

SUNSITES-PEARCE FIRE DISTRICT

FINANCIAL STATEMENTS

June 30, 2011

**James H. Saunders
Certified Public Accountant
Certified Fraud Examiner
6008 West Cortez Street
Glendale, Arizona 85304
Fax 602-926-2431
Phone 623-476-8660**

f

THIS PAGE

IS

DELIBERATELY LEFT BLANK

**SUNSITES -PEARCE FIRE DISTRICT
PEARCE, 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:	15	
Government -Wide Financial Statements		
Statement of Net Assets	16	A
Statement of Activities	17	B
Fund Financial Statements		
Balance Sheet - Governmental Funds	18	C
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19	D
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	20	E
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances - Governmental Funds To the Statement of Activities	21	F
Statement of Net Assets - Fiduciary Funds	22	G
Statement of Changes in Fiduciary Net Assets	23	H
Notes to the Financial Statements	25	



THIS PAGE
IS
DELIBERATELY LEFT BLANK

**SUNSIDES -PEARCE FIRE DISTRICT
PEARCE, ARIZONA
FINANCIAL STATEMENTS
JUNE 30, 2011**

	<u>PAGE</u>	<u>EXHIBIT</u>
REQUIRED SUPPLEMENTARY INFORMATION	41	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (GAAP Basis) General Fund	42	I
Notes to the Required Supplementary Information	43	
OTHER SUPPLEMENTARY INFORMATION	45	
Arizona Annual Report Information	46	
Volunteer Pension Distribution	47	
GOVERNMENT AUDIT STANDARDS SECTION	49	
GOVERNMENT AUDIT STANDARDS TABLE OF CONTENTS	51	
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>	53	
Schedule of Findings and Questionable Costs	57	

f

THIS PAGE

IS

DELIBERATELY LEFT BLANK

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

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

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Sunsites-Pearce Fire District
Sunsites, Arizona

I have audited the accompanying financial statements of the governmental activities each major fund and the aggregate remaining fund information of the Sunsites-Pearce Fire District, Sunsites, Arizona, as of and for the year ended June 30, 2011. 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. 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 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 opinion.

Management failed to monitor employee activities sufficiently to assure proper internal control over the accounting and recordkeeping systems. The lack of internal control allowed numerous material undiscovered entries to be made to the accounting system and failed to record expenditures and liabilities properly. This resulted in material overstatements of revenues, material unrecorded payroll tax liabilities, material unrecorded capital purchase expenditures, and failure to maintain sufficient documentation to allow verification of legal compliance with laws and regulations. Accounting principles generally accepted in the United States of America require the proper recording of all financial transactions. The amounts that should be reported in the government-wide financial statements and the governmental fund statements for the District's activities are not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District, as of June 30, 2011, or the changes in its financial position.

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.



THIS PAGE
IS
DELIBERATELY LEFT BLANK

Independent Auditors Report
Sunsites-Pearce Fire District
June 30, 2011
Page 2

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.

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.

James H. Saunders
Certified Public Accountant
Glendale, Arizona
April 15, 2012

f

THIS PAGE

IS

DELIBERATELY LEFT BLANK

Sunsites -Pearce Fire District
Management's Discussion and Analysis of
Basic Financial Statements
June 30, 2011

The following discussion and analysis of the Sunsites -Pearce 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 Sunsites -Pearce Fire District is an All Hazards agency, providing rescue, hazardous material response, fire (response and paramedic) services to homes, property, and persons residing or traveling through the fire district boundaries as well as services to locations and persons outside the fire district through mutual aid agreements and contracts.

The fire district promotes and encourages safety through public education, fire prevention, code fire enforcement and community involvement.

Results of Operations

During the calendar year 2011, the Sunsites -Pearce Fire District responded to 489 calls for service. These calls included 100 responses to reports of a fire, 389 responses to medical emergencies and 24 responses to other emergencies.

In addition to fulltime staffing, the fire district employs approximately 15 Reserve Firefighters to ensure adequate staffing. These Reserves supplement fulltime staffing during the daytime, backfill for fulltime personnel during periods of absence such as illness or vacations, and respond to large scale emergencies.

The fire district also used numerous opportunities to promote fire safety, general safety, and community enrichment through a variety of programs including public tours of fire apparatus and stations, public meetings, fire hazard reduction and cleanup, and other organized and spontaneous events.

The District also committed to increasing educational opportunities for employees. Increased medical skill levels, specialized training and other training opportunities are frequently presented to district employees.

