



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, 2014

NORTH COUNTY FIRE PROTECTION DISTRICT

INTRODUCTORY SECTION

JUNE 30, 2014

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NORTH COUNTY FIRE PROTECTION DISTRICT

FINANCIAL SECTION

JUNE 30, 2014



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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, 2014, 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, 2014, 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 9 and 31 through 36 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 January 7, 2015, 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
January 7, 2015

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014. 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 \$8,674,143.
- The change in net position for the year was a decrease of \$497,714.
- The District had a deficiency of revenues under expenditures in the General Fund (before transfers) in the amount of \$2,305,532 in the current year compared to \$201,762 in the previous year.
- This year the District had \$2,333,218 worth of additions to capital assets compared to \$305,306 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 \$2,305,532.

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, 2014**

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 \$8,674,143 as of June 30, 2014.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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>2014</u>	<u>2013</u>	<u>\$ Change</u>
Current and other assets	\$ 9,312,751	\$ 6,275,045	\$ 3,037,706
Capital assets, net	8,733,412	6,967,065	1,766,347
Total assets	<u>18,046,163</u>	<u>13,242,110</u>	<u>4,804,053</u>
Current liabilities	2,882,608	859,110	2,023,498
General long-term debt	6,489,412	3,211,143	3,278,269
Total liabilities	<u>9,372,020</u>	<u>4,070,253</u>	<u>5,301,767</u>
Net position:			
Net investment in capital assets	3,670,320	4,925,531	(1,255,211)
Unrestricted	5,003,823	4,246,326	757,497
Total net position	<u>\$ 8,674,143</u>	<u>\$ 9,171,857</u>	<u>\$ (497,714)</u>

Statement of Activities

- The District's property tax revenues increased \$71,892 over the prior year. Total revenues ended with an overall increase of \$794,684 over the previous fiscal year. This was due mainly to increases in ambulance fees during this fiscal year when compared to the prior fiscal year. The District's total revenues for the fiscal year ended June 30, 2014, excluding inter-fund transfers, increased to \$13,707,942.
- The District's total expense of \$14,205,656 shows a decrease of \$257,778 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 \$497,714 prior to inter-fund transfers from Reserves and other financing sources.

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2014.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 2
Condensed Statement of Activities

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Program revenue	\$ 1,816,398	\$ 1,398,990	\$ 417,408	22.98%
General revenue				
Property taxes	11,446,721	11,374,829	71,892	0.63%
Mitigation fees	141,882	100,511	41,371	29.16%
Interest	18,219	20,499	(2,280)	-12.51%
Miscellaneous	284,722	351,429	(66,707)	-23.43%
Total revenue	<u>13,707,942</u>	<u>13,246,258</u>	<u>461,684</u>	<u>3.37%</u>
Operating expenses	13,556,664	13,097,183	459,481	3.39%
Administration and depreciation	651,092	850,695	(199,603)	-30.66%
Total expenses	<u>14,207,756</u>	<u>13,947,878</u>	<u>259,878</u>	<u>1.83%</u>
Change in net position	<u>\$ (499,814)</u>	<u>\$ (701,620)</u>	<u>\$ 201,806</u>	<u>-40.38%</u>

Significant Changes in Individual Funds

TABLE 3
Comparison of Fund Balances

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
General Fund	\$ 7,263,115	\$ 6,427,723	\$ 835,392	11.50%
Fire Mitigation Fund	(1,635,631)	(1,732,691)	97,060	-5.93%
Special Reserve Fund for Capital Outlay Projects	370,021	368,778	1,243	0.34%
Other Governmental Funds	432,638	352,125	80,513	18.61%
Total fund balances	<u>\$ 6,430,143</u>	<u>\$ 5,415,935</u>	<u>\$ 1,014,208</u>	<u>15.77%</u>

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.

