

**AVRA VALLEY FIRE DISTRICT**

**FINANCIAL STATEMENTS**

**June 30, 2012**

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**AVRA VALLEY FIRE DISTRICT  
MARANA, ARIZONA  
FINANCIAL STATEMENTS  
JUNE 30, 2012**

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## **SAUNDERS COMPANY, LTD.**

### **JAMES H. SAUNDERS, CPA, CFE, CFF, CGFM, PI.**

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the District Board

Avra Valley Fire District

Marana, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avra Valley Fire District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District utilized an outside service for ambulance billing. The outside service changed software during the year. This change-over in software resulted in outstanding ambulance receivables decreasing from \$263,616 at June 30, 2011 to \$78,191 at June 30, 2012. This resulted in a nearly 60% decrease in ambulance receivables while the number of billable ambulance calls remained relatively stable. It is believed by District management that large numbers of old accounts were transferred to a collection agency and not moved to the new software by the billing service. The amounts of accounts which were not transferred to the new software were not able to be determined. The impact of this adjustment on the financial statements is also not able to be determined.

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In our opinion, with the exception of the matters discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 me with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Arizona Annual Report information is not a required part of the basic financial statements, but is supplemental information required by Arizona Revised Statutes. This additional information has not been subjected to the auditing procedures applied to the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on this information.

**James H. Saunders, CPA**  
**SAUNDERS COMPANY, LTD.**

Glendale, Arizona  
December 12, 2012

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# **Avra Valley Fire District**

## **Management's Discussion and Analysis of Basic Financial Statements**

**June 30, 2012**

The following discussion and analysis of the Avra Valley Fire District (the district's) financial performance presents management's overview of the District's financial activities for the year ended June 30, 2012. Please read it in conjunction with the District's basic financial statements which begin immediately following this analysis. This annual financial report consists of two parts, Management's Discussion and Analysis (this section) and the Basic Financial Statements.

### **Nature of Operations**

The Avra Valley Fire District was established in 1977 to provide dedicated and caring professionals to safely serve the community of Avra Valley by protecting life and property through education, prevention, suppression and emergency medical services. Avra Valley Fire District provides Fire, Ambulance/Paramedic, prevention and education services to homes, property and persons residing within the District boundaries, as well as services to locations and persons outside the District through automatic and mutual aid agreements. Avra Valley cooperates with the Arizona Forestry Service to provide fire suppression services to the State through a Cooperative Agreement. Avra Valley increased staffing for our two present stations and incorporated a satellite station in the Red Rock School District during school session months to increase coverage in our District.

### **Results of operations for Fiscal Year 2011-2012:**

The Avra Valley Fire District continues to struggle with a chronically weak economy. To add to the troubles, the State of Arizona And Medicare reimbursement rates were lowered yet again, carving away some of the revenues we rely upon to operate our medical division. Although we currently bill for 99% of our ambulance transports, our recovery rate is a dismal 67% of the dollars billed. Property values and the resulting property tax revenues have not risen to the levels previously expected. A tax revenue shortfall of \$76,000 was projected for FY 2012-2013.

Avra Valley Fire District ran a total of 2003 calls for fiscal year 2011-2012, 129 calls were for fire services. This figure is down 212 calls from last year. Ambulance calls increased by 204 calls to 1672, of those 1143 persons were transported to local hospitals. AVFD provided service to 78 mutual aid calls. Avra Valley was dispatched to the Gladiator, Wymola, Montezuma, Little Bear, Weber, Arapaho, and Piper fires during the 2011-2012 Wildland Fire Season and provided approximately two months of service to the Arizona State Land Department. The certificate of necessity issued by the State of

Arizona was expanded to include all areas that fall within the fire district boundaries. One large annexation was completed which will provide a projected increase to the net assessed value of \$7522 per year and a large solar plant is being constructed and expected to begin contributing to the tax base in 2012.

Avra Valley Fire District has made great strides in making safety its number one priority by continuing to seek advanced training, funding for additional personnel through grants, and by purchasing new protective clothing, upgraded breathing apparatus and new vehicles. The West Valley Firefighters Local 4462 held a “biggest-loser” competition to encourage healthy diets and exercise for all AVFD members. The first annual AVFD awards ceremony was held in conjunction with the Local’s annual holiday party.

AVFD residents are the beneficiaries of an “automatic aid” response system that sends the closest, most appropriate apparatus and personnel to their emergencies regardless of jurisdictional boundaries. The adoption of these intergovernmental aid agreements with five surrounding fire districts provides seamless coverage for fires, emergency medical services and hazardous materials leaks and spills.

Prevention efforts have been in the forefront of our operations. Annually, Avra Valley Fire District in cooperation with local schools puts on Fire Prevention Education classes that are age appropriate including demos with our Safety Smoke Trailer. AVFD made appearances and contributed to the success of the Red Rock Annual Community Fair, the Marana Founders Day Parade, and Marana Chamber of Commerce Events. Our Fire Fighters have participated in group tours of our station and apparatus for the children of Head Start, and various organizations and clubs.

As roadway maintenance is a concern in many areas of the district, the board and staff worked with Pinal County to place the construction of Aguirre Lane between Red Rock Village and Pinal Airpark on the County’s five-year plan. AVFD also assisted with the extension of Cattle Tank Road between Park Link and Davis Ranch Roads. Work continues in other areas of the District where access is still a concern.

### **Financial Highlights**

- District investment in capital assets increased by \$972,123 or 33.43%.
- The District’s net assets decreased \$888,218 or 66.83% from the previous fiscal year.
- Operating revenues decreased \$965,635 or 72.65% over the previous fiscal year.
- At the end of the current fiscal year, unrestricted net assets for the District were \$363,433.

## **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The main purpose of these statements is to provide the reader with sufficient information to assess whether or not the District's overall financial position has improved or deteriorated.

## **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 private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 District's net assets changed during the most recent fiscal year. All changes in net assets 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.

## **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, use fund accounting to ensure and demonstrate compliance with finance related legal requirements.

### **Net Assets June 30, 2012**

<b>Net Assets:</b>	Balance <u>June 30, 2011</u>	Balance <u>June 30, 2012</u>
Invested in Capital Assets, net of related debt	\$ 529,897	\$ 1,092,517
Reserved Net Assets – Debt Service	77,040	116,558
Unreserved Fund Balance	<u>1,329,069</u>	<u>363,433</u>
<b>Total Net Assets</b>	<b><u>\$ 1,936,006</u></b>	<b><u>\$ 1,572,508</u></b>

## **Governmental Activities**

### **General Fund Budgetary Highlights**

AVFD has received approximately \$145,500 in grant funding over a two-year period.

