

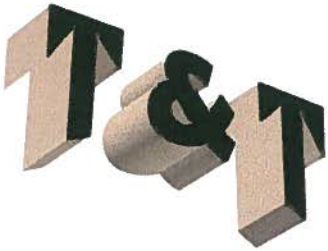


**Financial Statements**

**Year Ended June 30, 2012**

**Central Yavapai Fire District  
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June 30, 2012**

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**TKATCHOV & TKATCHOV CPA'S, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**ALEX P. TKATCHOV, C.P.A., M.S. TAXATION**  
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**MEMBER**  
**American Institute of Certified**  
**Public Accountants**  
**Arizona Society of Certified**  
**Public Accountants**

**INDEPENDENT AUDITORS' REPORT**

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

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 *Governmental 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, 2012, 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, 2012 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 2 through 8 and the Budgetary Comparison Schedule on page 32 through 34 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.

A handwritten signature in black ink, appearing to read 'Tkatchov &amp; Tkatchov', is written over a horizontal line.

Tkatchov & Tkatchov CPA's, P.C.  
Flagstaff, Arizona

October 31, 2012



**MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS**

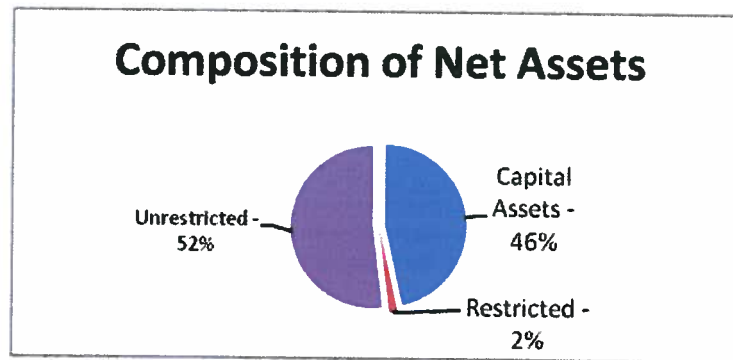
**(Required Supplementary Information)**

**Central Yavapai Fire District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

The management of the Central Yavapai Fire District offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in the Management's Discussion and Analysis in addition to the financial statements. While the Management's Discussion and Analysis is not a required part of the *basic financial statements*, the Management's Discussion and Analysis are required *supplementary information* by the Governmental Accounting Standards Board to benefit the readers of the annual financial statements.

Government-Wide Financial Analysis - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances. This presentation is similar in format to a financial statement of a private-sector business. The government-wide presentation uses the economic resources measurement and the accrual basis of accounting.

The table presented on page 7 illustrates the assets, liabilities, and net assets of the District. The assets of the District exceeded its liabilities by \$23.6 million (total net assets). Total net assets can be described as a measure of net worth. Approximately \$10.9 million of the net assets are invested in capital assets, net of related debt; \$360,069 are restricted for bond debt service; \$646 are restricted for special service; and \$12.2 million are unrestricted net assets and are the resources that can be used to provide the services and operations to the District's citizens. The following graph illustrates the composition of the net assets of the District.



The table on page 8 illustrates a decline in revenue of \$1.3 million (8%) for the current year. While all revenue sources except Fire District Assistance Tax (FDAT) had decreases, the other decreases are attributed to decreases in property taxes received and levied by the District. This is due to the fact that the District lowered its overall tax levy to the residents of the District for the year ended June 30, 2012, from the prior year by \$1.3 million (10.28%). While the table illustrates that property taxes decreased by 6.5%, the difference between this and the levy reduction of 10.28% is related to uncollected property taxes from the prior years that were received during the fiscal year being reported. Other revenue sources with decreases from the prior year were charges for services and grants. Expenditures for the District for the year ended June 30, 2012 decreased from the prior year by \$821,468 (5.9%). Overall, decreases are attributed to reductions in fire safety and emergency services, risk management services, administrative services, and depreciation. The increase to the interest on debt is related to the bond debt that the District incurred when bonds were issued in 2005 and in 2008.