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

General Fund Budgetary Highlights

Expenses in excess of Budget

General Fund	
Salaries	\$ (282,526)
Employee benefits	\$ (25,382)
Equipment and supplies	\$ (64,359)
Insurance	\$ (143,675)
Medical supplies	\$ (44,084)
Membership	\$ (3,642)
Office supplies	\$ (2,581)
Professional services	\$ (26,468)
Rents and leases	\$ (17,784)
Miscellaneous	\$ (2,571)
Utilities	\$ (17,401)
Uniforms	\$ (5,004)
Capital outlay	\$ (1,924,161)

Despite the reduction in overall net position, this report represents some positive changes in the District's position overall. Taken together, the realization of excess expenditures of 1.8% was more than offset by excess revenues of 3.4%. Contributing factors to the increase in expenses include the May 2014 wildfires that will not be reimbursed by the State until Fiscal Year 2014-2015, and two significant worker's compensation claims. Excess revenues are largely the result of additional ambulance revenue. The remainder of the reduction in overall net position can be attributed to net depreciation of capital assets, which the District will continue to address as we continue to recover tax revenues from prior years' losses. Capitalization of Station 5 is responsible for the deficiency of revenues as well as the rather significant increase in capital assets. Both the 15.8% increase in total fund balances, as well as the \$1.92 million in expenses in excess of budget can be attributed to cash flow matters involving the capitalization of Station 5.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

There was an overall increase in capital assets of \$1,766,342. The Construction in Progress is for the building of Station 5 and the remodel of Station 6.

TABLE 4
Changes in Capital Assets

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 612,639	\$ 612,639	\$ -	0.00%
Construction in progress	2,750,884	621,921	2,128,963	77.39%
Structures and improvements	4,777,989	4,777,989	-	0.00%
Hydrants	267,523	267,523	-	0.00%
Equipment and vehicles	9,777,142	9,715,990	61,152	0.63%
Less: accumulated depreciation	(9,452,765)	(9,028,997)	(423,768)	4.48%
Capital assets, net	<u>\$ 8,733,412</u>	<u>\$ 6,967,065</u>	<u>\$ 1,766,347</u>	<u>20.23%</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Capital expenditures for the period ending June 30, 2014, were \$2,333,218 which was mainly for the construction on Station 5 and addition of an ambulance.

Long-Term Liabilities

The District has a long-term debt of \$6,489,412 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 \$3.1 million dollar bond issuance and a \$2.2 Million dollar loan for the construction of the new Station 5 in Bonsall. The long-term debt increased by approximately \$3,278,269.

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 has recently completed construction of Station #5, and developers have recently completed annexation of the Meadowood property. Preliminary County tax revenue reports reflect growth projections that will at least meet if not slightly exceed projections of 3% growth for the coming fiscal year. Regionally San Diego County is expected to have a major influence on the State's economy and unemployment continues to decline (5.8% versus 7.0% state-wide). While housing starts are down slightly regionally, housing prices are still climbing gradually at an anticipated 3.5%, which will not only secure the standard 2% increase in property tax but also reverse the property tax reassessment trend. Recognizing the gradual declination in our overall net position over the past several years, one of our short-term financial priorities will be to restore capital reserve accounts, which were instrumental in helping the District to maintain solvency and continue augmentation of infrastructure during the Great Recession. During the next accounting period we can anticipate additional accounting and disclosure related to GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

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, 2014**

	<u>Governmental Activities</u>
ASSETS:	
Cash in county treasury	\$ 1,885,149
Cash on hand and in banks	906,933
Cash in L.A.I.F.	18,637
Funds held in P.A.S.I.S.	493,614
Cash with fiscal agent	5,042,757
Accounts receivable	965,661
Capital assets:	
Land	612,639
Construction in progress	2,750,884
Structures and improvements	4,777,989
Hydrants	267,523
Equipment and vehicles	9,777,142
Furniture and Equipment	
Less: accumulated depreciation	<u>(9,452,765)</u>
Total assets	<u>18,046,163</u>
LIABILITIES:	
Accrued expenses	804,270
Other current liabilities	1,998,985
Noncurrent liabilities:	
Due within one year	180,414
Due in more than one year	<u>6,308,998</u>
Total liabilities	<u>9,372,020</u>
NET POSITION:	
Net investment in capital assets	3,670,320
Unrestricted	<u>5,003,823</u>
Total net position	<u>\$ 8,674,143</u>

