

AVRA VALLEY FIRE DISTRICT

FINANCIAL STATEMENTS

June 30, 2011

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**AVRA VALLEY FIRE DISTRICT
MARANA, ARIZONA
FINANCIAL STATEMENTS
JUNE 30, 2011**

TABLE OF CONTENTS

| | <u>PAGE</u> | <u>EXHIBIT</u> |
|--|-------------|----------------|
| TABLE OF CONTENTS | 1 | |
| REPORT OF INDEPENDENT AUDITOR | 5 | |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 9 | |
| BASIC FINANCIAL STATEMENTS: | 17 | |
| Government -Wide Financial Statements | | |
| Statement of Net Assets | 18 | A |
| Statement of Activities | 19 | B |
| Fund Financial Statements | | |
| Balance Sheet - Governmental Funds | 20 | C |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 21 | D |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | 22 | E |
| Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances - Governmental Funds To the Statement of Activities | 23 | F |
| Notes to the Financial Statements | 25 | |



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**AVRA VALLEY FIRE DISTRICT
MARANA, ARIZONA
FINANCIAL STATEMENTS
JUNE 30, 2011**

| | <u>PAGE</u> | <u>EXHIBIT</u> |
|--|-------------|----------------|
| REQUIRED SUPPLEMENTARY INFORMATION | 45 | |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (GAAP Basis) General Fund | 46 | G |
| Pension Financial Disclosures | 47 | |
| Notes to the Required Supplementary Information | 49 | |
| OTHER SUPPLEMENTARY INFORMATION | 51 | |
| Arizona Annual Report Information | 52 | |
| GOVERNMENT AUDIT STANDARDS SECTION | 55 | |
| GOVERNMENT AUDIT STANDARDS TABLE OF CONTENTS | 57 | |
| Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> | 59 | |

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INDEPENDENT AUDITOR 'S REPORT

To the Members of the District Board

Avra Valley Fire District

Marana, Arizona

I 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, 2011, 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. 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 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, 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, 2011, 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*, I have also issued my report dated December 13, 2011, on my consideration of the District's internal control over financial reporting and on my 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 my 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 my 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

My 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, I do not express an opinion or provide any assurance on this information.

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Independent Auditor's Report

June 30, 2011

Page 2

This report is intended solely for the information and use of the governing body and management of the District and for filing with the County Board of Supervisors, the County Treasurer and other regulatory agencies of the State of Arizona and the United States government. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

James H. Saunders, CPA

Glendale, Arizona
December 13, 2011

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Avra Valley Fire District

Management's Discussion and Analysis of Basic Financial Statements

June 30, 2011

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, 2011. 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 2010-2011:

Avra Valley Fire District ran a total of 2156 calls for fiscal year 2010-2011, 341 calls were for fire services. This figure is up 67 calls from last year. Our ambulance calls decreased by 55 calls to 1468, of those 1203 persons were transported to local hospitals. AVFD provided service to 39 mutual aid calls. Avra Valley was dispatched to the Arlene Fire, Horse Shoe II Fire, Monument, and Wallow fires during the 2010-2011 Wildland Fire Season and provided approximately two months of service to the Arizona State Land Department.

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 and upgraded breathing apparatus.

Response times and service to AVFD residents have been upgraded through the adoption of intergovernmental agreements with five surrounding fire districts and fire departments for automatic aid and mutual aid. This means that the closest and most appropriate responders are dispatched regardless of political boundaries.

An additional ambulance was put in service this fiscal year to consistently meet additional medical call volume in our area. AVFD has incorporated an apparatus replacement schedule, onsite emergency vehicle mechanic to tend to our fleet, and safety and command vehicles as required.

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, various organizations and clubs.

Avra Valley Fire District is dedicated to a work friendly environment that is signified with the adoption of the Memorandum of Understanding with the Local 4462 Union; a historic event for Avra Valley Fire District.

Avra Valley Fire District lowered our tax levy from \$3.25 to \$3.06 in FY 2010-2011. The bond tax was increased to .17 so that the district residents will realize a significant savings in interest and decrease the life of the bond debt by making additional annual payments.