**Central Yavapai Fire District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

Governmental Funds - The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The governmental funds account for essentially the same functions as reported in the government-wide financial statements. However, the governmental funds report information related to each of the District's funds separately. Therefore, the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances reports the financial activities of each fund separately. The District has five (5) separate funds: General Fund, Capital Projects Fund, Capital Projects Bond Fund, Debt Service Fund, and the Special Revenue Fund.

The District's Governmental Funds Balance Sheet on page 12 at June 30, 2012 reported total liabilities and fund balances of \$14.1 million, which is a decrease of \$4.3 million from prior year. This decrease is mostly attributed to the completion of capital projects using the remaining balance of the Capital Projects Bond Funds in the amount of \$4.2 million. These Bond Funds were used to complete the construction of the new Fire Station #58 located on Robert Road and the completion of the warehouse at the District's training site.

Fund balance is an approximate measure of liquidity (similar to the working capital of a private-sector business). The fund balances of the District are as follows: General Fund/Unassigned \$4.5 million – these unassigned amounts are needed to ensure that the District is able to continue its services to the citizens in the District. Capital Projects Fund /Committed \$8.5 million – these funds are Fire Board committed for the purchase of capital acquisitions. Bond Debt Service/Restricted \$360,069 – these funds are restricted funds that must be used to pay for the bond debt principal and interest payments over the terms of the bond. Special Revenue Fund/Restricted \$646 - these funds are private donations restricted by the donor for the Pipes and Drums band expenditures.

The District's Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances on page 14 for the year ended June 30, 2012 illustrates a decrease from prior year in total revenue received in the amount of \$1.3 million (8%). This is related to a decrease in the amount of property taxes received/levied by the District and overall decreases in other revenue sources. The District reports an increase in overall expenditures in the amount of \$2.5 million primarily due to capital outlay expenditures in the amount of \$4.2 million paid for using the balance of the capital projects bond fund from the bond's issued in 2005 and in 2008. While expenditures increased due to the above item, the District decreased expenditures for risk management services and administrative services. Capital outlay additions during the fiscal year ended June 30, 2012 included: Completion of the Class A Burn Building at the training facility; the purchase of a staff vehicle for Facilities Maintenance; the purchase of a patrol vehicle; and the purchase of a utility vehicle.

Bond Debt - As of June 30, 2012, the District had total outstanding bond debt in the amount of \$13,650,000 (not including amounts for deferred premium on the sale or costs of issuance, directly related to the issuance of the bonds in 2005 and in 2008). This debt currently requires annual bond debt service payments that consist of principal and interest. The approximate amount of these annual payments is \$1.4 million. All debt is backed by the full faith and credit of the District.

**Central Yavapai Fire District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**Budget Highlights** - The District's budget for June 30, 2012 included a revenue stabilization fund in the amount of \$2.8 million, which was equal to 20% of its General Fund expenditures. The District did not expend any of the revenue stabilization funds for June 30, 2012. The Fire Board elected to include a revenue stabilization fund again for the budget year ending June 30, 2013, which is based upon 20% of General Fund expenditures, not including budget amounts for capital outlay. Because property values continue to decline (decrease of 18.32% for the year ended June 30, 2012 and a decrease of 18.31% for the fiscal year ending June 30, 2013), the District includes a revenue stabilization fund to ensure that it will be able to provide services to the residents of the District. During the fiscal year ended June 30, 2012, the District did not have any amendments or changes to the originally adopted budget.

During the budget process for the year ended June 30, 2012, the Fire Board continued with a wage freeze for the third consecutive year. However, for the budget year that will end June 30, 2013, the Fire Board has elected to unfreeze wages and has reinstated merit increases for all District employees. Because the District was able to control costs and expenditures, the District was able to carryover approximately \$4,190,000 from fiscal year ended June 30, 2012 to the budget for fiscal year ending June 30, 2013.

