



Hosaka, Rotherham & Company
Certified Public Accountants

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NORTH COUNTY FIRE PROTECTION DISTRICT

COUNTY OF SAN DIEGO

FALLBROOK, CALIFORNIA

AUDIT REPORT

JUNE 30, 2013

NORTH COUNTY FIRE PROTECTION DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2013

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NORTH COUNTY FIRE PROTECTION DISTRICT

FINANCIAL SECTION

JUNE 30, 2013



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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors
North County Fire Protection District
Fallbrook, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North County Fire Protection District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the North County Fire Protection District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT

Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North County Fire Protection District, as of June 30, 2013, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2013, on our consideration of the North County Fire Protection 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. 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* in considering North County Fire Protection District's internal control over financial reporting and compliance.

Hosaka, Rotherham & Company

San Diego, California
October 3, 2013

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

As management of the North County Fire Protection District (District), we 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, 2013. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements and accompanying notes, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis and, (2) Basic Financial Statements.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments.

FINANCIAL HIGHLIGHTS

- The District's ending total net position balance was \$9,171,857.
- The change in net position for the year was a decrease of \$701,620.
- The District had a deficiency of revenues under expenditures in the General Fund (before transfers) in the amount of \$201,762 in the current year compared to \$1,269,471 in the previous year.
- This year the District had \$305,306 worth of additions to capital assets compared to \$1,259,499 last year.
- The District's General Fund Budget for this year showed a deficiency of revenues under expenditures (before transfers) of \$985,894 compared to the actual amount of \$201,762.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's audit report is comprised of four components: 1) financial statements and notes, 2) supplementary information, 3) reports on compliance and internal control, and 4) findings and recommendations.

Basic financial statements: The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by Reconciliations showing why they differ.

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

More detailed information about the District's most significant funds – not the District as a whole is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *Statement of Net Position*, a government-wide statement, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities*, a government-wide statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Supplementary Information* gives an overview of the operations of the District and the governing body and outlines assessed property valuation.

Reports on Compliance and Internal Control encompass the independent auditor's reports showing compliance with Government Auditing Standards and provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *Findings and Recommendations* section notes material weaknesses in the system and recommendations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

A summary of the District's Statement of Net Position is presented in Table 1 below for the current year and the prior year.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,171,857 as of June 30, 2013.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets as demonstrated in Table 1 below.

TABLE 1
Condensed Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 6,275,045	\$ 7,177,956	\$ (902,911)	-14.39%
Capital assets, net	6,967,065	7,259,810	(292,745)	-4.20%
Total assets	<u>13,242,110</u>	<u>14,437,766</u>	<u>(1,195,656)</u>	-9.03%
Current liabilities	859,110	1,347,882	(488,772)	-56.89%
General long-term debt	3,211,143	3,216,407	(5,264)	-0.16%
Total liabilities	<u>4,070,253</u>	<u>4,564,289</u>	<u>(494,036)</u>	-12.14%
Net position:				
Net investment in capital assets	4,925,531	5,143,920	(218,389)	-4.43%
Unrestricted	4,246,326	4,729,557	(483,231)	-11.38%
Total net position	<u>\$ 9,171,857</u>	<u>\$ 9,873,477</u>	<u>\$ (701,620)</u>	-7.65%

Statement of Activities

- Although the County's assessed property values within the District reportedly decreased 0.89% this fiscal year, the District's property tax revenues actually increased \$155,708 over the prior year. Total revenues ended with an overall decrease of \$223,099 over the previous fiscal year. This was due to a decrease in the amount of grant funds received during this fiscal year when compared to the prior fiscal year. The District's total revenues for the fiscal year ended June 30, 2013, excluding inter-fund transfers, decreased to \$13,246,258.
- The District's total expense of \$13,947,878 shows a significant decrease of \$635,811 over the prior year. The District was able to cut costs where possible and worked diligently to do so. The District continued to monitor the potential impact of increases in the cost of health insurance and workers' compensation.
- Overall, expenses exceeded revenues by \$701,620 prior to inter-fund transfers from Reserves.

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2013.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2
Condensed Statement of Activities

	2013	2012	\$ Change	% Change
Program revenue	\$ 1,398,990	\$ 1,806,624	\$ (407,634)	-29.14%
General revenue				
Property taxes	11,374,829	11,219,121	155,708	1.37%
Mitigation fees	100,511	99,975	536	0.53%
Interest	20,499	20,119	380	1.85%
Miscellaneous	351,429	323,518	27,911	7.94%
Total revenue	<u>13,246,258</u>	<u>13,469,357</u>	<u>(223,099)</u>	-1.68%
Operating expenses	13,097,183	13,712,929	(615,746)	-4.70%
Administration and depreciation	850,695	870,760	(20,065)	-2.36%
Total expenses	<u>13,947,878</u>	<u>14,583,689</u>	<u>(635,811)</u>	-4.56%
Change in net position	<u>\$ (701,620)</u>	<u>\$ (1,114,332)</u>	<u>\$ 412,712</u>	-58.82%