Financial Highlights

- District investment in capital assets increased by \$125,478 or 4.51%.
- The District's net assets decreased \$571,071 or 41.84% from the previous fiscal year.
- Operating revenues increased \$64,821 or 1.92% over the previous fiscal year.
- At the end of the current fiscal year, unrestricted net assets for the District were \$1,329,069.

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, 2011

| Net Assets: | <u>Balance June 30, 2010</u> | <u>Balance June 30, 2011</u> |
|---|----------------------------------|----------------------------------|
| Invested in Capital Assets, net of related debt | \$ 40,288 | \$ 529,897 |
| Reserved Net Assets – Debt Service | 68,695 | 77,040 |
| Unreserved Fund Balance | <u>1,255,952</u> | <u>1,329,069</u> |
| Total Net Assets | <u>\$ 1,364,935</u> | <u>\$ 1,936,006</u> |

Governmental Activities

AVFD received approximately \$17,000 from the 100 Club for turnout replacement.

AVFD received a Public Safety Grant in the amount of \$98,000 for Mobile Data Terminals to reduce response times and provide responders with better mapping capabilities.

Personnel training costs were lowered by bringing specialized training for: Driver/Operator, Wildland firefighting, Hazardous materials response, technical rescue, and emergency medical technician certifications in-house.

Effective use of technology has led to lower repair costs for the maintenance of the District's computer systems and server. Mobile data terminals and GPS have been installed in all of our emergency response vehicles to further aid in dispatching accuracy and reduced response times. A website was created and is maintained to keep our residents and our personnel better informed as to the various advances and events of the District. The Facebook social media has also proven to be a very effective way to actively communicate with residents.

Inventory controls were implemented to better track and order expendable supplies. A "just-in-time" system of stocking supplies has reduced the costs for shipping and waste due to the expiration of medical supplies. Vast amounts of antiquated equipment were disposed of or sold as surplus property.

Comprehensive financial policies were developed and adopted to better articulate the Board's direction regarding purchasing practices. Purchasing agreements were 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. Plan fees were re-negotiated and a rebate was obtained through the State Compensation Fund.

There were no significant losses due to litigation. Claims were vigorously defended and disposed of with little or no cost to the District and with no impairment of the District's insurance ratings.

Revenues were diversified in order to protect against a repeat of the economic downturn that struck our resident's property values so hard and consequently diminished our property tax collections. First we increased our ambulance revenue by better training our personnel and through quality control of the reports that were filed. Second, Fire Recovery USA was hired to pursue the recovery of costs associated with fire and hazardous materials responses that occurred outside the District's boundaries or to non-district residents. Third, a new collection agency was hired to collect overdue debts and our Wildland firefighting program was augmented with necessary equipment and enough

certified supervisors and crewmembers to respond to multiple requests for assistance from the State Land Department.

General Fund Budgetary Highlights

We stayed within budget during this budget year.

Capital Asset and Debt Administration

Capital Assets

Avra Valley Fire District paid off significant commercial debt for apparatus and equipment in the amount of \$433,864.43. A used 2004 ambulance was purchased, and two older ambulances were re-fitted with new engines and transmissions to extend their service lives.

Management reserved over \$300,000 in cash in the FY10/11 budget cycle to be used for capital purchases in the FY11/12 budget year. An additional \$450,000 was reserved for ordinary operational expenses in the first quarter of FY11/12 (when tax revenues are not being collected).

Capital Assets, Net of Depreciation June 30, 2011

| | BALANCE <u>06/30/2010</u> | BALANCE <u>06/30/2011</u> |
|---|------------------------------|------------------------------|
| <u>Depreciable Assets</u> | | |
| Vehicles | \$1,462,099 | \$ 1,489,499 |
| Buildings | 650,891 | 650,891 |
| Equipment, Admin | 54,708 | 54,708 |
| Equipment, Fire | <u>614,706</u> | <u>712,784</u> |
| Total Historical Costs | <u>2,782,404</u> | <u>2,907,882</u> |
| Less Accum Depreciation | | |
| Vehicles | 1,109,632 | 1,198,300 |
| Buildings | 222,845 | 242,623 |
| Equipment, Admin | 39,016 | 44,678 |
| Equipment, Fire | <u>470,110</u> | <u>547,937</u> |
| Less: Total Accumulated Depreciation | <u>1,841,603</u> | <u>2,033,538</u> |
| Depreciable Capital Assets, Net | 940,801 | 874,344 |
| <u>Non-Depreciable Assets</u> | | |
| Land | <u>73,108</u> | <u>73,108</u> |
| Capital Assets, Net | <u>\$1,013,909</u> | <u>\$ 947,452</u> |

