



Financial Statements
Year Ended June 30, 2011

**Central Yavapai Fire District
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Assurance
Professionals, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Central Yavapai Fire District
Prescott Valley, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of Central Yavapai Fire District (the 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. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit 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 presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and of each major fund of the Central Yavapai Fire District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 16 and the Budgetary Comparison Schedule on page 38 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Assurance Professionals, P.C.

October 31, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Required Supplementary Information)

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

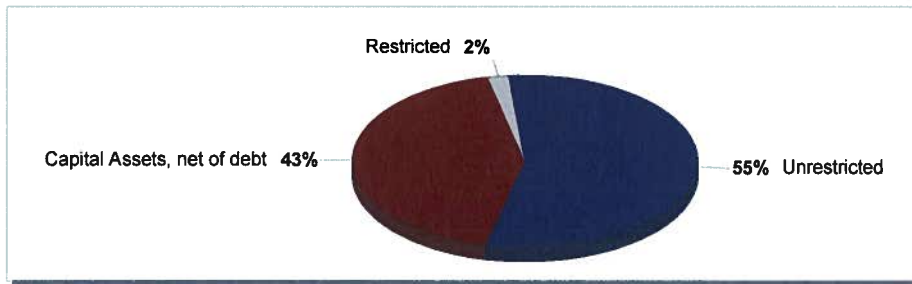
As management of the Central Yavapai Fire District (the District), we offer readers of these financial statements, this narrative overview, and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. This discussion and analysis is intended to be an easily readable breakdown of the District's financial activities based on currently known facts, decisions and conditions. Readers are encouraged to consider the information presented here in conjunction with the financial statements as a whole, which follow this narrative.

Financial Highlights

The following are the financial highlights of the District for the fiscal year:

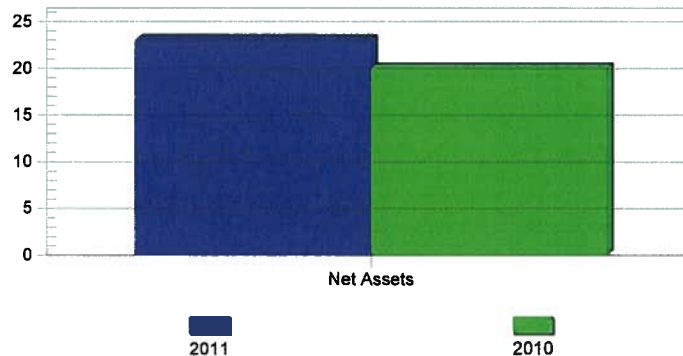
- In the government-wide financial statements, the assets of Central Yavapai Fire District exceeded its liabilities at the close of the fiscal year by \$22.7 million (net assets). Of this amount, \$12.5 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens, creditors and to further the purpose of the District.

Composition of Net Assets



- The District's total net assets increased by \$3.1 million, primarily due to increases in the governmental type activities, which includes both property tax and non-property tax sources, and debt reduction of \$650,000, as well as greater than expected charges for services and the ability of the District to minimize budgeted expenditures for personnel services, supplies, general services, capital outlay, and unspent contingency funds.

**Net Assets
(in millions)**



Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$17.3 million, an increase of \$0.1 million in comparison with the prior year. The Increase was largely due to payment of existing bond debt & remaining unspent funds. Approximately 25% of this total amount, or \$4.3 million, is available for spending at the District's discretion (unassigned); an additional \$8.3 million of the governmental fund balance has been committed for capital projects; and \$4.3 million of bond proceeds are restricted for capital projects; and \$400,000 is restricted for bond debt service.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4.3 million, or 37% of total General Fund expenditures, which totaled \$11.7 million for the fiscal year. As the District's annual budget includes a revenue stabilization amount, equal to 20% of total General Fund expenditures for the fiscal year, the unassigned fund balance was slightly higher than expected. However, as property values continue to decline, this unassigned balance is needed to ensure the District can continue its operations at the current level .
- The District's total debt decreased by \$650,000 (5%) during the current fiscal year. The key factor in this decrease was the repayment of scheduled principle on existing bond debt.
- At the onset of budget preparation for the year ended June 30, 2011, the District's elected board directed management to consider recommended budget reductions to personnel services, including acting pay, and to continue a wage freeze for the second fiscal year. Further, to reduce service & supply expenditures to meet the anticipated reduction of property tax revenues. They also requested that management provide them with estimated projections with regards to the tax levy impact on existing commercial and residential property owners within the Fire District boundaries.
- Significant capital asset additions for the fiscal year ended June 30, 2011 included: (i) the purchase of a water tender (apparatus), (ii) the purchase of an EMS electronic patient reporting system, (iii) the purchase of Life Pack's with a FEMA Grant, (iv) the construction of Fire Station 58 on Robert Road, the construction of the communications building, and the construction of the prop storage room/restroom building at the training center, and (v) the purchase of a staff vehicle for the communications department.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. These basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business. Consequently, the entity-wide presentation utilizes the accrual basis of accounting and consolidates all governmental funds of the District.

The **statement of net assets** presents information on all of the District's assets (resources available for future economic benefit) and liabilities (obligations to be paid in the future), with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 20 – 21 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Management establishes governmental funds based on the application of generally accepted accounting principles and the evaluation of applicable laws, regulations and reporting objectives.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term acquisition and use of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financial requirements. Thus, the emphasis is placed on measurable and available financial resources rather than on the net changes in assets.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual government funds: the General Fund, the Capital Projects Fund, the Capital Projects Bond Fund and the Debt Services Fund. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds, all of which are considered to be major funds of the District; the concept and determination of major funds has been established by the Governmental Accounting Standards Board (GASB). There are no non-major governmental funds.

The District adopts an annual appropriated budget to levy taxes and provide for its General Fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget and is presented on page 40.

The basic governmental fund financial statements can be found on pages 22 – 25 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the governments. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting for fiduciary funds is on the accrual basis of accounting much like that of business-type activities.

The fiduciary fund financial statements can be found on pages 26 – 27 of this report.

Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 28 – 38 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information, other than *Management's Discussion and Analysis*, concerning a comparison of the District's budget to actual revenues and expenditures, as described earlier.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of the District's financial condition. The assets of the District exceeded liabilities by \$22.7 million (net assets) as of June 30, 2011. The District's net assets increased by \$3.1 million for the fiscal year ended June 30, 2011.

By far, the largest portion of net assets, \$9.7 million or 43%, reflects the District's investment in capital assets (e.g. land, buildings, fire apparatus, and furniture and equipment), less any related debt still outstanding that was issued to acquire those items. The District uses these capital assets to provide services to citizens; consequently, these assets are *not available* for future spending. Although the District's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be liquidated to service these liabilities. Of the remaining net assets, totaling \$13.0 million, approximately \$.5 million is restricted to satisfy the bond debt and \$12.5 million is unrestricted, but may be used for apparatus purchases, future fire station property and construction costs, and to improve the quality of fire protection services within the District's boundaries.

At June 30, 2011, the Fire District had set aside \$8.3 million in the Capital Projects Fund. A portion of these funds have been committed to be used for further development of the District's fire training facility.

Additionally, the District has another \$4.3 million available in the Capital Projects Bond Fund which is legally restricted by debt covenants for the completion of the communications upgrade project, which will improve radio communications abilities throughout the District's boundaries, and to establish a microwave backbone for the District's information technology wide-area network, construction of an additional fire station, the purchase of land for future fire stations, as well as further fire training center development.

The District's \$20.0 million in capital assets consists of six fully staffed and four reserve fire stations which are strategically placed throughout the District's 160 square mile service area, as well as a large modern vehicle maintenance facility, a communications building, and the fully functional Fire Training Center with a 5-story burn tower, outside classroom, and large indoor classroom and CPAT building. The District maintains a fleet of over 50 fire apparatus and staff vehicles, all of which are in excellent condition. Additionally, the District has been building a new microwave communications system with several newly constructed communications towers placed throughout the District's boundaries. Lastly, the District is proud of its state-of-the art medical and firefighting equipment which is all well-maintained and provides its citizens an excellent level of care. The remaining assets consist mainly of cash and cash equivalents, investments and property taxes receivable which are used to meet the District's ongoing obligations to its citizens.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

The following table presents a comparative summary of the District's assets, liabilities and net assets for the current and preceding fiscal years.