Significant Changes in Individual Funds

TABLE 3
Comparison of Fund Balances

	2013	2012	\$ Change	% Change
General Fund	\$ 6,427,723	\$ 6,629,320	\$ (201,597)	-3.14%
Fire Mitigation Fund	(1,732,691)	(1,558,023)	(174,668)	10.08%
Special Reserve Fund for Capital Outlay Projects	368,778	367,446	1,332	0.36%
Other Governmental Funds	352,125	391,331	(39,206)	-11.13%
Total fund balances	<u>\$ 5,415,935</u>	<u>\$ 5,830,074</u>	<u>\$ (414,139)</u>	-7.65%

The District's fund balances were significantly impacted by a large workers' compensation payout this fiscal year and additional personnel costs as stated above. The District continues to address the Special Reserve Fund for Capital Outlay Projects.

General Fund Budgetary Highlights

This report closes out what turned out to be another challenging year for the District, both financially and organizationally. The ongoing economic malaise that affected the region did not spare the District. Although revenues to the District exceeded budget projections by 2.9% and expenses fell below projections by 3%, the combination required drawing from reserves as expected. The increase in expenses was driven by across the board price increases for services provided to the District, but was due in large part to increased workers compensation costs. Much has been done, and will continue to be done, to control costs and weather the economic storm and provide for a financially solid District.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

There was an overall decrease in capital assets of \$292,745. The Construction in Progress is for the building of Station 5 and the remodel of Station 6.

**TABLE 4
Changes in Capital Assets**

	2013	2012	\$ Change	% Change
Land	\$ 612,639	\$ 612,639	\$ -	0.00%
Construction in progress	621,921	372,677	249,244	40.08%
Structures and improvements	4,777,989	4,721,927	56,062	1.17%
Hydrants	267,523	267,523	-	0.00%
Equipment and vehicles	9,715,990	9,899,431	(183,441)	-1.89%
Less: accumulated depreciation	(9,028,997)	(8,614,387)	(414,610)	4.59%
Capital assets, net	<u>\$ 6,967,065</u>	<u>\$ 7,259,810</u>	<u>\$ (292,745)</u>	-4.20%

Capital expenditures for the period ending June 30, 2013, were \$305,306 which was for construction on Station 5 and the remodel of the kitchen at Station 1.

Long-Term Liabilities

The District has a long-term debt of \$3,211,143 in part for annual leave and sick leave earnings to be paid out when employees leave the agency either through retirement or to work for another department. However, the bulk of the long-term debt is for the \$2.2 million dollar loan taken out for the construction of the new Station 5 in Bonsall. The long-term debt decreased by approximately \$5,264.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Although the District has felt the effects of the downturn in the economy, the District is currently in stable financial condition. The District continues to work on the Station 5 capital project and secured funding for the project in the fall of 2013. Station construction has started as of October 2013 and we expect completion during the summer of 2014. The 2014 fiscal year forecast for the economy is indicating growth and stability and property tax, mitigation fees, ambulance revenue, and prevention fees are exceeding initial projections. The District will continue to act in a proactive manner, monitoring the expenditures and revenues to ensure accounts remain within budget guidelines. The District will work to decrease expenses when possible without compromising the level of services provided to the community.

CONTACTING THE DISTRICT

Questions regarding this report should be directed to the Finance Division (760) 723-2008 or to the Deputy Chief (760) 723-2014 or by mail at 330 S Main Avenue, Fallbrook, CA 92028.

North County Fire Protection District

**NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities
ASSETS:	
Cash in county treasury	\$ 2,239,812
Cash on hand and in banks	652,456
Cash in L.A.I.F.	18,699
Funds held in P.A.S.I.S.	482,980
Cash with fiscal agent	1,939,583
Accounts receivable	941,515
Capital assets:	
Land	612,639
Construction in progress	621,921
Structures and improvements	4,777,989
Hydrants	267,523
Equipment and vehicles	9,715,990
Less: accumulated depreciation	(9,028,997)
Total assets	13,242,110
LIABILITIES:	
Accounts payable	33,712
Accrued expenses	825,398
Noncurrent liabilities:	
Due within one year	76,286
Due in more than one year	3,134,857
Total liabilities	4,070,253
NET POSITION:	
Net investment in capital assets	4,925,531
Unrestricted	4,246,326
Total net position	\$ 9,171,857