Long Term Debt

At the end of the current fiscal year, the District had debt outstanding of \$417,555 . All of the debt is backed by the full faith and credit of the District.

Outstanding Debt

| | BALANCE <u>06/30/2010</u> | BALANCE <u>06/30/2011</u> |
|-------------------|------------------------------|------------------------------|
| Bonds Payable | \$ 408,000 | \$ 341,000 |
| L/P Fire Engine | 167,990 | 0 |
| Line of Credit | 110,870 | 0 |
| Land and Building | 187,463 | 0 |
| Security System | 10,462 | 8,423 |
| Ambulance | <u>88,837</u> | <u>68,132</u> |
| Totals | <u>\$ 973,622</u> | <u>\$ 417,555</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, 2011**

Exhibit A

| | Governmental Activities |
|---|------------------------------------|
| ASSETS | |
| Cash & Cash Equivalents (Note 3) | \$ 1,091,523 |
| Receivables: | |
| Ambulance Service Fees, Net of Allowances for doubtful accounts (Note 5) | 202,023 |
| Wildland (Note 5) | 178,752 |
| Due from Pima County | 52 |
| Property Taxes (Note 6) | 258,978 |
| Prepaid Interest | 7,884 |
| Prepaid Principal | 39,000 |
| Total Capital Assets, Net (Note 7) | 947,452 |
| Total Assets | 2,725,664 |
| LIABILITIES | |
| Accounts Payable | 15,247 |
| Payroll Taxes Payable | 13,936 |
| Wages Payable | 42,157 |
| Deferred Revenue (Note 6) | 258,978 |
| Compensated Absences (Note 9) | |
| Portion due within one year | 41,785 |
| Portion due after one year | - |
| Bond Payable | |
| Portion due within one year | 39,000 |
| Portion due after one year | 302,000 |
| Lease/Purchases Payable (Note 11) | |
| Portion due within one year | 24,060 |
| Portion due after one year | 52,495 |
| Total Liabilities | 789,658 |
| NET ASSETS | |
| Invested in Capital Assets, Net of related Debt | 529,897 |
| Restricted Net Assets (Note 12) | 77,040 |
| Unrestricted Net Assets (Note 12) | 1,329,069 |
| Total Net Assets | \$ 1,936,006 |

-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, 2011**

Exhibit B

**Governmental
Activities**

EXPENSES

| | |
|-------------------------------------|------------------|
| Public Safety - Fire/EMS Protection | |
| Personnel Services | \$ 1,909,431 |
| Materials & Services | 758,729 |
| Depreciation | <u>191,935</u> |
| Total Program Expenses | <u>2,860,095</u> |

PROGRAM REVENUES

| | |
|------------------------------|------------------|
| Operating and Capital Grants | 91,732 |
| Charges for Service | <u>1,096,210</u> |
| Total Program Revenues | <u>1,187,942</u> |
| Net Program Expense | <u>1,672,153</u> |

GENERAL REVENUES

| | |
|--------------------------|------------------|
| Property Taxes | 1,925,275 |
| Fire District Assistance | 307,395 |
| Investment Earnings | 4,787 |
| Miscellaneous | <u>5,767</u> |
| Total General Revenues | <u>2,243,224</u> |

| | |
|------------------------|---------|
| Increase in Net Assets | 571,071 |
|------------------------|---------|

| | |
|---|------------------|
| NET ASSETS-BEGINNING OF THE YEAR | <u>1,364,935</u> |
|---|------------------|

| | |
|-----------------------------------|----------------------------|
| NET ASSETS-END OF THE YEAR | <u><u>\$ 1,936,006</u></u> |
|-----------------------------------|----------------------------|