Applications for an additional \$1,166,000 in grant funds are pending.

AVFD outfitted each response vehicle with electronic mobile data terminals. These terminals are tied to the electronic dispatching system and they provide interoperability with other emergency response agencies. The system provides dispatch information as well as GPS and internet capability in each response vehicle. The system has been an incredible success and it has led to reduced response times, better mapping capabilities, and greater efficiency at emergencies. The District received a Public Safety Grant during FY 2009-2010 in the amount of \$98,000 for these mobile data terminals.

Extraordinarily high levels of personnel training are a priority for the District. Costs were minimized by bringing specialized training for: Driver/Operator, Wildland firefighting, Hazardous materials response, technical rescue, and emergency medical technician certifications in-house. The District enjoys cooperative agreements with Pima Community College and St. Mary's Hospital to provide the necessary credentials for the classes held at the District. The District sponsored one individual who received his paramedic certification and two individuals who attended courses to become certified peer fitness trainers. Every member of the District including the administrative personnel have been certified in CPR/AED.

Comprehensive financial policies were updated and adopted to better articulate the Board's direction regarding purchasing practices. Purchasing agreements have been adopted to take advantage of the negotiated pricing under the State of Arizona's contracts with providers of goods and services.

Employee benefits costs were controlled through the effective use of reserve personnel and a reduction of injuries. Health insurance and worker's compensation plan fees were lowered due to the safety programs that have been implemented and a rebate was obtained through the State Compensation Fund.

There were no losses due to litigation. No claims were made against the District and there were no impairments of the District's insurance ratings.

Cost recovery systems and revenues continue to be well diversified in order to protect against a repeat of the economic downturn that struck our resident's property values so hard and consequently diminished property tax collections. First, we increased our ambulance revenue by better training our personnel and through quality control of every report that they file. Electronic patient care reporting was tested and implemented well ahead of the federally required deadline of 2013. An ambulance transport rate increase was approved by the Arizona Department of Health Services in August of 2011. Fire

Recovery USA pursues the recovery of costs associated with fire and hazardous materials responses that occurred outside the District's boundaries or to non-district residents. A collection agency collects overdue debts and our Wildland firefighting program was augmented with necessary equipment and enough certified supervisors and crewmembers that were available to respond to the multiple requests for assistance from the State Land Department this year.

Monies were expended to purchase software, a server and other technology to begin the process of in-house medical billing. While the initial capital outlay will exceed \$20,000 the savings in the next fiscal year could be \$37,000 and \$70,000 each year thereafter.

## **Capital Asset and Debt Administration**

### **Capital Assets**

A full-time mechanic was hired in January to maintain the District's fleet primarily due to aging vehicles and their associated maintenance costs. The mechanic quickly identified some potential safety issues with many of the vehicles. For this reason, the District expended the carry-over funds from FY2009-2010 to purchase a new 2011 ambulance and two tactical water tenders. The front-line fire engine at station #191 will need to be refurbished within the next three years and management also anticipates the need for type 1 pumpers in the Red Rock area in FY 2011-2012. For this reason, the board of directors initiated the lease-purchase of two new pumpers. A further benefit to the residents is that these new vehicles have four-wheel drive capability.

**Capital Assets, Net of Depreciation June 30, 2012**

	BALANCE <u>06/30/2011</u>	BALANCE <u>06/30/2012</u>
<u>Depreciable Assets</u>		
Vehicles	\$1,489,499	\$ 2,304,014
Buildings	650,891	788,571
Equipment, Admin	54,708	74,636
Equipment, Fire	<u>712,784</u>	<u>712,784</u>
Total Historical Costs	<u>2,907,882</u>	<u>3,880,005</u>
Less Accum Depreciation		
Vehicles	1,198,300	1,097,091
Buildings	242,623	264,224
Equipment, Admin	44,678	43,960
Equipment, Fire	<u>547,937</u>	<u>591,866</u>
Less: Total Accumulated Depreciation	<u>2,033,538</u>	<u>1,997,141</u>
Depreciable Capital Assets, Net	874,344	1,882,864
<u>Non-Depreciable Assets</u>		
Land	<u>73,108</u>	<u>108,108</u>
Capital Assets, Net	<u>\$ 947,452</u>	<u>\$ 1,990,972</u>

### **Long Term Debt**

At the end of the current fiscal year, the District had debt outstanding of \$898,455 . All of the debt is backed by the full faith and credit of the District.

### **Outstanding Debt**

	<u>BALANCE</u> <u>06/30/2011</u>	<u>BALANCE</u> <u>06/30/2012</u>
Bonds Payable	\$ 341,000	\$ 302,000
2 Fire Engines	0	550,000
Security System	8,423	0
Ambulance	<u>68,132</u>	<u>46,455</u>
Totals	<u>\$ 417,555</u>	<u>\$ 898,455</u>

### **Factors Affecting Future Results**

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.

Sixty-five percent of District revenues come from property taxes. In 2009, a property tax reform law was passed that capped the amount of tax revenues fire districts can collect from year to year. This cap, set at an 8% increase, could prevent the District from increasing the tax rate enough to cover increases in expenses or the purchase of needed equipment. In addition to this new law, the State limits the tax rate the District can charge property owners at \$3.25 per \$100 of assessed value. With the District's current tax rate set at \$3.06 and a 17 cent debt service for bonds, the likelihood of increasing the tax rate to cover revenue shortfalls is very unlikely, especially in these difficult economic times.

The aforementioned limitations combined with projections by Pima County (Arizona) officials that indicate a 10.8 percent decrease in assessed values in the 2010-11 Fiscal Year further impacts the District's ability to fund these new positions until the economy improves. Further, Pima County officials forecast a 14% decline in property values through the year 2013. Making matters worse, Pinal County officials project a 25% decline in tax revenues for the 2010-11 FY. Overall, revenues for the District's 2009-10 FY were down 11% mostly due to the housing crisis and foreclosures. This is well above the projected 3.5 percent revenue shortfall.

Like most communities in Arizona, the District has experienced a significant slowdown in new residential construction. Hence, new revenue from residential growth is essentially non-existent. The District has seen increases in commercial construction, but revenues from this growth will take 18 months to 2 years to hit the tax rolls.