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, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense), Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Government activities:				
Fire protection - operations	\$ 13,556,664	\$ 1,628,778	\$ 187,620	\$ (11,740,266)
General administration	84,221	-	-	(84,221)
Unallocated depreciation	566,871	-	-	(566,871)
Total governmental activities	<u>\$ 14,207,756</u>	<u>\$ 1,628,778</u>	<u>\$ 187,620</u>	<u>(12,391,358)</u>
General revenues:				
				11,446,721
				141,882
				18,219
				284,722
				<u>11,891,544</u>
				(499,814)
				<u>9,171,857</u>
				<u>\$ 8,672,043</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, 2014**

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
\$	390,493	\$ 692,832	\$ 369,688	\$ 432,136	\$ 1,885,149
Cash in county treasury	906,933	-	-	-	906,933
Cash on hand and in banks	18,637	-	-	-	18,637
Cash in L.A.I.F.	493,614	-	-	-	493,614
Funds held in P.A.S.I.S.	5,042,757	-	-	-	5,042,757
Cash with fiscal agent	2,349,591	-	-	12,617	2,362,208
Due from other funds	943,698	21,128	333	502	965,661
Accounts receivable	\$ 10,145,723	\$ 713,960	\$ 370,021	\$ 445,255	\$ 11,674,959
Total assets					

ASSETS:

Cash in county treasury
 Cash on hand and in banks
 Cash in L.A.I.F.
 Funds held in P.A.S.I.S.
 Cash with fiscal agent
 Due from other funds
 Accounts receivable
 Total assets

LIABILITIES AND FUND BALANCE:

Liabilities:

Accounts payable	\$ 79,353	\$ -	\$ -	\$ -	\$ 79,353
Due to other funds	-	2,349,591	-	12,617	2,362,208
Accrued expenses	804,270	-	-	-	804,270
Other current liabilities	1,998,985	-	-	-	1,998,985
Total liabilities	2,882,608	2,349,591	-	12,617	5,244,816
Fund balance:					
Assigned	-	-	370,021	432,638	802,659
Other assignments					
Unassigned					
Unassigned/unappropriated	7,263,115	(1,635,631)	-	-	5,627,484
Total fund balance	7,263,115	(1,635,631)	370,021	432,638	6,430,143
Total liabilities and fund balances	\$ 10,145,723	\$ 713,960	\$ 370,021	\$ 445,255	\$ 11,674,959

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, 2014**

Total fund balances - governmental fund balance sheet	\$ 6,430,143
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.	8,733,412
Payables for capital leases which are not due in the current period are not reported in the funds.	(11,845)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(1,426,320)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	<u>(5,051,247)</u>
Net position of governmental activities - statement of net position	<u><u>\$ 8,674,143</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, 2014**

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Revenues:					
Property taxes	\$ 11,227,808	\$ -	\$ -	\$ 218,913	\$ 11,446,721
Ambulance fees	1,628,778	-	-	-	1,628,778
Mitigation fees	45,677	96,205	-	-	141,882
Interest income	14,219	1,565	1,243	1,192	18,219
Donations and grants	182,620	-	-	5,000	187,620
Other revenue	284,722	-	-	-	284,722
Total revenues	13,383,824	97,770	1,243	225,105	13,707,942
Expenditures					
Salaries	7,442,554	-	-	9,999	7,452,553
Employee benefits	3,411,194	-	-	-	3,411,194
Administrative	67,213	-	-	5,297	72,510
Equipment and supplies	336,267	-	-	21,076	357,343
Maintenance and operations	410,313	-	-	29,678	439,991
Insurance	815,675	-	-	26,800	842,475
Medical supplies	139,084	-	-	-	139,084
Membership	16,757	-	-	-	16,757
Office supplies	13,081	-	-	435	13,516
Professional services	150,468	-	-	25,000	175,468
Radios and pagers	17,008	-	-	-	17,008
Rents and leases	100,784	-	-	-	100,784
Safety	(149,968)	-	-	3,167	(146,801)
Miscellaneous	2,571	-	-	-	2,571
Training	63,808	-	-	2,270	66,078
Utilities	164,286	-	-	6,989	171,275
Uniforms	37,304	-	-	1,924	39,228