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense), Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Government activities:				
Fire protection - operations	\$ 13,097,183	\$ 1,388,445	\$ 10,545	\$ (11,698,193)
General administration	252,644	-	-	(252,644)
Unallocated depreciation	598,051	-	-	(598,051)
Total governmental activities	<u>\$ 13,947,878</u>	<u>\$ 1,388,445</u>	<u>\$ 10,545</u>	<u>(12,548,888)</u>
General revenues:				
				11,374,829
				100,511
				20,499
				351,429
				<u>11,847,268</u>
				(701,620)
				9,873,477
				<u>\$ 9,171,857</u>

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash in county treasury	\$ 935,823	\$ 583,827	\$ 368,486	\$ 351,676	\$ 2,239,812
Cash on hand and in banks	652,456	-	-	-	652,456
Cash in L.A.I.F.	18,699	-	-	-	18,699
Funds held in P.A.S.I.S.	482,980	-	-	-	482,980
Cash with fiscal agent	1,939,583	-	-	-	1,939,583
Accounts receivable	929,424	11,250	292	549	941,515
Due from other funds	2,328,068	-	-	68,879	2,396,947
Total assets	<u>\$ 7,287,033</u>	<u>\$ 595,077</u>	<u>\$ 368,778</u>	<u>\$ 421,104</u>	<u>\$ 8,671,992</u>

LIABILITIES AND FUND BALANCE:

Liabilities:					
Accounts payable	\$ 33,712	-	-	-	\$ 33,712
Due to other funds	200	2,327,768	-	68,979	2,396,947
Accrued expenses	825,398	-	-	-	825,398
Total liabilities	<u>859,310</u>	<u>2,327,768</u>	<u>-</u>	<u>68,979</u>	<u>3,256,057</u>
Fund balance:					
Assigned					
Other assignments	2,548,194	-	368,778	352,125	3,269,097
Unassigned					
Unassigned/unappropriated	3,879,529	(1,732,691)	-	-	2,146,838
Total fund balance	<u>6,427,723</u>	<u>(1,732,691)</u>	<u>368,778</u>	<u>352,125</u>	<u>5,415,935</u>
Total liabilities and fund balances	<u>\$ 7,287,033</u>	<u>\$ 595,077</u>	<u>\$ 368,778</u>	<u>\$ 421,104</u>	<u>\$ 8,671,992</u>

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total fund balances - governmental fund balance sheet	\$ 5,415,935
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported in the funds.	6,967,065
Payables for capital leases which are not due in the current period are not reported in the funds.	(4,606)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(1,169,609)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	<u>(2,036,928)</u>
Net position of governmental activities - statement of net position	<u><u>\$ 9,171,857</u></u>

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Revenues:					
Property taxes	\$ 11,168,907	\$ -	\$ -	\$ 205,922	\$ 11,374,829
Ambulance fees	1,388,445	-	-	-	1,388,445
Mitigation fees	27,423	73,088	-	-	100,511
Interest income	18,929	1,181	(41)	430	20,499
Donations and grants	3,145	-	-	7,400	10,545
Other revenue	346,127	-	-	5,302	351,429
Total revenues	12,952,976	74,269	(41)	219,054	13,246,258
Expenditures					
Salaries	7,042,112	-	-	-	7,042,112
Employee benefits	3,186,869	-	-	-	3,186,869
Administrative	228,336	-	-	14,553	242,889
Equipment and supplies	232,302	-	-	65,125	297,427
Maintenance and operations	441,781	-	-	24,648	466,429
Insurance	887,998	-	-	26,796	914,794
Medical supplies	91,380	-	-	-	91,380
Membership	13,775	-	-	-	13,775
Office supplies	14,340	-	-	1,210	15,550
Professional services	123,159	-	-	25,000	148,159
Radios and pagers	24,308	-	-	-	24,308
Rents and leases	95,361	-	-	-	95,361
Safety	331,308	-	-	31,666	362,974
Training	74,421	-	-	3,126	77,547
Utilities	150,591	-	-	6,458	157,049
Uniforms	33,958	-	-	1,771	35,729

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Expenditures (Continued)					
Capital outlay	-	249,244	-	56,062	305,306
Debt service					
Principal	64,309	-	-	-	64,309
Interest	118,430	-	-	-	118,430
Total expenditures	13,154,738	249,244	-	256,415	13,660,397
Excess (deficiency) of revenues over (under) expenditures	(201,762)	(174,975)	(41)	(37,361)	(414,139)
Other financing sources (uses):					
Transfers in	710	1,017	1,373	512	3,612
Transfers out	(545)	(710)	-	(2,357)	(3,612)
Total other financing sources (uses)	165	307	1,373	(1,845)	-
Net change in fund balance	(201,597)	(174,668)	1,332	(39,206)	(414,139)
Fund balance, beginning	6,629,320	(1,558,023)	367,446	391,331	5,830,074
Fund balance, ending	\$ 6,427,723	\$ (1,732,691)	\$ 368,778	\$ 352,125	\$ 5,415,935

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds	\$	(414,139)
Amounts reported for governmental activities in the statement of activities (SOA) are different because:		
Capital Outlays are not reported as expenses in the SOA.		305,306
The depreciation of capital assets used in governmental activities is not reported in the funds.		(598,051)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		6,462
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		67,894
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.		<u>(69,092)</u>
Change in net position of governmental activities - statement of activities	<u>\$</u>	<u>(701,620)</u>

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies

1. Accounting Policies

The accounting policies of the North County Fire Protection District (District) conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

2. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units", include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

Fund financial statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major government funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the District not accounted for and reported in another fund.