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

**AVRA VALLEY FIRE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

Exhibit C

| | General | Debt Service | Total Governmental Funds |
|---|----------------|-------------------------|---|
| ASSETS | | | |
| Cash and Cash Equivalents (Note 3) | \$ 1,061,419 | \$ 30,104 | \$ 1,091,523 |
| Receivables: | | | |
| Ambulance Service Fees, Net of Allowances for Doubtful Accounts (Note 5) | 202,023 | - | 202,023 |
| Property Taxes (Note 6) | 258,978 | - | 258,978 |
| Due from Pinal County | - | 52 | 52 |
| Wildland (Note 6) | 178,752 | - | 178,752 |
| Prepaid Interest | - | 7,884 | 7,884 |
| Prepaid Principal | - | 39,000 | 39,000 |
| | | | |
| Total Assets | \$ 1,701,172 | \$ 77,040 | \$ 1,778,212 |
| LIABILITIES | | | |
| Accounts Payable | \$ 15,247 | \$ - | \$ 15,247 |
| Payroll Taxes Payable | 13,936 | - | 13,936 |
| Wages Payable | 42,157 | - | 42,157 |
| Deferred Revenue (Note 6) | 258,978 | - | 258,978 |
| Compensated Absences (Note 9) | 41,785 | - | 41,785 |
| | | | |
| Total Liabilities | 372,103 | - | 372,103 |
| FUND BALANCES | | | |
| Restricted (Note 12) | - | 77,040 | 77,040 |
| Unassigned (Note 12) | 1,329,069 | - | 1,329,069 |
| | | | |
| Total Fund Balances | 1,329,069 | 77,040 | 1,406,109 |
| Total Liabilities & Fund Balances | \$ 1,701,172 | \$ 77,040 | \$ 1,778,212 |

-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, 2011**

Exhibit D

| | General | Debt Service | Total Governmental Funds |
|--|---------------------|---------------------|---|
| REVENUE | | | |
| Property Taxes | \$ 1,834,401 | \$ 90,829 | \$ 1,925,230 |
| Fire District Assistance Tax | 307,395 | - | 307,395 |
| Fees for Service | 1,096,210 | - | 1,096,210 |
| Interest | 4,433 | 355 | 4,788 |
| Grants | 91,732 | - | 91,732 |
| Miscellaneous | 5,767 | 44 | 5,811 |
| | 3,339,938 | 91,228 | 3,431,166 |
| EXPENDITURES | | | |
| Current: | | | |
| Public Safety | 2,678,009 | - | 2,678,009 |
| Administration | 23,887 | 884 | 24,771 |
| Grants | 60,377 | - | 60,377 |
| Debt Service | | | |
| Principal | 489,066 | 67,000 | 556,066 |
| Interest | 13,137 | 15,000 | 28,137 |
| Capital Outlay | 2,345 | - | 2,345 |
| | 3,266,821 | 82,884 | 3,349,705 |
| Excess (Deficiency) of Revenues over Expenditures | <u>73,117</u> | <u>8,344</u> | <u>81,461</u> |
| Net Change in Fund Balances | 73,117 | 8,344 | 81,461 |
| Fund Balances-Beginning of Year | <u>1,255,952</u> | <u>68,696</u> | <u>1,324,648</u> |
| Fund Balances-End of Year | <u>\$ 1,329,069</u> | <u>\$ 77,040</u> | <u>\$ 1,406,109</u> |

-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, 2011**

Exhibit E

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

| | | |
|--|--|--------------|
| Fund Balances - Total Governmental Funds (Exhibit C) | | \$ 1,406,109 |
|--|--|--------------|

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 | 2,980,990 | | |
| Less: Accumulated Depreciation | <u>(2,033,538)</u> | | 947,452 |

| | | | |
|--|--|--|------------------|
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | | <u>(417,555)</u> |
|--|--|--|------------------|

| | | | |
|---|--|--|----------------------------|
| Net Assets of Governmental Activities (Exhibit A) | | | <u><u>\$ 1,936,006</u></u> |
|---|--|--|----------------------------|

