

 ORIGINAL

Financial Statements
Year Ended June 30, 2011

**Hellsgate Fire District
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June 30, 2011**

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Assurance
Professionals, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Governing Board of the
Hellsgate Fire District
Star Valley, Arizona

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hellsgate 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 Hellsgate 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.

As described in the notes to the financial statements, the District has adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments", GASB Statement No. 27, "Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments; Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", effective July 1, 2003. However, the Hellsgate Fire District has elected not to present the Management's Discussion and Analysis nor the Budgetary Comparison Schedule that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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

Assurance Professionals, P.C.

March 29, 2012



**BASIC
FINANCIAL
STATEMENTS**

**Hellsgate Fire District
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 510,319
Due from other governments	130,368
Taxes receivable	41,789
Capital assets:	
Non-depreciable	130,000
Depreciable (net)	<u>606,533</u>
Total assets	<u>1,419,009</u>
LIABILITIES	
Accounts payable	21,913
Accrued payroll and related liabilities	81,077
Due to pension trust	4,877
Long-term liabilities:	
Due within one year	68,485
Due in more than one year	<u>341,405</u>
Total liabilities	<u>517,757</u>
NET ASSETS	
Invested in capital assets, net of related debt	360,553
Unrestricted	<u>540,699</u>
Total net assets	<u>\$ 901,252</u>

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

**Hellsgate Fire District
STATEMENT OF ACTIVITIES
Year ended June 30, 2011**

	<u>Governmental Activities</u>
EXPENSES	
Public safety, fire protection:	
Emergency services	\$ 1,310,394
Administrative and support services	45,587
Depreciation	136,750
Interest on long-term debt	<u>19,803</u>
Total program expenses	<u>1,512,534</u>
PROGRAM REVENUES	
Charges for services	251,673
Operating grants and contributions	<u>311,307</u>
Total program revenues	<u>562,980</u>
Net program expenses	<u>949,554</u>
GENERAL REVENUES	
Property taxes	945,579
Centrally assessed taxes	103,229
Investment earnings	<u>1,765</u>
Total general revenues	<u>1,050,573</u>
Increase in net assets	101,019
Net assets – beginning, as restated	<u>800,233</u>
Net assets – ending	<u>\$ 901,252</u>

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

**Hellsgate Fire District
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 510,319	\$ -	\$ 510,319
Due from other governments	130,368	-	130,368
Taxes receivable	<u>41,789</u>	<u>-</u>	<u>41,789</u>
 Total assets	 <u>\$ 682,476</u>	 <u>\$ -</u>	 <u>\$ 682,476</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 21,913	\$ -	\$ 21,913
Accrued payroll and related liabilities	81,077	-	81,077
Due to pension trust	4,877	-	4,877
Deferred taxes	<u>38,057</u>	<u>-</u>	<u>38,057</u>
Total liabilities	<u>145,924</u>	<u>-</u>	<u>145,924</u>
Fund balances:			
Nonspendable	-	-	-
Assigned	-	-	-
Committed for capital projects	430,285	-	430,285
Unassigned	<u>106,267</u>	<u>-</u>	<u>106,267</u>
 Total fund balances	 <u>536,552</u>	 <u>-</u>	 <u>536,552</u>
 Total liabilities and fund balances	 <u>\$ 682,476</u>	 <u>\$ -</u>	 <u>\$ 682,476</u>

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

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

Fund balances - total governmental funds		\$	536,552
 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.			736,533
Receivables which are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds balance sheet.			27,573
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet, specifically:			
Capital lease payable	(375,980)		
Compensated absences	(33,910)		
Interest payable	-		
	<u> </u>		<u>(409,890)</u>
 Net assets of governmental activities		 \$	 <u>890,768</u>

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

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

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 938,805	\$ -	\$ 938,805
Fire district assistance taxes	103,229	-	103,229
Intergovernmental	265,711	-	265,711
Charges for services	248,808	-	248,808
Contributions	6,700	-	6,700
Interest income	1,765	-	1,765
Other revenue	<u>41,761</u>	<u>-</u>	<u>41,761</u>
Total revenues	<u>1,606,779</u>	<u>-</u>	<u>1,606,779</u>
EXPENDITURES			
Current:			
Public safety, fire protection:			
Emergency services	1,306,733	-	1,306,733
Community programs	-	-	-
Administrative and support services	45,587	-	45,587
Debt service:			
Principal	78,658	-	78,658
Interest on long-term debt	19,803	-	19,803
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,450,781</u>	<u>-</u>	<u>1,450,781</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>155,998</u>	<u>-</u>	<u>155,998</u>
OTHER FINANCING SOURCES/(USES)			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	155,998	-	155,998
Fund balances – beginning, as restated	<u>380,554</u>	<u>-</u>	<u>380,554</u>
Fund balances – ending	<u>\$ 536,552</u>	<u>\$ -</u>	<u>\$ 536,552</u>

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

Hellsgate 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 \$ 155,998

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..