The Fire Mitigation Fund is used to account for fees collected from builders in the area that can only be used to purchase new capital assets when those assets are needed because of growth.

The Special Reserve Fund for Capital Outlay Projects is used to accumulate funds for future capital expenditures and equipment replacement.

Non-major governmental funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes. The following special revenue funds are utilized by the District:

The Rainbow Subzone Fund accounts for the revenues and expenditures of funds collected in the Rainbow district.

The Rainbow Subzone Fire Mitigation Fund is used to account for fees collected from builders in the Rainbow area that can only be used to purchase new capital assets when those assets are needed because of growth.

b. Measurement Focus, Basis of Accounting

Government-wide and fiduciary fund financial statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

Government fund financial statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Propriety Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

4. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30, 2013.

5. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. These budgets are revised by the District's governing board and District administrator during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. All appropriations lapse at year end.

6. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation. As of June 30, 2013, the District had \$459,745 in uninsured funds.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

The District maintains its cash in the San Diego County Treasury. The County pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury indicates the amount was less than 1% for the year ended June 30, 2013.

b. Prepays

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when purchased.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Structures and improvements	10-50
Furniture and equipment	7-20
Vehicles and apparatuses	5-20

d. Compensated Absences

The District allows carryover of vacation and sick leave benefits as outlined in the Memorandum of Understanding (MOU) and contracts with personnel.

Annual Leave	Allowable
Management	600 Hours
Safety	480 Hours
Non-safety	400 Hours
Fire Chief	No Maximum Accrual
Executive Assistant	600 Hours

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

<u>Sick Leave</u>	
Management, Safety & Non-safety with over 10 years of employment	540 Hours
Management, Safety & Non-safety with under 10 years of employment	No Maximum Accrual
Fire Chief	No Maximum Accrual
Executive Assistant	No Maximum Accrual

e. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received, on specific projects and programs, exceeds qualified expenditures. As of June 30, 2013, the District did not have any deferred revenue.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Property taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

h. Fund Balance Reserves and Designation

The District has adopted GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balances categories listed below:

- *Nonspendable*, such as fund balance associated with revolving funds, inventories, prepaids, long-term loans and notes receivable, and property held for resale.
- *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* fund balance classification includes amounts that can be used for the specific purposes determined by a formal action of the Board of Directors.
- *Assigned* fund balance classification are intended to be used by the entity for specific purposes, but do not meet the criteria to be classified as restricted or committed.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

- *Unassigned* fund balance is the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classification.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

When the District incurs an expenditure or expense for which committed, assigned, or unassigned amounts may be used, it is the District's policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

The following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Fire Mitigation Fund	\$ (1,732,687)	The District utilized mitigation funds first and took a loan from the General Fund to pay for capital expenditures. The Mitigation Fund will pay back the General Fund as developer fees come into the District.

C. Cash and Investments

1. Cash in County Treasury

The District maintains its cash in the San Diego County Treasury as part of the common investment pool (\$2,239,812 as of June 30, 2013). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$2,237,572. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

C. Cash and Investments (Continued)

2. Cash on Hand and in Banks

Cash balances on hand and in banks (\$652,456 as of June 30, 2013) are insured up to \$250,000 by the Federal Deposit Insurance Corporation. As of June 30, 2013, the District had \$459,745 in uninsured funds.

3. Cash in L.A.I.F.

The District is a voluntary participant in the Local Agency Investment Fund (L.A.I.F.) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by L.A.I.F. for the entire L.A.I.F. portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by L.A.I.F., which are recorded on an amortized cost basis.

4. Funds held in PASIS

The intent of the Public Agencies Self Insurance System (PASIS) is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, capital and operating grants and similar funding.

5. Cash with Fiscal Agent

Cash balances held with a fiscal agent, Deutsch Bank (\$1,939,583 as of June 30, 2013) is held to distribute funds from the Certificates of Participation for ongoing and future construction projects until all funds are used.