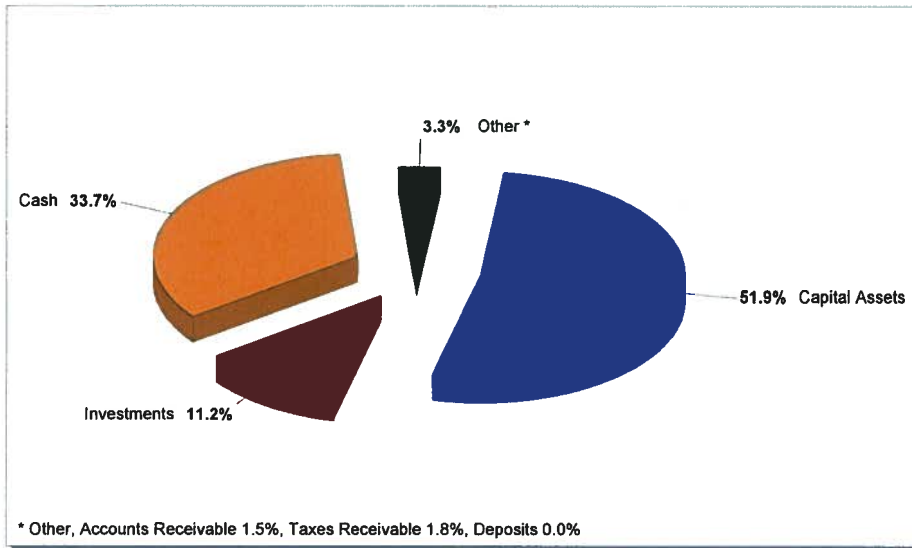
	Governmental Activities		% Chg
	2011	2010	
ASSETS			
Cash and investments	\$ 17,303,389	\$ 17,412,634	(0.6)%
Other assets	1,256,053	844,537	48.7 %
Capital assets, net	<u>20,029,047</u>	<u>17,765,247</u>	12.7 %
Total assets	<u>38,588,489</u>	<u>36,022,418</u>	7.1 %
LIABILITIES			
Accrued expenses	193,811	423,789	(54.3)%
Compensated absences	1,106,665	758,846	45.8 %
Bonds payable	<u>14,603,766</u>	<u>15,292,894</u>	(4.5)%
Total liabilities	<u>15,904,242</u>	<u>16,475,529</u>	(3.5)%
NET ASSETS			
Invested in capital assets, net of related debt	9,737,741	10,237,168	(4.9)%
Restricted for debt service	469,078	330,226	100.0 %
Unrestricted	<u>12,477,428</u>	<u>8,979,495</u>	39.0 %
Total Net Assets	<u>\$ 22,684,247</u>	<u>\$ 19,546,889</u>	16.1 %

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

The following charts highlight the significant assets and liabilities of the District.

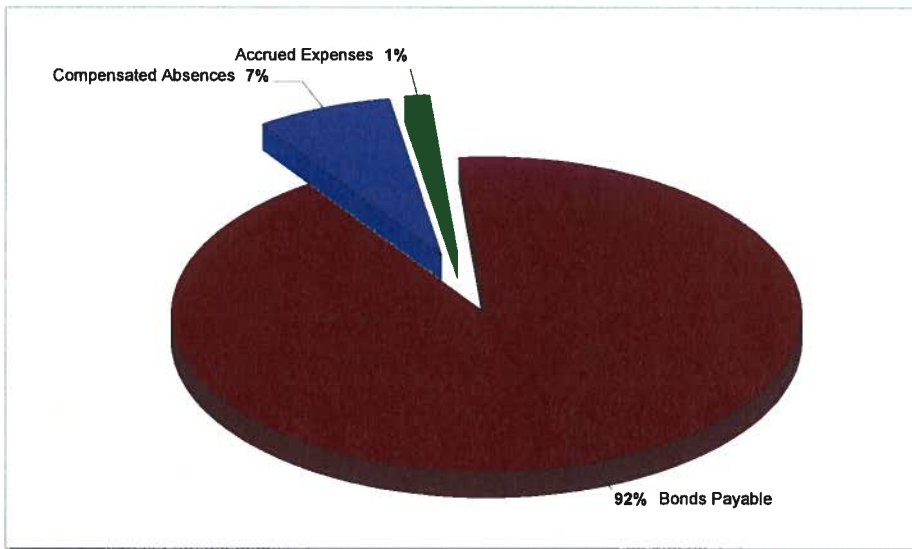
Assets

June 30, 2011



Liabilities

June 30, 2011



**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Governmental Activities - Governmental activities increased the District's net assets by \$3.1 million. Key elements of this increase are as follows:

- Total revenues increased \$1.2 million or 8.2% due to increases in charges for services (maintenance agreements) and an increase in property taxes collected (due to a decrease in delinquencies). Also, operating grants, capital grants, and contributions increased because of grant monies received from FEMA for the purchase of Life Pack's.
- The District acquired capital assets in the amount of \$2.3 million, which included: (i) the purchase of a water tender (apparatus), (ii) purchase of an EMS electronic patient reporting system, (iii) the purchase of Life Pack's with the FEMA grant, (iv) the construction of Fire Station 58 on Robert Road, the construction of the communications building, and the construction of the prop storage room/restroom building at the training center, and (v) the purchase of a staff vehicle for the communications department.
- Due to an increase in call volume, some operating expenses such as fuel, utilities, and medical supplies increased. In addition, the District saw ongoing increases in employee health insurance, workman's compensation insurance, and building maintenance supply expenses. Because of these increases, expenditures for the District as a whole increased by \$1.7 million or 15.0%, however, in spite of these increases, expenditures were managed and fell below budgeted expenditures, with savings in administration and support services, salaries and benefits, operations, services and supplies.

Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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

	<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>	<u>% Chg</u>
REVENUES			
Program Revenues:			
Charges for services	\$ 909,254	\$ 254,533	257.2 %
Operating grants and contributions	140,826	99,677	41.3 %
Capital grants and contributions	141,783	52,482	170.2 %
General revenues:			
Property Taxes	14,877,100	14,405,448	3.3 %
Fire District Assistance Tax	298,619	302,840	(1.4)%
Gain on sale of assets	-	5,604	- %
Investment earnings	<u>56,598</u>	<u>63,357</u>	(10.7)%
Total revenues	<u>16,424,180</u>	<u>15,183,941</u>	8.2 %
EXPENSES			
Public Safety:			
Fire safety and emergency services	9,448,654	8,401,599	12.5 %
Risk management services	531,722	527,032	0.9 %
Administrative and support services	1,686,670	1,707,548	(1.2)%
Depreciation on buildings and equipment	965,241	731,848	31.9 %
Interest on debt	<u>654,535</u>	<u>185,031</u>	253.7 %
Total expenses	<u>13,286,822</u>	<u>11,553,058</u>	15.0 %
Increase in net assets	<u>\$ 3,137,358</u>	<u>\$ 3,630,883</u>	(13.6)%

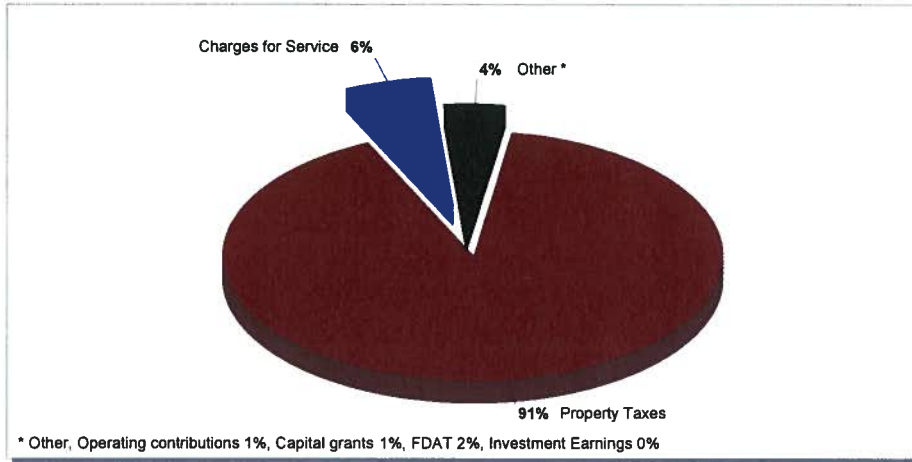
The cost of all governmental activities for the year ended June 30, 2011 was \$13.3 million. Property Taxes and Fire District Assistance Tax provided funding of \$15.2 million. Additional revenue was realized from interest in the amount of \$56,598.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

The following charts highlight the significant sources and uses of revenues and expenses, respectively.