Financial Highlights

λ District investment in capital assets decreased by \$58,827 or 14%.

λ The District's net assets decreased \$319,068 or 38% from the previous fiscal year .

λ Program & General revenues decreased \$356,241 or 31% over the previous fiscal year.

λ At the end of the current fiscal year, unrestricted fund balance for the General fund was \$174,036.

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.

During the fiscal year 2010/2011, assessed property values decreased as compared to the previous fiscal year. With assessed property values continuing to decline, the District's lower assessed property values may force the District to return to tax levy rates as seen in previous years. The District desires to maintain the current staffing arrangements in order to ensure service during emergencies. The District should keep the lowest rate possible to ensure that public safety needs are met while still remaining fiscally conservative and responsible. There are no new subdivisions planned at this time for our area, however assessed values do promise to increase with the start-up of the Commonwealth Mine Project. Annexations of proposed subdivisions located outside the current District boundaries are also being considered.

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

Invested in Capital Assets, Net of related Debt	\$ 367,338
Unrestricted Net Assets	<u>150,788</u>
Total Net Assets	<u>\$ 518,126</u>

Governmental Activities

Most of the revenues for the district were derived from assessed property taxes and Fire District Assistance Tax from the county. The District also received a significant amount of income from billing for Wildland Fire Assignments. The Fire Department Auxiliary also contributed a significant amount for the purchase of additional communication equipment to comply with the federal mandate of narrow-banding before January 2013.

General Fund Budgetary Highlights

During fiscal year 2010-2011, the Sunsites -Pearce Fire District stayed within budget.

Capital Asset and Debt Administration

In order to provide the best service possible, the Sunsites -Pearce Fire District spends a portion of the budget on fixed asset acquisition and capital projects.

For fiscal year ended June 30, 2011 the District purchased, had contributed or constructed the following assets: The Fire District continued to make the annual payment on the 2005 Chevy Ambulance that was purchased in 2005.

Capital Assets

In order to continue to provide the best service possible, the District spends a portion of the budget on fixed asset acquisition and capital projects.

For fiscal year ended June 30, 2011 the District purchased, had contributed, or constructed the following assets: 2002 Ambulance \$11,000

2001 Ambulance \$11,000

Capital Assets, Net of Depreciation June 30,2011

	<u>BALANCE</u> <u>06/30/2010</u>	<u>BALANCE</u> <u>06/30/2011</u>
<u>Depreciable Assets</u>		
Vehicles	\$378,199	\$ 400,199
Buildings	183,703	183,703
Equipment, Fire	<u>320,359</u>	<u>320,359</u>
Total Historical Costs	<u>882,261</u>	<u>904,261</u>
Less Accumulated Depreciation		
Vehicles	216,428	250,646
Buildings	94,430	99,228
Equipment, Fire	<u>149,247</u>	<u>199,360</u>
Less: Total Accumulated Depreciation	<u>460,105</u>	<u>549,234</u>
Depreciable Capital Assets, Net	422,156	355,027
<u>Non-Depreciable Assets</u>		
Land	<u>30,000</u>	<u>30,000</u>
Capital Assets, Net	<u>\$452,156</u>	<u>\$ 385,027</u>

Long Term Debt

At the end of the current fiscal year, the District had debt outstanding of \$40,937.

All of the debt is backed by the full faith and credit of the District.

Outstanding Debt

	<u>Balance</u> <u>June 30, 2010</u>	<u>Balance</u> <u>June 30, 2011</u>
2005 Ambulance	\$ 25,991	\$ 17,689
Total Lease Obligations	25,991	17,689
Compensated Absences	<u>0</u>	<u>23,248</u>
Totals	<u>\$ 25,991</u>	<u>\$ 40,937</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.

Because assessed property values decreased significantly from 2009, fiscal year 2010-2011 saw no further reduction of the tax rate. Despite the decreased values, the fire district was able to create a budget without increasing the tax rate. This rate met the current needs of the District.

With assessed property values continuing to decline, the District's lower assessed property values may force the District to return to tax levy rates as seen in previous years. The District desires to maintain the current staffing arrangements in order to ensure service during emergencies. The District should keep the lowest rate possible to ensure that public safety needs are met while still remaining fiscally conservative and responsible.

Several proposed subdivisions located within the district should augment the fire district budget. These developments should begin to materialize once the housing market stabilizes and the economy rebounds.