6. Analysis of Specific Deposits and Investments

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Statement of Net Position:

	<u>Credit Quality Rating</u>	
Cash in county treasury	Not rated	\$ 2,239,812
Cash on hand and in banks	Not rated	652,456
Cash in L.A.I.F.	Not rated	18,699
Funds held in P.A.S.I.S.	Not rated	482,980
Cash with fiscal agent	Not rated	1,939,583
Total		<u>\$ 5,333,530</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

C. Cash and Investments (Continued)

Cash and investments as of June 30, 2013, consist of the following:

Cash on hand	\$	500
Cash in county treasury		2,239,812
Deposits with financial institutions		3,093,218
Total	\$	5,333,530

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District held no investments at June 30, 2013.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, which is investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total District investments. The District held no investments at June 30, 2013.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institute, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for investment is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

C. Cash and Investments (Continued)

Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earnings investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investment are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the investment Company Act of 1940.

D. Accounts Receivable

Accounts receivable, as of June 30, 2013, consist of the following:

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Property taxes	\$ 14,135	\$ -	\$ -	\$ 257	\$ 14,392
Ambulance fees	890,699	-	-	-	890,699
Mitigation fees	-	10,793	-	-	10,793
Interest income	1,706	457	292	292	2,747
Other revenue	22,884	-	-	-	22,884
Total accounts receivable	<u>\$ 929,424</u>	<u>\$ 11,250</u>	<u>\$ 292</u>	<u>\$ 549</u>	<u>\$ 941,515</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2013, consisted of the following:

Due To	Due From	Amount	Purpose
General Fund	Fire Mitigation Fund	\$ 2,327,768	Capital projects
Other Governmental Fund	Other Governmental Fund	68,879	Capital projects
General Fund	General Fund	200	Capital projects
General Fund	Other Governmental Fund	100	Capital projects
	Total	<u>\$ 2,396,947</u>	

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

E. Interfund Balances and Activities (Continued)

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2013, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Fire Mitigation Fund	\$ 710	Budget projections
Fire Mitigation Fund	Other Governmental Fund	1,017	Budget projections
Special Reserve Fund for Capital Outlay Projects	Other Governmental Fund	1,340	Budget projections
Special Reserve Fund for Capital Outlay Projects	General Fund	33	Budget projections
Other Governmental Fund	General Fund	512	Budget projections
	Total	<u>\$ 3,612</u>	

F. Capital Assets

Capital assets activity for the year ended June 30, 2013, were as follows:

<u>Governmental activities</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 612,639	\$ -	\$ -	\$ 612,639
Construction in progress	372,677	249,244	-	621,921
Total capital assets, not being depreciated	985,316	249,244	-	1,234,560
Capital assets, being depreciated:				
Structures and improvements	4,721,927	56,062	-	4,777,989
Hydrants	267,523	-	-	267,523
Equipment and vehicles	9,899,431	-	(183,441)	9,715,990
Total capital assets, being depreciated	14,888,881	56,062	(183,441)	14,761,502
Less accumulated depreciation for:				
Structures and improvements	(2,827,764)	(116,585)	-	(2,944,349)
Hydrants	(267,523)	-	-	(267,523)
Equipment and vehicles	(5,519,100)	(481,466)	183,441	(5,817,125)
Total accumulated depreciation	(8,614,387)	(598,051)	183,441	(9,028,997)
Total capital assets, being depreciated, net	6,274,494	(541,989)	-	5,732,505
Capital assets, net of depreciation	<u>\$ 7,259,810</u>	<u>\$ (292,745)</u>	<u>\$ -</u>	<u>\$ 6,967,065</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

G. Long-Term Obligations

1. Long-term obligation activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital lease payable	\$ 11,068	\$ -	\$ (6,462)	\$ 4,606	\$ 4,606
Compensated absences*	1,100,517	69,092	-	1,169,609	-
Note payable	2,104,822	-	(67,894)	2,036,928	71,680
Total governmental activities	<u>\$ 3,216,407</u>	<u>\$ 69,092</u>	<u>\$ (74,356)</u>	<u>\$ 3,211,143</u>	<u>\$ 76,286</u>

*Because of the nature of compensated absences and uncertainty over when vacations will be taken, a statement of debt service requirements to maturity for compensated absences has not been presented.

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Capital lease payable	Governmental	General fund
Compensated absences	Governmental	General fund
Note payable	Governmental	General fund

2. Capital Lease

The District has entered into a long-term capital lease to purchase a telephone system. The lease does not bear any interest. Future minimum lease payments under the signed agreement are as follows:

Year Ending June 30,	Lease Payments
2014	\$ 4,606
Total lease payments	<u>\$ 4,606</u>

3. Note payable

On December 29, 2010, the District took out a note payable for Station 5 in the principal amount of \$2,200,000 with interest at 3.00% per annum. The loan matures on December 1, 2030, with annual payments of \$182,739 which include principal and interest.