Even though the District supplements tax revenues with fees for Advance Life Support (ALS) transport service, subscription fire protection fees for neighboring areas, and wildland firefighting service fees, it still falls short of the needed funds to improve staffing at Station 193.

### **Contacting The District**

This financial report is designed to provide an overview of the District's finances for anyone with an interest in the government's finances. Any questions regarding this report or requests for additional information may be directed to Avra Valley Fire District at 15790 W. Silverbell Road, Marana, AZ 85653.

## **BASIC FINANCIAL STATEMENTS**

**AVRA VALLEY FIRE DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Exhibit A

**Governmental  
Activities**

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**ASSETS**

Cash & Cash Equivalents (Note 3)	\$	454,605
Receivables:		
Ambulance Service Fees, Net of Allowances for doubtful accounts (Note 5)		68,545
Wildland (Note 5)		573
Property Taxes (Note 6)		228,987
Prepaid Interest		6,418
Prepaid Principal		71,000
Total Capital Assets, Net (Note 7)		<u>1,990,972</u>
 Total Assets		 <u>2,821,100</u>

**LIABILITIES**

Accounts Payable		32,049
Payroll Taxes Payable		18,415
Wages Payable		10,734
Deferred Revenue (Note 6)		228,987
Compensated Absences (Note 9)		
Portion due within one year		59,952
Portion due after one year		-
Bond Payable		
Portion due within one year		71,000
Portion due after one year		231,000
Lease/Purchases Payable (Note 11 )		
Portion due within one year		70,928
Portion due after one year		<u>525,527</u>
 Total Liabilities		 <u>1,248,592</u>

**NET ASSETS**

Invested in Capital Assets, Net of related Debt		1,092,517
Restricted Net Assets (Note 12)		116,558
Unrestricted Net Assets (Note 12)		<u>363,433</u>
 <b>Total Net Assets</b>	 <b>\$</b>	 <b><u>1,572,508</u></b>

-The Notes to the Financial Statements are an Integral Part of This Statement-

**AVRA VALLEY FIRE DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Exhibit B

**Governmental  
Activities**

**EXPENSES**

Public Safety - Fire/EMS Protection	
Personnel Services	\$ 2,422,134
Materials & Services	846,022
Depreciation	181,629
Total Program Expenses	3,449,785

**PROGRAM REVENUES**

Operating and Capital Grants	37,925
Charges for Service	837,247
Total Program Revenues	875,172
Net Program Expense	2,574,613

**GENERAL REVENUES**

Property Taxes	1,893,416
Fire District Assistance	228,659
Investment Earnings	5,771
Miscellaneous	83,269
Total General Revenues	2,211,115

Decrease in Net Assets	(363,498)
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<b>NET ASSETS-BEGINNING OF THE YEAR</b>	1,936,006
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<b>NET ASSETS-END OF THE YEAR</b>	\$ 1,572,508
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-The Notes to the Financial Statements are an Integral Part of This Statement-

**AVRA VALLEY FIRE DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2012**

Exhibit C

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 3)	\$ 415,465	\$ 39,140	\$ 454,605
Receivables:			
Ambulance Service Fees, Net of Allowances for Doubtful Accounts (Note 5)	68,545	-	68,545
Property Taxes (Note 6)	228,987	-	228,987
Wildland (Note 5)	573	-	573
Prepaid Interest	-	6,418	6,418
Prepaid Principal	-	71,000	71,000
Total Assets	\$ 713,570	\$ 116,558	\$ 830,128
<b>LIABILITIES</b>			
Accounts Payable	\$ 32,049	\$ -	\$ 32,049
Payroll Taxes Payable	18,415	-	18,415
Wages Payable	10,734	-	10,734
Deferred Revenue (Note 6)	228,987	-	228,987
Compensated Absences (Note 9)	59,952	-	59,952
Total Liabilities	350,137	-	350,137
<b>FUND BALANCES</b>			
Restricted (Note 12)	-	116,558	116,558
Assigned (Note 12)	10,824	-	10,824
Unassigned (Note 12)	352,609	-	352,609
Total Fund Balances	363,433	116,558	479,991
Total Liabilities & Fund Balances	\$ 713,570	\$ 116,558	\$ 830,128

-The Notes to the Financial Statements are an Integral Part of This Statement-

**AVRA VALLEY FIRE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED  
JUNE 30, 2012**

Exhibit D

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>REVENUE</b>			
Property Taxes	\$ 1,800,886	\$ 92,530	\$ 1,893,416
Fire District Assistance Tax	228,659	-	228,659
Fees for Service	837,247	-	837,247
Loan Proceeds	550,000	-	550,000
Interest	5,489	282	5,771
Grants	37,925	-	37,925
Miscellaneous	81,903	-	81,903
	<b>3,542,109</b>	<b>92,812</b>	<b>3,634,921</b>
<b>EXPENDITURES</b>			
Current:			
Public Safety	3,143,715	-	3,143,715
Administration	25,349	-	25,349
Grants	19,418	-	19,418
Debt Service			
Principal	21,862	39,000	60,862
Interest	3,288	14,294	17,582
Capital Outlay	1,294,113	-	1,294,113
	<b>4,507,745</b>	<b>53,294</b>	<b>4,561,039</b>
Excess (Deficiency) of Revenues over Expenditures	<b>(965,636)</b>	<b>39,518</b>	<b>(926,118)</b>
Net Change in Fund Balances	<b>(965,636)</b>	<b>39,518</b>	<b>(926,118)</b>
<b>Fund Balances-Beginning of Year</b>	<b>1,329,069</b>	<b>77,040</b>	<b>1,406,109</b>
<b>Fund Balances-End of Year</b>	<b>\$ 363,433</b>	<b>\$ 116,558</b>	<b>\$ 479,991</b>

-The Notes to the Financial Statements are an Integral Part of This Statement-

**AVRA VALLEY FIRE DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Exhibit E

**Reconciliation of Governmental Fund Balance to Net Assets  
(Exhibit A) of governmental activities:**

Fund Balances - Total Governmental Funds (Exhibit C) \$ 479,991

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

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

Governmental Capital Assets	3,988,113	
Less: Accumulated Depreciation	<u>(1,997,141)</u>	
		1,990,972

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(898,455)</u>
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Net Assets of Governmental Activities (Exhibit A)		<u><u>\$ 1,572,508</u></u>
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**AVRA VALLEY FIRE DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED  
JUNE 30, 2012**