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, 2014**

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Equipment	39,488	-	-	-	39,488
Capital outlay	2,319,161	-	-	14,057	2,333,218
Debt service					
Principal	119,680	-	-	-	119,680
Interest	172,628	-	-	-	172,628
Total expenditures	15,689,356	-	-	146,692	15,836,048
Excess (deficiency) of revenues over (under) expenditures	(2,305,532)	97,770	1,243	78,413	(2,128,106)
Other financing sources (uses):					
Transfers in	710	-	-	-	710
Transfers out	-	(710)	-	-	(710)
Proceeds from long-term debt	3,126,000	-	-	-	3,126,000
Obligations for capital leases	14,214	-	-	-	14,214
Total other financing sources (uses)	3,140,924	(710)	-	-	3,140,214
Net change in fund balance	835,392	97,060	1,243	78,413	1,012,108
Fund balance, beginning	6,427,723	(1,732,691)	368,778	352,125	5,415,935
Fund balance, ending	\$ 7,263,115	\$ (1,635,631)	\$ 370,021	\$ 430,538	\$ 6,428,043

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, 2014**

Net change in fund balances - total governmental funds	\$ 1,012,108
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Capital Outlays are not reported as expenses in the SOA.	2,333,218
The depreciation of capital assets used in governmental activities is not reported in the funds.	(566,871)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	6,975
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	212,342
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(357,372)
Increases in obligations under capital leases are recognized as other financial resources in the funds but not revenue in the SOA.	(14,214)
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	(3,126,000)
	(3,126,000)
Change in net position of governmental activities - statement of activities	\$ (499,814)

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, 2014**

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, 2014**

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, 2014**

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, 2014.

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, 2014, the District had \$665,005 in uninsured funds.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014.

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, 2014**

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. 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.

f. 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.

g. 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, 2014**

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	\$ (1,635,631)	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 (\$1,885,149 as of June 30, 2014). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$1,887,034. 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, 2014**

C. Cash and Investments (Continued)

2. Cash on Hand and in Banks

Cash balances on hand and in banks (\$906,993 as of June 30, 2014) are insured up to \$250,000 by the Federal Deposit Insurance Corporation. As of June 30, 2014, the District had \$665,005 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 (\$5,042,757 as of June 30, 2014) 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, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Position:

	<u>Credit Quality Rating</u>	
Cash in county treasury	Not rated	\$ 1,885,149
Cash on hand and in banks	Not rated	906,933
Cash in L.A.I.F.	Not rated	18,637
Funds held in P.A.S.I.S.	Not rated	493,614
Cash with fiscal agent	Not rated	5,042,757
Total		<u>\$ 8,347,090</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

C. Cash and Investments (Continued)

Cash and investments as of June 30, 2014, consist of the following:

Cash on hand	\$ 500
Cash in county treasury	1,885,149
Deposits with financial institutions	6,461,441
Total	\$ 8,347,090

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, 2014.

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, 2014.