Annexation of proposed subdivisions located outside the current District boundaries are also being considered.

Long-term plans call for the addition of a fire station near the intersection of Interstate 40 and Arizona State Route 95 and the addition of more fulltime personnel to fully staff the station.

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 Sunsites -Pearce Fire District at PO Box 507, Pearce, AZ 85625 or in person at 105 Tracy Road, Sunsites, Arizona.



THIS PAGE
IS
DELIBERATELY LEFT BLANK

BASIC FINANCIAL STATEMENTS

**SUNSITES-PEARCE FIRE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Exhibit A

**Governmental
Activities**

ASSETS

Cash & Cash Equivalents (Note 3)	\$	102,550
Receivables:		
Ambulance Service Fees, Net Allowance for Doubtful Accounts (Note 5)		100,881
Wildland (Note 5)		79,144
Total Capital Assets, Net (Note 7)		385,027
 Total Assets		 667,602

LIABILITIES

Accounts Payable		3,137
Payroll Taxes Payable		7,064
Wages Payable		12,719
Unpaid Federal Liability		79,607
Due to Retirement Fund		200
Compensated Absences (Note 10)		
Portion due within one year		5,812
Portion due after one year		23,248
Lease/Purchases Payable (Note 11)		
Portion due within one year		8,658
Portion due after one year		9,031
 Total Liabilities		 149,476

NET ASSETS

Invested in Capital Assets, Net of related Debt		367,338
Unrestricted Net Assets (Note 13)		150,788
 Total Net Assets	\$	 518,126

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

**SUNSITES-PEARCE FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Exhibit B

**Governmental
Activities**

EXPENSES

Public Safety - Fire/EMS Protection		
Personnel Services	\$	642,525
Materials & Services		383,754
Depreciation		<u>89,129</u>
Total Program Expenses		<u>1,115,408</u>

PROGRAM REVENUES

Operating and Capital Grants		22,188
Charges for Service		<u>227,513</u>
Total Program Revenues		<u>249,701</u>
Net Program Expense		<u>865,707</u>

GENERAL REVENUES

Property Taxes		442,777
Fire District Assistance		90,967
Investment Earnings		1,839
Miscellaneous		<u>11,056</u>

Total General Revenues		<u>546,639</u>
------------------------	--	----------------

Increase in Net Assets		(319,068)
------------------------	--	-----------

NET ASSETS-BEGINNING OF THE YEAR		<u>837,194</u>
---	--	----------------

NET ASSETS-END OF THE YEAR	\$	<u><u>518,126</u></u>
-----------------------------------	-----------	-----------------------

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

**SUNSITES-PEARCE FIRE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

Exhibit C

General

ASSETS

Cash and Cash Equivalents (Note 3)	\$	102,550
Receivables:		
Ambulance Service Fees, Net Allowance for Doubtful Accounts (Note 5)		100,881
Wildland (Note 6)		<u>79,144</u>
 Total Assets	 \$	 <u><u>282,575</u></u>

LIABILITIES

Accounts Payable	\$	3,137
Payroll Taxes Payable		7,064
Wages Payable		12,719
Unpaid Federal Liabilities		79,607
Due To Retirement Fund		200
Compensated Absences (Note 10)		<u>5,812</u>
 Total Liabilities		 <u>108,539</u>

FUND BALANCES

Committed (Note 13)		78,605
Unassigned		<u>95,431</u>
 Total Fund Balances		 <u>174,036</u>
 Total Liabilities & Fund Balances	 \$	 <u><u>282,575</u></u>

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

**SUNSITES-PEARCE FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED
JUNE 30, 2011**

Exhibit D

	General
REVENUE	
Property Taxes	\$ 442,777
Fire District Assistance Tax	90,967
Fees for Service	227,513
Interest	1,839
Grants	22,188
Miscellaneous	11,056
Total Revenues	796,340
EXPENDITURES	
Current:	
Public Safety	902,384
Administration	48,705
Grants	50,825
Debt Service	
Principal	8,301
Interest	1,118
Capital Outlay	22,000
Total Expenditures	1,033,333
Excess (Deficiency) of Revenues over Expenditures	(236,993)
Net Change in Fund Balance	(236,993)
Fund Balance-Beginning of Year	411,029
Fund Balance-End of Year	\$ 174,036

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

**SUNSITES-PEARCE 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)	\$	174,036
--	----	---------

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	934,261	
Less: Accumulated Depreciation	<u>(549,234)</u>	
		385,027

