$37,857 from 2012.
- Debt service costs decreased \$4,474 from 2012.

General Fund Budgetary Highlights

Over the course of the year, the District made no revisions to the General Fund budget. The budget was consistent with the prior years and there were no material changes made in the budget compared with the prior year.

For the year ended December 31, 2013, General Fund expenditures were \$75,153 below final appropriations, and actual resources available for appropriation were \$92,714 above the final budgeted amount.

Capital Assets – Modified Cash Basis

At December 31, 2013, the District had \$2,316,323 invested in capital assets, net of depreciation, on the modified cash basis of accounting, including fire equipment, buildings, and vehicles. This represents a net decrease of \$51,811.

	<u>2013</u>	<u>2012</u>
Land	\$ 102,671	\$ 102,671
Land Improvements	18,650	-
Building	1,557,057	1,557,057
Vehicles	1,671,302	1,674,564
Machinery and Equipment	<u>848,510</u>	<u>752,018</u>
	4,198,190	4,086,310
Accumulated Depreciation	<u>(1,881,867)</u>	<u>(1,718,176)</u>
Total	<u>\$2,316,323</u>	<u>\$2,368,134</u>

This year's more significant capital asset additions included the following:

Radios	\$ 87,470
Vehicle	\$ 28,089
Land Improvements	\$ 18,650

Long-Term Debt – Modified Cash Basis

At December 31, 2013, the District had \$1,925,000 in long-term debt arising from modified cash basis transactions or events, compared with \$2,075,000 at December 31, 2012. The debt is connected with general obligation bonds issued in previous years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

While sales tax increases may keep up with inflation and the decline in property values have moderated, the District can expect only moderate increases in revenue. There are certain pressures for cost increases so the District will remain vigilant in controlling costs in order to prevent a significant decline in the net income. These factors are considered by District leaders and management in preparation of the District's budget for future years. The Board is committed to maintaining fiscal responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 341 Park Drive, Smithville, Missouri.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by GASB. The sets of statements include:

- Government-wide Financial Statements
- Fund Financial Statements
 - Governmental Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2013

ASSETS

Cash - Checking and Savings	\$ 475,469
Other Assets	250
Restricted Assets	
Cash - Checking and Savings	707,998
Land	102,671
Land Improvements	18,650
Building and Equipment, Net of Depreciation	2,195,002
Bond Issue Costs, Net of Amortization	<u>24,703</u>
Total Assets	3,524,743

LIABILITIES

Current Liabilities	
Deferred Revenue	56,413
Bonds Payable	<u>150,000</u>
Total Current Liabilities	206,413
Non-current Liabilities	
Bonds Payable Due in More Than One Year	<u>1,925,000</u>
Total Liabilities	2,131,413

NET POSITION

Invested in Capital Assets, Net of Related Debt	241,322
Restricted	
Capital Projects	76,879
Debt Service	141,137
Reserve	477,036
Unrestricted	<u>456,956</u>
Total Net Position	<u>\$ 1,393,330</u>

See Accompanying Notes to Basic Financial Statements.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenue	Net Expenses Government Activities
Personnel Services	\$ 588,639	\$ -	\$ 588,639
Insurance	131,246	-	131,246
Employee Benefits - Retirement	66,893	-	66,893
Other Employee Benefits	13,489	-	13,489
Uniforms	3,989	-	3,989
Health and Safety	1,419	-	1,419
Office	1,335	-	1,335
Prevention and Investigation	1,004	-	1,004
Petroleum Products	22,539	-	22,539
Professional Services	7,335	-	7,335
Communications	40,351	-	40,351
Personnel Development	20,072	-	20,072
Public Utilities	17,711	-	17,711
Miscellaneous	9,019	-	9,019
Maintenance - Machinery and Equipment	23,308	-	23,308
Maintenance - Building and Grounds	14,498	-	14,498
Interest	77,850	-	77,850
Amortization - Bond Costs	2,353	-	2,353
Depreciation	185,339	-	185,339
Total Governmental Activities	\$ 1,228,389	\$ -	1,228,389
 GENERAL REVENUE			
Taxes			
County Property Tax			904,240
Sales Tax			411,866
Interest			1,341
Miscellaneous Income			7,267
Total General Revenues and Transfers			1,324,714
Change in Net Position			96,325
Net Position, Beginning of Year			1,297,005
Net Position, End of Year			\$ 1,393,330