Required payments of principal on the long-term notes payable as of June 30, 2013, including maturities, are as follows:

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

G. Long-Term Obligations (Continued)

Year Ending June 30,	Principal	Interest	Total
2014	\$ 71,680	\$ 111,059	\$ 182,739
2015	75,676	107,063	182,739
2016	79,896	102,843	182,739
2017	84,351	98,388	182,739
2018	89,054	93,685	182,739
2019 - 2023	525,522	388,172	913,694
2024 - 2028	689,300	224,394	913,694
2029 - 2030	421,449	35,395	456,844
	<u>\$ 2,036,928</u>	<u>\$ 1,160,999</u>	<u>\$ 3,197,927</u>

H. Operating leases

The District has entered into Operating Lease Agreements for assorted office equipment and an administration building. Future minimum lease payments under the signed lease agreements are as follows:

Year Ending June 30,	Lease Payments
2014	\$ 48,221
2015	8,902
2016	8,902
2017	8,902
2018	7,418
Total future lease payments	<u>\$ 82,345</u>

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expenses for the year ended June 30, 2013, was \$91,047.

I. Employee Retirement Systems

Plan Description and Funding Policy

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

I. Employee Retirement Systems (Continued)

Funding Policy

Participants are required to contribute 9.0% for safety employees and 8% for miscellaneous employees of their annual covered salary. The District makes the contributions required of the District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate: the current rate is 31.79% for non-safety employees and 29.44% for safety employees, of annual covered payroll. The contribution of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost

For the year ended June 30, 2013, the District's annual pension cost of \$2,141,299 for CalPERS was equal to the District's required and actual contributions. The required contribution was determined through the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%.

J. Joint Ventures (Joint Powers Agreements)

The District entered into a Joint Powers Agreement (J.P.A.) known as the "Public Agencies Self Insurance System" (P.A.S.I.S.), a self-insurance plan for worker's compensation insurance. The intent of P.A.S.I.S. is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, capital and operating grants and similar funding. The J.P.A. is a separate entity which is independently audited. Assumptions made in determining the fair value of the pooled investment portfolio is available from P.A.S.I.S.

BALANCE SHEET

	District's Share	Total P.A.S.I.S.
Current assets:		
Cash and cash equivalents	\$ 444,830	\$ 4,230,711
Accrued interest receivable	279	2,651
Total assets	\$ 445,109	\$ 4,233,362
Liabilities	\$ -	\$ -
Net position:		
Unrestricted	445,109	4,233,362
Total liabilities and net position	\$ 445,109	\$ 4,233,362

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

J. Joint Ventures (Joint Powers Agreements) (Continued)

INCOME STATEMENT

	District's Share	Total P.A.S.I.S.
Non-operating revenue:		
Interest earnings	\$ 1,365	\$ 12,981
Net income before capital contributions	1,365	12,981
Capital contributions and distributions:		
Capital distributions to members	-	-
Change in net position	1,365	12,981
Net position, beginning	443,744	4,220,381
Net position, ending	\$ 445,109	\$ 4,233,362

K. Postemployment Benefits other than Pension Benefits

In addition to the pension benefits described in Note I, the District provides post-retirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 10 years of continuous service out of the last eleven years. This health care includes medical insurance, dental, and vision care. On June 30, 2013, twenty-five retirees met these eligibility requirements. The District's contribution amounted to \$31,362.

L. Subsequent event

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through October 3, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