Exhibit F

**Reconciliation of the change in fund balance-total governmental funds  
to the change in net assets of governmental activities:**

Net Change in Fund Balances - Total Governmental Funds (Exhibit D)	\$ (926,118)
-----------------------------------------------------------------------	--------------

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because of the following:

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. This is the amount by which capital outlay exceeded depreciation expense in the current period.	1,043,520
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The issuance of long-term debt (e.g., bonds, leases, leave) 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 net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>(480,900)</u>
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Change in Net Assets of Governmental Activities (Exhibit B)	<u><u>\$ (363,498)</u></u>
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**AVRA VALLEY FIRE DISTRICT  
MARANA, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The District is a local governmental unit formed as a political subdivision of the local county which is a political subdivision of the State of Arizona. The District was formed under the provisions of Title 48 of Arizona Revised Statutes. The District operates under the guidance of an elected board, which is the policy making body of the District. The purpose of the District is to provide fire protection, emergency medical and related services to the residents and guests of the District and the surrounding area. The day to day operations are supervised by a fire chief and his staff.

The District has the power to issue bonds, levy taxes, bill for services and raise revenues with the power of the County government. The District has the power to expend public funds for any legitimate purpose required to further its needs. The District operates as an independent governmental agency directly responsible to the local taxpayers and voters.

**INTRODUCTION**

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable, and other organizations which by nature and significance of their relationship with the primary government would cause the financial statements to be incomplete or misleading if excluded. Blended component units, although legally separate entities, are, in substance, part of the government's operations; therefore, data from these units are combined with data of the primary government. Based on these criteria, there are no component units requiring inclusion in these financial statements.

**BASIC FINANCIAL STATEMENTS**

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

## **GOVERNMENT -WIDE STATEMENTS**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to users of the services 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. Other items not properly included among program revenues are reported instead as general revenues.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Governmental funds**

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available as net current assets. All sources of revenue except interest become measurable when the District has rendered a service. Interest revenue is measurable when its rate becomes known. Revenues are considered available if they are received within 60 days of the end of any accounting period. Expenditures are generally recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

The *General 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 another fund.

The *Debt Service Fund* is used to account for the proceeds of tax revenues received from a voter approved bond issue for capital improvements to the District. The fund is administered and held by the County Treasurer. The proceeds of the fund may only be used to repay the bond issue.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial standards to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

### **Financial Statements Amounts**

#### **Cash & Cash Equivalents**

All savings, checking and money market accounts with an original maturity of less than 60 days are considered to be cash equivalents.

#### **Prepaid Items**

Payments to vendors that benefit future accounting periods are classified as prepaid items until charged to expenditures in the period benefited.

#### **Deferred Revenue**

Deferred revenue (in the fund financial statements) represents property taxes earned during the year but not collected in time to be available to finance the current year's operation.

#### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	27.5 to 40 years
Equipment	5 to 7 years
Fire Trucks	10 years
Automobiles	5 years
Office Equipment	5 years

### **Compensated Absences**

Accumulated unpaid vacation and leave time is normally accrued when incurred. The anticipated current portion of employee leave is accrued in the governmental fund, while the long term portion is recorded only in the long term group of accounts.

### **Long-Term Obligations**

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or business-type activities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

### **Fund Equity**

#### **Fund Balances on Government Wide Financial Statements – Schedule A**

Fund Equity, as defined in GASB Statement No. 34, “Basic Financial Statements for State and Local Governments” is defined as net assets and is classified in the following categories:

- λ Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- λ Unrestricted fund balance – amounts in this fund balance area is the balance of equity which is not included in the Restricted fund balance and the Investments in Net Assets balances.
- λ Investment in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

### **Fund Balances on Government Fund Financial Statements – Schedule C**

Beginning with fiscal year ended June 30, 2010, the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- λ Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- λ Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- λ Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., District Board). To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the same highest level action to remove or change the constraint.
- λ Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board or by an official or body to which the District Board delegates the authority.
- λ Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the District’s governmental funds were restated to reflect the above classifications. District Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by District Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

### **Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amount and disclosures in the financial statements. Actual results could differ from those estimates.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

During the last quarter of the fiscal year, the ensuing years operating budget, including proposed expenditures and the means of financing them, is compiled by the Fire Chief. A public hearing is held on the budget subsequent to the publication of the proposed budget. Once the proposed budget is prepared it must be published in a newspaper of general circulation in the County in which the District is located at least twenty days prior to a budget hearing. Notice of the hearing must also be posted in at least three public locations in the District and posted to the District website at least twenty days prior to the hearing, provided the District maintains a website. Copies of the proposed budget must also be provided upon written request. Once the budget hearing is held, the District Board approves the budget. After approval by the District Board the budget is then sent to the County Board of Supervisors no later than August 1<sup>st</sup> of each year as required by ARS 48-807(e).

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.

Encumbrance accounting is not employed by the District. All appropriations lapse at year-end.

## **NOTE 3 - DEPOSITS, INVESTMENT RISK & CASH MANAGEMENT**

### **Deposits and Investments**

On July 20, 2011, the Arizona State Legislature changed the laws regarding the financial obligations of the District as they relate to bank accounts, budgeting and money management. (ARS-35-323/35-312-B) Those changes are reflected in the following information.

The deposit of public funds is regulated by Arizona Revised Statutes (ARS). ARS 48-807 allows the District to establish bank accounts with any financial institution that is authorized to do business in the State of Arizona for the purpose of operating a payroll account, holding contributions, grants, special revenues or trust monies as necessary to fulfill the District's fiduciary responsibilities. The District may also establish, through the County Treasurer, accounts for monies from taxes, grants, contributions and donations. The County Treasurer is required to establish a fund known as the "fire district general fund" for the receipt of all taxes levied on behalf of the District.

The District may register warrants only if separate accounts are maintained by the County Treasurer for each governmental fund of the District. Warrants may only be registered on the maintenance and operation account, the unrestricted capital outlay account and the special revenue accounts, and only if the total cash balance of all three accounts is insufficient to pay the warrants and only after any revolving line of credit has been expended. Registered warrants may not exceed ninety per cent of the taxes levied by the County for the District's current fiscal year. Registered warrants bear interest as prescribed by statute and are redeemed as provided for by law for County warrants.

Unless monies are legally restricted by contract, agreement or law, those monies may be transferred between accounts according to the original or amended budget of the Fire District.