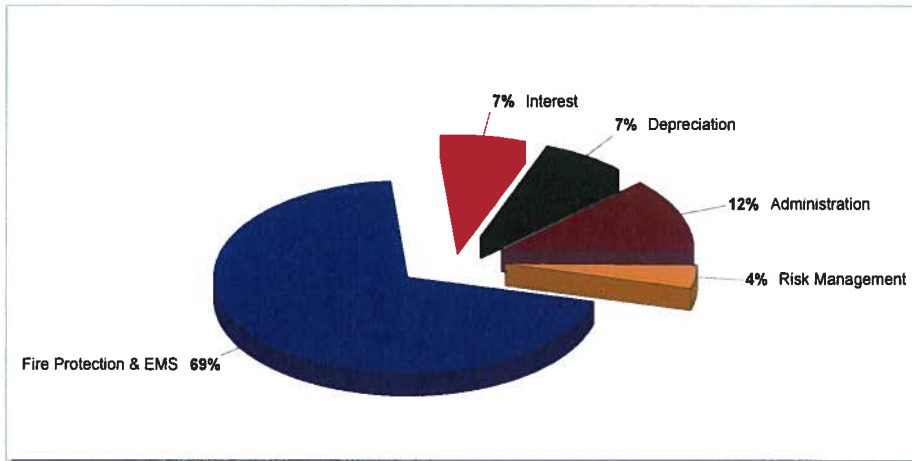
Revenues

Year Ended June 30, 2011



Expenses

Year Ended June 30, 2011



**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, *unassigned fund balances* can be a useful measure of a District's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4.3 million. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures.

The Capital Projects Fund accounts for the accumulation of resources for future construction costs for new and existing facilities and for the purchase of large fire apparatus. As of June 30, 2011, the ending fund balance in the Capital Projects Fund was \$8.3 million. During the District's long-term financial planning, it was determined that the unencumbered cash available at fiscal year-end (June 30, 2011) would remain in the General Fund and the excess amount would be transferred to the Capital Projects Fund for future capital development.

At June 30, 2011, the governmental funds of the District reported a combined fund balance of \$17.3 million, an increase from last year of \$0.1 million or 1%. The increase is primarily due to increases in maintenance agreements and charges for services. The General Fund decreased by approximately \$(0.5) million. The Capital Projects Fund increased by approximately \$3.3 million as a result of a transfer from the General Fund. The General Fund and the (unrestricted) Capital Projects Fund had a combined ending fund balance of \$12.6 million or 72.8% of the District's total governmental fund balance. Of this amount, \$4.3 million is classified as unassigned fund balance, which is available for spending at the District's discretion; and the remaining \$8.3 million of the combined fund balance is committed by the Fire Board for capital projects. The District issued \$11.2 million in bonds on February 2, 2005 (Bond A), all of these funds have been completely expended for the completion of the communications building; In addition, on September 5, 2008, the District issued approximately \$5.9 million on our second bond issuance (Bond B). Approximately \$4.3 million remains unspent and is reserved for the completion of the construction of Station 58 and the Warehouse & Restroom building at the training center.

Budgetary Highlights

During the current year, the District did not have any amendments to the originally adopted budget. However, the Governing Board did authorize transfers of budgeted expenditures within the General Fund in order to provide for NIMS-ICS training for CYFD employees.

Budgetary Comparison - General Fund

Revenues were only slightly higher than the budgeted amounts (by \$146,479 or 1%) primarily due to the increase in maintenance agreements and charges for services. The property tax delinquency rate for fiscal year ended June 30, 2011 was .6%. Additionally, the District took every opportunity to lower expenditures which resulted in expenditures coming in under budget. This resulted in a savings of \$4.3 million. Lastly, the District did not expend any of its contingency line item budgeted amount of \$2.6 million. This combination of additional revenues and expenditure savings allowed the District to comply with its long-term budgetary objectives. For additional information, see the budget to actual comparisons on page 40.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Capital Asset and Debt Administration

Capital Assets - The District's investment in capital assets for its governmental type activities as of June 30, 2011, totaled \$20.0 million (net of accumulated depreciation). These assets include land and improvements, buildings and improvements, fire apparatus and vehicles, and general fire suppression and emergency medical equipment, as well as information technology and communications equipment.

Major capital asset transactions during the year include the following:

- The purchase of an EMS electronic patient reporting system;
- Purchase of a water tender (apparatus), a staff vehicle, and Life Pack's (FEMA Grant);
- The construction of Fire Station 58 on Robert Road; the construction of the communications building; and the construction of the prop storage room/restroom building.

The District depreciates capital assets, except for land and construction in progress, consistent with generally accepted accounting principles, utilizing the straight-line depreciation method. The cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. Major outlays for capital assets and improvements are capitalized as projects are completed and placed into service. Additional information on the District's capital assets can be found in the notes to the basic financial statements on page 34.

Long-term Debt - The District continues to retire and manage debt to fund various capital projects which support program services. As of June 30, 2011, the District had total long-term debt outstanding of \$15,120,000, not including deferred amounts for the premium on the sale or costs of issuance, resulting directly from the issuance of the Series A (2005) bonds and Series B (2008) bonds. This debt currently requires annual debt service payments that consist of principal and interest of approximately \$1.4 million. All debt is backed by the full faith and credit of the District.

In August 2008, the District was notified that Standard & Poor's Ratings Services had assigned the District with a long-term rating of A+/Stable, as well as a financial management score of "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA score of "good" indicates that the District's finance department maintains adequate policies in key areas. Unlike many other organizations, the District's financial ratings have not been downgraded.

During the year ended June 30, 2009, the District authorized the issuance of \$6,005,000 in General Obligation Bonds, pursuant to a vote of qualified electors of the District held on November 2, 2004 and a resolution adopted by the District's Fire Board on August 11, 2008. The Official Statement, dated September 5, 2008, describes the issuance of the General Obligation Bonds, Project of 2004, Series B (2008) and the authorization, purpose, terms, conditions of sale and sources of payment of and security for the Bonds. However, even with the issuance of an additional \$6,005,000 in General Obligation Bonds, the District's overall net debt burden is reasonable at 1.9% of assessed valuation. Statutorily, Fire District's in Arizona have the ability to incur bond debt up to 6% of its assessed value.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Economic Factors and Next Year's Budgets and Rates

The financial outlook for the District is stable, however, there are future challenges, which are reflected by the following factors:

- Revenue-raising flexibility from the District's low tax rate relative to the maximum permitted for operations; Arizona Revised Statutes limit the amount the District can assess to \$3.25 per \$100 of secondary assessed value for its General Fund budget. However, the District has worked diligently to keep the tax rate as low as feasibly possible while providing quality public safety services. In fact, the District's fiscal year 2011 - 2012 tax rate is \$1.8573, which is one of the lowest when compared to like-sized fire districts state-wide. With the passage of Senate Bill 1421 fire districts are now limited to an 8% annual levy increase. As a result of the District's decrease in its Fiscal Year 2011 - 2012 levy the District now has a levy capacity of approximately 34.7%.
- Strong General Fund position, combined with additional revenue flexibility from the unrestricted Capital Projects Fund, which is committed by the Board to capital project purchases outlined in the 10-year Capital Replacement Schedule, and a low debt service burden are factors that are helping the District to remain financially stable.
- The District's long-standing progressive financial management philosophies and practices, which includes: their financial policies; 10-year capital improvement plan and long-term staffing plan that is reviewed by the Fire Board annually, with projects mapped by fiscal year and all funding sources identified; its five-year financial forecast which is balanced in all years and incorporates conservative assumptions, including additional staff, benefits and salary increases; providing the Fire Board with monthly budget updates and investment reports, and its Board-adopted policy of maintaining a General Fund revenue stabilization amount between 5% and 20%.
- Additionally, the District was unanimously awarded Accredited Agency Status by the Commission on Fire Accreditation International. The District is one of only 143 fire agencies worldwide that have earned this distinguished award, and one of only three fire districts in the State of Arizona. The District is due for its 5-year re-accreditation visit during fiscal year 2011 - 2012. The District also maintains an Insurance Services Office (ISO) grading of Class 5/8. This grading reduces the risk loss for property owners and helps keep fire insurance rates lower. The District is scheduled for a regrading within the next year and we anticipate our ISO grading to improve which would result in property owners saving additional money on their fire insurance premiums.