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		<u>(40,937)</u>
--	--	-----------------

Net Assets of Governmental Activities (Exhibit A)	\$	<u><u>518,126</u></u>
---	----	-----------------------

**SUNSITES-PEARCE 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)	\$ (236,993)
---	--------------

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.	(67,129)
--	----------

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>(14,946)</u>
---	-----------------

Change in Net Assets of Governmental Activities (Exhibit B)	<u><u>\$ (319,068)</u></u>
---	----------------------------

**SUNSITES-PEARCE FIRE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011**

Exhibit G

**Volunteer
Pension Fund**

ASSETS

Cash & Cash Equivalents	\$	135,064
Due From General Fund		200
Employee Receivable		<u>545</u>
 Total Assets		 <u>135,809</u>

LIABILITIES

Accounts Payable	\$	<u>-0-</u>
 Total Liabilities		 <u>-0-</u>

NET ASSETS

Held in trust for pension and other purposes	\$	<u><u>135,809</u></u>
---	----	-----------------------

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

**SUNSITES-PEARCE FIRE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

Exhibit H

	<u>Volunteer Pension Fund</u>
ADDITIONS	
Other	
State Fire Marshal	2,911
Total Other Contributions	<u>2,911</u>
Investment Earnings:	
Interest & Dividends	2,190
Net Increase in the fair value of investments	<u>40</u>
Total Investment Earnings	2,230
Less Investment Expense	<u>-</u>
Net Investment Earnings	<u>2,230</u>
Total Additions	<u>5,141</u>
DEDUCTIONS	
Distributions	<u>-</u>
Total Liabilities	<u>-</u>
Change in Net Assets	5,141
Net Assets - Beginning	<u>130,668</u>
Net Assets - Ending	<u><u>\$ 135,809</u></u>

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



THIS PAGE
IS
DELIBERATELY LEFT BLANK

SUNSITES -PEARCE FIRE DISTRICT
PEARCE, 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 *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the government. This fund's activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements.

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 101% 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>Trust Fund</u>	<u>Total</u>
Investments	\$ 119,843	\$ 135,064	\$ 254,907
Total Deposits	119,843	135,064	254,907
In Transit Items	<u>(17,593)</u>	<u>0</u>	<u>(17,593)</u>
Total Depository Accounts	102,250	135,064	237,314

NON DEPOSITORY
ACCOUNTS

CASH ON HAND	<u>300</u>	<u>0</u>	<u>300</u>
Total Non Depository Accounts	<u>300</u>	<u>0</u>	<u>300</u>
Total Cash & Cash Equivalents	<u>\$ 102,550</u>	<u>\$ 135,064</u>	<u>\$ 237,614</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	\$119,843
Edward Jones Investments	Unrated	Not Applicable	\$135,064

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 or 0.128 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.

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 \$129,776 with an allowance for bad debt of \$28,895 at June 30, 2011. This gave a net of \$100,881 which was expected to be collectable.

Wildland receivables were \$79,144 with an allowance for bad debt of \$0.00 at June 30, 2011. This gave a net of \$79,144 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.

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	\$378,199	\$ 22,000	\$ 0	\$ 400,199
Buildings	183,703	0	0	183,703
Equipment, Fire	<u>320,359</u>	<u>0</u>	<u>0</u>	<u>320,359</u>
Total Historical Costs	<u>882,261</u>	<u>22,000</u>	<u>0</u>	<u>904,261</u>
Less Accumulated Depreciation				
Vehicles	216,428	34,218	0	250,646
Buildings	94,430	4,798	0	99,228
Equipment, Fire	<u>149,247</u>	<u>50,113</u>	<u>0</u>	<u>199,360</u>
Less: Total Accumulated Depreciation	<u>460,105</u>	<u>89,129</u>	<u>0</u>	<u>549,234</u>
Depreciable Capital Assets, Net	422,156	(67,129)	0	355,027
<u>Non-Depreciable Assets</u>				
Land	<u>30,000</u>	<u>0</u>	<u>0</u>	<u>30,000</u>
Capital Assets, Net	<u>\$452,156</u>	<u>\$ (67,129)</u>	<u>\$ 0</u>	<u>\$ 385,027</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 – SHORT-TERM INDEBTEDNESS

The District utilizes a credit line with a limit of \$97,000. As of June 30, 2011, the balance outstanding was approximately \$ 0 and \$97,000 was available. The interest rate is based on a percentage of prime at the time the line of credit is

accessed. The District routinely pays the balance in full when funds are available. The District did not use the line of credit during the 2010-2011 Fiscal Year.