As a part of the annual budget process, the District's Fire Board considers the impact of the projected levy on the average homeowner and commercial property owner. The levy is the amount of funds that the District requests that the County bill the residents of the District. The levy is lower than the total budget of the District because the total budget includes non-levy revenue sources. The non-levy sources can include: FDAT, charges for services and facilities, grants, interest income, carryover amounts, and capital project funds. Below is a representation of the Districts levy amount for the past five fiscal years. As you can see, the District's budget has increased; however, the District has lowered its levy amount by 14.64% over a five year period. The budget has increased for fiscal year ending June 30, 2013 primarily because of amounts budgeted using capital project funds in the amount of \$1.8 million. Because the District is using its capital project funds for capital outlay expenditures, these amounts are not included in the levy amount.

Fiscal Year	Net Assessed Valuations	% Change	Levy Amount	% Change	Tax Rate	Budget	% Change
08-09	\$ 906,891,063		\$ 13,475,220		\$ 1.4859	\$ 15,839,290	
09-10	901,855,127	-0.55%	13,408,327	-0.50%	1.4867	14,808,627	-6.51%
10-11	793,063,861	-12.07%	13,409,077	0.01%	1.6908	15,994,167	8.01%
11-12	647,776,495	-18.32%	12,030,906	-10.28%	1.8573	16,893,482	5.62%
12-13	529,166,122	-18.31%	11,565,704	-3.87%	2.1856	18,607,437	10.15%

Another important factor that contributes to the District's overall tax rate is the assessed valuations of the properties within the District. The District's assessed valuations have decreased 49.25% since 2009. Because the assessed valuations drive a large part of the District's tax rate, the District has remained fiscally conservative making sure that the levy amount for the District has decreased each year. In addition, the District has maintained a moderately low tax rate (\$2.1856 for fiscal year ending June 30, 2013) when compared to other Fire District's in the State of Arizona, with the state cap being \$3.25. This is largely due to the fact that the District's staff members have remained fiscally conservative during the past few years. The table above illustrates the extreme decreases - 49.25% - to the District's assessed valuations since 2009.

**Central Yavapai Fire District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

Economic Factors - The District's total secondary assessed valuations (AV) are the "basis" for its property taxes. Because the assessed valuations have decreased by 49.25% since fiscal year ended June 30, 2009, these large decreases bring extra challenges to the elected Fire Board and District staff members during the budget process. The District anticipates yet another decrease in AV for the upcoming budget year ending June 30, 2014. During the budget process, the District Fire Board and staff members examine the District's Mission Statement, Strategic Plan, Commission on Fire Accreditation International's recommendations, long-term Capital Acquisitions and Replacement Schedule, long-term staffing plan, and short and long-term goals and objectives to try to prioritize expenditures while remaining fiscally conservative. The substantial numbers of foreclosures and short-sales that continue to be a part of the residential housing market within the District have continued to contribute to the drastic decreases in the AV for the District.

Accreditation and Insurance Service Organization (ISO) Rating - In 2012, the District has been re-awarded Accredited Agency Status by the Commission on Fire Accreditation International (CFAI). The District achieved its first accredited status from CFAI in 2007. There are 161 agencies nationwide accredited by CFAI. The District is one of only four fire districts in the State of Arizona that has achieved this accreditation. During 2012, the District completed its ISO re-grading. Insurance companies use the ISO grading as a factor when determining the rates that property owners pay for homeowner's fire insurance. The District is awaiting the final determination from ISO as of the date of this report.

Request for Information - The District's financial statements are designed to present users (residents, government entities, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about this report please contact the District's Administrative office at 928-772-7711 or at 8555 E. Yavapai Road, Prescott Valley, AZ 86314. Please visit the District's web-site at [www.centralyavapafire.org](http://www.centralyavapafire.org) for additional information about Central Yavapai Fire District.