The District underwent a period of very robust growth and its secondary assessed valuation (AV) more than doubled from fiscal years 2006 through 2009 to \$901 million. In fact, between 2001 and 2008, the District averaged a 17.39% increase in AV. During fiscal year 2009 - 2010, concurrent with the slowing of the economy, the District's AV declined by 1%. For fiscal year 2010 - 2011, the District's assessed valuations decreased by 12%. Finally, it is expected that for fiscal year 2011 - 2012, the assessed values will decrease by 18%. Based on current real property market values and estimates provided by the Yavapai County Assessor's Office, the District anticipates a 20 percent decline in AV for fiscal year 2013 and an additional decline in fiscal year 2014. Arizona economists tell us that property values will most likely remain flat, at best, for the next three to five years. With Arizona's tax process, which includes a two year time lag, the District would not see any increases in assessed values until 2016. The District is cognizant of the future revenue declines which will challenge our financial position and, therefore, began addressing the issue in fiscal year 2009.

Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

During the year ended June 30, 2011, approximately 92.4% of the District's actual revenues were derived from real property and fire district assistance taxes. Consistent with national and regional trends, however, the local real estate market and residential development have slowed with the tightening of the credit markets and general downturn of the economy. Although commercial construction was initially unaffected, it began to be impacted in early 2009 with an excess supply of commercial property and commercial valuations and lease rates declining rapidly. The net affect of this is that the District will see a decline in commercial valuation in Fiscal Year's 2012 - 2014. The following factors are expected to play a role in the District's future property tax revenue outlook.

- In Arizona, there are a substantial number of foreclosures and short-sales in the residential housing market. While we estimate that the housing market is beginning to flatten, the supply/demand balance is not projected to equalize until approximately 2016. We expect to see declines in the assessed values within our District for the next two fiscal years, primarily because of the two year lag in assessed valuations. Further, the District's tax collection delinquency rate may be negatively impacted.
- The Arizona JLBC (Joint Legislative Budget Committee) and FAC (Finance Advisory Committee), whose membership includes 16 members from the Senate and House, as well as 15 economists and other financial experts, are tasked with making recommendations with regards to economic and revenue forecasts. The Four-Sector (FAC, UofA base, UofA low, JLBC) Consensus forecasts continuing declines with economic growth reaching bottom in the fiscal year 2011 - 2012 followed by a period of flat values, with gradual recovery beginning in 2016.
- The largest portion of the District's economic base is in the Prescott Valley area. Although in the past Prescott Valley's unemployment rate has been at or below the state and national average, it is currently higher than the state and national average, largely due to the loss of construction based jobs. In August 2011, Yavapai County had an unemployment rate of 10.7% and the Arizona state rate was at 9.4%. Also, Yavapai County's median household effective buying income is \$40,837, which is adequate at 83.8% of the state average.

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with the District's Mission Statement, Strategic Plan, International Accreditation recommendations, long-term Capital Acquisition and Replacement Schedule, long-term staffing plan, and short and long-term goals and objectives. The following are the major assumptions used in developing the fiscal year 2011-2012 budget:

- The District's assessed value, the basis of property tax revenues, declined by 18 percent or \$145 million. Although the District decreased the tax levy amount by \$1.3 million, because of the 18 percent decline in assessed values, the District's tax rate increased to \$1.8573 per \$100 of secondary assessed value.

As part of the annual budget process, the District Board considers the impact of the projected levy on the average homeowner. For Fiscal Year 2008 - 2009 the average homeowner paid \$335 for District tax; Fiscal Year 2009 - 2010 the average homeowner paid \$319 for District tax; and for Fiscal Year 2010 - 2011, the average homeowner paid \$315 for District tax; and for fiscal year 2011 - 2012, the average homeowner will pay \$290 for District tax.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

- Through its long-term financial planning process, the District has remained cognizant of the upcoming fiscal challenges and has been highly involved with addressing these issues in a proactive fashion. In fiscal year 2010 and 2011, all employees and Board members were updated on a regular basis with regards to the economy and budget projections. District employees worked to consistently address financial conservation measures, such as utility cost reductions and fuel reductions, as well as curbing or delaying all but essential purchases, the District was able to carryover \$3.1 million to fiscal year 2012.
- The District increased its budgeted capital outlay expenditures by \$814,085 to purchase essential capital items. Of this amount, \$515,720 is projected to be funded through grants. The planned capital purchases include a Type III wildland engine, a simulation manikin, and backup generators/TIC's. If the grants are not received, the Type III wildland engine will be purchased using committed capital project funds. However, the simulation manikin and the backup generators/TIC's will not be purchased if the grants are not received.
- The District's pension system for its public safety employees (PSPRS) remained the same as the previous year with the employer contribution rate at 19%. State-wide, Arizona employer contribution rates have increased over the last several fiscal years. This is a result of the very significant declines in funding ratios of the PSPRS administered Plans over the same time period. Those funding ratio declines are, in turn, the direct result of the very large asset value losses that the Plans have sustained. To date, these losses have not been fully reflected in the Plans' respective actuarial value of assets, since the PSPRS Board uses a seven year averaging method to determine each Plan's actuarial value of assets at fiscal year end. PSPRS had felt that in the short-term, the Plans would generate actual rates of return on invested assets that were significantly better than the 8.5% actuarial assumed rate of return, and then the rate of escalation in employer contributions in the future would moderate. Additionally, as a result of continued asset value losses, the pattern of eroding funding ratios and large year-over-year employer contribution rate increases will continue. Therefore, the financial condition of the Plans could require further action and, perhaps, further legislative changes. In July 2011, the employee contribution rate increased from 7.65% to 8.65; with future increases expected as follows: July 1, 2012 to 9.55%; July 1, 2013 to 10.35%; July 1, 2014 to 11.05%; and July 1, 2015 to \$11.65%.
- Salaries will remain frozen for fiscal Year 2011 - 2012 and are expected to be frozen again in fiscal year 2012 - 2013, with a temporary suspension in COLA's, merit increases, and longevity increases. Acting Supervisory Assignment pay has been modified to significantly reduce this cost.

Other expenditure reductions have included training and travel, protective clothing, uniforms, other professional services, and computer supplies for fiscal year 2011 - 2012.
- Due to significant decreases in the District's assessed valuations, it is anticipated that the revenue stabilization account will be decreased to 15% for fiscal year 2012 - 2013.

The budgeted expenditures for the year ended June 30, 2012 are \$16.1 million for the General Fund with another \$0.7 million to be expended from the capital project bond funds and \$735,000 to be provided for retirement of debt. Due to the decrease in net assessed property valuations as set by the Yavapai County Assessor's Office, and the reduction of the tax levy requirement due to the carryover of \$3,150,000, this operating budget will result in a 10.3% decrease in the property tax levy.