Changes in Short-Term Indebtedness :

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
Line of Credit	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Totals	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

NOTE 10 – 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 has a combination of vacation time and sick leave which the District calls Paid Time Off (PTO). PTO will be paid to an employee upon separation from the District according to the policy & schedule adopted by the District.

NOTE 11 – 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

The District does not currently have any general obligation bonds.

Operating Leases

The District does not currently have any operating leases.

Capital Leases

The District entered into a lease/purchase agreement for a 2005 Chevrolet C 4500 Ambulance by First Municipal Leasing Corporation. The lease/purchase is in the amount of \$51,000 with an interest rate of 4.3% with annual

payments of \$9,419.06 due each March 21st with the first payment due in 2008 and continuing for 5 years. The District prepaid \$9,419 on March 21, 2008.

Changes in Long-Term Indebtedness :

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
2005 Ambulance	\$ 25,991	\$ 0	\$ 8,302	\$ 17,689
Total Lease Obligations	25,991	0	8,302	17,689
Compensated Absences	<u>0</u>	<u>23,248</u>	<u>0</u>	<u>23,248</u>
Totals	<u>\$ 25,991</u>	<u>\$ 23,248</u>	<u>\$ 8,302</u>	<u>\$ 40,937</u>

NOTE 12 - FUTURE MINIMUM LEASE/PURCHASE 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	\$ 8,658	\$ 761	\$ 9,419
2013	<u>9,031</u>	<u>388</u>	<u>9,419</u>
Total Obligation	17,689	<u>\$ 1,149</u>	<u>\$ 18,838</u>
Less amount due within 1 year	<u>8,658</u>		
Amount due after 1 year	<u>\$ 9,031</u>		

NOTE 13 – 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	\$ 367,338
Unrestricted Net Assets	<u>150,788</u>
Total Net Assets	<u>\$ 518,126</u>

Governmental Fund Balances :

Committed - Capital	<u>\$ 78,605</u>
Total Committed Fund Balances	78,605
Unassigned Fund Balances	<u>95,431</u>
Total Fund Balance	<u>\$ 174,036</u>

NOTE 14 - 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 15 – 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 16 - EMPLOYEE RETIREMENT SYSTEMS

Plan Description

The District contributes to the plan described below.

The District maintains a *Volunteer Fire Pension Fund* as allowed by ARS 9-951. This plan is administered by the District and overseen by an appointed pension board according to state statute. The plan is reviewed by the Arizona State Fire Marshal's office.

Standard benefits vary by number of years of activity and funds available. Benefits are fixed by the local board at the time of retirement. Eligibility is minimum age of 18 years and 12 months of service. Maximum age does not

apply. Retirement age is earlier of age 50 or 20 years of service. Entry dates are Jan 01 and July 01 of each year. The local pension board has the authority to deviate from these guidelines as they feel necessary under an adopted alternative plan.

NOTE 17 - 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 18- 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**

SUNSITES-PEARCE 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 I

	Budgeted Amounts		Actual	Variance with Final
	Original	Final		Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 479,858	\$ 479,858	\$ 442,777	\$ (37,081)
Fire District Assistance	110,000	110,000	90,967	(19,033)
Fees for Service	280,000	280,000	227,513	(52,487)
Grant Revenue	425,000	425,000	22,188	(402,812)
Miscellaneous	5,000	5,000	12,895	7,895
Total Revenues	<u>1,299,858</u>	<u>1,299,858</u>	<u>796,340</u>	<u>(503,518)</u>
Expenditures:				
Current:				
Public Safety	697,000	697,000	902,384	(205,384)
Administration	52,000	52,000	48,705	3,295
Grants	467,000	467,000	50,825	416,175
Capital Outlay	14,500	14,500	31,419	(16,919)
Total Expenditures	<u>1,230,500</u>	<u>1,230,500</u>	<u>1,033,333</u>	<u>197,167</u>
Excess (Deficiency) of Revenues over Expenditures	<u>69,358</u>	<u>69,358</u>	<u>(236,993)</u>	<u>(306,351)</u>
Net Change in Fund Balances	69,358	69,358	(236,993)	(306,351)
Fund Balances at Beginning of Year	<u>0</u>	<u>0</u>	<u>411,029</u>	<u>411,029</u>
Fund Balances at End of Year	<u>\$ 69,358</u>	<u>\$ 69,358</u>	<u>\$ 174,036</u>	<u>\$ 104,678</u>