**Central Yavapai Fire District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

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

	<u>Governmental Activities</u>		<u>% chg</u>
	<u>2012</u>	<u>2011</u> (as restated)	
<b>ASSETS</b>			
Cash and investments	\$ 13,458,010	\$ 17,303,389	-22.2%
Other assets	703,857	1,256,053	-44.0%
Capital assets, net	<u>24,815,272</u>	<u>19,090,154</u>	30.0%
 Total assets	 <u>38,977,139</u>	 <u>37,649,596</u>	 3.5%
 <b>LIABILITIES</b>			
Accrued expenses	265,040	193,811	36.8%
Premium and deferred charges	186,520	218,766	-14.7%
Compensated absences	1,275,642	1,106,665	15.3%
Bonds payable	<u>13,650,000</u>	<u>14,385,000</u>	-5.1%
 Total liabilities	 <u>15,377,202</u>	 <u>15,904,242</u>	 -3.3%
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,978,752	4,486,388	144.7%
Restricted for debt service	360,069	469,078	100.0%
Restricted for special service	646	0	
Unrestricted	<u>12,260,470</u>	<u>16,789,888</u>	-27.0%
 Total net assets	 <u>\$ 23,599,937</u>	 <u>\$ 21,745,354</u>	 8.5%

**Central Yavapai Fire District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

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

	Governmental Activities		
	2012	(as restated) 2011	% chg
<b>REVENUES</b>			
Program Revenues			
Charges for services	\$ 771,429	\$ 909,254	-15.2%
Operating grants and contributions	72,537	140,826	-48.5%
Capital grants and contributions	16,674	141,783	-88.2%
General revenues			
Property Taxes	13,837,685	14,794,741	-6.5%
Fire District Assistance Tax	303,157	298,619	1.5%
Investment earnings	34,562	56,598	-38.9%
Total revenues	<u>15,036,044</u>	<u>16,341,821</u>	-8.0%
<b>EXPENSES</b>			
Public Safety:			
Fire safety and emergency services	9,539,490	9,958,608	-4.2%
Risk management services	468,802	531,722	-11.8%
Administrative and support services	1,653,068	1,686,670	-2.0%
Depreciation on buildings and equipment	824,942	1,210,522	-31.9%
Interest on debt	695,159	615,407	13.0%
Total expenses	<u>13,181,461</u>	<u>14,002,929</u>	-5.9%
Increase in net assets	<u>\$ 1,854,583</u>	<u>\$ 2,338,892</u>	-20.7%

The cost of all governmental activities for the year ended June 30, 2012 was \$13.2 million. Property Taxes and Fire District Assistance Tax provided funding of \$14.1 million. Additional revenue was realized from interest in the amount of \$34,562.



**BASIC  
FINANCIAL  
STATEMENTS**

**Central Yavapai Fire District**  
**STATEMENT OF NET ASSETS**  
**June 30, 2012**

<b>ASSETS</b>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 13,458,010
Accounts receivable, net	125,846
Taxes receivable	578,011
Capital assets:	
Non-depreciable	5,472,493
Depreciable (net)	<u>19,342,779</u>
Total assets	<u>38,977,139</u>
<b>LIABILITIES</b>	
Accounts payable	67,908
Accrued payroll and related liabilities	197,132
Long-term liabilities:	
Due within one year	765,000
Due in more than one year	<u>14,347,162</u>
Total liabilities	<u>15,377,202</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	10,978,752
Restricted for:	
Debt service	360,069
Special revenue	646
Unrestricted	<u>12,260,470</u>
Total net assets	<u><u>\$ 23,599,937</u></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, 2012**

<b>EXPENSES</b>	<u>Governmental Activities</u>
Public safety, fire protection and emergency services:	
Fire safety and emergency services	\$ 9,539,490
Risk management services	468,802
Administrative and support services	1,653,068
Depreciation	824,942
Interest	695,159
	<hr/>
Total program expenses	13,181,461
	<hr/>
<b>PROGRAM REVENUES</b>	
Charges for services	771,429
Operating grants and contributions	72,537
Capital grants and contributions	16,674
	<hr/>
Total program revenues	860,640
	<hr/>
Net program expenses	12,320,821
	<hr/>
<b>GENERAL REVENUES</b>	
Property taxes	13,837,685
Fire district assistance tax	303,157
Investment earnings	34,562
	<hr/>
Total general revenues	14,175,404
	<hr/>
Increase in net assets	1,854,583
	<hr/>
Net assets - beginning (as restated)	21,745,354
	<hr/>
Net assets - ending	<u><u>\$ 23,599,937</u></u>