**Central Yavapai Fire District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Request for Information

The District's financial statements are designed to present users (citizens, taxpayers, government entities and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. As always, we appreciate your feedback. We take your responses seriously. Please keep your ideas coming – both favorable and critical. If you have any questions about this report or need additional financial information, please contact the District's Assistant Chief of Administration at (928) 772-7711. Copies of the District's annual financial reports can be obtained from the administrative office located at 8555 E Yavapai Road, Prescott Valley, Arizona 86314.



BASIC FINANCIAL STATEMENTS

**Central Yavapai Fire District
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 12,990,929
Investments	4,312,460
Accounts receivable, net	578,593
Taxes receivable	677,460
Capital assets:	
Non-depreciable	4,447,326
Depreciable (net)	<u>15,581,721</u>
Total assets	<u>38,588,489</u>
LIABILITIES	
Accounts payable	100,101
Accrued payroll and related liabilities	93,710
Long-term liabilities:	
Due within one year	735,000
Due in more than one year	<u>14,975,431</u>
Total liabilities	<u>15,904,242</u>
NET ASSETS	
Invested in capital assets, net of related debt	9,737,741
Restricted for:	
Debt service	469,078
Unrestricted	<u>12,477,428</u>
Total net assets	<u>\$ 22,684,247</u>

The notes to the financial statements are an integral part of this statement.

**Central Yavapai Fire District
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

	<u>Governmental Activities</u>
EXPENSES	
Public safety, fire protection and emergency services:	
Fire safety and emergency services	\$ 9,448,654
Risk management services	531,722
Administrative and support services	1,686,670
Depreciation	965,241
Interest	<u>654,535</u>
Total program expenses	<u>13,286,822</u>
PROGRAM REVENUES	
Charges for services	909,254
Operating grants and contributions	140,826
Capital grants and contributions	<u>141,783</u>
Total program revenues	<u>1,191,863</u>
Net program expenses	<u>12,094,959</u>
GENERAL REVENUES	
Property taxes	14,877,100
Fire district assistance tax	298,619
Investment earnings	<u>56,598</u>
Total general revenues	<u>15,232,317</u>
Increase in net assets	3,137,358
Net assets – beginning	<u>19,546,889</u>
Net assets – ending	<u>\$ 22,684,247</u>

The notes to the financial statements are an integral part of this statement.

**Central Yavapai Fire District
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Projects Bond Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 4,241,559	\$ 8,347,638	\$ -	\$ 401,732	\$ 12,990,929
Investments	-	-	4,312,460	-	4,312,460
Accounts receivable, net	578,593	-	-	-	578,593
Taxes receivable	<u>610,114</u>	<u>-</u>	<u>-</u>	<u>67,346</u>	<u>677,460</u>
 Total assets	 <u>\$ 5,430,266</u>	 <u>\$ 8,347,638</u>	 <u>\$ 4,312,460</u>	 <u>\$ 469,078</u>	 <u>\$ 18,559,442</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 61,353	\$ -	\$ 38,748	\$ -	\$ 100,101
Accrued payroll	93,710	-	-	-	93,710
Deferred revenues	565,234	-	-	-	565,234
Deferred taxes	<u>445,272</u>	<u>-</u>	<u>-</u>	<u>49,159</u>	<u>494,431</u>
 Total liabilities	 <u>1,165,569</u>	 <u>-</u>	 <u>38,748</u>	 <u>49,159</u>	 <u>1,253,476</u>
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	-	-	4,273,712	419,919	4,693,631
Committed	-	8,347,638	-	-	8,347,638
Assigned	-	-	-	-	-
Unassigned	<u>4,264,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,264,697</u>
 Total fund balances	 <u>4,264,697</u>	 <u>8,347,638</u>	 <u>4,273,712</u>	 <u>419,919</u>	 <u>17,305,966</u>
 Total liabilities and fund balances	 <u>\$ 5,430,266</u>	 <u>\$ 8,347,638</u>	 <u>\$ 4,312,460</u>	 <u>\$ 469,078</u>	 <u>\$ 18,559,442</u>

The notes to the financial statements are an integral part of this statement.

Central Yavapai Fire District
RECONCILIATION OF THE GOVERNMENTAL FUNDS – BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Fund balances - total governmental funds		\$ 17,305,966
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		20,029,047
Receivables which are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds balance sheet.		1,059,665
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet, specifically:		
Bonds payable	\$ (14,603,766)	
Compensated absences	<u>(1,106,665)</u>	
		<u>(15,710,431)</u>
Net assets of governmental activities		<u>\$ 22,684,247</u>

The notes to the financial statements are an integral part of this statement.

Central Yavapai Fire District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	General Fund	Capital Projects Fund	Capital Projects Bond Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 13,327,259	\$ -	\$ -	\$ 1,467,482	\$ 14,794,741
Fire district assistance taxes	298,619	-	-	-	298,619
Charges for services	380,697	-	-	-	380,697
Maintenance agreements	81,671	-	-	-	81,671
Intergovernmental	259,702	-	-	-	259,702
Licenses, permits and other fees	14,636	-	-	-	14,636
Rents	33,414	-	-	-	33,414
Interest income	21,261	23,400	8,892	3,045	56,598
Other revenue	23,387	-	-	-	23,387
Total revenues	<u>14,440,646</u>	<u>23,400</u>	<u>8,892</u>	<u>1,470,527</u>	<u>15,943,465</u>
EXPENDITURES					
Current:					
Public safety, fire protection:					
Fire safety and emergency services	8,938,700	-	-	-	8,938,700
Risk management services	531,722	-	-	-	531,722
Administrative and support services	1,686,670	-	-	-	1,686,670
Debt service:					
Principal	-	-	-	650,000	650,000
Interest	-	-	-	693,663	693,663
Capital outlay	541,181	-	2,849,995	-	3,391,176
Total expenditures	<u>11,698,273</u>	<u>-</u>	<u>2,849,995</u>	<u>1,343,663</u>	<u>15,891,931</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>2,742,373</u>	<u>23,400</u>	<u>(2,841,103)</u>	<u>126,864</u>	<u>51,534</u>
OTHER FINANCING SOURCES/(USES)					
Transfers in	-	3,227,413	-	-	3,227,413
Transfers out	(3,227,413)	-	-	-	(3,227,413)
Proceeds from debt	-	-	-	-	-
Cost of Issuance	-	-	-	-	-
Total other financing sources/(uses)	<u>(3,227,413)</u>	<u>3,227,413</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(485,040)	3,250,813	(2,841,103)	126,864	51,534
Fund balances – beginning	<u>4,749,737</u>	<u>5,096,825</u>	<u>7,114,815</u>	<u>293,055</u>	<u>17,254,432</u>
Fund balances – ending	<u>\$ 4,264,697</u>	<u>\$ 8,347,638</u>	<u>\$ 4,273,712</u>	<u>\$ 419,919</u>	<u>\$ 17,305,966</u>

The notes to the financial statements are an integral part of this statement.

Central Yavapai Fire District
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$ 51,534
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense and allocate those costs over the lives of the assets and losses on the disposal of capital assets as expenditures. This is the amount by which capital outlays recorded exceeded losses on disposals in the current period.	3,583,479
Governmental funds report costs associated with financing activities as expenditures while governmental activities report capitalize and allocate those costs over the term of the debt as an adjustment to interest expense.	(39,128)
Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources	(720,060)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds until available. This is the amount by which revenues reported in the statement of activities varied from those amounts received and reported as current financial resources in the governmental funds.	82,359
Repayment of the principal of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	650,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds, specifically:	
Compensated absences	(509,954)
Deferred charges (premium and costs on issuance)	<u>39,128</u>
Change in net assets of governmental activities	<u>\$ 3,137,358</u>

The notes to the financial statements are an integral part of this statement.

Central Yavapai Fire District
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011

	<u>Pension Trust Fund</u>
ASSETS	
Cash	\$ 14,244
Investment, fair value	<u>435,740</u>
 Total assets	 <u>\$ 449,984</u>
 NET ASSETS	
Held in trust for pension benefits	 <u>\$ 449,984</u>

The notes to the financial statements are an integral part of this statement.