**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, 2011**

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) | \$ | 81,461 |
|---|----|--------|

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 depreciation expense exceeded capital outlay in the current period. | | (66,457) |
|--|--|----------|

| | | |
|---|--|---------|
| 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. | | 556,067 |
|---|--|---------|

| | | |
|---|----|---------|
| Change in Net Assets of Governmental Activities (Exhibit B) | \$ | 571,071 |
|---|----|---------|



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**AVRA VALLEY FIRE DISTRICT
MARANA, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 1st 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) 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. 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, 2011:

DEPOSITORY ACCOUNTS:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> |
|-------------------------------|-------------------------|------------------------------|---------------------|
| Insured Deposits (FDIC) | \$ 120,957 | \$ | \$ 120,957 |
| Investments | <u>977,092</u> | <u>30,104</u> | <u>1,007,196</u> |
| Total Deposits | 1,098,049 | 30,104 | 1,128,153 |
| In Transit Items | <u>(36,630)</u> | <u>0</u> | <u>(36,630)</u> |
| Total Cash & Cash Equivalents | <u>\$ 1,061,419</u> | <u>\$ 30,104</u> | <u>\$ 1,091,523</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 | \$1,007,196 |

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, 2011 was 47 days.

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 \$263,617 with an allowance for bad debt of \$61,593 at June 30, 2011. This gave a net of \$202,023 which was expected to be collectable.

Wildland receivables were \$178,752 with an allowance for bad debt of \$0.00 at June 30, 2011. This gave a net of \$178,752 which was expected to be collectable.

NOTE 6 - DEFFERED 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 \$210,088 in outstanding delinquent taxes due the District at June 30, 2011. Pinal County Treasurer reported \$48,890 in outstanding delinquent taxes due the District at June 30, 2011. The total reported is \$258,978 in outstanding delinquent taxes due the District at June 30, 2011. 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 10</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>06/30/20 11</u> |
|---|--------------------------------------|--------------------|------------------|--------------------------------------|
| <u>Depreciable Assets</u> | | | | |
| Vehicles | \$1,462,099 | \$ 27,400 | \$ 0 | \$ 1,489,499 |
| Buildings | 650,891 | | | 650,891 |
| Equipment, Admin | 54,708 | | | 54,708 |
| Equipment, Fire | <u>614,706</u> | <u>98,078</u> | <u>0</u> | <u>712,784</u> |
| Total Historical Costs | <u>2,782,404</u> | <u>125,478</u> | <u>0</u> | <u>2,907,882</u> |
| Less Accum Depreciation | | | | |
| Vehicles | 1,109,632 | 88,668 | | 1,198,300 |
| Buildings | 222,845 | 19,778 | | 242,623 |
| Equipment, Admin | 39,016 | 5,662 | | 44,678 |
| Equipment, Fire | <u>470,110</u> | <u>77,827</u> | <u>0</u> | <u>547,937</u> |
| Less: Total Accumulated Depreciation | <u>1,841,603</u> | <u>191,935</u> | <u>0</u> | <u>2,033,538</u> |
| Depreciable Capital Assets, Net | 940,801 | (66,457) | 0 | 874,344 |
| <u>Non-Depreciable Assets</u> | | | | |
| Land | <u>73,108</u> | <u>0</u> | <u>0</u> | <u>73,108</u> |
| Capital Assets, Net | <u>\$1,013,909</u> | <u>\$ (66,457)</u> | <u>\$ 0</u> | <u>\$ 947,452</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, 2011 was \$41,785. 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 11th 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 1st and January 1st each year and annual principal payments due each July 1st. 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

Fire Engine: On May 11th 2006 the District entered into a lease/purchase agreement with Kansas State Bank for the purchase of a fire engine. The initial purchase was in the amount of \$187,379 at an interest rate of 5.335% for a term of 10 years. Annual payments are due each July 31st in the amount of \$29,386 with a final payment due on July 31, 2016.