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

Central Yavapai Fire District  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

ASSETS	General Fund	Capital Projects		Debt Service Fund	Special Revenue Fund	Total Governmental Funds
		Capital Projects Fund	Bond Fund			
Cash and cash equivalents	\$ 4,581,634	\$ 8,533,637	-	\$ 342,093	\$ 646	\$ 13,458,010
Accounts receivable, net	125,846	-	-	-	-	125,846
Taxes receivable	517,898	-	-	60,113	-	578,011
<b>Total assets</b>	<b>\$ 5,225,378</b>	<b>\$ 8,533,637</b>	<b>\$ -</b>	<b>\$ 402,206</b>	<b>\$ 646</b>	<b>\$ 14,161,867</b>

**LIABILITIES AND FUND BALANCES**

Liabilities:					
Accounts payable	\$ 67,185	\$ -	\$ -	\$ -	\$ 67,185
Accrued payroll	140,269	-	-	-	140,269
Accrued payroll expenses	56,863	-	-	-	56,863
Deferred revenues	363,028	-	-	42,137	405,165
Other	723	-	-	-	723
<b>Total liabilities</b>	<b>628,068</b>	<b>-</b>	<b>-</b>	<b>42,137</b>	<b>670,205</b>

Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	-	-	360,069	646	360,715
Committed	-	8,533,637	-	-	8,533,637
Assigned	-	-	-	-	-
Unassigned	4,597,310	-	-	-	4,597,310
<b>Total fund balances</b>	<b>4,597,310</b>	<b>8,533,637</b>	<b>-</b>	<b>360,069</b>	<b>13,491,662</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,225,378</b>	<b>\$ 8,533,637</b>	<b>\$ -</b>	<b>\$ 402,206</b>	<b>\$ 14,161,867</b>

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, 2012**

Fund balances - total governmental funds		\$ 13,491,662
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.		24,815,272
Receivables which are not available to pay for the current period expenditures and, therefore, are deferred in the governmental funds balance sheet.		405,165
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	\$ (13,836,520)	
Compensated absences	<u>(1,275,642)</u>	<u>(15,112,162)</u>
Net assets of governmental activities		<u><u>\$ 23,599,937</u></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, 2012

	General Fund	Capital Project Fund	Capital Projects Bond Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 12,096,418	\$ -	\$ -	\$ 1,336,102	\$ -	\$ 13,432,520
Fire district assistance taxes	303,157	-	-	-	-	303,157
Charges for services	671,883	-	-	-	-	671,883
Maintenance agreements	43,883	-	-	-	-	43,883
Licenses, permits and other fees	20,047	-	-	-	-	20,047
Rents	32,977	-	-	-	-	32,977
Interest income	9,693	21,253	1,655	1,961	-	34,562
Other revenue	89,187	23	-	-	2,640	91,850
Total revenues	13,267,245	21,276	1,655	1,338,063	2,640	14,630,879
<b>EXPENDITURES</b>						
Current:						
Public safety, fire protection:						
Fire safety and emergency services	9,539,490	-	-	-	-	9,539,490
Risk management services	468,802	-	-	-	-	468,802
Administrative and support services	1,320,008	-	522	-	1,994	1,322,524
Debt service	-	-	-	735,000	-	735,000
Principal	-	-	-	662,913	-	662,913
Interest	-	-	4,274,845	-	-	5,716,454
Capital outlay	1,441,609	-	4,275,367	1,397,913	1,994	18,445,183
Total expenditures	12,769,909	-	4,275,367	1,397,913	1,994	18,445,183
Excess/(deficiency) of revenues over/(under) expenditures	497,336	21,276	(4,273,712)	(59,850)	646	(3,814,304)
<b>OTHER FINANCING SOURCES/(USES)</b>						
Transfers in	922,282	1,087,005	-	-	-	2,009,287
Transfers out	(1,087,005)	(922,282)	-	-	-	(2,009,287)
Total other financing sources/(uses)	(164,723)	164,723	-	-	-	-
Net changes in fund balances	332,613	185,999	(4,273,712)	(59,850)	646	(3,814,304)
Fund balances - beginning	4,264,697	8,347,638	4,273,712	419,919	-	17,305,966
Fund balances - ending	\$ 4,597,310	\$ 8,533,637	\$ -	\$ 360,069	\$ 646	\$ 13,491,662