SUNSITES -PEARCE 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.).

f

THIS PAGE

IS

DELIBERATELY LEFT BLANK

OTHER SUPPLEMENTARY INFORMATION

**SUNSTITES -PEARCE 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 6, 2010	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
August 3, 2010	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
Sept 7, 2010	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
October 5, 2010	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
Nov 2, 2010	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
December 7, 2010	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
January 18, 2011	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
February 15, 2011	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
March 15, 2011	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
April 19, 2011	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
May 17, 2011	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ
June 21, 2011	5:00 p.m.	Fire Station– 105 Tracy RD, Pearce, AZ

BOARD MEMBERS:

<u>Name</u>	<u>Business Phone Number</u>	<u>Occupation</u>
Robert Fino	520-826-3645	Chairperson
William McCarter	520-826-3645	Clerk
Candy Roll	520-826-3645	Member
Rebel Jones	520-826-3645	Member
Tom Heine	520-826-3645	Member

LOCATION OF POSTING OF MEETING NOTICES (all meetings):

Sunsites –Pearce Fire Station	105 Tracy RD	Pearce, AZ
Sunsites Post Office	Hwy 191	Sunsites, AZ
Richland Store	Hwy 191	Sunsites, AZ

LEGAL DESCRIPTION OF BOUNDARY CHANGES:

None

**SUNSITES -PEARCE FIRE DISTRICT
ANNUAL REPORT INFORMATION
VOLUNTEER PENSION DISTRIBUTIONS
FISCAL YEAR ENDED JUNE 30, 2011**

Arizona Revised Statutes (ARS) requires certain additional information be attached to the audit report to comply with ARS 9-956 as required to meet the requirements of the Arizona Annual "Report of Volunteer Fire Fighters Relief and Pension Fund". This information is included as other supplementary information.

There were no distributions for the 2010-2011 Fiscal year.



THIS PAGE
IS
DELIBERATELY LEFT BLANK

SUNSITES-PEARCE FIRE DISTRICT
GOVERNMENT AUDIT STANDARDS SECTION
June 30, 2011



THIS PAGE
IS
DELIBERATELY LEFT BLANK

**SUNSITES -PEARCE FIRE DISTRICT
PEARCE, ARIZONA
TABLE OF CONTENTS
GOVERNMENT AUDIT STANDARDS SECTION
JUNE 30, 2011**

	<u>PAGE</u>
GOVERNMENT AUDIT STANDARDS SECTION TABLE OF CONTENTS	51
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>	53
Schedule of Findings and Questioned Costs	57



THIS PAGE
IS
DELIBERATELY LEFT BLANK

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

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*

Members of the Board
Sunsites-Pearce Fire District
Sunsites, Arizona

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunsites-Pearce Fire District, Sunsites, Arizona, 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 April 15, 2012. 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.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Those findings are 2011-01, 2011-02, 2011-03, 2011-04 and 2011-05.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider all of the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

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,



THIS PAGE
IS
DELIBERATELY LEFT BLANK

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-05 and 2011-06.

I noted certain other matters that I reported to management of the District in a separate letter dated April 15, 2012.

This report is intended solely for the information and use of management, the District Board, 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

James H. Saunders
Certified Public Accountant
Glendale, Arizona

April 15, 2012



THIS PAGE
IS
DELIBERATELY LEFT BLANK

SUNSITES-PEARCE FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-01

**Internal Control Deficiency over payroll
Legal Compliance Deficiency**

Condition :

We found that the payroll clerk is issuing paychecks without oversight by any other District personnel. The clerk was preparing operational paychecks based on time card information . The clerk failed to complete the required Federal or Arizona payroll reports and also failed to remit the withheld payroll taxes and matching employer taxes. This resulted in a liability to the Internal Revenue Service in excess of \$79,000 and subjected the District to significant fines and penalties.

Criteria:

Federal and Arizona law require certain payroll reports to be submitted on a timely basis and the related taxes paid.

Cause:

District administration failed to establish adequate and proper internal controls.

Effect:

Payroll clerk had unrestricted access to payroll disbursements without any supervision or accountability.