See Accompanying Notes to Basic Financial Statements.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
DECEMBER 31, 2013

	General Fund	Debt Service	Total
ASSETS			
Cash - Checking and Savings	\$ 475,469	\$ -	\$ 475,469
Other Assets	250	-	250
	475,719	-	475,719
Restricted Assets			
Cash - Checking and Savings	553,255	154,743	707,998
Total Assets	<u>\$1,028,974</u>	<u>\$ 154,743</u>	<u>\$ 1,183,717</u>
LIABILITIES			
Deferred Revenue	\$ 56,413	\$ -	\$ 56,413
Total Liabilities	56,413	-	56,413
FUND BALANCE			
Restricted	-	154,743	154,743
Unassigned	972,561	-	972,561
Total Fund Balance	<u>972,561</u>	<u>154,743</u>	<u>1,127,304</u>
Total Liabilities and Fund Balance	<u>\$1,028,974</u>	<u>\$ 154,743</u>	<u>\$ 1,183,717</u>

Reconciliation of Fund Balances Balance Sheet to the
Government-wide Statement of Net Assets

Total Fund Balance	\$ 1,127,304
Capital assets used in government activities are not financial reserves and, therefore, are not reported in the funds.	2,316,323
Bond Issue Costs	24,703
Bonds payable are not due and payable in the current period and, therefore, are not reported in the current period.	<u>(2,075,000)</u>
Net Assets of Government Activities	<u>\$ 1,393,330</u>

See Accompanying Notes to Basic Financial Statements.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2013

	General Fund	Debt Service	Total
REVENUE			
Taxes			
County Property Tax	\$ 659,187	\$ 245,053	\$ 904,240
Sales Tax	411,866	-	411,866
Interest on Accounts	1,341	-	1,341
Miscellaneous Income	7,267	-	7,267
Total Cash Receipts	1,079,661	245,053	1,324,714
EXPENDITURES			
Personnel Services	588,639	-	588,639
Insurance	131,246	-	131,246
Employee Benefits - Retirement	66,893	-	66,893
Other Employee Benefits	13,489	-	13,489
Uniforms	3,989	-	3,989
Health and Safety	1,419	-	1,419
Office	1,335	-	1,335
Prevention and Investigation	1,004	-	1,004
Petroleum Products	22,539	-	22,539
Professional Services	7,335	-	7,335
Communications	40,351	-	40,351
Personnel Development	20,072	-	20,072
Public Utilities	17,711	-	17,711
Miscellaneous	9,019	-	9,019
Maintenance - Machinery and Equipment	23,308	-	23,308
Maintenance - Building and Grounds	14,498	-	14,498
Capital Equipment Expenses	133,527	-	133,527
Total Expenditures	1,096,374	-	1,096,374
Excess (Deficiency) of Cash Receipts over Cash Expenditures	(16,713)	245,053	228,340
DEBT SERVICE			
Interest and Fees	-	77,851	77,851
Principal	-	150,000	150,000
Total Debt Service Disbursements	-	227,851	227,851
Net Change in Fund Balance	(16,713)	17,202	489
Fund Balance, Beginning of Year	989,274	137,541	1,126,815
Fund Balance, End of Year	\$ 972,561	\$ 154,743	\$ 1,127,304

See Accompanying Notes to Basic Financial Statements.

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE NET POSITION
IN STATEMENT OF ACTIVITIES
DECEMBER 31, 2013**

Amounts reported for governmental activities in the

Statement of Activities are different because:

Net change in Fund Balances - Total Governmental Funds \$ 489

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Equipment Outlay 133,528

Depreciation and Amortization (187,692)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources.