Central Yavapai Fire District
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	\$ 8,450
Employee	8,450
Premium tax	199
Investment earnings	13,423
Total additions	30,522
DEDUCTIONS	
Benefits paid	21,674
Total deductions	21,674
Change in net assets	8,848
Net assets – beginning (as restated)	441,136
Net Assets – ending	\$ 449,984

The notes to the financial statements are an integral part of this statement.

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Central Yavapai Fire District (the District) conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the District's more significant accounting policies follows:

A. Reporting Entity

The District, established in 1965 pursuant to Arizona Revised Statute Title 48, is a special purpose local government that is governed by an elected governing body, a legally separate entity, and is fiscally independent of other state and local governments. As required under generally accepted accounting principles, these financial statements present the activities of the District (a primary government) and its component units. Component units are legally separate entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the District's operations. The District has no discretely presented or blended component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from the 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 customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment (e.g. special assessments). Taxes and other revenues not included among program revenues are reported instead as general revenues.

Government Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the District implemented Government Accounting Standards Board Statement No. 54 (GASB 54), "*Fund Balance Reporting and Governmental Fund Type Definitions*." The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity Section of this footnote.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Special assessments are recognized as revenues in the year for which the related capital projects are substantially complete. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

User fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and thus, have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

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 general government, except those required to be accounted for in another fund.

The *Capital Project Fund* is used to account for board designated monies transferred from the *General Fund* and expended for the construction of buildings and improvements as well as for the acquisition of apparatus and major equipment for use by the District.

The *Bond Capital Project Fund* is used to account for bond proceeds received, restricted to, and expended for, the acquisition of land, construction of buildings and improvements as well as for the purchase of apparatus and major equipment for use by the District.

The *Debt Service Fund* is used to account for the legally restricted tax levies of the District which are used to meet the ongoing debt service requirements.

Additionally, the District reports the following fund type:

Fiduciary Fund - Pension Trust Fund accounts for assets held by the District on behalf of others and includes the Volunteer Firefighter Pension Trust Fund monies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Arizona Revised Statutes authorize special districts to invest public monies in the Arizona State Treasurer's local government investment pool, interest bearing savings accounts, certificates of deposit, United States Treasury Bills, Notes or Bonds which have a maturity date of not more than one year, and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral.

E. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

All program service receivables are shown net of an allowances for uncollectable amounts. However, at June 30, 2011, no allowance was made for uncollectable receivables as management expects all receivables to be fully collectable.

The District levies real property taxes on or before the third Monday in August. Such levies, collected by Yavapai County, become due and payable in two equal installments; the first is due on the first day of October and the second is due on the first day of March in the subsequent year. There is no allowance for uncollectibles on taxes receivables as the District has a subordinated lien on all properties subject to the tax.

In July 2009, the State of Arizona finalized Senate Bill 1421 (during the 2009 Legislative Session) which created a tax levy limitation for fire districts based. This limitation, which is based on the fiscal year July 1, 2008 through June 30, 2009, restricts the levy increase to 8% per year, in the aggregate from the base year, plus any annexations which occur during the year.

F. Prepaid items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items in both the government-wide and fund financial statements.

G. Restricted assets

Certain proceeds of the District's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

H. Bond Premium and Issuance Costs

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Amortization expense for the bond issuance costs in the current year was \$15,978, while the bond premium amortized in the current year was \$55,106.

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

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. Capital assets

The District's capital assets, which include land, buildings and related improvements, furniture, vehicles, equipment, and construction in progress are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost greater than the established threshold and an estimated useful life in excess of one year.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Type of asset</u>	<u>Threshold</u>	<u>Years</u>
Buildings	\$5,000	35 - 40
Improvements, other than building	\$5,000	35 - 40
Furniture, vehicles and equipment	\$5,000	3 - 25

J. Compensated absences

Compensated absences are accrued and reported as liabilities in the government-wide financial statements. Governmental funds report only the current portion of compensated absences payable as a result of employee termination, resignation or retirement.

K. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets and balance sheet.

L. Fund equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes determined by formal action of the District's decision making authority (the governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance - amounts that are constrained by the District' intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or an official designated for that purpose.

Unassigned fund balance - the residual classification for the District's General Fund that includes amounts not contained in other classifications.

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

M. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period; the period of availability for the District is 60 days. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

N. Intergovernmental grants and aid

Monies received from other government agencies in the form of grants or aid based on an entitlement period are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

O. Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual amounts may differ from such estimates.

P. Budgetary accounting

The District is required, under Arizona Revised Statutes, to adopt a budget each fiscal year and to submit it to the county board of supervisors no later than the first day of August each year. The adopted budget is on the modified accrual basis of accounting, which is the legally acceptable basis for budgetary purposes.

All annual appropriations lapse at fiscal year end. The District is subject to expenditure limitations under Arizona Revised Statutes. This law does not permit the District to incur unsecured debt in excess of property taxes levied and to be collected plus available and unencumbered cash. The limitation is applied to the total of the combined funds.

NOTE 2 – CASH AND INVESTMENTS

Arizona Revised Statutes require all monies to be levied by the District to be collected and held by the Yavapai County Treasurer's Office and pooled with other local governments for investment. Monies received by the District as part of services, contributions or from the issuance of long-term debt are also deposited with the Yavapai County Treasurer.

Credit Risk. State law generally limits local government deposits and investments to the Yavapai County Treasurer's Local Government Investment Pool (LGIP); interest bearing savings accounts, certificates of deposit; United States Treasury Bills, notes or bonds which have a maturity date of not more than one year and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral. The Yavapai County Treasurer's Investment Pool (YCTIP) is an external investment pool with no regulatory oversight. The YCTIP is not registered, nor is required to register, with the Securities and Exchange Commission. As of June 30, 2011, the YCTIP had not received a credit quality rating from a national rating agency.

Custodial Credit Risk - Deposits. The District's investment in the Yavapai County Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the District's allocation is not identified with any specific investments and is not subject to custodial credit risk.

Cash and cash equivalents – As of June 30, 2011, all of the District's cash and cash equivalents were deposited in the Yavapai County Treasurer's Local Government Investment Pool; the carrying amount of cash in their governmental funds was \$12,990,929; the carrying amount of cash in the District's fiduciary fund was \$14,244.

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Investments – The District's investments as of June 30, 2011 were as follows:

	<u>Rating</u>	<u>Agency</u>	<u>Maturities</u>	<u>Fair Value</u>
Yavapai County Treasurer's Investment Pool	N/A	N/A	< 1 year	\$ 4,312,460
Oppenheimer U.S. Governments Bond Fund	Unknown		< 1 year	<u>435,740</u>
				<u>\$ 4,748,200</u>

The District does not have a formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, or interest rate risk for deposits and investments.

NOTE 3 – RECEIVABLES

Receivables as of June 30, 2011, including the applicable allowances for uncollectable accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Property taxes	\$ 610,114	\$ 67,346	677,460
Program services	<u>578,593</u>	<u>-</u>	<u>578,593</u>
Gross receivables	1,188,707	67,346	1,256,053
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 1,188,707</u>	<u>\$ 67,346</u>	<u>\$ 1,256,053</u>

NOTE 4 – DEFERRED REVENUE

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2011, deferred revenue consisted of the following:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Deferred revenues (not received within 60 days)	\$ 1,010,506	\$ 49,159	\$ 1,059,665
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred/unearned revenues	<u>\$ 1,010,506</u>	<u>\$ 49,159</u>	<u>\$ 1,059,665</u>

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Reclass	Decreases	Ending Balance
Governmental Activities:					
Land, not depreciated	\$ 2,782,246	\$ -	\$ -	\$ -	\$ 2,782,246
Construction in progress, not depreciated	1,376,642	1,222,998	-	(934,560)	1,665,080
Buildings and improvements	8,931,223	1,669,359	1,929,136	105,194	12,634,912
Furniture, vehicles and equipment	<u>10,210,786</u>	<u>336,684</u>	<u>(1,929,136)</u>	<u>-</u>	<u>8,618,334</u>
Total capital assets	<u>23,300,897</u>	<u>3,229,041</u>	<u>-</u>	<u>(829,366)</u>	<u>25,700,572</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,768,660)	(281,214)	(616,269)	-	(2,666,143)
Furniture, vehicles and equipment	<u>(3,766,990)</u>	<u>(438,746)</u>	<u>616,269</u>	<u>584,085</u>	<u>(3,005,382)</u>
Total accumulated depreciation	<u>(5,535,650)</u>	<u>(719,960)</u>	<u>-</u>	<u>584,085</u>	<u>(5,671,525)</u>
Total capital assets, net	<u>\$ 17,765,247</u>	<u>\$ 2,509,081</u>	<u>\$ -</u>	<u>\$ (245,281)</u>	<u>\$ 20,029,047</u>

Certain reclassifications were made during the year ended June 30, 2011 as part of identifying assets for depreciation in aggregation as they are integral to buildings and facilities. Depreciation expense for the period was \$719,960; all depreciation was expensed to the public safety function.