Any surplus remaining the fire district general fund at the end of the fiscal year shall be credited to the fire district general fund of the district for the succeeding fiscal year and after subtraction of accounts payable and encumbrances, shall be used to reduce the tax levy for the following year.

The District accounts with the County Treasurer are part of an investment pool operated by the County Treasurer which is in turn invested in the Local Government Investment Pool (LGIP) operated by the Arizona State Treasurer. The risk category (defined below) cannot be determined, as the District does not own identifiable securities, but only as a shareholder in the statewide pool.

Financial institutions accepting governmental monies in the State of Arizona are required to collateralize at 102% all government deposits which exceed the FDIC insurance limit. The current FDIC limit is \$250,000.00 for interest bearing accounts and unlimited for non-interest bearing accounts. The collateralization is required to be separately identifiable securities and be held by a third party financial institution or trust agency.

The District may also place monies in investments which are subject to the risks identified below.

The following is a summary of the Cash and Cash Equivalents held by financial institutions at June 30, 2012:

DEPOSITORY ACCOUNTS:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Insured Deposits (FDIC)	\$ 141,176	\$	\$ 141,176
Investments	<u>315,054</u>	<u>39,140</u>	<u>354,194</u>
Total Deposits	456,230	39,140	495,370
In Transit Items	<u>(40,765)</u>	<u>0</u>	<u>(40,765)</u>
Total Cash & Cash Equivalents	<u>\$ 415,465</u>	<u>\$ 39,140</u>	<u>\$ 454,605</u>

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

The District does not invest in any identifiable securities. District investments are limited to open-end mutual funds.

<u>Custodial Credit Risk For:</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
County Treasurer Pool	Unrated	Not Applicable	\$ 354,194

Credit Risk Statutes authorize the District to invest in obligations of the U.S. Treasury and federal agency securities, along with certain public obligations, such as bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state in which the District invests, that are rated in the highest rating category of nationally recognized statistical rating organizations.

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

The District normally invests only in FDIC insured bank accounts, accounts collateralized above FDIC insurance limits in commercial banks, the County Treasurer's investment pool, which is reinvested in the Arizona State Treasurer Local Government Investment Pool (LGIP), and open-end mutual stock funds of commercial brokerage firms.

No ratings were available for any of the District's investments and those investments are considered unrated.

Concentration of Credit Risk Concentration of credit risk is associated with investments in any one issuer that represent 5 percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are considered as excluded from this requirement.

The District invests only in FDIC banking institutions, mutual funds and government investment pools. The District does not have a policy relating to concentration of credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest rate risk factors and information are not available for the mutual fund investments of the District.

The weighted average maturity of the LGIP-GOV pool at June 30, 2012 was 28 days or 0.0767 years.

### **Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and the public; and natural or manmade disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have never exceeded commercial insurance coverage for the District.

In addition, as the owner and operator of emergency response vehicles, the District is exposed to a high risk of loss related to these activities. The District carries commercial insurance on all vehicles and requires insurance coverage on all privately owned vehicles used for District activities. The District also conducts regular drivers license checks on all employees authorized to operate District vehicles.

Custodial risk of deposit and investment accounts is the risk that in the event of a failure, the District's deposits may not be returned to it. The District does not have a policy for custodial risk, concentration of risk, concentration of credit risk, interest rate risk, or foreign currency risk for deposits or investments.

### **NOTE 4 - INVENTORIES**

The costs of governmental fund-type inventories are recorded as expenditures when purchased. All inventories of the District are considered immaterial.

#### **NOTE 5 - RECEIVABLES**

General and governmental fund receivables are recorded as received except for those funds collected and held by other governments on behalf of the Fire District. These amounts are recorded as soon as they are measurable and available in accordance with governmental accounting standards.

Ambulance receivables were \$78,192 with an allowance for bad debt of \$9,647 at June 30, 2012. This gave a net of \$68,545 which was expected to be collectable.

Wildland receivables were \$573 with an allowance for bad debt of \$0.00 at June 30, 2012. This gave a net of \$573 which was expected to be collectable.

#### **NOTE 6 - DEFERRED REVENUES**

Deferred Taxes Receivable arises when property taxes are levied by not currently collected. The collectible portion (taxes levied less estimated uncollectible) are recorded as deferred revenue in the period when an enforceable legal claim to the assets arises.

Pima County Treasurer reported \$189,812 in outstanding delinquent taxes due the District at June 30, 2012. Pinal County Treasurer reported \$39,175 in outstanding delinquent taxes due the District at June 30, 2012. The total reported is \$228,987 in outstanding delinquent taxes due the District at June 30, 2012. This amount is reported as deferred revenue.

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended.

	<u>BALANCE</u> <u>06/30/20 11</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>06/30/20 12</u>
<u>Depreciable Assets</u>				
Vehicles	\$1,489,499	\$ 1,026,287	\$ 211,772	\$ 2,304,014
Buildings	650,891	138,680	1,000	788,571
Equipment, Admin	54,708	32,054	12,126	74,636
Equipment, Fire	<u>712,784</u>	<u>0</u>	<u>0</u>	<u>712,784</u>
Total Historical Costs	<u>2,907,882</u>	<u>1,197,021</u>	<u>224,898</u>	<u>3,880,005</u>
Less Accum Depreciation				
Vehicles	1,198,300	110,563	211,772	1,097,091
Buildings	242,623	22,601	1,000	264,224
Equipment, Admin	44,678	4,536	5,254	43,960
Equipment, Fire	<u>547,937</u>	<u>43,929</u>	<u>0</u>	<u>591,866</u>
Less: Total Accumulated Depreciation	<u>2,033,538</u>	<u>181,629</u>	<u>218,026</u>	<u>1,997,141</u>
Depreciable Capital Assets, Net	874,344	1,015,392	6,872	1,882,864
<u>Non-Depreciable Assets</u>				
Land	<u>73,108</u>	<u>35,000</u>	<u>0</u>	<u>108,108</u>
Capital Assets, Net	<u>\$ 947,452</u>	<u>\$ 1,050,392</u>	<u>\$ 6,872</u>	<u>\$ 1,990,972</u>

**NOTE 8 - CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

## **NOTE 9 – ACCUMULATED COMPENSATED ABSENCES**

Accumulated unpaid vacation and leave time is accrued when incurred. The current portion of such amounts has been accrued in the governmental fund (using the modified accrual basis of accounting).

The District's accrued PTO on June 30, 2012 was \$59,952. The District has elected to set aside funds in a designated account to cover the accrued liability.