Bond Payments 150,000

Change in Net Position - Statement of Activities \$ 96,325

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Major and Nonmajor Funds

The funds are classified as major or nonmajor as follows:

<u>Major Funds</u>	<u>Nonmajor Funds</u>
General Fund	None
Debt Service Fund	

Debt Service Fund

The Debt Service Fund is used to account for the following:

- a. Remaining general obligation bond proceeds whose use is restricted by land covenants.
- b. Property tax receipts to be used for payment of the general obligation bonds.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Capital Assets

The accounting treatment of property, plant and equipment (capital assets) follows GAAP in that assets with a remaining useful life are capitalized and written off over the asset's useful life in the statement of activities. Capital assets are expensed in the statement of revenues, expense and changes in fund balance.

Government-Wide Statements

In the government-wide financial statements, capital assets are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide Statements- Continued

Buildings	40 years
Machinery, Furniture and Equipment	5 – 10 years
Vehicles - Special	20 years

Fund Financial Statements

In the fund financial statements, capital assets acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Deferred Revenue

Deferred revenue represents tax receipts collected at the end of the year that are for the following year. Property taxes received late in the year are recognized as revenue in the following year in order not to distort revenue from taxes. At December 31, 2013, \$56,413 had been received that pertained to 2014.

Compensated Absences

As a result of the District's use of a modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) is not reflected in the government-wide or fund financial statements. As of December 31, 2013, the District had not set aside or reserved any fund balance or net assets for the commitment.

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Government-Wide Statements – Equity Classifications

Equity is classified as net assets and displayed in three components:

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- a. Restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. The District has restricted net assets associated with the bonds. Tax levy funds received are allocated to retire the debt and pay interest.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) released Statement 54–“Fund Balance Reporting and Governmental Fund Type Definitions” (GASB 54) on March 11, 2009, which is effective for the District’s fiscal year ending December 31, 2012. This Statement is intended to improve the usefulness of the amounts reported in fund balance by providing more structured classifications. Under GASB 54, fund balance is reported under the following five classifications:

- a. Non-spendable fund balance – consists of amounts that are not in a spendable form or are required to be maintained intact.
- b. Restricted fund balance – consists of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The Restricted for Debt Service balances reflect amounts that are restricted for debt service by the bond indenture.
- c. Committed fund balance – consists of amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority (the Board of Aldermen) and do not lapse at year end. The committed fund balance consists of general board reserves.
- d. Assigned fund balance – consists of amounts intended for a specific purpose by the Board of Directors that has been delegated authority to assign amounts. This fund balance classification reflects funds assigned for capital projects.

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- e. Unassigned fund balance – consists of any remaining fund balance that has not been reported in any other classification.

Sales Tax

During 2000 the voters of the fire district approved a half-cent sales tax which is collected on all retail sales in the district. Sales tax collected for the year totaled \$411,866 in 2013 and \$429,283 in 2012.

Property Tax

Taxes are collected by the respective counties of Clay and Platte which are served by the fire district and remitted to the district. All of the taxes collected in 2013 are for taxes assessed in 2012 and prior years. The general revenue tax levy set for the Smithville Area Fire Protection District is set at the maximum allowed rate of \$.2862 per \$100 of assessed valuation in Clay County. The general revenue tax levy was set at \$.2928 per \$100 of assessed valuation in Platte County.

The debt services levy has been set at \$.10 per \$100 of assessed valuation in both counties. The assessed value of property in Clay County for 2013 was \$199,617,789 and \$32,556,539 in Platte County. Property taxes collected during the year were as follows:

	2013
Platte County	\$ 127,050
Clay County	777,190
Total	\$ 904,240

NOTE 2 – COMMITMENTS AND CONTINGENCIES

Lawsuits

There are no claims for lawsuits to which the District is a part as a result of certain injuries and various other matters and complaints arising in the ordinary course of District activities. The District’s management and legal counsel anticipate that any unknown potential claims, if any, against the District not covered by insurance would not have a material effect on the financial position of the District.