Line of Credit: On June 29th 2006 the District opened a line of credit account with Stockmen's Bank with a credit line of \$200,000. The initial draw on the credit line was \$85,523. The credit line requires monthly payments at an interest rate of 5.63%.

Land and Building L/P: On March 29th 2006 the District opened a line of credit account with Stockmen’s Bank with a credit limit of \$255,000. The credit line requires monthly payments at an interest rate of 4.90%. This was used to purchase Land and a Building.

Security System: On June 10th, 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 25th of each month in the amount of \$294.88 with a final payment due on June 25th 2014.

Ambulance: On July 9th, 2009 the District entered into a lease/purchase agreement with Wells Fargo Bank for the purchase of an 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 15th in the amount of \$24,876.06 with a final payment due on December 15th, 2013.

Changes in Long-Term Debt:

| | <u>BALANCE</u> <u>06/30/2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>BALANCE</u> <u>06/30/2011</u> |
|-------------------|-------------------------------------|------------------|------------------|-------------------------------------|
| Bonds Payable | \$ 408,000 | \$ | \$ 67,000 | \$ 341,000 |
| L/P Fire Engine | 167,990 | | 167,990 | 0 |
| Line of Credit | 110,870 | | 110,870 | 0 |
| Land and Building | 187,463 | | 187,463 | 0 |
| Security System | 10,462 | | 2,039 | 8,423 |
| Ambulance | <u>88,837</u> | <u>0</u> | <u>20,705</u> | <u>68,132</u> |
| Totals | <u>\$ 973,622</u> | <u>\$ 0</u> | <u>\$556,067</u> | <u>\$ 417,555</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, 2011, were as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|------------------|-----------------|------------------|
| 2012 | \$ 24,060 | \$ 4,354 | \$ 28,414 |
| 2013 | 25,480 | 2,934 | 28,414 |
| 2017/2027 | <u>27,015</u> | <u>1,399</u> | <u>28,414</u> |
| Total Obligation | 76,555 | \$ <u>8,687</u> | \$ <u>85,242</u> |
| Less amount due within 1 year | <u>24,060</u> | | |
| Amount due after 1 year | \$ <u>52,495</u> | | |

The future minimum bond obligations and the net present value of these minimum bond payments as of June 30, 2011, were as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|-------------------|------------------|-------------------|
| 2012 | \$ 39,000 | \$ 13,250 | \$ 52,250 |
| 2013 | 41,000 | 11,500 | 52,500 |
| 2014 | 43,000 | 9,750 | 52,750 |
| 2015 | 45,000 | 7,750 | 52,750 |
| 2016 | 48,000 | 5,500 | 53,500 |
| 2017/2019 | <u>125,000</u> | <u>6,250</u> | <u>131,250</u> |
| Total Obligation | 341,000 | \$ <u>54,000</u> | \$ <u>395,000</u> |
| Less amount due within 1 year | <u>39,000</u> | | |
| Amount due after 1 year | \$ <u>302,000</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 | \$ 529,897 |
| Restricted Net Assets – Debt Service | 77,040 |
| Unrestricted Net Assets | <u>1,329,069</u> |
| Total Net Assets | <u>\$ 1,936,006</u> |

Governmental Fund Balances:

| | |
|--|---------------------|
| Restricted Fund Balance - Debt Service | <u>\$ 77,040</u> |
| Total Restricted Fund Balances | 77,040 |
| Unassigned Fund Balances | <u>1,329,069</u> |
| Total Fund Balance | <u>\$ 1,406,109</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.

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 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

Funding Policy

Agent Plans - For the year ended June 30, 2010, active PSPRS members were required by statute to contribute 7.65 percent of the members covered payroll, and the District was required to contribute 8.56 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.90 percent of covered payroll.