Depreciation expense on capital assets is reported in the statement of activities, but it does not require the use of current financial resources. (136,750)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This is the amount by which revenues reported in the statement of activities exceeded those amounts received and reported as current financial resources in the governmental funds. 6,774

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. 78,658

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 (3,661)

Interest expense -

Change in net assets of governmental activities \$ 101,019

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

**Hellsgate Fire District
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011**

	<u>Firefighters' Alternative Pension and Benefit Fund</u>
ASSETS	
Cash	\$ 1,078
Due from General Fund	4,877
Investment, fair value	<u>194,623</u>
 Total assets	 <u>\$ 200,578</u>
 NET ASSETS	
Held in trust for pension benefits	 <u>\$ 200,578</u>

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

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

	<u>Firefighters' Alternative Pension and Benefit Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 10,746
Employee	10,746
Premium tax	-
Investment earnings	5,075
Investment gain (unrealized)	<u>24,781</u>
Total additions	<u>51,348</u>
DEDUCTIONS	
Fees and administration	-
Loss on investments	-
Benefits paid	<u>2,114</u>
Total deductions	<u>2,114</u>
Change in net assets	49,234
Net assets – beginning	<u>151,344</u>
Net Assets – ending	<u>\$ 200,578</u>

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

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hellsgate 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 1973 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 special purpose government). Component units are legally separate entities for which the District is considered to be financially accountable. The District does not report any 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.

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 proprietary 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.

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 so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 funds received and expended for the construction of buildings and improvements as well as the acquisition of apparatus and major equipment for use by the District.

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

The District also reports one *Fiduciary Fund*, the Firefighters' Alternative Pension and Benefit Fund, which is used to account for the accumulation of resources to be used for annuity payments and benefits resulting from premium tax contributions received by the District. Fiduciary funds are accounted for on an economic resources measurement focus and accrual basis of accounting. District contributions are recognized in the period the contributions are due.

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 cash equivalents

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 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. All investments are stated at fair value based on market prices.

E. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding, if any, 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 uncollectibles, if such estimates are necessary.

The District levies real property taxes on or before the third Monday in August. Such levies, collected by Gila 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.

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.

**Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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. 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 and improvements	\$5,000	2 - 40
Improvements, other than building	\$5,000	2 - 40
Furniture, vehicles and equipment	\$5,000	5 - 20

I. Compensated absences

It is the District's policy to permit employees to accumulate earned but unused personal leave, compensatory and vacation. Upon termination such unused time will be paid according to the District's policies, which vary based on employee function and years of service. 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.

J. 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.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

K. 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 (such as prepaid items or inventory) 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.

L. 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.

M. 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.

N. Budgetary accounting

The District is required, under Arizona Revised Statutes, to adopt a budget each fiscal year and to submit it to the county treasurer and 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 mandated 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 its tax levy outstanding and to be collected plus available and unencumbered cash. The limitation is applied to the total of the combined funds.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND INVESTMENTS

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 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 District has no investment policy that would further limit its investment choices.

A. District's Cash and Cash Equivalents Deposits

As of June 30, 2011 the District had \$510,319 on deposit with the Gila County Treasurer's investment pool (GCTIP). The GCTIP is an external investment pool with no regulatory oversight. The investment pool is not required to register (and is not registered) with the Securities and Exchange Commission. The Gila County Treasurer invests the cash in a pool under policy guidelines established by the County. The County accounts for the investment pool in their Fiduciary Investment Trust Fund. Credit risk, concentration of credit risk, and interest rate risk regarding the GCTIP is included in the Comprehensive Annual Financial Report of Gila County. The fair value of each participant's position in the GCTIP approximates the value of the participant's shares in the pool.

Custodial Credit Risk - Deposits. In the case of demand and time deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2011, the District's carrying amount of demand deposits was \$0 and the bank balance was \$2,540. The Federal Deposit Insurance Corporation protects the District against loss on the first \$250,000 of demand deposits and \$250,000 of time deposits located within the state. The remaining balance was covered by collateral held by the pledging financial institution's trust department in the District's name.