**NORTH COUNTY FIRE PROTECTION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION SECTION**

JUNE 30, 2013

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property taxes	\$ 11,091,000	\$ 11,041,000	\$ 11,168,907	\$ 127,907
Ambulance fees	1,186,000	1,234,000	1,388,445	154,445
Mitigation fees	40,000	35,000	27,423	(7,577)
Interest income	25,000	20,000	18,929	(1,071)
Donations and grants	-	-	3,145	3,145
Other revenue	226,400	238,400	346,127	107,727
Total revenues	<u>12,568,400</u>	<u>12,568,400</u>	<u>12,952,976</u>	<u>384,576</u>
Expenditures:				
Salaries	7,166,205	7,160,028	7,042,112	117,916
Employee benefits	3,316,421	3,385,812	3,186,869	198,943
Administrative	240,489	240,489	228,336	12,153
Equipment and supplies	271,908	271,908	232,302	39,606
Maintenance and operations	456,637	459,757	441,781	17,976
Insurance	672,000	672,000	887,998	(215,998)
Medical supplies	95,000	95,000	91,380	3,620
Membership	13,115	13,115	13,775	(660)
Office supplies	10,500	10,500	14,340	(3,840)
Professional services	122,000	124,000	123,159	841
Radios and pagers	38,000	38,000	24,308	13,692
Rents and leases	82,000	83,000	95,361	(12,361)
Safety	36,313	36,313	331,308	(294,995)
Training	86,600	86,600	74,421	12,179
Utilities	140,885	146,885	150,591	(3,706)
Uniforms	32,300	32,300	33,958	(1,658)
Equipment	120,848	120,848	-	120,848
Capital outlay	395,000	395,000	-	395,000
Debt service:				
Principal	64,309	64,309	64,309	-
Interest	118,430	118,430	118,430	-
Total expenditures	<u>13,478,960</u>	<u>13,554,294</u>	<u>13,154,738</u>	<u>399,556</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(910,560)</u>	<u>(985,894)</u>	<u>(201,762)</u>	<u>(14,980)</u>
Other financing sources (uses):				
Transfers in	-	-	710	(710)
Transfers out	(150,076)	(206,814)	(545)	(206,269)
Total other financing sources (uses)	<u>(150,076)</u>	<u>(206,814)</u>	<u>(165)</u>	<u>(206,979)</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Net change in fund balance	(1,060,636)	(1,192,708)	(201,597)	191,999
Fund balance, beginning	6,629,320	6,629,320	6,629,320	-
Fund balance, ending	<u>\$ 5,568,684</u>	<u>\$ 5,436,612</u>	<u>\$ 6,427,723</u>	<u>\$ 191,999</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FIRE MITIGATION FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Mitigation fees	\$ 75,000	\$ 75,000	\$ 73,088	\$ (1,912)
Interest income	-	-	1,181	1,181
Total revenues	<u>75,000</u>	<u>75,000</u>	<u>74,269</u>	<u>(731)</u>
Expenditures				
Capital outlay	200,000	200,000	249,244	(49,244)
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>249,244</u>	<u>(49,244)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(125,000)</u>	<u>(125,000)</u>	<u>(174,975)</u>	<u>48,513</u>
Other financing sources (uses):				
Transfers in	-	-	1,017	(1,017)
Transfers out	-	-	(710)	710
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>307</u>	<u>(307)</u>
Net change in fund balance	(125,000)	(125,000)	(174,668)	48,820
Fund balance, beginning	(1,558,023)	(1,558,023)	(1,558,023)	-
Fund balance, ending	<u>\$ (1,683,023)</u>	<u>\$ (1,683,023)</u>	<u>\$ (1,732,691)</u>	<u>\$ 48,820</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
OTHER SUPPLEMENTARY INFORMATION SECTION**

JUNE 30, 2013

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
RAINBOW SUBZONE FUND - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property taxes	\$ -	\$ -	\$ 205,922	\$ 205,922
Interest income	-	-	295	295
Donations and grants	22,850	22,850	7,400	(15,450)
Other revenue	2,500	2,500	5,302	2,802
Total revenues	<u>25,350</u>	<u>25,350</u>	<u>218,919</u>	<u>193,569</u>
Expenditures:				
Administrative	18,100	18,100	14,553	3,547
Equipment and supplies	28,500	28,500	65,125	(36,625)
Maintenance and operations	33,000	33,000	24,648	8,352
Insurance	41,200	41,200	26,796	14,404
Office supplies	2,500	2,500	1,210	1,290
Professional services	25,000	25,000	25,000	-
Safety	32,800	32,800	31,666	1,134
Training	9,500	9,500	3,126	6,374
Utilities	8,800	8,800	6,458	2,342
Uniforms	2,000	2,000	1,771	229
Capital outlay	160,000	160,000	-	160,000
Total expenditures	<u>361,400</u>	<u>361,400</u>	<u>200,353</u>	<u>161,047</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(336,050)</u>	<u>(336,050)</u>	<u>18,566</u>	<u>32,522</u>
Other financing sources (uses):				
Transfers out	(35,000)	(35,000)	(2,357)	(32,643)
Total other financing sources (uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>2,357</u>	<u>(32,643)</u>
Net change in fund balance	(371,050)	(371,050)	16,209	65,165
Fund balance, beginning	225,651	225,651	225,651	-
Fund balance, ending	<u>\$ (145,399)</u>	<u>\$ (145,399)</u>	<u>\$ 241,860</u>	<u>\$ 65,165</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
RAINBOW SUBZONE FIRE MITIGATION FUND - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Mitigation fees	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
Interest income	-	-	135	135
Total revenues	3,000	3,000	135	(2,865)
Expenditures:				
Capital outlay	160,000	160,000	56,062	103,938
Total expenditures	160,000	160,000	56,062	103,938
Excess (deficiency) of revenues over (under) expenditures	(157,000)	(157,000)	(55,927)	(106,803)
Other financing sources (uses):				
Transfers in	-	-	512	(512)
Total other financing sources (uses)	-	-	(512)	(512)
Net change in fund balance	(157,000)	(157,000)	(55,415)	(106,291)
Fund balance, beginning	165,680	165,680	165,680	-
Fund balance, ending	\$ 8,680	\$ 8,680	\$ 110,265	\$ (106,291)