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, 2012**

Net change in fund balances - total governmental funds \$ (3,814,304)

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.	5,716,454
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.	(32,246)
Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources	(824,942)
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.	405,165
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.	735,000
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:	
Other expenses	(193,813)
Compensated absences	(168,977)
Deferred charges (premium and costs on issuance)	32,246

Change in net assets of governmental activities \$ 1,854,583

**Central Yavapai Fire District**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year Ended June 30, 2012**

	<u>Pension Trust Fund</u>
<b>ASSETS</b>	
Cash	\$ 3,479
Interest receivable	\$ 222
Investment, fair value	<u>446,444</u>
 Total assets	 <u><u>\$ 450,145</u></u>
 <b>NET ASSETS</b>	
Held in trust for pension benefits	 <u><u>\$ 450,145</u></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, 2012**

	Pension Trust Fund
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 5,892
Employee	5,892
Premium tax	202
Investment earnings	20,733
Total additions	32,719
 <b>DEDUCTIONS</b>	
Program expenses	28,889
Genetal & administrative	3,750
Total deductions	32,639
 Change in net assets	 80
 Net assets - beginning (as restated)	 450,065
 Net assets - ending	 \$ 450,145

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

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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 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 revenue 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, 2012, 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, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 services 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 Reserve Fund* is used to account of 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.

The *Special Revenue Funds* are donor restricted/designated to purchase supplies/uniforms for the Pipes & Drums band.

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.

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash and investment**

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.

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 allowance for uncollectable amounts. However, at June 30, 2012, 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.

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 \$23,138, while the bond premium amortized in the current year was \$55,384.

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 process received, are reported as expenditures.

**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.

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 spend.

**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's 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.

**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 revenue 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.



**Central Yavapai Fire District  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 INVESTMENT**

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, 2012, the YCTIP had not received a credit quality rating from a nation 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, 2012, 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 \$13,458,010; the carrying amount of cash in the District's fiduciary fund was \$3,479

**Investments** – The District's investments as of June 30, 2012 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	\$13,458,010
Oppenheimer U.S. Governments Bond Fund (Fiduciary fund only)	Unknown		<1 year	446,444

The District does not have a formal investment policy with respect of 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, 2012, including the applicable allowances for uncollectable accounts, are as follows:

	<u>General Fund</u>	<u>Service</u>	<u>Debt Total</u>
Property taxes	\$ 517,898	\$ 60,113	\$ 578,011
Program services	125,846	-	125,846
Gross receivables	643,744	60,113	703,857
Less: allowance for uncollectible	-	-	-
Net total receivables	<u>\$ 643,744</u>	<u>\$ 60,113</u>	<u>\$ 703,857</u>

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012, deferred revenue consisted of the following:

	General Fund	Debt Service	Total
Deferred revenues (not received within 60 days)	\$ 363,028	\$ 42,137	405,165

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

Governmental Activities:	Beginning Balances	Additions	Changes/ Deletions	Reclass	Ending Balances
Land	\$ 2,782,246	\$ -	\$ -	\$ -	\$ 2,782,246
Buildings and improvements	12,634,912	3,741,478	-	4,342	16,380,732
Vehicles	4,976,778	401,308	-	-	5,378,086
Furniture and equipment	3,641,556	503,332	-70,482	-	4,074,406
Subtotal	<u>24,035,492</u>	<u>4,646,118</u>	<u>-70,482</u>	<u>4,342</u>	<u>28,615,470</u>
Construction in progress	<u>726,187</u>	<u>3,077,660</u>	<u>-1,215</u>	<u>-1,112,385</u>	<u>2,690,247</u>
TOTAL	<u>24,761,679</u>	<u>7,723,778</u>	<u>-71,697</u>	<u>-1,108,043</u>	<u>31,305,717</u>
Less accumulated depreciation	<u>-5,671,525</u>	<u>-824,942</u>	<u>6,022</u>	<u>-</u>	<u>-6,490,445</u>
Total capital assets, net	<u>\$ 19,090,154</u>	<u>\$ 6,898,836</u>	<u>\$ -65,675</u>	<u>\$ -1,108,043</u>	<u>\$ 24,815,272</u>