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013**

NOTE 2 – COMMITMENTS AND CONTINGENCIES – CONTINUED

Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee’s health and life; and natural disasters.

The District manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors and omissions health and life	Purchased commercial insurance	None
b. Workers Compensation: Employee injuries	Purchased commercial insurance	None
c. Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 3 – GENERAL OBLIGATION BOND

During 2009 the District issued \$2,500,000 of General Obligation Fire Protection Bonds. The bonds are general obligation bonds of the District payable from taxes levied on real and personal property. The bonds mature in 2024 and pay interest at rates varying from a low of 3% to a high of 4.2%. The interest is paid semiannually on March 1 and September 1.

The maturities on the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 150,000	\$ 73,775
2015	150,000	69,088
2016	150,000	63,713
2017	150,000	58,838
2018	175,000	53,337
2019 – 2024	<u>1,300,000</u>	<u>166,212</u>
Total	<u>\$2,075,000</u>	<u>\$ 484,963</u>

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013

NOTE 3 – GENERAL OBLIGATION BOND - CONTINUED

The bonds are being issued for the purpose of paying off two lease obligations involving fire station improvements and the acquisition of a pumper truck. The proceeds will also be used to make improvements to one of the fire stations and purchasing two new fire trucks and equipment that meet the minimum national safety standards for firefighter safety.

NOTE 4 – RETIREMENT PLAN

The District participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute, section RSMo. 70.600-70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and it is tax exempt.

The Missouri Local Government Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing LAGERS, P. O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

The District's full-time employees do not contribute to the pension plan. The political subdivision is required to contribute at an actuarially determined rate; the current rate is 20.6% (general) and 10.9% (fire) of the annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013**

NOTE 4 – RETIREMENT PLAN – CONTINUED

Annual Required Contribution	\$ 53,056
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	-
Annual Pension Cost	<u>53,056</u>
Actual Contributions	<u>53,056</u>
Increase (Decrease) in NPO	-
NPO, Beginning of Year	-
NPO, End of Year	<u><u>\$ -</u></u>

The annual required contribution (ARC) was determined as part of the February 28, 2011 and/or February 29, 2012, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2013 included (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age, attributable to seniority/merit, and (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 10.5% of the 1994 Group Annuity Mortality table setback 0 year for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period as of February 28, 2011, was 23 years for the general division and 23 years for the fire division. The amortization period as of February 29, 2012, was 22 years for the general division and 23 years for the fire division.

Year Ended <u>June 30</u>	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 47,129	100%	\$ -
2012	\$ 54,506	100%	\$ -
2013	\$ 53,056	100%	\$ -

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of government funds in financial institutions must be secured with acceptable collateral valued at market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Missouri or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A. Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. All deposits were fully insured or collateralized as follows:

	<u>2013</u>
FDIC Insurance	\$ 250,000
Pledged Securities	1,990,000
Total Deposits	<u>(1,189,253)</u>
Excess of Insured and Collateralized Deposits Over Bank Balances	<u>\$1,050,747</u>

NOTE 6 – CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2013, was as follows:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
Governmental Activities				
Land	\$ 102,671	\$ -	\$ -	\$ 102,671
Land Improvements	-	18,650	-	18,650
Buildings	1,557,057	-	-	1,557,057
Vehicles	1,674,564	28,089	31,351	1,671,302
Machinery and Equipment	<u>752,018</u>	<u>96,492</u>	-	<u>848,510</u>
Total at Historical Cost	4,086,310	143,231	31,351	4,198,190
Less Accumulated Depreciation	<u>(1,718,176)</u>	<u>185,339</u>	<u>21,648</u>	<u>(1,881,867)</u>
Governmental Activities				
Capital Assets, Net	<u>\$2,368,134</u>	<u>\$ (42,108)</u>	<u>\$ 9,703</u>	<u>\$2,316,323</u>

Depreciation recorded on capital assets totaled \$185,339 in 2013.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2013

NOTE 7 – SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, provides guidance on management's assessment of subsequent events and clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the Statement of Net Assets date through the date that the financial statements are issued, or are available to be issued. Management has evaluated events and transactions for subsequent events disclosure occurring after December 31, 2013, through July 17, 2014, the date the financial statements were available to be issued and there are no material events requiring recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information (RSI) includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Budgetary Accounting

The District prepares its budget for the General Fund on the modified cash basis of accounting. This basis is consistent with the basis of accounting used in presenting the General Fund in the basic financial statements. All unexpended appropriations lapse at year-end.