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, 2014**

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, 2014, consist of the following:

	General Fund	Fire Mitigation Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total
Property taxes	\$ 21,143	\$ -	\$ -	\$ 311	\$ 21,454
Ambulance fees	890,699	-	-	-	890,699
Mitigation fees	-	21,124	-	-	21,124
Interest income	2,778	4	333	191	3,306
Donations and grants	-	-	-	-	-
Other revenue	29,078	-	-	-	29,078
Total accounts receivable	\$ 943,698	\$ 21,128	\$ 333	\$ 502	\$ 965,661

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2014, consisted of the following:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Fire Mitigation Fund	\$ 2,349,591	Capital projects
Other Governmental Fund	Other Governmental Fund	12,617	Capital projects
	Total	<u>\$ 2,362,208</u>	

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

E. Interfund Balances and Activities (Continued)

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2014, 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
	Total	<u>\$ 710</u>	

F. Capital Assets

Capital assets activity for the year ended June 30, 2014, 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	621,921	2,128,963	-	2,750,884
Total capital assets, not being depreciated	<u>1,234,560</u>	<u>2,128,963</u>	<u>-</u>	<u>3,363,523</u>
Capital assets, being depreciated:				
Structures and improvements	4,777,989	-	-	4,777,989
Hydrants	267,523	-	-	267,523
Equipment and vehicles	9,715,990	204,255	(143,103)	9,777,142
Total capital assets, being depreciated	<u>14,761,502</u>	<u>204,255</u>	<u>(143,103)</u>	<u>14,822,654</u>
Less accumulated depreciation for:				
Structures and improvements	(2,944,349)	(96,828)	-	(3,041,177)
Hydrants	(267,523)	-	-	(267,523)
Equipment and vehicles	(5,817,125)	(470,043)	143,103	(6,144,065)
Total accumulated depreciation	<u>(9,028,997)</u>	<u>(566,871)</u>	<u>143,103</u>	<u>(9,452,765)</u>
Total capital assets, being depreciated, net	<u>5,732,505</u>	<u>(362,616)</u>	<u>-</u>	<u>5,369,889</u>
Capital assets, net of depreciation	<u>\$ 6,967,065</u>	<u>\$ 1,766,347</u>	<u>\$ -</u>	<u>\$ 8,733,412</u>

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, 2014, are as follows:

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

G. Long-Term Obligations

1. Long-term obligation activity (continued)

<u>Governmental activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Capital lease payable	\$ 4,606	\$ 14,214	\$ (6,975)	\$ 11,845	\$ 4,738
Compensated absences*	1,169,609	357,372	(100,661)	1,426,320	-
Note payable	2,036,928	-	(71,681)	1,965,247	75,676
Bonds Payable	-	3,126,000	(40,000)	3,086,000	100,000
Total governmental activities	<u>\$ 3,211,143</u>	<u>\$ 3,497,586</u>	<u>\$ (219,317)</u>	<u>\$ 6,489,412</u>	<u>\$ 180,414</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 extended its capital lease agreement through January 2016 for the purchase of a telephone system. The lease does not bear any interest. Future minimum lease payments under the signed agreement are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2015	\$ 4,738
2016	4,738
2017	2,369
Total lease payments	<u>\$ 11,845</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, 2014, including maturities, are as follows:

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

G. Long-Term Obligations (Continued)

Year Ending June 30,	Principal	Interest	Total
2015	\$ 75,676	\$ 107,062	\$ 182,738
2016	79,896	102,843	182,739
2017	84,351	98,388	182,739
2018	89,054	93,685	182,739
2019	94,019	88,720	182,739
2020 - 2024	554,823	358,871	913,694
2025 - 2029	727,733	185,959	913,692
2030 - 2031	259,696	14,412	274,108
	<u>\$ 1,965,248</u>	<u>\$ 1,049,940</u>	<u>\$ 3,015,188</u>

4. Bonds Payable

On September 9, 2013, the District issued bonds for the par amount of \$3,126,000. The proceeds will be used for the ongoing construction at Station 5. The bond's coupon rate is at 4.35% per annum, and matures on September 1, 2033, with annual debt service payments which include principal and interest.