## **NOTE 10 – LONG-TERM INDEBTEDNESS**

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or business-type activities in the statement of net assets.

### **General Obligation Bonds**

**Bond Issue 2003:** On August 11<sup>th</sup> 2003 the District issued voter approved bonds in the amount of \$600,000 for the financing of two fire engines, an ambulance and various related equipment. The bonds were for 15 years at an interest rate of 4.25% with semi-annual interest payments due on July 1<sup>st</sup> and January 1<sup>st</sup> each year and annual principal payments due each July 1<sup>st</sup>. The amounts of the principal and interest payments vary over the life of the bonds. The final payment is scheduled on July 1, 2018.

### **Operating Leases**

The District does not currently have any operating leases.

### **Capital Leases**

**2 Fire Engines:** On June 27<sup>th</sup> 2012 the District entered into a lease/purchase agreement with Zion Bank for the purchase of a two fire engines. The initial purchase was in the amount of \$550,000 at an interest rate of 3.110% for a term of 10 years. Annual payments are due each June 15<sup>th</sup> in the amount of \$64,774 with a final payment due on June 15<sup>th</sup>, 2022.

**Security System:** On June 10<sup>th</sup>, 2009 the District entered into a lease/purchase agreement with LCA for the purchase of a security system. The initial purchase was in the amount of \$12,126.08 at an interest rate of 15.706% for a term of 5 years. Monthly payments are due the 25<sup>th</sup> of each month in the amount of \$294.88 with a final payment due on June 25<sup>th</sup> 2014.

**Ambulance:** On July 9<sup>th</sup>, 2009 the District entered into a lease/purchase agreement with Wells Fargo Bank for the purchase of a ambulance. The initial purchase was in the amount of \$111,434.00 at an interest rate of 4.695% for a term of 5 years. Annual payments are due each December 15<sup>th</sup> in the amount of \$24,876.06 with a final payment due on December 15<sup>th</sup>, 2013.

Changes in Long-Term Debt:

	BALANCE		BALANCE	
	<u>06/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/2012</u>
Bonds Payable	\$ 341,000	\$	\$ 39,000	\$ 302,000
2 Fire Engines	0	550,000	0	550,000
Security System	8,423		8,423	0
Ambulance	<u>68,132</u>	<u>0</u>	<u>21,677</u>	<u>46,455</u>
Totals	<u>\$ 417,555</u>	<u>\$550,000</u>	<u>\$ 69,100</u>	<u>\$ 898,455</u>

**NOTE 11 - FUTURE MINIMUM LEASE/PURCHASE AND BOND OBLIGATIONS**

The future minimum lease/purchase obligations and the net present value of these minimum lease/purchase payments as of June 30, 2012, were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 70,928	\$ 18,722	\$ 89,650
2014	72,931	16,719	89,650
2015	50,699	14,075	64,774
2016	52,276	12,498	64,774
2017	53,902	10,872	64,774
2018/2022	<u>295,719</u>	<u>28,151</u>	<u>323,870</u>
Total Obligation	596,455	<u>\$ 101,037</u>	<u>\$ 697,492</u>
Less amount due within 1 year	<u>70,928</u>		
Amount due after 1 year	<u>\$ 525,527</u>		

The future minimum bond obligations and the net present value of these minimum bond payments as of June 30, 2012, were as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 71,000	\$ 11,964	\$ 82,964
2014	43,000	9,541	52,541
2015	45,000	7,034	52,034
2016	48,000	5,057	53,057
2017	50,000	2,975	52,975
2018	<u>45,000</u>	<u>956</u>	<u>45,956</u>
Total Obligation	302,000	\$ <u>37,527</u>	\$ <u>339,527</u>
Less amount due within 1 year	<u>71,000</u>		
Amount due after 1 year	\$ <u>231,000</u>		

**NOTE 12 – FUND BALANCE**

The District’s Net Assets balances consist of restricted, unrestricted, and net investment in capital assets amounts.

The District’s Governmental Funds fund balances consist of restricted, committed, assigned and unassigned amounts.

Restricted fund balance are amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance is amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., District Board). To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the same highest level action to remove or change the constraint.

Assigned fund balance is amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board or by an official or body to which the District Board delegates the authority.

Unassigned fund balance is amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Net Assets:

Invested in Capital Assets, Net of Related Debt	\$ 1,092,517
Restricted Net Assets – Debt Service	116,558
Unrestricted Net Assets	<u>363,433</u>
Total Net Assets	<u>\$ 1,572,508</u>

Governmental Fund Balances:

Restricted Fund Balance - Debt Service	\$ <u>116,558</u>
Total Restricted Fund Balances	116,558
Assigned – Payroll	<u>10,824</u>
Total Assigned Fund Balances	10,824
Unassigned Fund Balances	<u>352,609</u>
Total Fund Balance	<u>\$ 479,991</u>

**NOTE 13 - PROPERTY TAXES**

The District is authorized to levy property taxes in an amount sufficient to operate the District. This levy cannot exceed three dollars and twenty-five cents per one hundred dollars of assessed valuation. It also cannot exceed the amount of the levy in the preceding tax year multiplied by 1.08.

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

The District also levies various personal property taxes during the year, which are due at the same time as real property taxes.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

The taxpayers may, by vote of the electorate, authorize either a five year budget override or a permanent override, depending upon certain criteria being met. The taxpayers also may authorize the issuance of bonds for capital acquisitions in addition to the operating taxes referred to above.

The County collects a County-Wide Fire District Assistance Tax (FDAT) and distributes the funds to all Fire Districts in the County, according to a formula established by state law. The maximum awarded to a District cannot exceed \$400,000 per year.

**NOTE 14 – DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. This plan, available to all District employees, permits employees to defer a portion of their current salary until future years. Assets held in IRC Section 457 plans are generally subject to claims of creditors.

It is the District's position that it has no liability for investment losses under the plan but has the duty of due care that would be required of an ordinary prudent investor. The District believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

**NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (SEE ALSO THE REQUIRED SUPPLEMENTAL INFORMATION)**

**Plan Descriptions**

The District contributes to the two plans described below. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' annual compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health Insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Arizona State Retirement System* (ASRS) administers a cost sharing, multiple-employer defined benefit pension plan, a cost-sharing, multiple employer defined health insurance premium plan, and a cost-sharing, multiple employer defined long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to provisions of the A.R.S. Title 38, Chapter 5, Article 2. The ASRS System does not provide information on each individual entity that has an account in the System. Information provided in this report is based on the information provided by ASRS, which is on a state wide basis.