Through the budget, the Board of Directors sets the direction of the District, allocates its resources and establishes its priorities. The Annual Budget assures the efficient and effective uses of the District's economic resources, as well as establishing that the highest priority objectives are accomplished.

The Annual Budget covers the period from January 1 to December 31 and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. Additionally, it establishes the foundation of effective financial planning by providing resource planning, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District's budget is prepared and based on various expenditure categories; personnel, supplies and services, minor capital outlay and capital improvement programs. The first three listed are considered operational in nature or known as recurring costs. Capital improvement projects are asset acquisitions, facilities and systems. These are known as one-time costs.

The District collects and records revenue and expenditures within the Governmental Activities. The Governmental Funds include the General Fund. All funding sources are kept separate for both reporting and use of the money. The General Fund is where most District services are funded that is not required to be segregated.

The budget process begins as a team effort in July of each year. Then the Fire Chief uses projected revenue assumptions to prioritize and recommend the next year's objectives. The Fire Chief reviews all budget proposals and revenue assumptions, as well as all current financial obligations before preparing the document that is proposed to the Board of Directors. The Board of Directors reviews the Proposed Budget and the final adoption of the budget is scheduled for approval in December.

SMTIHVILLE AREA FIRE PROTECTION DISTRICT, INC.
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUE			
Taxes			
County Property Tax	\$ 857,000	\$ 904,240	\$ 47,240
Sales Tax	370,000	411,866	41,866
Interest	-	1,341	1,341
Permits	2,000	-	(2,000)
Miscellaneous Income	3,000	7,267	4,267
Total Revenue	<u>1,232,000</u>	<u>1,324,714</u>	<u>92,714</u>
EXPENDITURES			
Operating			
Personnel Services	646,500	588,639	57,861
Insurance and Benefits	129,569	131,246	(1,677)
Retirement Benefits	83,000	66,893	16,107
Other Employee Benefits	-	13,489	(13,489)
Uniforms	5,000	3,989	1,011
Office	4,000	1,335	2,665
Prevention and Investigation	1,100	1,004	96
Supplies and Chemicals	500	-	500
Petroleum Products	26,000	22,539	3,461
Legal	4,000	3,135	865
Communications	40,631	40,351	280
Personnel Development	24,000	20,072	3,928
Public Utilities	24,300	17,711	6,589
Miscellaneous	11,700	9,019	2,681
Health and Safety	2,200	1,419	781
Maintenance - Building and Grounds	12,500	14,498	(1,998)
Maintenance - Machinery and Equipment	17,800	23,308	(5,508)
Accounting	4,200	4,200	-
Medical Supplies	1,000	-	1,000
Total General Fund Expenditures	<u>1,038,000</u>	<u>962,847</u>	<u>75,153</u>
Financing and Capital Equipment			
Debt Service	224,000	227,851	(3,851)
Excess (Deficiency) of Cash Receipts Over Cash Expenses	<u>\$ (30,000)</u>	<u>\$ 134,016</u>	<u>\$ 21,412</u>

See Accompanying Notes to Required Supplementary Information.

**SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability Entry Age	(b-a) Unfunded Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAAL as a Percentage of Covered Payroll
02-28-11	\$ 405,838	\$ 555,109	\$ 149,271	73%	\$ 392,650	38%
02-29-12	\$ 505,768	\$ 618,005	\$ 112,237	82%	\$ 441,906	25%
02-28-13	\$ 595,817	\$ 666,962	\$ 71,145	89%	\$ 440,946	16%

The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011, annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS' office in Jefferson City, Missouri.