Required debt service payments on the bonds payable as of June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 108,000	\$ 132,849	\$ 240,849
2016	107,000	128,390	235,390
2017	114,000	123,671	237,671
2018	116,000	118,690	234,690
2019	123,000	113,557	236,557
2020 - 2024	698,000	482,002	1,180,002
2025 - 2029	866,000	314,483	1,180,483
2030 - 2034	954,000	106,662	1,060,662
	<u>\$ 3,086,000</u>	<u>\$ 1,520,304</u>	<u>\$ 4,606,304</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
2015	\$ 10,008
2016	8,902
2017	8,902
2018	7,418
Total future lease payments	<u>\$ 35,230</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

H. Operating leases (continued)

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, 2014, 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.

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, 2014, 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%.

I. 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.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

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

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

J. 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, 2014, twenty-five retirees met these eligibility requirements. The District's contribution amounted to \$31,362.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for the employers with plans that have fewer than 100 total members. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 3- years.

**NORTH COUNTY FIRE PROTECTION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

J. Postemployment Benefits other than Pension Benefits (continued)

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Fiscal Year 2013-14 Annual Required Contribution	\$ 2,148,780
Interest on Net OPEB Obligation	\$ 1,227,808
Adjustment to ARC	\$ (2,397,046)
Annual OPEB Cost	<u>979,543</u>
Contributions Made (Estimated Direct Benefit Payments)	\$ (878,447)
Increase in Net OPEB Obligation	<u>101,096</u>
Net OPEB Obligation - June 30, 2013	<u>\$ 16,370,779</u>
Net OPEB Obligation - June 30, 2014	<u><u>\$ 16,471,875</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligation for the year ending June 30, 2014 and two preceding years were as follows:

<u>Years Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 972,018	73.5%	\$ 19,271,404
6/30/2013	\$ 1,211,005	78.6%	\$ 16,370,779
6/30/2014	\$ 2,148,780	40.9%	\$ 16,471,875

As of June 30, 2014, the actuarial accrued liability for benefits was \$16,471,875, all of which was unfunded. The covered payroll (annual payroll of active employees covered) was \$16,931,569, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 97.3% percent. The actuarial valuation date was July 1, 2013.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of valuations.

The following simplifying assumptions were made:

1. Retirement age for active employees: Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 65.

2. Marital status: Marital status of members at the calculation date was assumed to continue throughout retirement.
3. Mortality: Life expectancies at the calculation date are based on the most recent mortality tables used by CalPers and STRS for the pension valuations.
4. Turnover: Termination rates are based on the most recent rates used by CalPers and STRS for the pension valuations.
5. Healthcare cost trend rate: The rate of change in the per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments. A rate of 7.0% initially, reduced to an ultimate rate of 5.0% after four years, was used.
6. Inflation: The rate of inflation was 2.8% per annum.
7. Payroll increases: The rate of increase for payroll was 3.0% per annum.
8. Discount rate: Based on the historical and expected returns of the District's investments, the discount rate of 7.5% was used.
9. Actuarial cost method: The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the District were included in the valuation.

K. 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 January 7, 2015, 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, 2014