NOTE 6 – LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds Series A (2005)	\$ 9,260,000	\$ -	\$ (475,000)	\$ 8,785,000	\$ 500,000
General Obligation Bonds Series B (2008)	\$ 5,775,000	\$ -	\$ (175,000)	\$ 5,600,000	\$ 235,000
Premiums/deferred charges:					
Premium on issuance, net	449,652	-	(55,106)	394,546	-
Deferred charges, net	<u>(191,758)</u>	<u>-</u>	<u>15,978</u>	<u>(175,780)</u>	<u>-</u>
Total bonds payable	15,292,894	-	(689,128)	14,603,766	735,000
Compensated absences	<u>758,846</u>	<u>347,819</u>	<u>-</u>	<u>1,106,665</u>	<u>-</u>
Total long-term liabilities	<u>\$ 16,051,740</u>	<u>\$ 347,819</u>	<u>\$ (689,128)</u>	<u>\$ 15,710,431</u>	<u>\$ 735,000</u>

**Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

A. General Obligation Bonds

Series A (2005): The District, pursuant to a special bond election, received voter approval to issue up to \$17,220,000 in general obligation debt to construct a training facility, construct and improve fire stations and purchase apparatus. The Series 2005A General Obligation Bonds were issued by the District in the aggregate amount of \$11,215,000; interest rates from 2.25% to 4.30%; maturing August 1, 2005 through August 1, 2024; principal outstanding at June 30, 2011 totaled \$8,785,000.

Series B (2008): The District issued an additional \$6,005,000 in general obligation bonds to continue construction on the training facility, construct and improve additional fire stations and purchase apparatus. The Series 2008B General Obligation Bonds carry interest rates from 2.00% to 4.40%; maturing July 1, 2009 through July 1, 2028; principle outstanding at June 30, 2011 totaled \$5,600,000

Annual debt service requirements to maturity on the general obligation bonds as of June 30, 2011, are as follows:

Year ended June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 735,000	\$ 686,663
2013	765,000	653,513
2014	805,000	620,113
2015	840,000	582,513
2016	880,000	515,663
2017 – 2021	5,045,000	1,926,995
2022 – 2026	4,435,000	697,734
2027 – 2029	880,000	59,850
Total	<u>\$ 14,385,000</u>	<u>\$ 5,743,044</u>

B. Compensated absences

All full-time employees of the District are allotted vacation leave on their anniversary date based on the amount stated in policy determined by their years of service. Upon separation from the District, accrued vacation is paid out based on the District's policy.

Additionally, full-time employees receive an allotment of sick leave hours monthly, to be used throughout the year. Any unused allotments are accrued and carried forward to subsequent years. Upon separation from the District, accrued sick leave is paid out according to the District's policy which requires ten years of service and over eighty-nine days of accrued sick leave.

NOTE 7 – COMMITMENTS OF FUND BALANCE

The District has adopted a policy whereby it will transfer a portion of cash held in the general fund, which is available and unencumbered at year end, to the capital projects fund to provide for future planned acquisitions of apparatus, vehicles, buildings and improvements. Such transfers are not restricted by statute and can be transferred back to the general fund if needed.

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – INTERFUND TRANSFERS

	General Fund	Capital Projects Fund	Total
Transfers in	\$ -	\$ 3,227,413	\$ 3,227,413
Transfers out	3,227,413	-	3,227,413
	<u>\$ 3,227,413</u>	<u>\$ 3,227,413</u>	<u>\$ -</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Inter-governmental agreements and indemnifications

The District is party to a variety of inter-governmental agreements entered into in the ordinary course of business pursuant to which it may be obligated to provide services outside of its geographic boundaries and/or receive assistance from other parties. As part of these agreements, the District is obligated to indemnify other parties for certain liabilities that arise out of, or relate to, the subject matter of the agreements.

B. Risk management

The District is contingently liable for claims and judgments resulting from lawsuits incidental to normal operations. In the opinion of the District's management, adverse decisions that might result, to the extent not covered by insurance, would not have a material effect on the financial statements. No provision has been made in the financial statements for possible losses of this nature.

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS

The District contributes to multiple plans as described below. Benefits related to deferred compensation plans as described under section C are based on contributions to the plan. For non - public safety personnel participating in the *Arizona State Retirement System* and public safety personnel participating in the *Public Safety Personnel Retirement System*, state statute regulates retirement, death, long-term disability, and survivor insurance premium benefits.

A. Arizona State Retirement System

Plan Description: The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the District. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 28, Chapter 5, Article 2.

Funding Policy: For the year ended June 30, 2011, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent retirement and 0.25 percent long-term disability) of the members' annual covered payroll. The District's contributions to ASRS for the years ended June 30, 2011, 2010 and 2009 were \$98,264, \$83,423 and \$66,117, respectively, which were equal to the required contributions for the year.

The plan issues a publicly available financial report that includes its financial statements and required supplementary information. Reports may be obtained by writing or calling: Arizona State Retirement System, 3300 N. Central Avenue, Phoenix, Arizona 85012, (602) 240-2000.

**Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

B. Public Safety Personnel Retirement System

Plan Description: The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned to hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five member board, known as the Fund Manager, and 162 local boards, according to the provisions of ARS Title 38, Chapter 5, Article 4. Reports may be obtained by writing or calling: Public Safety Personnel Retirement System, 3010 E. Camelback Road #200, Phoenix, Arizona 85016, (602) 255-5575.

Funding Policy: For the year ended June 30, 2011, PSPRS members were required by statute to contribute 7.65% of their annual covered compensation, and the District was required to contribute at the actuarially determined rate of 19.14%.

Contributions from other entities: Proceeds from the annual tax collected by the State of Arizona on fire insurance premiums are contributed to PSPRS and reallocated to participants based on actuarial estimates. For the year ended June 30, 2010 (current year is not available), the amount credited to the District's plan, and included in the annual pension cost as described below, totaled \$140,763

Annual Pension Cost: For the year ended June 30, 2011, the District's annual pension cost of \$786,834 for PSPRS was equal to the District's required contribution and actual amount contributed. The District's actuarial assumptions for the pension fire personnel for the year ended June 30, 2010, the most recent available actuarial valuation, and related information follow.

Contribution rates	
Plan members	7.65 %
District	19.14 %
Actuarial cost method	Projected Unit Cost
Investment rate of return	8.50 %
Projected salary increases *	5.50 % - 8.5 %
* Includes inflation at	5.50 %
Amortization method	Level percent-of-pay closed
Remaining amortization period	26 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value

Three year trend information for PSPRS: The information for the agent plan was obtained from the three most recent actuarial valuations.

Year ended June 30,	APC	Percentage of APC Contributed	Net pension Obligation
2010	\$ 1,060,830	100%	\$ -
2009	1,284,774	100%	-
2008	817,641	100%	-

Central Yavapai Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Funding progress: The information for the analysis of funding progress was obtained from the three most recent actuarial valuations.

Valuation date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (Excess)	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
2010	\$ 20,377,774	\$ 27,641,254	\$ 7,263,480	74 %	\$ 5,349,854	136 %
2009	18,700,854	26,333,833	7,632,979	71 %	5,545,571	138 %
2008	16,413,811	23,775,517	7,361,706	69 %	5,405,064	136 %

Funding progress (post-retirement health insurance subsidy only): The information for the analysis of funding progress was obtained from the three most recent actuarial valuations.