B. Firefighters' Alternative Pension and Benefit Fund's Cash and Investments (Pension Fund)

The District's Pension Fund has an investment policy that is designed to provide benefits as anticipated through a carefully planned and executed investment policy that achieves a reasonable long term total return consistent with the level of risk assumed. To help achieve this return, professional investment managers, The Innes Associates, Ltd, are employed by the District to manage the Pension Fund's assets. All Pension Fund assets are held by LPL Financial.

Cash: As of June 30, 2011 the Pension Fund had \$4,877 in demand deposits that were fully insured by the Federal Deposit Insurance Corporation.

Investments: As of June 30, 2011, the Pension Fund had investments with a fair market value of \$194,623. During the fiscal year ending June 30, 2011 the fair market value of the Pension Fund's investments increased \$24,781 or 14.6 percent. The investment objective is long term growth.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Credit Risk. Credit risk is the risk that an insurer or other counterparty to an investment in a debt security will not fulfill its obligations. As of June 30, 2011 the Pension Fund's investments had not received a credit quality rating from a national rating agency.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the City will not be able to recover the value of the investments or collateral securities that are in possession of an outside party. The District does not have a formal policy for custodial credit. However, all investments are held in safekeeping by external custodians in the District's name and are fully insured by the Securities Investor Protection Corporation (SIPC).

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal policy for concentration of credit risk. As of June 30, 2011 the Pension Plan's investments were held in the following mutual funds:

Mutual Fund	Ticker #	Fair Market Value	Average Weighted Maturity in Years
Growth Fund of America	AGTHX	\$ 31,097	Less than 1 year
New Perspective Fund	ANWPX	44,597	Less than 1 year
Income Fund of America	AMECX	92,265	Less than 1 year
Bond Fund of America	ABNDX	<u>26,664</u>	Less than 1 year
Total investments fair market value		<u>\$ 194,623</u>	

NOTE 3 - RECEIVABLES

Receivables as of June 30, 2011 for the District's general fund, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
Taxes	\$ 41,789
Intergovernmental	130,368
Program services	<u>-</u>
Gross receivables	172,157
Less: allowance for uncollectibles	<u>-</u>
Total receivables, net	<u>\$ 172,157</u>

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - DEFERRED REVENUE

Governmental funds report *deferred revenues* in connection with receivables for revenues that are not collected within 60 days as these revenues 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>Unavailable</u>
General Fund	
Deferred intergovernmental revenues	\$ -
Deferred taxes	38,057
 Total deferred revenues	 \$ 38,057

NOTE 5 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Land, not depreciated	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in progress, not depreciated	-	-	-	-
Buildings and equipment	335,716	-	-	335,716
Vehicles and apparatus	1,133,060	-	-	1,133,060
Equipment	131,004	-	-	131,004
Communications and computer equipment	-	-	-	-
Total capital assets	1,729,780	-	-	1,729,780
Less accumulated depreciation	(856,497)	(136,750)	-	(993,247)
Total capital assets, net	\$ 873,283	\$ (136,750)	\$ -	\$ 736,533

Depreciation expense for the period was \$136,750; all depreciation was expensed to the public safety - fire protection function.

NOTE 6 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease	\$ 454,638	\$ -	\$ (78,658)	\$ 375,980	\$ 68,485
Compensated absences	30,249	3,661	-	33,910	-
Total governmental liabilities	\$ 484,887	\$ 3,661	\$ (78,658)	\$ 409,890	\$ 68,485

**Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

A. Capital lease

Purchase Lease: The District constructed a new building by granting leasehold interests in the underlying assets to the creditors (the Bank). The Bank, in turn, leased the property to the District under a long-term agreement. Under this agreement, the District is obligated to make lease payments to the Bank, subject to receiving Board appropriations, until the obligation to the Bank is satisfied. Once the obligation to the Bank is satisfied, all rights, title, and interest in the buildings are transferred to the District. However, if the Board appropriations are not received, the District is relieved of any subsequent obligation and the obligations are considered in default. If the default is not cured, the District has agreed that the Bank may terminate the leases, take possession of, and liquidate, the assets pledged under the agreement.