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 11,091,000	\$ 11,041,000	\$ 11,227,808	\$ 186,808
Ambulance fees	1,186,000	1,234,000	1,628,778	394,778
Mitigation fees	40,000	35,000	45,677	10,677
Interest income	25,000	20,000	14,219	(5,781)
Donations and grants	-	-	182,620	182,620
Other revenue	226,400	238,400	284,722	46,322
Total revenues	<u>12,568,400</u>	<u>12,568,400</u>	<u>13,383,824</u>	<u>815,424</u>
Expenditures:				
Salaries	7,166,205	7,160,028	7,442,554	(282,526)
Employee benefits	3,316,421	3,385,812	3,411,194	(25,382)
Administrative	240,489	240,489	67,213	173,276
Equipment and supplies	271,908	271,908	336,267	(64,359)
Maintenance and operations	456,637	459,757	410,313	49,444
Insurance	672,000	672,000	815,675	(143,675)
Medical supplies	95,000	95,000	139,084	(44,084)
Membership	13,115	13,115	16,757	(3,642)
Office supplies	10,500	10,500	13,081	(2,581)
Professional services	122,000	124,000	150,468	(26,468)
Radios and pagers	38,000	38,000	17,008	20,992
Rents and leases	82,000	83,000	100,784	(17,784)
Safety	36,313	36,313	(149,968)	186,281
Miscellaneous	-	-	2,571	(2,571)
Training	86,600	86,600	63,808	22,792
Utilities	140,885	146,885	164,286	(17,401)
Uniforms	32,300	32,300	37,304	(5,004)
Equipment	120,848	120,848	39,488	81,360
Capital outlay	395,000	395,000	2,319,161	(1,924,161)
Debt service:				
Principal	64,309	64,309	119,680	(55,371)
Interest	118,430	118,430	172,628	(54,198)
Total expenditures	<u>13,478,960</u>	<u>13,554,294</u>	<u>15,689,356</u>	<u>(2,135,062)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(910,560)</u>	<u>(985,894)</u>	<u>(2,305,532)</u>	<u>2,950,486</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Transfers in	-	-	710	(710)
Transfers out	(150,076)	(206,814)	-	(206,814)
Proceeds from long-term debt	-	-	3,126,000	(3,126,000)
Obligations for capital leases	-	-	14,214	(14,214)
Total other financing sources (uses)	<u>(150,076)</u>	<u>(206,814)</u>	<u>3,140,924</u>	<u>(3,347,738)</u>
Net change in fund balance	(1,060,636)	(1,192,708)	835,392	6,298,224
Fund balance, beginning	6,427,723	6,427,723	6,427,723	-
Prior period adjustment	-	-	-	-
Fund balance, ending	<u>\$ 5,367,087</u>	<u>\$ 5,235,015</u>	<u>\$ 7,263,115</u>	<u>\$ 6,298,224</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FIRE MITIGATION FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Mitigation fees	\$ 75,000	\$ 75,000	\$ 96,205	\$ 21,205
Interest income	-	-	1,565	1,565
Total revenues	<u>75,000</u>	<u>75,000</u>	<u>97,770</u>	<u>22,770</u>
Expenditures				
Capital outlay	200,000	200,000	-	200,000
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(125,000)</u>	<u>(125,000)</u>	<u>97,770</u>	<u>(177,230)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(710)	710
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(710)</u>	<u>710</u>
Net change in fund balance	(125,000)	(125,000)	97,060	(177,940)
Fund balance, beginning	(1,732,691)	(1,732,691)	(1,732,691)	-
Fund balance, ending	<u>\$ (1,857,691)</u>	<u>\$ (1,857,691)</u>	<u>\$ (1,635,631)</u>	<u>\$ (177,940)</u>