SCHEDULE OF FUNDING PROGRESS
(EXCLUDING HEALTH INSURANCE SUBSIDY BEGINNING JUNE 30, 2008)

| Year Ended | Actuarial Value of Assets | Actuarial Accrued Liability Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|-------------------|----------------------------------|--|----------------------------|---------------------|------------------------|---------------------------------------|
| June 30 | (a) | (b) | (b)-(a) | (a)/(b) | (c) | ((b)-(a))/(c) |
| 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% |

C. Trend Analysis for PSPRS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <u>Year Ended June 30</u> | <u>Annual Required Contribution</u> |
|---------------------------|-------------------------------------|
| 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 |

NOTE 16 - POST EMPLOYMENT BENEFITS

The government provides certain health care and life insurance benefits for recently separated employees as required by the Federal law under COBRA. Any cost of health care and life 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

The 50th legislature for the State of Arizona, in their 1st session revised several statutes affecting Arizona Fire Districts. These statutes took effect on July 20, 2011. The statutes in their entirety can be found in Title 48 of the Arizona Revised Statutes (ARS). Some of the more significant changes are summarized as follows:

1. Audits of Arizona Special Districts were previously required to be conducted in accordance with *generally accepted auditing standards*. Revisions to this statute now require Audits to be conducted in accordance with *generally accepted government auditing standards*. This raises the level of Audit required from a financial audit to the next level of Audit commonly called a “Yellow Book” Audit. This will require Auditors to comply with additional standards issued by the comptroller general of the United States.

2. The new deadline for the filing of the Arizona Annual report with the County Treasurer and the County Board of Supervisors has been changed from 180 days after the end of the Fiscal year to 240 days after the end of the Fiscal year.
3. The legislature has clarified the types of bank accounts a Fire District may have in addition to the County Warrant Accounts and has defined how these funds must be handled in regards to fund balance at the end of the fiscal year .
4. The statute regarding Fire District Assistance Tax (FDAT) and how it is to be distributed to Districts has changed to raise the cap on these funds to \$400,000.00 from \$300,000.00. In addition, Districts that had previously merged or consolidated resulting in higher amounts of FDAT for the combined District will be capped at \$400,000.00 in the future beginning with the Fiscal year that starts July 1, 2012.

**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, 2011**

Exhibit G

| | Budgeted Amounts | | Actual | Variance with Final |
|--|------------------|------------------|---------------------|-------------------------------|
| | Original | Final | | Budget Positive (Negative) |
| Revenues: | | | | |
| Property Taxes | \$ 1,721,813 | \$ 1,721,813 | \$ 1,834,401 | \$ 112,588 |
| Fire District Assistance | 344,361 | 344,361 | 307,395 | (36,966) |
| Fees for Service | 948,925 | 948,925 | 1,096,210 | 147,285 |
| Grant Revenue | 200,000 | 200,000 | 91,732 | (108,268) |
| Interest | 2,400 | 2,400 | 4,433 | 2,033 |
| Miscellaneous | - | - | 5,767 | 5,767 |
| Total Revenues | 3,217,499 | 3,217,499 | 3,339,938 | 122,439 |
| Expenditures: | | | | |
| Current: | | | | |
| Public Safety | 2,508,872 | 2,508,872 | 2,678,009 | (169,137) |
| Administration | | - | 23,887 | (23,887) |
| Grants | 200,000 | 200,000 | 60,377 | 139,623 |
| Capital Outlay | 508,627 | 508,627 | 504,548 | 4,079 |
| Total Expenditures | 3,217,499 | 3,217,499 | 3,266,821 | (49,322) |
| Excess (Deficiency) of Revenues over Expenditures | - | - | 73,117 | 73,117 |
| Net Change in Fund Balances | - | - | 73,117 | 73,117 |
| Fund Balances at Beginning of Year | 0 | 0 | 1,255,952 | 1,255,952 |
| Fund Balances at End of Year | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 1,329,069</u> | <u>\$ 1,329,069</u> |

AVRA VALLEY FIRE DISTRICT

SUPPLEMENTARY PENSION INFORMATION

SCHEDULE OF FUNDING PROGRESS

| Year Ended June 30 | Actuarial Value of Assets (a) | Actuarial Accrued Liability Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b)-(a)/(c)) |
|---------------------------|--------------------------------------|--|------------------------------------|-----------------------------|----------------------------|---|
| 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% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended June 30 | Annual Required Contribution |
|---------------------------|-------------------------------------|
| 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 |