Normal retirement is when an individual achieves 80 points, which is age plus years of service after age 62. Retirement benefits are computed by the Arizona State Retirement System.

The information required by GASB 50 paragraph 7b, three year trend information, is not currently available.

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

Normal retirement is on completion of 20 years of service or 15 years of service and attainment of age 62. Retirement benefits after 20 years are 50% of average monthly compensation plus an additional 2% for each year of service from 20 to 25 years. Upon attainment of 25 years of service the additional percentage is increased to 2 ½ % for each year beyond 20. Maximum pension is 80% of average compensation. All participants are fully vested upon 10 years of service with deferred retirement possible at reduced benefits. Disability, survivor's benefits and medical care are also integrated into the plan.

ASRS  
3300 N. Central Avenue  
Suite 200  
PO Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or 1-800-621-3778

PSPRS  
3010 E. Camelback Road,  
Phoenix, AZ 85016-4416  
Phone (602) 255-5575

**NOTE 16 - POST EMPLOYMENT BENEFITS**

The government provides certain health care and insurance benefits for recently separated employees as required by the Federal law under COBRA. Any cost of health care and insurance benefits would be short term and recognized as an expenditure as claims are paid. The District currently has no such claims.

**NOTE 17- SUBSEQUENT EVENTS**

Management has evaluated subsequent events, other than the property tax initiative listed below, and does not know of any additional comments or disclosures that should be made thru the date of this report.

**Voter Approved Property Tax Restriction:**

On November 6, 2012 the voters of the State of Arizona approved a Property Tax Initiative limiting the annual increase in property tax valuation to a maximum of 5% per year and established a single limited property value as the basis for determining property taxes on real property beginning in 2014. The impact of this restriction on future revenue of the District is not currently known.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**AVRA VALLEY FIRE DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED  
JUNE 30, 2012**

Exhibit G

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Property Taxes	\$ 1,688,009	\$ 1,688,009	\$ 1,800,886	\$ 112,877
Fire District Assistance	300,000	300,000	228,659	(71,341)
Fees for Service	937,070	937,070	837,247	(99,823)
Loan Proceeds	250,000	250,000	550,000	300,000
Grant Revenue	1,034,196	1,034,196	37,925	(996,271)
Interest	3,300	3,300	5,489	2,189
Miscellaneous	21,851	21,851	81,903	60,052
<b>Total Revenues</b>	<b>4,234,426</b>	<b>4,234,426</b>	<b>3,542,109</b>	<b>(692,317)</b>
Expenditures:				
Current:				
Public Safety	2,815,539	2,815,539	3,143,715	(328,176)
Administration	86,442	86,442	25,349	61,093
Grants	1,034,196	1,034,196	19,418	1,014,778
Capital Outlay	748,249	748,249	1,319,263	(571,014)
<b>Total Expenditures</b>	<b>4,684,426</b>	<b>4,684,426</b>	<b>4,507,745</b>	<b>176,681</b>
Excess (Deficiency) of Revenues over Expenditures	(450,000)	(450,000)	(965,636)	(515,636)
Net Change in Fund Balances	(450,000)	(450,000)	(965,636)	(515,636)
Fund Balances at Beginning of Year	450,000	450,000	1,329,069	879,069
Fund Balances at End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 363,433</u>	<u>\$ 363,433</u>

**AVRA VALLEY FIRE DISTRICT**

**GASB STATEMENT NO. 25 SUPPLEMENTARY PENSION INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**

**(EXCLUDING HEALTH INSURANCE SUBSIDY BEGINNING JUNE 30, 2008)**

<b>Year Ended June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b)-(a)/(c))</b>
2003	847,550	416,668	(430,882)	203.4%	435,669	0.0%
2004	947,980	514,211	(433,769)	184.4%	607,400	0.0%
2005	1,062,739	702,852	(359,887)	151.2%	802,357	0.0%
2006	1,222,432	938,311	(284,121)	130.3%	1,124,072	0.0%
2007	1,763,763	1,584,515	(179,248)	111.3%	1,139,685	15.7%
2008	1,739,910	885,299	(854,611)	196.5%	550,342	0.0%
2009	1,976,863	1,040,144	(936,719)	190.1%	860,896	0.0%
2010	2,155,657	1,224,422	(931,235)	176.1%	1,119,817	0.0%
2011	2,136,749	1,517,475	(619,274)	140.8%	1,044,032	0.0%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>
2003	22,979
2004	24,943
2005	32,546
2006	34,228
2007	56,759
2008	52,304
2009	83,266
2010	45,299
2011	(est) 60,271
2012	(est) 106,690
2013	(est) 130,759

**SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	June 30, 2011
Actuarial cost method:	Entry Age Normal
Amortization Method:	Level percent-of-pay closed
Remaining amortization period:	25 years for underfunded 20 years for overfunded
Asset valuation method:	7-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return:	8.25%
Projected Salary increases*	5.00% - 8.00%
Payroll Growth	5.00%
Cost-of-living adjustments	None

**GASB STATEMENT NO. 45 SUPPLEMENTARY INFORMATION**

The following information is presented concerning the post-retirement health insurance subsidy. The liabilities and computed contribution for the post-retirement health insurance subsidy were based on the same assumptions and actuarial cost methods as indicated for GASB Statement No. 25.

Please note the liabilities in the schedules below were calculated based on the 8.5% interest rate assumption. Beginning with the June 30, 2011 valuation an 8.25% interest rate assumption was used. It is our understanding that currently assets are not segregated to fund these liabilities. As a result, according to GASB Statement No. 45, these benefits may not be considered to be pre-funded. In that case the 8.25% interest rate assumption may not be appropriate. The issue should be discussed with the auditors and with legal counsel.