Questioned Costs:

Unknown

Recommendations :

Establish approval procedure for each pay period and require at least one supervisory signature prior to submission for payment. Require supervisory verification of payroll tax deposits and maintain records substantiating the timely deposit of payroll taxes.

SUNSITES-PEARCE FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-02

Internal Control Deficiency over general ledger

Condition:

We found that the accounting clerk made a fictitious entry into the general ledger in the amount of \$123,812.04. This entry overstated District tax revenues and also overstated the bank balance by that amount. This error was not discovered within a reasonable time period and was only found after a change in accounting personnel.

Criteria:

Entries in the accounting records are required to be accurate. False entries may violate Arizona Revised Statutes 13-2407 pertaining to recording false information in government records.

Cause:

District administration failed to establish adequate and proper internal controls.

Effect:

The accounting clerk had unrestricted access to the general ledger without any supervision or accountability.

Questioned Costs:

Unknown

Recommendations:

Establish approval procedure for recording accounting information. Require supervisory approval for journal entries.

SUNSITES-PEARCE FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-03

Internal Control Deficiency over cash

Condition :

We found that the accounting clerk failed to properly reconcile the bank accounts. This error was not discovered within a reasonable time period and was only found after a change in accounting personnel.

Criteria:

Timely reconciliation of all bank accounts is a basic and essential component of any system of internal control over the accounting system of the District.

Cause:

District administration failed to establish adequate and proper internal controls.

Effect:

The accounting clerk had unrestricted access to the general ledger without any supervision or accountability.

Questioned Costs:

Unknown

Recommendations :

Establish approval procedure for recording accounting information. Establish procedures for bank reconciliations and require supervisory approval of the reconciliations.

SUNSITES -PEARCE FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-04

Internal Control Deficiency over expenditures

Condition :

Out of twenty invoices tested we found three were missing. This implies that a 15% rate of missing invoices may exist. We also located an invoice for \$22,000.00 for the purchase of two used ambulances was not recorded in the accounting records. We found expenditures in the amount of \$91,404.33 which were paid by the County Treasurer but had little or no explanation in the accounting records of the District.

These errors were not discovered within a reasonable time period and were only discovered after a change in accounting personnel and during our audit field work.

Criteria:

Accurate accounting information is required by statute to be maintained. Failing to accurately record and maintain these records subjects possible misuse of District funds and possibly fines and penalties.

Cause:

District administration failed to establish adequate and proper internal controls.

Effect:

The accounting clerk lacked proper training or supervision that is required to handle accounting duties. The District failed to properly supervise personnel assigned to administration

Questioned Costs:

Unknown

Recommendations :

Establish approval procedure for recording accounting information. Establish procedures for supervisory approval of the accounting records .

SUNSITES-PEARCE FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-05

**Internal Control Deficiency over personnel records
Compliance with Laws & Regulations Deficiency**

Condition:

We checked three personnel files. We found that none of the files contained a Federal I-9 form, proof of the Arizona New Hire Notification, or proof of E-Verify as required by statutes. We found that two of the files failed to have an Arizona Oath of Office as required by ARS 38-231.

These errors were not discovered within a reasonable time period and were only discovered during our audit field work.

Criteria:

Certain payroll information is required by statute to be maintained. Failing to obtain and maintain these records subjects the District to significant fines and penalties.

Cause:

District administration failed to establish adequate and proper internal controls.

Effect:

The accounting clerk lacked proper training required to handle personnel administrative duties. The District failed to properly supervise personnel assigned to payroll administration

Questioned Costs:

Unknown

Recommendations :

Establish approval procedure for recording payroll information. Establish procedures for supervisory approval of the payroll records .

SUNSITES-PEARCE FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Finding 2011-06

Compliance with Laws & Regulations Deficiency

Condition :

The District failed to maintain copies of agenda's posted as notice of District Board meetings. The lack of copies prevented a comparison of the agenda's with the items discussed at the meetings. Verification of posting of the notices and proper disclosure of discussion items could not be verified. The result is that compliance with the open meeting laws of the State of Arizona was unable to be verified. Further the meetings are only recorded on electronic media. This precludes being able to rapidly locate a particular issue being discussed.

Criteria:

Compliance with Arizona Open Meeting Laws is required by statute. Also proper posting of agenda's is also required.

Cause:

District administration failed to establish adequate procedures for compliance.

Effect:

Determination of compliance with open meeting laws was not possible.

Questioned Costs:

None

Recommendations :

Establish approval procedure for posting of agenda's and retain copies as permanent records.