As of June 30, 2011, all buildings and improvements acquired under the lease are classified as buildings and improvements. The assets capitalized and acquired through the capital lease are as follows:

	Governmental Activities
Buildings and improvements	\$ 1,232,526
	1,232,526
Less accumulated depreciation	(7,703)
Total	\$ 1,224,823

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

Year ended June 30,	
2012	\$ 86,210
2013	86,210
2014	59,813
2015	53,111
2016	46,410
2017-2020	120,719
Total minimum lease payments	452,473
Less amount representing interest	(76,493)
Present value of future minimum payments	\$ 375,980

B. Compensated absences

All full-time employees of the District are given paid time off based on the amount stated in policy determined by their years of service. Paid time off is accrued on a bi-weekly basis for full time employees and the maximum accrual can not exceed two times the employee's annual accrual rate. Additionally, part-time employees receive paid time off accrued on a pro-rated basis, calculated by dividing the average number of hours worked per week by forty. Any accrued paid time off hours will be paid at 50% upon termination of employment if the employee has completed six (6) months of employment and 75% upon meeting the requirements of the department pension plan when retiring.

Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 - 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. The District has not incurred claims in excess of insurance coverage in any of the last three fiscal years. No provision has been made in the financial statements for possible losses of this nature.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS AND POST EMPLOYMENT PLANS

The District contributes to multiple plans as described below. Benefits for non-public safety personnel and for public safety personnel are established by state statutes which regulate 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 9.4 percent (9.0 percent retirement and 0.4 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 \$7,573, \$6,029 and, \$5481, respectively, which were equal to the required contributions for the years then ended.

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.

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 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.

**Hellsgate Fire District
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

B. Governmental Fund Balances

Additionally, the District's governmental fund balances, as previously reported at June 30, 2010, have been restated to correct for property taxes receivable, grants receivable, and long-term compensated absences.

	General Fund
Property taxes receivable, not recorded	\$ 35,015
Property taxes deferred revenue, not recorded	(31,283)
Grant receivable recorded at award amount and not earned amount	(131,046)
Compensated absences, recorded in error	7,562
Total prior period adjustments	(119,752)
Fund balance as of June 30, 2010, as previously reported	500,306
Fund balance as of June 30, 2010, as restated	\$ 380,554

NOTE 10 - SUBSEQUENT EVENTS

In prior years the District had an inter-governmental agreement with the Town of Payson for emergency services. During the year ended June 30, 2011, the District received \$160,000 in revenue (or approximately 10% of total governmental revenues) as part of this agreement. Subsequent to June 30, 2011, the District was given notice that the agreement would not be renewed.

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Hellsgate 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 Performed in Accordance with *Government Auditing Standards*..... 1**



Assurance
Professionals, P.C.
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
Hellsgate Fire District
Star Valley, Arizona

We have audited the financial statements of Hellsgate Fire District (the District) as of, and for the year ended, June 30, 2011, and have issued our report thereon dated March 29, 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 Hellsgate Fire District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements of Hellsgate 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 Hellsgate 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 Hellsgate 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, Gila 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.

March 29, 2012

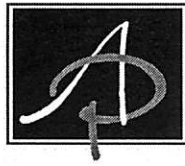
Hellsgate Fire District

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

June 30, 2011

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Assurance
Professionals, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

To the Governing Board of
Hellsgate Fire District
Star Valley, Arizona

We have audited the basic financial statements of Hellsgate Fire District (the District) as of and for the year ended June 30, 2011, and expect to release our report thereon on March 29, 2012. 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 July 18, 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 estimates related to the classification of expenses.

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) retirement plans.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

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 provided in the letter from management dated March 29, 2012.

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, Gila 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.

March 29, 2012

Hellsgate Fire District: General Fund
Year End: June 30, 2011
Adjusting Journal Entries
Date: 7/1/2010 To 6/30/2011