**NORTH COUNTY FIRE PROTECTION DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS - CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ -	\$ -	\$ (41)	\$ (41)
Total revenues	-	-	(41)	(41)
Expenditures:				
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	(41)	(41)
Other financing sources (uses):				
Transfers in	35,000	35,000	1,373	33,627
Total other financing sources (uses)	35,000	35,000	1,373	33,627
Net change in fund balance	35,000	35,000	1,332	(33,668)
Fund balance, beginning	367,446	367,446	367,446	-
Fund balance, ending	<u>\$ 402,446</u>	<u>\$ 402,446</u>	<u>\$ 368,778</u>	<u>\$ (33,668)</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
ORGANIZATION STRUCTURE
JUNE 30, 2013**

The North County Fire Protection District (District) was formed on January 1, 1987, when it reorganized to include the community of Rainbow. The District operates under the Health and Safety Code Sections 13801-13999 of the State of California. The District is approximately 90 square miles and provides fire protection and emergency services to an estimated population of 49,000. The District currently operates six (6) fire stations located at:

1. 315 E. Ivy Street, Fallbrook, CA
2. 2180 Winterwarm Drive, Fallbrook, CA
3. 4157 Olive Hill Road, Fallbrook, CA
4. 4375 Pala Mesa Drive, Fallbrook, CA
5. 31403 Old River Road, Bonsall, CA
6. 2309 Rainbow Valley Blvd., Fallbrook CA

The District's administrative office is located at 330 S Main Avenue, Fallbrook, California. The District is governed by a board consisting of five (5) Directors who are elected to a four (4) year term. Directors who are appointed serve a two (2) year term.

The Board of Directors for the fiscal year ended June 30, 2013, was comprised of the following members:

Name	Office	Term	Term Expires
Kenneth Munson	President	4 years	November 2014
Wayne Hooper	Vice-President	4 years	November 2016
Kathleen Thuner	Director	4 years	November 2014
Ruth Harris	Director	4 years	November 2016
Paul Schaden	Director	4 years	November 2016

Administration	
Name	Position
William Metcalf	CEO/Fire Chief
Edmund Sprague	Deputy Fire Chief
Kim Maxwell	Finance Specialist

**NORTH COUNTY FIRE PROTECTION DISTRICT
ASSESSED VALUATION
JUNE 30, 2013**

Assessed valuation:

Secured property	\$ 6,160,783,048
Unsecured property	<u>65,481,350</u>
Total assessed valuation	<u><u>\$ 6,226,264,398</u></u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2013**



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

.....
Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

**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**

Board of Directors
North County Fire Protection District
Fallbrook, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of North County Fire Protection District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise North County Fire Protection District's basic financial statements, and have issued our report thereon dated October 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North County Fire Protection District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North County Fire Protection District's internal control. Accordingly, we do not express an opinion on the effectiveness of North County Fire Protection 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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***

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North County Fire Protection District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
October 3, 2013



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
North County Fire Protection District
Fallbrook, California

Report on Compliance for Each State Program

We have audited North County Fire Protection District's compliance with the types of compliance requirements described in Article 13A of the Constitution of the State of California that could have a direct and material effect on the North County Fire Protection District's state program for the fiscal year ended June 30, 2013. North County Fire Protection District's state program is identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for North County Fire Protection District's state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Article 13A of the Constitution of the State of California. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state program occurred. An audit includes examining, on a test basis, evidence about North County Fire Protection District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the state program. However, our audit does not provide a legal determination of North County Fire Protection District's compliance. In connection with the audit referred to above, we selected transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:

Description	Procedures In Audit Guide	Procedures Performed
GANN Limit Calculation	1	Yes

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Page 2

Opinion on State Programs

In our opinion, North County Fire Protection District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the state program for the fiscal year ended June 30, 2013.

The purpose of this report on state compliance is solely to describe the scope of our testing of state compliance and the results of that testing based on the requirements of Article 13A of the Constitution of the State of California. Accordingly, this report is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
October 3, 2013

**NORTH COUNTY FIRE PROTECTION DISTRICT
FINDINGS AND RECOMMENDATIONS SECTION**

JUNE 30, 2013

**NORTH COUNTY FIRE PROTECTION DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes N/A No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditors' report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with section 510(a) or Circular A-133? Yes N/A No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

The District did not have over \$500,000 in Federal Expenditures.

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? Yes N/A No

**NORTH COUNTY FIRE PROTECTION DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

A. Summary of Auditors' Results (continued)

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Type of auditors' report issued on compliance
for state programs: Unqualified

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

None

**NORTH COUNTY FIRE PROTECTION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A