Certain reclassifications were made during the year ended June 30, 2012 as part of identifying assets for depreciation in aggregation as they are integral to buildings and facilities. Depreciation expense for the period was \$824,942; 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, 2012 was as follows:

Governmental Activities:	Beginning Balances	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds Series A (2005)	\$ 8,785,000	\$ -	\$ -500,000	\$ 8,285,000	\$ 520,000
General Obligation Bonds Series B (2008)	5,600,000	-	-235,000	5,365,000	245,000
Premiums/deferred charges:					
Premium on issuance, net	394,546	-	-55,384	339,162	-
Deferred charges, net	<u>-175,780</u>	<u>-</u>	<u>23,138</u>	<u>-152,642</u>	<u>-</u>
Total bonds payable	14,603,766	-	-	-	-
Compensated absences	<u>1,106,665</u>	<u>168,977</u>	<u>-</u>	<u>1,275,642</u>	<u>-</u>
Total long-term liabilities	<u>\$ 15,710,431</u>	<u>\$ 168,977</u>	<u>\$ -767,246</u>	<u>\$ 15,112,162</u>	<u>\$ 765,000</u>

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**NOTE 6 – LONG-TERM DEBT (Continued)**

**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, 2012 totaled \$8,285,000.

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, 2012 totaled \$5,365,000.

Annual debt service requirements to maturity on the general obligation bonds as of June 30, 2012, are as follows:

Year ended June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 765,000	628,512
2014	805,000	592,712
2015	840,000	555,112
2016	880,000	515,663
2017	920,000	474,412
2018-2023	5,280,000	1,696,556
2024-2029	4,160,000	513,508
<b>Total</b>	<b>\$ 13,650,000</b>	<b>4,976,475</b>

**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 eight-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, 2012**

**NOTE 8 – INTERFUND TRANSFERS**

	General Fund	Capital Projects Fund	Total
Transfers in	\$ 922,282	\$1,087,005	\$2,009,287
Transfers out	-1,087,005	-922,282	-2,009,287
	<u>\$ -164,723</u>	<u>164,723</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 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, 2012, active ASRS members and the District were each required by statute to contribute at the actuarially determined rate of 10.75 percent of the members' annual covered payroll. The District's contributions to ASRS for the years ended June 30, 2012, 2011 and 2010 were \$116,750, \$98,264 and \$83,423, 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, 2012**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS (Continued)**

**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 (**current year is not available**), 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, 2011, the amount credited to the District's plan, and included in the annual pension cost as described below, totaled \$163,140.

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, 2011, 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	8.25%
Projected salary increases*	5.0% - 8.0 %
*includes inflation at	5.0%
Amortization method	Level percent-of-pay closed
Remaining amortization period	25 years for unfunded actuarial accrued liability, 20 years of excess
Asset valuation method	7-year smoothed market

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
2011	\$ 1,114,728	100%	\$ -
2010	\$ 1,060,830	100%	\$ -
2009	\$ 1,284,774	100%	\$ -

**Central Yavapai Fire District  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS (Continued)**

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
2011	\$ 22,005,658	\$ 32,150,569	\$ 10,144,911	68.4%	\$ 4,912,727	206.5%
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%

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
2011	\$ -	\$ 779,755	\$ 779,755	-%	\$ 4,912,727	15.87%
2010	\$ -	\$ 700,186	\$ 700,186	-%	\$ 5,349,854	13%
2009	-	659,032	659,032	-%	5,545,571	12%

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 cost methods as indicated for the plan. The District's health insurance subsidy payment reported for the fiscal year ending June 30, 2011 was \$22,741.