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, 2010 |
| Actuarial cost method: | Projected Unit Credit |
| Amortization Method: | Level percent -of-pay closed |
| Remaining amortization period: | 26 years for underfunded 20 years for overfunded |
| Asset valuation method: | 7-year smoothed market |
| Actuarial Assumptions: | |
| Investment Rate of Return: | 8.50% |
| Projected Salary increases* | 5.50% - 8.50% |
| Payroll Growth | 5.50% |
| Cost-of-living adjustments | None |

SCHEDULE OF FUNDING PROGRESS

| Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (b-a) | Funded AAL (a/b) | Annual Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---------------------------|----------------------------------|------------------------------------|------------------------------|---------------------|-------------------------------|---|
| 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% |

ANNUAL REQUIRED CONTRIBUTION

| Valuation Date June 30 | Fiscal Year Ended June 30 | Normal Cost (a) | Actuarial Accrued Liability (b) | Total (a) + (b) | Dollar Amount |
|---------------------------|------------------------------|--------------------|------------------------------------|--------------------|---------------|
| 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 |

Health Insurance Subsidy Payments Reported for FY 2010: \$0

BENEFITS

Normal retirement is the first day of the month following completion of 20 years of service or following the 62nd 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, 2010 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, 2010 issued November 19th 2010.

AVRA VALLEY FIRE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2011

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.).

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OTHER SUPPLEMENTARY INFORMATION

**AVRA VALLEY FIRE DISTRICT
ANNUAL REPORT INFORMATION
FISCAL YEAR ENDED JUNE 30, 2011**

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, 2010 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| August 17, 2010 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| Sept. 15, 2010 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| October 20, 2010 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| November 17, 2010 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| December 10, 2010 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| January 26, 2011 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| February 23, 2011 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| March 23, 2011 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| April 27, 2011 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| May 25, 2011 | 7:30 p.m. | Halberg Community Center, 15790 W Silverbell, Marana, AZ |
| June 22, 2011 | 7:30 p.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 fm 5/11 | 520-682-3255 | Businessman |
| Mary Aguirre | 520-682-3255 | Retired |
| Michael Garcia til 5/11 | 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:

1. That part of the Southwest quarter of Section 4, Township 10 South, Range 10 East, of the Gila and Salt River base and meridian, Pinal County, Arizona, Lying Northeasterly of the Right of Way line of the Southern Pacific Railroad.
2. All of that portion of Section 9, Township 10 South, Range 10 East, of the Gila and Salt River base and meridian, Pinal County, Arizona, lying east of the easterly right of way of the Union Pacific Railroad.
3. The West half of the Southwest quarter of Section 10, Township 10 South, Range 10 East, of the Gila and Salt River base and meridian, Pinal County, Arizona, lying east of the easterly right of way line of Union Pacific Railroad formerly described as the Southern Pacific Railroad.
4. The Southeast quarter of the Southwest quarter of the Northwest quarter; and the Southwest quarter of the Southeast quarter of the Northwest quarter; and the West half of the West half of the Northwest quarter of Section 10, Township 10 South, Range 10 East of the Gila and Salt River base and meridian, Pinal County, Arizona.



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**AVRA VALLEY FIRE DISTRICT
GOVERNMENT AUDIT STANDARDS**

June 30, 2011

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**AVRA VALLEY FIRE DISTRICT
MARANA, ARIZONA
TABLE OF CONTENTS
GOVERNMENT AUDIT STANDARDS SECTION
JUNE 30, 2011**

| | <u>PAGE</u> |
|--|-------------|
| GOVERNMENT AUDIT STANDARDS SECTION | 55 |
| GOVERNMENT AUDIT STANDARDS SECTION TABLE OF CONTENTS | 57 |
| Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> | 59 |

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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

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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

I 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, 2011, which collectively comprise the District's basic financial statements and have issued my report thereon dated December 13, 2011. I conducted my 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

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I 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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the District in a separate letter dated December 13, 2011.

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Internal Control and Compliance Report

June 30, 2011

Page 2

This report is intended solely for the information and use of the governing body and management 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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

James H. Saunders, CPA

Glendale, Arizona
December 13, 2011

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