Valuation date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
2010	\$ -	\$ 700,186	\$ 700,186	- %	\$ 5,349,854	13 %
2009	-	659,032	\$ 659,032	- %	5,545,571	12 %
2008	-	718,799	718,799	- %	5,405,064	13 %

In accordance with GASB 45, assets within the PSPRS plan are not segregated to fund the post-retirement health insurance subsidy. Accordingly, these benefits may not be considered pre-funded. These liabilities are based on the same assumptions and actuarial costs methods as indicated for the plan. The District's health insurance subsidy payment reported for the fiscal year ending June 30, 2010 was \$22,585.

C. Deferred compensation and post employment health plans

The District has established a defined contribution deferred compensation plan under Internal Revenue Code 401(a) for employees who have elected to participate in the Arizona Public Safety Personnel Deferred Retirement Option Plan (DROP) in order to provide for supplementary retirement benefits. Furthermore, the District established a second 401(a) plan to provide qualified employees (those who have been with the District at least four years, and elect to participate within twenty-four months of their eligibility date) access to an optional qualified retirement plan. This optional plan requires employee contributions of at least one percent of gross compensation. Contributions to the plans are administered by a third-party, Nationwide Retirement Solutions (Nationwide). For the year ended June 30, 2011, the DROP plan had five participants with contributions to the plan by the District totaling \$119,720.

The District has also established two additional deferred compensation plans under Internal Revenue Code 457(a) for all employees in order to provide for post employment health benefits and deferred compensation. Contributions to the plan are administered by a third-party, Nationwide Retirement Solutions (Nationwide). For the year ended June 30, 2011, contributions totaled \$64,188.

In accordance with GASB Statement No. 32, the District provides neither administrative services nor investment advice. Consequently, no fiduciary relationship exists between the District and the compensation plan. Therefore, plan assets, for either of the aforementioned plans, are not included as a fund of the District.

D. Volunteer Firefighters' Pension and Relief Fund

The District, under Arizona Revised Statute §9-981, has established a Volunteer Firefighters' Pension and Relief Fund, a defined benefit plan. All reserve firefighters of the District participate in the plan. Participants of the plan are eligible to receive the full benefit of \$350 per month until death upon reaching 55 years of age and after 25 years of service.



REQUIRED SUPPLEMENTARY INFORMATION

(Other than Management's Discussion and Analysis)

Central Yavapai Fire District
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 13,409,077	\$ 13,409,077	\$ 13,327,259	\$ (81,818)
Fire district assistance taxes	300,000	300,000	298,619	(1,381)
Rents	27,500	27,500	33,414	5,914
Maintenance agreements	41,050	41,050	81,671	40,621
Charges for services	100,000	100,000	380,697	280,697
Interest income	5,000	5,000	21,261	16,261
Other revenue	12,000	12,000	23,387	11,387
Intergovernmental	389,240	389,240	259,702	(129,538)
Licenses, permits and other fees	<u>10,300</u>	<u>10,300</u>	<u>14,636</u>	<u>4,336</u>
Total revenues	<u>14,294,167</u>	<u>14,294,167</u>	<u>14,440,646</u>	<u>146,479</u>
EXPENDITURES:				
Current:				
Salaries, benefits and related	10,005,676	10,005,676	9,162,344	843,332
Operations, services, utilities, supplies, other	2,443,586	2,443,586	1,994,748	448,838
Revenue Stabilization	2,665,695	2,665,695	-	2,665,695
Capital outlay	<u>879,210</u>	<u>879,210</u>	<u>541,181</u>	<u>338,029</u>
Total expenditures	<u>15,994,167</u>	<u>15,994,167</u>	<u>11,698,273</u>	<u>4,295,894</u>
Excess (deficiency) of revenues over expenditures	<u>(1,700,000)</u>	<u>(1,700,000)</u>	<u>2,742,373</u>	<u>4,442,373</u>
OTHER FINANCING SOURCES/(USES)				
Transfers in/(out)	-	-	(3,227,413)	(3,227,413)
Proceeds from long-term debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>(3,227,413)</u>	<u>(3,227,413)</u>
Net change in fund balances	<u>(1,700,000)</u>	<u>(1,700,000)</u>	<u>(485,040)</u>	<u>1,214,960</u>
Fund balance – beginning	<u>4,749,737</u>	<u>4,749,737</u>	<u>4,749,737</u>	<u>-</u>
Fund balance – ending	<u>\$ 3,049,737</u>	<u>\$ 3,049,737</u>	<u>\$ 4,264,697</u>	<u>\$ 1,214,960</u>

The accompanying notes are an integral part of this schedule.

Central Yavapai Fire District
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011

NOTE A - Budgetary basis of accounting

The District prepares its annual budget on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. A budgetary comparison schedule for the General Fund is included as required supplementary information to provide meaningful comparison of actual results to budget on a budget basis.

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Central Yavapai Fire District

**INDEPENDENT AUDITORS' COMMUNICATION TO
THOSE CHARGED WITH GOVERNANCE**

June 30, 2011

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INDEPENDENT AUDITORS' COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

To the Governing Board of
Central Yavapai Fire District
Prescott Valley, Arizona

We have audited the basic financial statements of Central Yavapai Fire District (the District) as of and for the year ended June 30, 2011, and expect to release our report thereon on or after November 8, 2011. Professional standards require that we advise you of the following matters relating to our audit.

OUR RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS

As communicated in our engagement letter dated June 1, 2011, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (and when applicable, *Government Auditing Standards*). Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, as we are not aware of any other documents containing the District's audited financial statements, we have not performed any additional procedures in accordance with such standards.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We conducted our audit in a manner consistent with the planned scope and timing we previously communicated to you in our engagement letter.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no changes in significant accounting policies or their application during the year ended June 30, 2011. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of depreciation based on the estimated useful lives of capital assets, and
- Management's estimate of the amortization of deferred charges and the premium on the issuance of the Series A (2005) and Series B (2008) General Obligation Bonds.

We evaluated the key factors and assumptions used to develop, and performed analytical procedures over, the estimates and determined that they are reasonable in relation to the basic financial statements as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to (i) capital assets, (ii) long-term debt and (iii) subsequent events.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit. However, we would like to identify minor difficulties encountered in the planning of our audit. Specifically, the lack of accounting records consistent with the fund accounting principles required for governmental reporting.

While the District is a governmental entity, which utilizes fund accounting for external financial reporting, internal accounting records are not maintained by individual funds. The District currently has four major funds; the General Fund, the Capital Projects Reserve Fund, the Capital Project Bond Fund and the Debt Service Fund. These funds are maintained in two general ledgers.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. However, we did not identify any uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements and adjusting entries that were brought to the attention of management or made by us as a result of our audit procedures and preparation of the financial statements. As part of our audit we converted the accounting records from cash basis to modified accrual at the governmental fund statement level, and from modified accrual to full accrual at the government-wide level. These entries are available from management for your review.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which were are expected to be provided in the letter from management dated October 31, 2011.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing, accounting and financial reporting matters. Based on management's representations, and consistent with our understanding of the District's activities, there were no such consultations with other accountants regarding auditing, accounting and financial reporting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the District, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to, or required agreement as part of, our retention as the entity's auditors.

This report is intended solely for the information and use of the Board of Directors, Management, Yavapai County and the State of Arizona and is and is not intended to be, and should not be, used by anyone other than these specified parties.

Assurance Professionals, P.C.

October 31, 2011

Central Yavapai Fire District

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

June 30, 2011

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the Board of Directors of
Central Yavapai Fire District
Prescott Valley, Arizona

We have audited the financial statements of Central Yavapai Fire District (the District) as of, and for the year ended, June 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Central Yavapai Fire District is responsible for establishing and maintaining effective internal control over financial reports. In planning and performing our audit of the financial statements of Central Yavapai Fire District as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Central Yavapai Fire District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Central Yavapai Fire District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governing Board, Management, Yavapai County and the State of Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Assurance Professionals, P.C.

October 31, 2011