**SCHEDULE OF FUNDING PROGRESS**

<b>Valuation Date June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded AAL (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
2006	\$0	\$27,969	\$27,969	0.0%	\$1,124,072	2.49%
2007	\$0	\$56,228	\$56,228	0.0%	\$1,139,685	4.93%
2008	\$0	\$18,222	\$18,222	0.0%	\$550,342	3.31%
2009	\$0	\$36,295	\$36,295	0.0%	\$860,896	4.22%
2010	\$0	\$46,821	\$46,821	0.0%	\$1,119,817	4.18%
2011	\$0	\$56,531	\$56,531	0.00%	\$1,044,032	5.41%

**ANNUAL REQUIRED CONTRIBUTION**

<b>Valuation Date June 30</b>	<b>Fiscal Year Ended June 30</b>	<b>Normal Cost (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Total (a) + (b)</b>	<b>Dollar Amount</b>
2006	2008	0.51%	0.15%	0.66%	\$3,632
2007	2009	0.65%	0.30%	0.95%	\$5,228
2008	2010	0.58%	0.20%	0.78%	\$4,293
2009	2011	0.64%	0.26%	0.90%	\$8,624
2010	2012	0.65%	0.25%	0.90%	\$11,217
2011	2013	0.44%	0.34%	0.78%	\$8978

**Health Insurance Subsidy Payments Reported for FY 2011: \$0**

## **BENEFITS**

Normal retirement is the first day of the month following completion of 20 years of service or following the 62<sup>nd</sup> birthday after 15 years of service. Normal pension after 25 years of credited service is 50% of average monthly compensation for the first 20 years of credited service plus 2½% of average monthly compensation for each year of credited service above 20 years. Retirement at other lengths of service vary according to the plan. The maximum compensation is 80% of the average monthly compensation. Employees are fully vested after 10 years of service.

The plan provides for disability retirement, survivors benefits, temporary disability, child's benefits, health insurance and other post employment benefits.

The plan is a multiple employer defined benefit pension plan operated by the State of Arizona for the benefit of all public safety employees in the state.

The plan issues a separate report for the entire system and annually issues an actuarial study for each participating governmental agency. These reports are available through the Arizona Public Safety Personnel Retirement System.

The figures and information used in this report were obtained from the actuarial report issued by Gabriel, Roeder, Smith & Company. A complete copy of the actuarial valuation as of June 30, 2011 is available from the Arizona Public Safety Personnel Retirement System, Phoenix, Arizona or from Gabriel Roeder Smith & Company, One Towne Square, Suite 800, Southfield, MI 48076.

## **Date of Information**

The information above reflects the most currently available information about this pension plan as of the published actuarial study for June 30, 2011 issued November 18<sup>th</sup> 2011.

**AVRA VALLEY FIRE DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2012**

**1. BUDGETARY BASIS OF PRESENTATION**

The budget included in these financial statements represents the original budget and amendments approved by the Board of Directors. The budgetary basis is the modified accrual basis of accounting with encumbrances included as actual. Accordingly, for the purpose of comparing budgeted expenditures to actual amounts, prior and current year encumbrances have been integrated with the amounts shown on the *Statement of Revenues, Expenditures, and Changes in Fund Balances*.

Various reclassifications have been made to the actual amounts to conform to classifications included in the budget approved by the Board of Directors.

The legal level of budgetary control attributed to the Board of Directors is considered at the objective or natural classification level, presented as subtotals in the schedule of budget to actual (e.g., total revenue, total salaries and benefits, total services and supplies, etc.).

**2. PUBLIC SAFETY PENSION DISCLOSURE INFORMATION**

All Public Safety Pension disclosure information has been furnished by the actuary for the Districts' Public Safety Pension Fund. This information has been excerpted directly from the actuarial report and is the responsibility of the actuary.

## **OTHER SUPPLEMENTARY INFORMATION**

**AVRA VALLEY FIRE DISTRICT  
ANNUAL REPORT INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2012**

AZ Revised Statutes (ARS) requires certain additional information be attached to the audit report to comply with ARS 48-251 & 48-253 as required to meet the requirements of the AZ "Annual Report" of Special Districts. This information is included as other supplementary information.

**REGULAR FIRE BOARD MEETINGS:**

<u>Date</u>	<u>Time</u>	<u>Location</u>
July 27, 2011	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
August 24, 2011	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
Sept. 28, 2011	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
October 11, 2011	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
November 26, 2011	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
December 28, 2011	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
January 25, 2012	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
February 22, 2012	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
March 28, 2012	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
April 25, 2012	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
May 23, 2012	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ
June 27, 2012	10:00 A.M	Halberg Community Center, 15790 W Silverbell, Marana, AZ

**BOARD MEMBERS:**

<u>Name</u>	<u>Business Phone Number</u>	<u>Occupation</u>
Luis Castaneda	520-682-3255	Businessman
Sara Bauer	520-682-3255	Retired
Aleyna Lassen	520-682-3255	Retired
Eric Neilson	520-682-3255	Businessman
Mary Aguirre-Vogler	520-682-3255	Retired

**LOCATION OF POSTING OF MEETING NOTICES (all meetings):**

Avra Valley Fire Station #191	15790 W Silverbell Road	Marana, Arizona
Avra Valley Fire Station #192	Anway & Tucker Road	Marana, Arizona
Avra Valley Fire Station #193		Marana, Arizona
Minut Mart	12505 N Trico Rd	Marana, Arizona
Valley Mart	16560 W Avra Valley Rd	Marana, Arizona

**LEGAL DESCRIPTION OF BOUNDARY CHANGES: NONE**

**AVRA VALLEY FIRE DISTRICT  
GOVERNMENT AUDIT STANDARDS  
June 30, 2012**



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**AVRA VALLEY FIRE DISTRICT  
MARANA, ARIZONA  
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## SAUNDERS COMPANY, LTD.

### JAMES H. SAUNDERS, CPA, CFE, CFF, CGFM, PI.

CERTIFIED PUBLIC ACCOUNTANT  
CERTIFIED FRAUD EXAMINER  
CERTIFIED GOVERNMENT FINANCIAL MANAGER  
LICENSED PRIVATE INVESTIGATOR #01534603  
CERTIFIED IN FINANCIAL FORENSICS

6008 W. CORTEZ ST  
GLENDALE, ARIZONA 85304  
Tel: (623) 476-8660  
Fax: (602) 926-2431  
E-Mail: [JamesH49@AOL.com](mailto:JamesH49@AOL.com)

Member: American Institute of Certified Public Accountants  
Arizona Society of Certified Public Accountants

International Association of Certified Fraud Examiners

Arizona Association of Licensed Private Investigators  
Arizona Association of Certified Fraud Examiners

## 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 Members of the Board

Avra Valley Fire District

Marana, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avra Valley Fire District, as of and for the year ended June 30, 2012 which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2012. 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.

### Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Internal Control and Compliance

June 30, 2012

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Governing Board of the District, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James H. Saunders, CPA  
**SAUNDERS COMPANY, LTD.**

Glendale, Arizona  
December 13, 2012

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