**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, 2012, the DROP plan had eight participants with contributions to the plan by the District totaling \$183,073.

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, 2012, contributions totaled \$33,986.

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.

**Central Yavapai Fire District**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

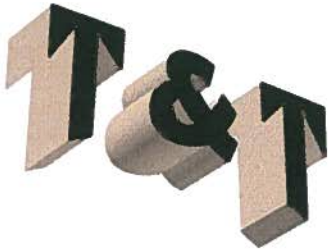
**NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS (Continued)**

**D. Volunteer Firefighters' Pension and Relief Fund**

The District, under Arizona Revised Status §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.

**NOTE 11 – SUBSEQUENT EVENTS**

The District evaluated its June 30, 2012 financial statements for subsequent events through October 31, 2012, the financial statements issuance date. The District is not aware of any subsequent events which would require recognition or disclosure in the financial statements.



**TKATCHOV & TKATCHOV CPA'S, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**ALEX P. TKATCHOV, C.P.A., M.S. TAXATION**  
**DIANE R. TKATCHOV, C.P.A.**

**MEMBER**  
American Institute of Certified  
Public Accountants  
Arizona Society of Certified  
Public Accountants

**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, 2012, and have issued our report thereon dated October 31, 2012. 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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Central Yavapai Fire Districts 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.

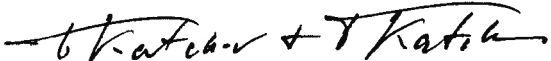
Our consideration of internal control was for the limited purposes described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control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



Tkatchov & Tkatchov CPA's, P.C.  
Flagstaff, Arizona

October 31, 2012



**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**(Other than Management's Discussion and Analysis)**

**Central Yavapai Fire District**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<b>REVENUES:</b>				
Property taxes	\$ 12,030,906	\$ 12,030,906	\$ 12,096,418	\$ (65,512)
Fire district assistance taxes	300,000	300,000	303,157	(3,157)
Rents	27,500	27,500	32,977	(5,477)
Maintenance agreements	43,550	43,550	43,883	(333)
Charges for services	198,950	198,950	671,883	(472,933)
Interest income	12,000	12,000	9,693	2,307
Other revenue	412,576	412,576	89,187	323,389
Licenses, permits and other fees	8,000	8,000	20,047	(12,047)
<b>Total revenues</b>	<u>13,033,482</u>	<u>13,033,482</u>	<u>13,267,245</u>	<u>(233,763)</u>
<b>EXPENDITURES</b>				
Current				
Salaries, benefits and related	10,042,249	10,042,249	9,539,490	502,759
Operations, services, utilities, supplies, other	2,312,358	2,312,358	1,788,810	523,548
Revenue stabilization	2,815,580	2,815,580	0	2,815,580
Capital outlay	1,723,295	1,723,295	1,441,609	281,686
<b>Total expenditures</b>	<u>16,893,482</u>	<u>16,893,482</u>	<u>12,769,909</u>	<u>4,123,573</u>
Excess (deficiency) of revenues over expenditure:	<u>(3,860,000)</u>	<u>(3,860,000)</u>	<u>497,336</u>	<u>4,357,336</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers in/(out) - Capital Project Fund	<u>(710,000)</u>	<u>(710,000)</u>	<u>(164,723)</u>	<u>(874,723)</u>
<b>Total other financing sources/(uses)</b>	<u>(710,000)</u>	<u>(710,000)</u>	<u>(164,723)</u>	<u>(874,723)</u>
Net change in fund balances	<u>(3,150,000)</u>	<u>(3,150,000)</u>	<u>332,613</u>	<u>3,482,613</u>
Fund balance - beginning	<u>3,049,737</u>	<u>3,049,737</u>	<u>4,264,697</u>	<u>1,214,960</u>
Fund balance - ending	<u>\$ (100,263)</u>	<u>\$ (100,263)</u>	<u>\$ 4,597,310</u>	<u>\$ 4,697,573</u>

The accompanying notes are an integral part of this schedule.

**Central Yavapai Fire District**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**Year Ended June 30, 2012**

**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.