AJE 2011

Prepared	1st Review	2nd Review
Non-Tech	Client Init	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
AJE 001	6/30/2011	Property Tax Receivable	1200 GF			35,015.00		
AJE 001	6/30/2011	Grant Receivable	1300 GF				131,048.00	
AJE 001	6/30/2011	Compensated Absences	2120 GF			7,562.00		
AJE 001	6/30/2011	Deferred Revenue	2210 GF				31,283.00	
AJE 001	6/30/2011	Opening Balance Equity	3000 GF			119,752.00		
To correct prior period errors.								
CJE 001	6/30/2011	Grant Receivable	1300 GF	4720A		196,022.00		
CJE 001	6/30/2011	Accounts Payable	2000 GF	4720A			27,209.00	
CJE 001	6/30/2011	Wages Payable	2101 GF	4720A			32,195.00	
CJE 001	6/30/2011	Payroll Taxes Payable	2110 GF	4720A			30,123.00	
CJE 001	6/30/2011	Compensated Absences	2120 GF	4720A			7,562.00	
CJE 001	6/30/2011	Due to Pension Fund	2130 GF	4720A			28,918.00	
CJE 001	6/30/2011	Retained Earnings	3001 GF	4720A			65,341.00	
CJE 001	6/30/2011	Grants & Other Income, Non Tax	4300 GF	4720A			4,674.00	
To propose entry to true-up beginning fund balance to agree to prior year.								
CJE 003	6/30/2011	Property Tax Receivable	1200 GF			6,774.00		
CJE 003	6/30/2011	Deferred Revenue	2210 GF				6,774.00	
To true up property taxes and deferred revenue								
CJE 004	6/30/2011	Grant Receivable	1300 GF			65,392.00		
CJE 004	6/30/2011	Grants & Other Income, Non Tax:Grant, Brush F	4400 GF				65,392.00	
To true up year end receivable based on management's report for grant billings								
CJE 005	6/30/2011	Due to Pension Fund	2130 GF			24,041.00		
CJE 005	6/30/2011	Payroll Expenses:Retirement Benefits	5300 GF				24,041.00	
CJE 006	6/30/2011	Accounts Payable	2000 GF			27,209.00		
CJE 006	6/30/2011	Accounts Payable	2000 GF				15,023.00	
CJE 006	6/30/2011	Accounts Payable	2000 GF				6,890.00	
CJE 006	6/30/2011	Emergency Services (PY AP Expense)	5999 GF				27,209.00	
CJE 006	6/30/2011	Emergency Services (PY AP Expense)	5999 GF			13,277.00		
CJE 006	6/30/2011	Emergency Services (PY AP Expense)	5999 GF			6,890.00		
CJE 006	6/30/2011	Professional Services:Audit	6080 GF			1,746.00		
To true up accounts payable								
CJE 007	6/30/2011	Payroll Liabilities	2100 GF				3,310.00	
CJE 007	6/30/2011	Payroll Liabilities	2100 GF				22,069.00	
CJE 007	6/30/2011	Wages Payable	2101 GF				28,813.00	
CJE 007	6/30/2011	Payroll Taxes Payable	2110 GF			30,123.00		
CJE 007	6/30/2011	Payroll Expenses	5000 GF			22,069.00		
To true up payroll accrual.								
CJE 008	6/30/2011	Capital Vehicles:Car 211 & Car 212	8000 GF				2,595.00	
CJE 008	6/30/2011	Capital Vehicles:Engine 211 & 212	8001 GF				9,369.00	
CJE 008	6/30/2011	Capital Vehicles:Engine 211 & 212	8001 GF			1,249.00		
CJE 008	6/30/2011	Capital Vehicles:Engine 213	8002 GF				2,648.00	
CJE 008	6/30/2011	Capital Vehicles:Engine 216 & 217	8003 GF				290.00	
CJE 008	6/30/2011	Capital Vehicles:Engine 221 & 223	8004 GF				6,152.00	
CJE 008	6/30/2011	Interest Expense	8009 GF			19,803.00		
To reclass interest expense - variance between principle and interest exists of \$1,249 in additional principle and less interest that expected.								
						576,924.00	576,924.00	

Hellsgate Fire District: General Fund
Year End: June 30, 2011
Adjusting Journal Entries
Date: 7/1/2010 To 6/30/2011

AJE 2011-1

Prepared	1st Review	2nd Review
Non-Tech	Client Init	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
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			Net Income (Loss)			175,801.00		
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Hellgate Fire District: General Fund

Year End: June 30, 2011

Reclassifying Journal Entries

Date: 7/1/2010 To 6/30/2011

RJE 2011

Prepared	1st Review	2nd Review
Non-Tech	Client Init	

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence
RJE 001	6/30/2011	Line of Credit Transfer In	4100 GF	4050		15,888.00		
RJE 001	6/30/2011	Line of Credit Transfer In	4100 GF	4050		777.00		
RJE 001	6/30/2011	Line of Credit Transfer In	4100 GF	4050		4,737.00		
RJE 001	6/30/2011	Grants & Other Income, Non Tax	4300 GF	4050			777.00	
RJE 001	6/30/2011	Fire Store - Close Account	9102 GF	4050			15,888.00	
RJE 001	6/30/2011	Transfer in	9105 GF	4050			4,737.00	
To reclass amounts posted incorrectly in the Line of Credit Transfer In account								
						21,402.00	21,402.00	

Net Income (Loss) 175,801.00