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

JUNE 30, 2014

**NORTH COUNTY FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
RAINBOW SUBZONE FUND - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Property taxes	\$ -	\$ -	\$ 218,913	\$ 218,913
Interest income	-	-	609	609
Donations and grants	22,850	22,850	5,000	(17,850)
Other revenue	2,500	2,500	-	(2,500)
Total revenues	<u>25,350</u>	<u>25,350</u>	<u>224,522</u>	<u>199,172</u>
Expenditures:				
Salaries	-	-	9,999	(9,999)
Administrative	18,100	18,100	5,297	12,803
Equipment and supplies	28,500	28,500	21,076	7,424
Maintenance and operations	33,000	33,000	31,778	1,222
Insurance	41,200	41,200	26,800	14,400
Office supplies	2,500	2,500	435	2,065
Professional services	25,000	25,000	25,000	-
Safety	32,800	32,800	3,167	29,633
Training	9,500	9,500	2,270	7,230
Utilities	8,800	8,800	6,989	1,811
Uniforms	2,000	2,000	1,924	76
Capital outlay	160,000	160,000	14,057	145,943
Total expenditures	<u>361,400</u>	<u>361,400</u>	<u>148,792</u>	<u>212,608</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(336,050)</u>	<u>(336,050)</u>	<u>75,730</u>	<u>(13,436)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(35,000)	(35,000)	-	(35,000)
Proceeds from long-term debt	-	-	-	-
Total other financing sources (uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>-</u>	<u>(35,000)</u>
Net change in fund balance	(371,050)	(371,050)	75,730	21,564
Fund balance, beginning	241,860	241,860	241,860	-
Prior period adjustment	-	-	-	-
Fund balance, ending	<u>\$ (129,190)</u>	<u>\$ (129,190)</u>	<u>\$ 317,590</u>	<u>\$ 21,564</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 RAINBOW SUBZONE FIRE MITIGATION FUND - SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Mitigation fees	\$ 3,000	\$ 3,000	\$ -	\$ (3,000)
Interest income	-	-	583	583
Total revenues	<u>3,000</u>	<u>3,000</u>	<u>583</u>	<u>(2,417)</u>
Expenditures:				
Capital outlay	160,000	160,000	-	160,000
Debt service				
Total expenditures	<u>160,000</u>	<u>160,000</u>	<u>-</u>	<u>160,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(157,000)</u>	<u>(157,000)</u>	<u>583</u>	<u>(162,417)</u>
Fund balance, beginning	110,265	110,265	110,265	-
Fund balance, ending	<u>\$ (46,735)</u>	<u>\$ (46,735)</u>	<u>\$ 110,848</u>	<u>\$ (162,417)</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS - CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ -	\$ -	\$ 1,243	\$ 1,243
Total revenues	-	-	1,243	1,243
Expenditures:				
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	1,243	1,243
Other financing sources (uses):				
Transfers in	35,000	35,000	-	35,000
Total other financing sources (uses)	35,000	35,000	-	35,000
Net change in fund balance	35,000	35,000	1,243	(33,757)
Fund balance, beginning	368,778	368,778	368,778	-
Fund balance, ending	<u>\$ 403,778</u>	<u>\$ 403,778</u>	<u>\$ 370,021</u>	<u>\$ (33,757)</u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
ORGANIZATION STRUCTURE
JUNE 30, 2014**

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, 2014, was comprised of the following members:

Name	Office	Term	Term Expires
Kenneth Munson	President	4 years	November 2018
Kathleen Thuner	Vice-President	4 years	November 2018
Wayne Hooper	Director	4 years	November 2016
Ruth Harris	Director	4 years	November 2016
Paul Schaden	Director	4 years	November 2016

Administration	
Name	Position
William Metcalf	CEO/Fire Chief
Stephen Abbott	Division Chief Administration
Kim Maxwell	Finance Specialist

**NORTH COUNTY FIRE PROTECTION DISTRICT
ASSESSED VALUATION
JUNE 30, 2014**

Assessed valuation:

Secured property	\$ 6,299,552,467
Unsecured property	<u>60,429,627</u>
Total assessed valuation	<u><u>\$ 6,359,982,094</u></u>

**NORTH COUNTY FIRE PROTECTION DISTRICT
OTHER INDEPENDENT AUDITORS' REPORTS SECTION**

JUNE 30, 2014



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, 2014, 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 January 7, 2015.

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. We consider the following deficiencies in North County Fire Protection District's internal control to be significant deficiencies:

- Bank reconciliations are not being performed on all accounts.
- Bank reconciliations are not being performed monthly.

Bank reconciliations not being performed on all accounts or in a timely manner can potentially lead to material misstatements on the financial statements. The lack of reconciliations do not allow for errors to be caught in a timely manner and can lead to fraudulent activity, such as theft, to take place without being recognized for substantial periods of time.

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

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.

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
January 7, 2015



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, 2014. 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

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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, 2014.

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
January 7, 2015

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

JUNE 30, 2014

**NORTH COUNTY FIRE PROTECTION DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

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? X Yes 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>
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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, 2014**

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

**NORTH COUNTY FIRE PROTECTION DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

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